VALE S/A (VALE3)
1Q24 Earnings Results
April 25th, 2024
CONFERENCE CALL TRANSCRIPT

Operator: Good morning, ladies and gentlemen. Welcome to Vale's first quarter 2024 earnings call.

This conference is being recorded and the replay will be available on our website at vale.com. The presentation is available for download in English and Portuguese from our website.

To listen to the call in Portuguese, please press the globe icon on the lower right side of your Zoom screen, and then choose to enter the "Portuguese room". Then select "mute original audio" so that you won´t hear the English version in the background.

We would like to inform that all participants are currently in a listen-only mode for the presentations. Further instructions will be provided before we begin the question-and-answer section of our call.

We would like to advise that forward-looking statements may be provided in this presentation, including Vale's expectations about future events or results, encompassing those matters listed in the respective presentation. We caution you that forward-looking statements are not guarantees of future performance and involve risks and uncertainties. To obtain information on factors that may lead to results different from those forecast by Vale, please consult the reports Vale files with the U.S. Securities and Exchange Commission (SEC), the Brazilian Comissão de Valores Mobiliários (CVM) and, in particular, the factors discussed under "Forward-Looking Statements" and "Risk Factors" in Vale's annual report on Form 20-F.

With us today are:

- Mr. Eduardo de Salles Bartolomeo – CEO,
- Mr. Gustavo Pimenta – Executive Vice President of Finance and Investor Relations;
- Mr. Marcello Spinelli – Executive Vice President, Iron Ore Solutions,
- Mr. Carlos Medeiros – Executive Vice President of Operations, and
- Mr. Mark Cutifani – Chairman of Vale Base Metals.

Now I will turn the conference over to Mr. Eduardo Bartolomeo. Sir, you may now begin.

Eduardo Bartolomeo: Thank you, and good morning, everyone.

I am very excited that we got off to a good start in 2024.

Starting with our Safety Journey, technological enhancements and innovation towards safety improvements, is showing encouraging results, with 77% reduction in accidents in some critical activities.

On dam safety, the Peneirinha dam, located in the Vargem Grande complex, was removed from the emergency level by the National Mining Agency and is now certified as safe and stable.

On our second lever, the stabilization of our Iron Ore operations, we are taking Vale to an even higher level of performance. Iron ore production had the highest output for a Q1 since 2019 and sales were up 15% year over year.

On our third lever, one of Vale's major competitive advantages is our potential to grow a high-quality portfolio with low capital intensity.

Our three key projects will add 50mt capacity by 2026: Vargem Grande, Capanema and S11D +20. The first project to come online will be Vargem Grande, which is almost 90% completed and on track to start-up in the 4th quarter of 2024.

On our path to transform the Energy Transition Metals business, copper production grew 22% in the 1st quarter. Nickel production decreased by 4% y/y, in line with plan, mainly reflecting maintenance overall at the Onça Puma furnace. Outside Brazil, we saw stronger performance in the Canadian and Indonesian operations.

On the Energy Transition Metals partnership, last week the Committee on Foreign Investment in the United States granted the final regulatory approval, and we expect to close the transaction in the upcoming weeks.

And in our pursuit towards ESG Leadership in mining, we reached a remarkable target: 100 per cent renewable energy consumption in Brazil, two years ahead of schedule. Reaching the target means that Vale has zeroed its indirect CO_2 emissions in Brazil, which corresponds to scope 2 emissions.

To support our decarbonization pathway, Vale has announced an agreement to acquire the remaining 45% stake in Aliança Energia, which is a first step towards creating an asset-light energy platform.

Lastly, our discipline in capital allocation remains untouched. We are walking the talk and returning value to shareholders. In March, we paid 2.3 billion dollars in dividends while completing 17% of the 4th buyback program launched since 2020.

Now, let's go over more details of our quarter performance.

Next slide, please.

We are gradually becoming a safer company. Technology and innovation have been key pillars to our quest to deliver a sustainable safety performance.

- We want to turn Vale into a safety benchmark, starting with zeroing our N2 injuries, those that usually precede life-changing or fatal events, by the end of 2025. We are on the right track to fulfill this commitment.

- Our Safety Transformation Program targets the critical activities with the highest N2 records, later developing preventive controls, some of them technology-based like collision alerts and driver drowsiness detection. As a result, we had a 77% reduction in N2 events since 2019.

