

VALE S/A (VALE3) 2Q24 Earnings Results July 26th, 2024 CONFERENCE CALL TRANSCRIPT

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

This conference is being recorded and the replay will be available on our website at vale.com. The presentation is also available for download in English and Portuguese from our website.

To listen to the call in Portuguese, please press the globe icon on the lower right side of your Zoom screen, and then choose to enter the "Portuguese room". Then select "mute original audio" so that you won't hear the English version in the background.

We would like to inform that all participants are currently in a listen-only mode for the presentations. Further instructions will be provided before we begin the question-and-answer section of our call.

We would like to advise that forward-looking statements may be provided in this presentation, including Vale's expectations about future events or results, encompassing those matters listed in the respective presentation. We caution you that forward-looking statements are not guarantees of future performance and involve risks and uncertainties. To obtain information on factors that may lead to results different from those forecast by Vale, please consult the reports Vale files with the U.S. Securities and Exchange Commission (SEC), the Brazilian Comissão de Valores Mobiliários (CVM) and, in particular, the factors discussed under "Forward-Looking Statements" and "Risk Factors" in Vale's annual report on Form 20-F.

With us today are:

- Mr. Eduardo de Salles Bartolomeo – CEO,
- Mr. Gustavo Pimenta – Executive Vice President of Finance and Investor Relations;
- Mr. Marcello Spinelli – Executive Vice President, Iron Ore Solutions,
- Mr. Carlos Medeiros – Executive Vice President of Operations, and
- Mr. Mark Cutifani – Chairman of Vale Base Metals.

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

Eduardo Bartolomeo: Ok, Thank you, and good morning, everyone.

Here we are at the halfway mark of 2024, so let's take a look at the progress we've made on our **key levers** to unlock value at Vale.

Starting with our **Safety Journey**, we are very pleased to inform that we have eliminated the B3/B4 dam, and we were able to achieve this one year ahead of the original schedule.

We are working on two additional structures to be eliminated in 2024. By the end of this year, we will have completed more than 50% of our decharacterization program, a significant milestone!

On our **second lever**, we continue to see progress on Iron ore Operational stability, with consistent performance and the third consecutive quarter of year over year increase in production.

Our C1 cost, that was seasonally higher in the second quarter, is on track to reach our guidance of US\$21.5 to 23/t for the year, especially as our product mix and fixed cost dilution improves in the second half.

On **iron ore growth and quality**, Vargem Grande is on its way to start-up in the next months and the Capanema project is on track for the middle of next year, for a combined capacity addition of 30mt.

We approved the Sohar Concentration Plant. This will serve as a pilot project of our mega hubs strategy which will redefine industry supply-chains, foster additional demand for quality pellet feed and position Vale as the world's most competitive direct reduction concentrate supplier.

In **Energy Transition Metals**, our Onça Puma, Sossego and Salobo plants have also resumed operations with no impact on our guidance for the year.

We recently announced the new CEO of Vale Base Metals. Shaun Usman brings his extensive mining experience and strategic vision to lead the company throughout its value creation pathway.

In our pursuit towards **ESG Leadership** in mining, we are reinforcing our commitment to transparent disclosure with the adoption of TNFD and ISSB.

On **capital allocation**, we recycled capital, increasing the maturity of our debt.

And yesterday we announced an interest on capital of US\$ 1.6 billion related to our 1H24 performance, according to our dividend policy.

Now, let's go into the details of these highlights.

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On **dam safety**, we concluded the decharacterization of the B3/B4 dam, one of the dams that was put at the highest emergency level in 2019.

Dikes 1A and 1B are the other two structures to be eliminated this year, after which, we will have completed 53% of our decharacterization program.

This is a pioneer process, and we are gaining experience and expertise, which is helping us to advance well. We remain committed to the elimination of all up-stream dams in Brazil in a safe and conservative manner.

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On **iron ore production**, we delivered robust operational performance, once again, the third consecutive quarter of year over year increase in production.

This is a direct result of our efforts to improve the reliability and stability of our assets and processes, as per our management model.

S11D achieved a historical production record for a second quarter and the asset is a fundamental piece of our strategy for growing high-quality products in our portfolio. The S11D +20mt expansion project is scheduled to start up in 2026 and will support production growth.

Finally, I'd like to highlight our sales, which grew 7% year over year, reflecting our strong performance.

