Q1 2022 Earnings Call

Company Participants

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

Other Participants

- Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen, welcome to Vale's Conference Call to discuss the first quarter of 2022 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. This call is being simultaneously translated to Portuguese.

(Operator instructions) As a reminder, this conference is being recorded and the recording will be available on the company's website at vale.com at Investors link. This conference call is a corporate need 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 slides change has a few seconds delay in relation to the audio transmitted via phone before proceeding, let me mention the forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996.

Actual performance could differ materially from that anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors with us today are Mr Eduardo Bartolomeo Chief Executive Officer, Mr Gustavo Pimenta Executive Vice President, Finance and Investor Relations.

Mr Marcelo Spinelli Executive Vice President IR and Mrs Deshnee Naidoo Executive Vice President Base Metals. First, Mr Eduardo Bartolome will proceed the presentation of Vale's First Quarter of 2022 performance.After that he will be available for questions and answers.

It's now my pleasure to turn the call over to Mr Eduardo Bartolome sir, you may now begin.

Eduardo de Salles Bartolomeo {BIO 15365202 <GO>}

Thank you. Good morning, everyone. I hope you're all well. Let me start our conversation, -- slide to you and reinforce that we remain focused on reiterating value by derisking and reshaping our company Front actions provided in the the reparation agreements are progressing well payment obligations are in full swing. And we are now detailing social economic project implementing another 25 municipalities in the Paraopeba basin. These products were selected based on public consultation and big quarter health social development infrastructure and agriculture. Within a fast responsive package in terms we've begun the peak characterization of Dique Auxiliar one of the five upstream structures to be eliminated in 2022 which will total 12 by the end of this year. The de-characterization program has its schedule agreed with the Brazilian authorities in February this year. Through a term of commitment this brings more legal and technical certainty to the elimination of our 23 remaining upstream dams in Brazil. Production resumption despite a few challenges we are on plan to deliver the two most important milestones for this year. Thought of them and -- as we had been saying we are building a better Vale with capital discipline in creating value for all of our stakeholders. This first quarter is seasonally the lowest in production. In addition, we had further operational challenge despite that we managed to reach some important milestones towards increased production stability and value creation. In iron ore we achieved a solid premium of $9 per tonne, the highest since the second quarter of 2019 evidence of our high quality portfolio in a tight market for high quality products on the other hand, production was down year-over-year, a result of operational constraints which will be covered in detail, based in Adelaide. But we are overcoming those obstacles in the Southern -- system performance increased by 11% year-on-year, despite the strong rainfall in January. With that, I am confident that production levels were increased as planned in the coming quarters to meet our annual production guidance. In base metals we gave another important step reinforcing values position as a supplier of choice by the -- market. It moved to a year agreement with Northvolt to supply low carbon-neutral products for batteries. On production stability the Sudbury mines achieved pre-strike run rates supportive of a cooperative production for the upcoming quarters. Dashnee will provide more detail Later. Finally in capital allocation, we paid $3.5 billion in dividends and at the best very well with the execution of our buyback program now about the integration between business and ESG strategy. As you know our product portfolio which shaped to foster the development and the fusion of environmentally friendly technology by our clients. One example of that is start construction of -- first commercial plant in the State of Para. -- technology is innovative enabling the production of pig iron from distribution tuition of metallurgical coal by biomass. This means up to a 100% reduction in CO2 emission and 10% to 15% lower operating cost in CapEx intensity. This is in line with our strategy to provide steel makers with viable solutions for their decarbonization investments so contributing to Vale's net Scope 3 emissions reduction target of 15% by 2035 this is one of the initiatives that differentiates portfolio and strategically positions the company to face the climate challenge. On our roadmap to build a better body reshaping means optimizing portfolio solving cash drains and focusing on our core businesses in the sales we have made substantial progress this quarter by completing the divestment from our coal business and also closing the sale of our stake CSI. Finally, we reached a binding agreement for the sale all of our Western system for $150 million in addition to transferring take or pay obligations which priced the transaction at $1.2 billion in enterprise bad. Those were major steps that creates value for the company and drives towards a much more focused and leaner portfolio of assets. Speaking of creating and sharing value based on the successful progress of our two share buyback programs, we announced the launch of a third one for up to five condominium shares to be repurchased within 18 months. Combined, the two first programs comprised almost 10% of Artis outstanding shares. After the completion of the third buyback program, we will have repurchased almost 80% of the company's outstanding shares. This means that for shareholders with positions since before our first program without expanding any additional dollar their participation in future earnings would have increased by almost 25% when we have complete Program this is one of the results of our commitment to create value and share it with our shareholders I'll now turn the floor over to Dashnee for her remarks on the quarter results for base metals. Thank you.

Deshnee Naidoo {BIO 19953865 <GO>}

Thank you, Eduardo. Good morning, everyone. I would like to start by talking about the progress we have made towards our strategic agenda during this quarter, we signed in multi-year agreement to supply our low carbon nickel a partner who values producing batteries from low carbon sources.

We have also successfully added further carbon certification for some of our other nickel -- products in Sudbury -- as well as for our copper concentrates produced in Salobo. This is an addition to the certification we have previously received for our long harbor nickel rounds.

This is an important achievement that reinforces our position to supply in low carbon products to support energy transition, especially for the growing EV market. Secondly, we have just announced locally in Indonesia the signing of a framework agreement with why you cobalt to jointly develop our formula H power project to produce up to 120,000 tons of nickel in MHP.

