Local Conference Call
Vale S/A
First Quarter 2020 Earnings Results
April 29th, 2020

Operator: Good morning ladies and gentlemen. Welcome to Vale's conference call to discuss First Quarter 2020 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.

If you should require assistance during the call, please press the star key 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. Luciano Siani Pires – CFO;
- Mr. Marcello Spinelli – Executive Officer for Ferrous Minerals;
- Mr. Mark Travers - Executive Officer for Base Metals;
- Mr. Carlos Medeiros – Safety and Operational Excellence Executive Officer;
- Mr. Luiz Eduardo Osorio – Executive Officer for Sustainability and Institutional Relations;
- Mr. Alexandre Pereira – Executive Officer for Business Support;
- Mr. Alexandre D'Ambrósio - General Counsel; and
- Mrs. Marina Quental – Director of People.

First, Mr. Eduardo Bartolomeo will proceed to the presentation on Vale's first quarter 2020 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.

Mr. Eduardo Bartolomeo: Okay, thank you. Good morning everyone.

First of all, I hope that you and your families are well and able to maintain social distancing.

This will be a very different call as our management team is also apart from each other; each one in its house or office.

First thing I would like to point out is that Vale is facing this unprecedent scenario brought by the COVID-19 with responsibility, discipline and sense of urgency. Since March 13th, we have been managing the company remotely. Just to give you an idea, we went from 600 to 20,000 remote accesses and we continue to operate our assets.

Definitely we are in a war scenario with a common enemy. For this reason, Vale joined forces with communities, governance and our value chain with a humble attitude to win this war.

The main message that we have been communicating to our employees and partners are resilience and overcoming. Resilience because this war will not be a quick one. Overcoming because I am sure that we will succeed and come out much better as a company and as a society.

I also want to emphasize that our effort with the full reparation of Brumadinho remains firm. Finally, reparation, safety and people remain our priorities and are very uptodate in the face of this crisis.

Could you please pass the slide? Well, we have a very solid plan to face the pandemic. In January, we started to monitor this scenario and to structure and implement preventive and safety actions. Our response plan is ongoing and is updated constantly. It has five fronts which prioritize: First, the continuity of the reparation of Brumadinho and our dam safety actions; the health and safety of our employees and our neighboring communities; the support in fighting the pandemic honoring our new pact with society; the support to our value chain; and, finally, the stability of our business.

Could you please pass to the next slide? As I said earlier, our effort to fully repair Brumadinho remains firm and goes together with our actions during the pandemic. We remain committed to the reparation, and so far, almost 7,000 people are part of the civil or labor agreements already signed, which total about R$3.6 billion with emergency aid paid so far as well.

Regarding safety, the dam decharacterization plan remains on track and our tailing management system is improving. We have implemented the function of Engineer Record as an additional step in assessing our structure in Brazil.

Engineer Record is external to the operations and is directly linked to Vale's line of defense. Thus, our commitments to Brumadinho and safety continue.

Please, can you go to the next slide? The second front of our plan addresses the health and safety of our people, which is our top priority. In all of our operations we have implemented world-class safety standards to face the pandemic and we believe we were one of the first companies in Brazil to adopt the home office regime on March 13th. On this slide you can see we mention the main measures, but the watchwords are: Safety and discipline at home, in our operations at all times.

So far, three sites have adopted more restrictive measures as we already disclosed: Malaysia, Canada and Mozambique. Although the impacts of COVID are currently contained, advancing the pandemic may lead to more restrictive measures in these or other operations.

Can you please go to the next slide? We are fully aware of our responsibility with society and our essential role in the economy. At the same time that we took our operational actions, in a listening process we offered support to society. We have already committed R$500 million to fight the pandemic in Brazil, of which 353 million were already spent.

But it is not just about financial resources. We may use our logistics structure in China (where we have been present for almost 50 years) to purchase and bring to Brazil over 30 million personal protection medical equipment and 5 million rapid tests to detect the new coronavirus. In total, 15 cargo planes will bring these volumes.

In addition, we are providing resources to expand the capacity of existing hospitals and to build field hospitals in territories that we operate. In other countries where we operate, we have also made important donations to the healthcare system, for example, in Malaysia, Mozambique and Indonesia.

Next slide, please. On the front of our value chain, we are committed to keeping it a very healthy and preserving the jobs. At a time when we are experiencing great uncertainty, we are using our presence at the basis of the production chain to help our suppliers face the pandemic. We have anticipated payments to around 3,000 small and medium-size suppliers in Brazil injecting over R$900 million into the local economy to date. We have also provided financial support to the contractors in projects suspended by us so far.

