

VALE S/A (VALE3)

3Q24 Earnings Results

October 25th, 2024

Conference Call Transcript

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

This conference is being recorded and the replay will be available on our website at vale.com. The presentation is also 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. Gustavo Pimenta – CEO,
- Mr. Murilo Muller – Acting Executive Vice President of Finance and Investor Relations,
- Mr. Rogerio Nogueira – Acting Executive Vice President, Iron Ore Solutions,
- Mr. Carlos Medeiros – Executive Vice President of Operations,
- Mr. Shaun Usmar – CEO of Vale Base Metals and
- Mr. Alexandre D'Ambrosio – Executive Vice President of Corporate and External Affairs

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

Gustavo Pimenta:

Hello everyone and welcome to Vale's 3rd quarter 2024 conference call. I am pleased to present Vale's results for the first time as the company's CEO. Before I start, I would like to take a moment to thank Eduardo Bartolomeo for his tenure as CEO of Vale in the last 5 years.

Eduardo led Vale through one of the most difficult periods of our history. He drove a series of significant changes within the company and today we are in a much stronger position, being safer, more stable and better prepared for an even greater future. So on behalf of the entire Vale team, we thank you Eduardo for that.

I also want to express my gratitude to the Board of Directors for their trust and confidence. It is an honor for me to lead this great company and I am highly confident and optimistic about our future.

So, in my initial weeks as CEO, I have outlined the key areas of focus that will guide us going forward.

Vale has an immense potential, and I firmly believe that we can position ourselves as a reference in the sector.

For that, we are building on our solid progress to develop a “Vale 2030” vision, which we plan on detailing at Vale Day in early December.

This vision will be based on three key pillars:

First, a Performance Driven Culture: We will accelerate our cultural transformation, maintaining our focus on safety and operational excellence, while also becoming a more agile, efficient organization. As such, we will be taking decisive actions to materially improve our competitiveness and once again position Vale in the very low end of the industry’s global cost curve. We will provide more details about our cost efficiency initiatives and associated targets at Vale Day.

Second, a Superior Portfolio: we will accelerate the execution of our premium iron ore strategy, leveraging on our unique endowment. Vale has one of the richest iron ore resources in the world and we aim to structurally produce about 350 Mt of iron ore, of which 80-90% will be high-quality products, like BRBF, Carajás and agglomerated products. This flexible portfolio will allow us to support our clients in their decarbonization journey while maintaining optionality to capture value under different market conditions. We also have a very unique Base Metals platform, with significant growth potential, particularly in copper. I am very pleased with our strategic decision to carve-out the business last year and have a world-class, dedicated team under the leadership of Shaun. I am highly confident we will take this business to the next level in the following years.

Third, it’s essential that our stakeholders see us as a Trusted Partner: for that, we will be working closely with society to leave a positive legacy from our activities while creating responsible and trustworthy relationships. This will be a critical priority of mine and my leadership team, and I am certain it will give us a key competitive advantage going forward.

We are working, as a team, to detail what each one of these levers means in terms of concrete goals, targets and initiatives and will be providing the details at Vale Day.

Now let’s take a look at our recent performance in the next slides.

We’re making steady progress on our commitment to eliminate upstream dams in Brazil.

Our decharacterization program includes 30 structures, and this month we achieved another important milestone by eliminating the 16th structure – Dique 1A, on October 11th – about two months ahead of schedule.

The dam elimination process requires a lot of innovation and it is complex and unique for each structure. We have gained incredible experience and knowledge through this process, and this has allowed us to accelerate the decharacterization of many structures, while upholding the highest standards of safety and risk management.

We will continue to deliver on our dam safety commitments with a disciplined approach.

Alongside the decommissioning process, we're working to enhance the safety of our structures. The chart on the next slide shows our progress on removing dams from emergency levels. In August, we removed the Sul Superior dam from the emergency Level 3 and currently there is just one dam left at this level, which is the Forquilha III dam. And we are making very good progress to reduce this dam's emergency level soon, being on track to deliver on our commitment to have no dams at Level 3 by 2025.