While use technical experience expertise, and track record is a perfect complement to our world-class formula deposit and our multi-decade operational experience in Indonesia. This is a significant milestone that reflects our long-standing commitment to developing this world-class resource in Indonesia to further deliver into a growing nickel demand.

Next slide. In nickel the year-on-year lower volumes were largely explained by the pace of the ramp up of Sudbury mines and the ramp up of the --project. However, our Sudbury mines, by the end of quarter one achieved pre-labor disruption mining rates and on to Puma operation had a stable production performance.

In copper we had planned for a lower production quarter as a result of scheduled Sossego SAG mill maintenance and the lower mine grades from Salobo in H1. We were impacted by the decision we took to extend the Sossego planned maintenance to bring forward the replacement of the mall discharge -- due to the extensive where we uncovered when we commenced with the maintenance.

We are on track to restart the Sossego plant by mid May we were also impacted By the increased seismicity at our Coleman Mine in Sudbury which impacted mining a high-grade copper section in the quarter. This can still be accessed we have several initiatives underway that will continue to derisk our copper production going forward. Sossego mining performance for the quarter is slightly ahead of plan which enabled the plant to run at maximum capacity after the restart. We achieved 25,000 tonnes run rate in quarter 3 and quarter 4 last year and I am certain that we can achieve similar if not slightly higher run rate once the maintenance is completed. Solabo Mining is on plan. As we are seeing the benefit of the mine maintenance work from last year. And are on track to deliver 30% more mine movement this year the Salobo plant has just completed a planned maintenance too and will assist with improved reliability the Salobo plant has previously achieved the required 48 to 50,000 tonne quarterly run rate. Finally in North Atlantic. With the increasing production rates and the additional opportunities being worked on we are confident that we can offset some of the losses from quarter one. The next slide. Finally, moving to the nickel prices which has attracted a lot of attention recently our nickel price realization was up 16% in the quarter. This price realization can be split into three main factors first, the aggregate premium and discount for nickel that is taking into account our in tire product portfolio. In this quarter we've achieved strong price realization from our Class 1 products however, the product mix was impacted by the higher sales of the intermediate mostly nickel mat which is typically sold at a 20% to 25% discount to LME. The second factor is the market pricing that is how sales are distributed along the quarter and the quotational price for the contracts. So despite the high LME price in March. And in the quarter. The lower previous period prices affected the quarter's price. Our typical monthly QP is split about half in the current-month and half in the past month. This explains the $2000 difference, the LME and the realized price and lastly, we have some fixed pricing we typically hedge a smaller portion of our sales our hedge contracts are not subject to Calls as we apply hedge accounting to those contracts the only effect we see is the equivalent to a fixed price sale at about $20,000 with no issues on liquidity on mark to market for those contracts. Given the soaring prices in the quarter we have had a negative impact on our hedge results. I now hand over to Marcelo to take us through the iron ore performance.

Marcello Spinelli {BIO 16240257 <GO>}

Thank you Deshnee. Well, in our last conference call I finished my presentation, talking about the flight to quality trend we highlighted that in there urbanization path, the optimization of the blast furnace in the short term and the massive use of direct reduction in the future we will support a strong demand for high-quality ores.

On the other hand, there is a limited supply of the higher silica ores and we said that we have many signs that this trend is becoming a reality. So we can see in this chart that we have GAAP between this 58 index and the 65 Index now over $70 that's the Class 1 iron ore on the work that we've been talking about.

Vale performance at a great price realization in the first quarter driven by four main reasons. The first one, the cost of the coke we need necessity to optimize the cost of the energy in the blast furnace. Second, the lack of quality that are coming from our competitors. We have high silica aluminum high aluminum less concentrate coming from CIS

And even the domestic market, we have a lower production production for the concentrate. Third pellet premiums and finally we are taking advantage of our portfolio. We have been improving the quality through the future plans RBF and now we are reducing the high silica ores also concentrated in China.

Moving to next slide let's talk about the production plan for 2022. I want to reinforce our production guidance for this year is a range between 320 and 335 million tons. As we mentioned in our production report comparing to last year, we had some one-off events, due to the heavy rainy season in the South and in the North.

Almost offset by the full operation that are coming from the asset that we were ramping up last year coming from the salt is coming from the salt in system. We Are also facing the reflect of the delays of what we call the rolling licensed process in the North Range that made our strip ratio increase in the North Range. In spite of many challenges, we can say that we have some good news here we improved more than 12% the waste movement in the North Range. And we could plan and execute the major maintenance activity in 11 d in the first quarter. There are others in the second quarter. So on the first half, we can see that we have less impact in the production annual production due to the seasonality as an example we are installing the crushes the first half. And we already replace the conveyor belt, the very important conveyor belt in 11 d in April, we are adding more than 2 million tonnes compared to last year. We can say that we prepared this North range for more availability in the second half and we will have this same effect of the annualized production coming from the south and the Southeastern system that we resumed last year. Finally you're going to have digital other project in the, in the second half and we are expecting some license for small pits in the north range now moving to the third slide we should track our plan to bring over the 50 million tonnes in mid-term to support to supply the market, if the market needs. So following system by system in the North Range we want to also track the new audit Board is there are under license the entry N2 and N1 S11D keep the evolution of the learning curve of the OBK. We have also to install in two years, the new waste crusher but we also have the plus 10 and the plus 20 project big projects that are coming in the future. EWC we have a good news here is we have, we resumed the raising works. We expect the first phase for this year and the second phase for next year. So in the end of the year we are, will be able to improve the capacity and finally, -- works are concluded. We are in the last phase going up To the final permits to operate this asset and we need to keep that on track the license process for the stockpilings pertaining I'll be here for the questions and I will hand over to Gustavo.

