

Fitch Upgrades Samarco's IDRs to 'B'; Outlook Positive

Fitch Ratings - New York - 04 Sep 2025: Fitch Ratings has upgraded Samarco Mineracao S.A.'s (Samarco) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) to 'B' from 'B-' and Long-Term National Scale rating to 'BBB+(bra)' from 'BB(bra)'. Fitch has also upgraded Samarco's senior unsecured notes due 2031 to 'B' with a Recovery Rating of 'RR4' from 'B-'/'RR4'. The Rating Outlook is Positive.

The upgrade reflects improvements in Samarco's financial flexibility after concluding its Judicial Recovery Process in Brazil, as well as the successful Phase 2 operational recovery, and progress in Germano dam decommissioning. The ratings are constrained by high leverage and ongoing Phase 3 ramp-up and funding risks. The financial impact of the 2015 Mariana dam incident is capped at USD1 billion through the end of the 2030 per bonds indenture and is included in the ratings.

The Positive Outlook indicates Fitch's expectation of a growing operational profile as Phase 3 advances. This should lead to leverage improvement as well as the ongoing Germano dam decommissioning progresses.

Key Rating Drivers

Judicial Recovery Exit: The courts-approved formal retirement of the Judicial Recovery improves Samarco's financial flexibility by unencumbering its governance and facilitating access to working capital lines. As a result, Fitch believes a broader set of alternatives to meet phase 3 funding needs should become available, which increases the likelihood of the project approval by year end.

Phase 2 Ramp-Up Achieved: Operational progress continued with the completion of the full capacity of the Phase 2 obtained in July. Fitch expects production to grow to 14.8 million tons of pellet and pellet feed sales in 2025, enabling further cost reductions. Samarco would effectively surpass 55% of full capacity recovery by year end. The phase 3 to reach 26.4 million tons by 2028 is pending final board approval but long-term operational environmental licenses were awarded, and engineering studies were concluded.

Dam Decommissioning Advances: The Germano dam decommissioning passed 90% completion in June. Final works on the last phase of the geo-technical stability and vegetation protection are expected for 2H26, ahead of the previous target in 2029. Use of the Germano pit ended in 2023. Research and development studies focused on dry stacking, which aim to process ultrafine tailings and extend the mine's lifespan by four years, are expected to complete testing in 2025.

Limited Reparation Outflows: The Fundao tailings dam settlement during 2024 limited the potential

effects of environmental uncertainties and litigation risks. Total reparations amount to BRL170 billion (USD32 billion) and include past disbursements of BRL 38 billion (USD 7.9 billion), payment obligations of BRL 100 billion (USD 18 billion), and performance obligations of BRL 32 billion (USD 5.8 billion). As of June 30, 2025, the provision for remaining reparation payments is nearly USD13.6 billion, partly funded by the shareholders.

Shareholder Support and Financial Cap: Per Samarco's 2031 bonds indenture, remediation or compensation outflows are capped at a total of USD1billion by June of 2031. Out of the expected 2025 disbursement of about USD4 billion, 95% are expected to be equally financed with shareholders equity contributions (Vale S.A (Vale - BBB/Positive Outlook) and BHP Group Limited (A/Stable Outlook). Fitch does not expect any major change in this framework or with new issuances in the short to medium term.

Strengthening Business Profile: Samarco aims to re-establish itself as a low-cost, long-lived, significant pellet producer. Upon reaching full capacity by 2028, Samarco is projected to become a top three pellet exporter globally, alongside Vale and LKAB, according to metals consultancy CRU. CRU positions Samarco in the first quartile of iron ore seaborne business costs, supported by integrated operations and low-cost slurry pipelines for iron ore transportation.

Weakening in Iron Ore Prices: Fitch expects iron ore prices to decrease as supply grows an demand softens but pellet premia to remain high driven by high-quality feedstock demand. Overall iron ore demand may begin to fall, driven primarily by reduced steel production in China, where construction steel demand remains lackluster. Australia and Brazil are expected to continue leading iron ore export volume growth until the Simandou project in Guinea significantly expands in 2027. CRU Group forecasts that global consumption of iron ore pellets could rise by over 10% in the next five years.

Low FCF Generation: Fitch projects Samarco's EBITDA will reach approximately USD 1.0 billion in 2025 and remain at a similar level in 2026, 20% more than in 2024 spurred by the phase 2 completion. The forecast also factors in minimal working capital requirements and a decrease in capital expenditures to USD 380 million from USD 400 million in 2024, keeping capex intensity (as a percentage of revenue) above 20%. Fitch expects FCF to be positive, with average margin of 9% over 2025-2027 before reparation payments and supporting equity injections are accounted for.

Gradual Deleveraging: Average gross debt between 2025 and 2026 is projected to be USD 5.2 billion, consisting of the JR's resulting senior debt of USD 4.2 billion and additional PIK accumulation. The period of intense investment and substantial remediation outflows constrain cash accumulation. As a result, Fitch expects EBITDA leverage and net leverage ratios to average 4.9x and 4.8x, respectively, in 2025-2026. Upon resumption of full capacity post-2028, leverage metrics should fall below 4.0x.

Peer Analysis

Samarco's (B/Stable) pellet and pellet feed production business profile is comparable to CAP S.A. (BB+/Stable), Champion Iron Limited (BB-/Stable) and Vale S.A. (BBB/Positive), despite Samarco's growing scale (at 14.8 million tons), low costs (1st quartile position) and long mine life (relationship between reserves and last year production) of about 20 years considering future production rates.

