

MOODY'S

RATINGS

Rating Action: Moody's Ratings upgrades Samarco to B2; outlook changed to positive from stable

24 Feb 2025

New York, February 24, 2025 -- Moody's Ratings (Moody's) has upgraded Samarco Mineracao S.A. (Samarco) corporate family rating (CFR) and senior unsecured rating to B2 from B3. The outlook changed to positive from stable.

RATINGS RATIONALE

The upgrade to B2 reflects the improvement in cash flows from operations with the start-up of the second concentrator in December 2024, significantly increasing pellet production volumes (from levels around 9 million tons to 15 million tons annually) and reducing cash costs. The B2 rating also reflects the final settlement in October 2024 for remediation and compensation liabilities related to the 2015 tailings dam incident. The agreement increases the visibility of cash outflows over 20 years.

This final agreement of BRL170 billion (\$31.7 billion), including past and future obligations, brought more clarity to Samarco's legal liabilities and provided cash flow visibility, reducing the risk of additional disbursements in the future. Samarco remains the primary obligor to the full amount of liabilities, while shareholders Vale S.A. (Baa2 positive) and BHP Group Limited (BHP, A1 stable) will equally share the obligations that Samarco cannot fund, following the same approach as for obligations already disbursed. Under the indenture of the bonds outstanding, compensation/remediation outflows are capped at a total of \$1 billion through the end of 2030.

The positive outlook reflects our expectation that Samarco's operations will continue to improve as the company builds a track record operating two concentrators and reduces costs overtime, further strengthening cash flow generation. The positive 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.

The ratings are constrained by Samarco's still weak credit metrics as the company is not operating at full capacity, and execution risks related to the ramp-up of operations through 2028, when the company expects to achieve 100% capacity. The ratings are

also constrained by Samarco being under judicial recovery, which limits its financial flexibility.

Samarco has adequate liquidity, supported by cash flow from operations, no cash interest to be paid until 2026 (PIK interest) and the cap on remediation expenses at \$200 million per year until 2026 and \$100 million from 2027 until 2030 (\$1 billion in total through the end of 2030). The majority of debt obligations mature in 2031, including the \$3.9 billion senior unsecured notes issued in December 2023. We expect shareholders Vale and BHP to continue to meet the obligations related to the settlement above the cap established at Samarco.

ENVIRONMENTAL, SOCIAL & GOVERNANCE CONSIDERATIONS

As for the environmental, social and governance (ESG) factors incorporated into Samarco's ratings, we consider 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 are inherent to the mining industry, as well as responsible production, given the 2015 tailings dams incident and its implications to the surrounding communities and room for additional lawsuits. As the company has progressed with reparation programs and has more visibility on future cash flows (with the settlement in October 2024), we have changed the score for responsible production to 4 (from 5) and the overall social score to S-4 (from S-5). We have changed the waste and pollution score to 4 from 5, as Samarco has almost completed the decommissioning of the Germano dam and currently relies primarily on dry-stacking.

Governance considerations reflect Samarco's judicial recovery plan and the still limited track record of financial strategy and risk management under the current 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 4x.

Samarco's ratings could be downgraded if its profitability and cash generation capacity deteriorate significantly due to 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. Quantitatively, a downgrade could be triggered if leverage stays above 4.5x on a sustained basis, and EBIT margins fall below 10%.

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

Headquartered in Minas Gerais, Samarco Mineracao S.A. is a 50%-50% joint venture (JV) between mining companies Vale and BHP Billiton Brazil Ltda., an indirect subsidiary of BHP Group Limited. The company is a major exporter of seaborne iron ore pellets worldwide with operations in Espirito Santo and Minas Gerais, in the Southeast region of Brazil. The company has a fully integrated business model with a nominal capacity to produce about 27 million metric tons of pellets annually. Samarco should produce about 15 million metric tons of pellets in 2025. Operations were suspended after the tailings dam incident in November 2015 and resumed in December 2020. Samarco reported net operating revenue of \$1.5 billion in the twelve months ended in September 2024.

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