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.

Operator: We are going to start the Question-and-Answer session of the call. If you have a question, please click on the raise your hand button. If your question has already been answered, you can leave by clicking on the "lower hand" button. Please ask your question in English and limit your questions to two at a time.

Rodolfo Angele, JPMorgan:

Good afternoon, everyone. First of all, my first question goes to Gustavo. And, Gustavo, I couldn't not start by wishing you the best of luck in your tenure as a CEO. My question is, you touched on a few points around your ambitions as the new leader of the Company in the beginning of the call, and I understand that more details will be provided at the Vale Day, but I wonder if you could discuss with us a little bit more of what will your short term focus be, which initiatives do you see that could represent the biggest opportunities to be captured, especially in the lower, or in the earlier part of your tenure? So that's my first question.

And my second question, I also couldn't not take the opportunity to ask a question to Rogério, it's great to hear from you. I wanted to hear from you a little bit more on the portfolio strategy for iron ore that we are starting to hear more about. Can you give us more details on what exactly do you expect to be the next steps in that direction? What is the evolution of the portfolio of iron ore of Vale in the future? And that's it from me. Thank you very much.

Gustavo Pimenta:

Thanks, Rodolfo. Thanks for the best wishes. I think the way we are thinking about is under three key levers. One, in terms of portfolio, we have talked about it, but we are pushing hard to be able to resume the capacity that we think we can add in a very accretive way to our iron ore portfolio, getting to 350 million tons, which will give us more than the volumes. It will give us flexibility to operate under different market conditions, plus growing VBM, especially growing in copper.

So, one of the key mandates that Shaun has is how can we bring copper volume sooner, especially given the endowment that Vale has. So that is going to be a key element of our strategy, and we will push that agenda forward in a very decisive way.

The other one, which is super important, and you have seen some of it already in this quarter, is to really drive a performance-oriented culture within Vale. We appreciate that we lost some competitiveness over the last years as a result of many things, including some of the constraints we had in our operations, but I am very optimistic we will be able to drive the Company back into a much more competitive environment, lowering our C1, we talked about that, lowering our C1 below US$20. So, we will push that agenda forward and I am very optimistic about our ability to deliver on that.

And the third one, which is probably a more short-term focus, is how can we continue to build strong and trustworthy relationships with the several stakeholders that we have, and I am very happy with the solution that we just announced. The settlement of Mariana is an element towards that future.

So, I am being very focused on resolving those issues because we know they weight on the stock and we are working very hard to resolve them. So that agenda is going to be super important for me, for my leadership team so we can bring the key stakeholders along our journey.

With that, I will pass to Rogério to cover on the commercial strategy.

Rogério Nogueira:

Rodolfo, good to hear from you. When we talk about portfolio strategy, we should divide it in short term and long term. I guess in the short term, we will focus more in optimizing our product portfolio and maximizing value. In the long term, it has to do a lot with the decarbonization of the steel industry and how we position ourselves to be the primary supplier for the decarbonized steel industry.

I think I would like to highlight that, when you talk about portfolio optimization in the short term, we talk a lot about iron ore premiums. And as you know, premiums depend a lot on steel margins, which are currently low. But based on our market outlook, we believe that there is a potential upside.

But I think that more than that, we believe that we do have a lot of action in terms of product portfolio. And what we are trying to do, what we are trying to build is a portfolio which is flexible that we can adjust to maximize value.

Here, it's important that we make it clear that our objective function is value maximization. More specifically, I think understanding, for example, the total balance of

Fe content, alumina to silica ratio in the global market is going to be fundamental for quick portfolio adjustments.

Just to give an example, as of today, we have very high silica penalties at US$4.7 per ton for each percentage point of silica. We would like, for example, to work in reducing our offering of high silica products, and then reduce that kind of impact.

Not only that, but we also may take advantage of our higher production of high-quality pellet fee from Brucutu, Vargem Grande, wet processing, and more production from Carajás. Ultimately, I think we believe that the understanding of the global market combined with our flexibility is going to allow us to optimize, maximize value in the short term. So, we are very much driven by value maximization in a flexible product portfolio.