We believe that with these actions we are helping society to overcome together the challenges of these crisis.

Next. Finally, we continue to stabilize our production. In the first quarter, the impacts of COVID in our business were limited, but there are still many uncertainties, therefore, stabilizing our production remains a challenge.

We started to see fruits of our work in North Atlantic with a solid nickel production in first quarter this year and the last quarter of 19 as a consequence of relevant actions to stabilize the value chain that we took last year.

In iron ore the quarter was very difficult. On the positive side, we hope to resume Timbopeba activities as early as next week. This is another important step to resume and stabilize our iron ore production in the southern and southeastern systems.

Next slide, please. Well, as we've been saying, in addition to the pandemic plan, which also addresses the reparation of Brumadinho, the improvement of our safety and the stabilization of our production, capital discipline is fundamental to derisk Vale. We have been reinforcing this point in other opportunities.

In this regard, I'd like to point out the withdraw of $5 billion from our revolving credit. We continue with our approach of prudence, reinforcing our balance sheet to face an environment of great uncertainty. It was an insurance at an interesting cost increasing our margin of safety.

Finally, I'd like to reinforce, as I said, that we keep working quickly and with quality in the reparation of Brumadinho and to reduce the uncertainties regarding the COVID-19 impacts. With that, I believe that we will have better conditions to restore our dividend policy.

Next slide, please. Well, to conclude, given this context, I am sure that Vale is in a solid position to face this critical scenario. Iron ore is one of the least impacted commodities to date. Our main market (China) is already recovering although we can expect reduction in Europe or in some other countries as well. Moreover, Vale has already proven that is capable of resisting and recovering.

The commitment of the Executive Board and our Board of Director is to continue to do everything in our power to ensure the safety of our employees in our operations.

Finally, I want to thank very much our employees and partners for their efforts over the past weeks.

I now pass the floor to Luciano so that he can detail the results of the first quarter of 2020, and thank you all for your attention, I will be back for the Q&A. Thank you.

Mr. Luciano Siani: Good morning, good afternoon. I'm going to address five items here today.

First item: costs. As you saw, costs were high in iron ore in the first quarter, US$16.2 per ton. It's seasonally high because of low volumes, but we had even lower volumes this quarter. And we also had some additional impacts, like demurrage in the North, the lineup of vessels like waiting to be charged because of problems with moisture and for the excessive rains in the North, and we had also problems with maintenance, we had a fatal accident in Mozambique in one of our conveyor belts in January, so we stopped and did extra work in all of our conveyors around the world including the iron ore conveyors. And so, we spent a little more in maintenance. We had a little offset for the exchange rate, but the final result was the 16.2 you saw.

The outlook for the next quarter is of a slight decline, but very marginal because we still have some important effects that will weight on costs. The first one is the carryover, part of what we produced has gone into inventories at a higher cost, so it will impact next quarter; some COVID-related expenses, for example, we are providing additional benefits for our employees which may weight US$0.30-US$0.40 cents on the costs next quarter; and because we are resuming operations in Timbopeba, for example, which is higher cost because it's not going to be the a blasting operation, we are not going to use explosives, we are going to use mechanical dismantling of the ore, so it's going to be high cost, and also because of the mix we are going to have more ore being sold from the South and Southeast; we are also undergoing the scheduled 10-day maintenance of the long conveyor belt in S11-D as we speak.

So many also small effects that will add up and will not allow us to see the major impact of the currency devaluation on cost on the second quarter. However, on the third quarter we are very confident that with cost dilution, with no maintenance, we are going to run certainly below US$14 per ton, and if the exchange rate continues at current levels certainly maybe even at US$13 per ton.

The second topic is freight. You also saw sharp declines in spot freight rates and in the oil price. So how is the outlook for freight within Vale given that the decline was very small this quarter, just a dollar per ton to US$17 per ton? Well, the spot freight rates will not influence also freight in the second quarter because Vale uses mostly the spot market when it produces more.

So because the production in the second quarter is not as high as in the third and the fourth quarter, the use of the spot affreightments will be naturally smaller. So we will use more of our own fleet. But in the third and fourth quarter if the spot rates continue to be lower, we are also going to go more to the spot market, and we'll take advantage of that.

