Vale S/A
Second Quarter 2016 Earnings Results Conference Call
July 28th, 2016

Operator: Good morning ladies and gentlemen. Welcome to Vale's conference call to discuss second quarter 2016 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. The replay of this conference call will be available by phone until August 3rd 2016, on ***+55 11 3193-1012 or 2820-4012*** – access code ***8020044#***

This conference call and the slide presentation are being transmitted via internet as well, also through the Company's website.

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. Murilo Ferreira – Chief Executive Officer (CEO);
- Mr. Luciano Siani - Executive Officer of Finance and Investor Relations (CFO);
- Mr. Peter Poppinga – Executive Officer of Ferrous Minerals;
- Mr. Roger Downey – Executive Officer of Fertilizers and Coal;
- Mr. Humberto Freitas – Executive Officer of Logistics and Mineral Research;
- Ms. Jennifer Maki – Executive Officer of Base Metals; and
- Mr. Clóvis Torres – General Counsel

First, Mr. Luciano Siani will proceed to the presentation, and after that we will open for questions and answers.

It is now my pleasure to turn the call over to Mr. Luciano Siani. Sir, you may now begin.

Luciano Siani: Good morning for everyone. Welcome to our webcast and conference call. Thank you for joining us to discuss our results.

We are proud to report that we had another good operational and financial performance in the second quarter of 2016.

On the operational performance, we have reached several production records for the second quarter. For example, we achieved production records in Carajás, iron ore production, in total nickel production, in total copper and in gold production, all for a second quarter.

On the financial side, we are proud to share with you that we achieved very good cost and expenses reduction in the first half of the year. Costs and expenses decreased by US$ 1.8 billion from the first half of 2015 to the first half of 2016, enabling us to achieve a 22% improvement in EBITDA, from US$ 3.6 billion to US$ 4.4 billion in the first half of 2016, despite the US$ 860 million drop in revenues due to lower prices.

So that's the key highlight, I'd say, of the entire results of this quarter, an increase in EBITDA despite the falling revenues thanks to costs and expenses reductions.

Moving to the second quarter performance, adjusted EBITDA was US$ 2.4 billion, about 20% higher than first quarter 2016, with very good results, especially from our ferrous minerals and base metal segments.

Our capital expenditures totaled slightly less than US$ 1.4 billion in the second quarter of 2016, with project execution totaling US$ 900 million and with US$ 540 million spent in S11D project.

We focus on strengthening our balance sheet and continue to reduce our leverage in the second quarter. Net debt decreased slightly to US$ 27.5 billion, with a cash position of US$ 4.3 billion, but most remarkably, in this quarter we reduced almost US$ 400 million in debt. So we paid more than we drew down from our facilities. However, this was partially offset by the impact of the appreciation of the Brazilian real, on the translation of Brazilian reais denominated-debt into US dollars. So that's the reason why you didn't see a more substantial reduction in debt this quarter.

Talking now about ferrous minerals, our C1 cash costs for iron ore fines totaled US$ 13.2 per ton, increasing US$ 0.90 per ton when compared to the first quarter of 2016, despite the appreciation of the Brazilian real against the US dollars that would have entailed an increase of US$ 1.2 per ton, showing the resilience of the ongoing cost-cutting initiatives. So therefore, costs increased, yes, but less than what it would have, hadn't we done our cost reduction initiatives.

Our freight costs slight increase to US$ 11.8 per ton due to the negative impact of higher bunker oil prices in our charting contracts, and our iron ore and pellets EBITDA breakeven landed in China was almost in line with the previous quarter, marginally increasing from US$ 28 per ton in the first quarter of 2016 to US$ 28.5 per ton in the second quarter, so despite the effects of the appreciation of the real, higher bunker oil prices and also higher royalties (because of the higher prices), which impacted by also another US$ 0.50 in our overall landed in costs.

We achieved significant improvement in price realization and higher volumes. So EBITDA in the ferrous minerals segment was US$ 2.1 billion, increasing 23% quarter on quarter in the second quarter of 2016.

