

Y 2018 Earnings Call

Company Participants

- Luciano Siani Pires, Executive Director, Finance and Investor Relations
- Unidentified Speaker

Other Participants

- Alex Hacking
- Analyst
- Andreas Bokkenheuser
- Carlos de Alba
- Chris Berry
- Tyler Broda

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to Vale's Conference Call to discuss Fourth Quarter and Fiscal Year 2018 results. At this time, all participants are in 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 the recording will be available on the company's website at vale.com at the Investors link.

This conference call is accompanied by a slide presentation also available at the Investors link at the company's website and transmitted via internet as well. The broadcasting via internet both the audio and the slides 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 is Mr. Luciano Siani Pires, CFO and IRO

First, Mr. Luciano Siani Pires will proceed through the presentation on Vale's 2018 group [ph] performance and after that he will be available for questions and answers.

It is now my pleasure to turn the call over to Mr. Luciano Siani Pires. Sir, you may now begin.

Luciano Siani Pires {BIO 15951848 <GO>}

Ladies and gentlemen, we're here in a moment of deep sadness and grief because we lost a 131 of our sons and daughters the employees of Vale. A 121 brothers and sisters amongst our working partners employees and suppliers of Vale and 53 brothers and sisters and made us from the community. Nothing will bring back the lives that everything that we can do now is dedicated ourselves 24 hours a day to alleviate the suffering of the families of the victims and the all the people affected, we covered and remediate the environment in the affected areas. Every organization is made by people, and Vale this abstract entity is made up of 70,000 people, which are now suffering. But it is in this moments of suffering that the best within us to come out and I'm here to particularly thank more than 600 colleagues which are, tirelessly with in Brumadinho and other communities working 24 hours a day, weekend's included, organized and delivered the necessary response.

We understand that no response can face the losses, but it's our belief that, if there's a best that can be delivered that Vale is capable of delivering its best. And we're here to be accountable to yourself to our partners from the capital markets and our shareholders. About the efforts of the organization to support the victims, the affected people to remediate the environment. And hopefully engage ourselves in this world map and path towards delivering the meaning and the purpose of Vale as an organization for the future.

Today, I'm by myself my colleagues which are leading now the business is called (inaudible) in our or in my travels in base metals they wish to be very soon sharing their own ideas review about the lines of businesses.

In Brumadinho [ph] or I think fully dedicated in this moment first and foremost to ensure the safety of our operations and prepared organization to the challenges that come that in due time you will be sharing his ideas as well . Today I'm going to speak a little more than usual, because I -- we do want to go through the efforts of that I mentioned that would be the one, so I refer to the webcast presentation on page 5.

Starting by the medical support and the health centers, which was established shortly after the tragedy, the picture you see is our small -- knowledge station is a property of value within Brumadinho, very equipped, very capable, where we organized a very large health center. We mobilized containers very quickly to bring professionals -- health professionals from audit areas to Brumadinho. We also engaged the private health units around the city, not to stress, the public hospitals, and we provided everything that was required for the very first days and first assistance to the affected people.

On page 6, we obviously disrupted the lives of people of the community after the event, people move to hotels and we are now working together with them to provide temporary housing as a step towards definitively housing for the people who were displaced from their homes. We're providing portable water for animal consumption, mineral water for consumption for human consumption, we are providing transportation some more distance communities within the Brumadinho town [ph] Municipality, we have their access is cut from the main town. So we are recovering those accessing we're providing alternative roads within our property, we are providing transportation for the public and

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you also thank you authorities for the help that they are doing in order to issue documentation and restore the formal lives of those who left documents behind. We acknowledged but the people who were affected in this place they were temporarily house in hotels but they also lost all of their economic activities. So the week after again the Dam bridge we provided donations for many affected people, we provided donations for the families of the victims any of them lost their making hands of families. We provided donations for those who had their residences affected, those who had their business activities affected, those who have there any type of disturbance in a short term and this was without any kind of parts you didn't want to characterize this as an identification whatsoever.

