Local Conference Call
Vale S/A
Third Quarter 2017 Earnings Results
October 26th, 2017

Operator: Good morning ladies and gentlemen. Welcome to Vale's conference call to discuss third quarter 2017 results. At this time, all participants are in listen-only mode. Later, we will conduct a question and answer session, when further instructions will be provided.

Should you need assistance during the call, please press star zero. As a reminder, this conference call 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 November 1st, 2017, on ***+55 11 3193-1012 or 2820-4012*** – access code for Portuguese ***4238394#*** and for English code **3272799#.**

This conference call and the slide presentation are being simultaneously broadcast over the internet, also through the Company's website.

Before proceeding, let me mention that forward-looking statements that might be made during this conference call 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. Alexandre Pereira – Executive Officer of Business Support;
- Mr. Clovis Torres – Executive Officer & General Counsel;
- Ms. Jennifer Maki – Executive Director, Base Metals;
- Mr. Juarez Saliba – Director of Strategy, Exploration, New Business and Technology;
- Mr. Luciano Siani Pires – Chief Financial Officer and Investor Relations Officer;
- Mr. Luiz Eduardo Osorio – Executive Officer of Sustainability and Institutional Relations; and
- Mr. Peter Poppinga – Executive Director Ferrous Minerals and Coal.

First, Mr. Fabio Schvartsman will proceed to the presentation making comments, general comments on Vale's performance, and after that we will open for Questions.

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

Fabio Schvartsman: Good morning everyone, thank you very much for joining us in this conference call to discuss third quarter 2017 earnings results.

To begin with, I would like to say this is a very fortunate quarter for Vale for a combination of factors. We had an important progress in our governance with massive support from our shareholders to convert their preferred stock into common shares, and due to the election of two independent lady Board Directors. It is the first time we have that at Vale and I think that this is a great progress, and it is necessary that I start thanking our shareholders for their full support.

The consequence of this support is that, to our joy, it will be possible for us to now move to Novo Mercado in 2017. The expected date is December 22 to begin negotiating Vale in Novo Mercado. It is unnecessary to say that given the size and importance of Vale in the Brazilian capital market, having this company listed under Novo Mercado should mean an important landmark achieved by Novo Mercado in Brazil and obviously by Vale.

Another reason of satisfaction is the positive performance of our results in this quarter. We delivered US$ 4.2 billion of Ebitda compared with US$ 2.7 in the prior quarter. This was true very much based on a price increase overall and the result was not better because of the weakening of prices, particularly of iron ore in the end of the quarter.

Still, we believe that the result was quite good, especially because we had an evolution in the premium price realization by Vale, a significant US$ 4.2 plus compared to the prior quarter. This is undoubtedly the beginning of a process of premium price realization given the new form of operation integrated in a system that allows us to operate more efficiently in the market. And also, we would like to celebrate the reduction of our C-1 cost by US$ 0.70 of a dollar, and this despite the Brazilian real appreciation during the period. Consequently, this was also an important landmark that we reached, and this is a reversal, a reversal of trends of recent quarters when we finally start seeing the cost reduction that we so much seek.

As for base metals, we had a positive quarter with our copper business evolving both in terms of price and volume, and in our nickel business both because of volume and cost. Actually, for price and cost, not volume for nickel.

In coal, we had a reduction of our results resulting from a weakening of the market considering a normalization in the supply of coal with the end of the effects of the cyclone that impacted Australia in the previous quarter. That ended up weakening the market, plummeting prices, and that obviously had an impact on Vale.

In terms of leverage, we had some reduction in our leverage in the quarter, but given the increase in prices that occurred in the quarter that led to an important increase in our Accounts Receivable, which will be turning into cash in the coming quarter.

In addition, we are continuously delivering now – and this will continue in the next quarters – a reduction in investments because we want to be more careful in terms of releasing funds for investments in all divisions of the company.

Also, I would like to stress what is in our release, our project finance should be signed on November 22, eliminating any remaining restrictions in terms of receiving these funds. And in the process of sale of fertilizers, that continues to move ahead normally, and we are meeting all of the precedent conditions and, as expected, this theme should be completed, all precedent conditions should be met by year-end.

The most important news regarding leverage is that we can anticipate that given these certain factors that I have just mentioned, we should have in the coming quarter and in the beginning of 2018 a big reduction in our debt, which is our goal, as you all know.

As for our work to reduce costs, the work by Professor Falconi in the pelletizing business is unfolding well, so much so that we have included a reduction of US$ 1.5 per ton in the operating costs of the pelletizing business. This is in the next budget for next year given all of the efforts that are being made in this area, and we are preparing to rollout this work to other iron ore divisions. And we have Professor Falconi considering to conduct this work in Canada. This should begin soon, and we are right now completing the assessment to see what are the other possible savings that we can derive in Canada.

Another very important point for us is Vale's capital allocation. We have PIP working with us, they are a specialized consulting firm, specialized in mining, and they are supporting us in assessing and validating our investment process in Canada, and also in the automation process here in Brazil. They are coordinating these projects aiming to build on their experience globally so that we can have an adequate use and employment of this instrument at Vale.

