Vale S.A.

English Conference Call

First Quarter 2018 Earnings Results - April 26th, 2018

Operator: Good morning ladies and gentlemen. Welcome to Vale's conference call to discuss he first quarter 2018 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: www.vale.com at the Investors link.

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. Luciano Siani Pires – CFO;
- Mr. Peter Poppinga – Executive Director, Ferrous Minerals and Coal;
- Mr. Eduardo Bartolomeo – Executive Director, Base Metals;
- Mr. Luiz Eduardo Osorio - Executive Director, Sustainability and Institutional Relations;
- Mr. Alexandre Pereira – Executive Director, Business Support;
- Mr. Juarez Saliba – Director of Strategy, Exploration, New Business and Technology; and
- Ms. Marina Quental, Director of People

First, 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: Good morning to everybody, it is a pleasure to have all of you connected in this call. And so, I would start making a brief remark on the performance of Vale in the last quarter, and then I will pass to Luciano and afterwards we are going to take your questions.

First, I would like to mention that this quarter was a special one for the company. We had to work hard as a team in order to face the difficulties of this quarter. We had to face lower production in iron ore in comparison to last quarter, we had to face an unexpected shut-down of our Coleman mine in Sudbury, Canada, and we had to face a tremendous rainy season in all of the country in Brazil, with consequences for everything that we do.

Then we… consequently, we had to use our flexibility in order to overcome these difficulties as, for example, we used the inventories that we built outside Brazil in order to be able to increase sales even with lower production, and we are improving quality of our products and therefore we are getting a very meaningful premium. At this quarter, the premium was US$ 5.2 per ton, that's obviously a very important premium in comparison to Platts.

On this quarter, we evolved meaningfully regarding deleveraging, we reduced our net debt below US$ 15 billion, that was one of the targets that we had, and we are moving forward in the direction of getting to the US$ 10 billion that we are aiming to the end of this year.

And we have announced a new dividend policy, which is very important for you to understand how this dividend policy works. We already have, regarding first quarter of 2018, US$ 1 billion of dividends that will be paid in the second half of the year. In other words, it means that, for instance, if we had the same kind of Ebitda and investments that we had in the first quarter in the next quarters, we would have US$ 1 billion every quarter of dividends, and therefore, regarding the year of 2018, it would represent a payment of US$ 4 billion in dividends. US$ 4 billion in dividends, in other words, represent a 5.5% yield regarding the stock price as of yesterday. Consequently, we think that the company is really moving forward to a very aggressive dividend policy. Let's remember that 5.5% is so important that if you compare with where the interest levels are worldwide, you see that 5.5 is something that is not usual, not in this business, not in any business.

So, for conclusion, I would like to give you a quick idea of what's going to happen in next quarter. The markets remain sound, it is true that the iron ore price went down… today the iron ore price is more or less US$ 8 below the price that we had in the first quarter. That means that we have to use all of our capacity in order to overcome that, and even in this situation - and now having the benefit that, in base metals, we are going to have… we already have the return of the Coleman mine into operation in the end of April, therefore the impact will be much lower than it was in the first quarter - if you put all together, we are expecting to deliver more or less the same kind of Ebitda that we made in the first quarter of this year.

So, it seems that in this quarter we are moving forward with the idea of keeping the company as predictable as possible and delivering a very constant results flow, even in a very negative scenario. It is important to compare that with the Ebitda that we had in the second quarter of last year. You are going to see that we are meaning a very important improvement if we can deliver this kind of result.

So, these were my first comments and I'm going to pass to Luciano, that will give you more details on the results of the first quarter.

Luciano Siani Pires: OK. Good morning ladies and gentlemen, just a few very specific remarks on the results, starting by costs. You saw the iron ore C1 cash cost at US$ 14.8 per ton, it was a small uptake compared to the fourth quarter and that's good news given that usually the uptake is greater, given the lower production volumes. So that encourages us that we will be running at below US$ 14 per ton on the second half, so we are firming the guidance we gave you last quarter.

On base metals' costs, the Coleman stoppage impacted Ebitda in the first quarter by around US$ 100 million. Important for you to know that. About half of this impact was cost themselves, repair costs, higher feed costs to keep our plants running, and the other half was lost margin on the volumes that we missed.

On the expenses, first remark is that SG&A, R&D and other operating expenses, they are back to first quarter of 2017 levels. Very important because there was a trend upwards during the year of 17, now we are back into first quarter levels. But pre-operating and stoppage expenses are much lower. If we look at the first quarter of 17, they were at US$ 125 million. They are now down to US$ 78 million, so an annualized reduction of over US$ 150 million. And why is that? That is because of the ramp-up of S11D, which reduces pre-operating expenses. That's because of the return of the three pelletizing plants, which reduced idle expenditures. So, we've been saying that the long-term trend for this line is towards zero and this is going to happen.