- Another key element of our Safety Strategy is our Dam Safety Management. Since 2020, we increased safety conditions up to adequate levels for sixteen dams.

- All our structures are continuously checked by our 24/7 geotechnical monitoring centers. In a conservative approach, we removed 100% of the people from risk areas and backup dams were constructed to reduce potential consequences in those areas.

- At the same time, Vale continues to progress on the dam decharacterization program, with 43% of the structures eliminated to date.

We are already seeing a safer Vale, built with operational discipline and a strong management model.

Next slide, please.

We delivered a robust operating performance on iron ore in Q1. Production was the highest for a first quarter since 2019, underpinned by increased asset and process reliability, especially at S11D.

We have talked about our strong actions towards operational excellence, and we are now consistently bearing the fruits of that strategy.

Our operational plan for the quarter was successful in dealing with a higher average rainfall. We delivered a 6% increase in total production and 15% higher sales year on year.

Moreover, we continue to debottleneck our operations. At S11D, increased geological knowledge enables more accurate mining plans, while the truckless system combined with a mobile mining fleet provides further operating flexibility.

Our long-term ability to deal with jaspilite relies on the installation of the new crushers, as you know, but these surgical measures have allowed us to operate S11D with more efficiency, with the highest production for a first quarter since 2020.

The solid production performance in Q1 gives us further confidence that we will deliver our guidance as planned.

Next slide, please.

We are committed to accelerating solutions to support the steel industry's decarbonization.

Our briquette plant is ramping-up in our Tubarão Complex, aiming to deliver around 1.5Mt of briquettes in 2024.

We continue to progress on agreements for the construction of Mega Hubs. We are also studying the feasibility of developing green industrial hubs in Spain, together with Hydnum Steel.

Finally, we are very proud to be selected under the Inflation Reduction Act funding, to enter in negotiations to develop a briquette plant in the US. The selection by the US Government Department of Energy represents a critical path for the validation of our proprietary technology, and its potential to deliver a transformative solution to decarbonize the steel sector.

Iron ore briquettes will contribute to achieving Vale's commitment to reduce 15% of its scope 3 net emissions by 2035.

Next slide, please.

In the Energy Transition Metals business, we delivered remarkable output in Copper, an outstanding 22% increase quarter on quarter, driven by the successful ramp-up of Salobo III and stronger performance at Salobo I and II plants.

On Nickel, we are on track to deliver the production guidance for 2024. As part of the asset review initiatives, Sudbury mines had improved performance, and the Clarabelle Mill throughput was up 7% year on year. The improved mine performance resulted in reduced consumption of third-party feed and lower costs.

We are confident that we are taking the right steps to transform the Energy Transition Metals business.

Next slide,

On ESG, we continue to march towards becoming a more transparent and open company. We just released our 2023 Integrated Report, where we announced that we reached the target of 100 per cent renewable energy consumption in Brazil, two years ahead of schedule. Reaching the target means that Vale has zero scope 2 emissions in Brazil.

To support our decarbonization pathway, Vale signed an agreement to acquire the remaining 45%-stake in Aliança Energia. This is an important step towards creating an asset-light energy platform. Upon the transaction conclusion, Vale will search for potential partners, to better advance in our commitment to decarbonize our operations using renewable sources at competitive costs.

Our big focus on becoming an ESG leader in mining is bearing fruit. Our improvements in carbon emissions and safety practices led to renewed perception by Sustainalytics, for instance, with an important upgrade in our ESG risk rating in April. With that said, now I'll pass the floor to Gustavo for our financial results, and I will get back to you in the Q&A.

Gustavo Pimenta: Thanks, Eduardo, and good morning, everyone.

Let me start with our EBITDA performance in the quarter.

As you can see, we delivered a proforma EBITDA of US$ 3.5 billion in Q1.

Before going into the main drivers, I would like to first explain a couple of reporting changes we implemented this quarter. With the reorganization of our assets between Iron Ore Solutions and Energy Transition Metals, some items previously classified as "Others" will now be allocated to their respective business segments. This change includes items such as SG&A, and energy generation assets and will allow for a more precise evaluation of each business segment's performance. In addition, for a better alignment with market peers, we are now including the proportional EBITDA of our Associates and Joint Ventures into our EBITDA – we note that before 2024, our EBITDA included the dividends coming from those entities which were naturally more volatile during the year.

Now, returning to the main drivers behind our EBITDA performance in the quarter, we were pleased to see a continued strong operational performance across the board, which helped us offset a large portion of the impact from provisional prices, given the decrease in the iron ore benchmark prices during the quarter.

