Local Conference Call
Vale S/A(VALE3)
1Q23 Earnings Results
April 27th, 2023

Operator: Good morning, ladies, and gentlemen. Welcome to Vale's conference call to discuss first quarter 2023 results. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. This call is being simultaneously translated to Portuguese.

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

This conference call is accompanied by a slide presentation, also available at the Investors link at the Company's website and is transmitted via internet as well. The broadcasting via internet – both the audio and the slides changes – has a few seconds delay in relation to the audio transmitted via phone.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors.

With us today are:

- Mr. Eduardo de Salles Bartolomeo – Chief Executive Officer;
- Mr. Gustavo Pimenta – Executive Vice President of Finance and Investor Relations;
- Mr. Marcello Spinelli – Executive Vice President of Iron Solutions;
- Mr. Carlos Medeiros – Executive Vice President of Operations
- Mrs. Deshnee Naidoo – Executive Vice President of Energy Transition Metals;

First, Mr. Eduardo Bartolomeo will proceed to the presentation Vale's first quarter 23 performance, and after that he will be available for Questions and Answers.

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

Eduardo Bartolomeo: Thank you very much. Good morning, everyone. I hope you are doing well.

We started 2023 with great confidence in delivering our goals for the year. In iron solutions, iron ore production was solid, specially at S11D thanks to a better performance of a truckless system and installation of the new crushers in 2022.

In addition, our pellet production increased by 20% year-on-year with higher feed availability and improving asset reliability in our pelletizing plants.

On iron ore sales, the gap to production was primarily due to weather restrictions in loading at our Northern port and supply chain rebalancing after strong sales in the fourth quarter of last year. Since production was not affected, we expect to offset this impact in the second half of the year. In this sense, our average iron content and quality was slightly lower impacted by the port restrictions and opportunistic sales of low grade which add value to the company.

In energy transition metals, copper production grew over 18% year-on-year supported by Salobo startup and with sales up to 25%. Finish nickel production was impacted by the ongoing transitional period between the depletion of Ovoid mine and the full ramp-up of Voisey's Bay. On a very high note, our Sudbury mines continue to deliver remarkable performance with record ore production rates since 2017. Also, we continue to make progress on the EV supply chain with two important milestones for Pomalaa and Morowali (in Indonesia), which I will cover later.

Moving on to sustainability, we're steadily making progress with our dam safety management. This year we upgraded the safety levels of two more dams removing their emergency protocols. Our improvements in health and safety practice led to renewed perception by ESG rating providers. On that, Sustainalytics completed its annual review on Vale in March with a substantial upgrade in our ESG risk rating.

On top of that, our discipline in capital allocation remains pristine. We're walking the talk and returning value to shareholders. In March, we distributed US$1.8 billion in dividends while completing 47% of the third buyback program launched since 2020.

So, let's see our performance in detail in the next slide, please. We are well-positioned to deliver the production guidance for iron ore this year. We already produced 4 million tons more than the same period of last year and we expect to continue with a steady performance as the seasonal challenges fade away. In the Northern System, asset availability increased at S11D with lower non-scheduled maintenance and solid production output. That achievement aligns with our intensive efforts to standardize processes and ensure adherence to best operational practices.

In the Southern and Southeastern Systems, the heavy rains did not prevent us from delivering a strong production, contrasting with what we experienced last year. The loading restrictions mentioned caused the production-to-sale gap and the lower average grade, which are temporary, and we should be able to compensate it in the second half of the year. In addition, we are close to obtaining the operating license for Torto dam, since we had its emergency plan approved in March. The dam will support pellet feed quality and volume, as well as product mix and average price premium.

Another project that is moving well is the commissioning of Gelado, which will produce high-quality pellet feed by reusing the tailings that have been deposited in the Gelado dam.

In this context, we are confident that we will reach our volume guidance and average grade for the year of 2023.

Next slide, please. In Iron Solutions, tests in clients' furnaces are confirming the benefits of iron ore briquettes. We shipped the first cargo for international tests in April. So far, eight industrial tests in six furnaces are under execution with another nine tests expected this year. Our first two industrial plants will start up this year in Tubarão.

I believe we are facing unprecedented opportunities for segmentation and demand growth for high quality. Concentration is key to a high-quality low carbon supply, reason why we signed up for the development of mega hubs in the Middle East and launched the green briquette. Therefore, Vale is uniquely positioned to be the supplier of choice in that scenario, we combine volume, quality, innovative portfolio, and a well-structured supply chain for a decarbonizing world.

