VALE

VALE S/A (VALE3)
4Q23/2023 Earnings Results
Feb. 23rd, 2023
CONFERENCE CALL TRANSCRIPT

Operator: Good morning, ladies and gentlemen. Welcome to Vale's fourth quarter 2023 earnings call.

This conference is being recorded and the replay will be available at the Company's website: vale.com. The presentation is available for download in English and Portuguese.

This call is also available in Portuguese. To listen to the presentation 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: Thank you, and good morning, everyone. I hope you are all doing well.

2023 was a remarkable year for Vale. Our results translated the evolution of our safety-driven culture transformation and our progress towards operational excellence. We have walked the talk and delivered in line with our guidances.

I am excited that we are now taking Vale to an even higher level of performance through the five key levers we outlined on the last Vale Day.

Starting with our Safety Journey, which in 2023 showed encouraging improvements, with the lowest injury frequency rate since 2008 and relevant accomplishments in dam management.

Our second lever, the stabilization of our Iron Ore operations, comes to secure our baseline production of 310-320 Mtpy. In that sense, our 2023 production at 321 Mt exceeded expectations and provided evidence of increased asset and process reliability.

On our third lever, growing volumes in Iron Ore with quality, we gave an important step by starting up our 1st briquette plant. In addition, our partnership with Anglo American in a world-class operation will bring synergies and make available high-quality feed for agglomerated products. Gustavo will share more information on that later.

In our path to transform the Energy Transition Metals business, copper production had an impressive 50%-growth in the 4th quarter. Nickel production was in line with guidance, with results benefitted by price realization 7% above LME prices in the quarter.

In our quest towards ESG Leadership in mining, 2023 saw a substantial progress in the reparations of Brumadinho and Mariana.

Finally, by announcing a US$ 2.4 billion dividend distribution, we reinforce that our discipline in capital allocation and commitment to shareholder return remains unchanged.

Let's see more details of our 2023 performance now. Please, next slide.

As you know, safety is the most important work front for me at Vale. We are committed to ensuring that each employee is safe during work shifts.

We achieved solid safety performance in the year, with the lowest injury frequency rate in the company's history and one of the lowest in our industry.

The year was also remarkable for our dam management performance. We reached conformance with the Global Industry Standard for Tailings Management within the expected industry's timeframe.

Our upstream dam De-characterization program reached 43% completion rate. B3/B4, an upstream dam which was at emergency level 3 back in 2019, had over 90% of its tailings removed, bringing forward the dam elimination in three years, from 2027 to 2024.

We are already seeing a safer Vale, built with operational discipline and a maturing management model.

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The fourth quarter was a very strong one, leading us to deliver an iron ore output that exceeded our guidance. Year on year, we increased our output in 11% and, in December we had the highest monthly output since 2018. We are ensuring our asset reliability: our mean time between failure for example, improved considerably, almost doubling the performance in the S11D truckless system's case.

In pellets, our strong output was supported by the startup of the Torto dam in 2023 and therefore the higher pellet feed production at Brucutu. In 2024, we are at a fast pace to deliver another strong performance.

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Vale's major competitive advantage is its potential to grow its high-quality portfolio with low capital intensity. In that sense, we are targeting the development of three key projects, combined with the development of Mega Hubs, concentration facilities and briquetting plants.

Our three key projects are being executed: the Vargem Grande Complex expansion; the Capanema project; and the S11D +20 expansion. With those adding to our current production baseline, we expect to reach 340-360 Mt production by 2026.

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In 2023, we continued to mature our agreements for joint assessments on the construction of Mega Hubs with authorities in the United Arab Emirates, Saudi Arabia, and Oman and with a partner in Brazil.

We are also assessing the feasibility of developing green industrial hubs in Brazil and North America with H2 Green Steel, a Swedish partner.

Finally, we are ramping-up the 1st briquette plant in our Tubarão Complex, with the 2nd plant expected to ramp-up in 1H24.

With growing volumes, higher average iron content and a Cost Efficiency Program in place, we are preparing Vale to be one of the most efficient mining companies in the world.

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In the Energy Transition Metals business, we delivered a remarkable output in copper, an outstanding 50% increase quarter on quarter, driven by the successful ramp-up of Salobo III and improved performance at Salobo I and II plants.

In Nickel, our production was in line with guidance, which already factored in the transition of Voisey's Bay mine extension.

In 2023, we successfully established Vale Base Metals, a new company with separate governance overseeing Vale's Energy Transition Metals business. Delivering on our commitments, we brought in important partners to the business as a mean to accelerate VBM's growth while ensuring greater operational efficiency in the short-term.