We provided help to the public sector, which was had the its resources stressed to face the challenges. So for example, 10 days ago we equipped , we're committed to equip the firefighters of the state of Minas Gerais, we received the list of equipment ranging from (inaudible) to uniforms to notebooks to sophisticated equipment excavators, special vehicles, trained dogs and everything that they needed they wanted in order to equip the whole of the firefighters corporation of Minas Gerais, we granted them, we are and this is a big thank for the heroes that were recognized by the nation as such as because of their efforts following the tragedy, and we have also equipping their training academy, state of the art facilities to make them better and better professionals. We also compensated financially the town of Brumadinho in order to keep the public services in good condition, because of the loss of taxes. We help them buying emergency equipment, we helped the middle medical institute abilities on to the -- also with equipment. We compensate in the state of Minas Gerais for the extraordinary expenses on the rescue operations. So, we're trying to make whole, all to the public sector for all the disturbances (inaudible)

We'll talk later about the identification process, but internally our Board of Directors established three extraordinary committees to address the key issues, in response to the Dam bridge We acknowledge that the management of Vale, the Board of Directors of Vale, We have lost credibility. So, we'll resorting to external prominent specialists in their fields to address supporting recovery investigation and then safety. Their work is ongoing, it will last many months, very careful work, we're receiving a lot of inputs and hopefully in mean time we will make public their conclusions for the benefit of society as a whole.

We have also established the Crisis organization within Vale, today we have approximately 300 professionals fully dedicated to support the activities of everyone which is on the field. It's based in the army to command which is near by Brumadinho. The Board of Directors also suspended shareholder dividends and variable compensation for executive. We announced and we will talk about this to the commissioning of upstream events. We have a comprehensive technical investigation which is led by the law firm (inaudible) with the help a panel of experts from universities in the US., Canada and Australia. This has the role of determining the technical causes of the accident of the tragedy.

They will do mathematical modeling, they will go through all the records of measures from all the instruments, they will look at the dam designs, they will use the top-notch science that is available in the world in order to and cover what happens in led to the Rupture. And this is different from what investigation committees are doing which is more

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of a forensic investigations having access to internal documents, emails, reports and trying to establish conclusions about perhaps individual behaviors. So there's the forensic investigation and there's a technical investigation ongoing in (inaudible).

In terms of indemnification, we established very quickly an agreement with the public authorities, the public prosecutors at the state and federal level. For a preliminary indemnification, we acknowledge good grief and mourning of the communities so, maybe that's not the best time to engage in discussions about fair compensation, so in order to allow everyone involved the necessary time to make those very important discussions and decisions, we are providing financial support on a monthly basis for -- we estimate a 100,000 people located in the town of Brumadinho and in the vicinity of the Paraopeba river. This is a tremendous effort. We have 21 again health centers being established. So we hired the locations, we equipped to help centers, we hired the staff, organize the back office put in place the systems in order to make the registration of all these 100,000 residents and we have already paid about 2,000 people as of now, which is just a fraction of the 100,000 but over the next few weeks will go through all of them, all of the communities to make whole all of those people. We're putting the best of Vale's resources going and acknowledge and personnel in order to make this happen.

As a consequence that we will discuss as well as the increased safety standards across the industry for them, we are now importantly disturbing the lives of more communities beyond Brumadinho. So we've evacuated a number of communities today we have about a 1,000 people affected and those are communities which are downstream dams about which we have doubts about their security according to those new industry standards. We're providing also drills within the (inaudible) potentially could be reached by an eventual dam Rupture several hours downstream. We are doing all of this to ensure the safety but nevertheless those about a thousand people will have their lives disrupted and we will engaging the (inaudible) already we're accommodating them in hotels, we provide temporary housing, we provide the singleton housing room providing them into (inaudible) people are (inaudible) .

And this for you know isn't constrained and limited to Vale, many mining companies within Brazil were going through the same because as a rule has been forwarded this is a widespread consequence of this -- increases safety standards across the industry. And finally, just so you know you can read, we are also taking care of the fauna and have a full service campaign hospital to deal to rescue and to treat and to house, the animals in the affected regions.

I'm going to speak now about a very important issue, which is the environmental impact, specially on the Paraopeba river. I'm not going to follow quite the sequence lack of sight now, but I do have some important information for you. As we estimated 12 million cubic meters throughout payments, we estimated that around 2 million have been carried by the river. The rest of it either stayed within the Dam site, or in the vicinity of the Dam site. We're monitoring water quality on a daily basis and the sediments on a weekly basis through 65 monitoring points everywhere, in creeks, in Florence, in the tributaries of the rivers, in even in the San Francisco river which is one of the key rivers within the country.