Next slide, please. In the Energy Transition Metals Business, I call your attention to our copper production growth, up 18% year on year, which allowed for a sales growth of 25% year on year. This was mainly the result of Salobo III ramp-up and Sossego's improved asset availability benefiting from the extended SAG mill maintenance in 2022.

In Nickel, Sudbury delivered the highest production in the past five years, following another production record in the last quarter due to the excellent performance of our Sudbury mines.

As I mentioned before, the lower finished nickel production for the quarter was expected and was mainly due to the ongoing transitional period between the depletion of Ovoid mine and the production ramp-up of Voisey's' Bay. In the second quarter, we have planned maintenance for Voisey's Bay and Long Harbor operations as well, which should impact Voisey's Bay and Thompson production.

Next slide, please. As I said, we are steadily ramping up Salobo III. Both lines are operating, which is an important milestone for the site. We expect to reach full capacity within 20 months with a relevant contribution to production by the end of 2023. Once at peak, Salobo III will add 30,000 to 40,000 tons of copper per year. As you can see in the picture, that is a beautiful set for a promising project and a natural hub for copper production in Brazil, with substantial value creation for shareholders and society.

With all that, we're confident on both guidances for Copper and Nickel this year.

Next slide, please. We continue to engage with clients and partners in the EV supply chain. We're setting the stage to pivot in Nickel. In that direction together with our Chinese partner, PTVI signed a definitive agreement with global automaker Ford Motor Company for the Pomalaa HPAL project developed in Indonesia. The three-party collaboration fosters conditions for a more sustainable nickel production in Indonesia. We also launched the project construction in Morowali in February. That is an integrated nickel mining and processing plant powered by natural gas, with start-up expected in 2025.

As you can see, we have unique assets, innovative technology, customer engagement, and a supply chain to be the supplier of choice for the EV revolution. With active listening and open dialogue, we set the stage for the strong growth ahead of our Energy Transition Metals business.

Moreover, we continue to make significant progress on several fronts, including on the minority sale, and today I am happy to announce that we have advanced on bringing Mark Cutifani as the Chairman of our newly formed Energy Transition Metals Board starting July this year. Mark needs no introduction, and we are certain he will be a valuable partner as we bring our Tier I portfolio of assets to the next level, unlocking significant value to our shareholders.

Next. We're moving safely towards leadership in sustainable mine. That starts with reducing the risks associated with dams. Since 2020, our approach allowed ten dams to be stated safe and stable by external independent reviewers. With that, those geotechnical structures had their emergency level removed. By August, we are on track to be adherent to the GISTM, the Global Industry Standards for Tailings Managements, for critical structures. That give us confidence that we'll be 100% compliant by 2025 to all other structures. With more robust safety practices, the ESG risk perception on Vale improved considerably. The company has been re-rated by important ESG risk raters, with Sustainalytics providing the latest grade improvement for our company. That decision came with an assessment of critical controversy and improved practices in Health and Safety, putting Vale in the industry first quartile.

We're seeking leadership in sustainable mining. For that, we continue to deliver on many of our public commitments, such as in human rights, Amazon Forest protection, and community relations.

On the Brumadinho reparation, we reached 59% of commitments delivered per the conditions and deadlines set by the Integral Reparation Agreement.

Next slide, please. There is one thing I make sure to emphasize every single time: we substantially de-risked and reshaped Vale. On the de-risking, we had strong deliveries in dam management and decharacterization, besides advancing with the Brumadinho Reparation. On the reshaping, we simplified our business in a major way, we divested from more than ten business in five different countries, tapping cash drains and allowing ourselves to laser-focus on our core business, on safety, and on production stability.

The last milestone, to finally say we completed the Reshaping Program is the divestment from MRN. We moved a lot in building Vale of the future; a company that promotes sustainable mining, fosters low-carbon solutions, and remains disciplined in allocating capital.

Now I pass the floor to Gustavo, who will give you more details about our financial results. I'll get back at the end for our Q&A session. Thank you.

Gustavo Pimenta: Thanks, Eduardo, and good morning, everyone. Let me start with our EBITDA performance for the quarter. As you can see, we delivered a US$3.7 billion proforma EBITDA in Q1, US$2.7 billion lower than in Q1 2022. This decrease is mainly explained by US$1.5 billion lower price realization for iron ore fines. On volumes, we had an impact of US$574 million from lower sales of iron ore fines, which was down 5.5 million tons year-over-year despite the 3.7 million tons production increase. This is a transitory effect due to loading restrictions at Ponta da Madeira terminal during the rainy season and supply chain rebalance after strong sales in Q4.