Daniel Sasson, Itaú BBA:

Thank you. Good luck on your new role, Gustavo. It's also good to hear you again, Rogério. First and foremost, congratulations on signing the settlement agreement for Samarco. Definitely a win-win situation for the populations and for Vale, which can move ahead from this chapter. In regard to that, I would like to know your perceptions, Gustavo, if anything has changed at all in regards to the discussions ongoing in the UK and the Netherlands related to the legal proceedings going on related to Samarco. If you could give us an update on that, and also on the talks with the government related to the renewal of the railway concessions. I think that would be great.

And maybe my second question would be related to your expanded net debt target. The US$10 billion to US$20 billion target was set at a different time for Vale. A lot of other things were going on, but maybe now that you have a clearer view on your disbursements for Mariana, for instance, over the next years, if you could think about changing that target, if it makes sense at all to even discuss that, or if you remain comfortable with your US$10 billion to US$20 billion expanding net debt target for the time being. Thank you so much.

Gustavo Pimenta:

Thank you, Daniel. I will cover a couple of items of your question, and then probably send to Alex to complement, especially the UK case. The decision today and the signing of the agreement today is an important step. We always believed, and I think today we were able to validate that, that the right jurisdiction for this settlement was in Brazil, and we were able to successfully achieve that. So, we think that is the right jurisdiction and where the decision needs to be hold and delivered.

So, we are happy with the outcome that we were able to achieve today. I will ask Alex after my answer here to complement, if I missed anything.

On the renewal, the concession renewal, we have advanced, as we have mentioned before, a lot on the potential agreement with the government, with the potential settlement. I am optimistic we will be able to finalize that item as well. There are some internal procedures and legal procedures that need to be followed. So, we are hopeful that by year-end, we will be able to resolve that discussion.

And finally, on the expanded net debt concept, I think it's early for us to revisit it. I think the concept as designed served us well, and I think it was the right one. So, for now, we are keeping it, and we can always revisit. But today, we think that's the right metric and the right range for us to operate under.

So, I will ask Alex to complement my answer on the UK case. Alex, please.

Alex:

Thank you, Gustavo. And thank you, Daniel, for the question. I will start speaking about the UK case. The trial on the UK case started last week, many people are aware of that, and it's ongoing for the next few weeks.

The UK trial deals with compensation for individuals, but that issue itself will only be discussed next year. So, it's a long discussion still about whether BHP Holding can be liable for Samarco. So that's a discussion underway.

The issues that are being discussed about compensation in the UK, that will be discussed about compensation, are fully covered by the Brazil settlement that we signed today. And for that reason, we understand that the position for the defendants will be much strengthened in the UK, not only because the claimants will have a streamlined settlement option in the Brazil agreement, but mostly because the Brazil agreement deconstructs the lawyer's principal argument in the UK, which is that these types of issues are not readily resolved in Brazil. The agreement disproves that point and proves that in fact resolution is possible and it's efficient and fast.

The Netherlands claim, as you mentioned, that will only begin in the middle of next year. The first hearings in court will be in the middle of next year, and the issue of whether there is jurisdiction over Vale has yet to be addressed. So that's really far along the road. Thank you.

Leonardo Correa, BTG:

Good afternoon, everyone. A couple of questions on my side. The first one on cash cost for iron ore, clearly a significant progress over the past quarters. The message is that you are confident in reaching the low end of the guidance at US$21. And Gustavo, you mentioned in your introduction that you are confident on reaching sub US$20 going forward. Just to try to get a bit of your understanding, is this possible already in 2025, when you have a series of initiatives? You also have Vargem Grande ramping up, a bit more volumes. So, I just wanted to hear you on that front, if those targets are achievable in 2025.

My second question is on nickel, specifically on the energy transition business. There clearly is a dual speed happening: copper, which needs to be the focus, a super bright long term, I think every single mine in the world is super bullish on copper, and rightfully so. It is warranted. On the nickel side of the business, clearly there's a tone down from Vale, at least in my view, in my reception over the last quarters. Nickel prices have not been helping, of course, but in this environment where EBITDA is negative on some lines and clearly there is room for some streamlining, I just wanted to hear your thoughts on what exactly you are thinking for nickel and whether capacity cuts are on the decks here, considering this pressured environment. Thank you.