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Over 300,000 analyses were performed by four special laboratories which were hired by Vale, 250 professionals are involved and the post-graduation coordination in hearing body of the Federal University of Engineering is auditing and validating the results. A few key conclusion, first is that the payments have a composition which is very similar to the soil in the area which means, yes, the PAEBM they have heavy metals above legal limits, the PAEBM themselves but this is no different from what happens will be -- in the soil of the region, which means caring palings to the river is no more harmful than caring for example when it rains heavily caring soil from the river banks to the river. But however, those heavy metals, they are not free, and they will not be absorbed by the -- the biopharma within the river, they are isolated and encapsulated, they won't be assimilated. We know this because, we conducted tasks, ecological task with several organisms and natural fauna of the river, including microCrustaceans bacteria and fish. And between 97% and a 100% of the sampling that we did, indicate that there has been no contamination, who are now conducting tests with the animals and the plantations by the river and also we prove to all laboratory tests that once you make the water from the river to go through what is called the ultra filtration which is the usual kind of treatment that we have in treatment stations for water source for cities that the water the heavy metal levels the stayed below the legal limit. So, therefore the water treated through ultra filtration should be adequate for human consumption.

Finally, the environment institute of energy rise [ph] together with other agencies and the sanitation company up to now we have not observed any change in the quality of water downstream the power game of the to buy food [ph] and that's important because downstream just follow them, there's another large part of dam called (inaudible) which connects to the San Francisco river, which is one of the most important river bases in the whole of Brazil. So alike was reported, this major initiative confirmed and now we (inaudible) the Federal agencies this morning also confirmed that there are no -- the Plume has not reached the Tres Marias big power dam and therefore not reached the San Francisco River. And even if the (inaudible) power Dam doesn't hold all the remaining payments, mathematical models show that about three quarters of them should stay at the (inaudible) power Dam and only a quarter of them should go to Tres Marias because of the size of the reservoir at Tres Marias again the Plume should not reach the San Francisco river.

What is this we're doing and that you can read on the Federal slides. First, we need to stop the carrying of payments by building (inaudible), hydraulic bearers screening [ph] structures we have already of full plan in order to remove the (inaudible) which are today being held to delivered, we haven't them started yet because of the (inaudible) still rescuing for additional bodies. We are working with the sanitation company to reestablish the sourcing from the river and we are investing in additional water treatments (inaudible) stations and finally on the city of Pará de Minas which is the first one downstream from Brumadinho we're building a new again a new pipeline in order to increase the sourcing level from other sources, so we do entirely replace the sourcing from Paraopeba river this new pipeline come from other water sources and as a result was the Paraopeba river recovers the city will have a legacy of twice the necessary capacity for water sourcing and treatment. Other municipalities downstream, they have alternatives. So, with all of this that I told you, I -- we believe that the from an environmental perspective, the containment of the impacts is obviously continues to be a challenge, but it's a challenge that can be tackled and address and surpassed.

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Now moving into financial and operational impacts. The first thing you will see is a graph currently with the amount of production, which is halted across Vale, reaching 93 million tons. Look into four complexes, the question that arises from this graph is, when is the uncertainty about the production levels of Vale will be removed? and that's what I'll try to address in the next few minutes. The first thing for you to take out of your mind is somehow because of the succession of announcements that we have been doing, all those legal actions and suits and prosecutors and also restrictions from the mining agency and others may give the impression that the authorities in Vale are adversize and they are in different trenches fighting against each other, that is not the case, we all have a common objective, we all want to ensure the safety of the Dam's and the operations, and the National Mining Agency and the public prosecutors, they are exercising their role, when from the information they received, they believe some dam's and operations are not safe.

And Vale is on the same page, we are also working preventively, with respect to for example, the recent evacuation that we promoted and the stoppage of some operations with for example in this graph the Mining Vale green [ph] we were not treated by any authority to stop this mine, but by our own evaluations and concerns about safety. And what are those concerns? why has the question that the exposed is has the safety perception within industry the regulators and value chain with respect to the upstream dams? The answer is yes, and this is a natural outcome of two tragedies within less than four years. The perception of safety has changed the National Mining Agency just started to request a minimum safety factor in the un-drained condition of 1.3 for upstream dams and this was not required before (inaudible) .

