VALE S/A (VALE3)
1Q24 Earnings Results
April 25th, 2024
CONFERENCE CALL TRANSCRIPT

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

This conference is being recorded and the replay will be available on our website at vale.com. The presentation is 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: Thank you, and good morning, everyone.

I am very excited that we got off to a good start in 2024.

Starting with our Safety Journey, technological enhancements and innovation towards safety improvements, is showing encouraging results, with 77% reduction in accidents in some critical activities.

On dam safety, the Peneirinha dam, located in the Vargem Grande complex, was removed from the emergency level by the National Mining Agency and is now certified as safe and stable.

On our second lever, the stabilization of our Iron Ore operations, we are taking Vale to an even higher level of performance. Iron ore production had the highest output for a Q1 since 2019 and sales were up 15% year over year.

On our third lever, one of Vale's major competitive advantages is our potential to grow a high-quality portfolio with low capital intensity.

Our three key projects will add 50mt capacity by 2026: Vargem Grande, Capanema and S11D +20. The first project to come online will be Vargem Grande, which is almost 90% completed and on track to start-up in the 4th quarter of 2024.

On our path to transform the Energy Transition Metals business, copper production grew 22% in the 1st quarter. Nickel production decreased by 4% y/y, in line with plan, mainly reflecting maintenance overall at the Onça Puma furnace. Outside Brazil, we saw stronger performance in the Canadian and Indonesian operations.

On the Energy Transition Metals partnership, last week the Committee on Foreign Investment in the United States granted the final regulatory approval, and we expect to close the transaction in the upcoming weeks.

And in our pursuit towards ESG Leadership in mining, we reached a remarkable target: 100 per cent renewable energy consumption in Brazil, two years ahead of schedule. Reaching the target means that Vale has zeroed its indirect CO_2 emissions in Brazil, which corresponds to scope 2 emissions.

To support our decarbonization pathway, Vale has announced an agreement to acquire the remaining 45% stake in Aliança Energia, which is a first step towards creating an asset-light energy platform.

Lastly, our discipline in capital allocation remains untouched. We are walking the talk and returning value to shareholders. In March, we paid 2.3 billion dollars in dividends while completing 17% of the 4th buyback program launched since 2020.

Now, let's go over more details of our quarter performance.

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We are gradually becoming a safer company. Technology and innovation have been key pillars to our quest to deliver a sustainable safety performance.

- We want to turn Vale into a safety benchmark, starting with zeroing our N2 injuries, those that usually precede life-changing or fatal events, by the end of 2025. We are on the right track to fulfill this commitment.

- Our Safety Transformation Program targets the critical activities with the highest N2 records, later developing preventive controls, some of them technology-based like collision alerts and driver drowsiness detection. As a result, we had a 77% reduction in N2 events since 2019.

- Another key element of our Safety Strategy is our Dam Safety Management. Since 2020, we increased safety conditions up to adequate levels for sixteen dams.

- All our structures are continuously checked by our 24/7 geotechnical monitoring centers. In a conservative approach, we removed 100% of the people from risk areas and backup dams were constructed to reduce potential consequences in those areas.

- At the same time, Vale continues to progress on the dam decharacterization program, with 43% of the structures eliminated to date.

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

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We delivered a robust operating performance on iron ore in Q1. Production was the highest for a first quarter since 2019, underpinned by increased asset and process reliability, especially at S11D.

We have talked about our strong actions towards operational excellence, and we are now consistently bearing the fruits of that strategy.

Our operational plan for the quarter was successful in dealing with a higher average rainfall. We delivered a 6% increase in total production and 15% higher sales year on year.

Moreover, we continue to debottleneck our operations. At S11D, increased geological knowledge enables more accurate mining plans, while the truckless system combined with a mobile mining fleet provides further operating flexibility.

Our long-term ability to deal with jaspilite relies on the installation of the new crushers, as you know, but these surgical measures have allowed us to operate S11D with more efficiency, with the highest production for a first quarter since 2020.

The solid production performance in Q1 gives us further confidence that we will deliver our guidance as planned.

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We are committed to accelerating solutions to support the steel industry's decarbonization.

