

Y 2020 Earnings Call

Company Participants

- Alexandre D'Ambrosio, General Counsel
- Eduardo Bartolomeo, Chief Executive Officer
- Luciano Siani Pires, Chief Financial Officer
- Marcello Spinelli, Executive Officer for Ferrous Minerals
- Mark Travers, Executive Officer, Base Metals

Other Participants

- Alex Hacking, Analyst
- Amos Fletcher, Analyst
- Andreas Bokkenheuser, Analyst
- Carlos De Alba, Analyst
- Christian Georges, Analyst
- Christopher Terry, Analyst
- Jonathan Brandt, Analyst
- Timna Tanners, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to Vale's Conference Call to Discuss 4Q '20 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 that time.

(Operator Instructions)

As a reminder, this conference is being recorded and a recording will be available on the company's website at vale.com at the Investors link. This conference call is accompanied by a slide presentation also available at the Investors link at the company's website and is transmitted via internet as well. The broadcasting via Internet, both the audio and the slide changes has a few seconds delay in relation to the audio transmitted via phone.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996 (sic) [1995]. 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, Executive Officer for Safety and Operational Excellence; Mr. Alexandre Pereira, Executive Officer for Global Business Support; Mr. Luiz Eduardo Osorio, Executive Officer for Institutional Relations and Communication; 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 4Q '20 performance. And after that, he will be available for questions and answers. It is now my pleasure to turn the call over to Mr. Eduardo Bartolomeo. Sir, you may now begin.

Eduardo Bartolomeo {BIO 15365202 <GO>}

Well, thank you. Good morning, everyone. First, I hope you're all well. 2020 will be remembered as one of the most challenging years in our history. As we are making progress with the reparation of Brumadinho and resuming our iron ore operations, we saw the COVID-19 pandemic changing our lives around the world.

In early December, a few days after our meeting at Vale Day, we all got more hopeful with the start vaccinations, et cetera, (Technical Difficulty). However, our priorities remain intact. Safety, people, and the reparation of Brumadinho. While the government's vaccination plans are advancing, Vale will keep its guard high. The safety of our people comes first, along with the reparation of Brumadinho. Next please.

As I have been saying at each of our meetings, Vale is determined to fully repair the damage caused by the Brumadinho tragedy, besides contributing even more to the development of the communities where we operate.

A major step towards this direction was the global agreement announced on February 4, signed with the public authorities who are the legitimate representatives of the people of Minas Gerais. The economic value of the global settlement was BRL37.7 billion, which includes obligations to pay and to do in addition to expenses already incurred by Vale, such as the payment of the emergency aid and environmental recovery works.

However it's important to note that with this, we have a clear number on our balance sheet from the obligations to compensate and repair Brumadinho, eliminating a great uncertainty related to our provisions.

The bottom line is that this governance allows for a speedy reparation and compensation, the legitimacy of these actions and the legal certainty, elements that we have always emphasized in our meetings as fundamental for the settlement.

I invite now Alexandre D'Ambrosio to provide a little bit of more details about it.

Alexandre D'Ambrosio

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Thanks, Eduardo. Well, as Eduardo was just mentioning, the agreement has two essential components from Vale's perspective. The first, it brings finality to all class actions and to all collective lawsuits. And second, it has, what we call, legal certainty to the extent that it was signed by all the petitioners of those class actions. And second, that was signed by the Attorney General himself, Brazil's Attorney General, and it was ratified by the Court of Appeals of Minas Gerais, which is the highest court in the state. So, the agreement resolves all claims relating to collective moral damages and to compensation to communities and to the state of Minas Gerais.

The agreement was structured with both payment obligations and performance obligations. Vale's payment obligations are twofold. We established a fixed amount that will revert to the communities directly that were impacted by the disaster, and will be distributed and invested according to criteria yet to be established by the Public Defenders in consultation with the communities. And another fixed amount will be used by the state government for infrastructure and mobility projects in the regions that were most impacted by the disaster.

These amounts represent approximately two-thirds of the value of the agreement. These are the fixed amounts. And Vale will deposit these amounts in a Judicial account to be managed by the Court of Appeals. Vale is then released from payment obligations upon depositing these amounts in the court and we will have no further influence in how these amounts will be employed or disbursed. So, all we do is deposit these amounts and we are released from that part.

The second part of the agreement relates to Vale's performance obligations, and these are essentially environmental recovery obligations, monitoring of water quality, and the continuity of certain health and safety programs. And these obligations were constructed jointly with the petitioners and are based -- were based on independent technical studies, which became a part of the agreement and were validated by all the parties involved. So, for that reason, we're confident that these measures, these obligations are adequate and sufficient to address the reparations for the region.

Vale will be released from these performance obligations once we show evidence of completion step-by-step to the court.

So, I think that wraps up -- that explains the global agreement in a nutshell. So, back to you, Eduardo. Thank you.

Eduardo Bartolomeo {BIO 15365202 <GO>}

Thanks, Alex. Finally, it's important to note that the reparation of the individual damage will continue. And it's not part of the global settlement. Since 2019, almost 9,100 people have entered into civil or labor indemnification agreements with Vale, which total more than BRL2.4 billion. This is evidence that we will spare no effort nor resources for a fair and quick reparation for Brumadinho and the region. Next.