The upcoming years will be crucial for transitioning the Energy Transition Metals business to a new phase. The asset review is underway and will provide more color on that process along 2024.

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We are consistently delivering and positioning Vale as an ESG leader. We are increasingly focusing on people, with solid results so far and with encouraging improvements to come. We are a more diverse, equitable and inclusive company since we set our long-term goals back in 2019. For instance, our female workforce increased by 85% in this period.

On the social front, we continue to foster resilient communities.

We are striving to be a nature-positive company, uniquely positioned to leverage decarbonization efforts. Improving our transparency on our ESG performance, we also became early adopters of the Taskforce on Nature-related Financial Disclosures, the TNFD.

Most importantly, we are delivering on our reparation processes.

In Brumadinho, 68% of the Full Reparation Settlement was fulfilled, a R$ 6.6 billion cash-outflow in 2023. We expect to end 2026 with 90% of obligations completed.

In Mariana, the reparation has been accelerated by the Renova Foundation, with over 460 thousand people compensated and over 85% of housing solutions provided, a total disbursement of R$ 34.7 billion since 2015. On that front, we continue to negotiate a definitive reparation settlement with the Brazilian authorities.

Our approach towards ESG has started to be acknowledged by ESG rating providers and we are confident that our progress will be fully recognized in the near future.

We are on our way to lead a sustainable mining, an industry able to create and share value with all of its stakeholders.

Since 2019, we have made profound changes in Vale's way of operating and are now reaping the benefits of that work. The Executive team continues to be highly focused on our strategy and commitments:

- We are delivering on our safety and ESG commitments, always listening to our stakeholders;
- We are delivering more robust operational and cost performance across all businesses;
- We are advancing our iron ore strategy towards growth with quality. We are positioning Vale for leadership in global decarbonization while driving local and regional development;
- Finally, we remain fully committed to disciplined capital allocation.

To conclude, I would like to thank the management team, our employees, our partners for contributing to the 2023 results.

Now, for our financial results, I pass the floor to Gustavo. Thank you.

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

Before going into our financial performance, I would like to spend some time talking about the strategic rationale and the associated financial aspects of our recently announced partnership with Anglo American in Brazil.

As you probably saw in both companies' releases, we have agreed to buy 15% of Minas-Rio existing business in exchange for a cash payment of US$ 157 million, subject to net debt and working capital adjustments, and the contribution of our world class iron deposit of Serra da Serpentina, in Minas Gerais. This combination is highly accretive for both companies as it allows us to leverage and maximize each other's infrastructure while securing access to additional high-quality iron ore to support growing demand for low carbon steelmaking.

Minas-Rio today has a nameplate capacity to produce up to 26.5 million tons per year of high-quality pellet feed and the development of Serpentina will enable the total complex to reach over 50 Mtpa in the next decade. As per the agreed terms, Vale will also have an option to buy another 15% stake of Minas-Rio, at market terms, once the Serpentina deposit obtains its preliminary license. This should allow us to have access to up to 15 Mtpa of pellet-feed once Serpentina is fully developed. Vale will have proportional offtake rights and we plan on using these volumes to feed our pellet facilities and later our briquetting plants, including the ones under the Mega Hub initiative.

Finally, we have also agreed on certain earn-out rights on both sides over the next 4 years with pre-defined caps as detailed in our market communication.

We are extremely excited to initiate this partnership with Anglo American in Brazil and expect this will unlock significant value to all of our stakeholders. As we mentioned, the supply of high-quality iron ore is a key component of our strategy as we look to help our clients transition to a lower carbon footprint.

Now let me turn back to our financial performance starting on the next slide.

As you can see, our proforma EBITDA was US$ 6.7 billion in Q4, US$ 1.7 billion higher year-on-year. The increase is explained by a combination of higher realized iron ore prices, which increased 24% vs a year ago, as well as by lower operating expenses, as we start to harvest the benefits of our efficiency and productivity programs.

On prices, the iron ore fines realized price was US$ 128 per ton in Q4, US$ 23 per ton higher year-on-year, driven by higher reference prices and the positive effect of provisional prices.

Given market conditions in Q4, with lower discounts for high-silica iron ore, we decided to increase these products' share in the sales mix, while rebalancing premium iron ore inventories, especially Carajás. This proactive strategy not only maximizes our product portfolio value but also positions us to better monetize our production going forward. Looking into the first quarter, market conditions remain favorable for high-silica products, meaning we should continue to manage our product portfolio accordingly.