We expect to offset this impact in the second half of the year keeping the annual sales plan unchanged. The US$435 million increase in cost and expenses will be detailed later in my presentation.

So, back to iron ore price realization, iron fines realized price was US$108.6 per ton, 23% on US$32.8 per ton lower when compared to Q1 2022, mainly due to the decline in benchmark price of US$16.1 per ton. Our average premium also contributed to lower price realization as our average sales quality was impacted by the temporary shipment restrictions at Ponta da Madeira port and the opportunistic sale of high silica products, as discounts for these products were low due to steelmakers negative margins.

The pricing mechanism had a negative impact of US$2.4 per ton on our final realized price. This is largely explained by the negative effect for realized lagged prices at US$96 per ton, which was partially offset by better sales prices in the quarter as compared to the provisional prices accrued in Q4.

Moving to our cost performance in the next slide. As you can see, our C1 cash cost ex-third-party purchases increased to US$23.6 per ton in the quarter. This is explained by three main factors: first, one-off events, which include profit sharing in Q1 and the anticipation of maintenance activities taking advantage of the lower volumes in the first semester; second, the volume mix and inventory effect. The lower production from our Northern System where we have the lowest C1 together with higher third-party purchases had a negative effect on volume mix and fixed cost dilution. We expect these transitory effects to be normalized in the year to go. The remaining impacts were related with the geological inflation in Serra Norte and higher fuel costs in our operations.

We remain confident in achieving our C1 guidance for the year of US$20 to US$21 per ton, mainly due to the production recovery in the Northern System and the rollout of our productivity program with gains in asset reliability and procurement initiatives with suppliers.

Moving to all-in costs in the next slide. As you can see at the bottom of the table, our EBITDA breakeven cost reached US$58.2 per ton. Besides the C1 cash cost increase, which I just explained, there were two other drivers: first, our distribution cost, which increased by US$1.5 per ton mainly due to higher share of beneficiated products in third party concentrators improving returns and margins; and second, lower market pellet premiums. As we reduce our C1 cost and improve the average quality of our portfolio with higher production from Carajás and more pellet feed production in Minas Gerais, we expect our breakeven to improve in the year to go.

Now turning to our Energy Transition Metals Business starting with copper all-in costs, there was a year-over-year decrease in cost of goods sold per ton due to higher fixed cost dilution, largely attributed to the improved operational performance at Sossego. This was offset by a decrease in our by-product revenue due to higher proportion of copper concentrate from Sossego. Also benchmark treatment and refining charges have increased this year. All in all, our EBITDA breakeven excluding Hu'u reached US$4.464 per ton, which should gradually reduce throughout the year as we continue to ramp-up production at Salobo III.

Now looking at nickel all-in costs, cost of goods sold ex-third-party purchases was impacted primarily by lower dilution of fixed cost and inflationary pressure, including higher fuel costs. In addition, volumes from third party feed increased year-on-year, as we had anticipated. Although this increases our cost, it is aimed at maximizing the utilization and performance of our downstream operations, especially as Voisey's Bay open pit is depleting and we progress on the ramp up of the underground mine.

Now moving to cash generation, as you can see, we delivered a 62% EBITDA to cash conversion in the quarter compared to 19% in Q1 2022. Free cash flow generation was positively impacted by working capital as we had a strong cash collection from Q4 sales, as we had anticipated last quarter. This effect was partially offset by transitory inventory build-up and seasonal disbursement related to profit sharing in the first quarter. We also paid around US$1.8 billion in dividends and repurchased almost US$800 million in shares in Q1 aligned with our capital allocation strategy.

So, let me talk more about our capital allocation strategy and more specifically about our buyback program. We are close to reaching 50% completion of our third buyback program and we expect to conclude it in Q4. We continue to see the repurchase of our shares as one of the best ways to create long-term value for our shareholders. After the completion of the third buyback program, we will have repurchased almost 20% of the company's outstanding shares. This means that for our shareholders with position since the start of the program without spending any additional dollar, their participation in future earnings would have increased by almost 25%.

So, before opening up for questions, I'd like to reinforce the key takeaways from today's call. As Eduardo mentioned, we are very encouraged with the leading indicators coming out of our key operational sites and the solid operational performance in Q1, only reinforces we are moving in the right direction. We are also focused on delivering value through accretive growth projects, such as Salobo III, leveraging on Vale's unique endowment. On portfolio redesign, we are happy with the progress to date and strongly believe the current portfolio of assets and the recently announced organization will position us to successfully deliver on our key strategic objectives.

And finally, we remain highly committed to disciplined capital allocation, as evidenced by our highly accretive buyback program.

