VALE S/A (VALE3)
1Q25 Earnings Results
April 25th, 2025
Conference Call Transcript

Operator: Good morning, ladies and gentlemen. Welcome to Vale's first quarter 2025 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. Marcelo Bacci –Executive Vice President of Finance and Investor Relations,
- Mr. Rogerio Nogueira –Executive Vice President, Commercial and Development,
- Mr. Carlos Medeiros – Executive Vice President of Operations, and
- Mr. Shaun Usmar – CEO of Vale Base Metals

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

Gustavo Pimenta:

Good morning everyone and welcome to Vale's first quarter 2025 conference call.

First, I would like to take a moment to remind you of our strategic direction as defined by Vale 2030 vision. We are building a leading mining platform with a flexible portfolio of assets, exposed to the right long-term fundamentals and based on a unique mineral endowment. All of that supported by a highly-innovative and purpose-driven organization. We are confident the actions we are taking today will create substantial value to all of our stakeholders and will lead to a more resilient enterprise.

The current trade war only reinforces the importance of building a competitive business that can thrive under different market conditions, and that is exactly what we are doing at Vale. Despite the short-term volatility and uncertainty, we remain highly optimistic about the future and our role in driving sustainable mining to support the global economic development.

Now lets take a look into our Q1 performance in the next slide.

Driven by our integrated supply chain and as anticipated, iron ore sales increased by 4% year-on-year, reaching 66 million tons, while our production was 4% lower, mostly within our mine plan for the quarter, but also impacted by the higher rainfall in the Northern System.

Our operational excellence initiatives continue to bear fruit. S11D, for example, achieved its highest production for a first quarter, thanks to the several asset reliability programs we've implemented.

In Q1, we continued to prioritize the supply of medium-grade products like BRBF and PFC1, which is the pellet feed produced in China. This approach maximizes the value generated across our business particularly in a time of challenging margins in the steel industry. This is only possible thanks to our flexible portfolio and integrated supply chain.

On increased flexibility, I'm happy to report that our three main growth projects in Iron Ore are progressing as planned.

Vargem Grande and Capanema, which started operations at the end of 2024, will produce a combined 14 million tons of iron ore in 2025, securing adherence to our production guidance, as well as greater portfolio flexibility. Both projects are expected to reach full capacity in the first half of 2026.

Furthermore, the expansion of our +20 project at S11D is advancing well, having achieved 73% of its physical progress by March. We are confident that this key project will begin operations in the second half of 2026, delivering high-quality volumes at remarkably low production costs, with an expected C1, in dollars per ton, at mid-teens.

We are advancing in the Mining of the Future agenda, investing in cutting-edge technology, and fostering innovation to enhance the safety and efficiency of our operations.

We are currently operating three mines with autonomous equipment, including heavy haul trucks and drilling rigs, and recently, we extended this technology to the loading yard at the Guaíba port in the Southern System.

This technology has led to a 12% increase in recovery rates at the port, allowing us to relocate personnel from higher-risk activities to a safer work environment.

We will gradually increase our 'Autonomous Program', expanding from 14 to 70 autonomous trucks at Serra Norte over the next 3 years, delivering substantial productivity improvement to the site.

In our Energy Transition Metals business, we continue to see solid and consistent progress across all operations.

Copper production increased 11% year-on-year, achieving the highest output for a first quarter since 2020. The strong performance came from Salobo and Sossego operations, as well as from the ramp-up of the Voisey's Bay project in Canada.

In Nickel, Voisey's Bay and Onça Puma have contributed to an 11% increase in production year on year.

We are glad to see that strong operational performance, together with the positive impact of by-product prices, have contributed to more than doubling the EBITDA of the Base Metals organization compared to the same period last year.

Together with Shaun and his leadership team, we remain highly committed to delivering continued improvements to our operational performance, as well as on accelerating our value accretive growth on copper. Our Novo Carajás initiative was put in place early in the year with a dedicated leadership team and I am very excited with the initial insights which only reinforced the great opportunity we have ahead of us.

Now, I would like to comment on the strategic partnership we announced with GIP at Aliança Energia.

As you know, Vale has been dedicated to sourcing all of its energy needs from renewables for many years and reached this milestone in Brazil in 2023, two years ahead of schedule.

Having access to clean and competitive power is crucial for us and by bringing a strategic partner like GIP, we can create an asset-light business that can help us deliver on our long term decarbonization goals.

With the closing expected in the second half of this year, Vale will hold 30% of the new joint venture and will receive US$ 1 billion in cash proceeds.

