Local Conference Call
Vale S/A(VALE3)
1Q21 Earnings Results
April 26th, 2021

Operator: Good morning ladies and gentlemen. Welcome to Vale's conference call to discuss 1Q21 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 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 statements 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 – Executive Vice President Finance and Investor Relations;
- Mr. Marcello Spinelli – Executive Vice President Iron Ore;
- Mr. Mark Travers - Executive Vice President Base Metals;
- Mr. Carlos Medeiros – Executive Vice President Safety and Operational Excellence; and
- Mr. Alexandre D'Ambrosio – Executive Vice President Legal and Tax.

First, Mr. Eduardo Bartolomeo will proceed to the presentation on Vale's 1Q21 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: Thank you. Good morning everyone, first of all, I hope you're all fine.

In the first quarter of 2021 we kept our guards up in our operations as the COVID pandemic accelerated in Brazil. We have kept all safety measures and prevention procedures adopted in our operations and I want to reinforce that only essential professionals are allowed in our sites. In April we completed 13 months since the start of restrictive measures against the pandemic and over 25% of our workforce is still working remotely.

Safety, people, and reparation; these three words have been our priority since 2019 and they continue to make more sense now in this very critical moment for all of us.

Well, in crisis of this dimension requires the urgency to do what's within our reach in the best way and as effectively as possible. We have been collaborating with governments and communities since the beginning and we continue to focus our efforts on the most critical items in this fight. For this reason, Vale and other companies have joint forces to buy and donate 3.4 million medicines for intubation. In contribution to the National Immunization Plan, Vale allocated resources for the expansion of the vaccine production of the Butantan Institute with an estimated production capacity of up to 100 million doses per year and for the donation of 50 million syringes to the Ministry of Health or Brazil. We are attentive so that our support is accurate and effective and that our help directly reaches the people in need. This is part of our new pact with society.

As I have been saying at each of our meetings, Vale is determined to fully repair the damage caused by the Brumadinho tragedy. A major step in that direction was the signing of the Global Settlement in February. The decision that ratified the agreement became final at the end of March bringing another layer of legal certainty for the reparation.

One of the fronts that progresses consistently is that of water security. We are working on the commissioning of the construction works for a new water pipeline to supply the Metropolitan region of Belo Horizonte with around 6 million people. At the same time the reparation of individual damages is progressing. Since 2019, more than 10,000 people have been part of civil or labor indemnity agreements with Vale, which sum up to almost R$2.5 billion. We remain committed to a fair and prompt preparation for Brumadinho and affected region.

Talking about them safety at works to improve stability, we have already removed the emergency level of 4 structures this year. We hope to reduce or remove the emergency level of another 4 structures still in 2021. With stabilization works and actions and respecting the safety of the process, by the end of 2025 we hope to achieve satisfactory conditions for all 29 structures which are at the merchant level today, as can be seen in the graph. We remain firm and progressing in the cultural transformation towards a safer Vale.

Last April 15th, we launched our integrated report with the main information on Vale’s economic, environmental, and social impacts. This is another delivery from Vale as a result of listening to our stakeholders. This document in addition to presenting our ESG performance in detail helps to demonstrate how strongly our ESG strategy is connected to our business. Another important point is that it provides detailed information about our risk management including our assessment of emerging long-term risks. With that we closed one more ESG gap planned for 2021, totaling 39 gaps since 2019. As can be seen, our ambition is to transform Vale into a reference in ESG practice.

Well, now talking about our operational results, we started 2021 with a performance as expected, with a good improvement compared to the first quarter of last year. Our adjusted EBITDA was US$8.5 billion, the highest in our history for a first quarter, which is seasonally weaker in volumes. In iron ore, we made progress in stabilizing production, resuming the rest of the capacity halted at the Timbopeba site and add the Vargem Grande pelletizing plant.

Our beginning of the year was stronger than 2020, we produced in this first quarter, which is seasonally weaker, the same as we produce in the second quarter of 2020. This gives us a lot of confidence in reaching our production guidance for this year. Spinelli will give more details on that later.

In nickel, we also performed as planned with a stable operation in Onça Puma and in the North Atlantic refiners with Long Harbour reaching record production levels in the first quarter. In copper, however, we underperformed with a drop of 20 to 30% in volumes of Salobo and Sossego. This is because we are reviewing Salobo's processes aiming to improve the safety of our operations at that site therefore impacting mines' movements. In Sossego we had a longer maintenance due to the difficulty of mobilizing contractors because of COVID-19.

On another front, in terms of addressing our cash drains, the sale of VNC operations was an important step in the commitment to transform our business. This commitment was made to our shareholders in the end of 2019 and delivered in a very responsible way with the creation of a local solution that meets the demand of all stakeholders. We also signed the agreement for the acquisition of Mitsui stake in the coal and logistics operations in Mozambique, an important step towards our divestment in that business; another commitment made to our shareholders.

