Vale S/A

Second Quarter 2017 Earnings Results

July 27th, 2017

Operator: Good morning ladies and gentlemen. Welcome to Vale's conference call to discuss 2Q17 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 2nd, 2017, on +55 11 3193-1012 or 2820-4012 – access code 9775487#.

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. Fabio Schvartsman – President and CEO;

• Mr. Clovis Torres – Executive Officer & General Counsel;

• Ms. Jennifer Maki – Executive Director, Base Metals;

• Mr. Luciano Siani Pires – CFO;

• Mr. Luiz Eduardo Osorio – Sustainability and Institutional Relations;

• Mr. Peter Poppinga – Executive Director, Ferrous Minerals and Coal; and,

• Mr. Juarez Saliba - Director of Strategy, Exploration, New Business and Technology.

First, Mr. Fabio Schvartsman 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. Fabio Schvartsman. Sir, you may now begin.

Fabio Schvartsman: Thank you, good morning to all. It is a pleasure to have this opportunity presenting my first conference call for Vale for the second quarter of 2017. As this is my first time, I will make it slightly different than normal, instead of start discussing the results, I will comment on the points that I know that many of you are interested in understanding how things are moving forward in general as soon as I joined the company.

Well, let's start with this very recent diagnosis that was made, we call it internally a 60-day diagnosis, it was just delivered, I received it this week, it was a far expecting my expectation, I am sorry, better than my expectation. With a lot more detailed vision of what to do with Vale. So, but it is important to understand how the sequence, or, in other words, which will be the schedule for delivering information on the diagnosis.

First, we are going to present this diagnosis to the Board of Directors of this company and this presentation will be made in the next Board meeting in one-month time. That means that just after that, and/if this diagnosis gets approved by the Board, we are going to start delivering to the market the information that could be delivered, that are not confidential, regarding the diagnosis that was made.

Nevertheless, I would like to mention a few points that I can, because we don't want to be in conflict with anything that requires approval. First, in iron ore we have a very strong diagnosis towards cost efficiency, cost reduction, sustainability, and so forth. And here we have the work of Professor Falconi, just starting, he was just hired, and he is going to make a simple case out of the pellets division, and if successful it's going to be rolled out for the rest of the division. The benefit expected from this work will be up to $1.5 per ton once all the division is covered, understanding this is a very rough estimate because I'm basically taking the estimate that was made in the pellet division and I'm rolling it out on average for the rest of the division. So, I must say this is most likely a very conservative scenario of how much we can address costs in the company.

Another very important aspect that was already announced by, in Vale Day of last year is the Center of Integrated Operation, through which we are trying to integrate everything, all the system, all the railroads and ports and ships in order to optimize the global operation of Vale, and therefore bringing costs down and efficiency up.

But the most important thing that was clearly made through this diagnosis is the issue regarding base metals. Base metals in the last few years was heavily concentrated in the idea that prices of nickel will be very high in the future, and with this in mind the investments are always possible and the return would be there if the prices went up. Unfortunately, the prices kept low and we have changed entirely the behavior of base metals, now towards trying to get the most of the existing scenario, not believing only in a future scenario that will be very favorable. Now the objective is to make money in the existing situation. Instead of using money for building an uncertain future, much on the contrary, to start to be profitable and return on investment in the model that we have today. You know that we have several different sites where we produce nickel and it's very clear that the biggest problem is Nova Caledônia, where Vale has invested billions of dollars in the last several years and we have very poor results, and actually, our costs there are still much higher than the price of nickel as of today. So, here the issue is much more complicated and we are looking to find a way of having an operation where we can, where Vale can have a sustainable model without having to put more money to work in this business. Let's make it very clear, our main goal is to find a sustainable model. Obviously, if we cannot find it, then we have to face the possibility of shutting down this mill. But this is the sequence, the sequence is we are going till the end of the possibilities of finding alternatives of having a sustainable business model for it.

Regarding the team and the group of executives of the Company, I am very pleased to let you know that we have the new group of officers, executive officers, almost complete. We have just announced an internal promotion as of yesterday for a new position in the executive committee, so now we have a very strong mixture of officers that were already in the company plus a small number that came from outside plus some internal promotion. Now we have a group that is almost ready to start to work from now on, for building the future of Vale.