Finally, I would like to highlight that we recently published our 2024 Integrated Report.

This disclosure is part of our commitment to transparent and comparable reporting on our ESG progress and challenges.

In 2024, Vale invested over US$ 250 million in decarbonization initiatives as part of our journey to net zero Scope 1 and 2 by 2050. In the circular mining front, we recovered almost 13 million tons of iron ore by reusing tailings and other materials from our operations, reducing waste and creating value.

The report also touches on our Community relationship plans which are channels designed to share information about our operations and implied risks and impacts. It is also a way for us to listen to the perspectives and concerns of the local communities, incorporating those into our business decisions.

I invite you to read the full report to get a better understanding of our sustainability journey and how we are working to build an even better Vale.

Now, I will turn to Marcelo Bacci to talk about our Financial Performance. I'll be back for closing remarks before the Q&A session.

Thank you.

Marcelo Bacci:

Thanks, Gustavo, and good morning, everyone.

As you can see, our Proforma EBITDA reached US$ 3.2 billion in the quarter, 8% lower year-on-year, which we see as a solid performance, particularly considering that iron ore prices fell 16% in the same period. The combination of the continued C1 cost reduction and an encouraging performance from Vale Base Metals, which doubled its EBITDA in the period, were the key factors for the resilience in the quarter.

Let´s take a closer look at our cost performance on the next slide.

Our costs continue on a very positive momentum.

In Q1, iron ore C1 cash costs excluding third-party purchases reached US$ 21 per ton, 11% lower year-on-year, driven by our efficiency initiatives and a favorable exchange rate. With this strong start in 2025, we are even more confident in achieving our C1 cost guidance for the year, of 20.5 to 22 dollars per ton.

Our all-in cost performance was also solid, with a 7% year-on-year reduction, reaching US$ 54.4 per ton. The improvement was not only driven by a lower C1, but also by lower freight costs and expenses. This was our lowest all-in cost for a first quarter since 2022.

Turning to our Energy Transition Metals business, we observed a significant year-on-year improvement in both operational and financial metrics, already reflecting some initiatives from the Asset Review.

In copper, our all-in cost decreased by 63%, reaching US$1.2 thousand dollars per ton, substantially below our US$2.8-3.3 thousand dollars per ton guidance range. This was due to strong performances at Salobo and Sossego and increased by-product revenues, benefiting from higher gold prices. We are highly confident on delivering our copper all-in guidance in 2025.

In nickel, the all-in cost decreased by 4% year-on-year, driven by solid operating performance and higher volumes, leading to fixed cost dilution. Nickel costs should decrease in the upcoming quarters, driven by the ramp-up of the Voisey's Bay underground mine and by our continued efforts towards efficiency gains.

Now, moving on to cash generation.

Recurring free cash flow reached roughly US$ 500 million in the quarter, lower than the US$800mn generated in Q4, mostly driven by seasonally lower EBITDA and lower than usual working capital variation. During Q1, we had a lower-than-normal cash collection, as we opted to ship less in December of 2024, given our portfolio optimization strategy. Lastly, total capex was slightly lower year-on-year, trending in line with our guidance for 2025 of approximately 5.9 billion dollars.

Our free cash flow generation and strong cash position were primarily used to return value to our shareholders, with the payment of 2 billion dollars in dividends and interest on capital in March.

As you can see on the next slide, this payment led to a seasonally and expectedly higher expanded net debt, which reached US$ 18.2 billion in the quarter.

Our Expanded Net Debt range remains between USD 10 and 20 billion. We will gradually bring it back to the mid-level of this target in the coming quarters, supported by higher cash flow generation and along with a USD 1.1 billion positive impact from the Aliança Energia deal – which includes both cash and deconsolidated debt.

To conclude, I would like to reinforce our focus on disciplined capital allocation, maintaining net debt within our targets, utilizing asset-light strategies, and delivering strong shareholder returns through dividends and buybacks. As Gustavo mentioned earlier, we also remain highly committed to improving cost and capex efficiencies, making sure we become an even more competitive company.

With that, I now pass the floor back to Gustavo.

Gustavo Pimenta:

Thanks, Marcelo.

Before we open for the Q&A session, I would like to reinforce the key takeaways from today's call.

We will continue to leverage our supply chain flexibility in iron ore. Our ability to adapt the portfolio according to market conditions puts us in a unique position to maximize value. Additionally, the ramp-up of the Vargem Grande and Capanema projects will further enhance this position.

At Vale Base Metals, we are already seeing the benefits of the Asset Review initiatives. Our operational performance and EBITDA generation improved quarter-on-quarter and year-on-year and I am highly confident that we will continue to make significant progress in the coming quarters, creating a leading energy transition metals business.