Well we are committed to transforming Vale's culture into a culture that puts people and safety at the center of every decision we make. We have our levers to accelerate this transformation. And I highlight the role of our management model, the VPS in this process.

At the end of 2020, we have completed the first global assessment of the VPS implementation, and now (Technical Difficulty) to address the gaps identified. We also continue to accelerate the implementation of our new tailings and dam management model and other process safety tools, such as (inaudible) mentioned here.

The message is clear. We do not tolerate deviations in conduct and procedures, which expose people to safety risks. The culture transformation, which is underway, has the full commitment of the Executive Board and our Board of Directors.

Next. As you know, we have a plan to address our ESG gaps, which was built based on what we heard from communities and society. This first plan, firstly, compares 52 gaps, which 37 (inaudible), of which 11 were resolved in 2020. Continuing with our open dialogue and active listening, we identified 11 more opportunities for improvement.

Some important gaps in governance have already been sent by the Board of Directors for shareholders decision at the Extraordinary General Meeting call for March 12. One of the gaps for example deals with expanding the number of independent members of the Board, which currently has three members reportedly independent, and according to the proposed amendments of the bylaws, will reach at least seven. The proposed changes seek to align Vale with international governance practices and are the result of a process of listening to our investors.

On another note, to support Vale in its both commitments regarding the ESG theme, the Board of Directors approved the creation of an executive office dedicated to sustainability. Maria Luiza e Paiva, who has extensive experience in making this happen, will lead this front and will report to me from March 15. I take this opportunity to welcome Maria Luiza and to thank Luiz Osorio for the important advances he has brought in the topic of sustainability. Osorio will continue with this functions as Executive Director of Institutional Relations and Communications.

As it can be seen, our ambition is to transform Vale into a reference in ESG practice. With these actions, we'll contribute to a more sustainable mining and we will act in accordance with our new pact with society.

Well, now talking about the operational performance of our business. We ended 2020 with the partial resumption of all iron ore operations that were halted in 2019. We are on track to reach the capacity of 400 million tonnes per year by the end of 2022.

In December, we resumed Serra Leste and dry processing at Fabrica. In January, we resumed pellet production in Vargem Grande. We ended 2020 with a production in line with 2019, but stronger than we were when we started the year in a very complex condition given the pandemic scenario.

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We managed to replenish our inventories, ensuring the maintenance of our product portfolio, and we expect more robust sales for 2021, a fact that you have already noticed in our fourth quarter results, which became our second best in the history of iron ore, which was obtained by strong sales and prices.

In the long-term strategy, we were granted the necessary licenses to implement the Capanema Project, which should start operations in 2023 and will bring 14 million tonnes of capacity to Vale in the first years. It's a project of almost half \$0.5 billion, an important step towards the creation of Vale's capacity buffers. In short, we are taking the necessary actions to ensure the stability we need to operate efficiently and the growth options required by the market. On these topics, Marcello Spinelli will present more information to you ahead.

We also had an excellent quarter in Base Metals. I would like to highlight Onca Puma's record production in EBITDA. In copper, we also had a record EBITDA. (Technical Difficulty) we operated with cash cost at the lowest level in its history. Mark can give more details about it in the Q&A sessions.

To conclude, we remain firm on derisking Vale to build a better Vale. Summarizing for you the most important recent advances I would like to highlight would be, first, the global settlement for the integral reparation of Brumadinho. Second, the progress of Vale's cultural transformation into a safer company. Third, the continuous and consistent resumption of our production under safe conditions. And finally, keeping the focus on capital discipline, addressing our cash drains, prioritizing organic projects in ferrous and base metals where we are competitive, and allocating an important portion of our cash generation to the payment of (Technical Difficulty) shareholders.

About this last topic, resumed our shareholder compensation policy last year. We announced, together with our results, the approval of dividends in the amount of BRL4.26 per share, referring to the second half of 2020. This decision reflects our confidence in Vale's cash generation capacity, our healthy balance sheet, and above all, our commitment to return value to Vale's shareholders.

Finally, we intend to continue creating and sharing value with our stakeholders. Most importantly, I assure you that we are doing and we will continue to do everything we can to ensure the safety of the people in our operations, in our communities.

Also, I would like to thank our 123,000 employees and contractors, our suppliers and customers who made it possible for Vale to overcome a 2020 with all the challenges brought by the pandemic.

Thank you. And now, I give the floor to Spinelli who will provide more details on the iron ore production results. Thank you.

Marcello Spinelli {BIO 16240257 <GO>}

Thank you, Eduardo. Good afternoon to all. Well, we've been talking about the resumption plan to reach the 400 million tonnes. It's always a good time to reinforce our commitment to reach this goal next year. And I want to emphasize, Eduardo also said that we have an additional 50 million tonnes that's our buffer capacity and Capanema product is a good example of an action in this direction.

Well, our production guidance for 2021 is a range between 315 tonnes and 335 tonnes. We are really confident to deliver this goal this year. So, you had a chance to see the production report. I don't need to go in real details here, but you saw that we have a checklist, so we can follow up all the achievements one-by-one in a check box in the production report.

But I want to track your attention for five points here. The first one, as Eduardo said, we brought back all of our sites -- of our operational sites. That's a good sign that we're ready to drill now.