Our briquette plant is ramping-up in our Tubarão Complex, aiming to deliver around 1.5Mt of briquettes in 2024.

We continue to progress on agreements for the construction of Mega Hubs. We are also studying the feasibility of developing green industrial hubs in Spain, together with Hydnum Steel.

Finally, we are very proud to be selected under the Inflation Reduction Act funding, to enter in negotiations to develop a briquette plant in the US. The selection by the US Government Department of Energy represents a critical path for the validation of our proprietary technology, and its potential to deliver a transformative solution to decarbonize the steel sector.

Iron ore briquettes will contribute to achieving Vale's commitment to reduce 15% of its scope 3 net emissions by 2035.

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In the Energy Transition Metals business, we delivered remarkable output in Copper, an outstanding 22% increase quarter on quarter, driven by the successful ramp-up of Salobo III and stronger performance at Salobo I and II plants.

On Nickel, we are on track to deliver the production guidance for 2024. As part of the asset review initiatives, Sudbury mines had improved performance, and the Clarabelle Mill throughput was up 7% year on year. The improved mine performance resulted in reduced consumption of third-party feed and lower costs.

We are confident that we are taking the right steps to transform the Energy Transition Metals business.

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On ESG, we continue to march towards becoming a more transparent and open company. We just released our 2023 Integrated Report, where we announced that we reached the target of 100 per cent renewable energy consumption in Brazil, two years ahead of schedule. Reaching the target means that Vale has zero scope 2 emissions in Brazil.

To support our decarbonization pathway, Vale signed an agreement to acquire the remaining 45%-stake in Aliança Energia. This is an important step towards creating an asset-light energy platform. Upon the transaction conclusion, Vale will search for potential partners, to better advance in our commitment to decarbonize our operations using renewable sources at competitive costs.

Our big focus on becoming an ESG leader in mining is bearing fruit. Our improvements in carbon emissions and safety practices led to renewed perception by Sustainalytics, for instance, with an important upgrade in our ESG risk rating in April. With that said, now I'll pass the floor to Gustavo for our financial results, and I will get back to you in the Q&A.

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

Let me start with our EBITDA performance in the quarter.

As you can see, we delivered a proforma EBITDA of US$ 3.5 billion in Q1.

Before going into the main drivers, **I would like to first explain a couple of reporting changes we implemented this quarter.** With the reorganization of our assets between Iron Ore Solutions and Energy Transition Metals, some items previously classified as "Others" will now be allocated to their respective business segments. This change includes items such as SG&A, and energy generation assets and will allow for a more precise evaluation of each business segment's performance. In addition, for a better alignment with market peers, we are now including the proportional EBITDA of our Associates and Joint Ventures into our EBITDA – we note that before 2024, our EBITDA included the dividends coming from those entities which were naturally more volatile during the year.

Now, returning to the main drivers behind our EBITDA performance in the quarter, we were pleased to see a continued strong operational performance across the board, which helped us offset a large portion of the impact from provisional prices, given the decrease in the iron ore benchmark prices during the quarter.

On volumes, iron ore sales increased almost 15% or 8.2 million tons year-on-year, driven by better operational performance in all of our systems, highlighting S11D, which achieved the highest output for a first quarter since 2020. Sales were also quite strong in Q1 this year, reflecting the initiatives undertaken in 2023 to improve operational performance and flexibility of our Ponta da Madeira port. Copper sales were another highlight in the quarter, increasing by 22% or 14 thousand tons y/y, driven by the ramp-up of Salobo III and better operational performance in the Salobo 1 & 2 operations.

On costs and expenses, I would like to highlight the ongoing effort that our teams have been making internally to improve productivity and efficiency. Excluding the external effects of higher freight costs in the iron ore business and the one-off effects in Base Metals, like the Onça Puma furnace rebuild, our cost and expenses were roughly flat year-on-year. Again, this is being accomplished through a series of initiatives across the business and we are quite excited about the cost efficiency opportunities we still see ahead of us.

Now, moving on to price realization.

Iron ore fines realized price was US$ 100.7 per ton in Q1, 7% lower year-on-year and 15% lower quarter-on-quarter.