Driving cost competitiveness across our businesses is a key priority for us and I am happy to see our Q1 performance, demonstrating that the actions we are taking are already generating results and will continue to do so in order to create value through-the-cycle.

On our Sustainability journey, the recently published Integrated Report brings updates on our progress towards our ESG targets. We remain committed to our long-term goals and to continuously increasing transparency and keeping an open dialogue with our stakeholders.

And finally, our disciplined capital allocation approach, combined with strategic asset-light initiatives (as was the case of the Alianca joint venture), will continue to ensure healthy remuneration to our shareholders.

Now, let´s move to the Q&A session.

Operator:

We are going to start the question-and-answer section of the call. If you have a question, please click on the "raise hand" button. If your question has already been answered, you can leave the queue by clicking on the "lower hand" button. Please ask your question in English and limit your questions to two at a time. Our first question comes from Rafael Barcellos with Bradesco BBI.

Rafael Barcellos

Good morning and thanks for taking my questions. My first question is about the iron ore market. So, iron ore prices have been holding up pretty well around the $100 per ton level, which is quite different from the pressure we have seen in other commodities, right? So, I just wanted to check what kind of feedback you are getting from China? How healthy do you think the iron ore market is right now? And Gustavo, if you can complement here. I mean, what has changed at this point in your capital allocation strategy given these macro uncertainties we are dealing with? And then my second question is for Rogerio about Vale's commercial strategy. So, looking at the release in your product mix, we have seen IOCJ volumes coming down, concentration in China going up and the others line becoming more relevant. So, it would be very helpful if you could talk a bit more about these movements, explain what is behind the others line, and of course, give us more color on the overall commercial strategy.

Gustavo Pimenta

Gustavo here. I'll start with the question on the capital allocation given the macro environment. Look, it's certainly something we are watching closely. We haven't yet seen a material impact on our operations or financial results. As you know, we sell very little, for example, into the U.S., nickel has been exempted. But we are monitoring closely because the situation is highly fluid and certainly if there is an overall impact in the global GDP performance, this will certainly have an impact on commodities. So what we can do and what we are doing is to be highly focused on cost efficiency and highly disciplined on how we allocate capital to make sure we preserve liquidity, and we continue to deliver on our efficiency initiatives. We had a good Q1. I think that was highly encouraging for all of us, and we'll continue to do so vis-a-vis the current macro environment.

So I'll pass to Rogerio to cover the market question.

Rogério Tavares Nogueira

Okay. Good morning Rafael, thank you for the question. I think the market, as Gustavo said, is fluid. It's volatile, difficult to predict, as you know. But we see it reactions differently in different geographies. Let me cover some of them. Let me start with

China, which is the most important one. I think coming out of China, we see a mix of confidence and caution. A lot of the clients that we just visited recently, they're having their margins improved and waiting from some news from the government, especially on this new political meeting, which is expected to come in the coming weeks. But we had real signals that the market was moving in the right direction. So the first quarter 2025, we had a GDP of 5.4%, which was actually higher than expected. On the steel market, crude steel production was up 0.6%. Pig iron production was even higher. Fixed asset income, which is something that we always look at on an aggregate basis was up 4% with manufacturing and infrastructure coming very strong out of the incentives from the Chinese government. I think you all know properties are still struggling, but there are some good tailwinds, especially when you look into property sales, which is actually decelerating but at a much lower pace. So, this actually gives us an indication that the market might have been at the bottom.

On our client side, as I said, a lot of the clients that we have talked to are actually doing good margins of around RMB 200 per ton. But on average, that's not the general market case, it's actually improving, their having margins above zero. So, there's a bit of confidence.

I think the other indicator, which is important when you look into China is the blast furnace utilization, which is going up over 90%. Also, in terms of the steel market. As you may see, inventory at mills and traders have come down. So, all in all, I think very positive from a steel side.

When you look and when we translate the steel into iron ore, we see that imports actually, in this quarter decreased slightly because of the situation that the Australians faced. But at the same token, inventory has decreased. So we see a bit of a balanced market in China. But with, as I said, a lot of expectations that the Chinese government would actually react to any impact the tariffs would have and incentivize domestic consumption to offset exports. Ex China, I think it's a little bit different. We see different markets reacting differently. Japan and Korea, for example, have a difficult challenge. We have been there talking to our clients. Japan, there is a construction situation, which the market is depressed, Korea, the auto manufacturing is facing some difficulties. They're also facing the election of the new Prime Minister and the EU, where they have some closure of some plants, but we expect the loose monetary policy. There might be some reaction. A lot of regions, India and Southeast Asia, some of the countries going up, but the rest of the world is a bit balanced.