And finally, I would like this to become a tradition, so I would like to dedicate a couple of moments to speak about our expectations for the coming quarter as a way to help you have more visibility, more predictability of Vale's operations.

It is true that Vale sells commodities, and so we are very much impacted by fluctuating prices. So, all comments I will make are based on current prices, and not considering possible ups and downs in prices because we have no control over that. Given the efforts that the company is making, obviously the fourth quarter is a quarter that is seasonally weaker than the third, particularly pricewise. However, I can assure you that our expectation under these conditions is to present results comparable to the average that Vale had until this point in the year. So, we should have a good fourth quarter as well.

Well, this is what I had to say. These are my initial remarks, and now I turn the floor to Luciano and he will be giving you more details on the quarter results.

Luciano Siani: Well, good morning everyone. I would like to highlight two important points about our results, these are details, but I believe that they should be taken into account. I believe some of you have made comments about our free cash flow, which was a little lower than what we could expect given the big increase in Accounts Receivable, and I would like to explain this: there was a specific effect of the pricing system leading to this increase in Accounts Receivable in the quarter.

I will give you an example, specific example of the European market. We built our European clients based on the average of the 15 days of the prior month and the beginning of the quarter, so the first 15 days of June defined the price to be built to European clients in the third quarter, and this average of 15 days was US$ 55 in the case of iron ore. Since we had an average price in the quarter of US$71, all sales, for example, to European clients along the quarter will now be subject to adjustment. This was booked but it will only be received in the next quarter. So that is a significant impact.

Conversely, we actually had the reverse, similar, but reverse impact in the second quarter. You will remember that the first quarter posted some very high prices, we built our European clients close to US$ 90 per ton, the average for the second quarter was US$ 63. So, in this third quarter we kind of had to refund our European clients these payments, these higher prices.

So, a combination of a reduction of price in the second quarter compared to the third and other recovery of prices in the third compared to the second quarter generated this weird situation in our Accounts Receivables, when we had to give back some resources that we got in the second quarter, and we have Ebitda that we posted but we didn't receive. And in the buyback of bonds along the quarter, we had to pay a premium of US$ 106 million. This was posted as a prepayment of interest rates because our bonds were trading in the market above the par. So, we removed about 1.5 billion bonds, the debt was reduced by US$ 1.5 billion, but we paid US$ 1.6. So, adding all of these small effects led to a debt reduction, which in this quarter was a little less than we could expect if you look only at the Ebitda.

So, I just wanted to mention these two points.

As for coal, that's another important point. We had a structural change in the way that we assess the results in the quarter. You will remember that in preparation for project finance Mitsui became a partner of ours in March, as of the second quarter the Moatize in mine started paying a tariff for coal transport services. This tariff initially included operating costs, investments in maintenance, working capital, so it increased a little in the second quarter because it included taxes and some amounts that normally we do not take into account under Ebitda, this goes to other line items. But this quarter it included an additional part, the debt service at the Nacala logistic corridor. Nacala corridor owes a lot of money to of Vale in both interest on the debt, and the debt amortization part started being included in this tariff. So, it's like funds going and returning. The mine pays for them, Vale receives these funds back, and today these funds are very important to Vale, in the future these funds or these resources apart will be sent to our lenders and one part will continue to return to Vale. That resulted in a subsequent increase in the tariff, so it is important to say that although you see an impact in this quarter of about $ 30 million on Ebitda, these effects of the tariff, this is explained in the release, this impact could be higher in the future when the project finance starts being executed.

In terms of company's cash, these resources going and returning will ensure that there is no impact. There is an impact on Ebitda, but not on cash. So, that coal results were more impacted by those factors that Fabio described related to weaker prices rather than resulting from this financial issue that can cause some confusion given its complexity. I would say that these are the two things that can be a little bit more complex, and other questions that you might have regarding our results we can address during the Q&A.

Q&A Session

Operator: Ladies and gentlemen, we will now begin the question and answer session. The executives will answer the questions in the same language that they are asked, so that those who are hearing this conference call in Portuguese, please ask your questions in Portuguese. And the same goes for those who are following the conference call in English.

If you want to ask a question, please dial star 1. To remove your question from the queue, please dial star 2. Questions will be limited to two at a time.

Our first question comes from Leonardo Correia, with BTG Pactual.

Leonardo Correia: Hello, good morning. My first question has to do with blending. My question goes to Peter. Peter, regarding blending in China, could you tell us a little bit about the process, how the process is unfolding recently? I think there are 11 ports now, so I would like to hear from you the risks of this looking forward of perhaps a reduction in blending in China.

Peter Poppinga: Thank you Leonardo for the question. Blending in China is unfolding very well. As you said, we have more than 10 ports and we are signing some more solid contracts. This year we are probably going to have 46 million of blending in China. I would like to remind you that we also do 22 million in Malaysia, and next year this number will increase, and it can reach double that. It will depend, we have to negotiate with a number of port authorities, we have to negotiate these contracts with them. But they are very interested, there is a big demand by ports to sign contracts with us, so that I would say that this is an extended supply chain case that is working really well.