It is important to make a quick remark on the issue of the new headquarters of Vale. We just announced that we are going to move everybody to the same building here in Rio de Janeiro in order to have a better integration among everybody that works for this company. This building is in Botafogo and it is a landmark building that was built by, the last project of the late Oscar Niemeyer. Probably the greatest Brazilian architect.

One word about Samarco. It is very important that you understand that we, together with the Samarco and together with BHP, we are doing everything that we can to restart the operation of this company. Nevertheless, the truth is that, this is not totally under our control because [it] depends on approvals and licenses and permits and that are very hard to get after the accident that we had there. So, the only reason why Samarco did not start so far is because we did not get these permits, and it is impossible to say when we are going to get them. The only thing that I am pretty sure is that we are going to get them, and then the company will restart. The problem is we should not promise when it is going to happen because we certainly do not know.

I want to make a quick comment as well in this capital restructuring of Vale, the operation is coming to a very important phase that ends August 11th, the conversion of shares from PN shares to ON shares, and it is my pleasure to tell the market that the results so far are far beyond our best expectation. We are getting a lot of attraction with retail, that we were not expecting, and we are getting indication from the index funds that they will convert. So, it means at most likely we will have a very good scenario when it comes to August 11, because besides these people, the vast majority of the market was supporting the operation. So, is important to say that we expect a heavy concentration of liquidity of our stock in the ON shares after this conversion period and it will represent a very important step forward the direction of preparing this company to become a true Corporation, with better governance and less government interference. That is the aim of all of that.

Another issue that is important to emphasize is the issue of the royalty that was recently raised by the Brazilian government, as recent as this week. Vale is clearly not satisfied with this increase in royalty. Not only because it represents further costs for the company, but even worse that it brings a lot of legal uncertainties because this royalty was now extended to freights of the iron ore, and to the operation of pellets, that is clearly an industrial operation and not a mineral operation. As a consequence, the legal uncertainty is growing and this is the worst possible situation because nobody knows which is the real impact of these measures that were announced.

Now, very finally, a very quick comment on the results of the second quarter. It's clear, for my understanding, that it was a weaker result than expected for everybody. Nevertheless, the main factor for this weak result was the lower iron ore price during this quarter, but we had some factors that were internally caused. As, for instance, we had more production than sales because we have been building inventories in China for the purposes of blending, and this, as a consequence, translated into lower sales than expected, and we had still a tail of sales of low-quality iron ore with high silica content that affected our net realized price, and this affected negatively our results as well. On top of that, we had a number of one-off issues that affected the results.

The good news that we have is that now we are facing, for the next quarter, a completely different situation. First, the price scenario is of higher prices, and more stable than we had in the last quarter. Second, we are reducing in a very meaningful amount the production of low grade iron ore, of high silica content iron ore. Finally, we are not going to have the one-offs that we had in this year and we are not going to build further inventories because we are almost at the level that we wanted to be. The consequences, by any means, the results of the next quarter should be more meaningful than the results that we had in the last quarter. Well, this is probably luck of a rookie, I am very proud of having this kind of luck right now.

Finally, we had, though, one good thing in this last quarter, this is the very strong cash generation of the company that allowed Vale to pay large dividends, to pay for the put option that we had to pay, and reduce debt, all together in this quarter. This clearly indicates that the trend of reducing debt is here for staying and we are going to see an acceleration in the reduction of the leverage of the company in the next quarters, putting behind Vale the issue of high indebtedness.

So, this was basically what I had to present to you, and now I'm going to convey to Luciano that will give a more detailed explanation on the second quarter. Thank you.

Luciano Siani: Good morning everyone. So, my goal here is to just highlight a few specifics on the results. So, starting by the free cash flow, we are marking to you that capital expenditures were the lowest for a quarter since the third quarter of 2006, and looking forward we see this trend to continue. We are almost at the end of spending money with S11D, in this regard, we are even ahead of the schedule, we should conclude the works on the logistics by the end of 2018 instead of going through 2019, as we had expected before. Some large expenditures on, for example, in Canada in the atmospheric emissions reduction program, they are coming to an end as well, and, because of the review of the Base Metals business, it is likely that some of the capital to be spent will be deferred. So, in the end, capital expenditures continue to trend down and cash flows will continue to trend up, and even in an environment of lower prices. We are spending today in a quarter what we used to spend two years ago in a single month in capital expenditures, so it makes a big difference.