But the oil prices you will see a significant impact already in the second quarter. Vessels are refueling, actually, we even had a small increase in fuel costs this quarter because of the IMO regulations and because we filled part of our fleet with the low sulfur oil, which is more expensive, but starting from next quarter you will see the impact and we are forecasting a decrease of at least US$3 per ton in freight rates next quarter.

The third aspect is foreign exchange. We had a 29% devaluation of the Brazilian Real in the quarter, end-to-end, very unusual, compares only to what happened in the third quarter of 15. And as the balance sheet of Vale officially everything is measured in Brazilian Reais, there are also all sorts of impacts from such a devaluation in our accounts.

And I would like you to pass on to the first the slide after Eduardo's presentation, where we show a number of balance sheet accounts that were heavily impacted by the devaluation in this quarter.

So in the right-hand side you see in blue commitments of Vale: Brumadinho, REFIS, Samarco and Renova and our gross debt. And the numbers you see, already translated into US dollars, are the declines in those liabilities given the devaluation. So those liabilities are originally measured in Reais, but when you translate them back to US dollars to present the accounts for you, they have a much smaller value. So almost US$3 billion of declines in the value of commitments, which is very good for Vale.

But on the asset side, we do hold balances in cash in Brazilian Reais. Actually, we were holding a lot of Brazilian Reais when the devaluation came, so those same balances when translated to US dollars they lost 914 million in value. And then you have the losses on the swaps because we have so many commitments in Brazilian Reais and we see ourselves as a company, we manage the company in US dollars, we hedge part of those commitments in Brazilian Reais back into US dollars, and this a billion US is the offsetting effect some of the declines you see in blue. So some of the declines were actually not naked, they were hedged, and this is the offsetting effect, and that flows through income statement because this is a derivative instrument so that flows into the financial results.

But net-net, as you can see, there is a positive gain and also because Vale has paid amounts related to Brumadinho and to REFIS, the expended net debt when you add on top of Vale's net debt all those commitments has reduced substantially over the quarter, being a major shift in our balance sheet position.

The fourth item is cash flow generation. You saw that the cash flow generation in the quarter was relatively small compared to past first quarters, it's naturally also seasonally lower, and the biggest impacts were from inventories and working capital, the accounts payable. The inventories were part decision of Vale, for example, we decided not to sell nickel at those depressed prices, we also sold less copper than we produced, we sold slightly, but less iron ore than we produce, so we have a US$200-million-buildup in inventories mostly explained in base metals.

On the accounts payable, we had some important payments on the quarter. The first one is the take-or-pay in the South system of MRS. So, because we are not transporting enough ore through the railway, which is jointly owned with other companies, we had to pay the top-up for the take-or-pay in this quarter of

US$120 million. You should not expect this obviously to repeat itself in the second, third and fourth quarter, that is a yearly expense. And we also had a 200-million-payment of profit-sharing for our front line employees.

So, a number of one-off expenditures, some of them unique, some not so one-off, like the profit-sharing, but that affected cash flow generation in the quarter.

But looking forward, we expect cash flow generation to, again, be robust as the working capital accounts they recover themselves, so to boost cash flow.

Finally, COVID. Some highlights on the financial impacts. I'm not going to discuss volumes because volumes were already considered on the guidance that we made public last week on the production report. I'm not going to discuss prices; this we may speculate here in the Q&A session. But I'm focusing here just on cost on expenses, out-of-pocket expenses because of COVID.

And the ballpark number that we see so far including not only what we already spent but what we look forward in the next few months is US$500 million, and they will appear in many different accounts including the most part of this is expenditure with the stoppage of projects. For example, it's costing us US$55 million to stop the projects in Canada, in Voisey's Bay; stoppage of projects in Brazil is costing about 50 million per month, and this will not flow through EBITDA or income statement, this will accrue to the project costs, but it's an economic impact; we will spend about 100 million in the humanitarian aid; we have also capital injections in steel subsidiaries in the North of Brazil that need to be made; we had some benefits for employees, about 50 million each of those accounts.

So when you put this altogether, the estimate is about 500 million of out-of-pocket additional cost and expenses for Vale.

And finally, if you think about other impacts on cash flow, you are seeing that we are supporting our value chain, we are supporting suppliers with advance payments, we may support clients, but this will be mostly offset by the savings, the temporary savings on Capex because the stoppage of projects, although they are costing us economically, we are spending less than if they were at full steam and the works were ongoing. So therefore, as you saw, Capex guidance was revised downwards and should basically be offsetting the working capital deterioration because of the support of the value chain.

