

Q1 2019 Earnings Call

Company Participants

- Alexandre Silva D'Ambrosio, General Counsel
- Eduardo de Salles Bartolomeo, Chief Executive Officer
- Luciano Siani Pires, Chief Financial Officer

Other Participants

- Andreas Bokkenheuser, Analyst
- Carlos De Alba, Analyst
- Gabriela Cortez, Analyst
- Gustavo Allevato, Analyst
- John Tumazos, Analyst
- Jonathan Brandt, Analyst
- Petr Grishchenko, Analyst
- Thiago Lofiego, Analyst
- Timna Tanners, Analyst
- Tyler Broda, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to Vale's conference call to discuss First Quarter 2019 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 the recording will be available on the Company's website at vale.com at the Investors link.

This conference call is accompanied by slide a presentation, also available at the Investors link at the Company's website and it's transmitted via Internet as well. The broadcast via Internet, both the audio and the slide changes have 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.

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Bloomberg Transcript

With us today are Mr. Eduardo de Salles Bartolomeo, CEO; Mr. Luciano Siani Pires, CFO; and Mr. Alexandre Silva D'Ambrosio, General Counsel. First, Mr. Eduardo Bartolomeo will proceed to the presentation on Vale's first quarter 2019 performance and after that he'll be available for questions and answers.

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

Eduardo de Salles Bartolomeo {BIO 15365202 <GO>}

Okay. Thank you. Good morning to all. Before handing over to Luciano to comment on the first quarter results, I'd like to tell you that in my remarks I'm going to go over the priorities that the Company face now, an update of the reparation efforts and share with you some small changes that we have made in our strategic agenda, okay?

Well, first of all, I'd like to offer, on behalf of Vale employees, our sincere apologies for the tragedy that happened in Brumadinho. I have taken the helm at Vale during the most challenging period in its 77 history -- year history. A critical moment, however, that also brings important opportunities to transform the Company. In my first conference call, speaking as Vale CEO, I would like to thank our employees, the authorities, the firefighters and the Civil Defense of Minas Gerais state, as well all volunteers who have spared no effort in the ongoing rescue and shelter operation since January 25. Vale's totally focused on the reparation efforts and was so completely committed to the affected communities. As such, from now on, three words will drive Vale's priority, safety, people and reparation.

The safety of people comes first as our Company is made out of people. More precisely, not only there are 110,000 of our own and third-party employees in Brazil and in the rest of the world, but also the people from the nearby communities who must feel safe in the knowledge that they are our neighbors. We also give priority to the safety of our assets. The safety of our assets means the safety of the people and the profits of our operations.

Another priority, which is just as important as this is the reparation of damage caused in Brumadinho and also of the inconvenience caused to the people that were forced to leave their homes in other regions of the Minas Gerais state. As the Company has demonstrated over recent months, we have not spared and will not spare resources or efforts to make good quickly and fairly the damage caused to those families involved, to the infrastructure of this communities and to the environment.

We have recently announced the creation of the position of Special Director for Recovery and Development. This is located in Brumadinho and counts on the support of all our employees. The new structure reports directly to me, enabling it to work with the proper speed and flexibility. Their objective is to guarantee that everything is done within their grid targets. Several relevant actions are under the scope of this structure. Please allow me to mention some achievements so far, if we can go to Slide five and six. We will see that the -- in the donations. I would like to pinpoint two points here. One is the immediate response that we gave on the BRL100,000 that we -- for the immediate offer to the people that got affected and more important as well was -- as important was the support that we

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gave to the municipalities that were affected economically to keep providing the service that are needed in this situation. The second, the institutions that are helping us on there, the firefighters, the public -- the civil defendants, police. We were able as well to help them. And finally, in our preliminary agreement, we already engaged 33,000 people to inundation process there.

So another relevant topic to us -- sorry, I have to adjust the next slide. I forgot to mention a very relevant thing because this in the human aspect, more of infrastructure aspect than environmental aspect. We were able to build in a very quick -- very short time notice the treatment of water that will allow us to stop the rejects [ph] to get to the river. We are undergoing a very extreme sampling of the river, 65 stations over 1,100,000 samples, and we are glad that the reject has been achieved at Sao Francisco River. Okay?

So as I was going to say, another relevant topic to us is to support with complete transparency of the investigation of the cause of the tragedy. We have established two internal and independent investigations, one of them requested by the Board of Directors.