In the sense, another relevant step was the conclusion of the revamp of the Moatize processing plants, which will allow us to achieve a production rate of 15 million tons per year in the second half of 2021.

In summary, we continue to take the necessary actions to stabilize our production, ensure growth options and allocate capital in the disciplined way.

And speaking of discipline in capital allocation, we presented one more evidence of our commitment to returning value to our shareholders with the announcement of the Share Buyback Program this month. We are confident of our ability to deliver our derisking and maximize value creation for our shareholders in the long term. We believe the buyback is one of the best investments for the company and one that does not compromise the continuity of dividends higher than the minimum set by our policy.

With that, to conclude, summarizing it for you, we are making progress with the reparation of Brumadinho quickly and fairly. We continue on the path to build a culture of safety at Vale. We are working hard to make our operations more stable and predictable. Our ESG commitments and strategy are increasingly linked with our business, and finally, our capital discipline remains unchanged. Most importantly, I assure you that we are doing everything we can to ensure the safety of the people in our operations, in our communities.

I would like to think our 70,000 employees, our contractors, suppliers and customers for their resilience and high-guard during this critical moment through the COVID-19 pandemic.

Now I passed the floor to Spinelli, who will give more details on the performance of iron ore. Thank you very much.

Marcello Spinelli: Thank, Eduardo. Good afternoon all. Well, we've been updating about the resumption plan to reach the 400 million tons next year, I'm going to use the same slide to facilitate our explanation and I'll start in my left-hand side.

So, you see the bar today. Today remember that the concept that if we don't evolve from now that's the capacity we have for a year, we came from a number the 320 last quarter, now we have the 327. We had an additional capacity in Timbopeba, 7 million tons. Remember that we were running with 3 lines, we had the startup of other 3 lines, so we have full capacity in Timbopeba now, but should be 325, so we have a -2 that we already updated the forecast of Itabira. In Itabira, in the last call we said that would reach a -9, we still have this -7 as a buffer for Itabira, Itabira we have a temporary problem there with lack of capacity for the disposal of the tailings. As we evolve during the year, we can update this -7, but we already put here the -2. So, that's the number of capacity today.

I want to highlight also in the right-hand side, in the bottom, the information that Vargem Grande now we have the startup of the tailings filtration plant, we're not adding yet a capacity here, it will be important in the second half when we have the whole picture of Vargem Grande growing, but it's an important milestone, that's the first plant of a sequence of plants coming from Brucutu and Itabira, and it's an important milestone to highlight.

I want to emphasize that we are really committed to delivering the product production guidance for this year, our range between 315 to 335 million tons. What supports this affirmation? Well, firstly, we started this year in a better way comparing to the Q1 last year, as Eduardo said, we added 8 million tons this year compared to last year, seasonally the second quarter is better than the first quarter, you know very well that, due to the end of the rainy season in the South and the Southeast of Brazil, even in the North we still have the rainy season there, but June is usually drier than the other months in the rainy season, so we're counting on that to improve our production and we can affirm that we have our guidance in perspective.

As Eduardo said, it's another information, the last Q2, Q2 last year was the same one last year, so that's another information that we're growing to achieve the guidance. And also, we have many actions that I'll follow up with you in the next slide, in our road map to achieve the 400 million tones.

First information in the Southern System, in Vargem Grande, next week we're advancing in our tests with the conveyor belt, that's a vibration test, we must check the impact in our upstream dam in that site. Fábrica is already testing the wet processing, we expect to have the final permit from ANM (the National Agency Mining) to keep the operation, we expect to do this in the end of this quarter. And still in the Southern System, in Vargem Grande we are bringing online Maravilha III dam, this is a very important aspect for the second half, we have some civil works there to finish, and important information we already have all the permits to start up this asset, only missing the declaration of stability that's only in the end of the construction we can get.

Also, I want you to drag your attention to the Southeastern System, and it's an important information, good news here in Itabira: we are anticipating a partial operation of the filtration plant, this will allow us to offset that buffer, the risk capacity that we have in Itabira, it's a -7 that I mentioned first we're keeping here, but we're trying to anticipate now already having in our plan the anticipation to bring the capacity, to use the filtration and dry stack the tailings.

And I want to update you also about Brucutu site, an important asset, then also coming online that is Torto dam, we are during the middle of the construction, we expect to finalize this construction during this year, but differently from Maravilhas III, we don't have the final permit, we still have to apply in the process of one month or 2 months, but both processes (construction and permit) we intend to have all completed this year.

If we have any delay, it's important to say that we have a backup position with the startup of the filtration in Brucutu. Remember that we have filtration coming in Vargem Grande and Itabira, and it is expected to start up in the first quarter of next year.