In order to provide greater clarity about our product portfolio mix, we have started to disclose the breakdown of each specific product in our quarterly report, which should facilitate the calculation and your understanding of our realized prices and premiums.

Regarding costs, our iron ore EBITDA breakeven declined 4% in Q4, reaching US$ 53.3 per ton in the quarter and US$54.8 in 2023, below our most recent guidance. Our C1 cost performance in Q4 was solid, as we moved closer to the 20 dollar per ton level, supported by our efficiency program initiatives, a positive exchange rate impact and an inventory carry-over effect. In 2023, C1 costs averaged US$22.3 per ton, within our guidance range. As we presented at Vale Day, we expect costs in 2024 to be in line with 2023, with a C1 guidance of US$ 21.5-23 per ton.

Moving to our Energy Transition Metals business, our nickel all-in costs sharply declined in Q4, driven by the mine maintenance conclusion in Q3 and by ~7% higher production volumes in the quarter, which also supported by-product revenues.

In our copper operations, higher by-product volumes and prices led to a 300-dollar per ton increase in by-product revenues. This was partially offset by higher maintenance costs at Sossego, despite higher production volumes in both operations.

Still on Base Metals, I would like to share that we are making significant progress on our Asset Review under the leadership of Mark and have identified a series of opportunities to improve productivity and reduce unit operating costs. The plan has been primarily focused on asset integrity and mine development, along with the flowsheet optimization. These opportunities are being assessed and designed for implementation over the next 2 to 3 years, with some benefits already being captured in the short term. We plan on presenting the key action items of the asset review with the associated benefits by mid-year.

Now, moving on to cash generation, as you can see, Q4 Free Cash Flow from Operations was about US$ 2.5 billion, roughly US$ 1.4 billion higher than Q3, driven by higher EBITDA. Working capital increased in the quarter driven by higher accounts receivable, due to higher iron ore sales and prices. These invoices will be collected in Q1 this year and we expect the effect on working capital to reverse in the following quarters. In addition, CAPEX seasonally increased in Q4 as planned in our investment plan, with our full-year capex at US$5.9bn, slightly below our guidance.

Most of the free cash flow was used to anticipate a US$ 2 billion extraordinary dividend and interest on capital payment in December. Also, yesterday, our Board of Directors approved a distribution of US$ 2.4 billion of dividends to be paid in March 2024, reinforcing our continued focus on returning value to shareholders.

Now, let me turn to our expanded net debt evolution in the next slide.

We ended 2023 with an expanded net debt of US$ 16.2 billion compared to US$ 15.5 billion in Q3.

As you can see, this quarter we recognized an extra provision of US$1.2 billion related to Samarco´s obligations and a potential global agreement with Brazilian authorities. The new provision, although still subject to uncertainty, is our best estimate today of the amount required from Vale to fulfill those obligations, and it considers Samarco will continue to have the ability to pay for a portion of the required payments as per their approved business plan.

Since 2015, more than R$35bn have been disbursed in 42 agreed programs, with almost 500 thousand people compensated. We continue to be highly focused on a settlement that works for all parties involved, within a framework that provides legal certainty and leads to an effective execution of the agreed compensation.

Regarding our optimal leverage target, we are maintaining the US$ 10 to 20 billion dollars range, under the same expanded net debt concept. This range provides us with greater flexibility and optimizes capital costs.

In the next quarters, we expect our expanded net debt to benefit from our solid operational performance, enabling healthy value generation to our shareholders.

So, before we move on to the Q&A session, I would like to reinforce the key messages from today's call. We continue to make substantial progress in our safety and ESG commitments, as exampled by record-low injury rates in our operations and continued advancements on upstream dams' de-characterization. In iron ore, we are very encouraged with the recent operational performance from our assets and very confident of our ability to deliver on the targets for the year. On growth, we are seeing a very steady progress on our key projects to add 50mtpa of high-quality iron ore with limited capital intensity by 2026 and are encouraged with the findings and initial implementation of the asset review in Base Metals. And finally, we remain highly committed to a disciplined capital allocation process, as evidenced by today's dividend announcement and the continuous execution of our highly accretive buyback program.

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

Question & Answer 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.

Leonardo Correa, BTG Pactual:

Good morning. Starting out with the dividend question, in the quarter, you paid the minimum dividend as per the Company's policy. There were some doubts maybe a couple of months ago but considering everything that's happening and all the headlines from Samarco and the higher provision potential, it seemed to be the prudent approach from you guys.