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

Question and Answer Session

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

Please, restrict your questions to two at a time.

Our first question comes from Rodolfo Angele, JP Morgan Bank.

Rodolfo Angele: Hey, good morning, everyone. My two questions are the following: first, on the operating side, we know that with lower volumes, costs will naturally trend higher, but I've been more and more asked by investors about the trend that we've been seeing, particularly on iron ore, and also, on the nickel business where costs did deteriorate substantially.

So, my question is what can be done to kind of reverse this trend? If you could comment what would costs have been if we didn't have – especially in the iron ore – the restocking that we saw and how relevant are the new licenses over there to lower this? So, you know, any color on the cost trends would be greatly appreciated.

And my second question is more on the industry and how Vale positions itself. So, we started to see after years of an extreme focus on shareholder returns the industry is now moving back a little bit more into growth mode, especially through some M&A. Vale has just completed a divestment program, we've been discussing also the strategic move on the base metal side with a potential partial sale of a stake there to a strategic shareholder as well, and my question is should we expect Vale also to join this new kind of trend in the industry? Should we see the base metals also as an opportunity to speed up growth eventually not only through organic, but also through M&A opportunities? Those are my questions, thank you very much.

Eduardo Bartolomeo: Thanks, Rodolfo, here is Eduardo. I will let Gustavo elaborate on the cost related to dilution and growth for iron ore and nickel, OK?

I think you spot on. Vale is completely focused on its two core businesses, first iron ore, we’re always looking for some opportunity, some smart M&As that we can do adjacent of our operating assets, and base metals, the Energy Transition Metals that we call now is this platform. We never hidden that, it's almost three years that we're talking about ring fencing it, creating the right drivers. As you see today, our moves are substantially and effective, we just brought Jerome from Tesla to be an independent Board, now we have the the happiness to have Mark, a good friend, and old friend that worked with us in the past to lead the Board of this new company, and this new company is going to be a platform of growth.

We have organic growth, we have an endowment that nobody has in the world in the right jurisdictions, both Carajás, Canada and Indonesia, we have to tackle execution issues as you know as well, we're going to consolidate, this industry is going to be consolidating, so we are going to have the right entity to do that.

So, yes, the answer is we are going to grow, we are going to grow organically and we can grow inorganically when we have the right entity, and that's what we are building and we are truly on track on both the software (as people), the hardware as the legal entity, and even the participation that you mentioned that we are advancing as well with the 10% at most participation in the business.

I hope I have answered your question, but I think it's a very exciting moment for the Energy Transition Metals world for sure, but we're going to do it with extremely cautious and disciplined way, as we always have been.

And, Gustavo, please, could you elaborate on the question about costs?

Gustavo Pimenta: Yeah. Rodolfo, I think everybody is facing cost increase in the sector. I think if you look at the last three years, pretty much everybody has increased maturely their all-in right from 50 to 100%, it's not only Vale, but our competitors. I mean, there's a higher fuel cost impacting everybody in this space, labor, services. So, I think that applies to everybody.

Now I wouldn't read too much into our Q1 the cost numbers, and for a few reasons: I think the major impact we faced was regarding the Ponta da Madeira restriction, the shipping restrictions that we had. If it wasn't for that impact, our C1 would be probably US$ 2 lower. So, we should be normalizing the C1 in the second half of the year, the major leading indicator that I think we have to look at its production, and we were able to put US$ 4 million up quarter-on-quarter compared to last year, and the shipment we do have flexibility in the System to offset this in the second half.

So, I think all-in, when we bring this volume, especially Carajás, our cost should be benefited. There's also Torto, which as we've said before, it will help us with pellet feed almost 9 million tons, which will then lead to lower better all-in in terms of better premiums. So, we should be… we are very confident that we should be normalizing these figures in the second half of the year.

And nickel, there's a similar component there, we had more third-party feed in the first quarter of this year than we had last year, but we should be also compensating and having more own production in the second half of the year and therefore we continue to point to the 13 kilotons as our previous guidance for nickel cost.

Operator: The next question is from Leonardo Correa, BTG Pactual.

Leonardo Correa: Hello, good morning, everyone. Can you hear me, OK?

Eduardo Bartolomeo: Yes.

Leonardo Correa: OK, perfect. So, good morning, everyone. I have a couple of questions, and I'm sorry for moving back to the question on cost from Rodolfo, I suspect that this is going to be one of the big themes of this conference call, but it seems clear, Gustavo, from what you're saying that there's a very big element of this cost performance which is non-recurring and somewhat of a one-off, right? If we think of the breakeven costs just for fines into China, the number moved up to US$ 62 coming from about US$ 52 in the fourth quarter, so this is a US$ 10 per ton sequential increase, which I think obviously caught everyone by surprise.