Gustavo Pimenta:

Thanks, Leo. I will do the first one and a little bit of the second one, but I also want to have Shaun, take the benefit of having Shaun on the line for him to also talk about the nickel one.

In terms of cost, what I meant of coming below US$20 is by 2026, which is that prior guidance we have given. The more I look into our cost base, the more confident I get in our ability to get to that point. And as I mentioned, this is going to be a key priority of mine.

The one thing we have to appreciate is, there are several levers to get us to a more efficient position. One is, in the last couple of years, we have introduced a series of processes, or new process to deal with restrictions that we had in our operations. So, the team today knows a lot more about how to manage those processes than they used to do. And we are seeing a lot of improvements in our ability to remove cost from the system just by operating better.

There is the benefit of ramping up production. We just reset guidance, 323-330 Mt, but we have said we want to get you to 350 with higher quality and some volume coming from the north. That also helps us to drive the unit cost down, plus the regular efficient programs that we have been pursuing, and it's getting more and more mature by the day.

So that's what makes me feel confident. And we are seeing some of it this year. We have pointed to the low end of the C1 guidance, which just highlights that we are on the right track.

On nickel, we continue to believe that nickel is critical for the energy transition and has its space and that. Certainly, we have to make sure we have the right portfolio of nickel, given market conditions, and be as efficient as possible to navigate and be profitable through the cycle. That's one of the key mandates that Shaun has. But I will stop here. I would love to hear also his thoughts about it.

Shaun Umar:

Gustavo, thanks, and Leonardo, thanks for the question. You have the distinction of being my first Vale Base Metals question on an earnings call. Thanks. Gustavo has touched on the high points. And I think we have just gone through a quarterly high from a unit cost perspective with some of the maintenance in Sudbury, which was scheduled. You would have seen a lot of significant investment that has been occurring in this space and some of the initiatives that have been put in place across the business from a productivity point of view with Mark Cutifani and the management team, which you are seeing bearing fruit, 20% to 30% productivity improvements, lots of opportunity for fixed cost dilution.

And so, this is a long-term capital deployment business. We are seeing roughly 40% of the cost curve at the moment underwater, and you are seeing supply being curtailed in certain areas. At the end of the day, we have a strategically significant business, particularly from a western lens, which has probably one of the best mineral endowments I have seen in my career. It is underexplored, underutilized, and I think the opportunity for us to allocate capital wisely while doing a lot more to continue to drive cost reductions, productivity improvements and maximize value for this business through the cycle is really what the priority looks like.

And we should not lose sight of the fact that, really, what we are talking about, we are talking about nickel, but the vast portion of this particular part of the portfolio is polymetallic. We have got a lot of gold and PGMs, gold is at record prices, more or less.

And so, I think for this phenomenon to continue and for us to unlock value, particularly this point in the cycle, it's really the focus for us. And I think beyond this, there's a huge amount of underappreciated optionality as we look at this portfolio, and that's our job to do, it's really to unlock that and reveal that to the market. I hope that answers your question.

Caio Ribeiro, Bank of America:

Thank you for the opportunity. My first question is on the cash return perspectives ahead. With the final agreement related to Mariana, the Company still has the expanded the net debt below US$20 billion, yet the obligations of disbursement related to Mariana, Brumadinho, decharacterization, this amount to nearly US$3.7 billion over 2025, which reduces in a material way the Company's free cash flow generation potential for that year.

And I know that from an expanded net debt perspective, the disbursements related to Mariana and Brumadinho should in theory be neutral, as you are disbursing the cash to cover those obligations, yet as you disbursed those amounts, you reduce your provisioned amount, which is reflected in your expanded net debt. Yet if you look at it solely from a free cash flow perspective, there is a cash disbursement related to those items that reduces the free cash flow yield which the Company ultimately can deliver.

So my question is, will you look solely to your expanded net debt level in an isolated manner to determine whether you can announce an extraordinary dividend ahead? Or will you also look at that free cash flow yield, incorporating those obligations related to Mariana, Brumadinho and the decharacterization to make that decision?

