



Rating Action: Moody's assigns a B3 rating to Samarco and its foreign currency notes; outlook is stable

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New York, February 16, 2024 -- Moody's Investors Service (Moody's) has today assigned a B3 corporate family rating (CFR) to Samarco Mineração S.A. and to its \$3.9 billion senior unsecured notes due 2031. The outlook is stable.

RATINGS RATIONALE

The B3 ratings of Samarco Mineração S.A. (Samarco) reflect Samarco's capital structure resulting from the judicial recovery. The terms approved under the judicial recovery allowed Samarco to materially reduce debt levels and direct cash flows to the full ramp-up of its operations, which the company expects to achieve through 2028. The B3 ratings also reflect the operational constraints and financial liabilities Samarco faces as a consequence of the Fundão dam disaster in November 2015, which led to the full interruption of operations through end of 2020 and significant liabilities under the so-called Framework Agreement established in 2016.

The rating assignment follows the confirmation of the judicial recovery under Brazilian Court on August 30, 2023 and under Chapter 15 of the US bankruptcy Court issued on October 10, 2023 by the United States Bankruptcy Court of the Southern District of New York. The rating assumes that the judicial recovery plan will be implemented as approved and within the established deadlines.

The senior unsecured notes issued in December 2023 and due 2031 are part of judicial recovery plan. Capital structure post-judicial recovery consists of about \$4.0 billion total debt (including \$260 million in debt to shareholders) compared to \$4.8 billion of listed financial claims before the judicial recovery (excluding shareholders' claims). Samarco issued \$3.7 billion in 9% senior unsecured notes due 2031, which were exchanged for the previous notes outstanding (due 2022, 2023, 2024), and an additional \$259.6 million in 9% senior unsecured notes owed to Samarco's shareholders. Shareholders subordinated claims (treated as related-party transactions, with no interest payment and no defined maturity date) amount to \$3.8 billion and are not treated as financial debt.

As Samarco's operations are constrained – the company is currently operating at 26%-30% of nominal production capacity (or about 9 million tons of pellets), cash flows are still relatively weak. However, the judicial recovery plan limits obligations related to remediation and compensation measures (implemented through the Renova Foundation) as a consequence of the tailings dam disaster in November 2015, which allows Samarco to direct cash flows to its operations and capex needs. Production will materially increase in 2025 and 2028, with the re-start of two additional concentrators, which will take capacity to 60% and 100% utilization, respectively. The viability of Samarco's operations in the Germano complex is predominantly linked to the availability of storage structures required to accommodate the

output levels of its concentrators. The main operational risk is related to delays for the start-up of the concentrators, which is mitigated by the fact that the timeline for the second concentrator starting in 2025 is on schedule and all required licenses are in place.

The stable outlook reflects Moody's expectations that Samarco will conclude the implementation of the debt restructuring according to the judicial recovery plan, while the company continues to invest for the ramp-up of its operations, with the start-up of its second concentrator in 2025 and the third concentrator in 2028. The outlook also reflects Samarco's financial strategy and capital allocation as stated in the judicial recovery plan, which allows the company to meet debt obligations while it continues to invest in the operations.

ENVIRONMENTAL, SOCIAL & GOVERNANCE CONSIDERATIONS

As for the environmental, social and governance (ESG) factors incorporated into Samarco's ratings, Moody's considers Samarco's high exposure to environmental risks, associated primarily with natural capital and waste and pollution (including credit implications of the tailings dam disaster), and to social risks, arising mainly from health and safety concerns around the operations, which is inherent to the mining industry, as well as responsible production, given the tailings dams accident in 2015 and implications to the surrounding communities and room for additional lawsuits. Governance considerations reflect Samarco's judicial recovery plan and the still limited track record of financial strategy and risk management under the recently implemented capital structure.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade would require Samarco to expand its scale – thus allowing for higher fixed cost dilution - with the ramp-up of its operations, strengthening its cash flows and reducing leverage. Quantitatively, an upgrade would require that the company generates positive free cash flow on a sustained basis and maintains leverage below 2x.

Samarco's ratings could be downgraded if its profitability and cash generation capacity deteriorate significantly as a consequence of a decline in metal prices (iron ore pellets) or significantly lower production volumes, or the company is not able to fulfill the conditions stated in the judicial recovery plan relative to the changes in the capital structure.

The principal methodology used in these ratings was Mining published in October 2021 and available at <https://ratings.moodys.com/rmc-documents/76085>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

Samarco Mineracao S.A. ("Samarco") is a 50%-50% joint-venture between mining companies Vale S.A. (Baa3, stable) and BHP Billiton Brazil Ltda, owned by BHP Group Limited (A1, stable). The company is a major exporter of seaborne iron ore pellets worldwide with operations located in Espírito Santo and Minas Gerais, in the Southeast region of Brazil. The company has a fully integrated business model with a nominal capacity to produce 30 million Mt of pellets annually. In the afternoon of November 5, 2015, an accident occurred with a tailings dam, also partially affecting another dam – a water dam - next to the industrial operations at the Germano beneficiation units and next to Samarco's iron ore mines, releasing mine tailings, flooding one nearby community and impacting many other communities downstream. Samarco resumed operations in December 2020, after five years of full stoppage due to

the tailings dam accident in November 2015. Samarco is currently operating with about 26-30% of its nominal capacity.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moody.com/documents/PBC_1355824.

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