The engineering companies that provide external audits of the safety of the dams they are changing and methodologies to calculate those safety factors to more conservative methodologies within the conservative methodology they're using more conservative parameters, for example for materials resistance. We are introducing new methodologies for example, now let's in dams they not only have the drained safety factor in the un-drained safety factor, but they now also have the post liquefaction safety factors, which is being calculated. So therefore, the safety factors being recalculated according those new methodology and standards are being reduced, and they now have to overcome a higher standard established by the agency. So for example in February, Vale had already (inaudible) we had according to the new standard, some of its dams would not get the stability certificates. So we decided to put emergency level to some of our structures and evacuate some communities as a measure of the preciouser and in safety. We're also including in the priority structures, three other dam's raised by the center line method, and some smaller Dikes which although they are not dams, they locate themselves within dam complexes and some of them have been built over cadence, so we are also monitoring those structure very carefully. And as all those information are being available to Vale to an external auditing companies, we are also being available to the Prosecutors. And as I said, in order to fulfill their main-dates they are asking for legal measures against those structures to ensure that we are not operating and they are not put at risk until there is a clear picture about their safety. And this is the priority of Vale is to ensure the safety of all structures, of all the population, all workers downstream and not the resumption of production. To produce is not our priority, safety is our priority.

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March 31 is very close, that's the deadline for all the mining between Brazil to present the safety reports on all the dams. So with that proximity, I'd say the good news is that, we have now more confidence that we understand under those new standards, what is the situation across all of our dams. So therefore, although our goal is not to resume production and safety instead, because we have the duty to inform you, what the picture looks like in terms of production. I will provide now the following explanations, if we go to the draft the private conversion Grande complexes the first -- the 40 million tons which are interrupted, their now interrupted both by -- an injunction from the public prosecutors and prediction by the national agency. Because in those complexes there are Dams which, we know we're not going to get the stability certificates. Some of those small Dikes and dams are going to be decommissioned, some are going to be reinforced, some are going to be commission, some are going to be reinforced, we believe that the over the long land, we are able to operate some of the mines using -- without using explosives, because explosives could trigger liquefaction in the nearby structures. We presented a request to the National Mining Agency in this regard, but because of all of this, and because of our intent to decommission large dams on the - those complexes, we believe that we should be conservative and not assume that we will have that production coming back anytime soon and if we do so, marginal volumes. With respect to Brucutu, the next 30 million tons the sense of the question now relates to (inaudible) the South Dam of the Brucutu, that's the one which is inactive. It is a conventional structure, it's being used by Brucutu until 2013, '14 approximately, but now is inactive. And we believe this dam will have its ability certificate issued in March 31, even with a very conservative assessment. So therefore we hope that with this stability certificate that we will be able to sit down with the authorities and appreciate all the words injunction which is in place today, not to Brucutu. If we cannot do that, the reason why this structure is currently -- Brucutu is currently stopped is because of the processing mill, sometimes eventually discharge materials in this dam. For example, when there's a maintenance stoppage. So whatever is in between the due to the pipeline's of all the circuits of the processing plant has to be discharged and this is discharged very small volumes at this dam. We can build what is called technically Assump which is basically a protected small fit on the ground in order to receive those discharged from the processing plant those eventual discharges and we could run the processing (inaudible) this regard. We could also consider over time dry processing at Brucutu so we believe there are many alternatives for Brucutu and because of the safety of (inaudible) you think we're going to find ways to resuming Brucutu operations either in full or partial. So that operation where we are most confident about the exemption. Juatuba [ph] 30 million tons had its safety, questioned by the public prosecutors of three dams and Dikes. We are going to decommission one centerline dam which is called (inaudible) and our plan is to license the team of (inaudible) it's exhausted pits in order to throw the (inaudible) in there, we might have to use filtration, we might not, so also we believe that Timbopoba has technical solutions to operate safely, but it may take more time as well. Then finally with regards to Alegria, we still need more information, this has been a Vale initiative and we're under taking more studies to assess the safety of Alegria right now. And according to our information that we have today in our assessments, the remaining sites of all across Vale should not suffer in additional production impact and should have the renewal of their declaration stability certificates, going forward.

So in summary, we believe we have a more clear picture about the safety of the structures under the new standards. They're working towards technical solutions to all the -- on all