If you go please to the next slide. But our agenda for the next year goes beyond the full repairment of the damage. We will keep on pursuing the previous established priorities. By which I mean the turnaround of the Base Metals division, the discipline in capital allocation and the maximization of the flight-to-quality trend in Iron Ore. Adding, as you can see in the Slide, two new priorities, the focus on safety and operational excellence and the creation of a new pact with society. We will move forward the trajectory of Base Metals transformation, applying the best practice at all of our operations and converting it into a significant cash generation. We will keep this focus on discipline capital allocation, with a renewed emphasis on value creation and asset safety. Our current and future portfolio will always be evaluated taking into account risks and alignment with our strengths. We will continue to leverage as well our strengths in iron ore world-class reserves, its assets and logistics to maximize the value generation of our premium portfolio.

Nevertheless, we are so committed to increase even further with safety of all operations through the improvement of our asset integrity. Our mission is to transform the way we operate by working on three interconnected fronts: safety and risk management; asset management; and in the organization, process and culture, which are represented in our management system called VPS or Vale Production System. If we can go to Slide four, we can see that the role of this office is that we're going to create -- it's basically on the left, I would say an act [ph] that defines the procedures, the minimum requirement and do the audits and to arrive the first line of defense that executes the contract. So it's the people that are complying with the standards or executing the Vale Production System as I mentioned.

So the mission of this office, reintegrate these three work fronts. This structure will keep open a direct report channel concerning operational risk management to me and to the Board of Directors. It will be composed of highly qualified professionals who will act independently, thus strengthening and unifying the second line of defense for operational risks. This second line already exist in the Company but was carried out by

different areas with different lines of reports, such as health and safety area, the just [ph] corporate area and the business risk management area.

The pillar of safety and operational excellence is strategic as it is the basis for everything. Effective processes being executed by capable people generate predictable results, leading to a positive impact on our costs, on our volumes and, obviously, on the fates of people and assets.

Lastly, I am also committed to a new pact with society, in which we will deliver a new value proposition by acting as a major force for generating wealth in the communities where we operate, going beyond mere tax payments and the reparation actions. We will establish partnerships and alliances to foster sustainable development at the local territory. I believe this is another story for an effective recognition of mining Brazil in the rest of the world. As we can see in the slide, the way we believe in vision and system is that we move from a reactive position to a position that we help society, that we'll work together with the regulatory authorities, the industry peers, the society that are -- the IBRAM in Brazil or MAC in Canada to achieve this vision. Our idea is to improve our regulatory frame to be working together with each one of the players that are within the industry.

Well, the journey has just begun and I note that we have many challenge to overcome. Nevertheless, I am confident that we know we can count on thousand of employees eager to create a Vale even better from this moment on. I'll just ask you to see this move. If someone ask me today, how our success will measure in the medium term? I would say that, first of all, I would like to see Brumadinho reborn with new economic locations; then see our culture transformed with safety becoming an obsession and sustainability being incorporated in our local operations. Our asset portfolio leaner with the risk versus growth relation being optimized through disciplined capital allocation. And finally, that society recognizes, in this medium term, our genuine efforts to become a better Company.

To conclude, I would like to reaffirm that we will never forget Brumadinho and that our legacy will be to transform Vale into the safest and, therefore, the most reliable mining Company in the world.

Thank you very much, and I'll now pass the word to Luciano.

Luciano Siani Pires {BIO 15951848 <GO>}

Good morning and good afternoon. I am just going to restrict myself to a description of the provisions, which is the key one-off of this quarter and then we'll move to Q&A. And my goal will be to give you a sense of what has been provisioned, what might still be provisioned and how the cash flows should behave going forward.

So I'll start by the decommission of upstream dams. For those who have the results release, I'm going to follow the numbers on the box for provisions that add up to \$4.5 billion. So I will start with the \$1.8 billion for the decommission of upstream dams. First, why provision for decommissioning because this is not an investment, because it will not

generate an asset capable of generating revenue in the future. So from an accounting perspective, it needs to be provisioned.

We now have the basic engineering and we're going into the detailed engineering for the decommissioning of nine dams. These are the large and all of the upstream dams that we have. In addition to that, we do have small dikes built over tailings within larger structures built by conventional methods. So here I'm talking about the dams, the dikes themselves are now being subject to further analysis and are not included here. All of the nine dams will be decommissioned through removal of the tailings inside and the tailings will be the positive elsewhere, more commonly only exhausted bits.