In S11D – the most important project in our history – is being commissioned, 90% physical progress at the mine and plants, 70% at the logistics sites, the Estrada de Ferro Carajás and the rail spur, and the rail spur itself 92%. We had the pleasure yesterday - myself, Mr. Ferreira and others - to ride on a passenger train through the entire railway spur. So it's almost ready.

In base metals, EBITDA totaled US$ 376 million, almost 15% higher than in the first quarter 2016, as a result of lower costs and higher prices, which more than offset the impact of the appreciation of the Canadian dollar, which happened as well like the Brazilian real.

The nickel prices is slowly recovering. In the second quarter, our nickel realized prices were positively impacted by higher premiums over the LME, increasing 4.5% in the second quarter of 2016 versus in the first quarter, more than 3.8% increase in the LME nickel price. So premiums increasing.

In Vale New Caledonia, VNC, the unit cost net of by-product credits, achieved US$ 12,200 per ton in the second quarter of 16. Decreasing again, now by about 5% over the last quarter.

And Salobo's EBITDA totaled about US$ 122 million, practically in line with the EBITDA in the first quarter, despite the appreciation of the Brazilian real.

Coal and fertilizers. With coal, we continue to focus on reducing costs, increasing profitability and ramping up the Nacala logistics corridor. Coal performance was positively impacted by the costs decrease in Mozambique. The production costs per ton in Mozambique for the coal transported through the Nacala's logistics corridor decreased by almost 40% compared to the previous quarter, should continue to improve in the coming quarters with the ramp-up of the Nacala logistics corridor and the Moatize II mine project.

The ramp-up of the Nacala logistics corridor, as we mentioned, continued as planned, with almost 1.7 million tons of coal transported in the railway and 19 shipments concluded in the quarter. The start-up of Moatize II, as I mentioned, is expected by early August.

And fertilizers' EBITDA was negatively impacted by lower market prices and by the appreciation of the Brazilian real, and totaled 32 million in the quarter.

We would like to conclude by telling you that we stand by the belief that the Samarco agreement provides a concrete, effective and long-term framework to remediate and compensate for the impacts of the Samarco dam failure. But given the uncertainties related to the date of resumption of Samarco's operations, we provisioned in this interim financial statement the amount of R$ 3.7 billion, equivalent to Vale's secondary responsibility under the agreement to support the Samarco foundation on the long-term recovery of the communities and the environment. So it's a conservative stance, but that's the one we decided to adopt.

We are pleased to inform that despite the inflationary pressures, we increased our competitiveness in the iron ore business. C1 cash cost for iron ore fines reached the lowest level ever, of R$ 46.10 per ton, so continue decreasing in reais, and we remain committed to our divestment program, having sold three very large ore carriers this quarter.

Looking forward, we remain fully focused on completing our Capex program, therefore reducing Capex, improving our operations, maintaining our Capex discipline and deleveraging our balance sheet.

And as we approach the completion of our Capex program, we are reaching an inflection point; the ramp-up of brand-new mines and logistics infrastructure in iron ore, coal and copper expand our operational flexibility and the ability to operate at higher margin levels, while reduces our future sustaining Capex needs. For us, the future is now.

Thank you for your attention and now let's open this webcast for Q&A.

Q&A 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 1 key on your touchtone phone now. If at any time you would like to remove yourself from the questioning queue, please, press star 2. Please, restrict your questions to two at a time.

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

Carlos de Alba – Morgan Stanley: Good morning gentlemen and Jennifer. First question, if you could, maybe Luciano, give us please an update on the asset sales. I think this is an important point on the deleveraging story. So if you have any comments that would be very useful.

And second is on the sustaining Capex for the iron ore operations. They have continued coming down, they reached 1.8 US$/t in the second quarter. How sustainable is this level? And if you can provide us any outlook that would be also useful for modeling purposes. Thank you.

Luciano Siani: Carlos, thank you for your question. First, an update on the Mozambique coal and project finance deal: it had a substantial progress in this quarter, so we closed the agreements with Mozambique, the Mozambique government, we concluded the negotiations of the term sheet, so all the structural points have been cleared with the banks. Now we are just into documentation phase.

Yes, we still need the approvals of Malawi, the government of Malawi, but it's going on very well. So the likelihood that we will have signing by the 4th quarter is increasing as the day passes, and that's a firm goal that we have. So that's a very important one for deleveraging.