The question is, considering that an additional provision has already been announced and that perhaps there could be a bit more visibility into these issues going forward, how do you think about extraordinary dividends in the second semester of the year? That would be my first question. Putting that together with the fact that, you still have some balance sheet room to increase your expanded net debt levels to US$20 billion.

The second question, sorry to continue on this topic of these issues, but we have all been hearing about the headlines and somewhat concerned about the headlines. Specifically, on Samarco and Renova, I just wanted to hear you, on how you are progressing at this point with negotiations.

Is there any idea on how, or timing, of these talks, can evolve forward That would be fantastic. Do you expect this to be something for the first semester? Or can this be perhaps something rolled out to the second semester?

Gustavo Duarte Pimenta:

Leo, thanks for your question. I hope you can hear me well. On dividends, I think we will continue to see how the year evolves. And I think we are optimistic in terms of the operational performance of the business. We still have the cash from the minority sale of base metals to be received. We are certainly looking into that vis-à-vis some of the outstanding items that we talked about, and within the US$10 to US$20 billion expanded net debt concept that we have been working with.

So, it's early to say. I would say we continue to be very focused on remunerating our shareholders at the best we can, and you should continue to expect us to follow that path.

On the Samarco renegotiation and the settlement, we are working hard to reach a resolution. There has been some progress lately with all the parties. We continue to expect that the settlement will be reached. And we are hopeful that a resolution can be again reached in the 1H of this year.

So, we are working hard. It's our interest, it's the interest of our partners, and we see the interest from all the stakeholders to be able to reach a resolution there. And that's what we are working towards.

Rodolfo de Angele, JPMorgan:

Good morning, everyone. I have 2 questions. The first one, I wanted to ask to Carlos Medeiros, if possible. My question is the following. I think investors have been expecting not a lot from Vale at the end of the day, given all the challenges that the Company faced on the operating side.

But it seems like what we saw in the 4Q this year, kind of starts to at least here, we are happy to see that the Company is kind of fighting a little bit the traditional seasonality that we see, especially in the fourth and hopefully, in the 1Q of the year. So, my question to you would be, can you talk a little bit about initiatives, what's being done? Is this number that we saw already in the 4Q already, kind of showing the results of efforts that we are taking by your team at Vale? So, that's question number one.

And my second question would be to Spinelli. I wanted to hear from you. We discussed a lot about what's going on in terms of sentiment in China, and we leave the ex-China piece of the equation, which is quite relevant, a little bit on the sidelines. So, if you could comment on what you are seeing, that would be very helpful.

Carlos Medeiros:

Rodolfo, thank you for your question. First, our performance on 4Q was solid. And this is due to all the efforts in reliability that we have been working on in all systems and also in our seasonality plan.

This comprises of several initiatives, but maybe I would highlight in our mines, a careful management or control of our water level in order to keep the bottom of our pits in good working conditions for as long as possible, and also making sure that we have free ore available at the top of the pit to use whenever needed.

Also, some important actions in terms of mine infrastructure to make sure that they are well maintained in the ports. We have a dry corrective material in our stocks there to blend with more humid ore, and also improve drainage conditions at the port. So, all this together led us to stronger results in 4Q, and also sustaining our performance during 1Q.

So, although this is El Nino year and in theory it should rain less in the North and more in the South and Southeastern systems, what we are seeing is the opposite. It's raining a lot more in the North, but still our plans are proven to be sound and ensuring a good start of the year everywhere.

So, I will pass to Spinelli.

Marcello Spinelli:

Thank you, Rodolfo, for your question. Talking about China and the ex-China demand and supply demand, last year, we could see the resilience of China. We mentioned that. So, we have the soft landing of property markets, harder landing for private, but partially offsetted by the social housing and the SOEs.

They turned around their industry pattern, so, we see a lot of growth in the industry for auto, for energy transition, small appliances, and the infrastructure played an important role. This is the pattern that we see for next year, for this year, for 2024, and we have an upside risk depending on macro definitions.

We have the 2 sessions coming in early March that will reinforce the commitment of the government to the policies, and we can have this effect of stimulus coming from the 2H.

All of this together last year, we saw a lot of the micro indicators, blast furnace inventories, that would really suggest that we could have a higher production than that was announced. But we believe that will be the same for 2024.

You touched on a point that is important, I want to emphasize 2 points here. One is, you mentioned ex-China. We have a rebound in ex-China. So, more than 5% growth is expected for ex-China in 2024. Part of that is coming from the developed countries, that is, from a lower base in last year, but they are starting to grow. We see this in Japan, we see this in Europe. And the stars are still India, MENA, and also the Southeast Asia.

