



**Local Conference Call  
Vale S/A(VALE3)  
2Q21 Earnings Results  
July 29<sup>th</sup>, 2021**

**Operator:** Good morning ladies and gentlemen. Welcome to Vale's conference call to discuss 2Q21 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.

If you should require assistance during the call, please press the star followed by zero. As a reminder, this conference is being recorded and the recording will be available on the Company's website at: [VALE.COM](http://VALE.COM) at the Investors link.

This conference call is accompanied 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 changes – has a few seconds delay in relation to the audio transmitted via phone.

Before proceeding, let me mention that 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 de Salles Bartolomeo – Chief Executive Officer;
- Mr. Luciano Siani Pires – Executive Vice-President Finance and Investor Relations;
- Mr. Marcello Spinelli – Executive Vice-President Iron Ore;
- Mr. Mark Travers - Executive Vice-President Base Metals;
- Mr. Carlos Medeiros – Executive Vice-President Safety and Operational Excellence; and
- Mr. Alexandre D'Ambrosio – Executive Vice-President Legal and Tax.

First, Mr. Eduardo Bartolomeo will proceed to the presentation on Vale's 2Q21 performance, and after that he will be available for Questions and Answers.

It is now my pleasure to turn the call over to Mr. Eduardo Bartolomeo. Sir, you may now begin.

**Mr. Eduardo Bartolomeo:** Ok, thank you. Good morning everyone. First of all, I hope you're all doing well.

As we have done since the beginning of the pandemic, we kept our guards up in the second quarter of 2021 with all the safety and prevention procedures for



COVID-19. Safety, people, and reparation; these words have been our priority since 2019 and continue to inspire our actions.

We have made progress in repairing Brumadinho. We are working with the authorities to implement the R\$37.7 billion integral reparation agreement signed in February this year. While the authorities are structuring the work fronts, Vale continue its actions for social environmental and social economic reparation.

In the second quarter 2021, among other initiatives, we launched the Social Strengthening Program in 10 municipalities and along the Paraopeba river and we're completing a new pipeline to supply the metropolitan region of Belo Horizonte. This delivery is a major step forward in ensuring water safety for nearly 6 million people.

The reparation of individual damages also continues to advance. Since 2019 more than 10,700 people have entered in civil or labor compensation agreement with Vale, totaling nearly R\$2.7 billion. As you can see, we are repairing Brumadinho in a quick, fair, and agile way.

We have advanced in the safety of our dams as well. In the first semester, we removed the emergence level of four structures and reduced the emergence level of another two. In the upstream dam decharacterization program, we completed the works of the Fernandinho dam at the Vargem Grande complex, so since 2019 six upstream structures have been eliminated. We also completed the works of the containment structures downstream of Forquilhas and Grupo dams. Finally, we are also advancing with the works for B3/B4 and Sul Superior dams. Earlier this month, we started activities to remove the tailings with unmanned equipment.

In addition, our dam management model also continues to improve. We have appointed an Independent Tailing Review Board (ITRB) to each of our iron ore corridors. This practice is in line with the global industry standards for tailings managements (the GISTM). By the way, we are in line to adhere to the GISTM in due time. So, we continue to make progress in the cultural transformation towards a safer Vale.

We have also made progress on our ESG commitments. This quarter, we detailed our strategy to achieve our 33% reduction targets for scope I and II emissions with an estimated investment between 4 to US\$6 billion.

As I said at the last Vale Day, Vale is uniquely positioned to lead the transition to a low-carbon mining. We have a high-quality portfolio to support steel decarbonization, we are a leader in renewable energy with around 90% of our global consumption from clean sources, and we operate sustainably protecting 1 million hectares of forests, about 80% of which in the Amazon rainforest. As for our ESG Gap action plan, we closed another gap with the establishment of a formal due diligence methodology for human rights. This process assesses and addresses human rights risks and impacts. It will be implemented across all of our operations and critical projects starting with 14 operations in Brazil in 2021.



As you can see, we remain firm with our ambition to transform Vale into a ESG benchmark.