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the structures that are not meeting the new standards. We believe, we have circumscribes the impact on production, and we believe that's upside specially in Brucutu. And, there's a lot of questions about, how much would that upside be? So, I'm going to give you some guidance on sales. The total impact on sales on the year depending on several scenarios about production, specially in Brucutu and uses of inventories should be between 50 million and 75 million tons on sales, and because sales for 2019 was forecast to be less than production, we're talking about anywhere between 307 million and 332 million tons of sales for this year. With a bias towards the conservative side and again reinforcing the message one more time we're not concerned about production what we want is to operate an effective manner and ensure the safety of our workers in our communities. Very important as well to address the supply to the domestic market more concern to the Brazilian audience that this is just to say that you're using a lot of logistics alternatives to supply the domestic market because (inaudible) Fabrica especially on the (inaudible) supply are halted. So, this is requiring a lot of creativity and for the people to more market, there are questions about what the mix of products of Vale will look like? Our goal is to stabilize the supply of the Brazilian Blend Fines, ensure the contract or volumes of Carajás and try to mitigate the impact on pellet production. As a result of that, some of the Pellet feeds, which formerly was blended to make up some each products or being redirected towards the pellet plants, those each products are being removed from the market. And also because, some of the operations might operate with drive processing, and because the quality of the remaining production is lower, you will need to blend more proportionally, more Carajás in order to ensure the quality of the Brazilian Blend Fines.

And as a result, the supply of Carajás, which would be forecast to increase, because of the ramp-up (inaudible) will probably be not increase as much as initially intended. This is a scenario that I'm described, -- you can have several changes depending on the amount especially depending on the amount of black processes and the use of inventories of lower quality material, but that's the intent.

Moving to the financial implications freezing up funds, we today have BRL16.5 billion which are freeze, there are different reasons why they're freeze but the most recent freezing they pertain to the evacuations of the maybe in the community that do not relate to Brumadinho. Their acknowledges that could almost of thousand people that we have this place you have to indemnified and also own those safety drills, evacuation drills at the more downstream communities maybe some indemnification also will be required especially to the handicapped people, to children and to schools, and to some structures that we need to be relocated because in an emergency they present some chances for evacuation if need be.

So, but on the other hand we are working with the authorities to concentrate all those civil lawsuits within one single jurisdiction in order to make sure that the judge whoever he is has the bigger picture of everything that which is freeze and block and everything, so therefore we can limit the amount of fund fees and even hopefully free out of the funds and replace them with that as credit and surety bonds. So we have indications for example, that the environmental impact, the very first of all, the five different reality (inaudible) might be the first one to be centralized with the same judge which is responsible for the 1 billion which we see, where we have the conciliation hearing and the

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preliminary agreement. So this might be a piece of good news for the following weeks. All in (inaudible) obviously to face those seizures of funds we had to increase our gross debt so we withdrew just updating the number here not going to wait but rather 1.9 billion in commercial credit lines. We were able to show the agencies are our strengths and we diluted to good results, if we had only Moody's downgraded us to less investment rate. We did have an increased in cost of funds so those credit facilities were raising with the banks have an average cost which is higher than what we used to do. fines state of Minas Gerais, we already paid BRL99 million to (inaudible) national agency environment agency, we're in negotiations to perhaps change this into compensation measures.

And finally, the accounting impacts, the view is that this is a subsequent event to 2018 so the figure, you saw today have not been in fact that they (inaudible) heavily in the first quarter of 2019. (inaudible) for the potential indemnification for the agreements, which already have been establishing some of the numbers you can see in the footnote to the financial statements. Most importantly, the amounts to be used for the decommissioning of Dam's would be fully provision in the first quarter, we will not be treated as capital investments for the reason because they do not generate any further future capacity of cash flow generation. So they need to be expense and because we know how much the full expenditures will have to be provision in the first quarter. And finally they will be write-offs of assets only to be decommission and obviously on quality decision on the facts of the production site in Brumadinho. Before we open to questions-and-answers, I like to close it, saying that perhaps we won't have all the answers that you demand. Simply because the full of pension of Vale is dedicated towards alleviating the suffering, compensating, remediating, reducing the inconveniences of all that we have caused to the nearby communities. In our -- , the safety of those communities is our priority and not resumption of our production. That's what we will be working relentlessly. In overtime, as everything subside and if we do our job correctly, we will be able to stop thinking about addressing the business implications. Thanks for hearing this long explanation, the intent now we will extend a little bit perhaps the hour, the intent would be to give you 20 minutes maybe 25 minutes of Q&A opportunities. Thank you.

Questions And Answers

Operator

(Question And Answer)

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) our first question comes from Felipe Hirai, Bank of America Merrill Lynch

Q - Analyst

Yeah, good morning, I'm from all of us are extreme sympathies with your situation and the tragedy. Wanted to know if you could -- I've got your message loud and clear the focus on safety oversupply, but can you just explain within your guidance number you said the big swing factor is Brucutu, but what's entailed in that number? I'm sorry if I missed it with regard to any additional volume, some of the tonnage you had been ramping up, S11D

and elsewhere, and any updates on the thinking of those projects in light of the shortfalls over the next couple of years?