Leonardo Correia: It's clear Peter, thank you. Regarding another point, regarding the mix, we've been following Vale going through relevant change in the mix of products, so with blending in Carajás now recovering given S11D, I would like to hear a little bit about the mix looking forward. I think that Vale is a company that is very well-positioned to build on this structural change in premiums and what the Chinese really wants to produce steel, they are rejecting low grade quality ore from the market. So, I would like you to speak a little about this Peter, and if Vale has any specific plan to reduce their mix in the southern and southeastern system.

Peter Poppinga: Leonardo, we have been saying this, rather frequently, that our base case – which will not happen in 2019, actually it will not be in 2018, but it will be in 2019 – is to get to 400 million tons. Therefore, in 2018 we should reach about 390 considering the ramp-up of S11D and the tons of this southern system. But it's not just cutting the tonnage, as we mentioned in the prior call, but it would be to reduce some of the mining plants so that we can extract the higher-quality product, so the southern system tends to be reduced a little, but nothing very dramatic because we know that the mix depends not only in terms of mixing and blending the ore and selling the ore, but also it depends on how you do it over time. So, we have great flexibility, we have great potential to adapt overnight to the market if the market changes.

I do not believe the market will change. I believe that what is happening in China today is something that has come to stay. It might happen in other countries as well. I think that we are very well-positioned because we have this blending opportunity, this blending option.

And you mentioned Carajás, you saw that the premium increased a lot, and it increased a lot because of the market, it was US$ 14 increasing to US$ 20. We are migrating more and more some of the contracts that remained to this new pricing situation, and we are increasing blending and reducing the southern system. And this is the game, and introducing a new product, which is doing quite well, that I mentioned, which is the low alumina, we sold 4 million tons with a premium of 5. Now, you put all of these actions together and that positions us very well, and we believe that this is the structural change in China because you cannot meet what the Chinese decided to do – also posted by president Xi Jinping in this last Congress – of improving the social condition of the population coupled with growth, but you cannot do that if you don't supply high-quality raw materials.

Well, the equation will not stand on its own, so we are very well-positioned to serve them, and the trend is that we will continue.

Leonardo Correia: Very clear. Thank you, Peter.

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

Thiago Lofiego: Good morning Peter. Perhaps you could speak a little bit more about ore pricing and premium. If we have percentage stability and representation of Carajás ore in the total mix, what factors can be improved at Vale in terms of pricing ore? Perhaps sell more indexed ore at index 65, or have different specification in the ores that you sell? I mean, what else can you do internally so that the premium that you are going to have in the coming quarters will be improved in addition to the S11D ramp-up?

And Fabio, perhaps the second question goes to you. What of the cost improvement comes from the actions that you have implemented? And specifically in terms of cost, how much more can we improve at FOB costs in the future? Thank you.

Peter Poppinga: Thiago, thank you for the question. Well, regarding this quarter, this was a quarter that had a leap compared to the second quarter. Now, we cannot expect this kind of leap every quarter. This is not expected. You saw the price realization improved US$ 5.6; US$ 1.7 due to quality, and premiums and commercial conditions, US$ 3.9. We still have some work to do in our FOB netback negotiations. You will remember, FOB sales include a virtual freight price, which is negotiated. And if you read our report you will see that this also increased, it improved US$ 0.6 quarter on quarter. In addition, Carajás premium is not only in our hands, we blend, we produce more, we sell in a, I should say, proactive way, but that also depends on the price of coal and on a number of other things. So, I would say that we are doing the basic.

In high silica, we reduced it in some of the mines, we are renegotiating contracts for everyone to migrate, 85% to 90% have already migrated to this new contract, there is still some remaining, we have to negotiate some FOB netback and we have to increase our low alumina production, which has a premium of 5, and I would say that this will happen naturally. So, if you look in the last investment tour what we said, we said that at Carajás the second half of this year we would have a range of US$ 3.7 to US$ 4.7, and I would say that in this second half of this year if we add the third and fourth quarters we will definitely go beyond that limit that we had announced. To what extent I don't know, about US$ 5. And I believe that adding the two quarters we are going to have something close to US$ 5. And after that, it will depend a lot on what happens.

So, we are very optimistic regarding the structural changes that are happening in China. Some people say it is related to the context, we believe it's one of the biggest structural changes that have happened, that are happening in the global steel industry.

Thiago Lofiego: Peter, you talked about negotiation and about indexing to what exactly?

Peter Poppinga: We have about 10% of contracts well, we do respect our contracts, and about 10% of those are not indexed yet.

Fabio Schvartsman: Thiago, just adding related to price, the two tools that we have available to improve results over time are price realization and costs. We cannot control market prices, we can only control what we can supply the market aiming to maximize prices. What you saw in this quarter is just the beginning of a process. I believe that we cannot and should not say that we have all of this under control. We are on a learning curve as we do it, and things are improving, and I think that you can definitely expect improvement quarter on quarter, quarter after quarter in terms of having more predictability in price realization, because this is our ultimate goal. We want to be predictable in terms of what will be our price realization.