Gustavo Pimenta {BIO 20848539 <GO>}

Thanks Marcelo, and good morning everyone. I would like to start with the review of the main drivers for our EBITDA performance in the quarter. As you can see our first quarter EBITDA was about $6.4 billion $480 million lower than Q4 2021 this decline was caused mainly by the 33 million tonnes decline in sales of iron ore fines and pallets given our normal seasonality with lower sales in the beginning of the year.

This was mostly offset by better realized prices for iron ore, reflecting the $32 per ton higher reference price and higher quality premiums in Q1 now on to our cost performance as discussed it since Vale day this is one of our strategic priorities, which we see even more relevant today given the very high inflationary environment we are all living in.

Just as a reminder, our goal for the years to keep our fixed cost plus sustaining in local currents in line with the 2021 levels. For that we have been working on a series of initiatives over the last several months with real benefits been already captured in our financials, resulting in a very limited fixed cost variation on a quarter-over-quarter basis.

Now, how does that translate into our C1 and all-in costs for the quarter and full-year forecast as you can see in the next slide our C1 ex-third party purchase for the first quarter 2022 was $18.7 per ton higher than our Q4 by $2.2 per ton. Mostly driven by lower volume and the effect of fuel prices and FX.

With all the inflationary pressure being offset by the initiatives I just highlighted looking to our full-year forecast for C1 ex-thi3rd party purchases. If we were to assume average brand for the year at around the $100 per barrel and FX rate at BRL5 per dollar we would be around $18.5 to $19 per ton versus last year.

Full year at $16.5 per ton. In terms of owning cost and assuming a similar parameters, including average bunker at $600 per ton we would be running 2022 at a pace similar to 2021 with premium offsetting the effect of inflationary pressures just note that all of these numbers already exclude the Midwestern system for which the sale was recently announced.

Now turning to cash generation on the next slide. The EBITDA to cash conversion for this quarter was mainly affected by greater tax payment. For our tax regime our monthly income tax payments are calculated based on revenues generated. And then the necessary adjustment is made in the first quarter of the following year. So what you see here is seasonally higher disbursement for the first quarter given better results last year. On working capital, we have the usual impact of increase in accounts payable in Q1, following the higher investments in Q4. Also there was an impact of the profit share and distribution in the beginning of the year. Finally and most important on the capital allocation front, we returned $5.3 billion in dividends and share buyback. We remain committed and reverting an important share of our cash generation to our shareholders, supported by our strong balance sheet. These outflows were slightly offset by the inflows of around $500 million from the sale of our stake in California still. Now let me turn to our expanded net debt evolution in the next slide. We ended up Q1 with an expanded net debt of $19.4 billion compared with the $15 billion for Q4 of this increase is a result of the outflows presented in the prior slide, and we're very much in line with our expectations for the quarter. As I had anticipated in our last call. -- drive is the effect of the fixed rate on the beer denominated obligations that composed our expanded net debt commitments during the quarter the Brazilian real appreciated by around 15%, which caused our commitments denominated in BRL to increase in dollar terms by around $2.2 billion. This was partially offset by the market-to-market of our hedge positions with the positive impact of $813 million we expect our expanded net debt benefit in the next quarters from higher sales and lower one-time cash outflows such as tax payments during this quarter, we also reviewed with our Board it changed in our optimal leverage from $15 billion to a range of $10 billion to $20 billion under the same expanded net debt concept. This provide us with greater flexibility and it's a reflection of a proactive liability management performed in the last several months with no relevant financial amortizations due by 2024. A sustainable increase in our production capacity in a very disciplined cost and CapEx management. Before opening up for Q&A I would like to reinforce the key takeaways from today's call we remain laser focused on delivering on our strategic and financial objectives are uniquely positioned portfolio of assets we will benefit substantially from the energy transition on production, we are confident on delivering the volumes Previously disclosed guidance ranges. And finally, we continue to maintain a very disciplined capital allocation process, as evidenced by our announcement today of a new share repurchase program of 500 million shares. With that I'd like to open the call for questions.

Questions And Answers

Operator

Thank you, ladies and gentlemen we will now begin the question-and-answer session. (Operator instructions) Our first question comes from Mr Leonardo Correa with Banco BTG Pactual. Mr Leonardo your audio is available.

Q - Analyst

Yes. Can you hear me.

A - Unidentified Speaker

Yes, yes.

Q - Analyst

Okay, perfect, guys. So good morning to everyone. Thank you. My first question to Gustavo you still have on the cash returns right. I think the big, the big news of the day, was the buyback. I think no one was really expecting the level of increase that you guys announced right from 200 to 500 million shares on a similar timeframe right.

The question (Technical difficulty) this tendency, the way you treat dividends and more particularly if this changes the way you treat the extraordinary dividends, right, because if we look at Vale's cash returns over the past couple of years it's been mainly focused on dividends.

The bulk of cash flows have been returned via dividends. So now with this much higher level of buybacks I think the question is, will you potentially leave the extraordinary dividends of side and just focus on the minimum plus this buyback or do you think you can do the three together, so that's my first question.

The second one Spinelli if I may of course, it's a very volatile and very difficult environment to try to understand in China. Right. But we're seeing all the lockdowns we're seeing all the logistics bottlenecks. We're seeing some some ports lockdown shut down.