I mean, using your judgment and using all the obviously the numbers that you guys have inside the company, what percentage of this or how much of this would you say is non-recurring? I think this is super important just so we have the right base to forecast going forward this very critical, important line?

So, I just wanted to get a sense on how you see this line, how much of it, of this US$ 10 jump is non-recurring. You mentioned that C1 guidance for the year is still upheld at 20 to 21, so just on the C1 I can assume you guys have like a US$ 2 to US$ 3 potential reduction in cost going forward. When I look at the breakdown for premiums, I mean, clearly the result was very weak in the quarter on premium. So, just wanted to hear you on how you see this line going forward and how much of that weak performance is non-recurring.

The second question regarding production and more specifically at the crown jewel at Vale, which has always been the case at Carajás. Carajás has also been struggling for a while and certainly there are several issues which are exogenous and out of control, like licensing, like the cave law in the region. So, first of all, how are you seeing these discussions? Has there been anything new in Legislation to improve the situation and to allow Vale to operate more efficiently in Pará? I just wanted to hear your sense on that.

And if you can give us any color that you can on how you see production at Carajás developing in 2024. Thank you very much.

Eduardo Bartolomeo: OK, Leonardo. Gustavo is going to answer the cost and I'll go over the Carajás production, OK?

Gustavo Pimenta: So, Leo, you're right. I think the view on C1 is around US$ 2 to US$ 3, I've said US$ 2 in terms of transitory impact. Now you understand well, I mean, the transitory impact and the quality also impacts all-in, it impacts premium, it impacts some of the beneficiation cost because we concentrated more for example in China in this quarter versus last quarter, so there is probably a similar impact in C1 applying for the other lines that we have in the all-in, call it US$ 6.

I think a lot on the final all-in for the year will depend on how the premiums perform, they were indeed a little lower, but a lot due to the mix, so if you resolve the mix, if you bring Torto online in the second half of the year, if you bring Carajás you should expect to see ourselves posting a better premium and therefore having an all-in substantially below what we had in the Q1.

So, with that I'll pass it over to Eduardo.

Eduardo Bartolomeo: OK. Leo, this is a very… I think, as you understand, I think it's easier to explain to you, but let's be very clear here, let's separate Carajás Northern System with the S11D, OK? S11D is all endogenous, it's all in our hands, we need to take care, that was built to compensate the loss that we were going to have on the depletion of the Northern Range, and we mentioned already we are improving there, and that's where the growth is coming. When you look at our guidance and our numbers for this year, there is no licensing attached on the Northern Range, we are planning to stabilize around 100 million tons on Northern Range and Serra Leste.

So, how are we advancing with the cave legislation, with the licensing? Because as you might understand, we had the last big licensing in Northern Range in 2014, if I'm not mistaken, and the last small one was Morro Grande in 19, and now we are pointing out to the body N3 that we already had the provisional license for that. But as Spinelli needs to have the feed to make his Iron Solutions, we are working very thoroughly, but for the medium term, not for this year. This year we did very well, by the way, we operated to the program and Carajás on the Northern Range where we hit the program, by the way, but it's a program that is lower. We are we are aiming, as I mentioned, 100 million tons on both Systems.

So, there is not an operational problem there, different from S11D that I mentioned already, but we're not sitting there and waiting and not only the +20 that we already got the license, the +10 that is being commissioned. So, growth from the Northern System is going to come from S11D for sure. That's what is being designed, so we're going to move from 80 something this year, we're going to go up to 110-120 – that's what we are investing by the way – and I think the good news that maybe we didn't stress enough is that we have licensed +20, so we are executing +20 on S11D, there's no problem on licensing there, so we are up and running with that project.

But you're right, we need to get back to the production on the Northern Range and Serra Leste, and Spinelli is leading several initiatives that I think he can share some with you because we're not sitting here waiting and letting our mine that can do 140 stay at 100 million tons.

Marcello Spinelli: Thanks, Eduardo. Leo, just reminding, the main projects we already have the license was +10, + 20, new crushers and also in the Southern we have Capanema. So, this is one site, so we've been evolving in this site.

In the Northern Range, as Eduardo mentioned, we have a combination of small licenses and big licenses that we need in mid and long-term. You may notice that we're not counting on North Range in our volumes, so we flat the production there to guarantee that we're going to deliver that. So, we have N3, N1/ N2 in sequence. And you mentioned small pits sometimes is related to suppression or like cavities, as you mentioned. So, we are working really close to the agencies.