Other offenders of the cash flows, they have gone. For example, the hedge cash expenditure that we had very intensively last year they are gone, and opportunities are in the short term, for example, preoperational expenses are bound to decline. One example of this is the Long Harbor, with the Long Harbor refinery, for example, June we had no pre-operating expenditures, the refinery has reached 60% of capacity, and S11D expenditures are supposed to decline as well in the future. So very good perspectives for cash flows.

In terms of the composition of EBITDA, no news here, still highly concentrated on iron ore. However, I would like to remark the performance of coal, as you saw, we generated US$ 157 million of EBITDA, of which US$ 182 million was generated in the Nacala corridor, and there was a loss in the other inefficient corridor, Beira, which is not the long term future of the company because we will manage our exposure to Beira after the end of the contract.

The costs, the total operating costs continue to decline, we have reached US$ 74/t and we are bound to be below US$ 60/t in the very near future. There was, yes, an increase in the absolute cost because of the entrance of Mitsui in the corridor, there is now a US$ 15/t tariff. But just to remark that of this additional US$ 15/t, US$ 13/t come back to Vale through the repayment of the loans granted to the corridor. This goes into the financial income in the balance sheet.

In terms of, now going to iron ore, in term of costs, you saw that the breakeven landed in China is now US$ 34.7/t, a big increase, we expect to the end of the year with dilution of fixed costs and other measures to be back towards US$ 32 to US$ 33 dollars. As you saw as well, the freight rates, the spot freight rates in the market they have declined, but there is a lag because of the length of the journeys between Brazil and China, so we have not captured yet this recent decline in the freight rates, but we should in the next coming quarters. So, we are going to be back likely to the range of US$ 32 - US$ 33, and because of all the cost reduction initiatives that we announced in Vale Day, and now this Falconi program that Fabio has remarked, we strongly believe we will be back down lower than US$ 30/t in the near future.

In terms of iron ore price realization, just to call your attention to one phenomenon that we were impacted in terms of EBITDA this quarter because of the adjustments on prices from the past quarter because we record that US$ 78/t, the outstanding sales with provisional prices in the first quarter, and these sales realized at lower prices. On the next quarter, this effect will reverse because we have recorded the provisional pricing sales for this quarter at US$ 62/t, and now we are almost at the end of July and the prices are higher than that. So not only the average prices for the quarter will be higher, but also will have a kicker from these price adjustments carrying from the second to the third quarter. I am certain we will talk a lot about these inventories built-up and this correlation between production and sales, so I'll leave it to the Q&A.

On Base Metals, we had a good performance on costs, it improved from the first quarter, so, offsetting a little bit the decline, especially in nickel prices, and cost performance tends to continue to be good in the following quarters, especially in the third because we are going to have two furnaces operating in Sudbury, and as I mentioned, Long Harbor is in very good shape to continue to reduce costs.

On the divestitures, we just received news yesterday that on the project finance on Nacala, ECIC, the ECA from South Africa, has approved the project, so joining now AFDB. We expect JBIC and NEXI approvals from September, and disbursements shortly thereafter.

On the fertilizers sales, we are now waiting for the final decision by the antitrust authority from Brazil. It should come soon and we are also fulfilling the other precedent conditions, so, therefore, we expect closing by the month of November and proceeds to come still in the fourth quarter.

The sale of Vale Cubatão is progressing. Potential buyers are doing due diligence right now, and we expect to receive additional proceeds from the sale of two ships in August and another two ships in October, therefore completing the divestiture program.

On the debt, you saw we had still on the first quarter very high gross debt, it has declined in the second quarter, we have started to repurchase part of our debt and that should accelerate. We aim at reducing financial expenses going forward, so, doesn't make sense to pile up cash, we will accelerate the repurchasing of debt.

So, in the end, as you can see, we are very much derisking the Vale equity story and being ready to ride this future journey under the leadership of Mr. Schvartsman. Now we open for Q&A.

Q&A Session

Operator: 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, please press star 2.

Please, restrict your questions to 2 at a time.