I'll be here for further questions in the Q&A session. I pass to Luciano.

Luciano Siani: Good morning, good afternoon. Some highlights on the financial results. Starting by cash flows, as you saw, they were very strong in the quarter, working capital had a positive contribution of 550 million, you may have been surprised, but actually, the very strong sales of the fourth quarter of last year were collected this quarter, more than 1.4 billion in reduction in accounts receivable, and remember that prices spiked at the end of December remained strong in January, so that was the reason why working capital evolved positively despite also the first quarter being very heavy on other payments, like payment to suppliers, inventory built, profit sharing with employees, but still working capital moved positively.

Still on working capital, you may have noticed that the price realization didn't actually move in parallel with the Platts price. And why was that? If you look at the fourth quarter, the average iron ore price 62% for the quarter was US$ 134/t, whereas the provisional price at the end of the quarter was US$ 158/t because of the increase in December, so there was a very strong recording of EBITDA in the fourth quarter on the back of the provisional sales, whereas in the first quarter what happened was the opposite; the average price for the quarter was 167 and the provisional price at the end of the quarter was still US$ 158/t (159, actually), so the opposite. Like, provisional prices dragged down the average price realization for the quarter, even more so compared to the fourth quarter, in which they pulled up.

So, something to notice is that those sales that were recorded at US$ 159/t this quarter they will be repriced at today's prices once ships arrive at ports, so therefore, you could expect a carryover of EBITDA of maybe about 300 million US from sales from the first quarter towards the second quarter, cash, and EBITDA.

Talking about costs, C1 costs before third-party purchases – we need to look before third-party purchase because the prices have been going up sequentially – they were in line US$14.8 per ton compared to US$15 per ton in the same quarter of last year. However, despite the depreciated Brazilian real and we now can see that for the year 2021 the costs are going to stay, like I said in the last call, slightly higher, about a dollar higher than last year on average. And why is that? We have about US$ 0.70 of impact from diesel prices, which increased substantially in dollar terms from last year, and there's another US$ 0.30 that will come from a shift in the mix. Because of the very high prices that we are experiencing, were doing some opportunistic production and sales, especially from the Midwestern System, which is very high cost, has costs around US$40-US$50 per ton, we're increasing sales from there, and although by a small proportion, it does impact about US$ 0.30 the mix as a whole in C1 before third-party purchases.

Also, on our competitiveness, some words on freight. You saw the recent spike in freight rates toward spot freight rates toward US$28.00 per ton, under this backdrop actually the freight rates within Vale Day they did not increase much, just to US$15.7 per ton, but if things stayed this way and as we use more spot freight in the second half because of our higher production, we should expect about US$1.5 increase on average freight for Vale in the second half because of that spike in spot freight rates.

Finally, a word on New Caledonia in base metals, just a reminder, from now on you will not record under the base metals EBITDA the losses on New Caledonia which were running at around US$50-US$60 million per quarter and remember also about a year ago we didn't have Onça Puma also operating, so today as compared to one year ago we have Onça Puma generating around US$50 million per quarter and New Caledonia out, saving another US$50 million for quarter. So, a net US$100 million per quarter improvement in results at the same conditions of price as compared to last year. So, these things start to make a difference as time builds up.

Finally, on capital allocation, this is no doubt the big questioning “what are you going to do with the money with these higher prices”. I want to call your attention: we have had a lot of consistency and things are evolving quite quickly. Just a year ago we were with the dividend policy suspended, we were in the middle of the first wave of COVID-19, a lot of a certainty, markets diving, the reparation of Brumadinho not consolidated, and then in the second half of last year, once the first wave ended and reparation advanced, we resumed the dividend policy and we paid over US$3 billion. Then in November prices started to… actually, early December prices started to increase from the level of US$120/t towards higher prices, still but Brumadinho agreement was still in discussion, so we didn't know what to expect, but finally in February, once we reached the agreement and prices kind of situated at a higher level than US$120/t, we decided to pay another US$4 billion in dividend despite the burden from the Brumadinho agreement.

But prices then we're still fluctuating, peaked at US$ 170/t, then down to US$145/t, but after they stabilized at US$ 160/t in April, then we announced earlier this month the US$5 billion buyback, and now here we are again running after prices which are now at over US$190/t and naturally it will create more options for cash flow allocation.

So, as you can see, the recent story has been of progress within Vale and upwards surprises in the market. So, what will be our response? There's nothing new in our response. As we have been doing, we will make decisions, we will announce those decisions that will prioritize return to shareholders. The story remains the same, we're going to be consistent. It can be an acceleration of the buyback, we can finish the buyback earlier, it could be another increase in dividends above the minimum, it could be both of them, so you should expect that we will continue to follow this track record of returning consistently money to shareholders.