On volumes, iron ore sales increased almost 15% or 8.2 million tons year-on-year, driven by better operational performance in all of our systems, highlighting S11D, which achieved the highest output for a first quarter since 2020. Sales were also quite strong in Q1 this year, reflecting the initiatives undertaken in 2023 to improve operational performance and flexibility of our Ponta da Madeira port. Copper sales were another highlight in the quarter, increasing by 22% or 14 thousand tons y/y, driven by the ramp-up of Salobo III and better operational performance in the Salobo 1 & 2 operations.

On costs and expenses, I would like to highlight the ongoing effort that our teams have been making internally to improve productivity and efficiency. Excluding the external effects of higher freight costs in the iron ore business and the one-off effects in Base Metals, like the Onça Puma furnace rebuild, our cost and expenses were roughly flat year-on-year. Again, this is being accomplished through a series of initiatives across the business and we are quite excited about the cost efficiency opportunities we still see ahead of us.

Now, moving on to price realization.

Iron ore fines realized price was US$ 100.7 per ton in Q1, 7% lower year-on-year and 15% lower quarter-on-quarter.

Pricing mechanisms had a negative impact of US$ 10 per ton on our realized price in the quarter, largely explained by the negative effect of provisional prices. At the end of Q1, 24% of our iron ore fines sales were booked at US$ 102 per ton on average, which compares to an average price of US$124 per ton in the quarter. Also, about 30 Mt of sales from 4Q23 were booked at an average price of US$139 per ton and were later realized at lower prices in Q1.

Our average iron ore fines premium came in negative at US$1.6 per ton, as we increased the share of high silica products in our sales mix given the lower discounts observed for these products during the quarter. This has allowed us to maintain an adequate balance of high-quality products through our supply chain for later value maximization. For Q2, we continue to see similar market conditions and, therefore, expect to maintain a slightly higher share of high silica products in our mix compared to historical levels.

Now, let me turn to our cost performance.

In Iron Ore, our C1 cash cost, ex third-party purchases, was US$ 23.5 per ton, slightly lower vs last year, despite the negative impact of the BRL appreciation.

Excluding this effect, C1 would have been US$ 22.8/t, almost US$ 1/t lower year-on-year. This was driven by lower demurrage costs due to improved shipping and port loading during the rainy season, higher fixed cost dilution, as result of higher production volumes, and gains from our cost efficiency program.

Additionally, I would like to take a moment to comment on our strategy behind third-party purchases. We acquire iron ore from smaller producers that operate near our operations. This product is sold directly to our customers or is blended within our own production, generating a positive contribution margin. This helps dilute fixed costs, particularly as we have excess logistics capacity, while capital intensity is very low, which implies a very healthy return on invested capital.

In 2023, our third-party volume was 24 Mt and is expected to increase slightly in 2024. We are also evaluating to accelerate the development of some of our smaller deposits through leasing agreements with regional partners, transactions that can offer attractive returns for both sides.

Moving on to our Energy Transition Metals business, we were pleased to deliver significant year-on-year reductions in all-in costs in both copper and nickel.

Our copper all-in costs decreased by 26% year-on-year, driven by a continued successful ramp-up of Salobo 3 and improved operational performance at Salobo 1 & 2. The higher proportion of Salobo 3 volumes in the product mix has also contributed to an increase in unit by-product revenues, with higher gold sales.

Nickel all-in costs were down 14% year-on-year, supported by higher unit by-product revenues. The unit COGS increase was expected and largely related to the furnace rebuild at Onça Puma.

I would like to also mention that Mark Cutifani and the VBM team continued to make significant progress on the Asset Review. The value unlock opportunities are being assessed and designed for implementation over the next 2 to 3 years, with some benefits already being captured in the short term. As we pointed out last quarter, we will present the key findings and action plan of the asset review in a webinar to be scheduled for June this year.

Now, moving on to cash generation. Our EBITDA-to-cash conversion was 57% in Q1, with Free Cash Flow reaching US$ 2 billion, roughly US$ 0.5 billion lower than 4Q23, despite US$ 3.4 billion sequential drop in EBITDA, driven mostly by seasonally lower shipments q/q and lower iron ore prices. This was achieved primarily due to the positive impact of a strong cash collection from Q4 sales, as we had anticipated last quarter and seasonally lower CAPEX disbursements.