And then a second question on a different topic here, Vale had the JV structure with Ero Copper, the Furnas project, which depends on exploratory success, and you also have that fund that was recently established to develop further these types of partnerships. So, my question is, other than for copper assets, could you use that model of partnerships, JVs for iron ore as well within Brazil? Thank you.

Gustavo Pimenta:

Caio, starting with the expanded net debt concept, in fact, we always look at the free cash flow projection for the Company and the different scenarios to make that assessment and then judge how we allocate our cap. So, the expanded net debt concept is one of the elements, but we look into others, and we look especially to your point where the expected cash flow generation of the Company is vis-à-vis the commitments we have, and if we have an opportunity to remunerate our shareholders, we will do it, as we have been doing over the years. So that is the way. We look at several variables before making those decisions, not only one.

In terms of partnerships and funds, those are transactions where we can accelerate our access to offtake and volume where it makes sense for Vale to, instead of doing it ourselves, having someone to do it, and we benefit from that partnership. In many of the cases, or most of the other cases, we do ourselves, especially in VBM.

In iron ore, I think there is less of that opportunity. I think you have seen us doing it in some of what we call '*mini minas*', or mini mines. Those are small mines where we do not think we are as competitive as our competitors to develop, and therefore we pursue some sort of commercial agreement with then to be able to have access to those volumes, especially higher quality materials.

So, we will continue to think about that one. But I would say it's probably under a different format as compared to the way we look at Base Metals.

Rafael Barcellos, Bradesco BBI:

Thanks for taking my questions. And of course, good luck, Gustavo. Congratulations for the results and for the definitive settlement. Also, Rogério, good to hear from you again. And then my first question, Gustavo, could you please share with us your thoughts on how the regulatory environment for mining activities in Brazil is evolving? Other than that, how are the discussions related to a new cave decree in Brazil, or even the modernization of this cave regulation? And of course, whether you believe that it could happen in the coming years.

And then, my second question is about the Base Metals division. As this is Shaun's first conference call at Vale, Shaun, good luck. So, if you could share with us your first impressions, the many opportunities that you see at Vale Base Metals, it could be very interesting. Thank you.

Gustavo Pimenta:

Thanks, Rafael. Let me do the first one and then Shaun can step in. As you know, Brazil has an enormous potential in terms of mineral potential, not only by having the highest quality iron ore in the planet, but also by having a lot of deposits for energy transition metals commodities.

So, our push, our discussion has been how can we accelerate those developments as a country, and many of those require discussions and modernization, for example, as you have mentioned, on the caves decree, on the legislation of it.

I am optimistic that we will be able to advance on those discussions. I think there is a recognition that the current legislation can be improved by all parties, and we are hopeful that this is going to be addressed in the near future, hopefully sooner rather than later. And that will be fundamental for us to unlock the potential that we have in the country, in the potential that Vale has to grow on those commodities.

I will pass to Shaun for the second question.

Shaun Umar:

Thank you. Rafael, the vision of the three and a half weeks, I think it’s very similar to the reason I took on this opportunity with Vale Base Metals, which is, I honestly believe that it's probably one of the most under-appreciated assets of its kind in the battery metals, or energy metals space.

If you are building a business like this, one of the biggest barriers that people or organizations face is ultimately the mineral endowment. It all starts with the geology. I spent three days with the GM's and some of the business leaders last week, and I would say that I walked away from their time, it actually exceeded my most optimistic assumptions on the potential. And I think therein lies the opportunity for us as we look to allocate capital and run this business as efficiently as we can.

Gustavo has already pointed out that particularly in Brazil, everybody loves copper. It's very difficult to find high quality copper assets. This business has underappreciated and incredible mineral endowments in Brazil. And even prior to this call, we are working already with the team, trying to see if we remove the constraints, what's our ability to be able to actually truly unlock in partnership the opportunities with governments and other stakeholders, that mineral potential. We have got established businesses like Salobo and Sossego, and Salobo has opened in depth, and opened in various directions, and then we have got so many other opportunities in that particular district to sort of embark upon, looking at hubs and other things to unlock some of that mineral wealth.