The next question on the balance sheet “is it inefficient?”. A lot of people start to ask this. First, a note here: with low interest rates, so all 3% on a 10-year bond for Vale, the value of the tax shield if you increase leverage is relatively small. So, for example, if you had US$10 billion on debt at 3% rates, you're going to save approximately US$90 million per year in tax payments for $10 billion additional debt. So, if you want to a meaningful reposition on the balance sheet in order to really take advantage of tax shields, you should add US$30-US$40 billion in debt to the balance sheet, which obviously in a cyclical industry you wouldn't do that, right. So, these tax savings they should be weighed against the opportunities that the financial flexibility that today we have that may bring in the future, and that's the calculation we're making.

However, I also note that these 10 billion expanded net debt target, we established that 2-3 years ago when prices were about US$80.00 per ton, and with the expectation of stronger for longer prices, we obviously could increase leverage and we are evaluating that, and most importantly, if we have the opportunity to deploy the additional capital in a smart way. So, that's how we're thinking now about the balance sheet.

And now let's hand over to Q&A.

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 the one key on your touchtone phone now. If at any time you would like to remove yourself from the questioning queue, press start 2. Please, restrict your questions to 2 at a time.

Our first question comes from Alex Hacking, from Citi.

Alex Hacking: Yeah, good morning everyone and thanks for the time. I guess I wanted to ask about the potential for base metal spinoff, that's creating some headlines this morning. If you could just give us some color on, you know, where you are in your thought process there, what kind of potential transaction you would be considering, what kind of assets you would be considering putting in it and then what would be the sort of logic behind any potential transaction. Thank you very much.

Eduardo Bartolomeo: OK, thanks, Alex. Well, let me be clear here. Obviously, we are always analyzing these opportunities, ok? That's the main... the main… - how can I say? – driver behind us, what is really pushing us to that situation I think it's twofold: one is that we are in the midst of the foundation of recovering the business and we believe we are on the right track; and secondly, we are undervalued, both on Vale as a whole and on base metals story. So, it's a clear way to unlock value just in the basis of the multiples.

So, what we said – and I will be clear now to give you where our minds are – is exactly in the conceptual phase of analyzing "what does that mean?". First of all, let's put it this way, we have assets, as you know, in Carajás they are intertwined with the iron ore assets, we need to find out a way how we deal with that, that's one issue that we have to deal with, how we organize ourselves inside. So, there are several aspects within the – how can I say? – precondition to do the business that we are studying, that said, analyzing.

What is important? And then I might – because now we are in the English, I can ask Mark to help me on that – we have, first of all, as I mentioned before, to work on the foundations and on the narrative. The foundations are very clear since the beginning: we need to get the North Atlantic operations productive and operating adequately; we need to replace capacity, so Voisey's Bay, Salobo III, Copper Cliff mine; and the sales of VNC. One of the things that triggered us as well, as you ask about our minds, where they are, is the sale of VNC, it unleashes us to think differently about the business.

But I'll ask Mark – because he's head in the business and I was head beforehand as well – what is the narrative. I think Vale has a unique narrative here that we might be able to exploit, but not to be overly repetitive, we are on a phase of studying it, analyzing the possibility.

Could you help me on that, Mark?

Mark Travers: Sure, Eduardo. And Alex, I think Eduardo said out very well, like, you know, the path really is us to make sure that we get the optimal value for base metals, and he spoke about the need to build the foundation. Maybe the narrative or maybe the strategic direction to optimize value – I could spend a minute or two on it –, so I think more and more we're focusing in on copper and nickel in our business as a key for participation in decarbonization of the economy, we clearly have lots of opportunities which we've described in previous calls and on Vale Day around copper where we have a current pipeline of projects that should bring us to about 500,000 tons of copper per year and in the next few years with Salobo III, Cristalino, Alemão, we also have a number of projects around the Carajás area which can optimize through synergies with the iron ore business in the current infrastructure in the area, plus some other options, for example, Victoria project in Canada and project Hu'u can get us up to 900,000 tons.

So, clearly, within the internal pipeline, we have significant opportunities for growth.

On the nickel side, we spent a lot of time recently talking about the dynamic of electric vehicles and what is bringing to the industry, and clearly, we're going down that path of the electric vehicle penetration in the auto industry and the inclusion of nickel in the batteries for those vehicles. Our approach is that we have the products, we have the products that have diversity and quality and form to go into the electric vehicle battery and we have the ESG credentials, and we continue to try and build those, and those credentials relate to the low carbon intensity of our product coming from well-regulated and respected regimes, such as Canada.