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

Carlos de Alba: Good afternoon, good morning gentlemen and Jennifer. First question has to do with the discrepancies or the gap between iron ore shipments and iron ore production. What can we expect going forward on these metrics? I understand from the release that it's around 5 million tons, which seems a little bit short relative to the gap that we saw in the numbers, but if you can help us understand how this gap will evolve in the next few quarters and maybe next year, that would be really useful.

And the second question, we saw news announced by a smaller producer that Vale sold a couple of autoclaves to them for around $7 million. My question is does this have anything to do with what Vale would do at VNC? Does this mean that the company will, I mean, are these autoclaves VNC's equipment or not? Thank you.

Peter Poppinga: So, Carlos, this is Peter speaking, thanks for the question. This gap between shipments and sales happens in the last quarters, and it's now, in my opinion, at its peak in Q2. We will, you know the reason for that, we have a blending strategy which is not only Malaysia and Oman, but also other offshore localities, mainly China. This is Capex avoidance and it is about price realization, and it is about sales distribution - we would say channels. So, all this comes into this, falls into this strategy, but this year the blending in Malaysia was, will be around 25 million tons, the blending elsewhere, including China, will be 45 [million tons], and we will have the 70 million tons blended.

So, stocks are building up and probably what I can tell you is that in 2018 what we will see is a conversion between the shipments and the sales volumes. There can be one or two quarters up and down again, actually the trend towards the end of the year is to slightly reduce the stocks we have today, but I would say that during the year of 2018 we will have very much a conversion, a very narrow correlation and narrow gap, if any, between sales and shipments.

Thank you.

Jennifer Maki: Thank you Carlos. Those autoclaves in question that were sold relate back to our Vermelho project, which we had in Brazil a few years ago, which we didn't proceed with. So, it's unrelated to Vale New Caledonia.

Luciano Siani: We are coming full circle, if you imagine this was a project approved at the Board of Directors of Vale in November 2005, and here we are 12 years later putting a lid on it, selling two autoclaves for $6 million.

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

John Brandt: Hi, good afternoon. Two questions from me. I mean first on the overall strategy, I understand that you wanted to continue focusing on deleveraging. I noticed that there wasn't really a mention of the $15 to $17 billion net debt target like you've mentioned previously, and instead, using the language, that you wanted to be in a more comfortable leverage situation by the end of the year. Have you moved away from the $15 to $17 billion target? And then, you know, I guess sort of related to that, once you reach what you deem as comfortable, should we continue to expect the rest of the free cash flow to be paid out in dividends?

And then my second question relates to VNC. Fabio, I know you want to take some time and have this be more of a sustainable project. I'm wondering how much time you're willing to give this, and if you've analyzed potential shutdown costs if you have to go that way. Thank you.

Fabio Schvartsman: Well John, thank you for your questions. First, in the issue leverage, well, we can say that we are reducing the target. Actually, we want to have less than US$ 15 million to US$ 17 million debt, and my reasoning here is very simple, Vale is too much dependent upon one single commodity, iron ore, and this is a very volatile commodity, and it doesn't go well with any kind of debt. So, in my point of view Vale has to have the lowest possible debt, and we are moving in this direction.

By doing that, we will be improving and making our balance sheet stronger, and this will be one of the measures that we are looking for, besides improving performance, besides improving governance, besides improving execution. If we can put everything here together, it will probably represent an improvement in the perception of the value of the company, and therefore we will be able to use in a more broader way the stock of the company. That's my goal here. That's my goal here. Actually I don't want to use debt, work the future in this company based upon that. I think it doesn't worth to follow this road. Therefore, we are going to keep paying dividends and we are going to keep deleveraging the company. As a note, even in my former job, in the execution of the largest project of the entire life of the company that I worked for, we've been growing dividend throughout the construction of that big investment there. So, it gives you an idea of how do I feel about dividends.

Second, regarding VNC, well, I said exactly what I meant: we are clearly looking in a deep way how and if we can transform it into a sustainable business. And then, and only then, if it's not the case, we are going to look into shutting it down. As a consequence, we are analyzing and evaluating all the scenarios. Calculations are being made, but I have no idea which is the result, which are going to be the results of these calculations because the priority is to find a sustainable solution. Closing is the last resource. Imagine, after investing billions of dollars there, I just cannot go there and close it without taking into consideration all the efforts, all the jobs that we have, everything that is there. Only if in the end we cannot continue. One point is clear: we are not going to put more money to work there. So, we have to find a solution without putting more money there. And we are focusing on that.