Well, now talking about the operation performance of our business, our adjusted EBITDA in the second quarter was an all-time record at US\$11.2 billion given the increased sales volume of iron ore and good market conditions. We completed another quarter of increased iron ore production growing 9 million tons compared to the same period of last year. In the first half, we were 60 million tons higher than the first half of the last year. We have reached as well an annual capacity of 335 million tons and we expect to operate with an average production of 1 million tons per day in the second half of the year.

We remain confident that we will achieve our production guidance for 2021. Spinelli will give more color on that.

In nickel, our performance was mainly impacted by stoppage of the Sudbury operations in June. We continue to negotiate a collective labor agreement for the next five years. In copper, we recovered part of the performance compared to the first quarter by accelerating the implementation of a new safety and maintenance process in Salobo and Sossego towards a stronger second half.

Despite of this, our portfolio of nickel projects has made strides to ensure the continued delivery of quality responsibly sourced material to the market. In June, we had the first production of the ore from Reid Brook underground mine at the Voisey's Bay mine expansion project. We also signed an agreement for the Bahodopi nickel processing facility Indonesia with Tisco and Xinhai and the final investment decision is expected in the next six months. Finally, in Thompson, Manitoba, we are also evaluating investments to extend the mines activities for 10 years.

In relation to our cash drains, we concluded the acquisition of Mitsui stake in the coal and logistics operation in Mozambique. This is an important step for our divestment and the other is the conclusion of the ramp-up of the Moatize operations. We expect to reach a run rate of 50 million tons per year in the second half and we continue to seek alternatives for a responsible divestment in that business.

Talking about capital allocation, we provided further evidence of our commitment to return value to our shareholders with the distribution of extraordinary dividends of close to US\$2.2 billion in June. Summing up March dividends, Vale returned around US\$6.2 billion to shareholders in the first half of 2021. In September, we will distribute at least another US\$5.3 billion according to our policy and based on the results of the first half. The final number, including extraordinary dividends, will be defined as usual in September.

And, as I said in the last quarter, without compromising the continuity of dividends above the minimum policy, we continued with the share buyback program announced in April. So far, the program has disbursed US\$2.6 billion and is 45% complete. So, discipline in capital allocation is part of our derisking,



and I'm confident that we will deliver on our commitment to maximize returns for our shareholders in the long term.

To conclude, I just want to emphasize that we are still guided by derisking, reshaping and re-rating Vale. We have effectively advanced in the derisking. We are repairing Brumadinho fairly and quickly. We are building a culture of safety and operational excellence. We continue to stabilize our operations. Our ESG commitments are fundamental to our strategy, and we continue with a strict capital discipline focused on the return to our shareholders.

In reshaping, we established a good case with the VNC exit and we are also looking for a responsible exit in Mozambique. And the re-rating will happen as we evolve in our deliveries, which bring us closer to our ambition of being a safer company with more stable and reliable operations increasing our investors' perception of value. To make that happen, we are working very hard, and I want to thank our 70,000 employees, our contractors, suppliers, and customers for their resilience, high-guard, and commitment to our culture transformation.

Now I'll hand over to Spinelli, who will give more details about the performance in iron ore. Thank you very much.

**Marcello Spinelli:** Thank you, Eduardo. Good afternoon everyone.

Let's start bringing an outlook about the production of this year. We want to reinforce our production guidance, it is a range between 315 and 335, we increased, as Eduardo said, 16 million tons in the first half comparing to last year, 12% of production. If we don't add anymore volumes in the second half, you can say that we are in the lower range of the guidance.

But what can make us believe that we can deliver more in the second half? In my right-hand side, I have some topics I want to share with you. Firstly, we are in dry season now, you know our seasonality, we've been running our operations 1 million tons a day; second, East Range, we anticipated the ramp-up of East Range, the previous plan was for third quarter, now we are in full capacity in East Range; third, despite the limitation to produce more with wet processing in Brucutu, our team, in a teamwork, we could add additional volumes for high silica there due to the market conditions that we have nowadays; fourth, Fábrica is back, that's news from last week and here not only volume but we can now reduce the risk and have the full capacity Fábrica; and last but not least, we have a very brand new asset now, Maravilhas 3, since the last Tuesday is running, so we can now bring the wet process in full in Vargem Grande and we are waiting for an additional capacity in a couple weeks with the resume of the conveyor belt, the long-distance conveyor belt that is over the Vargem Grande dam.