What is important is, for Vale, we are really supporting this growth in ex-China. If you consider the mix that we have ex-China and China, we are moving 5 to 10 p.p. of sales to ex-China. That's very important to understand.

That will bring the second point I want to emphasize, that the market is tight and will be tighter in Asia. Supply-side, we do not have any further news. Actually, the main increase is coming from Brazil, from us. And what we see Australia is flat and even India now is also focused on their domestic market.

And what I want to emphasize is that we are now supplying this ex-China with new services. We have now BRBF in Europe, in one port, sold out. We are now opened another port for that, blending. We use Oman as also a distribution center to feed India.

So, this is an important change in the map of the world to supply that support the view that we have a very tight market for this year. Thank you.

Daniel Sasson, Itaú BBA:

Good morning. Thanks for taking my question. My first question is more on the strategic front. How do you see other potential deals like the one you just announced yesterday with Anglo American in regard to unlocking value and growth for Vale? Do you see room to maybe incorporate other assets that maybe are not next in line for you to develop in partnerships like the one you just signed yesterday? Because it does seem like an interesting way to maybe accelerate the monetization of assets that you might not monetize in the short term. That's my first question.

And my second question, Leo asked about one of the overhangs that we have been asked about by investors, which was Samarco, and you explained. Maybe if you could comment a bit on the 2 core decisions yesterday that suspended your licenses in Sossego and Onça Puma. How do you see that? What's the company's take on the potential of keeping those operations halted for some time? Do you have any expectations of resuming operations on those regions soon? That would be great. Thank you so much.

Eduardo de Salles Bartolomeo:

Daniel, thanks for the question. I think you nailed the point. Since we arrived, you have been seeing our movements. We reshaped Vale profoundly. We sold 10 business that were not related to our core. We ended up with 2 unique platforms that by themselves could be enough to us to sustain our growth.

But, of course, when you see an opportunity like this one in Anglo, that's what we call smart M&A. It's a win-win situation for both companies. It's a world-class asset sitting there. We have the logistics. They have already installed their mines. So, obviously, we anticipate a lot, and this is the kind of deal that we are going to search for sure.

But again, as I mentioned before, we still have a lot in our plate. As a competitive advantage, we are the lowest by tonne growth in iron ore in any comparison that you do. If you look at Capanema, you look at Vargem Grande, you look at S11D+20. But, of course, we can look at Anglo and others that are adjacent to our business.

But if we move to the base metals, we see this as exactly the same way. We see Hu'u in Indonesia, we look for partners always. We have value creation, how can I say that, 'animals'. We want to create value for our shareholders, to our society. We do care with whom we partner with, but we can do partnerships. We believe this is the way to go, if we want to meet the demand for energy transition, and that is a huge challenge for the whole industry to do, if iron ore is there, and if we can anticipate, accelerate and do it better, we will do it.

And now, I will pass the question to Mark as he's leading the base metals business. He is closer to the discussions around Sossego and Onça Puma.

Mark Cutifani:

Thanks for the question, Eduardo. I have been working in and around and with Brazil for 18 years. So, I always make sure I look at these things as they stand. At this stage, based on the feedback from the environmental and sustainability office for Pará, we do not have anything that indicates any environmental or social breach. I think that's the most important thing and message that I wanted to make sure people understood.

The firsthand feedback is, there could be an administrative question on how we have reported processes over the last 12 to 18 months. And so, we are making sure that we understand the issue and if there's anything in the paperwork that we need to correct. But at this stage, again, nothing material has been flagged.

So, we will work with the authorities to make sure we satisfy their requirements. I think that's very important, and we will always be respectful of the requirements that are put on us. So, we will make sure if anything is wrong, it will be corrected. From our point of view, we are making sure the operations are in good shape.

We have got a furnace shutdown at Onça Puma, and so, we are not immediately impacted. And we also have some maintenance scheduled for Sossego coming up. So, again, we will make sure we work around those issues, and we will work to resolve these issues quickly and appropriately with the authorities.

Amos Fletcher, Barclays:

Good morning. I have a couple of questions. First one was just around Samarco, where I see you have raised your provision with these results, but not to the same level as BHP, they just increased their provision to US$6.5 billion earlier this week. Can I just ask why the difference between those two?

And then my second question was just on the nickel assets. Obviously, a number of nickel mines being shut down globally at the moment. And when we look at the results of Vale, you can see Onça Puma, Voisey's Bay, Long Harbour were all EBITDA negative in 4Q. Nickel prices on average so far this year below 4Q levels. Would you consider idling any of the nickel assets? Thank you very much.