Operator: Our next question comes from Amos Fletcher, with Barclays.

Amos Fletcher: Good morning gentlemen. Two questions. Just first, congratulations on the outstanding free cash generation of the quarter. You had a very strong 1.4 billion receivables inflow, I think you explained what was behind that.

And then secondly, on iron ore you mentioned in the Portuguese call that you want to produce 400 million tons next year. Could you clarify, when you envisage reaching the 400 million ton level? Thank you.

Luciano Siani: Amos, Luciano. I understood from the first question, the line was a little creepy, that you want some comments on the free cash flow, on the highlights for the free cash flow, is that it?

Amos Fletcher: Yes, it was just to clarify, there was a $1.4 billion-receivable inflow, just sort of explain what was behind that, and whether there was any kind of receivables within that carry forward. Thank you.

Luciano Siani: Okay. Well, part of that reduction is a natural consequence of the decline in prices, so you collect sales at the beginning of the quarter at higher prices and then you record sales at the end of the quarter at lower prices. So, that explains a little bit of the disconnect between Ebitda and cash flows, which goes through the… and you see the accounts receivable reducing.

The second topic is because of the very steep increase in iron ore prices at the end of the fourth quarter and going through the first quarter. There were lots of outstanding invoices of the provisional price adjustments who weren't immediately collected because of the sheer volume of those. So, there was some inefficiency in the collection of provisional price adjustment invoices. And we've resolved that, so that explained a little bit also the reduction of accounts receivable. But we believe now we are at a more normalized level of accounts receivables, so going forward only eventual price swings will explain the ups and downs.

Peter Poppinga: Yes, regarding the 400 million tons annual production question, we have stated repeatedly that, although we have a 450 million tons capacity, that doesn't mean that we are going to use it. It depends on market conditions, and more importantly, on our margin maximization optimization efforts.

If you take our recent ramp-up schedule, which was revised last Vale Day, instead of two years ramping up in four years, mainly concerning the logistic corridor, then you reach the full ramp up of the S11D at 2020. It may be, if market conditions are right and if we are maximizing our margins, that means that we are reaching in 2019 or in 2020 our goal, our target of 400 million tons.

It will not mean that we go beyond that. And again, like we said, we are… this is our optimal level of operations and we think it fits well into the mid term market. So, to answer your question, reaching probably the 400 million either in ‘19 or in ‘20.

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

Andreas Bokkenheuser: Yes, thank you very much for taking my question. Two questions actually. The first one is that there has been some talk this year - and I think you reiterated some of that this morning - that management may be looking to diversify out of iron ore towards other commodities over time, not to be, you know, so dependent on a single commodity. How do you think about that in terms of a comfort level? Would that be, for example, you know, iron ore shouldn't account more than 50% of the EBITDA? Is that the way to think about it? So, if you could give us some clarity there, that would be great.

And the second question is: potentially financing this diversification, given that you are also trying to delever the balance sheet, would you consider potentially selling some of your iron ore assets to effectively finance and move into other commodities? So that would be my second question. Thank you very much.

Fabio Schvartsman: Andreas, thank you for your questions. First, about the idea of diversifying the company. Yes, we reiterated our intention of diversifying the company to become less dependent of this one commodity that we have today. But in our way of seeing things, we are going to do it in a very cautious way, the first step being trying to get the most of what we already have, especially to make the nickel operation profitable and a meaningful part of our portfolio. Today, we are not getting much of this huge investment that was made there.

So, for starters, we have to stress the case that we have in hands. Second, sorry, about the guidance, 50%, there is no magic number. We are not looking for numbers, but we really want to have very good and competitive situation in anything that we get involved with.

Regarding financing, there is no chance whatsoever in any case that Vale will sell any of its iron ore assets to do anything other than iron ore. Look, what we are going to do, we are going to use, as I am saying time and time again, that we are going to use our only tool that is for real for this. This is the stock of the company. If we are going to move forward and when we are going to move forward depends upon the capacity of using in an accretive way shares of this company. So, this is the only financing tool because, Andreas, we know by experience that diversifying is a very difficult thing, and if you do it in any other fashion than using your own stock, you are just adding risk to the process, and we are not going to do that.