We don't know exactly how this is going to evolve going forward. My question to you is whether the order books right that you're seeing over April and May in China, are you seeing any weakness, I mean any temporary issues on selling your iron ore into China and how can you report On that front I mean our sales normal for China. Are you experiencing any delays or any potential shipments that could be rolled over into the third quarter. That will be my those were my questions, guys. Thank you very much.

A - Unidentified Speaker

Now I'm going to use the new world, the new, the new normal to answer your question then Gustavo is in front of me here, so you add up, because I think it's a very important question that you poised because as you understand that we've always talked about the buckets right.

We generate cash. Last year, we returned 95% of free cash flow. First of all we need to keep our commitments obliged, that's why we did the extended that concept an obligation to execute them our growth our safety and what's coming after first first is our policy. Our dividend policy. That's a secret.

We want to keep this as a concept when you look five years from now and look back value has been consistently predictably paying its policy. Okay. What is above that that's your question we're going to treat it in a very specific way for the moment that we are undergoing.

Obviously we prefer buybacks because they are permanent.

Operator

The next question comes from Mr Kai Uwe -- with Bank of America Mr Kyle your audio is available.

Q - Analyst

They come as in like in this bucket lease more or less safety growth the policy, buybacks extraordinaries. I think we can do the three and I'm sorry

A - Unidentified Speaker

, because I had have to jump over Gustavo but is so dear to my heart.

Q - Analyst

That I, well, I'll ask Gustavo now to really explain it.

A - Gustavo Pimenta {BIO 20848539 <GO>}

Yeah I think, Eduardo right. So we've well given where the stocks are trading. We continue to believe this is probably the one of the best if not the best investments that we have is to buy back our own share. We've been very active, as we've seen in our prep remarks, we've purchased almost 10% of Vale the last 12 months.

So that will take us to another almost 20%. So this is certainly very accretive for our shareholders and we'll continue to put a lot of effort and that as you saw in our announcement last year, it doesn't mean we cannot do is extraordinary dividends, I think we will assess and its due time of course It would depend on our cash flow for the year, we have a very constructive for the year despite some of the challenges that we are all seen we continue to be very constructive in our ability to generate strong cash for the year. So I think. And on top of that, we do have already a very well established dividend policy right with a payout of 50%. So So, so Edward's point I think we can do both. But certainly, at today's valuation buying back our own shares is highly accretive from our perspective.

Q - Analyst

And long term.

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

Well, thank you for your question. Well, this is I think is the one of the most important questions for today. Rexel China is dealing with the, with the COVID and how is the impact for our while our goal for this year. So in short term just answering your question directly, we don't see any problem with our clients.

I think it's the opposite. The liquidity in the market is getting higher and higher last week this week. They have now and we can in the holiday. But the liquidity is really high. Our inventory is declining and also the whole inventories declining and and there is strong support.

And if you see the numbers through the support that the variability the use of the blast furnace as a whole, increase in this week to 83%, 84% compared to 85% last week. So all of the signs we see that there is a support for downstream demand and definitely they seem to be committed to their goal of 5.5. GDP growth.

And we have all the deployment after that infrastructure very heated you see the FAI the more the 8% growing new projects are coming. So everything is you can see in the numbers, but the sentiment at the same time we see they are struggling in Shanghai other information for you.

We don't have any problem in our supply chain. All of our lineups are the same in the same level that you used it used to be in the same period for the year and the operations are flowing very well. So we are happy to see the numbers going on.

Operator

The next question comes from Mr -- with Bank of America. Mr Caio Is available.

Q - Analyst

Alright. Good morning all. Thank you for the opportunity. So my first question is on divestments. Just wanted to ask after seeing the -- Midwestern system which other assets are still candidates for the divestments. And then my second question, the company has been talking a lot about several value unlocking avenues for the base metals division.

One of them is setting up a potential partnership. I just wanted to ask if you do choose to go down this road what would be the main angles that you're looking to exploit to unlock this value, whether it is through synergies, logistics, SG&A or if it is consolidating the nickel Class 1 market further anything else that you see as a potential here. Thank you.

A - Gustavo Pimenta {BIO 20848539 <GO>}

Okay. Good morning Gustavo here. So I'll get started with the divestments and then I'll pass to Eduardo to cover-based model. So yeah, we've got, we've done a lot of cleaned up most of the non-core assets out of our portfolio and we've been saying that there is two other candidates in the last CSP MRM MRN

Both processes are ongoing. We've said that publicly and we will keep the market updated once you have any news on that but that those would be the final ones in our list today. So with that I'll pass to Eduardo.

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

Thanks. Very good question and complex to answer. I'll try to be objective okay. But we need to start because of obvious reasons, there is no decision taken that direction okay. What we have I think this is brings to your question is an asset that nobody else has it okay.

Fundamentally speaking, we are talking about an asset that is -- based in Canada. ESG totally aligned in Indonesia, because we have operating there for more than 50 years and the best resource in the world. So nobody has it. So we need to extract value from it.

So that's the main angle. If you ask me what is the angle it's uncovering value from this extremely high-quality asset that has one of the best resource and reserves in the world. So that's the first angle that we need to be mindful, I think we have this in your first question, a track record of delivering what we say that we are going to do.