Chile-based CAP produced approximately 2 million tons of iron ore pellets, supplemented by sales of more than 14 million tons of high-grade iron ore pellet and sinter feed. While positioned in the less favorable third quartile of cost, CAP benefits from a long reserve life at nearly 50 years and enhanced financial flexibility.

Canada-based Champion Iron has a production capacity of approximately 15 million tons of iron ore but has a lower value-added portfolio. Champion has a lower mine life of 15 years at its Bloom Lake complex, but a low execution risk of its Quebec based Direct Reduction Pellet Feed project and a low leverage profile.

Vale, the global leader in low-cost iron ore production and one of the top three global mining companies, derives about 90% of its EBITDA from iron ore and pellets. Vale produces about 38 million tons of pellets and briquettes. The company also has significant contributions from copper, nickel, and other minerals.

Vale faces a more challenging operating environment in Brazil (BB/Stable) due to increased scrutiny of mining companies' governance practices following the Mariana and Brumadinho dam disasters. However, its financial outlook remains strong, with Fitch-expected EBITDA leverage below 1.0x and EBITDA net leverage below 0.6x over the medium term.

Key Assumptions

- -- Total iron ore pellet, pellet feed and pellet screening sales volumes of around 14.8 million tons in 2025, 15.3 million tons in 2026 and 15.4 million tons in 2027.
- -- Iron ore pellet premium average USD42 per ton between 2025 and 2027.
- -- Benchmark 62% iron ore prices average USD90/ton in 2025, USD85/ton in 2026, USD75/ton in 2027;
- -- Capex of USD380 million in 2025 (including Phase 3 pre-commitment), USD500 million in 2026 and USD600 million in 2027;
- -- No dividend distributions;
- -- Foreign exchange BRL/USD Rates of 5.80 in 2025, 5.80 in 2026, and 5.80 in 2027

Recovery Analysis

The recovery analysis assumes Samarco would be reorganized as a going-concern in bankruptcy rather than liquidated. We assumed a 10% administrative claim. Samarco's going-concern EBITDA assumption is based on no further ramp-up of the phase 2. The going-concern EBITDA estimate reflects Fitch's view of a sustainable, post-reorganization EBITDA level upon which we base the enterprise valuation in a low iron ore price environment.

An enterprise valuation multiple of 5x EBITDA is applied to the going-concern EBITDA to calculate a post-reorganization enterprise value (EV). The choice of this multiple considered the following factors:

the historical bankruptcy case study exit multiples for peer companies were 4.0x-6.0x.

Fitch applies a waterfall analysis to the post-default EV based on the relative claims of the debt in the capital structure. The debt waterfall assumptions consider the company's total debt. These assumptions result in a recovery rate for the secured debt within the 'RR2' range, but due to the soft cap of Brazil at 'RR4', Samarco's senior secured are rated at 'B+'/'RR4'.

RATING SENSITIVITIES

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- --Significant delays in increasing production;
- --Indications of weaker shareholder commitment to meet remediation payments when Samarco's cash flow is insufficient;
- --Additional legal remediation charges stemming from unfavorable litigation outcomes, after the cap ends in 2031:
- -- Deviation from conservative financial policy;
- --Net leverage above 5.5x on a sustained basis;

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- --At least 75% of ramp-up of operations is achieved;
- --Significant progress in dam decommissioning;
- --Consistent net leverage ratio moving below 3.5x

Liquidity and Debt Structure

Samarco ended June 30, 2025 with USD416 million of cash and marketable securities, gross debt of USD4.6 billion and no short-term debt. The amortization profile has an average maturity of six years.

As a result of the JR, total debt was restructured to USD7.7 billion from USD11.4 billion. USD3.7 billion of new notes due in 2031 were exchanged for the past non-performing indebtedness (due in 2022, 2023, and 2024) of USD4.9 billion in December 2023. The unsecured debt has Payment-In-Kind features that decrease significantly in 2026 and end by 2028. USD260 million in 9% senior unsecured notes owed to shareholders were issued at the end of 2023.

USD3.85 billion of indebtedness with shareholders was converted into a subordinated instrument with no cash or PIK interest obligation and a 2036 maturity. About USD27 million of out of court debt remains and USD17.7 million of BRL denominated debentures.

Issuer Profile

Samarco Mineracao is a leading iron ore pellet producer from Minas Gerais and Espirito Santo, Brazil. It resumed operations in 2020 after a tailings dam incident disrupted operations for five years and sent the company into bankruptcy protection.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG Considerations

Samarco Mineracao S.A. has an ESG Relevance Score of '4' for Employee Wellbeing due to the remaining work required to improve dam monitoring and upstream dams' de-characterization. Dry tailings piling will be used without the operation of dams, while heightening attention to the safety of geotechnical structures and to the de-characterization of the Germano mining dam will continue along with the capacity utilization resumption efforts under way. This has a negative impact on the credit profile and is relevant to the ratings in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Samarco Mineracao S.A.	LT IDR	в Ф	Upgrade		В- •
	LC LT IDR	В €	Upgrade		В- •
	Natl LT	BBB+(bra) €	Upgrade		BB(bra) ⊕
• senior unsecu	LT red	В	Upgrade	RR4	B-

RATINGS KEY OUTLOOK WATCH

Applicable Criteria

Corporate Rating Criteria (pub.27 Jun 2025) (including rating assumption sensitivity)

Metodologia de Ratings Corporativos (pub.27 Jun 2025)

Metodologia de Ratings em Escala Nacional (pub.22 Dec 2020)

National Scale Rating Criteria (pub.22 Dec 2020)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub.27 Jun 2025)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.2.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Samarco Mineracao S.A. EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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