So, let's move the next slide. Now I can give you an update about the resumption plan. Well, since the last conference call, we had several achievements, I want to reconcile the numbers here with you. We left last



quarter with 327 million tons of capacity. Since there, we added with east range +2, high silica Brucutu +5, Fábrica full capacity since last week +4 four, in Maravilhas 3 +4. The sum is 342, but we need to decrease the capacity that we lost in Itabira. We started this year saying that the capacity of Itabira this year should be -9, and after a hard work in Itabira handling the materials, we could reduce this impact to -2. And as I said in the last conference call, with several small delays in other pits, we have a -5. So, the net number is 335 of capacity today.

So, next slide, please. So, what we expect for the second half? So, as I mentioned, Vargem Grande we want to unlock the capacity until the end of this quarter +6 million tons. And also, S11D we have the Abon crusher, we already installed one, we have the second one this year, we will have the other two for next year. And about Brucutu, in Torto dam, we announced in our production report that we have now another startup for Torto second half of next year. Torto dam is under construction, is going well, but we decided to have some extra works to guarantee all the safety standards for that dam.

I want to remind you that we need some extra time to have the final permit from Maravilhas 3, that already had the permit, so that's our new forecast.

Again, for that site in Brucutu, we also have more two initiatives to recover capacity: we have the filtration, that is under construction; and also, Laranjeiras dam that we're not using today but we have a plan to bring back next year. So, despite this delay in Torto, we partially offset the capacity of Torto and bringing more 5 million tons with high silica in Brucutu and also 5 million tons in Itabira, as I mentioned that we reduced the problem since the beginning of the year.

To conclude, in our road map to 400 million tons, it is important to say that we are also with projects online, we have the filtration in Itabira, in Brucutu, in the north we have Gelado, in S11D +10, the S11D 100 million tons, that we expect to add capacity in the end of 2022.

Now I hand over to Luciano Siani.

**Luciano Siani:** Thank you, Marcello.

A few remarks on each of the businesses. As you saw the performance of costs, there was an important increase on costs before third party purchases towards US\$17.8 per ton, we're now expecting to end the year between 16 and 16,5. There were one-offs in this quarter, most importantly demurrage costs increased a lot because of the repairs in the ship loader in the north and the queue of vessels increased. However, we're now feeling some inflationary pressures, diesel costs have increased a lot, mining parts, we're starting to see some service inflation, but still with the dilution of fixed costs we expect this decline over the next quarters.



Reminder that Q3 will still be impacted by the carryover of the production, higher cost production from Q2 through inventories, but in Q4 you should see the full at least US\$1,5 decline compared to current levels.

The opportunities going forward to reduce costs, first and foremost, is to unwind all the COVID expenditures if we continue to progress in controlling the pandemic, today iron ore spends about US\$150 million a year on costs and expenses just on the pandemic measures. On costs alone, this is about US\$0.30 per ton, we expect to start unwinding this soon. We have the normalization of operations, Timbopeba, Fábrica, those who already reached full capacity should start to post a better cost performance in the coming quarters as well. And finally, we did have an increase in maintenance expenses related to the catch-up that we're doing, we're implementing the VPS (Vale Production System) model, requires systematic maintenance to go from the prior levels of 20-30% of total maintenance activities towards 70-80%, we're getting very close to that. Once we have most of the maintenance being done systematically, we should normalize maintenance costs as well.

On the pellet side, just call your attention to the substantial increase in realized prices from US\$192 to 255. A reminder that this 255 includes a mix between CFR sales and FOB sales, which deduct the freight rates, and also that increase should have been even higher if it wasn't for the fact that an important fraction of the pellet sales, they have its prior quarter prices that command those sales, so therefore, the price increases in the second quarter have not yet gone through the pricing systems for pellets.

Actually, pellet premiums are around US\$60 for blast furnace pellets and US\$70 on top of the 65% for direct reduction pellets, so the premiums increased substantially in the quarter, we're now also selling more of direct reduction pellets which command higher premiums, so that explains that very healthy increase in pellet premiums. And also, that highlights the opportunity that we have ahead because two of our major operations, Itabira and Brucutu, which are performing well below potential awaiting the filtration works and the tailings dams works, these are the ones who produce pellet feed to supply our pellet plants, so therefore, once they come back, hopefully, we will start to normalize or pellet production and take advantage of these very high premiums.