Now, as for costs, Falconi’s work has barely started, so to think that we already have a relevant impact on costs, that's not realistic. As I mentioned in my introductory remarks, we have an expectation and we included in our budget the improvement of US$ 1.5 per ton in the pelletizing cost because of this is what we expect to get along the coming year. Other than that, cost reductions that are taking place are happening because we now have a more integrated operation and with the participation of high-productivity ore in our total ore, and this is obviously reducing our cost. So, this is the direction that we are following, and Peter didn't mention, but I will say that we are also working on reducing freight cost, we are working on contracting new ships with freight prices that are substantially lower than the current ones. This will change over time, as these new ships are delivered this will change the mix of Vale's freights and will drive costs down.

So, you see, we have a set of moves, all of the moves in terms of increasing price realization and driving down operating costs. This should make Vale a much more predictable company vis-à-vis the average operation in a commodities market.

Thiago Lofiego: Perfect, thank you very much, Peter and Fabio.

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

John Brandt: Hi good morning, thank you for taking my questions. Fabio, first I wanted to ask you about corporate governance. Vale has done a lot to improve it over the past year and I think it's set up a pretty positive impact on the share price. So, if we look to the future, could you comment on what your priorities are and not only in governance, but also in the environmental and social aspects of the ESG program?

And then secondly, I wanted to ask you about use of cash. You know, generally looks like could be in that US$ 15 - US$ 17 billion net debt target by the end of the year. I understand you wanted to reduce that even further, but could you comment a little bit about at what point we should expect dividends, are there any expansion projects and any commodity that makes sense to you?

And then lastly, just about Mosaic, once that closed I understand you have an 11% stake, would you look to use some of your cash flow and then increase that, or what are the plans with that Mosaic? Thank you.

Fabio Schvartsman: These are a lot of questions, I'll try to, I'll do my best to answer you. Starting with corporate governance, we are moving forward in a very sound way, with a lot of support not only of the market in general, but of the former controlling shareholders as well. That's good because it is something that everybody is pushing, so the governance will improve and will continue to improve. You know that Vale is now moving to a direction that will transform itself into a true Corporation, and true Corporation needs a lot of processes, committees and things like that that should work in a proper manner in order to replace what was the role, the past role of the controlling shareholder. And that's what we are doing, and I think that our governance will become much more predictable than it was in the past. This I can guarantee.

Thank you for your question about environmental and social because this is a thing that we are not exploring enough, and to be honest we are starting a revolution on that, we are starting a total new approach on this behalf looking into an improvement in the way we plan, and we deliver actions regarding the environment and actions regarding the social impact that we caused with our business. We have Mr. Osorio, that joined us recently, and I'm pretty sure during time he will be able to present you and the market with a view of which will be these initiatives. I'm very optimistic with the benefits that the company will get from it.

Regarding use of cash, look, I've been repeating this everywhere that I don't think that a commodity company can owe too much debt, and I don't think that US$ 15 billion is low enough. So, we are going to continue in the direction of reducing the indebtedness as a priority.

Regarding if we have any big project in front of us right now, no. No, thank you. We are now focused on reducing the indebtedness and later on we will look into it.

Regarding dividends, well, we are going to pay normally dividends. Once we close the year we are going to see which was the result of the company, how much cash was generated, and we are going to dividend accordingly.

Finally, regarding Mosaic, no, we don't have any plans whatsoever of using our cash position to increase our participation in Mosaic for the time being. We have to learn a lot about this business of Mosaic to be in condition to make any further investments.

What we are actually doing right, now we are divesting from our fertilizer business, and we are not investing in Mosaic. Mosaic is a consequence of this divestment.

John Brandt: Thank you, Fabio.

Operator: The next question, also in English, comes from Andreas Bokkenhouser, with UBS.

Andreas Bokkenhouser: Yes, thanks very much for taking my question. Just really two questions from me. Fabio, the first one, early in the year there was some talk about management strategy potentially diversifying out of iron ore into other commodities to diversify the risk. Is that still the strategy or could you give us an update on that thinking now we are in October?

And the second question relates to the controlling shareholders. Obviously, there is a bit of a concern that some of the controlling shareholders may sell down over time. You know, what are you telling investors globally when you are going to see them about this potential concern? Thank you very much.

Fabio Schvartsman: Well, regarding our strategy on diversification, we put it very clearly that it is important for Vale to be diversified, to be less dependent upon solely iron ore. That remains the same. Having said that, we had already invested a huge amount of money in base metals, mainly in nickel, and we are doing a tremendous effort to see if we can make it much more profitable and therefore to see if it can become a real diversification for us before starting to discuss our further investments. As I answer to the last question that was made, our priority is to deleverage now, it is not to invest in other stuff. But we have a big opportunity in front of us, and more than an opportunity, I'd say that we have an obligation, we have to make this base metal division profitable, and really profitable. And that's what we are aiming as a first indication of diversification.

Regarding your concern with the controlling shareholders selling shares, first, we have to understand that one of the reasons that moved the controlling shareholders in the direction of changing the situation of the company is because they want to have access to liquidity, and I think this is a very natural and reasonable demand. But I'm very confident through all the contacts that I have with them that if they decide to sell any of their shares they will do it in a very disciplined and in a very organized way. More than anything, they understand how much of the company they own and the negative impact that they will get themselves if they do it in a different manner. So, rest assured that there are no intentions of doing anything very rapid on this purpose. Much on the contrary, it is something that will wait for a while including because I think that the controlling shareholder – like myself and I think the market in general – understands that there is a lot of value to be found, to be disclosed in the stock of Vale already.