With this, we can open for questions and answers.

Question-and-answer session

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press the star key followed by one. If at any time you would like to remove yourself from the questioning queue, press star 2.

Please, restrict your questions to 2 at a time.

Our first question comes from Carlos de Alba, Morgan Stanley.

Mr. Alba: Good morning everyone. Hopefully, you and your families are doing well.

This question, perhaps starting on dividends, I understand the difficulty of the situation clearly not only in Brumadinho, but the COVID-19 pandemic and the pressure that this puts in the company's different stakeholders and how the company is responding very responsibly. But can you maybe, Bartolomeo or Luciano, give us a roadmap of what needs to happen for the company to resume the dividends?

Clearly it has strong balance sheet, it generates very strong cash flows, and at some point, I think the company wants to resume dividends. But I just want to understand how you see the roadmap ahead.

And then, are there any other potential uses of cash, like you buying back the preferred shares that were sold a few years back or other uses of cash that could improve the cash flow generation going forward? Thank you very much.

Mr. Bartolomeo: Thank you, Carlos. Our families are doing well, thank you.

I think dividends is a thing that a roadmap, as we've been saying since the beginning, is the reparation, quality and the speed of the reparation. We believe that is undergoing pretty well by the facts, by the way we repair the environment, the level of indemnitees. So I think this roadmap is pretty online on where we think it should be.

What happened is that, you mentioned, the level of uncertainty that brought to us with COVID made us – how can I say that…? – bring some extra caution to our balance sheet. So that's why we took the revolver.

Why we did that? We have to look that in a timely basis, it was the beginning of the crisis when it impacted us in the beginning of March and we had like tails risks that we couldn't see at the time, one is a second wave of contamination in China, that is it still not certain, but looks even not very reasonable now, but it's still on the table. And secondly, any other kind of stoppages in our operation.

I think to answer your question objectively, as long as we are able to give back the revolver, I think we are able to do what I meant about capital discipline, is to allocate to the shareholders their part. So I think dividend can come back after the uncertainty of the COVID is out of the equation because we believe that… we know that the size of the damages that we created in Brumadinho, we are repairing, and with that in mind I think after paying the revolver we could resume dividends.

Of course, propose that the Board of Directors and resume our policy.

For the use of cash, I'd like to ask Luciano to elaborate a little bit.

Mr. Siani: Carlos, we used 800 million last quarter of last year to buy back the preferred shares and there is already a benefit this year. So there will be not a 200-million outflow towards those preferred shares because we bought them back. And we do not anticipate any other major alternative uses of cash. So the cash will be redirected towards the shareholders once we pay back the revolver.

Operator: Our next question comes from John Brandt, HSBC.

Mr. Brandt: Hi, good afternoon. Thanks for taking my question. It's kind of a follow-up on Carlos' question. I know you've talked a lot about that 10 billion in net debt, but if you look at sort of your adjusted liabilities including Brumadinho and Samarco and the REFIS and etc., total liability is closer to 15 billion.

So I guess it sort of a two-part question: Are you super comfortable at that 15-billion level or would you look to potentially – especially given the week BRL – would you look to maybe prepay a portion of the sort of non-debt liabilities?

And then if you could just sort of explain, you know, once you're cleared for dividends given the weakness in the share price, how do you look at sort of the cash dividends as far as buybacks at this point? Thank you.

Mr. Bartolomeo: Luciano, you can go ahead.

Mr. Siani: Okay. John, the reason why we talk about those 15 billion in expanded liabilities is to call your attention that when we think about the capital allocation, we have in mind those additional commitments. That's the purpose.

The 10 billion net debt target was established in a situation before the Brumadinho dam rupture in which we already had part of those additional liabilities. So we already had the REFIS at that time, we already had Samarco and Renova liabilities and we established the $10-billion debt considering those commitments already.

But today we stand at 5 the headline net debt without those additional commitments. So you may say: "Okay, so now you are 5 billion below your original target which you established when those additional commitments were already there". However, there is one additional commitment that was not there when we established the 10-billion target, which is Brumadinho itself, which today stands at 4 billion in our balance sheet.

So you may say: "You are 5 billion below your original target, but you have an additional commitment that did not exist of 4 billion when you established that target”. So today we are slightly better so to speak than the target we set, which means that we don't intend to make additional uses of money in order to pay back any of those headline debts or of those commitments. In fact, we cannot pay because they have a schedule which is not controlled by us. REFIS and Brumadinho and Renova it's as we execute on our programs.