But all in all, when you look into the global supply demand, we believe it's going to be balanced. Brazil increasing production, India decreasing. Supply is still at about 1.6 billion tons. But with that, with a slight oversupply, we expect prices to still be at the levels of $100 per ton.

Operator

Our next question comes from Caio Greiner with UBS.

Caio Greiner

Hello, good morning everyone, thank you. My first question, I wanted to get an update on your value-over-volume strategy. Rogerio, I know you mentioned that iron ore markets are resilient so far. But I mean, what we're seeing is that the Chinese demand environment and the economy is likely to weaken over the coming quarters. So, I mean, if in a scenario in which iron ore prices are impacted and start to move lower, at what level of prices would Vale start cutting its high-cost capacity? And how much capacity are we talking about here? This has been a question we have been getting a lot from investors.

My second question for Bacci in terms of the CapEx efficiency program. Bacci, we're glad to see the CapEx moving lower on a year-over-year basis. It's in the right direction for a reduction compared to the previous guidance that you had. So, I was just wondering if you could give us an update on how the program is evolving. If you could elaborate a bit more on the main initiatives. And I know you already revised the guidance downwards, but I was just wondering if Vale still see room for more, if there's still room to revise down the CapEx figure for closer to $5 billion or $5.5 billion, that would be helpful. Thank you

Rogério Nogueira

Ok, before I go to the price question, let me just talk briefly about the portfolio, which was the question that was raised previously, and I ended up not answering.

Look, I think we have indeed sort of conceptualized redesigned our portfolio. And we've done this under current market conditions, and we are beginning to implement these new changes. So let me provide the context and background of what I say and what I call the current market conditions.

As you know, our clients are operating under very low margins. Coking coal prices are very low. So, what we see today is less of a need for productivity. And thus, quality premiums are at their lowest. And what clients are actually seeking for is for mid-grade iron ores. So, in that regard and in that context, let me give you a few examples of what we're trying to do and what we're starting to do. First, I think we're moving towards concentrating the most we can of our low-grade iron ore to provide these mid-grade products. It is an accretive movement in terms of the tonnes that we beneficiate but it is also very accretive when you look into the broader portfolio, and this is extremely important. We're also looking how to optimize this concentration of value chain outside Brazil looking for plants. They have good logistics, plus they have good operational performance where we have very good metallic yields so that we can make it even more profitable.

I think the second initiative that I'd like to highlight is the launch of a mid-grade product out of Carajás. Why mid-grade? Again, this is much more appropriate to what the market is looking for. And being from Carajás, as we understand it, it actually would still have the good metallurgical properties, which are delivered by the Carajás because of its crystalline structure. So, it suits the market but it also helps us with providing some flexibility at the operational sites. So, what do we mean by flexibility? This means that we can operate with lower strip ratios eventually reduce costs, eventually increase production. But not only that, actually, this allows us to increase our reserve base. So, it's a very sensible move at a point that the market is actually not paying for, we're not actually providing us with very high premiums.

Last but not least, we will need to have a transition period. And during that transition, you will see some fines, which actually, not standard or no standard fines that we will need to sell, but this, it will be during the transition process, okay? But I'd like just to let you rest assured that our objective function in this is always, has always and will always be to maximize value. So it's not about only price realization, or only volumes, or only costs it´s about the product of unit margin times volumes. So it's an absolute value maximization. This is what we're looking for. And again, as we do it and as we go through the exercise, we're flexing our supply chain. We are creating the broad portfolio that we can always come back to and if the market changes that we can change and adjust ourselves very quickly. So that's the whole picture here.

The question on iron ore prices coming lower. This is a more difficult one because when we look what's going on in the world, and we see all these measures coming from the tariffs. We don't know exactly what the reaction is going to be. So, for example, if China reacts, it actually puts a lot of incentives in the domestic economy, which is something quite likely. A lot of this steel which is currently being exported might revert back into China. And quite frankly, this can be even more positive given the fact that steel produced in China is essentially produced out of pig iron. I think the other element that people ask a lot is, okay, prices may come down because currencies are depreciating, oil prices are coming down. It's still too early to talk about it and to see it. You see some currencies have depreciated, but now coming back. My general feeling is that we will have a year which is very similar in which prices are going to be stable at the very same levels that we're seeing right now.