Second, we've been progressing -- bringing the authorizations and permit to test the operations in the southeastern system. So now, Fabrica is already operating in dry process and now we already have the license to test the wet process. It's a very important information because we can increase volumes and quality in this site.

The third information, you saw this week, we just announced that we brought back the Itabira Brucutu there, it's Itabira complex. Itabira Brucutu will be really important. We have a remaining capacity and we have to bridge this operation today. The filtration process, that will be in place in the early 2021. We also need to finish -- finalize the raising works that we have in Itabira Brucutu there. We are not in a rush. It's important to emphasize that this capacity in the future in Itabira Brucutu is not in the critical path for the full operation in Itabira. And the way to do this with a very safe mode, we need to go in details and check the mode we are doing this operation. So, we don't -- we're not in a rush to do that.

The fourth information is about the north. In the north range, we've been talking about that we need always to bring new pits online and this is a new information here. Just approved in our Board of the Directors, the N3 mine, it's N3 pit. It's like Hu'u. We are now with all the contractors and moving forward the government actions, activities and we are waiting for the final license in the first half.

To finalize this section, I'm going to talk about Timbopeba. Timbopeba, last year, we brought back three lines in a six. Now operating in wet processing. We have a milestone to the end of March to bring back the remaining three lines. We are already testing those lines and we expect to bring earlier than we have in our plan, but we will let you know as soon as we have the full operation there.

In the next slide, we have the roadmap for this year. So, I'm not going to talk in details about this, but if you have any question please let me know in the Q&A. But I want to give you two more information.

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In the last year, we mentioned the La Nina's effect. So, we were worried about this -- the effect -- the consequence in our operation. We had in the end of the year, last year, impact in our operations with the rainy season. We call the winter in the north, we start the rainy season, heavy rainy season. But certainly in January, we had great opportunity in the North with the dry month. So, we could take advantage and increase our production in this month.

So, just to conclude, with all of this, new assets, resumption in many operations and also this possibility to increase (Technical Difficulty) in the north in the dry months, now we already have now the winter in place since the second half of February. Combining all of these, we are really confident that we can deliver higher volume in Q1 this year compared to Q1 the last year. So, I'll pass to Luciano.

Luciano Siani Pires {BIO 15951848 <GO>}

Good morning and good afternoon, everyone. Great results. Second largest EBITDA ever. Interestingly, once we saw the reports of the other mining companies of their second half results, Vale's EBITDA was actually the largest in the industry. Obviously, there are circumstances to that because of the relative prices of iron ore to the other commodities, but it shows the potential of our business because we are also operating under a lot of impairments in our operations and still we posted the highest EBITDA in the industry for the second half of 2020.

And we've got a lot of momentum. Cash flow wise, for example, we increased our accounts receivable by BRL1.3 billion in the fourth quarter. We already collected all those proceeds in this quarter, together with the sales of the quarter, the volumes are better than they were last year. So, there is a lot of momentum. Carajas premiums are very good right now. They ended the fourth quarter at BRL12, BRL13 per tonne. They are now standing at \$25 per tonne.

Pellet premiums are on the rise for the second quarter. They will be above \$40 per tonne and they were very compressed in the fourth quarter. So, there is a lot of positive momentum for the business in the first and second quarter of this year.

Talking a little bit about costs. Just to highlight, although you saw costs increase in the quarter from 14.9 to 15.3, the relevant measure for costs is costs without the purchase of third-party ore. Because of the increase in iron-ore prices now, we're paying over BRL60 per tonne in our opportunistic purchases of iron ore from third parties. When you average all of this, costs have increased. If you strip out this effect, we have costs stable at below BRL13 per tonne. It's a better measure of our productivity. We can discuss further the trends, of course, in iron ore.

In Base Metals, as Eduardo said, Onca Puma, first full quarter without any problems on the operation, be it injunctions or problems of maintenance in furnaces or whatever. BRL50 million in EBITDA. At today's prices, it could be generating as much as \$70 million in EBITDA per quarter. So from zero in the past two years. So this is another contributor to EBITDA going forward.

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Negative cash costs in Salobo for the second quarter in a row, so pay attention to the prices of byproducts, very good for copper. Not only for that in Canada, there is lots of byproducts that are selling at good price prices. And that's the reason why also the EBITDA for base metals was above \$1.1 billion. Very good performance.

We had a very interesting quarter in reshaping our business. A lot of movements in our portfolio. We collected more than \$600 million in divestitures this quarter. For example, we sold a 25% stake in a coal mine in China, a stake in a pelletizing plant in China, we sold our palm oil company with over 3,000 employees. Yes, Vale had a palm oil company. Not anymore.

We finally left our Potasio Rio Colorado project in Argentina. We collected the proceeds from the divestiture of PTVI. And looking forward, we also signed the agreement -- binding put option agreement with a consortia, with the presence of Trafigura for the sale of VNC which we shall discuss in the Q&A. We've hopeful that this may come to a good conclusion. And we also signed a heads of agreement with Mitsui. We're working into definitive documents for the exit in Moatize. So, a lot happening in the portfolio.