In Base Metals, I think we missed consensus by maybe 12-15% on Base Metals EBITDA, perhaps that was because of the assessment that the market made about the impact of the Sudbury strike. Just a reminder, Sudbury is a polymetallic producer, not only nickel production suffered but also copper production, byproducts production, so Sudbury does have a very large impact on our operations. Even if we resolve quickly the strike, we will still have many weeks until we normalize, and also, we have some major maintenance program and the regular 18 month scheduled maintenance is to be done over the next few weeks as well in the surface facilities in Sudbury.

Finally, on coal, in June we started to consolidate the results of the business in the corridor, the logistics corridor. As a result, EBITDA for the month of June





was minus US\$12 million, a significant improvement. The prior months, in April and May, we were minus 60, minus US\$50 million every month, so already the benefits for the coal performance are kicking in and therefore with the ramp-up and the current pricing environment we do expect to reach positive EBITDA in the second half of this year.

So, let's now move straight to Q&A.

### **Question-and-Answer Session**

**Operator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press the star key followed by the one key on your touch tone phone now. If at any time you would like to remove yourself from the questioning queue, press star two.

Please, restrict your question to two at a time.

Our first question comes from Mr. Carlos de Alba, with Morgan Stanley.

**Carlos de Alba:** Good afternoon for you guys in Brazil. Hope you are doing well.

So, the question I had first is on the money returns to shareholders. What do you see with the potential increase in dividend taxes, the combination going forward of dividends and share buybacks? And also, can you provide any color on the caps to future dividends, at least in the second half of the year based on the balance sheet accounts and the capital reserve account and the net profit or retained earnings account? That would be very useful.

And then, if I may ask just on Moatize, Luciano, the 12 million negative EBITDA in June versus the 60-50 in prior months, those are already a reflect of the benefit of the removal of the financial burden on the Project Finance and the only thing that is then left to capture is the better economics as the ramp-up progresses or there's still some part of the Project Finance benefits or elimination of those costs that should be reflected on top of the improvement to minus 12? Thank you very much.

**Eduardo Bartolomeo:** Thank you, Carlos. Let me begin, Luciano, and you detail from here, OK?

**Luciano Siani:** Ok.

**Eduardo Bartolomeo:** I think, as I mentioned in the in the beginning remarks, Carlos, we are being extremely disciplined in the capital allocation, both in buybacks and in dividend payment. We did an extraordinary in March, of course, we signaled that we have at least 5.3 billion to be paid in September, this is at least because we're going to see market conditions and else to define what the level of extraordinary dividends is.



As the specifics about the tax reform, we were questioned that in the previous call and we answered the following – it is still on the on the make, by the way –, is something that should be neutral, that is the plead from both government and legislators that would either increase if there is a... how can I say that, a factor of a taxation of dividends would be a reduction on the above line, so it would be neutral. But anyhow, we won't change our dividend policy because of that because dividend policy and philosophy is to the surplus of maintaining our business health and running is going to go as soon as possible to the shareholders.

So, with that I think there's a specific question about reserves, and I think Luciano can explore that as well and give some more color on what I've just explained, ok Luciano? And then you go to Moatize, please.

**Luciano Siani:** OK. So, Carlos, at current levels of cash flow generation, there's no competition between buybacks and extraordinary dividends, so we've been doing both and we will continue to do both.

The shareholder base is spread all around the world, so different shareholders they have different tax regimes, so it is even possible that for some of them that are already taxing their dividends that the current proposal could even be beneficial, we at least hope that it's going to be neutral as Eduardo said for the Brazilian shareholders, but for some foreign shareholders could even be beneficial. So, because of this heterogeneity of the shareholder base, we would rather not take sides here and continue to do both thinking about the... because we can do both and there's clearly appetite for both also in the shareholder base.

As regards the reserves, this is going to be – if any – a temporary effect because, as you see, we are building reserves very quickly and there will naturally come a point, for example, perhaps in the first quarter, that the cash flows will be less than the profits generated for example because in January we have to pay the annual income taxes and it's natural that the free cash flow generated in the first quarter will be well below profits. So, if there is any restriction, it should be corrected very quickly.