So, really, what we're going to really focus on is seeing that that narrative or opportunity to build in this area currently just to give a little bit of an update we have buyers who are very interested in the products that we produce right now in the electric vehicle space, we recently signed a significant multiyear contract within OEM, it represents about 5% of our Class 1 nickel and we see further opportunities to grow the sale of our Class 1 nickel into this space, we have some other opportunities there in terms of, you know, moving our products around, we have some opportunities with maybe some relatively smaller investments to repurpose some of our production lines to get a little bit more out, and then we have other opportunities for growth which we look at, and we have a lot of government interest talking to us to try and tease some of this out.

So, in the end, we're looking to build up to about 30 to 40% of our Class 1 nickel going into the space. So, Eduardo, I think that's probably the narrative that I would give in terms of how we increase value within the base metals business.

Eduardo Bartolomeo: Ok, and Alex, just to conclude, it is a process that, as you asked, there are several questions that have to be answered. We are in the initial phase of going back to that view that we had in 2014, but in a much different way; now we think we have a better foundation, we still have work to do in the foundation, we have a better narrative now, and of course, there are several questions that have to be answered, as you asked, how would be the potential transaction. We didn't get to that yet, we're just in the beginning phase of analyzing the possibility to unlock value.

I hope I have answered your question.

Operator: Ladies and gentlemen, as a reminder, if you would like to pose a question, please press star key followed by one key on your touch tone phone now. If at any time you would like to remove yourself from the questioning queue, press start 2.

Our next question comes from Timna Tanners, with Bank of America.

Timna Tanners: Yeah, hey, good afternoon and thanks for the color. I wanted to get your perspective on the situation in China. It's been interesting to watch iron ore prices rise even as China talks about cutting production and yet very little production actually cut, as you point out in your release in the first quarter.

So, just wanted a little bit more of your perspective on what's happening there and what you see happening as the year progresses.

And then if I could, a second question is just on any impact that we should think about or prepare for with regard to the Samarco bankruptcy filing. Thanks, guys.

Eduardo Bartolomeo: Go ahead, Mr. China Spinelli.

Marcello Spinelli: Hi, Timna, thank you for the question. Well, China, as you said, we have to point 2 main questions, actually: we have a solid demand, you know, based on the stimulus and based on all trade war problem that started some time ago, China is going really well, all the indicators you can see coming from properties, 7.8 growth rate considering manufacturing, and infrastructure a lot of new starts last year, they're under construction this year, so we have the scenario of a fantastic demand coming.

The question that we have opened here is for how long we are going to have this stimulus. In our perspective, we don't see a huge, you know, process to stop this, we see as a smooth process coming on the second half, we don't see this in this half, we're going to face a stronger demand the next quarter, but for the last of the year we can see something going on in a smoother way.

On the other hand, the steel supply, as you said, China, you know, just after the 2 sessions with the party meeting, they came to the to the world as a country that definitely is going after the decarbonization, they are really, you know, being really strong about this.

We saw Tangshan as you see, the second question is how will be the rollout of this case, we see, our market intelligence, we can see that they are coming really seriously this time, we can see CISA trying to control this process with their 3 actions that they see, 2 or 3 […], they say that "if you want to cut, cut the guys that didn't do their homework in the swap production or they didn't follow the permit to cut something 2-3 years ago or they are not compliant to the ultra-low emissions that they should part comply on", and although they say that if you are compliant to the ultra-emission, part of the production are going really well in this area that you should allow.

So, again, but we can see inventories declining, blast furnace in a very high utilization, so this scenario, Timna, for instance, is to have high prices, you can decline in the second half, and mostly high premiums, we can see a support for the premiums for the whole year if you consider that the utilization of blast furnace will be high, price of steel be high, margins high, so the scenario for our forecast is to have the premiums in this level for the whole year.

I'll pass to Luciano for Samarco.

Luciano Siani: Timna, Vale and BHP as well we're going to be spectators in the Samarco JR bankruptcy filing, so the company has started to operate, the creditors have got some sentences in their favor, left the company no alternative but to file for JR, the process will take at least 240 days by law, likely more, the company is generating operational cash flows, those cash flows will be available for distribution to the creditors, this is going to be done through an organized process in court and we don't have any expectation to have residual equity value from Samarco, and also, there's no expectation whatsoever of any additional capital injections to support operations at Samarco given that the debt is non-recourse to Vale and BHP.

So, we're going to be at the stands watching what's going on.

Operator: Participants who have already pressed star one, please press star one again.

Our next question comes from Mr. David Gagliano, with BMO.

David Gagliano: Hi, thanks for taking my questions. I just wanted to drill down a little bit more on the, you know, the capital allocation, questions/ issues. First of all, has Vale bought back any of the, you know, 270 million shares associated with the buyback that was announced in April?