And for those of you who also look at the portfolio and do some of the parts valuations of Vale, we have this company, the general cargo company called VLI, which we're studying the IPO of the company in Brazil. BNDES, the Brazilian Development Bank, exercised (inaudible) option, call option that they had against us. And that option that they exercised values our stake in this general cargo company at around \$1 billion and probably more, given that the Development Bank exercised because it sees prospects on this investment.

And also, our stake in Mosaic with the very good performance of Mosaic, very good improvement in margins, costs coming down, lots of -- they are doing their homework. It's now worth also more than \$1 billion as we speak.

And finally, one last comment on the -- from a financial perspective on Brumadinho, the definitiveness of the provisions, you saw we added provisions on three different lines. First, decharacterization of dams, \$617 million. They mostly relate to the end of the studies for the characterization. We determined where we need new back-up dams to be built. So, these were accounted for.

Future changes in those numbers should be marginal. There are a few small dykes that need to be also assessed. The cost of the characterization and minor engineering adjustments could be made, but pretty much, in terms of big numbers, we are now very confident about the numbers for decharacterization.

In terms of the global agreement, you saw \$3.9 billion being added to our provisions. As Alex described, two-thirds of that amount to be spent is a fixed amount. So, there is no uncertainty around those. And the other remaining third relates to performance obligations, obligations which by now have been widely studied, technical studies were mentioned. And if there are changes, if any, they are towards just a third of the amounts to be spent, not to the full amount.

And finally, we added -- there are additional provisions beyond the agreement, beyond the characterization, which relate to individual indemnifications and which relate to kind of ARO, asset retirement obligations, on the old site of the mine that collapsed -- the dam that collapsed.

So, some geotechnical studies. We need to recover the area. So, we added another \$237 million. Now we've also concluded those studies. And within those \$237 million, there are also three months of extension of the emergency payments as a precedent condition for the agreement.

So, bottom line is, unless there are minor engineering adjustments on geotechnics or performance obligations, which are a smaller proportion of the whole, the provisions in the balance sheet now are pretty much done as regards Brumadinho.

And now, let's move on to Q&A.

Questions And Answers

Operator

Thank you.

(Operator Instructions)

Our first question comes from Timna Tanners, Bank of America.

Q - Timna Tanners {BIO 6766897 <GO>}

Happy Friday. Thanks a lot. I wanted to ask -- I'll just ask two, if I could. One is, from the slide deck, it's clear that you're running at already within your range, even though the first quarter tends to be seasonally weak. So, I was just wondering if you continue to progress, if it's safe to say that we should assume you'd be closer to the high end of your guided production range.

And then, my second question is just, we've got a lot of questions recently about potential government intervention and higher taxes. I think you know why. Wondering if you could comment on that. Thanks a lot.

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Okay, Timna. I'll let Spinelli bring your first question. Happy Friday, by the way. And I will get back to the government discussion.

A - Marcello Spinelli {BIO 16240257 <GO>}

Hi, Timna. Thank you for your question. So, we are -- yeah, we are really happy about of this quarter. We are much more prepared for the rainy season than ever. Every time we

learn with this and we can bring other lessons from the past. So, everything is in place. And we expect to deliver this -- as I've mentioned, this quarter, better shape than the quarter before and the first quarter last year. And we are in the guidance. Yeah, we are confident to deliver the guidance. We're at the beginning of the year, obviously, but we are really confident to deliver the guidance.

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Okay. Timna, by means of government intervention, we have to understand the trajectory that Vale has been going since we entered the new market, right. Four years ago, we started to establish a several changes inside the company. As we speak, in November last year, the shareholders agreement is ended. So, we are under what we call a true corporation. Obviously, the new election of the Board that is coming on April will consolidate that movement.

But that movement has to be understood. As I mentioned before, historically, when we started the new market, then when we brought two independents, then we had the third independent, we created the nomination committee just recently. The Nomination Committee, as I mentioned in my initial speech, was -- called a general assembly -- an external Extraordinary General Assembly to improve the governance, to prepare ourselves and the company to this next step. We are going to have, as just an example, seven independents on the Board. So, we don't see any kind of possibility of government intervention with Vale because we are, as a diffuse control company, guided by our shareholders and by who has the interest on the company. So, I don't think that is any issue for Vale.

The fact of tax increases, of course, sometimes there are some noises. I would like to ask Alex just to clarify one recent noise because it's natural that there are some tax movements that -- we are talking about the tax reform. But the tax reform that has been played by the government -- the federal government is always on the principle there's is going to be an equilibrium. Brazilian is already really burdened on tax. So, taxing is not the best way to improve our economy. But I think if you're referring specifically to CSLL, I think Alex can give some more color on that.

A - Alexandre D'Ambrosio

Yes. Thanks, Eduardo. That's a very good question that Timna raised. In fact, as Eduardo said, every now and then we see the initiatives for increasing taxes in the mining sector. And recently, we saw a new tax bill proposing to increase this, what we call, the social contribution tax, the CSLL. And that's been brought into Lower House of Congress.

We are very confident that this bill will not succeed because we view it essentially as unconstitutional. It violates a constitutional principle known as isonomy, to the extent that it adds another layer of taxation in a sector that's already very highly taxed. And effectively, it discriminates against this sector. Also it doesn't -- It's not clear in the proposal about which entities will be taxed and which will not. There is no justified reason in our view to increase taxes on the mining sector. Much higher than in any other sector. And also, the project fails to take into account global benchmarks for taxation in the

mining sector, which that has always been a rule in defining the amount of taxes in Brazil. For these reasons, we're very confident that this new bill will not evolve.