Operator: The next question comes from Daniel Lerch, with BNP.

Daniel Lerch: Hi, thank you so much for taking my questions. I have a couple of questions on the strategy and iron ore. First of all, on your… maybe a follow-up on my previous question on the organic growth options, so on the strategy to potentially divest further business. Is there still a focus on allocating some Capex on any organic growth, what I'm thinking about here, for example, Salobo 3, which is exposure to copper and kind of going very well.

And my second question is quickly on iron ore. On S11D, you mentioned that the focus there… can you give us a bit more detail on how the operation is running at the moment and how much you are planning to produce this year?

And on iron ore cost and lastly, you're highlighting that you expect costs to go down to R$ 46 to R$ 47 in the second half. Can you explain how quickly you expect this to happen? This is more gradual process or is it towards the end of the year? Thank you.

Fabio Schvartsman: Well, thank you for your questions. About organic growth, yes, obviously organic growth is part of the strategy of any company, that's no different in Vale. The issue here is that we have to be very careful not to expand capacity, to put money to work in markets that are already oversupplied. But having said that, there are some commodities and assets that Vale has already, like copper, where we can continue to invest in organic way because the market can absorb it easily. So, the decision here will be very simple. The assets that can be profitable in areas where clearly there are no evidences of oversupply, Vale will invest organically.

Now to Peter to answer about S11D.

Peter Poppinga: Yes, Daniel, thank you for the question. So, for S11D, a bit more detailed if you want. So you saw that we are already at - in the mine - at 99% physical progress, and 90% overall in the whole project. We have not encountered any major problem in terms of commissioning, but we are, now of course, we are producing and commissioning at the same time. Where is the main interference of that? It's in the mine, where we actually couldn't have… we couldn't yet test the total capacity of the truckless because we are producing and commissioning at the time, like I said. The long-term conveyor is going well, was tested, the mobile crushers were tested, some small issues in locomotion, a [unintelligible] problem that actually the capacity of the MSRs are actually exceeding our expectations. But all this is… means interference, no major problem. That's why in the second half of this year we expect to focus more on production and then the commissioning will be less and less.

Nominal capacity, as you know, is 90 million tons. We are have already produced around 10 million tons this year, and we expect, for the whole year we expect to have 25% of nominal capacity, probably being in the pace of 40 to 50% at the end of the year.

Now, that's for S11D. On the iron ore costs, yes, you saw the increase in costs, mainly there was the merge increase, and that was related to the maintenance of the pier number 1 in PDM. We are changing the big belt conveyor there. And since pier number 4 is still not ready yet, it's still being tested, we couldn't compensate there. Also, we had some railway problems in the Vitoria-Minas railway, which also increased the demurrage cost there. These are one-offs events, which will not repeat.

We had an increase in our freight costs because of the… we were caught by surprise in some of our contracted affreightments running out, and at the same time we had to go to the spot market, which was high. This will also be… this will be overcome in the midterm by our second and third generation ships, Valemax being delivered. And all the focus on the cost reduction is more and more on the integrated supply chain management. Not only in terms of efficiency, but in terms of price reduction. That's where the biggest cost advantages and cost reductions will happen in the future. Thank you.

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

Alex Hacking: Hi, good morning and thank you for the question. My first question is a follow-up for Peter. You mentioned earlier that Vale's iron ore capacity will be 450 million tons. My question is, does that include the 50 million tons of high silica capacity that is being closed and even the process of closing being the 30 million that was closed last year… 19 million that was closed in the second half of this year?

And then my second question is on the cost structure of the coal business. Can you remind us how much coal are you shipping through Beira today versus Nacala? What is your contractual obligation per ship for Beira? And once the contractual obligation is over, should we assume that you will ship 100% of the Moatize coal through Nacala? Thank you.

Peter Poppinga: Alex, thanks for the question. The 450 million capacity is if… when you add all the four ports together, and it includes the domestic market. It doesn't mean exports, okay? It includes the domestic market when you have… where you have around the 30 to 40 million tons market. So, the 450 million tons is when you add all the exports and deduct the domestic market.