The future of mining will require companies to reduce its footprint and minimize even further the impact of their operations. At Vale, we have been working on a series of initiatives to create more circular operations such as our Gelado plant in Carajás which will be able to produce up to 5 Mt per year of high-quality iron ore by reprocessing existing tailings. Other initiatives include processing waste from piles and generating co-products for other industries. In addition to minimizing the impact of our operations, these initiatives usually have quicker time to market and lower unit costs once they reach scale.

Now let's talk about the performance of our Portfolio in the next slide.

This quarter, we delivered the highest iron ore production since 2018, underscoring our focus on operational excellence. Aligned with our strategy to grow on agglomerated products, our pellet production reached its highest level for any quarter since 2019, increasing 13% year-on-year.

Last month, we increased our production guidance for the year, and we are now confident we can deliver at the top-end of the 323-330 million tonnes range for 2024.

Iron ore sales in the quarter were in line year-on-year, with an important quality improvement in our product mix, on the back of higher BRBF sales and the proactive decision to reduce direct sales of high-silica ore.

Delivering on our growth projects in Iron ore is critical for us to improve the flexibility of our portfolio. To that end, I am very pleased to see the successful start-up of Vargem Grande- within budget and one month ahead of schedule. This is a 15 million tons iron ore project, which should also increase iron content by about 2% at the site.

The next relevant project to come online is Capanema, with another 15 million tons. The project is already 91% complete and it is scheduled to start-up in the first half of 2025.

This demonstrates that we are effectively delivering on our commitments, regaining not only volumes, but more importantly, commercial flexibility, which will help us maximize value creation.

Looking at our Energy Transition Metals business, we also saw strong production performance year-on-year in both copper and nickel, as the asset review initiatives start generating results.

Ore processed at Salobo 1 & 2 plants increased by 30% year-on-year and our Sudbury mines had a 20% increase in mill throughput year-on-year.

Shaun Usmar has recently joined as VBM's CEO and will continue the implementation of the asset review and the execution of the company's long-term strategy. I am confident we have the best team in place to take the Energy Transition Metals business to the next level.

Last, but not least, after 2 years of negotiations, today marks an important chapter in our history: we signed the binding terms for the full reparation of Samarco's Fundão dam collapse.

The terms agreed are a result of an open dialogue, based on social, environmental and technical criteria, and reinforce Vale's commitment to a fair and definitive reparation.

The total value of the agreement is R\$ 170 billion which will be divided into:

R\$ 100 billion in cash payments, payable over 20 years to the Federal Government, the States of Minas Gerais and Espírito Santo and the municipalities to fund compensatory programs and actions tied to public policies.

Plus R\$ 32 billion in obligations to be performed by Samarco over the next years, including ongoing programs for individual indemnification, resettlement, and environmental recovery, which will be gradually transferred from the Renova Foundation.

The total amount also considers the R\$ 38 billion already disbursed in 42 compensation programs over the years.

Together with all the key stakeholders, we reached a mutually beneficial solution for all parties, especially for the impacted people, communities, and the environment, while creating definitiveness and legal certainty for the companies.

Now I would like to invite Murilo Muller, our acting CFO, to talk about our financial performance.

Murilo Muller: Thanks, Gustavo, and good morning, everyone.

It's a pleasure to be here to present our third quarter 2024 results. So, let's start with our EBITDA performance.

As you can see, our Proforma EBITDA reached 3.7 billion dollars in the quarter, with some encouraging factors that helped mitigate the impact of lower iron ore prices. In Q3 2024, we achieved higher sales volumes, particularly in pellets, our highest-quality product. We also delivered a much better performance on costs and expenses, while the weaker BRL provided further support. As Gustavo mentioned earlier, we are extremely focused on regaining our competitiveness and our C1 cost performance is particularly important in this journey. Let's take a closer look at our C1 on the next slides.

In Iron Ore, our C1 cash costs excluding third-party purchases was 20.6 dollars per ton, 17% lower quarter-on-quarter and 6% lower year-on-year. We were pleased to see that this is the first year-on-year decrease in C1 Cash Costs since the first quarter of 2021, giving us confidence that we are on the right path to becoming a more efficient company. The sequential improvement was driven by the results of our efficiency initiatives, lower maintenance expenses, fixed cost dilution, as well as a better production mix, with more volumes coming from the Northern System, where we have our most competitive operations. We are highly confident in delivering our C1 cost guidance for 2024 of 21.5 to 23 dollars per ton. More than that, our performance is actually pointing towards us achieving the low end of this guidance in 2024. In Q4, we

expect sequentially lower costs. For reference, our C1 production cost in September reached 18.2 dollars per ton, excluding inventory effects.