The result of the first semester reinforces our confidence and commitment to meet the top end of our 2024 guidance. This demonstrates that Vale now has a business with much greater predictability, providing a solid foundation for the future.

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Our **key iron ore projects** are underway to increase capacity.

In the next 12 months, we have two main projects coming online.

The Vargem Grande project to start-up in the coming months will add 15 Mt per year of high quality iron ore capacity with a very low capex investment. The Capanema project is progressing well with the pre-commissioning activities initiated and will also bring an additional 15 Mtpy of high-quality ore capacity after the first half of 2025.

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Advancing on our long-term strategy, we signed an important agreement to develop the concentration plant in Sohar, a project presented during Vale Day in December.

The Sohar concentration plant will significantly increase the availability of high-quality pellet feed by 12 Mtpy. This will enable us to produce feed for direct reduction agglomerates, enhancing our operational capabilities and product offerings.

This asset-light business model has a low investment obligation from Vale and an internal rate of return exceeding 30%, making it a highly accretive investment.

This partnership will serve as a model for future Mega Hubs in the region and pave the way for a more sustainable future, allowing the production of metallics through low-CO2 emission routes.

It marks the first significant step towards new developments to come.

Next, please.

Now, moving to the **Energy Transition Metals business**.

Looking at our **Copper performance**, despite the headwinds in the quarter, we had a 5% increase in production in our plants in Brazil.

On **Nickel**, production reflected our planned maintenance strategy, and we are on track to deliver the production guidance for 2024.

In Sudbury, improved mine performance resulted in reduced consumption of third-party feed and lower costs.

We are confident that we are putting together a great team, as seen on the appointment of Shaun as CEO, and taking the right steps to transform the Energy Transition Metals business.

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On our **ESG strategy**, we want to reduce our impacts generating positive outcomes for nature and people.

For that, we have three main pillars to support our **nature actions**:

First, keep the forest that we have standing. At Vale, we protect ELEVEN hectares for every ONE-hectare affected by our activities. In 2019, we committed to increasing protected areas by 500,000 hectares, and we are already at 35% of this target.

The second pillar is Bioeconomy and create a business environment favorable to the conservation of native forests.

And our third pillar is to fight extreme poverty which will help avoid the illegal exploitation of land.

Our strategy led us to prioritize the adoption of TNFD and ISSB. We believe this will help all stakeholders to better understand and assess companies on their ESG progress.

Before we move to our financial results, I would like to comment that we are delivering on our commitments. Our strong operational performance continues quarter after quarter, and we are in a very good shape for the 2H24.

Now, I'll pass the floor to Gustavo to comment on the financial performance and I will get back to you on the Q&A. Thank you.

Gustavo Pimenta: Thanks, Eduardo, and good morning, everyone.

Let me start with our **EBITDA performance in the quarter**.

As you can see, our Proforma EBITDA reached US\$ 4 billion in Q2, driven by strong operational performance across all commodities. This is a result of our continued focus on operational excellence and asset reliability, and the record iron ore production in Q2 since 2018 is a testament of that.

As part of our asset integrity program, we had a concentration of maintenance activities in Q2, particularly in April, which together with the inventory turnover effect and higher freight rates, more than offset higher iron ore sales in the quarter. The good news is that our C1 significantly declined by the end of Q2, while rising volumes in the North, coupled with reduced maintenance works in the 2H, provide us with a solid runway to deliver strong operational performance in the coming quarters. I will go into the details of our C1 dynamics in the next slides.

On a sequential basis, our Proforma EBITDA increased 15%, driven by 25% higher shipments, partially offset by higher operating costs and lower realized iron ore prices.

Now I would like to provide more color on our **realized all-in premiums** for the quarter.

Vale has many sites and a broad product portfolio, ranging from high-silica products that trade at discounts compared to the benchmark, to direct reduction pellets with a 67% iron ore content. Typically, high-silica products from the Southern and Southeastern Systems are blended with Carajás to create our main product, BRBF. This is a premium product with low alumina and 5% silica content.

As the average silica content naturally increases in the Southern and Southeastern Systems, we have been using a higher proportion of Carajás in the blend, implying increased availability of high-silica products to be sold directly in the market. This higher availability is even more pronounced in the first half of the year, due to the production seasonality in the Northern System.