But I'd like to take the opportunity to address a point that -- on the other part of Timna's question about government intervention and to add -- just to complement what Eduardo said. Everyone knows that there is some golden shares that are still -- at Vale that are held by the government. And the opportunity to clarify that these golden shares have veto power on very limited amount of matters. And I will state which matters these are for clarification.

First, the government -- the federal government, with these golden shares, can veto a change in Vale's name, a change in Vale's location, of Vale's headquarters, change in Vale's corporate purpose with regard to mining activities meaning that we cannot cease to be a mining company, any liquidation of Vale the government would have veto on, and disposal or winding down of activities in any part of Vale's iron ore mining, integrated systems, mineral deposits or deposits, railways, ports and maritime terminals.

And also, we can't -- Vale cannot change the bylaws with regard to these golden shares, which would otherwise defeat the purpose. So that's the -- these are the only matters which the golden shares have veto power and that's the limit of government intervention in any of the voting processes. So, I hope we answered the question. Thank you. Back to you, Eduardo.

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Thanks, Alex.

Operator

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

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

Hello, good afternoon. Good morning, everyone. And thank you very much. So, a couple of questions. One is the capital generation obviously was really strong in the first quarter and iron ore prices remain quite high. So, I wonder if this -- if you could elaborate as to how you see capital returns to shareholders in the coming months. Should we only expect another dividend in September as per the traditional policy? And what about share buybacks with some of your former controlling shareholders selling or potentially selling their stake, if the stock may have been under pressure because of that? Any plans to maybe coming into the market and do a buyback, given again the strong balance sheet and the solid cash flow generation?

And then, if I may ask a question on the Brumadinho process. Obviously, a very solid comprehensive agreement with the authorities. Just one question was something that -- it doesn't seem to have been included there, which is the lawsuit that the prosecutors have brought against Vale under the anti-corruption law. Any update there? How should we

think about that particular process? What are the next steps? And I guess, what is the company's position towards that? Thank you very much.

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Okay. Thanks, Carlos. Good morning for you as well. It's true. The cash generation is really strong. We've been extremely conservative on how we view our balance sheet. You know that because of the commitments that we had and we just assume this commitment with Brumadinho that didn't impede us to pay a solid dividend on this first quarter -- first semester, sorry. So, it's a matter of using of the proceeds against the cash generation. I don't think we would move from a policy of doing that on September. But, obviously, if you look at the trajectory, given the expanded liabilities that we have, we are going to be under the \$10 billion. And obviously, any excess cash will be returned to the shareholders. We have a very well behaved, if this is a word in English, CapEx. We have no -- nothing in our horizon besides growing our platform to take profit of the cycle. We are very bullish on copper. So, we're going to invest. We've said that in Vale Day. We are going to expand our (inaudible) in iron ore. Those are marginal CapEx. There is nothing very big. The liabilities are none, as Luciano mentioned.

So, the natural way that the money to flow is to the shareholders. I think this is the natural way. As long as we can keep our business growing and safe, the excess cash goes to the shareholders. Specifically about buybacks, we're always talking about that. We are always thinking. It's something in our agenda. We're talking to the shareholders, and see what they see and what they want and it's truly in our agenda. But it's nothing that we had taken decision yet.

I would ask Luciano will help me to elaborate on that. And then we get back to the Brumadinho lawsuit.

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

Just to highlight, we're paying \$4 billion in dividends. In the same quarter that we're taking on our shoulders another 6 billion in liabilities. There is not only Brumadinho. There's VNC -- for the divestiture of VNC and another, so it's quite a sign of disposition to return money to shareholders. That's one thing.

The second thing is on buybacks. We want to establish a track record of paying hefty dividends. That's a goal that we have. So, buybacks are subordinated to that. The second thing is we don't want to be pro-cyclical. So, we're going to be very mindful of where we are in the cycle, not to buy at high, However, it bothers us a lot the relative valuation if you compare to other mining companies and the gap has actually been increasing. So, these are all factors that will be taken into account when making a decision.

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Yeah. Together with the board (inaudible) the law about, the anti-corruption law. We think there is no merit on that, but I'm not the legal counsel. So, I ask my legal counsel to just give some more details to you, okay, Carlos?

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A - Alexandre D'Ambrosio

Thanks, Eduardo. And thanks, Carlos. I was hoping you'd ask that question. So, I have a chance to clarify it. Well, we purposely did not include the corruption lawsuit in the settlement agreement because, as Eduardo said, we view it as having no merit whatsoever.

Remember that the charges brought in this lawsuit, they're not supported by the facts. And in our view, they have no connection with anti-corruption law. As you may recall by reading the allegations, the lawsuit contains no allegations that Vale corrupted a government official. And that is what defines corruption. And in our understanding that's the purpose of the anti-corruption law. So, we also have legal opinions from the lawmakers who drafted the anti-corruption law and who agree with that position.

So, for these reasons, we believe that the charges or allegations will not prosper. And we saw no reason to include that in the settlement and give any sort of adherence to the charge. So, that's why we will fight this and we will win this in court.