We said that we're going to exit VNC we exited. We said that we're going to you exit more responsibly and we did and I think we with that track record we are going to uncover the value that we have debt base metals that is unique as I already mentioned, what kind of options again, we have That's again going for the book reminding again about my first comment there is no decision taken whatsoever. There are several there are several avenues that we can choose to go. You can partner you can spin you can keep it as it is, because if we execute well, because that's the part I jumped.

A - Marcello Spinelli {BIO 16240257 <GO>}

We need to execute well I would ask Deshnee to comment a little

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

Bit because she is here with us in Brazil as well today and I think so we're going to Salobo by the way, so there are huge efforts to transform the business as a Q2 as we saw first quarter was not a very good one. So we need to prove that we are, we are a reliable operator predictable operator, we can do that.

We did that in the railways in Vale we are doing that in iron ore and we are going to do that in base metals as well, so the path to choose and to uncover this value passes first of all in building reliability building credible business equity keeping our growth projects online like VPN

Our sustaining and growth projects like BBME or CCA -- and I'll let more for instance like in copper and obviously if it's option A is extracting this value inside Vale is not enough we're going to analyze other options. There are some of some of those I just mentioned before.

But the angle if I can be objective to you is to uncover value and we have been doing that with the other assets that we reshape and I agree with you. This is the last reshape that Vale has to do.

Q - Analyst

Thank you.

A - Deshnee Naidoo {BIO 19953865 <GO>}

Thank you Eduardo exactly all parts to unlocking value for base metals starts off with a solid execution I have mentioned this in the previous call full workstreams at the Base metals teams and I are working on starting off with the mines productivity and linking to that safety.

We have plans for every asset across the business and it's good to see some of these quicker wins coming through as is reflected by the 22% increase we've seen from January until March in our daily production rates at Sudbury. The focus of course has to increase in South Atlantic, which is very much the downstream of focus on making sure that the assets better maintained and then we can improve reliability.

But we know to be successful. It's not just for getting to safe, reliable production. But we have to get down the cost curve, and that is why the next initiative we have is focusing on our third-party spend and that we are hoping to at least offset the inflation for this year, but start to look for structural changes But it all comes together, making sure that we are improving our engagement with all of our stakeholders. And that's where the third piece of work sits so Eduardo we are focusing in base metals on the execution and whatever that path for value unlock will come, it will be off, far more efficient base in the company. Thank you.

Operator

The next question comes from Mr Carlos -- with Morgan Stanley. Mr Carlos your audio is available.

Q - Analyst

Great, thank you very much. Good morning, everyone. So my questions are, one is on Salobo, can you comment a little bit more on how Salobo 3 that is I'll leave more on how the project is unfolding after the situation that it faced in January. And also it called my attention that the CapEx was kept around $1.1 billion total CapEx.

Despite this setback. And so I, if you could elaborate a little bit more if you are seeing efficiency somewhere else or the cost overall cost of the incident. It's just not that relevant. And then the other maybe Marcelo, if you could elaborate a little bit on the pellet price and the premium we were expecting a little bit bigger, multiple and obviously we were mistaken.

But it could be just a lagging effect maybe the increase in metallic prices and higher value iron ore products increase in price that we saw recently happen after you had signed new contracts for the quarter. So if you can elaborate a bit more about the first quarter better price premium and what you expect in the second quarter and going forward that will be very useful. Thank you very much.

A - Deshnee Naidoo {BIO 19953865 <GO>}

Thank you. For the question regarding Salobo 3. So just so that we are in alliance with Salobo 3 we will deliver at least 30 to 40,000 tons of metal. And in terms of the where we are on progress that project is almost 70% complete. So, as we previously guided we are on track to start our first production at the end of November.

This year in terms of the capital, we are still holding on to the $1.1 billion of capital. In terms of the progress on physical, then I think that Eduardo mentioned at the start of the call that we will be on site over the next day to actually talk to all the team on that in terms of the work that the teams and I are doing now is making sure that we are de-risking the operational readiness in terms of commissioning As well as the ramp-up so Salobo 3 as it stands we are maintaining the guidance from the beginning of the year, we are still on track for the end of the year.

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

And for the efficiency that you ask was more when we were really benefited by the exchange rate in this case, there were some COVID impacts and the accident was minor was not relevant, but it's going to be on track for the, for the dollar wise $1.1 billion.

A - Gustavo Pimenta {BIO 20848539 <GO>}

Hi, Carlos, thank for your question. Well, we have a shortfall in the the market is very tight. We mentioned in last conference call, the impact coming from the conflict in Russia and Ukraine or blast furnace and direct reduction there is pressure coming from the demand side in Midwest.

So in Q2, we settled the premiums before the conflict. So the numbers now are for blast furnace 60.6 65.8 for direct reduction and we see an upside risk for next quarter.

Operator

Yeah. The next question comes from Mr Thiago Lofiego with Bradesco BBI Mr Thiago your audio is available.

Q - Analyst

Thank you, gentlemen. Two questions here. The first one to Gustavo Gustavo about the expanded net debt guidance range. That's a big range right. So can you give us more color on, maybe, at least for now, what number should we, should we be working with in terms of the extended net debt is it may be closer to the top of the range for now.

I'm asking because there's obviously makes a big difference for dividend calculations on the extraordinary site. And the second question about the Midwestern system sale could the counterparties of the take-or-pay agreements block the deal at all or that's not a possibility

But if it is, what would be options here. Thank you.