Most of the free cash flow generation was used to pay dividends and execute our buyback program, for a total shareholder remuneration of US$ 2.6 billion in Q1.

So, before we move on to the Q&A session, I would like to reinforce the key messages from today's call.

- Safety continues to be our key priority, and we remain highly focused on creating the conditions for an accident-free workplace environment.
- Our continued strong operational performance across all commodities only reinforces we are in the right direction to consistently deliver on our short and long-term commitments.

- On ESG, we are making significant progress on several fronts, as demonstrated by our recent achievement of 100% renewable sourcing in Brazil for scope 2 and the continued investments to deliver a sustainable future for our business.
- On the medium-term strategic objectives we laid out at Vale Day, we are quite pleased to see the development of our key projects such as Vargem Grande, which we expect to reach start-up later this year. These investments will position Vale as the leader in high-quality offerings, which are critical for steelmaking decarbonization.
- Last, we remain highly committed to a disciplined capital allocation process, as evidenced by our US$ 2.6 billion cash return to shareholders year to date through dividends and share buybacks.

Now, I'd like to open the call for questions. Thank you.

Rafael Barcellos, Bradesco BBI:

Good morning, and thanks for taking my questions. So firstly, I would say that the main news in the sector was the potential merger between BHP and Anglo American. So, maybe if you could discuss a bit on how this movement could change Vale's strategy going forward, it could be interesting for us, or even how it could change your recently announced partnership at Anglo's Minas-Rio assets.

And my second question here is maybe to just understand better your views on iron ore markets and price premiums in the coming quarters and, of course, how do you see the possibility of further extraordinary dividends, now with iron ore prices back to the US$120/tonne level? Thanks.

Eduardo Bartolomeo:

Thanks, Rafael. As you have noticed, it's truly unfolding, so we are still digesting what is going on. Specifically answering your question, we do not see any impacts on our Minas-Rio deal. It has been undertaken with Anglo, it's going to be respected by whoever comes later, if it comes later. So, that's the first reaction.

Second, we have been speaking with you since we decided to do carve out. We believe that Vale has a unique position in the industry. We do have a growth platform in iron ore, as Gustavo mentioned during his presentation. We are going to add 50 million tonnes of high-quality with low cost. So, there's no other asset in the world that could be attractive to us on that sense.

And, when you look at base metals, we still have, as well, the best endowment in Canada, in Brazil, in Carajás province and Indonesia. Obviously, we are always looking at opportunities eventually, but it does not change our strategic focus on executing the asset review, the transformation in base metals. There's a tremendous amount of value to be extracted there.

And iron ore, we are the only iron ore growth with quality in the sector. So, we will follow-up closely the development of this deal, but it does not impact our strategy or change anything in our mindset.

And, I will pass the second question to Spinelli.

Marcello Spinelli:

Thank you, Rafael. Regarding the market, we see China, as you mentioned, we remain with the same the same view about China, that's the main market. We are calling this moment as the 'China resiliency'.

Despite the problem in the property markets that all of us track, we see since 2021 a very strong market in manufacturing, growing really constantly with the energy transition industry or shipbuilding. So we have an offset for that, and we may consider the exports as something that sometimes is bothering the markets, but, at the end of the day, it's a trade-off between protection in the market and inflation.

So, all the micro conditions in China are going well. So, steel inventory now is lower than last year, and the margins are getting better. So, as a whole, we see the market really similar compared to last year.

And, you asked us about the premiums. Premiums by product, we see a stable moment. It has been stable for some month, some quarters actually. So, we see Carajás and also the BRBF in a stable gap. And, we can have a small upside risk if we have some spike in the coke and coal market that can increase the necessity for efficiency.

Caio Ribeiro, Bank of America:

Good morning. Thanks for the opportunity. First of all, I just wanted to see if you could share some updates with us on the latest, involving the Onça Puma and Sossego operations. Any color that you can share on expected operational and financial impacts there would be helpful.

And then, my second question is related to the renegotiation of the railroad concessions. Can you give us some color there as well on your latest expectations around those negotiations and on timing as well to conclude them? Thank you.

Mark Cutifani:

Thanks for the question. On both operations, we are working through with the authorities as we speak. In the case of Sossego, what has been outlined to us is that there were some complaints on noise and dust, and complaints around reduced social programs through COVID.