So, we have to wait, and if I owned shares of Vale I would wait at least to see if we will be able to deliver the improvement that is expected.

Andreas Bokkenhouser: That's very clear, thank you very much.

Operator: You're welcome.

Operator: Our next question in Portuguese Mr. Karel Luketic, with Bank of America Merrill Lynch.

Karel Luketic: Good morning everyone, thank you for the opportunity. I have two questions. Possibly Fabio, I have a follow-up question regarding your comments on capital structure and dividends. I think it's clear that the debt level of close to US$ 15 billion remains high in your view, but you are focusing on deleveraging. It would be great if you can give us more detail regarding the level that you believe is adequate structurally speaking, and how you intend to get to this ideal debt level, and then perhaps we can calculate what would be dividends in coming years.

And the second question goes to Peter, regarding ore price. You have talked a lot about structural prices and premium. Peter, there has been a lot of discussion regarding the Chinese steel capacity and the impact on prices. It would be wonderful if you could give us some color on what you see for the short-term, what you see in the market and what is reasonable for the fourth quarter, what kind of visibility you have. Thank you.

Fabio Schvartsman: Thank you for the questions. Regarding capital structure and dividends, we haven't got a magical number, we shouldn't have a number "*I want to reach 0 or 5 or 10"*, we want to greatly reduce the debt of the company. I think that you can count on 2018 having a debt reduction along the 2018 year. We could end 2018 with a much lower debt, and consequently this topic a will end in 2018 and, after which we will start talking about other things that could be done with the cash generated by the company. But in 2018 our focus will be to generate cash in all of our businesses, also because we want, as I have just mentioned, to improve our base metals results and if that happens we are going to get a good help from the cash standpoint, not only are we doing this with our results, but we are focusing on investments because we have adopted some actions that have reduced the level of investments, especially in base metals.

This is a day-to-day practice, all investments are being reviewed, revisited so that we can have a reinforced focus on the quality of investments to be made.

Peter Poppinga: Karel, thank you for the question about prices. Let me give you my take on this and very briefly. Let us start with demand. I think you have all seen that macroeconomic indicators are rather positive, infrastructure, GDP, you see that steel prices are high, profitability is very good, the forecast of demand increase for next year is of about 1.5%-1.6% demand increase, China remains kind of flat, but other geographies of the world that we tend to forget are showing a 3% increase in demand. The supply side reform in China favors higher grades, but we should not forget that reductions in some cities and provinces, given rather high steel prices, other provinces and other mills are offsetting that. This is already happening, so you cannot simply say "*oh, a certain x amount of steel will be reduced*". No. Because other provinces will increase productivity, for that they need good ore and they will fill the gap. So, this is the demand side. In terms of supply, I spoke about this in the prior call, we see a reduction of seaborne in the market as the years go by. In 2016, 115 million, the price was US$ 60 on average. In 2017, we see there will be 60 million, but price will be around US$ 70. And for 2018, the forecast is that we will have 50 million and this new supply side coming to the market and Vale is responsible for a good part of that.

And there is something that people tend to forget, a lot of people exiting. China, we believe, was getting to a stable level, we forget that the supply chain reform that is happening in steel companies, steel mills, is also happening with domestic mines. There were 3.900 mills, actually more than 3, and now there is 1.900 mines working, operating. And so that we believe that 22 to 25 million tons of ore will disappear in China's domestic market, and that stimulates the entry of seaborn, will absorb seaborn.

So, if we put all of that together, a good demand, less new supply in seaborne, everyone has got their cards on the table, there is no big projects coming in. And another thing, inventories at ports are totally imbalanced, people claim that there is a lot of inventory, but half of the inventory is not used because its low-quality ore. Now, if you put all of that together, we believe that the market will continue to be balanced just by these reductions. The market will continue to be balanced in 2018, comparable to the 2017 market. In other words, prices above US$ 65 most likely. Actually, I don't know if you have seen, but the forward curve for the first quarter of the Dalian stock exchange, it is increasing, which probably means that people are believing that after these restrictions are canceled, and when spring begins, the price of will increase a little.

This is what we're thinking.

Karel Luketic: Perfect, thank you very much Fabio and Peter.

Operator: Our next question, also in Portuguese, is by Mr. Renan Criscio, with Credit Suisse.

Renan Criscio: Hello everyone. Thank you for the opportunity to ask questions. My first question has to do with investments. I would like if you could give us an update on your negotiations for the fertilizers assets in Cubatão. Can we expect anything in the short-term?

And my second question, we've seen some news mentioning the possibility of you planning a partnership in Vale New Caledonia. You also mentioned that as a possibility. I would like to know if you can give us an update on this negotiation.

And another question related to the Samarco, could you give us an update regarding the timing to resume operations at Samarco? If you could, it would be great. Thank you.

Luciano Siani: Renan, this is Luciano. Regarding Vale Cubatão, that's a very complex asset, so negotiations with potential buyers have a number of dimensions, which means we should not complete a deal in the fourth quarter of this year. But the process is ongoing, and we expect to sign something in the first quarter of next year.