So, therefore, the money generated will be available fully to return to shareholders.

We frankly do not believe that in a post-COVID world, in a world where we pay back the revolver, that the share price will continue to trade at today's levels, and I'm not saying because I have a strong opinion on Vale share price, I'm just saying that all share prices, all equity prices across the world are affected by COVID-19, and Vale is no different. So we will need to make that decision of dividends against buybacks once we see what the new normal level for the Vale share price will be after we repay the revolver.

But if you ask me what my bias is, obviously the last time we did a buyback was at prices which were above today's prices. So the buyback option, if it were today, would be strongly considered as an additional option for capital allocation at today's share price.

Mr. Brandt: Great. Thank you, Luciano. Very clear.

Operator: Our next question comes from Alex Hacking, Citi.

Mr. Hacking: Yeah, good morning, or I guess good afternoon in Rio. And thanks for the call. So a couple of questions. Firstly, could you give us any update on how demand for iron ore is outside of China I guess in April? Is it possible to quantify, you know, demand from your Japan, Korea and elsewhere? That would be helpful.

And then the second question, on your iron ore operations in Brazil, operations in Brazil in general, how are the logistics there? I think you gave us an update about a month ago, Luciano, you said there was some challenges, but things were basically going okay. How has it gotten, I guess better or worse since then? And are there any concerns that you have around your ability to kind of keep the operations going in Brazil? Thank you very much.

Mr. Bartolomeo: Go ahead, Spinelli.

Mr. Marcello Spinelli: Thank you, Alex. Thank you for your question. Well, update about ex China demand is a challenge. It depends on how the duration of the crisis will be. But we have some figures about this.

Europe, we see they were really fast to downstream and upstream decisions shutting down operations, the main impact was the automotive production and also the steel. Different from the Middle East, Middle East we have an additional crisis, the oil crisis, the basic for the growth. We see they are struggling with the same problem, with demand, but they are trying to keep the price and they still have a breakeven when they compare with the scraps, they compete with the process of production in Middle East. So we see a problem, different from Europe.

And Japan they are a little bit delayed comparing to Europe, but they are now slowing down productions, automotive, even construction. We have some problems coming from steel. But now how lengthy will be the crisis is the question. What we see is that part of the demand will (or the supply) will go to China, but even the supply is being affected in many regions in the world, so you offset this extra iron ore that goes to China. China is back.

And regarding the iron ore operations, obviously we have… really, we are learning with the COVID, actually. So we've been doing a lot of effort for our social distancing, we reduced a lot of workers in our plants (almost 60%) to guarantee that we have less people in the canteens or even inside the buses, we are scanning and monitoring temperature, we started now the test of our team and also contractors, and it's very important to understand that this is a daily process to control the absenteeism.

So we have a daily checklist that people can define if they have any symptoms of health problem, after that we can track the people and put them in quarantine. So the main thing here is to guarantee the health of our people and also the other people that had contact with that people. So this is a daily process that we need to keep the operations.

So, so far, we didn't have a problem in logistics and even operations, but we are just in the middle of this crisis. But we think that we are seeing that this will be the new normal, so we need to be good to guarantee that we have great control and also using technology, GPS technology to track people to guarantee that they are healthy and to keep the operations.

So this is the problem we are facing now.

Operator: Our next question comes from Timna Tanners, Bank of America Merrill Lynch.

Ms. Tanners: Yeah, hey, good afternoon and thanks for the detail. Hope everyone is healthy. I wanted to follow-up with Alex’s question just to get a little more on the timing of the European recovering and how we think about that translation into pallet premiums. And then if you wouldn’t mind giving us an update on the coal operations and your progress there and what governs the decision to stay off-line and how that could proceed going forward? Thanks.

Mr. Bartolomeo: Hey, Timna. I'm going to answer your second question and then I'll ask Spinelli to elaborate a little bit more about the European recovery.

About Moatize, we are still on track to do the planned overhaul at the plant, because of the lockdown that happened in South Africa and Mozambique we had to postpone, so due to that we are going to have to reschedule. There is a good sign on it because we can plan better, do it in a better way, but we don't know the timeframe for that. Unfortunately, that's the fact.