Thanks. Back to you, Eduardo

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Thank you. I hope we have answered you, Carlos.

Operator

Thank you. Our next question comes from Jonathan Brandt, HSBC.

Q - Jonathan Brandt {BIO 5506998 <GO>}

Hi, good morning. (Technical Difficulty) my questions. Luciano, I first wanted to ask you, I guess it's sort of a capital allocation question. You ended the quarter with a very high cash position. And obviously, you have some liabilities coming up with the dividend. And I think you bought back some debt that was announced today. But still cash generation this quarter should be pretty robust from collecting on the working capital and high iron ore prices. So, I'm just wondering if you can comment a little bit on sort of how you see the ideal cash position going forward.

And on the global settlement, I know there is a timeline of payments. But in terms of liability management, is that something that you can prepay or should we expect that to follow the payment schedule?

And then, just sort of secondary to that, you mentioned potential IPO of VLI. If you could just comment a little bit on the rationale for doing that, just given you don't really need the cash. Is that just to sort of create and unlock some shareholder value?

And then, I guess the second question for Mark. As it relates to the copper projects, and not so much Salobo, but really the projects that you have in Southeast Asia, which I

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understand are pretty attractive, given the high copper prices, is that something that you're looking to potentially accelerate or how should we think about a timeline for those projects? Thank you.

A - Mark Travers {BIO 16687422 <GO>}

Okay. Jonathan, thank you. Our cash position is way too high. It needs to be used. The first direction could be pay down gross debt. However, most bonds are trading at a very high premiums because of the low yields. So, we are observing very -- with a lot of attention to the trajectory of yields that started to increase, US treasury yields more recently. So, we will be looking into opportunities to perhaps reduce our gross debt as well. So, that's one thing.

The second thing, you mentioned prepayments of values associated with the agreements. That will be looked into. We might be looking into prepayments of our concession fees for the renewal of the concession because the interest rates -- regulatory interest rates are really high. We have the project finance to refinance as well. It is an obligation that was contracted at a time when interest rates were higher and it embeds the Mozambique risk. So, that's something to be looking upon.

So, bottom line is, we are looking into a number of alternatives. None of those alternatives have any interference with our ability to pay dividends. But the level of cash is too high and needs to come down. And that's -- yes, you're right. It continues to increase.

And as you pointed out, in Brumadinho itself, there are some lump-sum payments to be made over the course of the next six months, significant. But still, the reality is that we need to decrease those cash balances.

A - Marcello Spinelli {BIO 16240257 <GO>}

Jonathan, just in terms of the projects in Asia, I believe you're referring to our project in Indonesia called Project Hu'u. It's a project, let's call it, say in the pre-feasibility stage. Based on what we see already, we see a very large ore body, high potential annual production of copper, let's call it, around the 250,000 tonnes per annum. But we're looking to optimize that with significant gold production as well. We believe it's a potential first quartile cost, mine with about 45 plus years' mine life.

So, we're currently doing some studies to optimize this, looking at recoveries, renewable energy options and extending the mine life. We're very positive about this project. And one thing we would do is look towards bringing in potential partners to derisk the project for approval sometime around the 2025 period. There is very significant amount of study work to get ready for that project approval. And we believe this can add some great optionality to the robust copper project opportunities that we have in Carajas which were outlined in the Vale Day.

Operator

Thank you. Our next question comes from Andreas Bokkenheuser, UBS.

Q - Andreas Bokkenheuser {BIO 7182883 <GO>}

Well, thank you very much. A couple of questions from me today. One is on your cost base, especially your breakeven cost to China. I'm not going to ask you to kind of forecast freight rates and whatnot, but obviously Vale used to be a breakeven cost producer to China at about mid-30s dollars per tonne. I realize that obviously sustaining CapEx has gone up and so on, but what's your long-term goal here? Do you think we're going to get back sort of the mid 30s even with sustaining CapEx a bit higher? I would imagine with some cost dilution as you ramp up towards 400 million tonnes, there will be some cost dilution and then potentially some cost savings there. Because, potentially, you could probably unlock another \$2 billion to \$3 billion of EBITDA. That's achievable, I would think. So, could you give a sense of kind of how you're thinking about the longer-term breakeven cost of China. That's the first question.

And if I may, on the second question, obviously, you're thinking about -- you've obviously got capacity of -- getting to capacity of 450, even though the initial production rate will be 400 by 2020 -- annualized by 2022, but full year to 2023. What takes you to 450, I guess, is the question. And I realize this is not a 2023 or it's not a consideration until 2023. But what takes you to 450? Is that a purely on iron ore price consideration where you say, all right, well, if iron ore is about 100 or whatever, effectively, then you will push for 450. And when do you make that decision. I'm obviously asking because iron ore today is \$170. So, presumably, that would be something worth considering.

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Okay, Andreas. Yes, we intend to get back to mid-30s even considering sustaining number of levers for that. One is cost dilution, for sure. The other thing is lowering the pre-operational expenses. We're spending a lot of money and this is impacting our breakeven with idle operations still. There is some components which are pro-cyclical on the cash breakeven, namely royalties and third party purchases, like the higher the iron ore prices, the higher the royalties and the third-party purchase costs.