We have already submitted our reports for those issues, which were subject to the first complaint, and now that it's clear that we have input the reports, we are now working through detail that's contained in those reports, both with the authorities and with the local political leaderships as well, and we have got about three to four weeks ore on the ground to process. So, we are in good shape in terms of iron ore stocks, because it's the mines that are actually impacted. So, processes are still going forward.

On Onça Puma, a fairly similar story in terms of complaints, a little bit different in terms of some of the mining work, more environmental related, but also connected to social programs, and a similar story. We are working through with the authorities, we are also talking to other leaders in the community, very sensitive to making sure that people are not impacted. And I think everybody's keen to make sure we get things up and running very quickly.

In the Onça Puma case, we have got about four months of work because we have now finished the furnace rebuild and we are on heat up at the moment, still going through those processes. But again, at this stage, we are not anticipating problems over the course of the year. We should be able to make up the production through the course of the year.

May might be impacted on the furnace issue, but that's more an operating ramp-up to full capacity issue than anything connected to the current mining shutdown, because we have got lots of ores.

So, that's where we are. I would expect during the course of next week, we will have both issues pretty well in view, and we will let everybody know where we are up to.

Marcello Spinelli:

Caio, thank you for your question. First of all, we have a very solid contract. We have spent more than four years to reach a deal of the renewal, with all the approvals in all the levels, federal levels. And it's important to say, we are complying with our obligations.

But nevertheless, we have been talking to the Transportation Ministry, we see room to optimize some specific parts of the contract, and also adjust some obligations that can bring value for the Company, and we see that we can balance this value with new obligations to pay.

So, you may expect a balanced negotiation. We are finalizing the discussion, and we expect the final terms soon.

Carlos de Alba, Morgan Stanley:

Thank you very much. Good morning, everyone. My question may be similar to the last one, but focusing a little bit on Mariana. Clearly, you took a provision in the 4Q, and now you provided us with an updated disbursement path, and there was news overnight about the potential restart, or the reportedly restart of the negotiations this week. So, I do not know if you can provide an update there. Clearly, a key concern by the market, something that everyone would like to get resolved. I think the Company, the authorities and certainly the people that were impacted. So, an update will be great there.

And my second question is, in light of the increasing CAPEX at Serra Sul, 120, as well as the Voisey's Bay expansion, and then the revision on CAPEX of the Briquette projects, how should we think about the 2025 and 2026 CAPEX for the Company? Thank you.

Gustavo Pimenta:

Carlos, on Mariana, yes, your question is spot on. We are highly engaged with the counterparties. The mediation process, as you probably know, has been ongoing, and we engaged more actively recently in order to find a resolution that works for everybody.

We continue to be hopeful that, by mid this year, we can reach a negotiated outcome, which we all think it's the ideal path in this case. So, stay tuned. We will keep you updated, but we are certainly engaged, looking for ways to find an agreeable solution here for all parties.

On the CAPEX, we have updated. The main one is S11D, it's over a period of years as we get to commissioning in 2026. So, no impact in our guidance and our expectations as we have before for the following years. This year, we are still within the US$6.5 billion, no impact, and we should be able to accommodate those increases in the following years as well.

John Brandt, HSBC:

Good morning. Thanks for taking my questions. I just wanted to clarify an earlier answer, Eduardo. Just given the Anglo BHP news today, are you unequivocally saying that Vale has no interest in the Anglo assets and that you are more watching to see what the impact is from a potential deal, but Vale has no interest in those assets. Is that correct?

And then, I guess my question is really around we sort of discussed some of the rail concessions, some of the permits, the Samarco liabilities etcetera. I am just wondering, I think that's sort of a big part of the reason for Vale's underperformance relative to peers, and I am just wondering, how would you categorize your relationship with the government? You have talked a lot about stability and wanting sort of a stable environment. This seems to be anything but. So I am just wondering what you can do, or what Vale can do to sort of improve the relationship that you have with the government, so that the market does not have to deal with these sorts of issues?

And then, my second question, just really quickly, it looks like the breakeven costs for copper came in well below guidance for 2024. I am just wondering how much upside risk there is to that guidance number. Is this a seasonal issue, or some of the things, Mark, that you have put into place, is that really starting to bear fruit? Thank you.

Eduardo Bartolomeo:

Thanks, John. It's a question that, when you look at Anglo assets, obviously would be interested. What I tried to explain in my answer at the beginning is that we have better options inside house to look at, and more cheap options, because otherwise, you would go to a bid and that does not make any sense for us.