The timeline for decommissioning will depend especially on the volume of tailings in each of the reservoirs and on the engineering method to be used. So we now know everything which is behind the engineering for all of those works. So therefore, we do have these estimates. This is the present value of the amounts to be spent, and the profile should have a more concentrated spending over the next 18 months, so we are estimating in 2019 to spend between \$150 million and \$200 million on the decommissioning, then about \$500 million in 2020, and then it should come down to a level between \$150 million and \$200 million over the next many years.

If we move now to the direct impact on the affected people. We have \$2.4 billion of provisions, of which the largest amount is \$1.77 billion for the framework agreements with the public defenders. These amounts were based on an extensive collection of reference sheets from previous legal cases and that entails more compensation for moral effects, compensation for lost revenues, compensation for losses, for example, loss implementations, losses of a houses, so everything is in here. And the estimate is that we're going to spent around 60% of it over the next 12 months, then 30% on the 12 months afterwards and then another 10% further down the road. The TAP agreement \$264 million includes -- this is -- has a more precise estimate because that's the payment of a monthly stipend for about 100,000 people, which is ongoing. We already paid over 30,000 of them and this should be last -- should last for 12 months.

The next one is the framework agreement for the Public Ministry of Labor, basically, is agreement that we will pay salaries and health insurance for the families until the date in which the victims will complete 75 years old. So those amounts, they have the uncertainty on those -- all those that I've mentioned are more related to the number of people affected. So tailing's we talk about the framework agreement with public defenders, we don't know exactly how many people. We estimate 100,000. When we talk about the preliminary agreement for stipends, we don't know how -- exactly how many people but we have a good estimate. The framework agreement with the Public Ministry of Labor relates to the families of the victims. So therefore, we know how many they are. Then we go into the administrative sanctions of IBAMA and others and donations.

So as you can see, most of which is in here relates to socio and economic damage and compensation. What's not here is the environmental damages. There are news in the press about, for example, billings between Vale and the local construction company for water supply about potential alternatives to ensure the continuous supply of water for the metropolitan area of Belo Horizonte. So there's talks about treatment -- water treatment

stations and pipelines to reinforce the safety of the -- the reliability of the system. But we don't know yet what the final solution is going to be, so we have not provisioned those.

What also is not in here is what may arise from future negotiations with the public prosecutors on collective damages. And finally, what's also not in here is provisions for decommissioning of the Fundao dam -- sorry, of the Germano dam at Samarco because Samarco is not generating cash. So therefore, Vale and BHP, we will have to split the cost for the decommission of that dam of, that one single dam.

So those three factors are not in here. The other socioeconomics. This is very encompassing, very comprehensive, this list. Most of the amounts should be spent in the short period of time for the socio and economic damages. So 60% to 70%, if we sum all of those. On the other hand, on the decommissioning, most of the amounts are going to take a longer period of a time. Concentration of the next 18 months, \$200 million, \$500 million, but then slower amounts down the road.

So ladies and gentlemen, initial remarks about the provisions and now we open up for Q&A.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) The first question comes from Carlos De Alba, Morgan Stanley.

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

Thank you very much, and good afternoon. So my question, Luciano, is on the impact of the Brumadinho accident on the cash cost of iron ore. I read in the release, the Company blocking two pieces, an impact of \$1.5 per ton in C1 straight effect and then another \$2.7 per ton in stoppages or impact of the stoppages following the dam rupture, but that was classified as an expense and not as cost. Could you please walk us over the rationale to separate these two? And then if you could, as a follow-up, just how did you see these two impacts moving forward in the following quarters? Thank you.

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

Carlos, thank you for your question. The goal would be to make the C1 cash costs independent from the Brumadinho effect. So the increase you saw from \$12.8 per ton on the fourth quarter to \$14 relates more to the lower dilution of fixed costs. And it's a seasonal effect and it happens every year. Actually, if you compare first quarter 2019 to first quarter 2018, there's the decrease from \$14.8 to \$14.0, mostly driven by the exchange rate.

What we expect going forward for C1 is the normal behavior, which you will absorb every year. So in the second quarter, it should stay approximately at the same level, but then in the third or fourth quarter, because of the increased volumes of production and sales, it

should come down again to around -- between \$12 or \$13 per ton. In a way that, on average, we are forecasting the average C1 for 2019 to be \$13.3 per ton, down from \$13.6 last year.