We, in the Southern System, have some high silica, but also some normal silica, normal quality iron ore. So, closing down almost 20 million tons of this is not only related to the Southern System, it's also related to the Southeastern System. So, you will have all over the place, you will have in the mine, not closing the mine, but you will have product flows being rationalized and eliminated, and by that you are reducing production on a 20 million tons in the South and Southeast on annual basis. Since we are today at 300 and, let's say, 360-365 million tons production this year, and we firmly will go to 400 million in the midterm - and I just said to your colleague, I am not sure if it's 2019 or 2020, when the margins are good and when the market is permitting -, so that means that we are going to compensate, more than compensate the 20 million tons, which will be eliminated in the South System and Southeastern System. The flows will be compensated by more production in the Northern System, S11D and Carajás.

Luciano Siani: On the cost structure for coal, the cash costs through Beira is around US$ 125 per ton, so very difficult to make money in this quarter. We still have transportation obligations of around 200,000 tons per month. Those obligations they extend until the end of this year, and they go a little bit into next year. Overall, the way to think about it is that there is an 18 million tons capacity through Nacala and another 4 million tons capacity through Beira, which leads us to the 22 million tons which was the original design for the two process plants for coal. So, if you want to run the mines at the full capacity, you will need to increase capacity in the Nacala corridor, which means adding a little bit of rolling stock and seeing if the car dumper can run at very high availability to try to reach the 22 million tons just on Nacala.

But the key message here is that Beira is not on the plans on the longer-term, and therefore, this is an upside for the cost structure of the whole of Mozambique.

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

John Tumazos: Could you explain a little bit the Sumic transaction? It might be in your footnotes, but there is a lot of press releases this morning.

And second, could you explain the political process in restarting Samarco permits? Those of us that are far away might not understand all the issues after a couple of years. I visited BHP in Melbourne this month, and I was very pleased in how supportive and complete agreement they were with you.

Jennifer Maki: John, the Sumic transaction it relates to a prior transaction when they left the Goro project, and essentially the payment of that was happened in this past quarter.

Luciano Siani: On Samarco, there are basically two environmental permits that need to be obtained, one is for the [unintelligible] pit which will receive the tailings on the short… on the first few years of the restart, and the other one is the so-called corrective license, because the whole operating license of Samarco was suspended. And both of the licenses, the permits, are in negotiations with the relevant authorities and they depend on several smaller issues. No fundamental structure structural issue, but several smaller issues.

Also on the legal front, there is a preliminary agreement established with the public prosecutors which leads us to until October 30th. They may be part of the larger framework agreement, establishing the beginning of 2016 with the federal and state authorities, therefore providing legal stability for the restart of Samarco, which is also very important.

So, these are the three main challenges: the obtaining of the two permits, which are in the state authority, and the final negotiation with the prosecutors, expected for October. And the restructuring of the debt, which again is also ongoing with the banks and bondholders.

Operator: The next is comes from Nilton Sullivan, with XP Gestão.

Nilton Sullivan: Hi guys, thank you for the opportunity of asking my questions. I have two questions related to Capex. First, Siani, could you please compare the levels of maintenance Capex we saw in the first half of the year to the Vale Day guidance that we saw at the end of last year?

And second, still on maintenance Capex, I would like to hear a little bit from you about the reasons for the lower maintenance Capex in the second Q, if any of these reasons are the same as the reasons which you said you intended to maintain in lower looking forward. So how should I look at Capex looking forward concerning these two points? Thank you.

Luciano Siani: So, the guidance of the Vale Day was at US$ 4.5 billion total Capex for the year. When we announced the sale of the fertilizer business, we removed 300 million, which was the capital for fertilizers from this number, so we are talking about 4.2. We should be very sharply close to this number this year, but as you saw, we had some higher number in the first quarter and now we have a smaller number in the second quarter. We should have smaller numbers for capital, investments in capital on the third and fourth quarter, but higher number for sustaining. So, all in all, we should reach of the 4.2 billion. The reason being because I wouldn't give much weight on the sustaining capital variations quarter over quarter, they depend on a wide number of factors, but they tended to accelerate towards the end of the year.