By the way, Mozambique coal is the operation that has been mostly hit by the COVID on this example that I just mentioned about the intervention of maintenance and secondly about the demand. India is our main customer and was locked down as well, so it created a problem. We were operating very well in March, that creates an optimism about when we come back, we come back with the overhaul, with the improvements that we see, but of course we need market as well.

Anyhow, in a nutshell, I think Mozambique we will need to do the overhaul, we need to prove, we need to correct that asset, put to run at a 15 million ton rate and then decide what we are going to do. Not the other way around, we are not going to discuss about selling, JV, anything before we correct the asset. But to correct the asset we are going to need a window after the COVID.

And for the European recovery, Spinelli.

Mr. Spinelli: Europe, I think, as I mentioned, they are really fast to decide that. But you see, we have many scenarios, Timna, to see this. Definitely, there will be a double-digit reduction, it depends on, again, the duration of the recovery. We don't… If you consider 6 months to go back and even to the same level, it will be something between 10 or even 30% reduction of production this year.

So this is really… There are a lot of uncertainties, we are tracking some leading indicators, we have some information from Satellite that you can see, people now going back to auto factors trying to reestablish, we see some announcements during May that some governments are returning to their operations. Again, there will be a new normal. The fact that there will be impacts, definitely will be double-digit, but we need to track how it is going to happen the evolve of the disease.

Mr. Siani: Timna, it's Luciano, just to complement on coal. It's disappointing that the month that we had a very good production (March), which was almost at 11 million run-rate, was followed by a month in which demand collapsed. So in April we are going to produce about 700,000 and maybe less in May not because we are not able to produce, but because we don't have aware to store more coal.

We cannot sell coal in the China because of specs of our coal, so unfortunately, we have that situation. But just to give you some color because although the operations run really well the next months are going to be severely impacted.

Operator: The next question comes from Christian George, Société Générale.

Mr. George: Thank you for hosting this call. Two questions. The first one on the pellets again. Assuming that we can see slightly high risk that European demand is going to be seriously affected, your Timbopeba 1 and 2 we have a […] stopped in the first quarter, and would you be considering not restarting them in the coming weeks?

And the same question, also does it make sense to maybe slow down as a restart at Samarco or you are adding on Samarco as you were planning to in the first place?

And my second question is on the New Caledonia, and I saw some headlines that you may be finding a solution to divest the operation. I mean, is this realistic or is the closure more actually outcome? Thank you.

Mr. Bartolomeo: Thank you, Christian. Let me begin with the VNC and then I'll pass to Mark to elaborate a little bit because I think we have some follow-up on what we said to you in the past, and a good follow-up by the way because we are closing the refinery, and I believe that we are on a good approach to exit the business healthfully.

So I'll ask Mark to answer and then Spinelli could elaborate on pellets as well, and Samarco I can come back to that question as well.

Mr. Mark Travers: Thanks, Christian, for the question. So, Eduardo's already addressed the closure of the refinery, which is progressing well, and we should see the last of the material running through the circuit in the coming days by next week.

So that brings us to the exit strategy for Vale New Caledonia, which we announced back in December of 2019. As you recall from prior annuals calls, we mentioned that the process with Rothschild's searching for an investor was progressing well. We did have non-binding offers received at the end of February and we are progressing fairly well with a couple of potential investors.

Of course, the crisis did come in March, but we don't think that will impact the process too much, so we have a good level of confidence that we should be finding potential investors in the next month or 2, so we would say that that's the route that's higher likelihood than a closure this point in time.

Mr. Bartolomeo: Okay. And what about pellets, Spinelli? then I go back to Samarco.

Mr. Spinelli: Okay. Hi, Christian, thank you for the question. Regarding the pellets, first, we decided to change the guidance from 44 to 35 to 40, but this decision was related to the production side than the supply side. We are limited with pellet feed coming from Brucutu, you saw that we are struggling with the return of the full operation in Brucutu waiting for new assessment in the Laranjeiras dam.

But now, after COVID, we are checking if we'll have demand for those pellets. So again, the main thing is value over volume. We are not going to produce more than that we need. Our natural market is Europe, JQT and also Middle East. The problem now is a temporary problem, it's not related to price, but the demand. So we check this decision every day, actually. So we can, we are flexible to shut down some plants and sell directly the pellet feed to China or even blend in BRBF.

So we are taking this decision every day, if we don't have short-term demand, we can switch the program and keep the best margins.