I believe that we have people in the frontline, I'm personally in the frontline to discuss this, we see good news coming with very technical analysis, we are bringing new studies, we're bringing investment in the field, like ITV (the Vale Technological Institute) that we are supporting a lot of their studies. So, we see in this new crew that is leading this in the government that we have a very technical and growing perspective about this.

So, we are confident, we need to work hard in this trend, but we are protecting our plan in the next three years to guarantee that we're going to deliver that.

Operator: The next question is from Thiago Lofiego, Bradesco.

Thiago Lofiego: Thank you good morning, gentlemen. Two questions. So, the first one, sorry to insist on the cost from Gustavo, but how confident are you guys on the guidance of US$ 20-21 for the C1? So, that would basically entail C1 costs below US$ 20 every quarter from here to the end of the year or significantly below US$ 20 in the second half? I just wanted to try to understand how realistic this is. Just an additional color on that would be great.

Second question for Spinelli. Spinelli, can you talk a bit about the reopening dynamics in China? We are seeing steel margins still depressed, steel prices actually falling at the margin, but at the same time there's some positive data out there, steel production is increasing. So, what's your take on supply and demand dynamics for iron ore in the coming, let's say, few couple quarters, and also what kind of a play is sentiment having on this whole price formation story here for iron ore? Thank you.

Gustavo Pimenta: So, Thiago, Gustavo here, let me take the first one. So, it's going to be gradual and most of the benefit you will see in the second half of the year as we bring more volume and as we bring better product into the mix, especially the products from Carajás, which has substantially lower C1, so you're going to see the benefits from it. And then there is about half a dollar to a dollar of efficiency initiatives that we've been pursuing, strategic sourcing, overhead efficiency, discussions that we've been having with some of our suppliers, so we've been laser-focused since last year on cost efficiency, so we are seeing benefits and we have that in our plan for the rest of the year.

So, you will see a gradual decrease, we are feeling good about it, and we believe that 20 to 21 is a reasonable number to be achieved assuming that we bring the volumes, especially from Carajás, online in the second half of the year.

Marcello Spinelli: Ok, Thiago, Spinelli here, thank you for your questions. So, you know, we've been seeing the recover in China, definitely we have strong numbers, you mentioned that, so GDP, FAI very resilient, infrastructure investment, properties we have good news also, so the bright side is that we're already in the destocking mode in China, so we see the sales increasing and also the accomplishment of construction also increasing. You mentioned all the micro numbers, blast furnace is going well.

We just came from China, it's a common sense that production will be flat this year, so the production is there. So, what is concerning today? The first thing I think is related to the property, it is in the cycle, so firstly we need to sell, finish the construction, so sales and new starts are coming, but it didn't come yet. So, that's the main volatility that we see even in our clients, they are in a wait-and-see mode, but everybody's waiting therefore only for the second half. So, we are on track, and we need to wait for that.

I think the price in steel is another concern, but the good news is if you see the export that we had in China this quarter that implies that we have an asymmetry in the price in ex-China comparing to China. So, there is a wind that can help China to improve the price in steel market, and there is a combination of all of this, we have a tepid margin stimulus.

So, with all this, we have this wait-and-see behavior, all the inventories are really low, so in our perspective in short term, we can see a rebound, we have this next holiday that is coming out and they will need to replenish the supply chain. In the second half, we need to wait and see what is going to happen to the property. I'm not saying that we'll see a growth in the property, but a smooth and flat demand.

But just to conclude, Thiago, I want to drag your attention and everybody that the supply-demand balance is really tight. So, that I think is a very important information to give to you. The demand in ex-China is growing 1.5 to 2%, there's an important demand. In the supply side, you have a growth, but it's not that important growth, and there is a balance. So, we can see an additional of 5 to 10 million tons in an inventory that is very low today, 130 million tons in China – I'm talking about iron ore. So, we see a balance in the market for iron ore and that can bring an upside risk for the price, or at least stability.

The name of the game of this year is stability. We are all the time trying to bother that, but production is there, very stable, the macro is coming, and we see the supply very organized, very tight with the supply balance.

Again, we are cautiously optimistic, we need to wait and see the property market in the second half.

Operator: The next question is from Caio Ribeiro, Bank of America.

Caio Ribeiro: Yes, good morning, everyone, thank you for the opportunity. So, my first question is on third party ore purchases in the iron ore division. This quarter you purchased almost a million tons more than in first quarter 22, so I'm just wondering if you see room to increase third party ore purchases in 2023 for the full year versus last year. And if you can provide any indication on the volume of those purchases for the year, right?