In terms of transactions, we also have two other important transactions on the pipeline, which we should expect announcements soon. So we cannot advance details right now, but what we can say is that we are very confident that we will bring to the market very good news in a very short period of time during this 3rd quarter. So that's where we stand so far.

Peter Poppinga: Hi Carlos, Peter speaking. On the sustaining Capex, you are right, it came down quite a lot. We are optimizing our supply chain, but it's reaching a limit, it will probably still go down a little bit further, but it's probably close to a healthy limit, and it's sustainable.Some examples are, for instance, we need to decrease our haulage distance and we are installing some conveyor belts from the mine to the beneficiation plant, like, for instance, in four mines in Carajás or in the Minas do Meio, Itabira mines to the Cauê plant. Such examples are typical examples of sustaining Capex, but it will be reaching limit, but it is sustainable.

Operator: Our next question comes from Rene Kleyweg, with Deutsche Bank.

Rene Kleyweg – Deutsche Bank: Thank you everybody, and one clarification and two questions, if I may. Luciano, I presume the two imminent transactions that you referred to did not include any discussions regarding the strategic asset that you are potentially looking to sell a stake in.

And then in terms of the questions, one, could you… Peter, could you provide an update again, sorry, on how the commissioning S11D is going and what visibility you have in terms of first production and first shipments?

And secondly, on the timeframe and Capex involved in terms of Tubarão I and II, you've made comments in recent weeks that you are reanalyzing the potential starting up of those operations again. Thank you.

Luciano Siani: Rene, Luciano. We would prefer to leave the answer as it was, so I'm not giving you indications about the transactions to come. So let's wait for the news when they breakout.

Murilo Ferreira: But, anyway Rene, what… I could say that we are very positive about the closing for this transactions.

Peter Poppinga: Rene, in terms of S11D, you saw that it is very advanced and it's now being commissioned, this project is divided into three lines, at the mine and also in the beneficiation plants downhill, so the first line is being commissioned and, until December, until November actually, we plan to have at least one line fully commissioned and it will start-up.

The first production will start in December, but no sales are forecasted to happen in this year, this is for January, until it gets to the port and fill the pipeline.

In terms of truckless, you will see it also moving in parallel and it's also going well, all the conveyor belts are nearly all installed and are also being commissioned. So S11D is going well.

And what I… I mean, in terms of ramp-ups, we have targets, but what's more important is what I said earlier, is that we have defined capacity at the railway, my colleague Humberto always trying to increase that, but realistically speaking, from 2017 we are talking about something about 175 million tons, and that's will come of course majority from the Northern range and the rest will come from S11D, and this will be filled.

Tubarão I and II it's a very low Capex to restart that and we are not going to use the full capacity. Please, remember that Tubarão I and II today already grinds part of the surface we used to grind for the other pellet plants, so the capacity increase there would be not a very big, but it's a very low Capex to restart and it would be a swing plant to come in and then, if necessary, to came out very easily again. Thank you.

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

John Brandt - HSBC: Hi, good afternoon. Two quick questions for me. If you could comment a little bit on the iron ore market itself and what your expectation is for the second half of 2016, how sustainable you think are prices above US$ 60?

And then secondly, I wanted to ask about Samarco and the provision. My understanding is most of this is not cash, that there is about US$ 150 million that will have a cash impact. At what point, you know, production doesn't restart at some point where you will have to put more cash into Samarco and then sort of… if you could help me understand. Is that later this year, is it sometime in 2017? When do you have to start putting even more cash into Samarco? Thank you.

Peter Poppinga: Hi John, it's Peter speaking. Let me comments on the iron ore market then. I think you know the macro story, which is when China heavily decided to invest in infrastructure and construction again and gave the credit stimulus through the fixed asset investments through public spending mainly, then it changed the whole game for 2016 and demand reacted, production of steel increased and we have the iron ore price reacting to that, right?

If we just have a quick look at what happened with the inventories, that steel inventories were very low, at traders and at mills, and lowest ever, in spite of the record production in June. So this is a very good sign. And the iron ore inventories, when we look to that, although they are high at the port, but it is throughout the value, throughout the whole supply chain, we can say it's at normal levels; 50 days-consumption more or less in the whole chain.