A - Gustavo Pimenta {BIO 20848539 <GO>}

Thanks Thiago. So on the expanded net debt. Look, I think what we were able to do and the revision that we just conducted with our Board is to essentially have more flexibility throughout the year because we do have some seasonality on our cash flow right we have tax payments, as we just saw in the first Q dividend payments, even our sales have some seasonality.

So that gave us I think this new range gives us some flexibility throughout the year to operate around that $15 billion that we had before, but eventually like we did in Q1 being able to operate above that So that was the main, the main reason for it and we think now it's, it provides again more flexibility and it's a better way to communicate those those leverage ratios to the market. Regarding the transaction that we just signed to sell the Midwestern no, we don't think it's going to be an issue. I mean we have ways to accommodate any potential discussion with the counterparty. So we think we're feeling very good about alternatives to be able to conclude that transaction.

Q - Analyst

The next question comes from

Operator

Mr Andreas -- with UBS. Mr Andreas your audio is available now.

Q - Analyst

Thank you very much. Just a couple of questions on iron ore production. Maybe just kind of looking at this year obviously your range is 320 to 335, is it too early to say whether you think we're going to end up in the high or low end of that range. Obviously was a bit of a wet first quarter of the year.

But you had the crisis is coming online. So is the high end of the range is still in place that still a realistic or should we be thinking like more low-end of the range at this point in time. That's the first question. And related to that the second question, when you think about a little bit more medium, longer term, obviously you're still looking to get licenses to ramp up production further.

Can you give us an update about what regulators are really looking for in those licenses and any progress that's been made there to get those licenses that is my second question. Thank you very much.

A - Gustavo Pimenta {BIO 20848539 <GO>}

For the first question, I think it's early to say. But what I can say, what can I say is that we prepare the systems to work with more availability in the dry season that's a main message here and we are going to have the full operations coming from the Southeastern system that's another important gap.

So if you compared to last year these are two very important components to consider in the evolving for the whole year, mid-term I can see that we have two main actions here. First one in the north as I mentioned in the presentation we rely on the permits.

We have some delay for this what we call the rolling license are related to small bids that we can add 5 to 10 million tonnes that we replay And keep the volumes in the North Range. We had some delays, but we expect to have this then the second quarter in the second half and for mid-term we are we rely on the expansion for the North Range and 321 and even -- so if you have any problem in this systems that can be a headwind for to reach 240 million tonnes. We have backup or a fallback position in the Southern System with other products that are coming online like -- and the recover of the full production -- that will come after a bit so we have a set of initiatives to bring more volumes, but all of this, remember that we have that mantra is the value over volumes or we're going to bring this, if we see that the market needs. So we are going to say and talk about our production next year only in the end of the year.

Operator

The next question comes from Mr Rodolfo with JP Morgan. Mr Rodolfo your audio is available now.

Q - Analyst

Thanks, good morning everyone. Good afternoon for those in Europe. My two questions are quite simple. First one, we are seeing in the industry cost pressures all around. So I just wanted to ask you if there is a renewed focus on this if there is any opportunity, anything we can expect.

So basically just a few thoughts on the plans. And my second question is more about how should we think about Vale in the medium to long term, I think the fact that you're announcing a large by is very important, very well received by investors, but could we assume that there is also an implicit message that Vale is going to be in our aside from focusing on the recovery of the volumes in iron ore in getting the expansions that we discuss here such as some of the which are up and running.

Should we think about Vale more as a cash-cow towards the future or

A - Unidentified Speaker

Also still a discussion on our growth agenda.

Thank you.

Q - Unidentified Participant

Also good morning Gustavo here. So on the cost, as you've been seeing pretty much across our industries. Right. Everybody is having challenges we are all facing very high inflationary pressure. I think the good thing. In our case is we've been working on this since last year.

You may recall in we came to announce a program to reduce our cost base, a series of initiatives across the board that we are taking to optimize our cost base and what we are seeing C1 today just topic and specific about C1 as the back that we are having is basically effects and for you whilst right Brazil. So we've been able in the Q1 already to offset all of the inflationary pressures in labor services and so one with the initiatives that we've been working on since last year.

I think the other right side here is on the side given the premium better premiums this year, then we are expecting, we are seeing our all-lead for the very much in line with last year. Which we think it's a big win, given again all the inflationary effect that we are having so sure point I think we've been able to accommodate and manage and offset offset all of the pressure on the cost on the fixed costs in local currency, and what we are left with is the facts, which we gave you some sensitivity today and the fuel price,

But we are excited with the opportunities we are seeing to optimize our cost base. With that, I'll pass the second question to Eduardo[ph]

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

Okay, thanks for maybe the answer is a growing cash call a big cash cow, because I think nobody has the opportunists growth that Vale has right. I won't go back to the rationale about the share buybacks, because we believe that's permanent that's the best investment that we can have, so we are buying back value at iron ore prices of whatever your price, what, where are we are today.

So we are buying iron ore company, about $60. So that's the rationale about the buyback, but when you look at iron ore itself when we took a high quality, we don't, we don't buy this story that iron ore is a mature die business, we are growing class one iron ore business, we can grow up to 400 million tonnes. We have high quality nobody can do that. So we're going to need cash, we're going to use the cash for that.

So number one, use of cash is to grow in quality within iron ore then goes back to Andreas previous question around the difficult of license. You had said that we have to overcome as well. So first one is grow, grow

A - Gustavo Pimenta {BIO 20848539 <GO>}

Iron ore, we have to grow copper. You know that we have to grow copper like when we have the Carajas province when it is not explored. It's a homework that we have to do, we have to look at it with more and reach more careful now that we are focusing 100% of our efforts on base metals. So we need to grow copper there we have huge opportunity there. There we will demand cash we can grow copper you know and we can grow Newco.