Mr. Bartolomeo: Christian, and about Samarco, I think Luciano is back, right? And Luciano is our Samarco expert, but the rhythm of ramp-up and the commitment to come back with Samarco is not changed. But if you want to elaborate, Luciano, on Samarco, can you?

I don't think Luciano is online. So, answering your question, we are coming back on… I think I am out.

Operator: Our next question comes from Sylvain Brunet, Exane BNP Paribas.

Mr. Brunet: Hi, good afternoon. Two questions for me, please. First one on iron ore flows, just if you could give us some indication (even in broad terms) on how much more business you did with China or Asia in general in April versus March so we get the sense of your ability to address and redirect flows there.

And my second question is a bit more on the modeling side, maybe for Luciano, as a way to help us with some sensitivity around hedging, if there is any rule of thumb that would help us through the P&L with the impact of the Reais. Thank you.

Mr. Spinelli: Okay, I can take the first one. Well, China is back, actually. They are really putting a lot of effort, stimulus to put the economy back. We have many indicators, more than 90% of the infrastructure, projects are back, and we have very interesting information from copper property, they sold more than 130% in April compared to March. And steel we had a high record last week in sale for rebar.

So China is trying to make the best effort to fight against the war scenario that they faced. So we are sold out in China actually, and since last year, after Brumadinho, our market share considering the whole sale Europe was in a lower level than in the past. So our exposure in that region ex China wasn't really high, so we don't have any problem to sell more product in China, and we need to remind, probably remember the last call, we said that we still have to make a better inventory of BRBF for the blending, and we sold almost the full spot in the end of that year, last year, and now we are rebuilding the inventory.

So we have the inventory as a source of demand, but actually we are selling the whole BRBF we have and also Carajás fines.

Mr. Siani: Okay, Luciano. Before I answer to Sylvain, just back on Christian's question on Samarco. Hot commissioning will start in July. The filters are being installed so we are on track for December although we had a little bit of buffer and we are eating up on this buffer. But December 2020 is our best guess still for Samarco restart.

On the hedge, as you saw, we had approximately a $1.1 billion change loss in the value of derivatives, currency derivatives. This is an accounting economic loss because we do not pay this, those derivatives they match the profile of the debt, so if there Real stands where it is for the next 7 to 10 years, that's how we are going to realize those losses in terms of a cash flow.

But the slide I showed in my introduction shows that the value of the Real-denominated debt decreased by $500 million. So part of this hedge is actually the offset of the decrease in the Real-denominated debt at Vale. So in other words, when we took those liabilities, we immediately swap them back into US dollars because it was convenient at that time – it's a policy of Vale to try to put its commitments as much as possible in US dollars –, so the value of the debt declined by 500 million, we are losing 500 million out of the 1.1 billion in the derivatives.

But still there is another 600 million of losses, and those 600 million, actually, they were entered into in order to hedge the commitments of Brumadinho, Renova, REFIS, but only a partial hedge.

So as you saw also on the slide that I showed, those other liabilities significantly declined in value in Brazilian Reais to the point that the our expended net debt, so to speak, the way we define in the release, has decreased by more than $2 billion.

So all in all, even in the balance sheet the situation is extremely helpful and favorable for Vale the devaluation of the Brazilian Real. It happens that the only thing that flows through the balance sheet in all those things in Brazilian Reais is the change in the value of the financial derivative, the derivative instrument. The other changes do not flow into the income statement because originally the income statement of Vale is prepared in Brazilian Reais. So in Brazilian Reais there is no change. So there is no impact. It is only translated into US dollars to show to you.

So that's the logic behind the hedge.

Mr. Brunet: Thank you.

Operator: Our next question comes from Alfonso Salazar, Scotia Bank.

Mr. Salazar: Thank you. Most of my questions of iron ore have been answered, but I have one about the base metals' division and specifically on nickel. You have been optimistic about demand increasing from electric vehicles revolution, but with auto industry facing very challenging times, probably things have changed and investments in electric vehicles is not a priority at this point. So if you can provide an update on the short-term and longer-term fundamentals for nickel in Brazil and how you plan to adapt to market conditions so you can maximize the value of your nickel reserves? And perhaps you can leave it out at this point VNC and talk also on the other nickel assets that you operate. Thank you.

Mr. Bartolomeo: Okay, thank you, Alfonzo. I think you pointed out very clearly, we are exiting VNC to focus in our world-class assets in both Canada and Indonesia. But you also raised a very interesting point about the change in – how can I say…? – the expectations about the electric vehicle.