Another line, below the operating line, that is improving is interest payments. You can see that gross interest payments in the first quarter of 18 were US$ 336 million. That compares to US$ 452 million one year ago, so again, an annualized gain towards US$ 500 million per year. That's a natural consequence of the reduction of indebtedness and that does not capture the repurchase of debt that happened in late March and early April. So, as time progresses, you should see more and more reductions in gross interest payments.

Capital expenditures. They have been running below US$ 900 million, the lowest for a first quarter since 2005, but not only that, the quality of the expenditure is improving. We are spending less in environmental compliance, for example, the emissions reduction program in Canada and in tailing dams, for example, with the dry processing in the South, and we are spending more in upgrading and optimizing our operations. For example, we approved in the first quarter a very comprehensive automation in digital transformation program in iron ore. So, the money we are spending will generate more and more results into the future.

On free cash flow, we may discuss this in more detail, there were some seasonal effects that brought down the cash flows when compared to Ebitda, but there was at least one one-off event, which is positive, which is the increase in prices of pellets. So, volumes of pellets maintained somehow constant - first quarter compared to fourth quarter - but the price has increased a lot, which means that the accounts receivable was impacted, from a working capital perspective, negatively. So, we recorded more Ebitda then cash collections, but the cash will be coming on the second quarter.

So, these were the specific remarks for the quarter and now let's move to Q&A.

Q&A Session

Operator: Excuse me. 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 Alex Hacking, with Citi.

Alex Hacking: Hi, good afternoon everyone and thank you for taking my question. I have two questions, if it's OK. First for Peter: can you give us a sense about how your iron ore production profile is going to play out for the rest of the year? Obviously, you maintained the 390 million guidance. I assume the production is going to be a bit more backloaded as usual, but could you clarify or quantify on that?

And the second question for Luciano, if it's OK. Is there any way you can quantify the working capital needs for the rest of the year? I guess if we assume that prices are flat. Thank you very much.

Peter Poppinga: Hi, Alex. Thanks for the question. Yes, we are keeping our guidance of 390 million tons production. It is, as you said, backloaded as usual, and this time maybe even more, because of the progress in ramp-up of S11D, but also because of the intense rains we were experiencing in the first quarter of this year. Higher rains are normal.

So, what we are aiming at in managing is that the first half of 18 will have roughly the same production of the first half of 17, of last year, right? There is a balance between ramping up the S11D and also the reduction of some low grade from the Southern system. But in the third and fourth quarters this year we will be distinctly over 100 million tons per quarter, and that means ramping up the S11D will prevail and will be bigger, the effect will be higher than the reduction of high silica in the Southern system.

I just want to take the opportunity to some misunderstandings about the ramp-up of S11D, which is going very well. We are at the pace today, at the pace of 45 and we are forecasting to come to an average in the year between 50 and 55 million tons in the S11D. Thank you.

Luciano Siani Pires: Alex, when I talk about seasonality on working capital, just reminding some effects typical of the first quarter. The first one is payment for our employees of the profit sharing. Usually you make the provision along the year and you pay it in the first quarter, so you can see that there was a line which is payroll, which consumed working capital in the quarter. So, that has no implication for the following quarters, it will happen again the first quarter of 19.

The second reason why you sometimes worsen your working capital position is when prices go up. So, as I mentioned, pellet prices went up, so this had a negative impact in working capital, accounts receivables increased, but absent variations in price, this shouldn't happen anymore.

A third factor is that usually spending also in the company accelerates towards the end of the year, which means that there are some bills to be paid in the first quarter that also happens in the first quarter, won't repeat itself in the second, third and fourth quarters.

There is only one aspect that we are evaluating and also decreased a little bit our working capital position, which is accounts payable. We are shorter in payment terms in exchange for discounts in better commercial terms, and it's the opposite that we did during the crisis. Sometimes, in order to preserve cash, we accepted worse commercial conditions in order to extend payment terms. So, this will tend to happen over the next perhaps one or two years as contracts are being renewed but shouldn't be meaningful in terms of impact on cash flows.

Alex Hacking: Thanks, thank you very much.

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

Mr. de Alba? Your line is opened.

Our next question comes from John Brandt, with HSBC.

John Brandt: Hi, good afternoon. A couple of questions from me. First, I guess on Vale New Caledonia. We've seen cash cost coming down pretty significantly over the past couple of quarters, I'm wondering how much more there is to go and then what the, I guess, if there's any update on the tailings dam that you need to spend money on and/or a partner.

And secondly, I'm wondering if with the completion of the Mosaic deal if this sort of ends your asset sales. I know there's still some vessels to be sold, but I guess I'm thinking specifically on the Mozambique coal, if that's something that you're interested in keeping or if you're having negotiations to possibly sell that asset. Thank you.

Fabio Schvartsman: Well, a quick answer regarding VNC. VNC we are operating at the level of 40.000 tons per year. This is below capacity, the capacity is 55, so we have an upside of capacity utilization that can go up to 25%, therefore you can expect costs to go down. Fixed costs will be diluted because of this future increase in production, and this is what my colleague Eduardo Bartolomeo is focused on doing in the next few quarters, stabilizing and improving the production of the operation.