Gustavo Duarte Pimenta:

Thanks, Amos. I will do the Samarco and then Mark will do the nickel one. So, look on the provision, what we have added, the US$1.2 billion is based on our best estimate today. It certainly, as you may appreciate, incorporates any subject to assumptions and judgment that could differ depending on how we look at that.

One of them, for example, is how much Samarco can contribute to the case as the primary responsible for those payments. Samarco is doing very well. Last year, they produced around 9 million tonnes.

Second concentrator is coming online early next year, and we will take the production to between 14 to 16 million tonnes. And by 2028, Samarco will be producing 28 million tonnes of high-quality product.

So, we believe Samarco has a very solid path to be able to contribute to the case. That could be one of the differences. And we have used it for the assumption that we have in our numbers, we have used the approved business plan to base our provision.

So, I think what is important to say here is that we continue to perform on the TTAC. That's the most important thing.

We continue to be highly committed; Eduardo quoted some numbers 470,000 people being compensated already US$35 billion of investments, 85% of the housing is being finalized. So, that put us in a good path to continue to deliver on the agreed programs. So, with that, I will ask Mark to help us on the nickel answer.

Mark Cutifani:

Thanks, Gustavo, and thanks for the question. Firstly, the way we look at the business, we see 3 parts of the business. Firstly, we have copper, and you can see the copper assets in Brazil in good shape, lots of improvements possible. And from our perspective, if anything, the risk is probably the upside on price, that's the good news for us.

We have got nickel and copper assets in Sudbury and Voisey's Bay. And so, it's not simply a nickel story. So, we have to remember that how we improve our recoveries on copper, PGMs, cobalt, and other products is really important. We are also working very hard on where we send materials in the flow sheet. So, looking to improve our realized prices.

And as you recall, Eduardo and Gustavo flagged the 7% premium on LME prices, that's important to continue to improve that. For example, maybe pushing some material from Onça Puma up through Long Harbour and looking at other innovative options to improve our realized prices as part of our strategy.

And then third, we have got the nickel assets, Manitoba, Onça Puma, more specifically, and I have talked a little bit about Onça Puma already. We have obviously got work to do at Manitoba. And if we look at the asset review, we see in the next 2 to 3 years, a 20% to 30% productivity improvement potential across the assets.

If I translate like that into an operating cost reduction, that's about 15%. So, the question for us is, how quickly can we get those assets down that cost curve? How do we make sure we do not do anything that would hinder our travel toward those costs, but at the same time, let's pull our belts in tight to see if we can make sure that we do not lose any cash on the way through.

So, that's the process that we are going through. And we will answer each of those questions at the midyear when we give you the asset review update because they all connect and are really important. But the most important point is the asset review is taking us in the right direction. We have just got to get there as quick as we can.

Rafael Barcellos, Bradesco BBI:

Good morning, and thanks for taking my questions. I have 2 quick follow-ups here. I mean, firstly, could you please elaborate further on quality premiums for 2024? It would be interesting to hear about that more.

And my second question is about costs. Could you please comment a bit more about C1 cost trends for 2024, and particularly on what you are seeing now in the beginning of the year? Other than that, in 2023, you delivered costs slightly below the guidance. So, just to understand if you see any upside risks in C1 costs for 2024? Thanks.

Marcello Spinelli:

Thank you for your question, Rafael. Regarding premiums, let me remind you of the main contributors for higher premiums. So, the cost of energy, that's the cost of coal that is in a low level comparing to the past. The necessity to improve the efficiency of the production, that they are in full operation. But on the other hand, the margins and the cost mode moved that they are now facing.

So, we do not see any major change in the 1H regarding the premiums as we have this low margin in the industry in China. We can have an upside risk for the 2H, as I mentioned, due to all the macro actions, the main effects from the stimulus in infrastructure. Infrastructure is leading an important growth for this year, so we can have an upside risk for that, but we see this level of premiums flat in this moment.

Premiums for pellets, on the other hand, we are really bullish for that. Direct reduction is really under pressure, production in Middle East and the U.S. is doing really well. So, it's supporting a high level of premiums.

And for blast furnaces, we also see a rebound as ex-China in Asia, like Japan or in Europe, are now demanding more the blast furnace pellets. And as we have a possibility of narrow discount for high-silica ores, we take advantage of that, and we can use our supply chain, our flexibility in our portfolio to maximize the margin if you keep this scenario of low margins in the steelmaking in China.