And also sustaining CapEx is going through a bump now, especially because of the intensity of the investments in filtration. So, it is not expected that we will have a longer-term \$7 per tonne sustaining capital. So, we should go back in two years' time, let's say, to \$4 per tonne once those investments are done. So, therefore, we see ourselves as a \$30 and even sub \$30 per tonne EBITDA breakdown in China. And when you add sustaining, a sub \$35 in the medium term, in two to three years.

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

I'm Luciano. About the 450, just to be clear, Andreas, and then Spinelli can help me with that, the idea behind the 450 is much more on creating flexibility and buffers to our situation and creating growth optionality in the north, right? Although we just announced the Capanema Project, it's not based on the actual prices. Vale is truly committed to the value over volume. We are always looking at margins. We are always going to look at the way the market behaves. We're not going to be producing 450. We've always said we want to have the capacity of 450, to have buffers to absorb problems or -- or else, even if the market demands, we are able to do the 450. If you can add something else, Spinelli, it

would be great. (multiple speakers) that we are looking now. We're not looking at the price of now to get to the 450.

A - Marcello Spinelli {BIO 16240257 <GO>}

Exactly this. This is a decision before any spike of price. And the way we manage that is the swing capacity. So, we can regulate the operations in the south or in the north. We can use the portfolio flexibility to improve premium products or not. So, it should bring reliability to the plant, the 400 million tonnes plan and give optionality to -- if you have a market for that. But margin over volume is the key for that.

Operator

Our next question comes from Chris Terry, Deutsche Bank.

Q - Christopher Terry {BIO 15034676 <GO>}

Hi, Eduardo and team. Yeah, I had two questions I wanted to ask. The first is around production versus sales. So, I just wondered if you could comment a little bit on where your general inventory levels are at at some of your blending sites and how you're thinking about the build of inventory on any of those blending sites and overall grade optimization for your selling products.

And the second question I wanted to ask is just around the exposure to batteries, lithium-ion batteries through nickel in particular. And just wondered if you could give an update on your latest thinking on what the company is working on there. Thank you.

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Thank you, Chris. Go ahead, Spinelli.

A - Marcello Spinelli {BIO 16240257 <GO>}

Thank you, Chris. We are not planning any gap in our (Technical Difficulty). Last year, in the third quarter, we had a huge -- very important gap to recover all the supply chain, to fulfill all the supply chain that the last one year before. So, now, we are with our ventures in an operational level that we can give flexibility to sometimes go from a specific product, like Carajas ore, to blend product. So, obviously, you see some gaps. So, it's not the number of production and the number of the sales sometimes can be different, but not a huge gap during the quarter.

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

And Mark, please.

A - Mark Travers {BIO 16687422 <GO>}

Of course, Eduardo. Chris, just in terms of batteries for electric vehicle space, maybe just to start, I think we're seeing great evidence that the electric vehicle market is here and it's

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going to grow dramatically over the coming years and it's going to be a dramatic opportunity for the nickel business.

While there are discussions around the form of batteries, lithium-ion for sure is going to take a significant portion of that market, and even if they are in -- and there are places for things like the lithium phosphate, iron phosphate battery, but we believe that nickel will take a preeminent position in the battery space and it will be demanded by the industry.

So, moving to the opportunities for Vale, what we see is an acceleration of discussions around creating the value chain or the supply chain in the European and US markets and we are seeing lots of evidence and participating in many discussions on a number of different fronts around how we can participate.

We have a strong portfolio of nickel. And the nickel that we produce, including our class 1 nickel out of our North Atlantic flow sheet and the UK and Canada, seems to be well demanded or strong demand for that product. And so, that's something in the short term and we are very heavily engaged in those discussions. Now, that's demand that comes from our current flow sheet and we will be participating in that.

And then, I think we look towards the more short to medium to long-term opportunities and we start to look at opportunities within our flow sheet and potential joint ventures and partnerships. And we are in discussions with that around that as well.

And then, just in terms of how we look to supply that, we obviously are very heavily engaged in our exploration drilling activities and looking at other opportunities for innovation to fully participate in this opportunity.

Operator

Next question comes from Alex Hacking, Citi.

Q - Alex Hacking {BIO 6599419 <GO>}

Hi, good morning. Yeah, if I could just follow up on that last question with Mark, I guess, first, which is -- Mark, are you seeing any discussions demand for sustainable class 1 nickel? And if so, how does Vale fit on that spectrum. And are there kind of initiatives that you're undertaking on that front?

And then, the second question, just coming back to iron ore, in particular, in the north, Carajas, when S11D was built, I think it was built for 230 million tonnes of export capacity. I think the system has never really done much more than 190 million tonnes. I know Serra Leste is coming back online. But is there a pathway there for the northern system to achieve that 230 million tonne rate? And if so, like when do you think that would be? Thanks.

A - Mark Travers {BIO 16687422 <GO>}

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Okay. So, Alex, thank you for asking that complementary question, because, absolutely, we see significant opportunity in providing nickel that meets strong ESG standards. And we are seeing a lot of discussion. We're hearing a lot of discussion around the type of nickel that's being provided in terms of ESG standards, whether it's low carbon or coming from well-regulated, well-run jurisdictions. And so, clearly, we can position and we do position our nickel in the top of that spectrum. If you take a look at our nickel coming from our Canadian flow sheet, for example, it has an average carbon intensity significantly below comparable products, and we have an opportunity to decrease it dramatically. For example, taking -- removing diesel production, our diesel fuel out of our Voisey's Bay operations will dramatically reduce our carbon intensity in our product coming from Long Harbour. So, we absolutely do see that opportunity and we are positioning our nickel in that way. And certainly, the suppliers are looking for that.