Now, moving to the Energy Transition Metals business, we observed an overall decrease in our all-in costs year-on-year. In Copper, the 13% year-on-year reduction was driven by higher unit by-product revenues and lower unit COGS, resulting in an all-in below 3 thousand dollars per ton. As a result of this solid performance in Q3, we are once again revising our 2024 all-in cost guidance downwards, with the new range being now between 2,900 and 3,300 dollars per ton. In Nickel, despite the deconsolidation of PTVI operations (which have lower average costs), all-in costs decreased by 3% year-on-year. We remain on track to meet our cost guidance for 2024. This improvement was a result of the ongoing ramp-up of Voisey's Bay operations, which allowed us to reduce third-party purchases in our Canadian refineries, coupled with higher unit by-product revenues.

Now, moving on to cash generation. Free cash flow generation was 0.2 billion dollars, mostly impacted by lower EBITDA and by negative working capital. We saw an increase in accounts receivables due to 14 Mt of iron ore sales accrued in the end of the quarter, as well as 23 Mt of sales that were booked at a forward price of 109 dollars per ton. Our Capital Expenditures remained steady quarter-on-quarter at 1.3 billion dollars, trending below our guidance for 2024 of approximately 6.5 billion dollars.

Lastly, our free cash flow generation and strong cash position were primarily used to return value to our shareholders, with the payment of 1.6 billion dollars in interest on capital in September. In Q3, we also acquired the remaining stake in Aliança Energia. As we have previously mentioned, our intention is to look for potential partners for our energy assets, while keeping a minority stake. We hope to be able to bring more news on this in the coming months.

Before passing the floor back to Gustavo for the key takeaways, I would like to comment on the agreement we signed today.

As Gustavo mentioned in his opening remarks, the agreement outlines the reparation and compensation measures related to the Samarco dam collapse. In addition to the 38 billion reais disbursed since 2015, the agreement establishes 100 billion reais in payment obligations over a period of 20 years and 32 billion reais in performance obligations by Samarco, including initiatives for individual indemnification, resettlement, and environmental recovery.

This table outlines our expectations of cash commitments. As you can see, in the short term, we will have a higher concentration of obligations to perform, and over time, the impact on cash will gradually reduce. This cash outflow projection considers that Samarco will continue to pay for a portion of the required payments as per its approved business plan.

As such, we have recognized an extra provision of approximately 1.0 billion dollars, bringing our expanded net debt to 16.5 billion dollars. Regarding our optimal leverage target, we are maintaining the 10 to 20 billion dollars range under the same expanded net debt concept.

Now, I pass the floor to Gustavo.

Gustavo Pimenta: Thanks Murilo. Before opening up for the Q&A session, I would like to reinforce the key messages from today's call.

We remain highly focused on safety and operational excellence. As you have seen, we delivered a robust operational performance, the fourth consecutive quarter with year-on-year increase in Iron Ore production.

We are accelerating our cost efficiency program, now expecting to reach the low end of our c1 guidance range for the year in iron ore while lowering, once again, our all-in cost guidance for copper. I can assure you, we will be laser-focused on our efficiency efforts in the years to come.

On our strategic objective to deliver a Superior Portfolio, we are progressing with our transformational projects. Vargem Grande started-up in September, on budget and ahead of schedule. Capanema will come online in the next months, providing us with further flexibility within our iron ore operations, at a very low capital intensity.

At VBM, the Asset Review execution is gradually bearing fruit, with strong year-on-year operational performance at both copper and nickel, and I am very confident that, under Shaun's leadership, we will continue to make substantial progress towards creating a leading energy transition metals business.

Finally, today is an important day for Brazil, for Vale and for the people impacted by the collapse of Samarco's dam in Mariana. The signing of a Definitive Settlement for full reparation, confirms that the Brazilian institutions are solid, competent and legitimate for resolving our issues. The agreement also reinforces our commitment to the people, the communities and the environment.

Thank you all and let's start the Q&A session.