The \$2.7, it is the real hit on the EBITDA for the iron ore business, but it has been classified differently on the stoppage expenses. It's basically the wages and fixed costs for the operations which are not producing. So the \$2.7, it is, in fact, the effect of the lower dilution, but not on lower volumes for seasonal reasons, but because of the sites which are not producing. So this you will continue to see over that line and this will depend -- the evolution of this will depend on the stoppages. So if operations come back, the number should come down. If the operations continue to be stopped, the number should be similar to that. Because of the fact that in the first quarter, we only had two months of stoppages, so the normalized stoppage expenses would be closer to \$4 per ton for a full quarter, but again, if you see, for example, like Brucutu operations returning, then the number should vary accordingly.

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

All right. Very clear. Thank you very much, Luciano.

Operator

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

Q - Timna Tanners {BIO 6766897 <GO>}

Yes, hello. Thank you. I wanted to ask a little bit more about the color we saw on some headlines earlier today of the 400 million ton target over the next several years for resuming iron ore production. I know you gave some color about the timing of that, but can you help us understand the parameters, like what the 30 million tons from Brucutu and then the next 30 million tons, what has to happen for those to restart and what's your level of confidence? Thank you.

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

Okay. So a common question is, so when are we going to come back to 400 million tons? The short answer is between two years. The long answer is, you should think about the 90 million tons, which are subject to some sort of restriction, as divided equally in three parts of 30 million. The first part is Brucutu. Today, we are producing close to 10 million tons within Brucutu on dry processing. So Brucutu to come back to 30 million tons, it requires a release by the justice, so a favorable decision towards Vale. So if we see back and forth decisions for stoppage, then release, stoppage, release. Right now, we continue to be very confident that we will get a final decision based on the fact that it is a conventional dam. It has the stability statement. So we see no reasons why it should continue to be stopped. And the interim decisions that kept it stopped relate more to the fact that there - the judges have been deciding without complete information. So as long as we submit to them the complete information, we are confident that it will restart. So this is very short-term.

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The other operations, they are subject to the 60 million tons, they are subject to several restrictions. So why am I dividing this thing to 30 million and 30 million? Because there's a possibility it's easier to bring back those operations to produce through dry processing than to produce fully using wet processing. In order to release 30 million tons of dry processing production, we need basically to get the National Mining Agency to release production on our mines and on our mills with the dry processing method and whatever - what needs to be provided for the National Agency for them to make this decision. Our engineering reports' stating that the explosives, the mining operations, the dry processing operations at the mills do not cause triggers and any potential seismic waves at the existing dams, which are being challenged. So in other words, I have a mine which is 10 kilometers away from a dam, which is being challenged, I need to prove that the mine movement and the blasting will not affect the challenged dam.

So these engineering reports are being provided. The first ones that we received are somehow in the direction that we anticipated. So they state that there is no connection between the mining and blasting operations and the dams. So we believe that by the second half and by the next six to 12 months, we should be able to bring different parts of this 30 million back on because we are talking about different sites.

Lastly, the remaining 30 million, which includes wet processing, depends on something which is more difficult, which is a release from the courts and the public prosecutors based now on a more comprehensive and thorough assessment of the safety conditions of each dam. We're working together with the prosecutors. We have the same goal here. We're not in a hurry to bring up production back. We're providing additional reports and, in some cases, a second and a third opinion to make sure that those dams are safe and, in some cases, some buttressing of the dams are being conducted. So these last 30 million are the ones which should require an order of, as I said, two to three years to come back. So when we put the picture all together, the 400 million should be coming back in two to three years.

Operator

The next question comes from Jon Brandt, HSBC.

Q - Jonathan Brandt {BIO 5506998 <GO>}

Hi, good afternoon. First, I wanted to ask you about any potential impacts on the quality of your products. I know the Fe content and the premium pricing has gone up recently, but as you return to the market with some higher-quality Carajas or after the impact on the courts, do you anticipate any impact -- do you anticipate an increasing of your quality portfolio, which could potentially have negative ramifications on the quality price for Carajas?

And secondly, I just wanted to ask you about the inventory management system that you changed in the Chinese ports, just the rationale behind it. Was it a capacity issue? Are you running out of capacity there? Is that why there was a change, or was there something else driving that? Thank you.