That's a very important message here.

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

We can go neutral. We can leave with a lot of discipline thinking something around by the way, but we, that's the part I think was the first question the second question about the angles of these models for the mentally we are talking about nickel rate and nickel has an optionality to grow to 300 to 400,000 tonnes.

When you look at the gap is going to happen in the market and there is the uses of cash for that as well, but is still what Vale is going to generate a huge amount of cash. So I think it's fair to say, we can see it is a cash cow. But our cash cow grow a lot, it's a growth how can I say.

I don't know how to answer your specific, but I don't see a conflict on that I think that we are going to generate cash, we are going to shrink our share base and the ones that that buying the story now we will be very happy in five years from now.

Operator

The next question comes from Mr Daniel -- your audio is available.

Q - Analyst

Thank you, gentlemen. Thank you, everyone. Most of my questions have been answered. I was just wondering if you have an expectation as to the next steps of the SEC procedures in regards to the, what they claim misinformation that Vale provided about the conditions of the tailing dams are at the dams prior to the materially plant.

If you could comment on the expected timeline for this investigation to continue to move forward. I know that you have already disclosed that you do not agree with those findings. But if you could give us more color, that would be great. And my second question, in regards is you just talked a bit about costs.

I remember that a few years ago you used to say that your expectations for long-term prices in this industry, were around $70 per ton, which was the level that you would generate decent return would not stimulate new supply coming to the market. But cost inflation has been significant Over the past few quarters and probably will continue this way over the quarters to come. Did you have, do you have any, you expect these are updated expectations in regards to the long-term prices that you work with maybe even to consider approving new growth projects as Eduardo mentioned that would be, that would be great. Thank you.

A - Gustavo Pimenta {BIO 20848539 <GO>}

Thanks Danielle Gustavo here, I'll get started and then Spinelli will cover your second question. So look regarding the SEC the suit was expected right following last year's loan notice, we certainly disagree and, but we are reviewing which we just received the email and information around it and certainly contest the allegations.

So it's going to take its own time and we will certainly keep the market updated

A - Marcello Spinelli {BIO 16240257 <GO>}

Thank you Daniel well good question. That the, the first number 70 is not 17 anymore. Right. So that's even if we don't consider the supply demand trend in the future the seventh -- anymore, when you are putting inflation and all the impacted there will be Tuesday

Second point, the transition to a greener world will be quite different, that we could expect some years ago. So price of energy will will stay higher probably than expected in the 70 number here. So we are third component, your supply-demand. So supply demand will be tighter than before from the supply side.

All the projects and the possibilities to come to the market are more difficult than before. And finally, we need to educate our sales to talk about what we call this class one iron ore our number is from the seventh book, but we need to add another 30 or 6 or 8, when we talk about the RBF or we need to add another premium for pellet or bracket.

So we are working hard to have a kind of number that we call this a glass one iron ore that is the couple from those standard that you mentioned about the 70. So it's up and will be a wide gap, when you consider the Class 1 iron ore

Operator

The next question comes from Mr Liam Fitzpatrick with Deutsche Bank. Mr Liam your audio is available

Q - Unidentified Participant

Good morning, good afternoon, everyone. I'll stick to the two questions, first of all, just on the iron ore side in terms of the value over volume. And I guess we all hope the Chinese steel output will recover into H2. But if it doesn't. What's more important kind of getting to your guidance range, or will you continue this approach just supply in the market, if the demand is there, because looking at the chart in the pack, you are guiding to a pretty steep pickup in volumes into Q2 and into Q3.

And my second question, I appreciate it's probably not much you can say but on this actually see as you see charges, if you got any color in terms of how long this could go on for and sort of timing that we could be looking at on that. Thank you.

Yeah. Thank you, Liam

A - Unidentified Speaker

Yeah. Thank you, Liam for questions can add a year. So you have valuable volume that's the name of the game and that we expect the the downstream demand in China. Our numbers is about 1 billion tranche for crude steel production and and we will go to the market and supply the market with this, this trend, we are, we see this this stability in the economy in China is a key trend for this year. So, and we see a tight market in supply-demand balance for the first time, the year after the first quarter we can see as a whole, the shortfall comparing supply demand and a small one, but is a shortfall and there will be a tight market for Q2 and Q3 better are more balance in the last quarter.

Q - Unidentified Participant

Gustavo here in the SEC. Look, as I said before, we strongly disagree with the with the claim and with the suit will certainly context contest the allegations. But it will take its own time. So we'll make sure that the market is updated, but it will take, it will take its time

Operator

The next question comes from Mr Tyler Broda with RBC Mr Tyler your audio is available now.

Q - Analyst

Thanks. Thanks very much for the call today. Most of my questions have been asked. I just was curious you didn't change the guidance that was given at Vale Day for the 2023 cost between $15 to $16 a ton. Is that, is that still a realistic target, assuming that we are to stay in this, in this current higher energy cost, higher base level of inflationary environment.

And then my second question would be, is that, you seem to built up a lot of inventory over the last six months in the value chain within 2021 and it's sort of did nothing really came out during during early 2022. I guess how do you expect to see that evolve over the course of the year.

Just thinking in terms of sales versus production. Thanks very much.