Marcelo Bacci

Caio, in relation to the CapEx question, the first quarter is seasonally lower normally. So, you shouldn't be annualizing this amount. We're still shooting for the $5.9 billion. We are working constantly and seeing if we can find additional efficiencies, but we keep the guidance at 5.9 for the time being.

Operator

Our next question comes from Caio Ribeiro with Bank of America.

Caio Ribeiro

All right, good morning everybody. Thank you for the opportunity. So my first question is on dividends. In the past years, Vale has announced extraordinary dividend payments, such as when the 10% stake in the base metals division was sold and more recently as well in the fourth quarter, right? So my question is, with that announced transaction related to Alianca Energia, right, in which the company should receive a $1 billion cash influx, whether you see room to return that to shareholders in the form of dividends, particularly given that your expanded net debt is still below the ceiling of your self-imposed cap, but now it's at $18.2 billion, which is closer to the top of that self-imposed range versus the $16.5 billion that you had in the fourth quarter, which is the last time that you announced an extraordinary dividend, is there a particular level of expanded net debt that you see the likelihood of those extraordinary dividends being highly likely.

And then secondly, as you ramp Vargem Grande and Capanema, you should be extracting more volumes, higher grade volumes, which should help with your cash cost performance, just given the higher cost dilution. And you already started the year with a C1 closer to the lower part of the guided range for the year in a seasonally weaker period of production and shipments, right? So, I wanted to see if you could share some color on whether you see room throughout this year to revise your cash cost guidance for the year lower and whether you see room to beat that flattish year-on-year production guidance? Those are my questions. Thank you.

Marcelo Bacci

Caio, this is Marcelo speaking. In relation to dividends, we are, as discussed by my colleagues before, we are in a very uncertain period in terms of market conditions. So, it is not the right moment to discuss extraordinary dividends at this point. The cash inflow from the Alianca deal is already considered in our program for the year in which we intend to reduce the expanded net debt level towards the $15 billion midrange. So, we are already counting on that. And you should expect that if given market conditions and our performance, if our expanded net debt trends below $15 billion, we have a higher probability of having extraordinary dividends or more buybacks. But other than that, I think it's too early to discuss that.

In relation to your second question, we had indeed a very good first quarter in terms of cost. The second quarter, I would like to highlight that, that's seasonally worse than the first quarter, historically. So, we expect, because it carries the production cost of the first quarter, which is given the lower volume, it's a higher cost. So, the C1 on Q2 is going to be probably higher than in the first quarter, but still lower than the same period of last year. So, looking at the full year performance, we are very confident about the guidance that we gave and again, it's too early at the beginning of the year to be thinking about the revision, but our level of confidence has increased indeed.

Operator

Our next question comes from Daniel Sasson of Itau BBA. You can open your microphone.

Daniel Sasson

Good morning. Thanks for taking my questions, some of them have actually been answered. Just, if you could give us more details on your strategy by or from third parties. I know that Rogerio mentioned about having flexibility and to deal with different types or different properties of ore to maximize absolute value. How are you thinking about the volumes that you're going to buy from third parties, especially considering that you're going through the ramp-up of Vargem Grande and Capanema? That would be my question.

Rogério Nogueira

Hi Daniel, thanks for the question. I think, first of all, I just would like to make clear that we will only buy it if it is value accretive. If prices are about $100 per tonne as they are today, we expect volumes to be close to what we've done last year, around 25 millions ton, right? But if market prices decrease, we will cut nonprofitable ores, I think, just to make it clear, and obviously, there are different miners with different kinds of ores, different types of costs. So there's a gradation in terms of cost. So as prices come down, it probably will reduce volumes, but it will do it gradually. Now margins differ based on product quality, railway, ports used, freight costs. But again, rest assured that if prices come down, we'll cut it accordingly. So that we always keep very accretive volumes.

Operator

Our next question comes from Carlos De Alba with Morgan Stanley. You can open your microphone.

Carlos De Alba

Can you hear me now? Great, thank you very much. Just a couple of questions. One ready for Rogerio, can you give us, Rogerio, more color please on the expected ramp-up or at least the progress in the stabilization works of the Plant 2 of the briquette at Tubarao? And any color as to how the conversations with clients and the acceptance by them of this product is evolving? And the second question, Gustavo, from a, if we step back and look at what is happening in the iron ore market, what is happening in China from the demand perspective, what is going to happen in Guinea with Simandou and the supply expansion there. Is there any circumstances under which you feel that

Vale would need to increase its exposure to iron ore deposits in Brazil, or at this moment you think that focusing on what you already have with the great endowment of your reserves and the efficiencies that you have already put in place puts the company in a very strong position.