And then my second question on your expanded net debt where you continue to follow a target of US$ 10 to 20 billion, I just wanted to understand if you would be willing to temporarily surpass that upper range of the target if you do encounter an attractive or smarter any opportunity as you put it? And if this opportunity does not unfold, whether the focus will continue to be on cash returns via buybacks and dividends? Thank you.

Marcello Spinelli: Thank you, Caio, thank you for your question. So, third party is a trend, we don't see a huge growth, we're talking about 2-3 million tons probably in this year, it is an ecosystem that we have mainly in Minas Gerais state in Brazil, there are some (we say) smaller miners, there are big companies that we've been developing for many years, so we see a good thing here. Just to you figure it right, we made a US$ 20 a ton in margins with this kind of business, so as we have capacity in our supply chain, you have the market, and if you can improve this product with some application, like pellet feed for pelletizing plants or blending or even in the future the briquettes plants, we may take an advantage of that.

So, that's something that we want to strengthen and bring these partners more and more reliable and with more quality in a sustainable way, so we want to foster that, but for this year we expect some growth, but smaller numbers like 3 million tons.

Gustavo Pimenta: So, Caio, on your second question on the balance sheet, no, we are not expecting and planning on going beyond the 20 billion that we have in our targeted leverage ratio. I think what Eduardo was referring to is, first, on the smart M&A, those are adjacent opportunities with limited capital that we continue to look, especially pursuing high-quality products, so we're seeing some opportunities, but they shouldn't be intense in terms of capital deployment, and on base metals, if we decide to do something, it's certainly using the currency that we are about to create. That's one of the reasons why we've been discussing the carve out of base metals. So, we are not expecting to use Vale’s balance sheet for any move, we continue to believe that the share buyback, especially at the share price that we are seeing today, are one of the best (if not the best) investments that we have for our available cash.

Operator: Our next question comes from Liam Fitzpatrick, Deutsche Bank.

Liam Fitzpatrick: Hi everyone. Two questions from my side, both on the base metals strategy. So, I just wanted to confirm, is the target still to complete the stake sale by the mid-year points? And then in terms of next steps, I'm sure Mark Cutifani hasn't joined to be chairman of a subdivision within Vale, so does this appointment more or less confirm that you are eventually headed down the IPO routes? So, any color on that would be appreciated.

The second question – and I'm sure you know full well why we're all asking around M&A, but –, when you say the correct entity and then you'll consider inorganic opportunities, will you have that correct entity once you complete the minority stake sale or are there further steps that are needed before you get there? Thank you.

Eduardo Bartolomeo: OK, thanks Liam. First of all, I think, as you mentioned, I always said that actually in one of our meetings I said "eventually" and I understood that eventually in English is "we are going to go", obviously an IPO down the road is a liquidity event that you could pursue, but the fundamental reason why we brought Mark is to help us on the execution of this plan to this liquidity event. He can have several forms of liquidity, OK? So, I won't go over them, but he's joining as a chairman because he sees the opportunity to transform the best assets of transition metals in the world, and he knows it very well, and of course he wants to unlock substantial value from it as we do.

So, that I think answers your point, but we always said that there is not a definitive option that we are going to IPO, we want to create optionalities, even if we said already about M&As for sure, like I mentioned. When you go back to your second question, I think it adds to this first one as well because the legal entity is being designed, it doesn't relate – of course it does relate with the sell of the participation –, but let's be very clear as well, if we don't find the right partner that adds value to us and perceives the same values as we do, we're going to go it anyway.

This organization is being ring-fenced as we speak because of the legal and time issues, we believe is going to be hit and running after first of July, and we believe at that moment – and I think Gustavo can help me with more details and clarity – we're going to be able to see that we know we have a partner, but we are going to have an independent board led by Mark, I'll be part of it, it's going to be ran through our Energy Transition Metals as executive co. and in a run to create a huge amount of value and organically, as I mentioned already, and when it's ready it can go inorganic as well. But IPO is not necessarily one of the… maybe is not the only option that we have in this optionality.

So, you can help me a little bit, Gustavo, with the details.

Gustavo Pimenta: I think you covered most of it, Eduardo. I think, Liam, in terms of timing, we continue to work hard to have it finalized by mid this year discussed with our board and then share with you the news, but it's moving along very well, I think there is a lot of interest, as you are all following in the press, there's a lot of interest for this type of platform, and we think we have a very unique platform in our hands, which as Eduardo said, we are working hard on many fronts, including by bringing Mark to take this to the next level. That's the goal, I think the carve out will create a series of options for us to really take this business to another level, grow the business, and create value for our shareholders.