On top of that, based on product availability, we evaluate commercial options cargo by cargo, aiming to maximize value – either by concentrating these products in China, selling them directly, or holding them as inventory. In Q2, with quality discounts below historical levels, direct sales were the most attractive option, with an EBITDA per ton of around US\$ 20. As a consequence, our realized all-in was actually US\$ 0.1/t negative, despite 70% of the portfolio being sold with premiums above the benchmark. In the 2H24 we anticipate a reduction in the share of high-silica products in our mix due to the increased production in the North, supporting better premiums.

More importantly, looking into the coming years, the share of high-silica products in the sales mix should gradually decline with the start-up of growth projects like Vargem Grande, Capanema and particularly the S11D expansion. In addition, the development of concentration plants like the one in Sohar will also contribute to structurally reduce our share of high-silica products.

Now, let me turn to our cost performance.

In Iron Ore, our C1 cash cost, excluding third-party purchases, was US\$ 24.9 per ton in the quarter, mainly impacted by an inventory turnover effect, as expected for a second quarter. This is how the inventory effect works:

Vale has an extensive supply chain and around 30% of our sales in the quarter are composed by inventories from the previous quarter. Also, we note that production costs in Q1 are usually the highest in the year, given lower fixed cost dilution. As a result, in Q2, the difference in inventory costs impacted C1 by US\$ 1.8/t sequentially. In this quarter's financial report, we have started to disclose our production costs per ton, in order to provide a better view on our C1 cash cost trends.

We remain highly confident in achieving our guidance for 2024 of US\$ 21.5 to US\$ 23/ton. Our production cost in June, excluding inventory effects, was already significantly down, reaching US\$ 22 /t. This is a solid indicator of our potential in the second half of the year, with benefits from greater cost dilution, increased production in the Northern System and reduced maintenance activities during the dry season.

Now, moving to our Energy Transition Metals business, we were pleased to have another quarter of significant year-on-year reduction in our all-in costs in nickel, which were down 12% to US\$ 15,000 per ton. This is mostly due to lower third-party feed purchases, as well as by a reduction in expenses, as we wrote-down some high-cost inventories in Q2 23. With Q1 and Q2 all-in costs averaging less than US\$ 15,000/ton, we are well positioned to reach our 2024 all-in guidance of US\$ 14,500 – 16,000/ton this year.

In copper, all-in costs increased 18% year-on-year to about US\$ 3,600/ton, driven by increased unit COGS due to maintenances at Salobo and Sossego. All-in costs averaged about US\$ 3,500/ton in 1H24, below our 2024 all-in guidance range of US\$ 4,000–4,500/t.

Now, moving on to **cash generation**.

Free cash flow generation was US\$ 0.2 billion negative in Q2, impacted by a higher concentration of payments to suppliers, higher execution of concession contract obligations, and lower accounts receivables following the 4.3 Mt of iron ore sales accrued at the end of the quarter. We expect working capital to positively reverse in the second half.

Still, our cash and cash equivalents increased by US\$ 3.1 billion in Q2. This increase was primarily driven by the US\$ 2.5 billion proceeds received following the Vale Base Metals partnership, as well as by the issuance of US\$ 1 billion in bonds in June, mostly used for liability management in July.

Our Capital Expenditures were flat q/q at US\$ 1.3 billion and we are on track to meet our capex guidance of around US\$ 6.5 billion for the year.

Also, yesterday, our Board of Directors approved a distribution of US\$ 1.6 billion in interest on capital to be paid in September this year, reinforcing our continued commitment to return value to shareholders.

Before moving on to the Q&A session, I would like to reinforce the key messages from today's call.

- **Safety and dam management continue to be a key priority for Vale**, and we are encouraged by the progress in our decharacterization program, having fully de-characterized the B3/B4 dam.
- Our **strong operational performance** continues to be seen quarter after quarter and we are on track to deliver our production and cost guidances for the year. In fact, on iron ore, we are now very confident on reaching the top end of the 310-320mt production guidance range.
- **On our strategic objective to be the supplier of choice for low-carbon steel production**, we are very pleased with the advancement of the Sohar concentration partnership in Oman, which will serve as a pilot for other upcoming Mega-hub projects, with very attractive returns.
- **At VBM, our cost performance** has been solid so far in the year and we see room for continued improvement, particularly as the Asset Review plan is gradually executed.
- Lastly, **we remain highly committed to disciplined capital allocation**, controlling expanded net debt within our target, taking advantage of asset-light growth opportunities, and rewarding shareholders with solid remuneration through dividends and buybacks.

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