And so, I guess for me, as we look at it this time, in a business where people are trying to buy what we have got, our chance is to really unlock the productivity cost and other things that are within our control, and ultimately unlock the value in the longer term that exists in this portfolio, and then go beyond that once we have been able to achieve that. I think we really have the foundation to create a true sector leader in time.

Marina Calero, RBC:

Good afternoon. Thanks for the call. I have a follow up question on your corporate strategy. Is it fair to assume that your focus is on your internal growth opportunities, or would you be open to grow inorganically as well?

Shaun Umar:

Marina, thanks. I come out of businesses like Xstrata that essentially grew through M&A, and I have spent a large part of my career doing M&A. When I look at the M&A landscape, every business has to have that capability and always look at different times of the cycle through a make-or-buy lens.

But I think just going back to my earlier answer, my biggest and most valuable opportunity is the one that we actually have. And so, I think, certainly for the foreseeable future, although we will always continue to look at what's in the market, I think we really have a lot of what the market is looking for, and it's incumbent upon us to be able to actually capture and unlock that value.

I would go so far as to say I suspect most of the organizations, from what I can see, that model Vale, really have not got visibility of the pipeline when you look at your own net asset value breakdowns and the opportunity set that this business has. That's part of our job. It's not only to deliver that and to show this quarter on quarter and beyond, but really to showcase that potential, which I think is invisible at this stage.

Gustavo Pimenta:

I will just complement, and I echo Shaun's view, especially given where we trade at currently, it is hard for us to do any transaction that makes sense for our shareholders. The unique advantage of our portfolio is the endowment in Base Metals, as he's mentioned this one, but also in iron ore. So, we think we can make a lot more money and generate a lot more value to our shareholders by developing our own endowment.

And sometimes there will be an opportunity for us to share the infrastructure and do deals that are accretive for both partners, like the one we did recently at Minas Rio. That is an example of deals that we like to do. It's capital light, if you will, and those deals make sense. Large deals or things differently from that are harder for us to do and I would rather put our money to do our own development.

Timna Tanners, Wolfe Research:

Thanks. Good afternoon. Happy Friday. I wanted to start out asking about CAPEX just because, as you point out in the bridge, there's quite a bit of a gap, a big amount that needs to be spent to meet your target in 4Q. So, is that happening or should we think about a maybe a lighter spend?

And then, a bigger picture question I had was just the comment I heard earlier about how you had confidence that global steel margins were going to rebound. And I am just curious what drives that. It would be great to get your high-level thinking in light of the property sector challenges. Thanks.

Gustavo Pimenta:

Timna, Happy Friday for you as well. We are looking to close the year within the guidance of around US$6.3 billion to US$6.5 billion. So, it's looking very much in line with what we had guided. Throughout the year, there's always some variances within quarters, but you should look at that full year as the final number we will be expecting to deliver in 2024.

So, I will pass to Rogério to talk about margins.

Rogério Nogueira:

Hi Timna, when you look into the iron ore market, we do believe that the market will stabilize, but we see potential upsides. On a more broadly basis, on a worldwide basis, we see CSP, crude steel production reaching 1.9 billion tons, with China being responsible for over 1 billion tons in 2024. And we do expect the same figures for 2025.

As you know, and this has been talked all over, the Chinese government is working to boost consumer confidence through fiscal and monetary stimulus, as we all have been hearing about. We believe that with that, steel consumption will stabilize and the decline in fixed asset investments in the property sector will be compensated, will be offset by fixed asset investments in the manufacturing and infrastructure sector.

As a result, we expect a stable iron ore supply balance. We currently see inventory levels stable across the whole supply chain. Despite the fact that we see high inventory levels at ports, we see very low inventory levels at the steel mills.

So, when you look at it on a more comprehensive basis, we believe that inventory levels are stable. Not only that, but when we look into the cost curve, we see that over 50 million tons of supply have support at US$95 per ton in the cost curve, and close to 150 million tons have support at US$90. So, if prices come down, a lot of capacity, a lot of production will leave the market.