Rogério Nogueira

Okay Carlos, let me start with the ramp-up of our pellet plant BT01 and I'll pass it to Medeiros. From a client point of view, we have a very long lineup of clients trying and looking for testing the briquettes because the industrial trials have been very successful. And we're now starting to produce for the short industrial trials. Now we're starting to produce for longer industrial trials. What I can tell you is that we have a batch right now at a blast furnace client we should be able to try it. It's a second generation of the briquettes to try within the next couple of months. And also, there is a lot which is in a direct reduction client we're also expecting to test it within the next couple of months. So, we have been successful in producing commercial products out of BT01. And as soon as we have these initial results, we will start actually sending lots for clients around the globe, but I'll let Medeiros talk about the ramp-up situation.

Carlos Medeiros

Good morning, Hello Carlos. So talking about the briquette plant, it's ramping up according to our expectations. As Rogerio mentioned, we have produced two batches of commercial products, one for direct reduction, another one for blast furnaces. Last month, we produced 40,000 tons of briquette. Now we have the plant down for some adjustments in the mixes and other parts of the plant. And maybe in a week or 10 days, we'll be ready to start production again. And our expectations is that until the year-end, we should be producing about 600,000 tons of briquette. I'll hand over now to Gustavo.

Gustavo Pimenta

So Carlos, to your question on the iron ore deposits, you're right. I think we have a very unique endowment not only base metals, but also in iron ore, we've launched it early in the year, the new Carajás initiative. And we are seeing a lot of good insights from the team on our ability to increase copper but also make sure we bring back the northern range to about 200 million tonnes a year, which would be highly accretive for our shareholders. So, we are very focused on that. We are always looking for things beyond that in our portfolio if they make sense. But if they, if we consider that they will make sense, they have to make sure and they have to fit within our capital allocation framework, our return thresholds, our risk assessment and so on. But you are right, I think most of the opportunities today reside on the development of our own endowment.

Operator

Our next question comes from Rodolfo De Angele with JPMorgan. You can open your microphone.

Rodolfo De Angele

Hi, good morning everyone. I have two questions here. The first is on the nickel business. We see iron ore doing well, the trend of costs going down, the results on copper were quite impressive. But nickel remains, even though you were able to cut costs, it's a business that's generating very, very little EBITDA. And we know it comes with, if I'm not mistaken, close to $1 billion in CAPEX every year. So can you talk a little bit more about what can be done on that front?

And my second question is to Rogerio. Rogerio, Vale has always been very creative in terms of commercial strategy, and we don't have to discuss BRBF and blending, which was really, really smart. But as we look into the future with the coming of Simandou, what can be done there? Because I feel like briquettes are great for a time when clearly, we move into decarbonization, but there may be a gap in terms of timing where we're going to have more and more high-quality material, not only that, but in the hands of Chinese and your competitors. So, what can be done on that front? So, those are my two questions and thank you very much.

Shaun A. Usmar

Rodolfo, good morning. It's Shaun in Toronto. So, to your question on nickel, I think I'll zoom out for a second and just take you back to the journey we talked about on the last earnings call. You may recall, we talked about starting off with reducing our overhead to reduce the burden on our operations and both copper and nickel. We termed this internally Project catalyst, and we talked about achieving a run rate of around US$ 200 million a year of cost reduction. We've achieved that. In fact, I think we've exceeded what we had expected. And we've actually tried to take that further, just given the uncertainty that we're seeing geopolitically and in the markets. And so, to give you a sense, relative to our plans, so including the overhead reductions, which, of course, have one-off costs that run rate is around 1/3 of our global overhead reduction, and just far greater levels of engagements and opportunity and focus on business. We're at around about US$ 285 million for the year. So, the team has exceeded really what I thought they could achieve. And we're going to continue on that sort of cost efficiency program, which looks at just cash flow opportunities across the board, and that includes the nickel business. Now you've seen there's a lag between production and sales. I think as you look to nickel, bear in mind, not only are we focusing on the overhead reduction programs, you may recall, we have, this year, we'll have a full year of Onça Puma furnace 1, which will contribute to fixed cost dilution and volumes. We will, and we're on track to bring on the second furnace at Onca Puma, which will take place during Q3, and we should start seeing volumes by the end of Q3 occurring, which will again add to fixed cost dilution. And you'll recall, we announced around the time of Vale Day last year that we just finished the Voisey's Bay mine expansion. I was at site a few weeks ago. The team is doing remarkably well on that ramp-up. I think they're about 108%. So just above where they plan to be through Q1 and are doing well. And then in Sudbury, you will recall, we are focusing on our ramping up our productivities. We're targeting about a 30% productivity improvement and to maximize the utilization of our mill at 5.5 million tonnes this year and then to go beyond. So, my message to you is you should start seeing more of those cost improvements because our focus for this business under any scenario is not to try to buy our way to a sustainable future in nickel. It's to firstly extract the potential going beyond what was identified in the asset review minimizing costs, maximizing our internal throughputs, focusing in a very disciplined way on cash margins and our ability to make sure we can generate value through the cycle. And then I'd say the residual focus is to make sure that given the uncertainty and oversupply for the next several years, at least coming out of Indonesia, is to position our portfolio through these activities in the lower half of the cost curve to be able to be resilient and to be able to give us and our investors the benefit in better price environments in the future.