The other thing that we might do is – that we did before – to pace the dividends into quarters instead of just doing it in a lump sum. So, we're certainly going to be more than the minimum in September, but we cannot rule out additional dividends in December as well based on the profits generated in the third quarter.

On Moatize, yes, the benefits of the removal of the Project Finance have fully kicked in into the minus 12, so now what we have to pursue going forward is the better economics as you mentioned of the ramp-up and higher sales to go into positive territory.

**Operator:** Our next question comes from Mr. Jason Fairclough, with Bank of America.





**Jason Fairclough:** Yep, *bom dia*, everybody, good day from London. Just a couple quick ones from me. First, can we just talk about Samarco? It appears that some of the involved parties want to renegotiate some of the amounts that had already been agreed, so any color you can provide would be really helpful, and if there's any implications for the Brumadinho settlement.

Secondly, just on your guidance, could we just talk about the guidance to return to 400 million tons by the end of 22? I'm trying to understand what benefit you take from guiding from such an aggressive return to nameplate capacity when the market basically is not rewarding you for it. Any thoughts there?

**Eduardo Bartolomeo:** Go ahead on Samarco and then Spinelli and I can talk about the guidance, why it is so important to come back to the nameplate capacity.

**Luciano Siani:** OK, I'm sorry, I was on mute. OK, just a reminder here to give some part of the history in Mariana. In 2016 there was an agreement between the state governments, the justice institutions and Samarco with support of the shareholders and where 42 programs were defined to ensure full reparation and compensation amounts were also defined. In 2018 there was another agreement in which the public prosecutors joined in and there was a review of the governance of the Renova Foundation to improve the participation of those affected, and this agreement in 2018 had already a provision that two years after its signing the parties would sit together again to evaluate the effectiveness and the functioning of the programs, so not of the entire agreement, of each of the 42 programs.

What Samarco is doing right now is precisely that: it's renegotiating the programs, the 42 programs as provided by the 2018 agreement. It is not negotiating a new agreement for Mariana. In fact, many of the programs of the agreement are quite advanced and would make no sense to discard the work already done by the Renova Foundation. So, and importantly, completely different from Brumadinho, where we were building an agreement from scratch, the mediation underway in the Supreme Court right now it's aimed at improving execution and governance respecting the parameters of the valid agreement which was signed by everyone, and the compensation amounts have already been defined and fixed. There are no discussions about values in this mediation because the programs have already been defined, the costs of the programs are provisioned for, and the compensation amounts have already been defined, and everyone agrees on this.

There's a letter of principles, which is public, that was signed June at the beginning of the renegotiation progress which states exactly that: we're reviewing the programs and we're not talking about values; we're not talking about compensation values which had already been fixed.

Now, Spinelli on the 400 million, and Eduardo guidance.

**Marcello Spinelli:** Yes...



**Eduardo Bartolomeo:** I want to... I think Jason has an excellent question because it's very important to understand why we are focusing on coming back to the nameplate capacity.

When you look at the numbers and you drill down on the three systems, the big numbers are coming where from? From Itabira, from Brucutu, and from the north, so we're talking about quality here, and then it comes to our value over volume, we're not going to put volume on the market, as you're right, if we will be not rewarded for that, but at the same time, we are functioning inefficiently, we're operating half of Brucutu capacity, not at the total capacity of Itabira and having opportunities to increase our operations in the north of Brazil. So, we're not saying that we're going to produce 400 million tons, we're going to say that we have the conditions to swing capacity to blend in an adequate form, so that's behind the building up back the capacity, and then we use it as we should do in our value over volume, in our commercial strategy.

And I think Spinelli can reiterate that, but that's I think a very, very good question, Jason, thanks for that.

**Marcello Spinelli:** You're perfect, Eduardo. And then just to complement, I think in a different operational mode, so a safer mode using dry processing and having the capacity to use if we need. So, that's the available capacity will be used with our mantra of margin over volume.