So, in terms of timeline, yes, mid this year we should have some news to share with you all.

Operator: The next question is from Daniel Sasson, Itaú BBA.

Daniel Sasson: Hi, everyone. Thanks for the opportunity. My first question is regarding the supply and demand balance. You seemed very confident reaching your guidance for C1, for instance, because of increased volumes in the second half and more volumes coming from Carajás and Torto and so on and so forth, but my question is how your value over volume strategy could impact the feeling of better volumes in the second half?

And my second question, as Spinelli mentioned, if China produces as much during 2023 as they did in 2022 that can imply a decline in the steel production in second half of this year, and expecting to increase volumes, usually when volumes are seasonally strong. So, do you see a scenario in which you might not be able to sell anything you expect to because of a decline in demand in China?

And my second question is more related to external risks. You mentioned that the things that are in your hands to control and to try to improve and stabilize a commission and so on and so forth, but we're seeing a scenario in Brazil a scenario in which alternatives for increasing government revenues are being assessed, and that means the biggest risks for Vale for instance of interest on capital benefits.

So, anything you could add on that front would be great. Thank you, guys.

Marcello Spinelli: Thank you, Daniel good to hear you. Supply-demand balance. So, you know, second half… I mentioned one number that it was really important which is export in China in the first quarters, 20 million tons, so just keep this in mind because this is important about demand in China, but you have a connection in ex-China also. So, we don't have only China to supply, in the second half. We have the Torto dam, we expect by the end of June and we have production in Brucutu with less high silica, so it's not about improve the pellet feed in pelletizing, but it's to produce less product that today is paying more premiums. You know, the gap between high-grade ore and low-grade ore is narrowed because of the margins in the industry. So, we don't expect this for the whole year, but we're going to increase the production of pellets. So, this one important thing is not in China, is from Middle East or Japan and Europe, and also in Brazil.

So, this is one point of view. The other point is we're going to increase the high-grade ore and our premiums. Today the premium by product is very good, so BRBF is with a good premium, even Carajás we're talking about 16 spread today, it could be higher. Today it depends on the margins of the industry, we don't have the problem of energy, and this is a good thing. So, we're going to have the right product that is Carajás, BRBF, increase of pellets. So, we have the right product in the right moment for the year, despite if you have any adjust of production in China to support this goal of flat production, we have other markets that are aiming for high-grade ores, like Middle East or Europe.

So, that's our strategy for the year. We're keeping our sales plan as planned for the year.

Gustavo Pimenta: So, Daniel, Gustavo here. It was breaking up a little bit your question, but we understood it was more on the external/Brazilian institutional uncertainties, potential uncertainties, and I think you've made a reference on taxation and so on. Look, our view is what we've heard so far is tax reform to pursue neutrality in terms of potential tax burden, which I think it makes sense and that's what we are hopeful, this is a very critical sector, I mean, the mining sector is very critical for the country in terms of employment, in terms of taxes, and when we compare ourselves with the Australians, for example, we are already very highly taxed. So, it's, in our perspective, very important to remain competitive, especially because we compete in the global stage.

So, we are feeling good about it, and we are following very closely all the discussions.

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

Eduardo Bartolomeo: OK, thank you. Thank you again for the interest and attention to our call.

I think the four messages that Gustavo want to point – and I'm going to wrap up them in a very short way – we are very confident on the production for this year on the guidance that we set up. The worse seasonality effects, mainly for iron ore, are over, so I think the production was solid, wasn't reflected on sales, but will be in second semester as we mentioned for both businesses, the energy transition metals and the iron solutions.

As you noticed in the questions, Vale is uniquely positioned, even in this M&A frenzy that is starting to happen now, we still have in our iron ore business an ability to grow 40 million tons, we can use third parties, as Spinelli mentioned, a huge amount of iron ore can go through our infrastructure that we are going to use is a new project for us, we have, as mentioned, even with the optionalities that were designed here eventually for the new energy transition metals business to IPO in the future, to M&A it in the future. So, we are creating a tremendous opportunity to unlock value on both business through growth.

I'm very proud with my team to really, really red focus Value and we're very happy to sell to the least part of our reshaping that was MRN today, coincidentally was today, and we're now really ready to focus on our two main and great businesses, iron solutions and energy transition, and for the shareholders I think you have to have no doubt that capital discipline and shareholder return is the main priority, of course, creating benefits for everybody in society.

So, with that, I would like to end the call and thanks a lot for your attention and interest and hope to see you in the next call.

Operator: That does conclude Vale's conference call for today. Thank you very much for your participation. You may now disconnect.