And lastly, you'll recall, as part of that initiative, we're also looking at the portfolio optimization. And we'd announced previously the strategical review on Thompson. I just got back yesterday from Thompson. I spent time on the ground there with the team, and they were focusing on not just the progress of that initiative which we've just finished the first round of and we'll be progressing that through to the next phase and then making a decision as to what our future holds with that asset in the second half of the year. So hopefully, that answers your question, but I think you should expect volumes to be increasing through this year in nickel, our overheads are down. That will be flowing through in all our results as we go forward. And you'll see the fixed cost dilution as our volumes come up in nickel through this year, and then we will continue to find ways to maximize value from our portfolio and endowment. So hopefully, that gives you a good sense.

Rogério Nogueira

Okay, Rodolfo, first of all, thank you very much for your comments on our innovative commercial strategy. I think that's very good to hear about it. On briquettes, I think you're right. Even though they can be used with good results and good performance in blast furnaces, the real transformation, the real breakthrough comes when it's used together with direct reduction, which is going to be more and more used during the decarbonization journey. But on Simandou specifically, which was your question, Simandou has been in the market for quite some time. Obviously, when such a big project is actually put forward in the market, a lot of other investments they get actually postponed. So this is just one element.

The other one that I'd like to highlight is what we've talked about doing our Vale Day, which is, ah, if you look into the industry, you have a natural depletion between 3% to 4% a year. And if you calculate this on top of 1.6 billion tons of seaborne iron ore we're talking about a 50 million to 60 million tons depletion per year, which actually offsets the entry of Simandou to the market in a couple of years. So, this is important, the first point that I would like to highlight. Second one is that it is not only Simandou high-quality ore, which is coming to the market. A lot of the players who are developing - two of the players are developing Simandou - are also planning to bring lower quality ores into the market to provide their blends. So, what I want to say here is that ultimately, the amount of the surplus of high-grade iron ore to the market, might not be as just purely simple looking to the amount of Simandou. And that actually allows us room to play. Having said that, what we're, this decision on the portfolio, the flexibilization of the supply chain, will come in very handy because depending on how the market evolves, we will have a portfolio of products that we can tap into, a comprehensive portfolio of products that we can tap into to maximize value.

Gustavo Pimenta

Rodolfo, Gustavo here. Maybe just a quick note to add. I was with Rogerio and our commercial team recently in Asia. And despite all of the noise we hear in terms of delay decarbonization and so on, our clients in China, Korea, Japan remain highly focused on decarbonizing their production processes. So, this is something for me was good to hear. Certainly, I'm not saying we don't have challenges on that agenda globally. But I continue to see our key clients highly focused on pursuing the carbonized routes, which I think it was encouraging for us to see a lot of momentum, for example, that we are seeing in the Mega Hubs strategy, people are not moving back. So that was, I think, a good data point that we got recently from our clients.

Operator

Next question from Marina Calero with RBC. You can open your microphone.

Marina Calero

I have a couple of questions on my side. First, on your production performance, it looks like rain levels in the Northern system were heavier than usual in Q1. Can you give us some color on how production has been progressing so far in Q2? And then my second question is, can you remind us how much debt is linked to Alianca Energia?

Carlos Medeiros

Ok, Marina, thanks for your question. So, the rainfall during Q1 were unusually high. Just to put in some context, in the port in February, the rainfall levels were the highest in 20 years. So, in March, particularly in Serra Norte, we had a rainfall that was 3x higher than the average. So, all this had an impact on our infrastructure that explains part of the lower volume that we saw. All these problems were fixed. And I must say that all the, everything that we have in place in our port worked, the drainage systems, they worked. But the issue here was being close to the TML, we had to be extra careful in the way we handle our products. So, all this is behind, the rainfall now is back to normal levels in our mines in the North and also, we expect the rain season to be over in the next 2, 3 weeks in our port. So far, in Q2 in April, we have produced around 1 million, 1.1 million more than the same period of last year. So, I'm talking about the first 20-21 days of April. So that confirms that we are in the right path as far as our reliability and the stability of our production processes, okay.