Gustavo Duarte Pimenta:

Just to complement on the cost question, yes, we finished on a very strong note. Our 4Q, as I mentioned in my prepared remarks, C1 was at US$20.8 per tonne, getting closer to that mark of US$20 that we have been going after in the medium term.

For this year, I think it's looking to be another solid year in terms of cost performance, a lot of the efficiency initiatives that we have launched a year ago or so are bearing fruits now, and we have seen some improvements in 4Q and we should continue to see some improvements this year.

And one thing that is also very helpful is the operational performance. Medeiros highlighted, we finished quite strong 4Q. We started the year very strong as well. So, that higher production level is also very helpful in terms of diluting our unit cost, and that's what you are expecting.

Keeping in mind that 1Q is usually a quarter where we have higher costs given the lower production level, but we are trending in the right direction, and super confident with the numbers that we had highlighted before.

Myles Allsop, UBS:

Thanks. So, maybe first, Eduardo, certainly, the data supports that you have been doing a great job from a safety perspective, from a production perspective simplicity. But then there is this debate around whether your contract will be renewed in May. I guess, it's the Board's decision ultimately. But from your own perspective, do you think there's another 5 years in you to kind of take Vale to the next level? Are you keen to stay if the Board will keep you?

Eduardo de Salles Bartolomeo:

Thanks, Myles. Of course, as you already mentioned, it's not up to me to comment that, or even the C Level. It's a Board decision, and we are really confident that the Board is taking it very professionally and on the right way.

Specifically, about the business, I think this is the most important question that you asked me, because we are really focused in respect of decisions being made to take Vale and run Vale safely focused and towards the strategy goals that we set. And that's what we are doing now, and we are really focused on that. Thanks for the question.

Carlos de Alba, Morgan Stanley:

Good morning, everyone. Thank you. A couple of questions. One, Eduardo, I just wanted to get your views as to what is going to happen with the Vale Base Metals CEO position. I know Mark is the Chairman of the Board and he's very engaged. Is he going to have an expanded role and also remain as CEO, or is the Board of Base metals still looking for a CEO? Some clarification there would be great, given the relevance of executing in that business.

And my second question is about the JV with Anglo American. Very interesting for sure. Is there any timing for the Serpentina development and expected CAPEX potentially that you can, at this point, highlight to us?

Eduardo de Salles Bartolomeo:

Thanks, Carlos. Yes, you are right. We are looking for the CEO, for sure. We have a final list, by the way, and very soon we are going to be able to announce it. And I think Mark can help me, by the way. We are a team here. I think Mark came to us and we are very grateful and thankful that he accepted to join us to bring his 40-plus years of experience.

I think he wants to mentor people. He wants to translate, and I think, how could I say that in English, take to somebody to other people his knowledge. So, I think we are very well designed on who is who in the organization. For sure, we are looking for a strong and rounded CEO, but I have zero doubt that Mark will be of great help on entering and teaching this guy.

Mark, do you want to add something?

Mark Cutifani:

I think managing the transition is something that we are planning very carefully. We have got me and a couple of other very experienced people that can help mentor and support people through the transition.

So, we think the transition will be managed very carefully. But we shouldn't be far off making an announcement, very important to get the right person in the role and managing the transition well, and we are planning for that. And we will all probably do a little bit more in that process.

Eduardo de Salles Bartolomeo:

And I will ask Gustavo to give you some more color on the JV and expectations on the investments in Minas-Rio.

Gustavo Duarte Pimenta:

So, Carlos, good morning. So, there is work to be done on the pre-fees and the feasibility works leading to the preliminary license that we expect to happen within the next, call it, 5 years, up to 5 years. So, we are really seeing this development to be early 30s to mid-30s in terms of reaching commercial operations. That's what we are going to work towards and support Anglo on that.

In terms of total project costs, I think it's early to say. The team needs to work on the specifics. Certainly, it should be a very accretive development for both companies right, because as Eduardo highlighted, it's highly synergetic for both companies. We have a lot of infrastructure that we can share. That's one of the beauties of this deal, and we should see that as we take it to the next level.

So, we will keep you posted as the project evolves.

Marcio Farid, Goldman Sachs:

Good morning. Thanks for the time. Quick follow-ups from me. The first one, obviously, as we look into the overall third-party sales for Vale, I think it was just over 25 million tonnes this year. There is obviously a strong competition on the trading business as well with mostly Trafigura and CSN within Brazil. So, just trying to understand how should we think about sustainability and obviously, profitability of this business going forward, or should we expect further growth? Are you getting close to the peak here?