But more specifically to your question, in the short term, we see some positive data. If you look into blast furnace utilization, the figures are increasing to 87%; steel margins are recovering, plus US$20 per ton in rebar, and it's about neutral in HRC; and you see some regions, specifically the regions which are where they face less competition in China, or have fewer steel mills, already growing more significantly.

Outside China, I think the steelmakers are struggling specifically with the Chinese exports, but if exports reduce, the demand will still be there, and we believe that they will be growing marginally.

Christopher LaFemina, Jefferies:

Thanks for taking my question. This is kind of a follow up to what Timna just asked. If we look at the historic Vale strategy, including in the last quarter, you have at times taken higher cost lower margin capacity offline, I guess basically the value over volumes approach, which has probably been a pretty supportive factor in the market. Other companies have done this as well.

My question is, how does the strategy change? I mean, if you are shifting your production mix to more higher quality, higher margin ore, does that imply that prices would have to fall further before you took capacity offline? I am just kind of thinking, not necessarily where the market is going to be in 2024 or 2025, or where it might be later in the decade, but with Simandou coming and with your own production mix shift, BHP has got some growth as well, and if we are in a scenario where the iron ore market is declining, if demand in China is weakening, in that kind of downside scenario, at what point do we start to see a supply response later in the decade. And again, with your costs going down, and Simandou coming online, I am concerned that maybe it's not 90 to 100, but it could be considerably lower than that. So that's kind of the question, where is the downside of being later in the decade if demand is indeed declining. Thank you.

Gustavo Pimenta:

Let me cover a few elements, and then, Rogério, if you want to add. The one thing which I think fundamentally is important is, even with Simandou, the amount of depletion that we are seeing in the market is enormous, and the degrading that we are also seeing in the market from our competitors is very relevant, and I think that sometimes is overlooked. So that's one element to take in consideration. That's why we are not as negative long term with the entrance of Simandou as one would probably be.

In terms of the value over volume strategy, I think they will continue. Certainly, they will continue; not I think, they will continue. The good thing of us resuming capacity is that finally we start to have flexibility, because post Brumadinho, we have lost a lot of the flexibility that we had in our offerings.

So now that we are bringing Vargem Grande, Capanema and we are back to 350, more than the volume per se, which is not what we chase, as Rogério said, we will have the ability to then play within the market conditions to maximize value. That flexibility we did not have just few years ago, and I think now finally we are having, which will give us the ability to remove volumes whenever they do not make sense.

We have mentioned this last time, we could have gone beyond 330 million tons. We are removing from the market this year probably 7 million tons to 8 million tons of high silica products that we could be putting into the market, and we decided not to do it because it's not the right thing to do from a market perspective.

So we continue to be extremely disciplined on how we add volume to the market. The beauty of what we are doing here, I think, is the fact that we now have flexibility to play along depending on the different market conditions, and we will continue to do so.

John Brandt, HSBC:

Just one question for me, as it relates to your overall metals portfolio. Obviously, if we look over the past 20 years, Vale has really transformed into sort of three main metals, from many more. But recently we have seen some of your competitors, maybe doing some M&A and adding to their product portfolio either in lithium or fertilizers.

So I am wondering, if we look out over the next 5 to 10 years, are you happy with your portfolio of iron ore, nickel and copper, or would you look to add things like lithium, fertilizers, potentially uranium? I guess that's my question. Thank you.

Gustavo Pimenta:

John, we are happy with the portfolio we have. We would certainly like to have more copper than we have, but we will be working on that. If we have anything in our portfolio, it has to have scale, we need to be well-positioned from the cost curve perspective. And what we have today are the commodities that we believe we can deliver.

At the end, it's about value creation. So we like what we have. As a company, we are always assessing alternatives and opportunities, but we are happy with the commodities we have, and it's a question of how we can continue to grow that.

Operator:

This concludes today's question and answer session. Vale's conference is now concluded. We thank you for your participation and wish you a nice day.

Vale S.A.
Praia de Botafogo, 186, 19th floor, Botafogo
22.250-145 Rio de Janeiro RJ Brazil
www.vale.com vale.ri@vale.com