Marcelo Bacci

Marina, in terms of the Alliance deal, the impact on that is minor, is around $100 million of the consolidated debt in addition to the $1 billion of cash that we're going to receive, of course.

Operator

Our next question comes from Christopher LaFemina with Jefferies. You can open your microphone.

Christopher LaFemina

Hi guys, hopefully you can hear me ok. Thanks for taking my question. Most of my questions on operations have been answered. But I wanted to ask about capital allocation and other mining companies are talking more about kind of stepping up their capital returns. Vale obviously has a really strong track record in terms of dividends and even buybacks and you're trading at an extraordinarily inexpensive valuation. So if we go into 2026 and the iron market is as resilient as we expect, generating good cash flow, your net debt is approaching the middle of that net debt target range do you step up the pace of buybacks? How do you look at buybacks versus dividends? Because it seems like buying back shares at the current price or current valuation is a very compelling option for you? So, that's my first question. And secondly, it's interesting how it feels like in the world of iron ore, we're always playing defense and trying to understand strategic decisions in a weaker market and what might prevent that weaker market from happening. But of course, we don't know where prices are going to go. And it's possible that we get higher prices. And I'm wondering, you've been the leader in terms of value over volumes and generally has been taking capacity off-line in weaker markets. But how does Vale change operationally in the event that prices materially and somewhat sustainably surprise to the upside. So if we're in a $120, $130 price range for a period of time, what do you do differently in that case? Thank you.

Marcelo Bacci

Christopher, this is Marcelo speaking. Thank you for your questions. In terms of capital allocation, we are now in a phase, as I mentioned before, that our intention is to bring our expanded net debt back to the middle of the range around $15 billion. If we approach that faster than we expect, and of course, you're right that there's a lot of uncertainty on the market scenario and prices could go higher than we are seeing today. The trend of having extraordinary dividends and buybacks is, of course, higher. And the choice between the two alternatives will depend a lot on where the share price is. If you remember last quarter, we decided to approve a new volume of buyback program considering that the share price was very attractive for that. So, you should be monitoring the combination of the share price and the level of expanded net debt and given the fact that we, when we are back to the $15 billion level, and if price levels are attractive as they are today, we have a higher chance of having more buybacks.

Gustavo Pimenta

So Christopher, Gustavo here. I think on your second question, I think one of the unique advantages and characteristic of Vale is the fact that we have a very wide, flexible portfolio, right? And if you look last year, just to give you an example, we removed 8 million tons from the market in Q4 because prices were not there. Now that we are having Vargem Grande, Capanema and later +20 coming online, I think we are finally having after many years an even greater flexibility to play value over volume. So, in a positive scenario like the one you quoted, I'm sure you're going to have the opportunity to go further in our supply chain and capture value as we can do when the markets are down. So, I think the three projects we are bringing online, they will be critical for us to have increased flexibility to play even more the value over volume. And every single ship that we sell, every single vessel that goes out to the market, we make money on it. So, we are very disciplined on how we allocate our cargoes and volumes into the market, and we'll continue to do so.

Rogério Nogueira

In addition to what Gustavo is saying, working on a more comprehensive menu of products, if you will, that we can access and change our mine plans, our logistics very quickly to adjust to the market reality. So, if prices go up, we can change it quickly. If prices come down, we can react similarly quickly. So that's exactly what we're building. We have the capabilities, we have the systems, but we're trying to make it more fluid.

Operator

Our next question comes from Yuri Pereira with Santander. You can open your microphone.

Yuri Pereira

Hi guys, good morning, thank you. First question to Shaun. Do you have any sensitivity of gold prices on company's copper costs? And maybe to Gustavo, regarding the Mariana agreement, do you have recently more municipalities searching for an agreement with you? Thank you.

Shaun Usmar

Yuri, hi, yes, on the gold sensitivity, obviously, we're experiencing pretty good gold environment right now. You'll see that for every $100 an ounce move in gold price, what that does for our all-in cost for copper is about $135 a ton.

Gustavo Pimenta

Yuri, on your question on the municipalities, the time has passed. So, we had a deadline for the municipalities to join. So, the majority of it joined and the ones that have not joined, will not be able to enjoy the payments that have been already made to the other ones.

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.