**Operator:** Our next question comes from Mr. Alex Hacking, with Citi.

**Alex Hacking:** Yeah, thank you. Good morning.

So, first question, Spinelli, just to follow-up on the iron ore capacity, how much... when I look at figure 12, what assumptions in there are on the Northern System? Because that was always, you know, designed with I think 230 million tons of capacity, but when we look at production today, it still seems like it's operating below 200. So, what are you assuming on the ramp-up there of the Northern System?

And then just a follow-up on your previous comments, so, you know, again, you're talking there about getting to 450 million tons of capacity in the future, I mean, are you saying that you would be willing to build up to that capacity level but operate very significantly below that, 350 million tons or something like that?

And then just one quick question on Moatize: what's the mix of met coal and thermal in that 50 million tons? Thanks.

**Marcello Spinelli:** Thank you, Alex, for your question. Well, talking about the figures in the north system, yeah, we designed to deliver the 230 million tons, we still have some construction there, the +10 S11D, and also to deliver the Gelado project. We had the ramp-up of S11D, we learned a lot in the last years to run a non-flexible system or less flexible system but very interesting in terms of environment and efficiency in terms of costs, but we don't have the same



flexibility in open pit operations. So, that was related to the ramp-up, we're still adjusting the crushers, and it's important to say that we learned this in the last quarter when we have a lot of products, we have the tie-in so we can have some impact, temporary impact when we are adding some new capacity, and we learned through this, and we are going to have in our plan for the near future.

And talking about the 450, again, it is about a pipeline of projects to offset some setback that we can have, in a mining business you know very well we can have difficulties like we have now in Torto related to a construction or a permit, you know, some small delays in six months, even one year. We have a pipeline to have reliability to deliver our numbers. If we don't see the necessity in the future, we just don't trigger the project in this pipeline, but we must have the pipeline of 150 to guarantee that we can have the optionality to deliver the 400 million.

So, that's the idea for 150.

**Eduardo Bartolomeo:** And, Spinelli, just to add on you – and I think Alex has the point – 450 is a more medium-term shot and then comes the swing capacity ability that you just mentioned, ok? That's why we need to build buffers for that and to swing capacity, because we have very expensive mines as well. So, that's behind and is a medium-term, it's not that we're going to use 450 next year or next two years or else, even next year for the 400. We need to establish our architecture as it was before, and then we define, as you said, margin over volume as we always do.

And Luciano could answer about the Moatize.

**Luciano Siani:** It's about 55% met coal, 45% thermal.

**Operator:** Our next question comes from Mr. Andreas Bokkenheuser, with UBS.

**Andreas Bokkenheuser:** Thank you very much. Just a quick question from me on freight. I know we've talked a little bit about this before, we're obviously seeing a bit of freight cost inflation, but over the last few months has obviously been talk about new IMO rules on freight and carbon emissions and so on and so forth. Can you just remind us how does the freight contract reset work for you guys? I mean, I know you have long-term freight contracts, and obviously freight rates are right now hovering around US\$27-28 a ton. So, I guess the question is: if freight stays at this level, you know, should we just expect even your medium to long-term freight contracts to be reset at that level, or do you have any kind of fixed freight contracts with some of your ship providers?

That is my question, thank you very much.

**Marcello Spinelli:** Ok, Andreas, Spinelli here. Well, two points here to address: the first one is about the spot market today, you're right, it's surprisingly robust



in this first half. I can say surprisingly because we can see the smaller vessels Panamax, Handymax they were really under pressure, with high demand, it wasn't the same pattern of the Capesize business, but, you know, the whole market was really robust in this first half, and we still see this market in a higher level than we expected, we don't see this a long-term trend considering the supply and demand in this market.

The other part, the question that you made related to IMO regulations, this is an important point. IMO is defining the regulation for some time, they set a goal for 2030 for reduction of 40% of emissions, it was related only to new vessels after 2015, now they are extending to existing vessels. What we see in our fleet we don't have any impact in terms of cost, only the first generation of Valemaxes considering maximum speed reduction of 2%, but it's very small impact, so we don't see in average any problem in our fleet, but in the spot market we can have, it's only for 2023, and after that we have another regulation that you need to keep the efficiency 2% a year and a rank that they will define A to E in terms of efficiency of the vessel.