Fabio Schvartsman: Regarding the VNC, I think I had mentioned in the previous call that was our intent to look for a partner in that operation aiming to fill the gap from the cash standpoint. Well, in other sites, our nickel operation is perfect to transform one to one cash positive. That's not possible at Vale New Caledonia if we were to operate in a new reservoir. Consequently, over there we need a partnership and we are looking for a partner. It is impossible to say right now whether we are going to be successful or not. We are in the middle of the process. Our priority is to go down that path, because I think it is the best path for everyone, not only for Vale, but for all players impacted by our operations there. However, if we are not successful, we will have to face the reality, which is this operation is holding the company back.

Finally, regarding your question about Samarco, I would like to underscore what we have said about this. It is Vale's interest and focus to have Samarco operating again as quickly as possible. However, we do not have control over the situation because in order to operate again we need permits that have to be issued by competent authorities, and we respect that these authorities are working as they believe. So consequently, I cannot inform you when these permits will be granted so that we can define when the Samarco operation will be resumed. However, what I can tell you is sooner or later this will happen, and if it were on us we would do this as quickly as possible.

Renan Criscio: Okay, thank you very much.

Operator: Our next question in English comes from Carlos de Alba, Morgan Stanley.

Carlos de Alba: Thank you very much and good morning everyone. Just could you elaborate a little bit more on a couple of topics in Nacala corridor? When do you expect to get the proceeds and how much are you expecting now?

And also, could you comment a little further on the Moatize transaction? Where are your in terms of closing that deal and when do you expect to receive the proceeds and the amounts?

And would you consider perhaps increasing the percentage of the transaction that will take place in shares and use that percentage of cash? Thank you very much.

Luciano Siani: Okay Carlos. In terms of the Nacala corridor, the proceeds will continue to target US$ 2.7 billion. Actually, we have all the commitments, so we can say that this amount is firm. And as we pointed out, the deal will be signed on November 22.

In terms of actually receiving the proceeds, there are some bureaucratic processes in the two countries that will follow the November 22, but we are still targeting to get the proceeds still this year, but it will be challenging. But you should consider the signing as the most important milestone.

As regards Mosaic, we expect to receive the proceeds in the beginning of 2018. Actually, we are already in talks with Mosaic to what would be the most convenient closing date, there is a number of aspects that determine that, so the proceeds should come in the month of January at most, and there is no talks about increasing the consideration in shares, so we will follow what has been signed, which is half in shares and half in cash.

Operator: The next question, also in English, comes from Alex Hacking, Citi.

Alex Hacking: Hi, good morning. Could you please give us an update on your nickel production strategy? Previously, you talked about the potential of investing less money there and then seeing production falling by substantially as much as 50,000 tons. Could you maybe be specific about the investments that may be delayed, and also specific about the amount of nickel production that could be impacted and on what time line that could be impacted? Thank you.

Fabio Schvartsman: So, I will pass to Jennifer. Jennifer will give to you the answer.

Jennifer Maki: So, we are looking at all the assets in the nickel business and, obviously, with the move to one furnace the production from Sudbury declined by about 30%, some of that is compensated by Long Harbor, in Newfoundland, but as you know, our operation in Newfoundland we have the Ovoid, which is the open pit mine which we are mining today, but that comes to exhaustion in 2021-2022 and the underground project is currently under review in terms of timing, and later this year we will be able to make a decision on the exact timing and how that will impact our production going forward.

And in terms of New Caledonia, I think assuming we can successfully find the partner in terms of the ramp-up there, we'll probably be a little bit slower than we may have forecasted in the past. And I expect Indonesia as to maintain kind of the status quo as we work our way over time to an increase, but that increase may take a little bit longer.

Alex Hacking: Jennifer, can I have a follow-up? What are your contractual obligations for the government at Voisey's Bay and how would that affect your ability to delay the project?

Jennifer Maki: We have an agreement to develop Voisey's Bay in a certain timeframe with the government, but obviously that's all subjected to our review of the project and discussions with them.

Fabio Schvartsman: For your understanding, the government is in the same position that we are, everybody wants a project that is a success, and not a project that is a failure for everybody. So, we are looking in a way to develop this project, to make it feasible in a profitable way, and that's the reason for the delay, and I can tell you that for the time being the government has been very understanding of this necessity and it's working together with us with this objective.

Alex Hacking: Thank you.

Luciano Siani: If I may add, Alex, the consequence of the reassessment of the project is, again, to slow down the ramp-up of Long Harbour in order to preserve the resources. So, it doesn't mean that we will mine it until 21 and all of sudden we will come to 0. So, we act in anticipation to that.

Fabio Schvartsman: And your figure is right, we are taking out from the former indication of 50,000 tons of nickel production from our plants.

Operator: Our next question, in Portuguese, Marcus Assumpção, with Itaú BBA.

Marcus Assumpção: Good morning. My first question goes to Peter, regarding the supply of iron ore. Have you perceived a reduction in supply by more traditional players given the recent price reduction? And could you also comment, Peter, if premiums and discounts have changed the way the recent price reduction now closer to US$ 60?