So, that's why I said we are watching with attention, the asset that has interference with our strategies, the Minas-Rio that we just closed with Anglo, and this one is protected. The others, as mentioned, we are waiting and seeing to see what's going to happen. But meanwhile, we are much more interested in accelerating, executing our own endowment.

Specifically about the railway concessions, that's a good question because it's not a Vale's issue. It has been done through Rumo, it has been done through MRS, it has been done with all the other concessions. So, it's not a Vale specific problem.

Obviously, as Spinelli said, we are truly sure that we have a very robust contract, but we will take the opportunity to adjust some specifics and make a win-win situation with the government that we believe will help on this problem, or on this matter that you mentioned, a better and a more stable relationship with the government, that is always good, by the way we always had.

And the second question is to Mark.

Gustavo Pimenta:

We probably lost Mark. I can take it, John. It was a good 1Q, especially given the strong ramp-up of Salobo 3, plus also a strong operational performance on Salobo 1 and 2. So, we are not resetting expectations, but what I can say is that it's looking pretty good within the guidance that we had laid out. So, hopefully, through the remaining part of the year, we can provide more details around it.

Leonardo Correa, BTG Pactual:

Good morning, everyone. I have a couple of questions on my side. The first one, I am not sure if Mark is back, but just on the just on the base metal story still, there are very mixed results, very pressured, in fairness, by pressured nickel prices, but you are having a dual speed situation, where basically copper is performing very well, perhaps above expectations, and nickel is performing well below expectations. And the overall results have been pressured, if you take a year of expectations for EBITDA and base metals, way above what you guys are currently delivering.

I get the point that there's a lot under review, so I do not want to be unfair, and I know that Gustavo, I think in the opening remarks, he said that by June, we are going have more details. But, just thinking of you, do you see an opportunity to adjust capacities and to perhaps put some of Vale's nickel assets under care and maintenance at this point, just given market conditions are unfavorable and the assets are not generating any EBITDA? So, my first question is specifically to nickel, how you see the evolution and how viable certain assets of Vale are in this scenario?

The second question, I think there was a question on this, Gustavo, but I think it was not addressed yet. If I may, just moving back to the dividend situation, the extraordinary dividend potential for the latter part of this year. With all these questions on additional provisions and outflows, how are you viewing this? We are getting some help from iron ore prices lately, so we are back to 120. How are you viewing this extraordinary dividend story with your leverage, which is now at the upper side of your tolerance? Those are the two questions. Thank you very much.

Mark Cutifani:

Gustavo made the observation on copper around Salobo's improvement, and that was very encouraging, flowing into the 1Q coming off a strong last quarter as well, and that pointed to a few changes that were made over the last six or nine months. And we had similar, albeit lagging performance at Sudbury, because we did the asset review in Sudbury about three months after Salobo. And Eduardo pointed to the 7% improvement at Clarabelle. On a run rate basis, it's closer to 15%, and that reflects both copper and nickel.

So, I think we have got good trends at two of the most important operations. Indonesia remains fairly solid, Onça Puma is coming through the furnace rebuild and is heating up. And what we are flagging is a likely intention to push some of that feed north to try and improve the premiums on products we receive.

And so, it's not simply about operations, and that's a long way to go and a lot of improvement to come, but it's also about price realizations. And with the price volatility, what we think will be a premium related to the products that we produce from Canada, we think there's still a lot of potential on both the cost side and on the pricing side that we are looking at.

And, with the volatility we are seeing in the nickel market, what we do not want to do is start cutting production where we are already seeing material reductions in operating costs, and we think there's a real premium.

So, we want to give it another two or three months, and that's what we want to reflect and show you in June. So, we still think this is two stories playing out, the operating improvement plus premiums that we can get by using our flowsheets better, filling Matsusaka, doing more work at Clydach, and making sure we have got all the molecules heading in the right direction.

So, it will be a story in two parts, and I think we will be able to show that in June that we are looking at better operating costs and margin improvements, as well on the pricing side.

Gustavo Pimenta:

Thanks, Mark. I will take the second one. Apologies also to Rafael that we have not responded for the first question on the extraordinary dividend potential. As you know, it depends on several elements. Certainly, market conditions have improved lately, which gives us some good expectations of potential cash generation through year-end, but we also compare those vis-à-vis where we are on the leverage ratio, minimum cash, provisions, and outflows.