A - Gustavo Pimenta {BIO 20848539 <GO>}

Let me cover the first. And so, yeah, on costs, certainly there is, if you were to maintain the current FX rate for example and the pressure of fuel prices, we could have an effect in 2023 on our C1. But I think it's early to say. I think we have to see that's why we haven't revealed and provide any incremental data point.

I think it's early to say. We'll have to see where the energy prices settles FX settle so once we have more clarity we will then update the market on 2023. But I think based on the variance we've seen 2021 or in 2022 in the first Q 2022. You kind of have a sense of the the delta that we could see 2023 for those two variables.

A - Marcello Spinelli {BIO 16240257 <GO>}

Hi, Tyler Spinelli here. So you're right, we had some gaps and inventory in 2021, but remember that we were recovering our supply chain after 2019 after bromide gene that we, we use our inventory to keep the sales in the future get though the operations in our, in our clients in, mostly in China, so we did this in 2021 to keep the supply chain and operational for blending.

So what we expect for this year is the same pattern of last year with an additional and the small part that we are concentrating some high silica wars in China, that's a small gap that we can consider that in 10 million tonnes for this material. We have a mass recover of 70%, 65% to 70%, so that the only difference between last year and this year

Operator

The next question comes from Mr John Tumazos with John Tumazos Independent Research. Mr John your audio is available now.

Q - Analyst

Thank you for taking my questions. First why not build five or more of the tech plants, since there is so much better second could you describe second quarter and third quarter rebounds in the Northern System and the Southern System from the first quarter. The problems only whether -- thank you.

A - Marcello Spinelli {BIO 16240257 <GO>}

Thank you John Spinelli here so -- you're right, that's, that's a great solution, but we need to prove the technology with the industrial scale. So that's we're doing now, it's a technology that we can in a small furnace we can use biomass. And that will be and can be used as a smelter also in our clients.

So we can co-locate in our clients for use as industrial plan for big iron, as we are developing now, but we need to prove this we are really confident we already have a small plant working in but we want to prove this firstly and the balance in Q2 and Q3. Yeah, the North Range is that was the, is the wet season, so we still have a lower share as expected in this, in this quarter in the second quarter.

But they come with more than 70% when they return to the second half. So that's, that's what we expect. And as I mentioned in the first quarter we still for more but some delays, but we are preparing the North range. That's the most important site for us to be more available in the second half.

Operator

The next question comes from Mr John -- with HSBC. Mr John your audio is available.

Q - Analyst

Hi, good morning good afternoon and thanks for taking my questions. Spinelli I first wanted to ask you about demand in Europe, just given the challenges that they face with higher energy cost and taking down some production. What are you seeing in terms of iron ore demand there.

And then my second question was on nickel. So definitely you mentioned

A - Unidentified Speaker

A lot of the low carbon-neutral products that you have and obviously there is value in that, but I'm just wondering, how does that, does that translate into higher realized prices or is that something that could potentially translate into higher realized prices in the future.

Thank you.

Q - Unidentified Participant

Thank you, Jonathan. Well it's a tough answering about about your, what we have some numbers, we are not counting the four operational for CAS. We are, we see a decline between 20%, 25% this year.

In Europe, we have a forecast for minus 1 or minus 3 if you extend the view for the whole Europe. But the main thing, you were talking about this with our clients, they are full. Now the not CAS. The other part of Europe, they are full, they are buying, but they are in a kind of short-term a mode, so they expect to have some impact coming from energy in the end of the year. That could have some restrictions the use of they have concerns, but they don't have windstorms now for the whole thing.

So they are in the short term mode. We are selling the same actually. There is a lot of pressure coming from the pellet side, but we expect that will be some decline for the whole year. As I mentioned

A - Unidentified Speaker

Thank you, John. I'll be very, very quick, in keeping with our strategy to try and solve it at least 25% of our production into EUV. We know that in order for us to be ready for transition metals and what's happening on the critical minerals side, we have to show the world that we do have one of the lowest carbon intend to see intensity products and that's the reason that we started the certification process but simply as you said, I think for now, it's just to show that we are low carbon both on the footprint side as well as on intensity.

But going forward as Eduardo mentioned, the world is going to need a lot more nickel. We believe we can more than double our production for the right incentives. So I agree I think green nickel was definitely we are product that the market will need to incentivize and reward for.

Thank you, John.

Operator

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

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

Thank you again. Thanks a lot. For your interest and attention and questions are very help us to even to guide our focus here. Just as a conclusion, I will reiterate or repeat what Gustavo said in the end of his introduction we are laser focused on our objectives. I think we are uniquely positioned to the ESG world while what we see a climate challenge we see a business opportunity iron ore Class 1 vehicle as we just, as Deshnee just mentioned. So I don't, I don't think there is any other company in the world that has, what we do have I extremely confident about our targets. Spinelli didn't say but we are not on the lower end for sure guidance is guidance with the only one that we have of lowering the guidance toward the lower end is copper because of the challenge and we are being realistic. But we have a extremely confident that we are going to going to get to talk to our guidance. And lastly we are showing with actions we are putting our money where our mouth is our capital discipline, extremely discipline and we are not lagging by any opportunities to grow. So we are going to keep as much as needed cash inside the company with discipline to grow our business, that again I don't believe any other mining company in the world has such a suite of opportunity inside. So again, thanks a lot for your attention, hope to see or listen to you in the next call. And again the ones in this marathon with us, we will truly benefit. Thanks a lot and keep safe.

Operator

That does conclude conference call for today. Thank you very much for your participation. And have a nice day.