So if you then now consider the seaborne supply is roughly flat with 2015, although there is some seasonality coming now in second half of 16, we see it quite as balanced through restocking. So if demand stays firm, what seems to be happening, the iron ore price will for sure stay above US$ 50/t in the second half of 16.

That's what we believe in and that's actually what we forecasted in Vale Day in 2015 some time ago. But if you have a quick look into 2017, that's where we have maybe probably the biggest disagreement with some analysts, we think the seaborne supply will actually increase a little bit because worldwide steel production may increase 1% or 2%. We see much less new supply, but much less new supply being added as it was in 2016, so in 2017 what we think will happen you will see a 60 million ton new supply coming probably, seaborne, against 110 million, which entered this year, which are entering this year. So, much less new supply being added. You have some scrap substitution and I'm saying it again and again: market is underestimating depletion and overestimating major product ramp-ups. You can see it in all the countries you look at. And the other thing which I have to add here is, of course Vale will always have a mature eye on the market and our aim is to maximize margins.

So having that in mind, if there is not a complete collapse in steel demand, what we don't believe, I don't see iron ore below 50 for longer periods next year. Thank you.

Luciano Siani: John, on the Samarco provision, you are right, it is non-cash. There is also an expectation of US$ 150 million to be disbursed to the foundation in the second half of this year. There is a box in our results release with very detailed information about how the agreement between Samarco and the authorities entail develops in terms of cash outflows, and just to give you the numbers for next year, for Samarco, there is a forecast of US$ 374 million for next year and for 2018. These amounts have to be split between Vale and BHP, should Samarco does not come back – which that is your question, so how it will develop –, and from 2019 to 2021 then the amounts can vary anywhere between US$ 250 and US$ 500 million, again, for Samarco and the shareholders would bear half of it. So therefore, the cash outflows in this scenario that you envisioned will have this profile.

We also approved, as per the release of yesterday, US$ 100 million for working capital needs for Samarco and that is outside the scope of the provision will… maybe net against the provision in the near future, but that entails our support as we still envision Samarco coming back into operations. So this is discretionary, this is not something that is mandated by the agreement.

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

Alex Hacking - Citi: Hi, thank you, good morning and thanks for letting me ask a question. Peter, you just mentioned that the market may be overestimating the pace of new supply coming from projects. Can you remind us of what your guidance is for the ramp-up schedule for the S11D project? Will you ship any iron ore from this project this year and then what's the guidance for shipments for 2017 and 2018, if there is any?

And then the second question, if I may, which is effectively the same question for Moatize. We are seeing the project, the ramp-up with the shipments on the Nacala corridor, how much coal is Moatize expected to ship in 2017 and 2018? Thank you.

Peter Poppinga: Hi Alex, thanks for the question. I prefer not to speak about S11D as an isolated system because it will be one system together with the other range, the Northern range. We have, at least for 2017, where we see room, in the market and where we will need to ramp-up correctly, carefully, with all the security, we see the determinant factor is the logistics, the railway system, which in 2017 is forecasted to have a capacity of 175 million tons. From there you can infer the ramp-up in 2017.

2018 onwards, of course, we will progress with the ramp-ups, but I repeat here what I said, we will have the mature eye on the market and balance everything as much as possible to maximize our margins and also our cash flow.

Murilo Ferreira: Roger, please.

Roger Downey: Okay, hi. As you see, yes, ramping up Moatize does have a significant effect on the dilution of costs and today we're feeding plant II, Moatize II, at the rate of about 200,000 to 300,000 a month. This compares with about just under 1 million for Moatize I. So it gives an idea of where we are in terms of feed rate to the plants and where we are with the ramp-up. So that maybe helps you estimate how is the ramp-up going forward. Essentially the ramping up has to go in hand-in-hand with the logistics, so we are hoping to achieve 18 million tons of logistics and therefore 18 million tons of coal in 2017.

Murilo Ferreira: Thank you Roger.

Roger Downey: Thank you.