So, in this case, if you don't comply on that target, you're going to have a reduction of your power, and again, this can be something that we must track, but at the same time, the business will react to this bringing technology.

I want to emphasize, Andreas, that we have our project, our set of projects that is called EcoShipping, we brought the broader sailing to a new vessel and we're bringing now the air bubble lubrication, that's another initiative, both of them can help a lot in a vessel to reduce the emissions, and we have a set of projects that can make this evolution better and we need to definitely talk to our shipowners to implement these initiatives. But we are really aware about that.

**Luciano Siani:** If I may add, Andreas, we will never ever converge towards spot rates. More than 80% of our fleet has 30-year contracts, which is the cost, the operating cost, and a pass-through for fuel. So, for example, our second generation Valemaxes today are running at rates of US\$14-15 per ton at these bunker prices, at the lower prices they can go as low as US\$10-9 per ton, and that's it. The reason why we suffer with higher spot rates is because in the second half we usually use spot to transport the excess production from the second half to the first half. But this is not ever going to flow through the existing contracts for 85% of our fleet.

**Marcello Spinelli:** Just to add another information, our fleet today is 170 ships and we're also bringing more 18 Gvaibamax and 6 Newcastlemaxes this year. So, we will be really well-protected for these fluctuations.

**Operator:** Our next question comes from Mr. Amos Fletcher, with Barclays.

**Amos Fletcher:** Yeah, good morning, good afternoon, gentlemen. Thanks for taking my question. First question was just on the Sudbury strike. How long should we assume this takes to get resolved? And then I wanted to also ask about financial leverage, I mean, if we look at your pure financial leverage,



you're in net cash position with the business delivering very strong EBITDA prospectively, could it be possible to take on a bit of modest levels of financial leverage to improve returns to shareholders even more? Thanks very much.

**Eduardo Bartolomeo:** Ok, go ahead, Mark.

**Mark Travers:** Ok. We've been back at the table just in discussions with the USW for about 10-11 days now, and those talks continue today, so that is a good news to this story the fact that we're at the table and engaging in a very heavy manner with the USW to try and resolve this. Discussions are going well, we feel positive, but of course, we can't count on anything until it's concluded, but we remain positive that we can hopefully conclude the deal while we're at the table.

**Luciano Siano:** And, Amos, in terms of financial leverage, the answer is yes, we intend to increase our leverage. We had this target of US\$10 billion of expanded net debt, we raised it after discussion with the Board of Directors to 15, we're going to do this overtime, and obviously, in the short-term we're playing catch-up given the very strong cash flow generation just to stand still where we are, we're having to distribute everything that we generate, as we promised before, but in order to re-leverage, yes, we'll need to distribute more than the free cash flow and we will do so in the next few quarters.

**Operator:** Our next question comes from Mr. Tyler Broda, with RBC.

**Tyler Broda:** Great, thank you. I guess I just have a question on the third-party volumes. So, you had quite a jump in the second quarter, about 2 million tons, doesn't sound like much, but obviously it has a big impact on your cost. Could you just run through where those volumes come from and sort of where we should be looking at for those going forward? Thank you.

**Marcello Spinelli:** Thank you, Tyler, Spinelli here. We see the purchase of third parties as an opportunity, obviously it depends on the... the impact depends on the index, but we you make money and we do it. What happened in the second quarter is that in the first half, actually, we have spare capacity in our systems due to the rainy season and the lower production in the mine, so we could improve, increase our purchase, and take advantage on that.

Second half I say that it's more related to, you know, what we do usually you can compare to the last year, we are full in our operation now with Fábrica back and also, we have the Vargem Grande operations, we don't see so much increase in this purchase comparing to last year. So, there will be stable process.

**Operator:** Our next question comes from Mr. Christian George, with Société Générale.

**Christian George:** Thank you very much. Just quickly on what you were saying about the freight costs, I think you were saying that you're not seeing the



current surge as being sustainable in the long-term. I mean, what's your take on it, what is your idea of when we should see the current limited cost reverse? And then, is that because there's more capacity coming to market or more because you're seeing less activity on shipping?