Luciano Siani: OK, David, yes, we have, you're going to see the monthly reports we are required to file with the Securities Regulator in Brazil, so it's going to be available for everyone. However, just notice that we had blackout period because of these results issued yesterday and therefore in the 15 days prior to the issue of results we were not able to buy back any shares by regulation.

David Gagliano: OK, and then just going forward, obviously, you know, you mentioned that obviously after regular dividends, Capex or, you know, other payments still there are a lot of cash earned, and so the question in terms of a little more detail in terms of how we should expect from a timing perspective and in what forms should we expect these incremental shareholder returns over and above the regular dividends? Is it something we should be expecting before, say for example, you know, the next regular dividend payment?

Luciano Siani: We haven't discussed that. So, as you said, the regular payments occurred just in March and September, so the more obvious way to allocate return cash to shareholders in between is through an acceleration of the buyback, but this could be discussed with the upcoming Board which will be elected if we should or not do something interim.

Eduardo Bartolome: But, Luciano, just to add on that, I think the keyword here, David, is consistency, right. We don't want to be stuck to the September/March dates, but of course we need always to gauge the market that we are in, sometimes overly optimistic, sometimes over pessimistic, like last year in March. So, we did the buyback in between because it was clear that we had to do it, but normally we would be willing to do consistently, but as Luciano mentioned, we have to talk to the Board. And you should expect of course dividends above minimum payment.

Operator: Our next question comes from Mr. Carlos de Alba, with Morgan Stanley.

Carlos de Alba: Thank you very much, good afternoon. I guess on the same topic, Eduardo, Luciano, are there any… I mean, clearly the company generates a lot of cash flows, it was surprisingly strong quarter on that regard, as you mentioned, prices are higher. Are there any caps or limits to the amount of special dividends that you would propose the company or the Board for the company to pay? I guess the regular dividends are very clearly defined by a formula and we can probably look at the growth, Capex growth, potential growth projects on base metals, but other than that, is there any cap or limit to the amount of dividends that the company would consider paying back to shareholders?

And my second question, if I may, is on the Moatize divestiture process. How can we… what are the expectations in terms of timing or next steps that we should expect from that process? And also, Luciano, maybe you can walk us through how the process of incorporation of Moatize Nacala into Vale's books would look like, I guess you have to increase your debt and your interest payment in the coming quarters. Thank you.

Eduardo Bartolomeo: Luciano, let me just get the first one. I think there's no cap, there's always a balance of course, and again, we need to assess market conditions, debt structure, capital structure, and again, I think you pointed out very correctly, our Capex is really well-behaved, is all around platforms of growth, so you shouldn't expect extreme Capex, so there's nothing in our radar like that.

And secondly, the question that a lot of people make so I'll take the opportunity to make it clear: there's no transformative M&A in our radar as well. So, with that said, and Luciano mentioned in the beginning, I'm just paraphrasing Luciano, the return is going to go to the shareholders, right, Luciano?

Luciano Siani: Yeah. On Moatize, so we just finalized the revamp, we started to ramp up, we hope it will be quick, we hope by the beginning of the second half we'll be already producing at 15 million tons, by the end of the year we should receive equipment on site in order to upgrade the production to 18 million tons.

If you consider today's thermal coal prices and met coal prices a little higher than that maybe 130-140, the business can turn EBITDA positive quite soon, be cashflow positive at the beginning of next year without the burden of the project finance, and that goes to your following question. The burden of the project finance was always felt within Vale's financial results through the EBITDA of coal. So, coal EBITDA is penalized today because the mine pays a tariff for the Corridor which is punitive because it needs to be so in order to repay the project finance.

So, when you watch less 150 million, for example, EBITDA for coal, about 100 million negative is just a service of the project finance funded through the tariff. Once you purchase Mitsui, what's going to happen is that everything is going to be consolidated and therefore the project finance will become Vale's debt and those 400 million a year or 300-400 million they will be seen at the financial statements part of it as interest and part of it as just debt repayment.

But the other hand, the coal EBITDA will immediately improve by the same amount, and so, that's why I'm saying that you don't need much in order to turn coal EBITDA as a business positive, you just need to produce and prices slightly better than what you're seeing today. And that leads us to the next stage, which will be, even though I do have a project finance which bears Mozambican risk and higher interest rates, there's obviously the opportunity to refinance at much lower Vale corporate rates and save money with that. That's what we are going to do.

In terms of timing for divestiture, we already have over 20 NDAs signed with interested parties, obviously there's a way to go between people wanting to look at the asset and offering a firm intention to bid. We hope that we're start to going to have those intentions again by beginning of the second half, obviously people are going to do a lot of diligence on that, and if we succeed, hopefully the target would be to try to sign a deal before year-end.