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

Alfonso Salazar – Scotia Bank: Hello everyone, and thank you for the question. Look, my question is regarding Salobo, and compared with the original plan in the ramp-up, it is a little still behind or has been behind in the past? And you are still very confident that Salobo will reach full capacity in the second half. So just wondering if you can explain what's happening here, what's going to be the change at Salobo that will let you get to full capacity in the second quarter?

Murilo Ferreira: Okay, I will leave with Jennifer Maki, but for sure the big issue that we had it was mainly with the power supply.

Jennifer Maki: Yeah, we had a number of instances in the first half where we lost power due to power outages and we've been able to rectify that and it's improved a lot, but when that happens it takes quite a bit of time to recover.

In addition to that, you know, I think we've had normal challenges of any ramp-ups, but happy to confirm that we definitely will meet capacity in the second half of this year. And, in speaking with the team yesterday, it looks like July will be a new record, and so we are on our way to a strong second half of production at Salobo.

Roger Downey: Can I just step in and correct something was not… just to clarify? When I say, 18 million tons in 2017, not the run rates, that we will achieve a run rate of 18 million tons in 2017 to be the capacity of Nacala. So we will be working with the coal mine hand-in-hand to reach that run rates within a year, okay? So the accumulated for the year will be below, will be inferior to that according to our ramp-up.

Operator: The next question comes from Christian Georges, with Generale.

Christian. Georges - Generale: Thank you. On your Capex just, you know, to confirm, you had I think a guidance of US$ 5.5 billion for the current year and I think going down towards 3.5 to 4 billion by 2020. I mean, is that still the idea or should we reconsider, especially in the light of the stronger Brazilian real?

And the second thing is, for when are you thinking to… look forward to blending some of the grades in Asia, perhaps is only as year end? Is that a target and these are the priorities for you?

And a 3rd thing, which is a side question, I think in a Brazilian magazine – Valor I think – is suggesting that the deal with Mitsui would have been revised down at 30%, I think they are implying for the stake in the mine. Is that something that is accurate? Thank you.

Murilo Ferreira: First of all, about the Mozambique deal, I think that the relationship and the documents with the Mozambique government has been finalized, it is okay, we are in the end of the process, the same process with the Malawi government. We are just in the end in doing some revision with the documentation with international banks.

And with Mitsui we are just finalizing and we will be able to bring the full number shortly. I think that, we cannot confirm anything; we believe that we must provide some adjustments because it's in fact something different comparing with 2014, but the relevance of the deal will stay.

Luciano Siani: Christian, on the capital expenditures, so this year should be a little higher than US$ 5.5 million, more towards 5.7 and 5.8, because of the appreciation of the Brazilian real. But looking longer-term, if that's true that in one hand we have appreciation of the Brazilian real, on the other hand, as you can see, the running rate of sustaining capital is much lower than the US$ 3 or US$ 3.5 billion that we have indicated in the past. So I'd say that there is a lot of room for reducing the normalized Capex, which stands as of the last Vale Day in US$ 4 billion, towards a much lower number, and we will provide an update accordingly when we revise our plans. But longer-term, it will be lower than that.

Peter Poppinga: Christian, about the blend, the idea is to help… it helps to optimize the value chain upstream in South and Southeastern systems, that's the general idea behind it, and it's happening. Last year, when Malaysia was still ramping up, we blended roughly 15 million tons. This year in Malaysia we are going to 25/26 and then we'll probably reach full capacity next year.

And in other offshore blendings last year we had roughly 5 million tons. This year we are doing around 25 million tons, and this will be increased again in 2017.

Operator: Our next question comes from Jeremy Sussman, with Clarkson.

Jeremy Sussman - Clarkson: Hi, thanks very much for taking my question. Just a little clarification here. I think on the earlier call you mentioned divestments you were looking forward to announcing next week and touch briefly on asset and transactions earlier today. Can you just elaborate on this front? I mean, it sounds like Mozambique is more of a Q4 event. Any clarification would be helpful.

And just my follow-up would be in terms of what you talked about of Mozambique, you know, they still expect the up to US$ 2 billion of project financing or are we just talking about the equity portion closing in Q4? Thanks very much.