My second question is to Fabio. How do you see the other Vale businesses operations that currently have a negative Ebitda and looking in terms of opportunity to improve these operations? Thank you.

Peter Poppinga: Thank you for the question. Regarding your first question regarding the supply, we do see that some so-called junior or exotic players are stepping on the brakes given quality issues and penalties. Sometimes for them a breakeven is US$ 70. But discounts haven't changed, discounts continue very high, so much so that an Australian company, FMG, has just revised their discounts for the next quarter. This is public. And they wanted to have a rollover, but they have to increase the discounts, and this shows that the strain of discounts in penalties for low-quality ore continue.

Fabio Schvartsman: Marcos, regarding your questions, starting with nickel. Nickel will have two sites that have difficulties, Manitoba, that should be breaking even in terms of the Ebitda, but this is not a negative Ebitda, we do have another case of negative Ebitda, but other than that there are just two that do not have a positive result, CSP is the first, and the good news is that I have seen significant results improvement at CSP, and it should start generating a positive Ebitda as of now. And Biopalma, that also went through a very difficult moment considering climate problems, drought. But this is now behind us, and I now envision much better figures for next year also generating a positive Ebitda.

But in terms of everything that Vale has, we have practically everything generating positive results. With the exception of the VNC.

Marcus Assumpção: Okay Fabio, excellent. Thank you.

Operator: Our next question, also in Portuguese, Humberto Meireles, with Goldman Sachs.

Humberto Meireles: Good morning, thank you for the opportunity. My first question has to do with the cost of iron ore. Could you help us contextualize the seaborne cost and the reduction in this quarter? Is it still around running 10% above what we had in the 12 left months of US$ 13? And looking forward, could you give us some color on what would be a normalized cost and what would be new cost reduction?

My line dropped so we didn't hear it, but perhaps you could tell us an update on Samarco in terms of volume, cash and resuming operations.

And the final question regarding financial expenses, in terms of interest capitalization of US$ 110 million per quarter, could you give us some color in terms of what we could expect looking forward? Thank you.

Peter Poppinga: In terms of C1, in this third quarter we had US$ 14, and I don't expect anything different for the average of the whole year. In 2018 we believe that this cost will be between US$ 13 and US$ 14 due to S11D, that has a much lower cost, but also stemming from our cost reduction initiatives by managing our cost matrix following the Falconi methodology. So, US$ 13 - US$ 14 I think is a good estimate for us to use for 2018.

Luciano Siani: And I would like to add to that. You mentioned that the cost is at around 10% above what we had a year ago, but in the release we have a sequence of costs in BRL showing that we are at the same levels of 2015 in BRL, in Brazilian Real, so this cost increase that you are referring to in dollars has to do with foreign exchange appreciation.

As for Samarco, in terms of cash, for 2017, well, that amounted to about US$ 450 million, this level can be slightly reduced next year, but it will remain substantial because, again, this is a year when we are going to have heavy disbursements to remediate the disaster and the indemnifications. This amount I mentioned that includes working capital to keep Samarco alive and remediation, remedy expenses. But as of 2019, that number will start reducing because of a possible resumption of operations and given lower disbursements with the foundation programs.

As for financial expenses…

Fabio Schvartsman: Oh, just before you go there, you asked about resuming operations. You probably didn't hear, but I informed you before that we are awaiting permits. On our end, we are doing everything to resume operations as quickly as possible, but we have to abide by the licensing process, which is the main hurdle for the restart of operations. And this is not predictable because the competent agents are entitled to analyze the whole process and they will grant the license when they, well, the permits when they believe is fit.

Luciano Siani: As for the financial expenses, looking at the balance sheet footnote 6, you see exactly the phenomenon that you described. In 2017 we are going to have something around US$ 140 million of interest expenses being capitalized actually, I'm sorry, I was looking at the third quarter, we are going to have about US$ 400 million to be capitalized. This number is a lot lower than what we had in 2016, which amounted to about US$ 700 million, and we expect that 2018 will be the last year when we are going to have capitalization of interest rates given the end of S11D project.

The result of that is that the impact on net income when you look at our PNL, financial expenses grouped together, seem to be increasing. But in practice, this is a merely accounting effect. Since the debt is reducing, cash disbursement for the payment of interest is declining, but financial expenses net and with interest seem to be increasing because they are capitalizing of lower amount.

But all of these details are in footnote number 6.

Humberto Meireles: Excellent. Perfect, thank you.

Operator: Our next question, in English, comes from Daniel Lurch, BNP Paribas.

Daniel Lurch: Hi, thanks so much for taking my question. Just two quick questions on my side. Just on your investment program on potential expansion projects in your portfolio, can you give us a bit of detail on [unintelligible], is there anything you plan to do here? Do you plan to improve the project anytime soon? Can you give us a bit of details if possible on Capex and your timeline here? And quickly on coal, you've been basically, in the Moatize and Nacala, you basically nearly completing your project finance bringing this transaction to an end. Generally on coal, in your portfolio is this coal a part of the portfolio or would you consider divesting a bit of that equity interest in the mine, and returning due to a lot of interest or a lot of transactions currently in that market in coking coal? Thank you.