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

Okay. The first part of the question on quality. The overall direction is for an increase in quality given the ramp up of S11D. In the short-term, you have operations stopped, which both produce very high-quality products, such as pellet feed and lower quality products such as dry processing. So, as you move forward, for example, if we bring Brucutu back, most of the Brucutu production is wet processing. So most of the products are pellet feed, high grade. So therefore, we should have enough bump in quality. But as you bring the additional 30 million tons mostly through dry processing, then the quality should decrease again. In other words, there will be fluctuations within an overall trends of increased quality.

In terms of the product mix, again, today, we might have an excess of Carajas. We're bringing some -- we're trying to bring some Carajas in order to produce pellets in the south. As you move towards -- as dry processing comes back, you start mixing more dry -- wet -- dry processed material with Carajas to produce Brazilian Blend Fines. So the mix should revert more back to normal levels.

On the second questions on inventory management, in fact, there was a lot of a -- lack of operational flexibility in the way we were operating. Sometimes with implications on capacity of particular ports. Sometimes with implication of costs because you would have many small stockpiles -- almost a stockpile for each of the clients once the revenue was recognized with the materials still at the ports, so you have to segregate separately and have one stockpile for each client. Now, we're doing it more simply. We establish the contract only when the client comes there and remove the ore from a, let's say, a generic pile, we recognize the revenue. So therefore, now we don't have more of this restriction of having to segregate a specific pile for each customer and therefore, you operate with lower costs and better flexibility and capacity.

Q - Jonathan Brandt {BIO 5506998 <GO>}

Thank you.

Operator

The next question comes from Gabriela Cortez, Banco do Brasil.

Q - Gabriela Cortez {BIO 18801371 <GO>}

Thank you very much, guys. My question should follow-up from Jon's questions regarding quality. We saw that iron ore fines quality premium fell quarter-over-quarter, although we saw pellets contribution increasing. I just wanted to know to understand a little better what to expect from now on in terms of pellets, the rationale behind it, just to try to figure out how the total pellets premium is going to be from now on? Thank you very much.

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

So quality premiums declined in the first quarter mostly for two factors. First one, steel margins were smaller. We know there is a direct relationship between the Carajas quality premium and the steel margins, higher steel margins. You have higher opportunity costs -

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- higher incentives for productivity then you can pay more for high-quality material. The second reason was the environmental closures mandated by the government were lighter in this winter than in past years. And therefore, some of the steel mills could operate at lower utilization rates and therefore, again, you need less of the high-quality material in order to -- because we need less productivity. So those two factors took the Carajas premium towards \$10 per ton. Since April, it has rebounded back \$15 on average last month and now, yesterday, a trade of \$16 per ton. So now you had steel margins increasing again, improving again. Demand is very healthy within China now. And also, you have a more normalized production, so utilization levels came up again. So, we believe those two factors are going to support Carajas premiums going forward.

On the pellets side, the increase you saw relate to the negotiations of contracts that happened late last year. And now, you have a quarter in which those negotiations are flowing into the income statement through higher premiums. Thanks.

Operator

The next question comes from Andreas Bokkenheuser, UBS.

Q - Andreas Bokkenheuser {BIO 7182883 <GO>}

Thank you very much. Just one question for me on your provisioning, I think \$2.4 billion, \$2.5 billion. Can you briefly just talk us through how you came up with that number? I mean, what effect actually goes into that number? Is that mostly the environmental cleanup or are there other things in there as well? That would be great. Thank you very much.

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

Andreas, the number does not include any provision for cleanup or for water supply works. Everything which is in here is social and economical indemnifications. It does include for the families of the victims, moral damages and payments of salaries until 75 years old and health insurance for the families. So these amounts are easier to estimate. It does include also the preliminary agreements for payment of monthly stipends to about 100,000 people on a monthly basis for 12 months. And the -- we made a lot of well-educated estimates. And these are mostly under the \$1.7 billion out of the \$2.4 billion in the release, which we may need as framework agreement with the public defenders.

We made several educated estimates about the indemnifications for all types of losses and based on past experiences and, unfortunately, including the experience that we had in Samarco because there are lots of references in Samarco that can be applied here. For example, for people who lost their plantations and small farms, people who lost their houses and people who lost economic activities, people who used to fish. So there was a very educated guess based on the number of people affected on the geography, the social, economical profile of the population and the amounts were referenced in cases, such as Samarco to get to this \$1.7 billion. When you add this all up together to get to the \$2.4 billion, mostly social, economical, nothing related to environment yet so far.

Operator

The next question comes from Tyler Broda, RBC.