Luciano Siani: So the two transactions that we mentioned do not include Mozambique. So Mozambique, as you said, it is more of a Q4, and the project finance may be between US$ 2 and even up to US$ 2.7 billion. We actually have more commitments from international banks than those amounts. We will depend a little bit on the syndication process as well for those tranches which are covered by some of the ECA's. But we remain very optimistic that we can get Vale’s close to the higher end. So therefore, we will receive not only the equity portion, and reminding you that the equity portion includes not only the mine portion, but also the logistics portion and a reimbursement of the capital expenditure incurred since June 2015 at the proportion of the stakes in each of the mine and in the logistics, so there are several components of the money which will come in, and the project finance. So it is a substantial transaction and we continue to guide for at least US$ 3 billion on that transaction in Q4.

Operator: Our next question comes from Thiago Lofiego, with Bradesco BBI.

Thiago Lofiego – Bradesco BBI: Thank you gentlemen. I have a few questions. One, if you could comment on your additional iron ore inventory building in Malaysia, at what levels can we expect you to work with once you reach normalized levels?

And also if you can comment on, or give us an update, on the blending strategy at the Chinese port, how that is evolving, please. Thank you.

Peter Poppinga: Hi Thiago. In Malaysia we already reached our stock level there, it's going smoothly and now it's a question of optimization.

In China, you know, China, and there is also other offshore blending possibilities, like Oman, which we are also using, but mainly in China we have several ports, we have several ports agreements where we are blending with our own ore. This is the Brazilian blend. The Brazilian blend is very well accepted in China, getting a constant premium, this quarter it was something around US$ 3 on top of the benchmark, and so this is going well.

We will increase that, like I said, we this quarter we are aiming at 25 million tons and 3 or 4 ports, major ports, and this will go up.

Still a learning curve, still, let's say, optimization also on the… how to blend and how to distribute, because it's not only about blending, it's also about distribution. There is bonded, warehouse, there is other possibilities if you want to sell in renmimbi, and so there is lots of things going on, but it's going well, the Chinese businessmen and port authorities and other participants are working very well with us, so that we are very optimistic that this will create value for us and for all customers.

Operator: Our next question comes from Felipe Hirai, with Bank of America Merrill Lynch.

Felipe Hirai – Bank of America Merrill Lynch: Hi, good afternoon everyone. Thank you for the question. We have a follow-up question on another question on VNC here if we may.

First, you mentioned, Siani, that the project finance could be larger than the initially announced amounts, and we were wondering if there is any feed that you could give on what the cash impact to Vale from this transaction could be, considering all of this.

The second question is regarding VNC. We saw, a couple of months ago, announcements from Eramet on… that a deal with the French government providing some support to the operation. And we were wondering if there is something on Vale being studied that could provide a similar support from the government or being discussed with the government for a similar support?

Those are the questions, thank you.

Luciano Siani: On project finance, the goal continues to be, at least on the equity and project finance portion, at least US$ 3 billion, but with, I'd say, upsides risks.

Jennifer Maki: Okay. On the Eramet assigned transaction, my understanding is that they are in a unique situation of having the French state as the shareholder, owning approximately 25% of Eramet, and also in New Caledonia the local government they are owned approximately 35% of SLN, so I think that gives them some special qualifications, as I understand it, under French rules to be able to get some funding. We don't obviously qualify for that as the French state isn't a shareholder, but of course we continue to explore all options, and in the past the French state has supported us with the [0:39:35 unintelligible] and financing for the initial construction and, you know, that is something that is possible for us to use again in the future.

Luciano Siani: For the sake of clarification, all the amounts received under the project finance will flow entirely for Vale, because they will be used to repay existing facilities between Vale parent company and Vale Mozambique and Vale logistics.

Felipe Hirai: Okay, thank you.

Operator: Our next question comes from Rodolfo Angele, with JP Morgan.

Rodolfo Angele – JP Morgan: Hi. The question I will make it's probably for the shareholders, but since you interact on the Board meetings with them, I will give it a try. I just wonder if you can comment on how the shareholders' agreement, the discussions are going? That's all. Thanks.

Murilo Ferreira: Hi Rodolfo. I think that, for sure, this subject belongs to the shareholders, but I'm very positive. For sure, in this Brazilian political context, they need us to be more careful about analyzing some key items of the discussion. But I am extremely positive about having a happy end in the course of this year.