The way to think about sustaining in iron ore is basically we've been going around the magic number of $3 per ton, so this is a good rule of thumb going forward. On nickel, there is a more longer-term trend towards reduction given that all the single furnace transition, the AER - atmospheric emissions reduction program -, they are all charged into sustaining capital. So you should expect sustaining capital for nickel to reduce going forward.

So, our hopes of declining capital expenditures going forward, they are mostly driven by the reduction of expenditures in S11D and the reduction of sustaining capital in nickel.

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

Thiago Lofiego: Hi, thank you. Just a follow-up question to Peter. Peter, could you give us your view on the swing of production. So, with iron ore prices at US$ 70 per ton and even, you know, when iron ore prices were at lower levels than the US$ 70 per ton, we were seeing some, you know, more volumes from domestic concentrates in China, and more volumes from some exotic producers. So, I just want to understand your view on whether your US$ 70 per ton iron ore price estimate for this year really, you know, holds. Whether do you think that we should see more swing production coming back to the market. Thank you.

Peter Poppinga: Thiago, thanks for the question. I will give you exactly my numbers we are working with. So, in 2016 - now I'm talking on a net basis - we had 85 million tons of additional seaborne, it was 120 coming in and 35 coming out. Now what we are working with is coming in 60 million - this is mainly Vale and others this year, right, others in Brazil -, Roy Hill as you know is around 15-plus, coming in, India came in increasing with 15 million, and some others. So, 60 million coming in. But seaborne is also coming out, you see Atlas, some South African and other exotics, and then China. China surprised, actually. It is fairly inelastic behavior, because it's underground mines, it's environmental problems, it's security problems, so we thought that the Chinese - and they are reluctant to jump in again -, so we thought they would come more, but in our forecast there is only 5 to 10 million coming.

So, that's what I'm saying, it's 50 million. If you add all this together, seaborne in 60 million, seaborne out 15 million, and China in, maybe increasing a little bit 5 to 10 million, and you will reach 50 million tons. And 50 million tons iron ore equals roughly to 20 to 30 million tons of steel, and that's exactly the steel increase we are having this year, the steel production increase we are having this year. So that's what I'm saying. The market is fairly balanced and it shouldn't be different from the price levels we are seeing today. Of course, you can have ups and downs according to sentiment, but in the whole year the fundamentals are what they are.

So, US$ 70… and also reminds that the breakeven of some concentrates in the Chinese marginal suppliers are around US$ 70 the ton, so I don't see the market holding for several months below US$ 70. So that's my model behind that, and I hope you see that the market is fairly balanced this year.

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

Marcos Assumpção: Hi, good afternoon everyone. My first question is regarding S11D. If you…when do you expect the S11D to start reducing Vale's average cost? And also, on the pre-operating expenses, when do you expect that to finish for S11D?

And on the coal business, the second question, if you could provide us a little bit more details on the run rate of Moatize production, and also cost performance in the latest months. You mentioned that production has been ramping up and the cost has been going down. So, if you could provide more updated numbers it will be useful. Thank you very much.

Peter Poppinga: Marcos, I'll try to answer the first question and leave the others for my colleagues if they can check both numbers. But S11D, for sure, this year will be higher cost still then, because we are not at nameplate capacity, although we are putting some of the costs as pre-operating expenses, of course. And so, I would guess that it's going to happen towards the end of next year that we are going to see real cost reduction on the S11D.

On the coal, on the coal business, I am just setting in, I'm not so familiar with it now.

Luciano Siani: Yes, Marcos, we overcome a million tons for the first time this quarter, per month, and now we are heading towards 1.2-1.3 million. This is the next target to stabilize production at that level. And I don't have the June numbers top of my head but, again, I wouldn't play too much emphasis on those monthly numbers, so what we should see incremental cost reductions going into the 3Q for sure.

Operator: This concludes today's question-and-answer session. Mr. Fabio Schvartsman, at this time you may begin with… you may proceed with your closing statements, Sir.

Fabio Schvartsman: Thank you. Again, I appreciate very much having you in this call. It was a pleasure to deliver my first conference of results, and I hope you will be able to join us for the next quarters.

Thank you and have a good day, all of you. Thank you, bye-bye.

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