Fabio Schvartsman: Well, regarding investments projects, our position that we now we are in a deleveraging mode, we are not focusing in any project. Of course, we are studying a number of projects that can be part of our portfolio in the future, but for the time being our focus is clearly in improving performance and spending less capital in investment and not more capital in investment. And this is the guidance for 2018. After that, if we get the levels of indebtedness that we think that we are going to get, we are going to start looking into more closely to which projects make sense for the company.

Regarding coal, that's a good question. I wouldn't say that coal is core for the company, but the huge investment in the infrastructure that was made in Mozambique including the railroad and including the port, besides the mine, this is core. And we have to make it profitable as a whole, and it's not necessarily only with coal.

So, the issue there is not if we are going to keep the coal or not, but that we have a fantastic infrastructure in place that will allow us to have other businesses in the region that will create more value for the company, and that's our objective there.

Daniel Lurch: Great, thank you.

Operator: The next question comes from Jeremy Sussman, with Clarksons.

Jeremy Sussman: Yes hi, thank you very much for taking my question. I just want to ask, I think yesterday or the day before Brazilian Congressional Committee approved modifications to the mining code, which would include a 4% royalty on iron ore kind of rather than the current 2% rate, or even that, the proposed sliding scale that was looking like you would see that in kind of July and August. I'm just wondering if you can kind of talk a bit about that otherwise we are going to be [unintelligible] the potential impact to Vale. Thanks very much.

Fabio Schvartsman: Thank you for your question. The project is still under discussion in the Congress. It has not been approved. What we had is just an information that the report that was made is announcing an increase instead of a sliding scale to have a maximum tariff of 4%. The position of the company and the position of the sector, we think that it's not good for anybody because this will not increase the amount that will be received by the entities because if you collect this flat tax in an environment of low prices, you were going to get actually a reduction in volumes, especially coming from the small miners. And even for Vale, in some of the operations of Vale, if the price goes down and we have to pay that high tariff, it will be impossible to continue to operate at the same level, the consequence being that the overall taxation is not going to happen.

So, we are trying to convey the message that it will be better for everybody to have a sliding scale than to have a fixed rate. This discussion will still take a while to come to a conclusion.

Operator: Our next question, in Portuguese, Renato Maruichi, with Santander.

Renato Maruichi: I have two questions. My first has to do with coal. After the new structure of the business, what is the level of cash cost per ton? Because we imagine that there will be an impact with Nacala corridor.

And my second question, could you give us an update in terms of the Falconi pilot project in pellets and when could we expect the results of this project in the company? Thank you.

Luciano Siani: Renato, thank you for the question. In our release you can see that Nacala corridor is operating, had an operating cost in the third quarter at US$ 71 and there is a tariff overcharge of 22, and our goal is to reduce this US$ 71 even further. We indicated in the past that this could come from the ramp-up of the corridor and could be around US$ 50 and US$ 60. Somewhere in that range. We are seeing how to optimize this, and this additional financial component will remain at this order of magnitude: US$ 21, US$ 22, US$ 23. So, this is more or less of what we are expecting regarding the cash cost of the tariff. Like I said, of this US$ 23 - US$ 24 of the financial component, a part of that will return to Vale. When we have the project finance in place, about half of that, about US$ 12, will be used to pay the project finance. So, this is money that will not return to the company, but the other half will be returning to Vale as financial revenue and it will go back to our Ebitda.

Now, this was an unusual quarter because we don't have project finance yet. So, what is returning to the company, about US$ 24, is a lot more than we will get back in the future because today we haven't got third-party loans. But the rule of thumb is adding to the operating cost about US$ 24 per ton and that will be the total tariff.

Fabio Schvartsman: And, finally, regarding your question about Professor Falconi's project and work, well, the work is unfolding as expected. They did a survey of the pelletizing business both in terms of cost and SG&A related to pelletization and this work is complete in terms of the modeling. Now we are starting to implement the project and the expectation, which was already included in our budget, is that we are going to get a gain of US$ 1.5 per ton of pellets because of Professor Falconi's work.

Meanwhile, we will start rolling out this work for other divisions of iron ore, and overtime, other benefits shall be derived.

Renato Maruichi: Very clear. Thank you.

Operator: If there are no more questions, I would now like to turn the floor back to Mr. Fabio Schvartsman for his final comments.

Fabio Schvartsman: Well, I would like to thank all of you for joining us in this conference call, and I would like you to understand that we are making collective efforts to make Vale a more predictable company in general, from governance all the way down to our costs, prices and results. It is true that we will never master, or we will never control the market price component because, you know, we are selling commodities, and prices vary by definition. But given the current price level, I expect that you will quickly understand that it is very simple to estimate Vale's results given a certain price level so that you can have this kind of predictability and so that this can help you understand the company's performance over time.

This this one of our goals. This is what we expect to do and hopefully you could see some of that during this conference call because we wanted to show you how these things are happening. As I said in my introductory remarks, we can expect a good fourth quarter with a positive performance of our results, as mentioned, and consequently I hope that you will join us again in our next conference call, next event, which will be on December 22, with the beginning of our operations of Vale shares under the Novo Mercado listing.

Thank you very much.

Operator: Vale's conference call has come to an end. We would like to thank all of you for participating and have a nice day.