Some variables put some risk on that, obviously there's this dispute between China and Australia which is weighting on met coal prices now you have all the COVID-19 situation in India, which is a big importer of thermal coal and also could weight on international thermal prices, so let's see, if we're a little lucky I believe we can sign a deal still by the end of the year.

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

Alfonso Salazar: Good morning everyone. I wanted to ask about the outlook of the pellet market, and you can provide some guidance regarding production for the rest of the year and in the coming years, if you can give us some color on that.

Marcello Spinelli: Ok, Alfonso. Spinelli here, thank you for your question. Well, pellet market, let's talk about the demand side. Lets split this in blast furnace pellet and direct reduction pellet.

Blast furnace pellet is quite the same as iron ore, we're not in China, China is going really well, it's related to the problem of necessity to improve the use of the blast furnaces there, but the same pattern you see in ex-China, that's our market, very good prices, steel prices, margins, and necessity to improve the production, so from this perspective you can see room for sales and premiums.

The supply side, on the other hand, is a limitation, there's a limitation today, and Vale is the key producer and the key opportunity today. We expect the production this year slightly better than the year before, the limitation is the pellet feed production, we have temporary restrictions to disposal our tailings in the main sites, so Brucutu, Itabira, so we don't expect to produce more than this this year, but we're targeting to go back to the 60 million tons capacity for next year.

I'm not saying that we’ll do 60 million tons, but we want to be ready to do that, it depends on the demand, perspective, the market perspective to define that.

So, as a conclusion, we see a market that the premiums we doubled the premiums in the first quarter compared to the last quarter last year, this current quarter we again have another increase in the premiums and we expect there's room for another increase in the premiums as we have the demand is really tight, supply demand is tight.

Just an update about the direct reduction market, that's quite the same that I mentioned for blast furnace, we have 2 more ingredients here: the USA coming really fast in their economy and all the stimulus that are coming, they produce, they use a lot of scrap, but they need pellets to improve their production, direct reduction, and the Middle-East is our main market because of the USA increase of the use of scrap, depress of scrap in Turkey is really high, that makes our clients… they can charge higher price, they have good margins now and definitely there is room again to improve the margins, improve the premiums in this market.

So, the outlook for this year, the supply is limited, and we can see good premiums because of the demand that is strong in place.

Operator: Our next question comes from Mr. Christian George, with Societè Generale.

Christian George: Thank you very much and well done with your medical assistance in Brazil, it looks very good indeed.

I had 2 questions for you, one of them is you just said no transformative M&A even in a scenario of higher prices for longer and the large cash flow. Does that exclude also some small M&A on copper? Because in your statement you seemed to be very positive near term and long term on copper outlook. So, is this an area where you make or consider putting some cash in a large cash availability scenario?

Another side of that, would you consider any investment in hydrogen in the context of your customers and steel sector trying to move to green steel decarbonized? Can you be part of that, or is that something which you're just looking at from a distance?

And the second question is on nickel. You're out of New Caledonia, you're still in Indonesia, what is the situation with Class 2 nickel out there moving to being able to do sulfate and serve the battery market? Is it something you're still looking at down there, or is it something you're looking at only doing from Canada and Brazil? Thank you.

Eduardo Bartolomeo: Hey, Christian. First of all, thank you for the acknowledgement of the medical assistant, thanks very much with our team.

Yes, you're right, there's no transformative M&A, we're always looking for copper, it's very hard, as you might understand, but we shouldn't stop, so obviously is one area of interest, another area of interest is energy, and you know we have a very bold goal to eliminate our clean energy… to not eliminate, substitute all of our matrix for clean, so might happen to have some very small acquisitions on that environment.

And hydrogen specifically it brings us to another subject that is very dear to our heart because we just announced the scope 3 targets – one of the few that did that, by the way – and we're following up some players that are doing that, but necessary I think more on a watching – how can I say that? – seat. We are actually working very close to our customers, Spinelli could cope, but I think because of time constraints we wouldn't go that far, but we are looking to help our clients with high-quality iron ore and high-quality metallics that will be needed if hydrogen, and we believe hydrogen is the best together with carbon capture, best alternatives for the steel industry.

But we are watching closely what the hydrogen is happening, but no investments on that, OK?

And I think for nickel I think it's better for Mark to answer, he will be more short and more objective.

Mark Travers: OK, sure. Christian, in terms of class… sorry, the sulfate, you're right, the primary area of focus would be the Canadian nickel, but there are opportunities in Indonesia. The most prominent of which is the Pomalaa Hpal project that is being studied and being discussed with Sumitomo Metals that would be a clear… that product would clearly go into the sulfate market. So, that one's right in front of us.

The other ones are, I would say, aspirational or early. You know, there are opportunities, but nothing really of significance at that point in time. For example, there are Hpal projects that are on the books by others in Indonesia and there are parties that are interested in our alignment, for example, but there's nothing significant at this point in time.