Operator: Our next question comes from Marcos Assumpção, with Itaú BBA.

Marcos Assumpção – Itaú BBA: Hi, good morning everyone. First question, if you could comment a bit on the iron ore sustaining Capex. It was also an impressive performance at US$ 1.8 per ton. You already mentioned that probably this number will be a little bit higher in the second half, but how you are seeing this on a sustainable basis, probably after the S11D? How could we estimate this number in the future?

And the second question, if you have any updates on the MOU signed with FMG for the joint venture on blending and distribution of iron ore. Thank you.

Peter Poppinga: Yes, Marcos. As I answered before, the sustaining Capex is sustainable, we will probably achieve a little less than we have today, but there will be a limit of course. You must remember also that we have lots of new mines coming into production, like in the Southeastern system and also in S11D, so the trend is going to be down, but if there is some upward pressure, it will be for sure sustained. And as I mentioned before, we are investing in some conveyor belt systems inside other mines in order to reduce the hauling distance.

All those things together, we see that there is still some room to decrease the sustaining Capex, especially because, as you know, new mines they need less sustaining Capex than old mines, and that's our position on the sustaining Capex.

On the MOU, we are progressing well with FMG, but at a much slower pace than we had anticipated. I don't think we will have all blended in 2016, that's something for 2017. On one hand, there is a tactical focus on the blend itself and on its upstream value chain optimization, but I think one must consider also some of the strategic consideration, and that's being discussed now.

The lab results are very promising, we have done some sinter tests in labs, but also in pilot plants, in sinter pots, and there is for sure a value creation for the steel plants. This is now a certainty. Thank you.

Operator: Our next question comes from Fernando Mattos, with Merrill Lynch.

Fernando Mattos: Hi, thanks for taking my question. I think it was answered already, but it's just to confirm one information regarding the project and how much of the funds would actually inflow to Vale specifically, how much cash Vale will receive. So if I understood correctly, cash would amount at the least to, estimates to US$ 3 billion, depending on the success of the project finance, but I just wanted to confirm how much of that would actually flow to Vale. So US$ 3 billion, more or less or is it more? Thank you.

Luciano Siani: Exactly, all the amounts will flow to Vale. Just remember that ,after the project finance, there will be a JV 50/50 on the logistics corridor, so therefore the project finance debt will be nonrecourse to the shareholders and will be therefore not consolidated within the Vale financial statements, and all the amounts on the project finance will flow directly to Vale repaying existing facilities, plus the equity amounts already discussed.

Operator: Our next question comes from Julian Lautersztain, Millennium.

Julian Lautersztain - Millennium: Yes, hi, thank you for taking my question and congratulations on the results, especially on the cost side. My first question was on the costs specifically. Given the royalties that you are currently paying, do you expect any risk that those could actually be increased under the new administration and sort of new environment of minister?

And the second question I had was, you know, we've seen flipage on Mozambique getting the project financing in line and given the tightening in your debt market yields, how do you sort of look at the market currently? Thank you.

Murilo Ferreira: About royalties, I think that how we have some turbulences in the political context in Brazil and right after the decision regarding the future of the government in the end of August we have elections, municipality elections, and I don't think that it is easy to have this discussion in 2016.

Luciano Siani: On the tightening of the markets, that's something that we are looking very closely. As you can see, in our financial statements we have a lot of debt to be refinanced, our cash position has been increasing and will be expected to increase with the transactions, but ultimately it is likely that Vale will come to the market at some point in time, and therefore it's a development that we are watching very closely.

Operator: The next question comes from Sarah Leshner, with Barclays.

Sarah Leshner - Barclays: Hi, this is Michael Wolcott on for Sarah. Thank you for taking my question. Still on reference specifically to the US$ 100 million working capital facility for Samarco along with BHP's recently announced loan, should we read into it that Vale and BHP will continue to support Samarco's financial obligations in addition to the settlement? Thanks.

Luciano Siani: The support is for general working capital purposes and we're currently engaging with the creditors on the discussions specifically about the financial obligations.

Operator: The next question comes from Erika Ross, with Imperial Capital.