Q - Tyler Broda {BIO 16281303 <GO>}

Great. Thanks very much for the call, Luciano. And just two questions from my side. Just one, I guess, on VNC. Could you just go through sort of what the changes are there operationally and how that ramp sort of you expect to see happening over the next six months? And then, I guess, sort of in part with VNC, but then also in terms of coal, I guess, is there any change in the thinking around whether or not these assets fit within the Vale portfolio at this point? Thanks very much.

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

Okay, Tyler, it's Eduardo here. VNC is undergoing a profound transformation since the arrival of a newly built ship in November, December. And coupled with this, we had the stoppage in asset plans and, of course, hit by the downturn in price that we saw since the first quarter. They're now even worse now. So my expectations around VNC, that the work that has been undergoing will start to show progress in the fourth quarter. It's a really turnaround of the very basic principles. As I even said in my presentation around the management season, that was very, very weak there. So we need to strengthen that. There is a lot of effort being put with the support of corporate Toronto, of the people of the island. We have PIP there as well. So to be very objective with you with the -- we don't -- we believe that we can see results into the fourth quarter, but not before that. So we will try to do our best, but it's -- this will take time. It doesn't -- you do not correct that -- you don't correct something like that in the short term.

The -- about coal, I think it's too early to talk about revision of portfolio, but for sure, if we - as we said, we have to undergo a very strict analysis of everything. We do that consistently. I think Luciano can help me on that, but it's something that we do periodically. We are starting our strategic plan, but we have nothing yet. But not only for coal, but for all our assets, they're going to be very strictly assessed on their safety, on their risks, on their ability to perform, on their strength, where the alignment with our strengths, meaning logistics, both materials, how we move, how we manage, so that's basically our thoughts around it. But I think Luciano can add, please.

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

No. The only thing I would add is, as you can see by the pillars that Eduardo established in his initial presentation, management attention will shift somehow towards Brazil in the next few years naturally. So this is an additional consideration, beyond this that we will apply in reviewing our portfolio as a whole.

Operator

Next question, Thiago Lofiego, Bradesco BBI.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you, gentlemen. Just a couple of follow-up questions. How much iron ore from third-party do you expect to purchase this year? And also, if you could give us an update on the acquisition of Ferrous. Would you consider canceling that deal at all, or is that still 100% in the cards still? Thank you.

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

We will continue to purchase around 10 million tons of iron ore from third parties. We are, as I mentioned in the Portuguese call, also looking perhaps to purchase a little more of pellet feed in order to supply the pellet brands. But other than that, it shouldn't be large numbers.

The Ferrous acquisition will move forward, especially now the pellet feed that it will produce is even more precious for us. On the current status on the antitrust authorities, I'll hand it to Alex D'Ambrosio for this -- for the update.

A - Alexandre Silva D'Ambrosio

Okay. Thank you, Luciano. We are waiting for the CADE to rule on this decision. It's been recently distributed to the commission. And we expect that it will -- within the ordinary course, within a couple of months, we are very confident that it will be approved, although it's still an issue -- it's still an open decision that have to be made.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you.

Operator

The next question comes from Gustavo Allevato, Santander.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Hi. I have two questions. First one, I want to understand how are -- what are the key variables that could eventually change the agreement with the public defenders that eventually change the value of \$1.7 billion?

And the second question is regarding, how is the Company seeing the actual demand for iron ore and the inventories throughout the chain 3.5 months after that? Thank you.

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

The \$1.7 billion, it depends a lot on the number of people which are going to be indemnified and their socioeconomic profile. So we made some guesses, but there can be variations.

As regards demand for iron ore, we see demand healthy this year. I do have some numbers here to share with you. Okay. So what we are seeing is, steel production in China to stay stable and steel production ex-China to grow by 2.4%, so about 1.2% overall

growth for the market. So this is very good because it starts from a very high base. The growth last year was very, very important. And given the supply disruption of iron ore of the Australians, there shall be a lot of support in -- for demand for our material.

In terms of inventories, we would normally continue to build some inventories because of the ramp up of S11D and the increased supply of Brazilian Blend Fines, but in order to cope with the reduced production this year, our inventories should remain somehow flat. And we saw some consumption over the first quarter of around 3 million tons.