So, I think it's early, and we think it's early to point out to potential incremental dividends, but we will certainly assess that through yearend, and if there's any opportunity, we will certainly consider with our Board as we always do. We have been doing this consistently over the last several years.

Myles Allsop, UBS:

A couple of questions. First of all, on iron ore, obviously, a very strong 1Q. The guidance for 2024 either looks conservative, or you have some concerns about potential operating challenges later this year. Should we look at the guidance as conservative, or are there other things we should bear in mind for later in the year?

And then, secondly, on the nickel side, a question for Mark. The challenges in the nickel market are driven by Indonesia, and obviously, Vale is contributing to those incremental tonnes. What is the latest with the Indonesian projects? And is there any desire to slow those back to try and rebalance the market? Thank you.

Carlos Medeiros

Myles, it's too early days to review our 2024 guidance. We had a quite good 1Q, but still, there are challenges as we see ahead, and we had also a very strong 2H23. So, this is why we prefer to maintain our guidance. And if we decide to revisit it, it will be done later in the year.

Meanwhile, we are still working on the usual levers to increase production. Initiatives such as our seasonality plan, that has proved to be robust, the reliability initiatives to continue to improve the overall equipment availability, our mining plans to review the mine's geometries, whatever necessary to free up more ore. And also, in the hydrogeology initiatives to make sure that the water balance in our mines offers additional opportunities to access the bottom of the pit earlier during the year.

So all-in-all, we will keep it for now, and we might get back to you later.

Mark Cutifani:

On the question on Indonesia, I think the first thing to recognize is the divestment, announcements and milestones that were achieved, very positive. And certainly, we moved through that fairly quickly with the Indonesian government, so credit to everybody involved.

Second point, funds on Pomalaa have been committed as per the requirements, and we are still working through the early phases of that.

In terms of the commitment on new projects, again, we are very mindful of our obligations with our partners, but at the same time, we are also making the point that we need to be prudent and consider the individual investment propositions very carefully.

There is a little bit of uncertainty in the marketplace regarding how different products will be priced in the market. Great news for us in Canada is that it's likely we will do better than most, because of the nature of the material and the low carbon footprint. Indonesia will probably be in a very different conversation, and we are working with our partners just to make sure we understand that and what that means for each of the investments.

And, again, we are also mindful of the fact that we need to pace those additions with the market as well. But again, it's an open conversation with our partners. It's still early in that process, I have to say. So, we have got a bit more work to do.

Timna Tanners, Wolfe Research:

Good morning. I want to dive down a little more into cost, if you could please (50:31 TECHNICAL DIFFICULTY) the recent voluntary in general prices, that would be great to hear (50:34 TECHNICAL DIFFICULTY) the cost side. This quarter, (50:38 TECHNICAL DIFFICULTY) despite the progress (50:43 TECHNICAL DIFFICULTY). Can you give us an update on what your thoughts are on how to model (50:48 TECHNICAL DIFFICULTY) side? That's my first question.

The second is just an outlook on the premium.

Eduardo Bartolomeo:

Timna, sorry, It's getting crunched. Could you ask it again?

Timna Tanners:

I am sorry. I am just asking for any outlook on cost, given the price volatility, and any guidance for third-party purchase costs, anything you can do to (51:19 TECHNICAL DIFFICULTY) cost overall on the iron ore side.

Eduardo Bartolomeo:

Okay. We got this one.

Timna Tanners:

The other one was just on premium outlook. Thanks.

Gustavo Pimenta:

Timna, on the cost outlook, we came at a C1 at 23.5, slightly lower than last year. You have to be mindful that 1Q is usually our toughest quarter given the lower volumes that are produced, so the effect of dilution is limited, as we saw last year.

But, when we look at the forecast for the year, we are feeling super confident with the numbers that we laid out the 21.5 to 23. A lot of the cost efficiency initiatives that we have started 18 months ago are bearing fruit and sales are coming in strong, production is coming in strong. So we are we are feeling good about it.

The challenges, which have been managed, on the all in, I think Leonardo made that reference in terms of the breakeven cost, have been mostly associated with the freight rates, which Vale is mostly hedged, which is one of our competitive advantages. Not a 100% hedged, so you saw an uptick this quarter, but this is one of the headwinds that we have been able to manage. We are now probably 90% hedged in terms of our demands for the year, and also hedged on the Brent costs.

And the other element here are the premiums, which came a little tighter, as given market conditions. But all-in-all, we are feeling very good with the numbers that we have laid out in terms of our forecast for the year for both C1 and all-in cost across all businesses, by the way.