Erika Ross – Imperial Capital: Hi there. Thanks for taking the question. One of my questions has already been announced, but I did want specifically ask around some of the tailing dams that you currently have in Brazil. Am I correct in thinking that you have 155 tailing dams as it currently stands? And I just wanted to know specifically whether is there a viable alternative to such dams given some of the movements I guess from the Brazilian prosecutors about potentially banning upstream tailing dams? Thank you very much.

Peter Poppinga: Yes, that is a difficult, but very important question. We have in fact in the iron ore business 148 tailing dams. Now what we are doing is, independent of what will be changed potentially in the law or in the licensing process, what we're doing anyway in order to maximize our margins, what I said was that we are trying as much as possible to dry process and also to take advantage of offshore blending capability.

This what we are doing on top of that is that we are now always separating the coarse tailings from the slimes, and the slimes will be from now on preferentially being deposited into exhausted pits instead of in tailings. So that's another way of optimizing the tailings story.

That means that in our new integrated plan, looking forward some years, instead of having only 40% dry process like we have it today, we will go to 70% dry process.

And there is another maybe item which we should put on the table, no matter what will happen in terms of specifically the upstream, the construction method of tailing dams in Brazil in terms of legislation or restrictions, we must say that in Vale, we don't have those dams. We don't have, we practically have no upstream dams in our operation, continuously, and also in the future we are not considering any of those upstream dams, new dams. So that is something which is very different from what the other companies may be experiencing.

Thank you.

Operator: The next question comes from Thiago Alzier, with Goldman Sachs.

Thiago Alzier – Goldman Sachs: Hi everyone, this is Humberto Meirelles. Thanks for the question. So a follow-up question on the tailing dam, sort of debate. In this scenario where you can use old pits as a substitution for tailing dams, essentially what will be… what this implies for the licensing, the environmental licensing process? I mean, how different is the licensing process when you use old mines for a tailing dam versus just, you know, launching a new or building a new tailing dam?

Peter Poppinga: So, in pit storage of slimes into exhausted pits is for sure much easier than to rise licenses a new dam, so that's one of the non-brainers we have and we are planning full speed ahead in this direction, and this solves our problems, our, let's say, bottlenecks for the next 20 years.

Operator: Our next question comes from John Tumazos, with John Tumazos Very Independent Research.

John Tumazos: Thank you very much. First question: must you have the Samarco issues entirely addressed and wrapped up before you can resume a common dividend?

Second question: if next year benchmark 62% average US$ 60 or better and nickel was US$ 6 or better, what do you think the possible range of dividends would be?

As I read the CMEgroup.com, the August month is 58.03 for iron ore and yesterday the 2018 futures was US$ 6 higher than it was a week or two ago, and I recall lovingly that the first six months of 87 or 88, after a long downturn, the nickel price rose six fold and, I want to appraise you for being so polite when people ask you to discount the Mitsui deal 30% and giveaway 10% the iron ore business, run mines without telling tailings dam, you're so patient, God bless you.

I think you're being very, very, very polite. Things are great right now. God, things are good.

Luciano Siani: John, thanks for, as usual, your very kind and stimulating comments. On the dividend, everything that we say and do, we plan for the worst, right, and we are actually assuming that the most dire predictions of some of the analysts on the street they may materialize. So that's a risk that we take into account. So therefore, once you do those forecasts, we will need to be more careful and therefore not to anticipate so enthusiastically such scenarios.

However, as long as they materialize, obviously it changes completely. The leverage profile may change overnight completely under the scenarios you described, and obviously on a timing perspective, the approach to higher dividends will also change completely.

I'd say what shareholders must have in mind is that, because of our capital discipline, there is no other destination for surplus of cash rather than deleveraging or paying dividends. So Vale will not engage in expansion plans like we did in the past because the market isn't there, so therefore there is only two directions to go.

So the debate on where to use excess cash, when the time comes, I say would be a very nice moment to be in and certainly dividends will have a key and large role on that destination.

Murilo Ferreira: Then we are in the end of our conference call. Ladies and gentlemen, thank you very much for your time and your questions. See you soon.

Operator: That does conclude Vale's conference call for today. Thank you very much for your participation. You may now disconnect.