Operator

The next question comes from Petr Grishchenko, Barclays.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Hi, good morning and thanks for taking the question. Just two quick ones. On the liquidity front, you mentioned quite a good cushion, given \$5 billion in cash position. I'm just curious -- I think you have still \$5 billion undrawn revolvers in place. I'm curious if all of this amount is available to draw. And if so, why, I guess, you decided to issue \$1.6 billion of new credit lines with higher costs rather than drawing your revolver line? That's number one.

And number two, if you can update us on Samarco situation? Where does the license process stand? And how do you think about it to start?

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

So the revolvers are available. The reason why we opted for going for regular commercial lines is because we consider the revolver to be a last resort resource. The market understands, basically, when you draw a revolver, that you're signaling that you have ran out of additional options. And, obviously, we still have a lot of credit. As you can see, we raised funds. And this makes a lot of difference. When you are to renew the revolvers, people look at the past and see how have you managed your access to the facility. So therefore, this was a decision more based on signaling for the market rather than anything else. And you're right, the commercial lines are usually higher cost than the revolver.

In terms of Samarco, we still have to fulfill one or two requires from the authorities in order to get the resumption license, the restart license, and also the works on the preparation of the exhausted pits to be -- to receive the tailings from a restart are ongoing. They should finish by September, which is our expectation somehow when we're going to have the restart our license. Once you get the restart license, you have to do some investments, mainly on the filtration, in order to move forward. And therefore, the forecast restart date as we speak is middle of 2020 to second half of 2020.

Just additional information on the questions I answered before. On the market conditions and demand, I just wanted to highlight that the inventories in China had been declining very quickly recently. The -- today, they stand at 133 million tons. And for the month of April, there was -- statistics were released. The amount of ore that arrived in China was

63.5 million tons, a drop of 30 million tons from what arrived in March. So it's very significant. It coincides with the time it takes to take the Vale production from Brazil elsewhere. So the physical impact of Brumadinho is starting to be felt within China. Everyone notices that -- this. And therefore, based on our little rush to get access to the very small amounts of material that are arriving and also, as I mentioned, impacted by the cyclones in Australia as well.

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The other information I would like to add, when I said to, I think it was to Andreas from UBS, that there is no -- there are no provisions for the environment. I don't want to mean that, okay, you should expect another very large number of -- for the environmental provisions. Just wanted to remind you that compared to the Fundao dam breach at Samarco, the amount of tailings that was leaked to the river is estimated at close to 3 million cubic meters of tailings as compared to around 35 million cubic meters for Samarco. So it's a tenth of the volume, so therefore, the environmental impact is way much smaller.

To give you now another reference, there have been reports in the press that Copasa, the water supply concession company at the state of Minas Gerais, would potentially ask for BRL2 billion, therefore \$500 million, of works to upgrade the supply -- water supply system around the metropolitan area of Belo Horizonte. This is a very long list of wishes in terms of whatever they could ask for, and we understand that the final negotiation will be just a fraction of this. So, I hope that with those two pieces of information, I give you a better idea of what the size of the environmental provisions might be in the future.

Operator

The next question comes from John Tumazos with John Tumazos Very Independent Research.

Q - John Tumazos {BIO 1504406 <GO>}

Thank you very much, Luciano, Eduardo, the entire team for your tireless works for Vale, the communities, the shareholders. We all appreciate your stamina. Concerning legal penalties and civil losses, forgive me, I'm a stranger and I (technical difficulty)

Operator

Ladies and gentlemen, please hold. (Technical difficulty) Mr. John Tumazos? I think we lost the connect with Mr. John Tumazos. This concludes today's question-and-answer session. Mr. Eduardo Bartolomeo, at this time, you may proceed with your closing statement.

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

Okay. Before closing, I would like to thank John for the -- sorry, we lost him and we can contact him and we come back to him with the details of the lawsuits. But it's truly a very hard year for us. There's a lot of stamina from everybody here to face this hard moment that the Company is facing, for sure. But as we said during the presentation, we want to get very clear to everyone that our priorities are safety, people and reparation. The

update of each shows that Vale will not spare any resources and efforts to repair everything that was done.

And finally, we're going to build our strategic agenda and what we have as our strength, the three ones that are coming from the past. We need to really strengthen the Base Metals division, which is a high-quality asset base. We need to continue and focus on our flight to quality with the premium process. Capital discipline will be strengthened as we mentioned before, but fundamentally, we need to add these three new pillars in our strategy, the new pact with society and foremost and as important as all of those is the safety and operational excellence. That will help us to transform us in a better Company, a safer one and more predictable.

Thank you. And I hope to see you in the next quarter.

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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