Ricardo Monegaglia, Safra:

Good morning, everyone. I have a couple of questions, actually follow-ups from previous questions. First, on the base metals business, are there any changes to commodity price hedge policies, given the recent rally in metals prices?

And the second question, still on base metals, are there any updates that you could share with us on regards to the conclusion of Vale Base Metals transaction? Does it continue to be expected to occur in the 2Q? What are the final steps to conclude this acquisition? It would be interesting to understand.

And my second question is on iron ore quality. Based on the target for the year and 1Q24 levels, it implies that quality will come above the level of 62.5% in the coming quarters. Should we expect this trend already in the 2Q, or high silica sales could continue high or at the same levels as in the 1Q? Those are my questions. Thank you.

Gustavo Pimenta:

Thanks, Ricardo. I will do the first ones, and then, Spinelli will cover the premiums. On the hedging, we usually do not do it. That's the nature of the business. We like to run the exposure unless there is some very unique conditions we may want to consider. So, that's part of the nature of our business, and we like to run with exposure in those commodities.

On the VBM, I think Eduardo mentioned in his remarks, we have got all the regulatory approvals, and we are now working with partners to move to the closing, which we expect to happen in the next couple of weeks. So, we will keep the market updated about it.

I will turn back to Spinelli.

Marcello Spinelli:

Thank you, Ricardo. Regarding the quality average, it depends first firstly on the production mix. You saw that we had a good performance in the north system, and as we have a pattern of higher production in the 2H, that will naturally increase the average grade.

And regarding sales, you are right, we took an advantage to sell directly the high silica in the first part of the year; actually, in the end of last year. So the discount was there. So, we can take this choice; actually, every day we assess this.

As we move forward during the year, we have the possibility to blend this product, or to concentrate this product, or sell directly. But in the 2H, we do not have a lot of high silica as we increase the production in north system and we prioritize the blend. And after that, we can choose the remaining high silica, if you want to sell directly. It's difficult to precise in advance, depends on the market conditions.

Gabriel Simoes, Goldman Sachs:

Thanks for taking my questions. I actually have one quick follow-up on one of the questions that were asked before. Actually, I just wanted to understand on the development of your iron ore projects. If you could comment a bit on how the development is going, the capacity increases in projects. So, Vargem Grande, Capanema and S11D, that would be great, because we just wanted to understand how the projects are doing so far and how confident you are with the timeline you provided earlier. I know you mentioned that Serra Sul should remain in the same timeline, I just wanted to have a better sense on the other ones. Thank you.

Gustavo Pimenta:

Gabriel, we are feeling pretty good about it. We gave you some stats during Eduardo's presentation of where each one of those projects are. We have a series of projects, but the three main ones we have been pointing out are Vargem Grande, Capanema and Plus 20. They are moving along the timeline we had established. So, we are feeling pretty good about it.

In Vargem Grande, for example, the expectation is to start-up by the end of the year. So that's one of the key projects that we have promised to deliver through 2026 to have that increase and take Vale to a potential range of 340 to 360.

So, all is moving along the plan, and we are feeling pretty good about those deliverables.

Operator:

This concludes today's question-and-answer session. We would like to hand the floor back to Mr. Eduardo Bartolomeo for the Company's final remarks.

Eduardo Bartolomeo:

Thank you. Just to conclude, as we say here in Brazil, we started with the right foot. We started the year in a very good shape. We always like to say that we win the game in the 1Q. We are not that arrogant, so we know we still have nine months to go. Rainy season is not over yet on the North, but the thesis of safety versus productions is being proved that we can be safer and reliable, and that, I think, is a very important message.

We are seeing a positive market in iron ore and in copper as well. Nickel has its challenge. As lastly answered by Gustavo, our projects are on-time, on budget. So, we will deliver on it. In June, we are going to have more color on the asset review.

And in the end, about the noises that are around us, we see some overhangs starting to getting off of the radar, as Mariana is expected to be over, we will try our best to do it by the 1H. The renewal is going to be over, it's not going to be material.

So, with that said, if we see through the noise, we will remain extremely disciplined, extremely focused on what we have to do, and we still see an extremely huge opportunity to invest in Vale.

So, again, thanks a lot for your attention, and I hope to see you in the next call. Thank you, and have a safe day.

Operator:

Vale's conference is now concluded. We thank you for your participation.