**Marcello Spinelli:** Thank you, Christian. Well, I think we have a balanced market in capesize business, the effect of commodities, like soybean, is more related to small vessels not capesize, and this year they had a boom, they sometimes use the capesize for their business, but it is not the usual use of the capesize. So, that's our view, this market even with our return to the market you will see some markets, like India or CIS, they're using capesize to feed China, they will go back to their domestic market, so there is some balance, rebalanced in this, something coming from Brazil, but we do see for other parts of the world. So, that's our view about the capesize markets.

But, again, it depends on other points, like the other part of the total market and in other kind of vessels, but our trend is not to sustain long-term this level of spot rate.

**Operator:** Our next question comes from Mr. Juvene Renée, with BNP.

**Juvene Renée:** Hi, gentlemen. Two questions from me, please. First, on iron ore sequential cost increases, maybe Luciano, as you hinted some spillover effects what should we expect in 2Q and 3? You guided us towards the later part of the year, but what about freight and fuel cost, lag effects we should expect in Q3?

My second question is on your nickel business. In a context where NPI production keeps creeping and in over 50% of global production it should take China and Indonesia together, does that concern you and would you consider streamlining your portfolio to favor Class 1 exposure and maybe, you know, streamline the non-class one exporter? Thanks.

**Luciano Siani:** OK. So, on iron ore costs, so we guided for US\$1.5 reduction on C1 until the end of the year, and also, as I mentioned, Q3 will be a middle point from today and end of the year because of the effects on inventory that there's a pass-through that takes another one or two months in order to unwind the inventory produced at higher costs. So, there's no structural change in the next six months, but eventually, if we can't unwind COVID quicker due to more progress in the reduction of the cases, maybe we can have a positive surprise here.

In terms of freight and fuel, for today's spot prices and oil prices, the freight should stay pretty much the same, maybe a slight increase because when we sell more, we have to resort more to spot freights, which is going to be definitely the case on the third quarter and fourth quarter. But, again, this is at the margin because most of the freight is contracted in our fleet.





So, you should not expect significant changes in this variable for Q3 and Q4. Some upward tick, but marginal.

**Mark Travers:** So, I'll address the question around NPI production Class 1. So, clearly, the supply of NPI coming out of Indonesia is increasing dramatically. Right now, what we are seeing is that the demand for nickel is quite strong, and in fact, we are seeing the market, I would say, more or less in deficit rather than surplus. We also see and expect Chinese NPI production to continue to decrease although it is fair to say that the NPI production coming out of Indonesia will continue to lead to increase overall supply in the coming years as well as strong, but we do also have some very strong demand in the stainless-steel industry.

I think it's something that we do need to watch in the future years, but overall, in the coming years we do expect that not to be an oversupplied market. And as you may have seen, Indonesia is looking at potential policy moves to limit further expansion of NPI to protect the sustainability of the saprolite in the coming decades.

In Vale base metals, we are in a position to play to all three segments in the nickel industry: high-purity, the stainless, as well as the chemical to provide to the EV side, we are clearly focusing quite heavily on the high-purity and the playing into the energy transition and electric vehicles in particular Canadian flowsheet.

It's important to note also that even our Indonesian operations although providing a nickel matte, we are flowing that through to make a Class 1 product out of our Wales refinery.

Also, finally, note that our Onça Puma ferronickel operation is quite a profitable operation, and it provides us with a long life and continued flexibility even to convert that met and sulfadize it for use in the Class 1 products. So, I think we have lots of options to play the market the way we would like to under our strategy.

**Operator:** This concludes today's question and answer session. Mr. Eduardo Bartolomeo, at this time you may proceed with your closing statements.

**Eduardo Bartolomeo:** OK, thank you. Well, thank you again for your interest and your questions, and interest in our business and results.

And as we said in all the quarters, it's really a marathon, not a sprint, and this marathon requires discipline and persistence, and I think we've been there with the narrative of derisking, reshaping and re-rating, we are we're doing our job in derisking the company, Brumadinho, in the safety and operations, in the ESG, and of course, in the capital discipline that you're seeing that is extremely rigid. Reshaping is being done, but of course, the re-rating is the 42 kilometers, is when we are really reliable and safe, and then when we'll be rewarded with your



confidence again, and I think that's the work that we're doing we our team and our 7,000 employees.

So, thank you again and I hope to see you in the next call.