And obviously, in case you see an iron ore price adjustment, where do you think most of these suppliers, the third-party suppliers would continue to run? In other words, what is the breakeven for most of those around 50 million tonnes of volumes coming out of Brazil being sold with no own logistics. That would be great to understand, please.

And secondly, I know Gustavo just talked about Minas-Rio JV. So, just a quick follow-up here. You talked about potential partnership, but is there anything else that you are progressing towards getting closer to a finalization? I know Mark has mentioned before a potential partnership with Glencore in Canada as well.

And then on Minas-Rio specifically, obviously, a legacy business and a project that was supposed to be close to 90 million tonnes capacity at the conception. So, just trying to understand here, can we see Minas-Rio stepping up and doubling or tripling capacity in the mid to long term here? And what would be the main bottlenecks? And if this partnership unlocks some of these bottlenecks as well, please. Those are my questions.

Marcello Spinelli:

Marcio, thank you for your questions. Let me go through the third-party's purchase. So, the level of purchase of 25 million tonnes is slightly higher this year. This is based mainly today in a transaction of purchase, and a small part today is based on what you call mini-mines, or now a rename of partnerships.

You asked Gustavo about other deals. We have small deals with small miners in Brazil that we can bring our assets like mineral rights that we can develop together. That's the kind of relationship we have been evolving and developing inside Brazil. We are open this market that we can reach another 5 million, even more.

It is based on quality. Remember our strategy, it's not about bringing volume to the market but bringing quality to the market. It is about optimization of logistics that implies in reduction of cost and the impact that you have in the community. So, we want to move from roads to railroads, and also evolve together as an ecosystem.

So, obviously, it depends on the market conditions, the level of price we can generate value. Today, on average, we have US$20/US$25 per tonne, the level of price we have today. I'm talking about margins. And as we can improve this partnership rather than keep this old way to have transactions of purchase, we can improve the value for Vale and the value for the partners.

So, we see a sustainable business in a certain level of price if you have demand for that.

Mark Cutifani:

Marcio, if I can add maybe just a few bullets on your question. We are looking for, as Eduardo said, smart M&A or smart partnerships. I think one of the unique characteristics of Vale, both in iron ore and base metals and one of our key competitive advantages is that we have a very extended flexible infrastructure.

So, we see a lot of value opportunity to work with others, and the one that Spinelli is highlighting is an example of us leveraging our existing unutilized infrastructure to capture incremental margins. And there will be others, sometimes through partnerships, sometimes through M&A. We are keeping our minds very open to it. The same applies for Base Metals.

On your question on Anglo and the 90 million and so, this is a very mature operation today. Serpentina is contiguous to Minas-Rio operations and highly accretive, highly synergetic, as I mentioned before, to their operations. So, we feel good about the ability to expand and take the business, and help Anglo take the business to the next level.

Timna Tanners, Wolfe Research:

Thanks very much. Two quick ones from me, I think. One is just backing up to the discussion of the Pará state situation. Obviously, you have addressed the Sossego and Onça Puma, but any indication that it could extend to Salobo? That's my first question.

And my second question is just if you could discuss any implications for yourselves or for other competitors or customers of some of the blockages in freight globally and how you are dealing with that or how it's impacting your business. That would be great. Thanks very much.

Mark Cutifani:

Thanks for the question on Salobo. It's a federal jurisdiction. So, we think it's a different topic of conversation.

Marcello Spinelli:

Timna, talking about the freight market, we do not see actually any major impact coming from the tensions in the Middle East. The capesize business, we do not see usual trades in that region or that specific place.

We had an increase of volumes in December, and now that we have the stability and we have our own fleet, we see no major impact coming from the fundamentals of the freight market. So, stability is the name of the game for this year.

Operator:

The question-and-answer session is over. We would like to hand the floor back to Mr. Eduardo Bartolomeo for the Company's final remarks.

Eduardo de Salles Bartolomeo:

Just to conclude, last October, I said I was really optimistic. I said I have never been so optimistic. I think now everybody understands why. Everything starts to fall in place. And I am actually even more optimistic now, because we have been through the rainy season. We never passed through the rainy season so well.

I think all the elements of our strategy are coming together, the reorganization, the energy transition business is doing well with asset review going on. Our safety, which is the most important element for me and for Vale is doing really really well, the dams are under control.

So, again, I think Vale is in a very very unique moment. Thanks again for your attention, and let's see in the next call. Have a safe day.

Operator:

Vale's conference is now closed. We thank you for your participation.