A - Unidentified Speaker

Sorry, (inaudible) second question any updates from.

Q - Analyst

Oh! you're thinking regarding the increases in volume from separate projects that you've been talking about, do you accelerate those in light of the shortfalls is there any acceleration of the timing of bringing on that additional Iron ore volume from other projects? thank you.

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

Ok. So the number, the guidance we've just gave you includes the ramp up of F11D which is forecast to produce around 18 million tons this year. The production of these guided last year it's close to 400 million tons but the sales would be less then initially intended. So, therefore this the sale will be more like 382 that was what was budgeted but we are revising the inventories flow in order to try to compensate some of the loss production, so therefore we came down to the 50 million to 75 million impact on sales estimate that we just gave you, which if you subtract 382, subtract those two numbers, you get to 307 to 332, those three factor is mostly Brucutu, yes. And secondarily, the swing factor is the amount of dry processing that we will be able to do, and the amount of inventories that we will consume.

In terms of future volumes, the spare capacity that we've always said that we had to, part of it has also been affected by the interruptions. So out of the 50 million spare capacity, 30 million is in the arrows which are currently stock, so we haven't done yet a full assessment of the possibilities to bring over time backs other volumes, we are more -- I would say working in the scenarios for the current year and as you may understand, those scenarios that are changing on a daily basis. But we hope, as I mentioned in my explanation that from now on because, we do know what the stability certificate we will have -- we hope that the scenario will stabilize, and one of my key messages, today that we believe the scenario is stabilizing. But the fact is that part of that spare capacity is within the mine complex is that have been halted so, we don't have an estimate of what volumes could be brought over the next one to three years to compensate. Important to notice as well, that even though, we've always said that we had spare capacity that that's spare capacity needs time to be brought online, because you need to hire the personnel, you need to buy some equipment so that's not just a switch that you turn on and off.

Q - Analyst

Okay.

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

And finally, the additional tonnage is in the (inaudible) system it's also too soon to see how much we can anticipate but as I mentioned in due time once the heat of the moment

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stabilizes we will be able to address this question.

Q - Analyst

Okay, very helpful. I could ask one more. Just on that cost side, fixed cost absorption across the company falls when volumes fall but some of these closed mines maybe higher cost. Have you any just I know you didn't want to quantify it quite yet, but roughly speaking what are you able to guide us on directionally for costs?

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

Directionally you should do the math assuming that cost dilutions you lose those 90 million tons of volumes or slightly less opinion on Brucutu so there's a clear behavior between the first and second half that will repeat itself, because production of the second half is higher than the first half. So you have a proxy for the effect of cost solution depending on volumes and you can apply those process here.

Operator

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

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

Good afternoon everyone and again (inaudible) with the situation of Vale's going through, Luciano do you have an estimate of the potential impact on the loss volumes where you could not play enforcement yard and how much you Vale could be facing in terms of having to buy outside from the company produces or compensate customers. And then second question is, is there any potential repercussions in all the production of other minerals either copper in the North in Brazil or even -- what have you seen in terms of the reaction or other jurisdictions like Canada or Vale New Canada. Thank you.

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

Okay, look. One of the reasons why Vale has involve in the spot market is because of seasonality of production. Right? so you cannot ensure a stable supply of products for customers, if you had contracted all of your volumes, because they vary across the years, so we didn't have some spot volumes. And also specially because of the ramp-up that still have a need, we were testing with different alternatives for example supplying, Carajás directly to Chinese Pelletizing plants to grind and then to use as paratroop. So, we were actually in the process of developing new markets for some of our products, that process will be reversed. So we will prioritize attending to the existing contracts. So, we don't foresee any disruption in contracts in to force (inaudible) very specific cadence on pellets contracts we have yet to specific contracts because (inaudible) So, so far we have not the effects post merger [ph] will be eliminates to those pellet contracts. In terms of reaction of other jurisdictions we have not had any regulatory reaction, but just anecdotally I've been talking to my peers across the industry and there is a sense across the industry that safety standards you need to be raised everywhere and even ICMA [ph] which is the body association for the major mining company is working on a proposal in this regard. But no reaction specific from regulators or any impact in our operations outside of Brazil.