Pricing mechanisms had a negative impact of US$ 10 per ton on our realized price in the quarter, largely explained by the negative effect of provisional prices. At the end of Q1, 24% of our iron ore fines sales were booked at US$ 102 per ton on average, which compares to an average price of US$124 per ton in the quarter. Also, about 30 Mt of sales from 4Q23 were booked at an average price of US$139 per ton and were later realized at lower prices in Q1.

Our average iron ore fines premium came in negative at US$1.6 per ton, as we increased the share of high silica products in our sales mix given the lower discounts observed for these products during the quarter. This has allowed us to maintain an adequate balance of high-quality products through our supply chain for later value maximization. For Q2, we continue to see similar market conditions and, therefore, expect to maintain a slightly higher share of high silica products in our mix compared to historical levels.

Now, let me turn to our cost performance.

In Iron Ore, our C1 cash cost, ex third-party purchases, was US$ 23.5 per ton, slightly lower vs last year, despite the negative impact of the BRL appreciation.

Excluding this effect, C1 would have been US$ 22.8/t, almost US$ 1/t lower year-on-year. This was driven by lower demurrage costs due to improved shipping and port loading during the rainy season, higher fixed cost dilution, as result of higher production volumes, and gains from our cost efficiency program.

Additionally, I would like to take a moment to comment on our strategy behind third-party purchases. We acquire iron ore from smaller producers that operate near our operations. This product is sold directly to our customers or is blended within our own production, generating a positive contribution margin. This helps dilute fixed costs, particularly as we have excess logistics capacity, while capital intensity is very low, which implies a very healthy return on invested capital.

In 2023, our third-party volume was 24 Mt and is expected to increase slightly in 2024. We are also evaluating to accelerate the development of some of our smaller deposits through leasing agreements with regional partners, transactions that can offer attractive returns for both sides.

Moving on to our Energy Transition Metals business, we were pleased to deliver significant year-on-year reductions in all-in costs in both copper and nickel.

Our copper all-in costs decreased by 26% year-on-year, driven by a continued successful ramp-up of Salobo 3 and improved operational performance at Salobo 1 & 2. The higher proportion of Salobo 3 volumes in the product mix has also contributed to an increase in unit by-product revenues, with higher gold sales.

Nickel all-in costs were down 14% year-on-year, supported by higher unit by-product revenues. The unit COGS increase was expected and largely related to the furnace rebuild at Onça Puma.

I would like to also mention that Mark Cutifani and the VBM team continued to make significant progress on the Asset Review. The value unlock 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. As we pointed out last quarter, we will present the key findings and action plan of the asset review in a webinar to be scheduled for June this year.

Now, moving on to cash generation. Our EBITDA-to-cash conversion was 57% in Q1, with Free Cash Flow reaching US$ 2 billion, roughly US$ 0.5 billion lower than 4Q23, despite US$ 3.4 billion sequential drop in EBITDA, driven mostly by seasonally lower shipments q/q and lower iron ore prices. This was achieved primarily due to the positive impact of a strong cash collection from Q4 sales, as we had anticipated last quarter and seasonally lower CAPEX disbursements.

Most of the free cash flow generation was used to pay dividends and execute our buyback program, for a total shareholder remuneration of US$ 2.6 billion in Q1.

So, before we move on to the Q&A session, I would like to reinforce the **key messages** from today's call.

- **Safety continues to be our key priority**, and we remain highly focused on creating the conditions for an accident-free workplace environment.
- Our **continued strong operational performance across all commodities** only reinforces we are in the right direction to consistently deliver on our short and long-term commitments.

- **On ESG, we are making significant progress on several fronts**, as demonstrated by our recent achievement of 100% renewable sourcing in Brazil for scope 2 and the continued investments to deliver a sustainable future for our business.
- On the medium-term strategic objectives we laid out at Vale Day, we are **quite pleased to see the development of our key projects** such as Vargem Grande, which we expect to reach start-up later this year. These investments will position Vale as the leader in high-quality offerings, which are critical for steelmaking decarbonization.
- Last, **we remain highly committed to a disciplined capital allocation process**, as evidenced by our US$ 2.6 billion cash return to shareholders year to date through dividends and share buybacks.

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

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