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

Andreas Bokkenheuser: Thank you very much for taking my question. I hope you're all safe and well. Well, 2 questions, a volume question and then a freight question.

The volume question is kind of two parts, and you talked about it a little bit already, but Vale obviously has a number of licenses that are kind of required to reach your production goal of 400 million tons down the line. Is any kind of comfort or clarity that you can give us on these licenses? I mean, are they merely a formality, you obviously expect to get them but is there any kind of disability you can get that they're not going to be significantly delayed at this point in time, either conversations with the state or federal governments on this?

That's the first part of the first question, and within that, you know, you obviously have always had a focus on value over volume as has your Australian peers, and one of the things I'm thinking about there is your additional capacity as it kind of materializes out of the Northern System in particular, but Vale is consolidating capacity, it could be 450 million tons. You know, were sitting at almost US$200 on iron ore and if ever there was a time to kind of monetize that additional capacity, I would think it would be now, and basically, you know, add additional volumes beyond the 400 million tons with iron 200.

So, how do you think about that strategy value of volume given where prices are and given that you could have additional capacity throughout, you know, Vale going forward so, that's kind of the first, sorry, slightly long volume question.

And then the second question is on freight. Luciano, you talked about a bit of freight inflation obviously and how it impacts your second half of the year. How does that, if we look beyond the second half of the year and then we look into 2022-2023, you know, Vale is obviously going to be putting more volume into the market, you know, that could keep freight rates high. Like, if we're still sitting at US$28 a ton by the end of next year, is there additional freight inflation that kind of flows through your P&L or are you still well-protected on your freight contracts? So, that's just a longer-term view on the freight cost.

So, those are my two questions, sorry if they were a little bit long.

Marcello Spinelli: No problem, Andreas. Spinelli speaking, thank you for your question. Regarding the risk to achieve the volumes, obviously licenses or authorizations are always in our track and we try to plan with some, you know, extra delay to keep our planning OK.

So, what you see if you split the challenges in 3, the North we need to keep the license as a rolling process, we just got the license of a pit in Serra Sul in S11-D, so it's business as usual, it is going well, we don't see any delay. In the Southeastern System, we are really close to bridge the gap of the lack of capacity, dam's capacity to install the filtration, so it's in our hands actually, we have final licenses, yes, we have, but we don't see any big deal.

And I explained about the Torto dam, that we used to have to do this, but if you have delay, we have a fallback position for that. We are emphasizing that: we're trying to bring in our planning process buffers, contingencies to be reliable in the end of the day.

Jumping to the second part of your question, value over volume is a mantra, so we're ready to bring back the 400 million tons and we are building the extra 50 million tons. It's 450 million tons. Why? we want to be, you know, OK, we want to be a reliable with our target of 400 million tons, and we can use an extra 15 million if the market demands that.

So, that's our mantra. We're going to decide this as we evolve in the market. So, again, but definitely we need to be ready for an extra capacity.

And about the freight, Luciano, I think I can start, and you can finalize. The freight side, I can say that we are less exposed this quarter, at this first half. Luciano said, the second half is seasonally more exposed to spot freight, but you must have in mind that we are bringing an additional 18 Guaibamaxes for this year that will match the demand of 400 million tons, and the next 6 New Castlemaxes for our fleet. We are talking about 170 vessels in our fleet today.

So, we are growing this natural hedge for the spot market freight and definitely we consider the inflation today, and the last problem was really related to small vessels, to Panamaxes that just came the soybean seasons that make this happen and contaminated the, you know, the big vessels market.

So, again we need to live this, we're not forecasting any big inflation for the spot market and we are working hard to have our own fleet to offset any problem in the market. And an additional point is total fleet today we have installed all the scrubbers, that's another point that we're not being affected to the gap between the high sulfur and low sulfur also, so the shipping business for us is very important to be stable.

Luciano Siani: Said it all.

Marcello Spinelli: Thanks.

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

Eduardo Bartolomeo: OK, thank you. Thank you very much for your attention and questions and interest to talk to us. I think we've been repetitive in that way from day one: it's a marathon that we're going through. I think in Vale Day we said derisking, reshaping and rerating. Derisking is advancing pretty well, still a lot of milestone to achieve. Example: be better on safety, be more assertive on production, but we did strides very good on Brumadinho, capital discipline is zero doubt that we are on that, reshaping VNC is a tremendous good example of how to do it with respect with communities, Mozambique is going to be another one, and rerating is going to be our final mark, so we're going to be more reliable, safer and a more human organization that will be priced correctly.

So, thanks a lot, thanks a lot for your questions because that moves us to the right direction and hope to see you in the next call.

Operator: That does conclude Vale's conference call for today. Thank you very much for participation. You may not disconnect your lines.