A - Marcello Spinelli {BIO 16240257 <GO>}

Yes. Thank you, Alex. Well, yes, our plan is to reach the 230 million tonnes next year in the end of the year. Just check with you. We have three systems there. We have the north range, the east range and the south range, S11D is only one of this. First information, that was good news from the last year, it was the east range. We can add 6 million tonnes. We stop this operation two years ago. Now we're back. So, we are adding in this number of 230 million tonnes.

The north range -- the challenge is to bring the new pits online. So, we always need to bring pits and have the construction and the license. So, the good news is the entry operation that I mentioned in my initial speech. And S11, that is the south range, is going really well. This year, we need to have some -- adopt some crushers. It's in our plan this year. It came with the use of the S11. So, we are improving the operation there. But we will be ready in the end of the year, beginning of next year to have full operation there. So, we have the plan to reach the 230 million tonnes to the end of next year.

Operator

Thank you. Our next question comes Christian Georges, Societe Generale.

Q - Christian Georges {BIO 1557701 <GO>}

Thank you very much and good morning to all. I've got two questions for you. The first one, on your pellet production, how should we look at this year production target? Should we anticipate a gradual return to have 50,000 or 60,000 tonnes per annum in coming years? And associated to that, what should we anticipate for your cost of operations, releasing and pelletizing going forward. That's the first question.

And the second is on the stoppage expenses from Brumadinho, those costs which are not covered by the settlement, around something like \$100 million per quarter, how should we expect those to evolve over the next two years.

And on the side, you seem to be very confident on your ability to deliver production this year. Should we look already at being more likely at the upper end -- the upper end of your 335 million tonne target. Thank you.

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A - Marcello Spinelli {BIO 16240257 <GO>}

Thank you, Christian. It's Spinelli here. Pellet production, we expect to improve slightly this year comparing to last year. Our main restriction is the production of pellet feed. We have all the evolutions to face in the southeastern system, with all the dams that I mentioned. So, to the end of the year, we still have the bridge of this production using the remaining capacity in the dams. In the next year, we gradually will go back to the level of the production we used to have. So, it will be around the ramp up to 50 to 60 of capacity.

Obviously, it depends on the demand. Again, the margin of volumes is part of the strategy. But in terms of (Technical Difficulty) you can consider this year a slight recover. And next year, after the production pellet feed, we can improve more.

In terms of costs, the dilution, of course, will come. We are operating part of our capacity with idle capacity. So, definitely, the dilution of costs will be important to reach the best of operations next year.

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Stoppage expenses should decline in the same proportion that the operations come back into production. So, with the exception of Vargem Grande, they should come to zero at the other sites by the end of 2022.

Operator

Thank you. Our next question comes from Amos Fletcher, Barclays.

Q - Amos Fletcher {BIO 4728914 <GO>}

Yes. Morning, gents. I had a couple of questions. First one on capital allocation. Can you clarify that once the expanded net debt gets below \$10 billion, can we expect all surplus cash flow to be returned to shareholders?

And then the second question is just on your base metals business. Once upon a time, you looked quite seriously at separating off the base metals business. When we look at the huge valuation differential between the pure play nickel and copper miners compared to iron ore mining companies, do you think there is a rationale to consider a separate listing of the base metal business again to highlight the value there. Thanks.

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

Hey. Thanks, Amos. Yes. But, look, the understanding of the trajectory of the expanded debt is even more important. So, obviously, if we are below 10x, all excess cash is going to be returned to shareholders in forms of dividends or else.

And secondly, about base metals, obviously, we understand that you have a strong point. We see the same. But we see that in iron ore today with the valuation that we are undergoing. So, we need to correct both valuations and build the business. And then, of course, optionalities like that are all in the table to look at. But we still have to do a big

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homework at base metals business, grow the copper, as we mentioned before, strengthen the nickel, but truly, it's something that we're always going to be looking at. That's not (Technical Difficulty).

And capital allocation, just to be clear, everything in excess is going to be returned to shareholders. But always on a trajectory because we paid a strong dividend this semester and we had \$2.3 billion expanded debt.

Operator

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

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Okay, thank you. Thanks a lot for your attention, your questions, your interest. I think as you saw, we had a very, very good, I would say even excellent, fourth quarter. But as I've been saying to you, this is not a sprint. It's a marathon, a marathon that goes through derisking the company, reshaping the company and re-rating the company. We are truly committed to derisk. We did strides very importantly in Brumadinho as with the global agreement. In safety, we are improving, we are bringing our production with safety consistently. Capital discipline, we are extremely conservative and we're going to return what we have to do to our shareholders on a disciplined way. We are reshaping the company. Luciano mentioned several initiatives to clean up, from biodiesel, palm oil, to the VNC problem, to other assets that are draining cash, but we're going to re-rate when we are truly a safe, a sustainable, a reliable company.

So, thanks a lot for your attention. And I think see you in the next call.

Operator

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

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