Operator

The next question comes from Andreas Bokkenheuser, UBS

Q - Andreas Bokkenheuser {BIO 7182883 <GO>}

Thank you very much and before I ask my question Luciano, thank you very much for being available and also to the entire investor relations team since January. I know you guys have been working around-the-clock even doing very, very late night calls and whatnot so thank you very much for that. Just one question for me, on the lost shipments that you're guiding for this year, do you have any take or pay contracts within that? And if so -- how do you expect to kind of meet those obligations? would that be obligation, would that be Iron ore from other major miners around the world or how would that dynamic actually work?

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

The dynamic for freight is similar to the dynamic score for commercial contract. So, we do have a significant amount in the spot markets because of seasonality and we believe that spot contracted freight provides the caution that we need in order to absorb that variation. So yes, we do have take or pay contracts but we believe we have -- we do have the production and the sales and the volumes to be shipped in order to absorb all of that capacity. Where we do face perhaps, the challenge is in the railway MRS which where we do have take or pay but on the other hand, we do have some flexibility, the contract provide firmly way for our reduced volumes, but there might be some impact at MRS, let me remind you that Vale owns 40% of it. So in some way, part of this impact is within our own turf.

Operator

The next question comes from Alex Hacking, Citi.

Q - Alex Hacking {BIO 6599419 <GO>}

Thank you, Luciano and let me add my condolences. My first question would be again around production, you mentioned earlier some of the constraints around using the flex capacity, does that imply that in all probability would take Vale probably at least three years to get back to sort of a 400 million ton per year rate? And then, the second question would be around dry processing, if you choose to move to dry processing at Brucutu or other mines you have an estimate of whatever cost in terms of CapEx per ton? Thank you.

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

Okay. Well, Alex thanks for the question. It might be too early to assess how long will it take for us to go back to previous guidance. One thing I learned on 11 years within Vale is that the set of assets that we have, they do have a lot of flexibility. Obviously, we've never gone through a situation like this, which is there that flexibility, but I'm confident that we will be able to find mitigations over time, but again, this is not the priority right now.

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Congressionally to drive is easy, you just don't flow the concentrates through -- that we run of mine through the concentration phases of the mill, you just go with through mining and screening. And obviously, the resulting product has less quality. So, that's the reason I pointed in my presentation that because the result in product will have less quality, that we even will be required more Carajás in order to blend and guarantee the supply of the Brazilian blend fines, so that's one wild card as well. Dry processing should not be confused dry concentration, dry processing, you will change the granularity in the physical properties of the ore, usually you get the reward and you mix with (inaudible) to get to the final quality. Dry concentration is something that has never been achieved on a large scale and it's our goal with the acquisition of new steel already this year. So yes we will invest more heavily on those technologies to try to achieve dry concentration, which includes increases (inaudible) of year. Another alternative which we certainly be accelerated over time and we were already investing is like stacking, which means you still continue to use water to increase the grade of the (inaudible), but the (inaudible) filtered and there's the amount of slimes and NPVs that are actually deposited on NPVs is reduced by 75%. And the rest into (inaudible) for example, so we have investments on going but again this takes time and this is not I would say significant investments that will change dramatically the size of our capital expenditures is left that were probably would spend more is on the commission but it will not be accounted for us CapEx will be accounted for as a large provision in the first quarter of '19.

Operator

The next question comes from (inaudible), Bank of Santander.

Q - Analyst

Luciano, good afternoon. So two question regarding investment, so how should you think like investments regarding safety and other than advantage for Vale is the company expected increases in CapEx guidance for not just to present EBIT for the next years. And the second question is also regarding the investments, how does the (inaudible) to do projects that the company was developing for the year and also discovered in '20. Thank you.

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

I'm sorry. I did not understand your second question. If you could repeat please?

Q - Analyst

Actual CapEx with projects the company has for this year and for 2020, and to include production and other sites or not?

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

Okay. One things that needs to be very clear on the first question on CapEx guidance is Vale never did a trade-off between safety and CapEx. The amount of money which needs to be spent to the ensure the safety of operation is not meaningful compared to the overall CapEx growing on the company. So, therefore there wasn't and there is no reason to make any kind of calculation regarding those safety investments. To give an example,

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last year for example, we approved a few individuals investments of \$15 million to \$20 million just for the removal of pipelines of cadence that would be passing through communities. We don't wanted to build in this community, we wanted to build in the inhabited area, so let's move it somewhere. A buttressing all the pain is now, depending on the size of the dam, could cost perhaps \$30 million,\$40 million for example. So, this spread over two years. So, we never did a kind of calculation and therefore safety will continue to be our priority and will not affect CapEx guidance going forward.