I believe this is a short-term problem, but I'll ask Mark to elaborate because I'm not running base metals anymore, so Mark must have a more depth view on that. But we are still positive on EV, for sure.

Mr. Travers: Yes, that's right, Eduardo. Thanks, Alfonzo, for the question. And I would echo what Eduardo just said, is that in the short term there definitely is an impact, in particular the EV market in China in the first 2 months saw a significant drop. We don't see as much of an impact in Europe this year, but in terms of Vale exposure in the short term, it's not that significant, especially as we are excluding the VNC results from our guidance and etc., but in fact the product that we do sell from VNC into the market (the NHC nickel hydroxide cake) is actually doing fairly well and we've had some the contracts recently.

So in short term, it certainly is impacting the overall growth that the electric vehicle demand for nickel, and we will see a decrease demand overall in the market for that material as we would see (we think) in the same steel market overall.

So, our overall view in the short term, including electric vehicles, is that we probably will move from what we expected to be a deficit this year to a surplus in nickel in the supply demand equation. That said, we are a strong believer in the growth of the electric vehicles in the coming years and we remain committed to that.

Operator: Our next question comes from Andreas Bokkenheuser, UBS.

Mr. Bokkenheuser: Thank you very much. Just one question from me. And I am not sure whether this one is easy to answer, really. But how do you think about your kind of long-term breakeven costs to China given the new situation we are in?

I can definitely see how your cash cost will come down when you ramp-up volumes again because it will dilute the fixed cost base, and I can definitely also see how the currently low oil price benefits you on the freight side, but if we kind of look beyond that, once you start putting more volumes back into the market and assuming that oil price is going to recover from here, I would expect freight rate to go back up again and maybe even coupled with some BRL strength, which I fear could end up offsetting some of the cost savings you would be getting by ramping up production.

So when I kind of look at your breakeven cost to China, it's gone including with sustaining Capex and then pellets adjustments and so on. We've seen that that breakeven costs to China go from early 30s per ton to now basically $49 per ton.

So how do you think about that 49 going forward? Is that something we are going to see go back into the 30s, are we going to stay in the 40s? And again, I realize that a lot of this is going to depend on freight rates and BRL and a bunch of other things that are very hard to kind of look at, but just to get your kind of broad view on where you think we kind of even out in the longer term here?

Mr. Bartolomeo: Okay, Andreas, that's a tough question, really. I'll ask Luciano to answer it because it's so fluid, everything is so correlated; when you talk to oil, you talk to iron ore price, and it's a very short-term problem. But I think we need some exercise as well here.

Mr. Siani: Andreas, the last time we had more stability in our production was in 2018 and we were very firm, very close to $30 per ton all-in costs without sustaining capital. And at the end of 18 with the increase in premiums we went actually below, we got to $28 per ton, and that would normalize higher oil prices, higher spot rates and so on. And at the time, we were discussing how we could do some internal self-help and work with digital transformation, with efficiency in order to try to get this down to 25.

I would say that in a normalized situation, we would be naturally back to that $30 per ton ex sustaining capital, perhaps a little lower because at that time S11-D was not fully ramped up and we would be in a more stable, steady state, we would be targeting again and try to aim at $25 per ton.

So the logic of Vale pre-COVID, pre-Brumadinho was pretty much like “okay, give me a $60 long-term iron ore price, I'm going to shoot for $25 per ton, $35 margin times 400 million tons, it's a $14 billion business as the base load for the cash flow generation at Vale and we also had the other businesses to improve and to fix”.

That was kind of the long-term view and I think we are going to get back to pretty much something around this after everything normalizes.

Mr. Spinelli: Luciano, just to add another point, I think part of that we are building the fleet of Valemaxes and Guaíbamaxes, and long-term we are going to have the benefits of that.

So this is a long-term view to stabilize a lower freight, and also with the installation of the scrubbers we can offset the impact of the low sulfur bunker.

So it's another component to guarantee that we are in the right track for the 30s.

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

Mr. Bartolomeo: Okay. Thank you. Thank you all for your questions and interest in our results.

And I would like to reinforce that we will keep facing this unprecedent crisis with humbleness, responsibility, sense of urgency and discipline. And more importantly, with listening. I think it's a new way to proceed at Vale, and I would like to invite you to read our Sustainability Report, there is a lot there that could be shared with you that, of course, we don't have to do this in this call, okay?

Have a good day, thank you again and 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 your line. Thank you.