But for the decommissioning of the dam which require more significant interventions. In terms of projects, the main products that the company is developing is Salobo 3, will continue Voisey Bay Mine extension will continue and the project in the more the expansion of S11D to a 100 million tons, will increase capacity on the railway and the -- project to recover cadence and indemnification there's (inaudible) so this was all continue, we believe that all those products are in the in the right direction.

Operator

The next question comes from Tyler Broda, RBC.

Q - Tyler Broda {BIO 16281303 <GO>}

Thank you Mitchell and thanks very much for the call and somebody's coming from us for you, and tragedy. I have two questions the first one is just on pellet -- I guess I think from what I understood of on pellet but you're able to ship tons down to the pellet plants. Are there any -- is there any impact with (inaudible) And then secondly, could you just walk through the current status of the Asian stock files, where they are and how much we need to run down within these -- with this guidance. Thank you.

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

If I understood your first question has to do with Pellets production, even if we shift additional Pellet feed to feed the Pellets, we're going to be short. Last estimate is that we're going to be short 11 million tons. And as regards stockpiles, we do not disclose this information, we believe this is part of our commercial strategy and hope you understand that.

Operator

The next question comes from Chris Berry, Deutsche Bank.

Q - Chris Berry {BIO 20002308 <GO>}

Hi team and thanks for taking my questions, sympathies with you as well. The first question is just on inventory you've given the guidance on the sales of 50 million to 75 million tons of plant. We calculate around the 40 million ton markets been built over the last three years or so just taking a simple sales and production number, I'm just wondering if you can comment on the ability to use some of that inventory within China and Malaysia etcetera? The second question is specifically around the 65% and 62% pricing mechanism that you've worked very hard on the 65 on blending strategy, I'm just

wondering if you could give an update on whether there's any targeted policies around the 65% material or whether the stage because you're focusing on safety the processes of oil and I would be what they will or whether you've got a specific strategy around that sort of \$20 margin and I think you'd previously talked about between the 62 and 65? Thank you.

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

okay, so -- even for is that we have flexibility to use in order to offset production or sale losses, they are located in China, they're located in Malaysia, but they are also located in Brazil. At the mines, especially materials lower quality that we can use and ship. And because of being lower quality, it requires more Carajás to fix the quality. In terms of the policy and strategy. The most important goal is to provide the supply of Brazilian Blend Fines, that we are committed to our customers, we are committed to the product, you need to position the Brazilian blend fines as a premium product in a 62% segment, that reason why the premium orders need 65% E-Vale [ph] flagship the use of more Carajas in order to fix the quality and to provide the necessary amount of the Brazilian Blend Fines will somehow affect the supply demand of the 65%. So as I mentioned the growth in the supply of the let's say unblended 65% is not going to be the same as intended before. The reason why you're seeing all my weakness on the 65% is because of the most (inaudible) margins, we have pointed out in a few events before that steam organs and Coking Coal prices are the main drivers of the price of 65% and that's exactly what is happening now.

February was a month, because the prices has come up very quickly because of the expectations related to Brumadinho and because it was amount of slow economic activity. The market was very slow in terms of trades. One thing for you to have in mind is that the impact of the production loss into shipments loss at Vale will start reflect now because of the time it takes for the ships to arrive in Asia. So, so far the price increases have been driven by expectations, now the physical consequences will start to reach the market. At a moment, where we expect that the economic activity will go up, so therefore we don't have a crystal ball but one needs to have a lot of potential what will happen in the months of in the second quarter because it could be a completely different dynamic. But still margins any respect will we continue to wait on the 65% premium over the 62% now.

Well. as final remarks, first I would like to thank all of you that offered your condolences and your sympathies, we're feeling the support of our partners on a daily basis and this gives us a lot of strength to move forward. And to move forward means, make-whole, compensate, alleviate (inaudible) suffering, ensure the safety. And if we do that properly, we'll be able will have the sympathies and will have the supports to resume production, to resume generating wealth and to try to establish, as I mentioned in the starts. A new beginning and new purpose for the relationship between Vale and the surrounding communities in states and towns. Our effort will be relentless, we're committed to continue to reform we want on a timely basis and we hope you understand that this is the best path towards restoring Vale to its former position. Thank you very much.

Operator

That's concludes Valea's conference call for today. Thank you very much for your participation. You may now disconnect.

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