Regarding Mozambique… Sorry I had missed your comment on Mosaic. The Mosaic is done, finalized, we already… now we have a lock-up of three years, so nothing will happen during this period of time regarding our relationship with Mosaic. And certainly, there are no further meaningful assets that can be sold by Vale in the next several quarters. So, you can say that the divestment program is all finalized.

Regarding Mozambique. Mozambique, the goal is… for this group of directors of the company, is to realize the potential of that operation. That means that now we have a strong basis of operation there that can and will be improved during the next few years. So, we are certainly not going to make any decisions regarding Mozambique because we have the opportunity of creating a lot of value by just using the potential that we have given the quality and the size of the investment that was made.

John Brandt: Great. Thank you, Fabio. If I can just follow-up on the VNC, my understanding is their needs to be tailings dam built in order to keep that asset running and you are also looking for a partner in that asset. Is there any update on either of those two issues?

Fabio Schvartsman: The process of looking for an investor continues, we have a goal of having a decision on this by the end of the year, either having an investor or not. And regarding the tail dam, I think that we have good news because this delay that we had in this process give us the opportunity of look more deeply into how to build it and now the good news, instead of a dam of US$ 500 million that was the idea a while ago, today we are considering an investment that will be lower than US$ 400 million in this dam. So, we are using the time in our benefit in order to optimize the closure and if we decide to go forward, the total expense will be significant lower than we were expecting before.

John Brandt: OK, thank you very much.

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

Carlos de Alba: Yes, good afternoon and sorry about that, my line dropped for the second time this morning. I wanted to explore the situation in Samarco. Fabio, could you give us an update, as to maybe to the extent you can, as to how the conversations with the prosecutors in particular are going. Are they considering a more reasonable level of potential payments for the companies, given that the example that they had used before was a little bit extreme? And also, how do you see the evolution of getting the licenses and getting the production up and running?

And then the second question, if I may, is related to… could you comment on the strategies, commercial strategies, that Vale is putting in place or will put in place in the future to be able to capture a higher premium for the nickel products that are more related to higher quality material and premium sectors.

Fabio Schvartsman: Sure, thank you for your questions, Carlos. First regarding Samarco. Samarco and the conversations with the prosecutors are ongoing right now, actually we are having conversations today with them. We are in a constructive mood and we hope that they are too, so unfortunately, it's impossible to disclose the terms of this conversation because we are in the middle of them, and as soon as we have a decision or a clarification we certainly are going to transmit it to the market.

Regarding the restart of Samarco, there are no further news here. The best scenario is to expect Samarco to restart by the beginning of 2019 today, and we are giving all the information, we are fulfilling all the necessities that are raised regarding the licenses, but we don't control the timing issue here. We depend on licenses and authorizations, and given the huge accident that we had there, people are very cautious on providing these licenses, but BHP and ourselves we are doing everything that we can in order to make it happen as soon as possible. Luciano will make a comment on this topic.

Luciano Siani Pires: Carlos, without disclosing the details, it's not that we are negotiating a number with the prosecutors, we have the agreement with the federal government for R$ 11 billion, the initial claim of the prosecutors was R$ 155 billion, so maybe you are thinking that we are trying to negotiate a number in between, that's absolutely not the case.

What's being negotiated from a principal stand point is a process to manage the remediation program going forward. So, what is going to be the governance, how the committees are going to be involved and so on. So, from this point of view, this is positive because it will be whatever will be, so it's not a preset number that will be negotiated.

Fabio Schvartsman: Regarding the commercial strategy for nickel, let me just give you a broad idea what I'm looking for and then Eduardo will complement that. Look, we have a very simple model, we do have more class 1 sold to the wrong market, we are selling class 1 nickel to steel… part of our production to the steel makers. That's an impossible deal, the cost is just too high, and the quality is too much for the need. So that's the wrong thing to do.

And we are facing this in a very clear way by reducing our production. We are preventing ourselves from producing something that will destroy value when it's sold to the steel makers. This is our very simple strategy in this case, that means that we keep the optionality, we will keep the capacity and we can use it even when the market reacts regarding the EV market, the EV market will be perfectly compatible with this excess nickel capacity that we have. So, this is basically what we are doing.

Eduardo Bartolomeo: Thank you. And Carlos, just to add on what Fabio mentioned, just to put some clarity on that, if you look at our numbers and you do a proxy of the size of the class 1 market that we serve, last quarter we put 12.000 tons more and this quarter 5.000. The focus basically, on the short-term, again going to the point that we have an opportunity and an optionality in the future, is to regulate supply demand, not to overflow or sell high quality products to what it doesn't need it, doesn't mean that we are going to sell class 2, because of course we are selling class 2 ,and that's another optionality that if you read our primer, we have, we are able to transform New Caledonia and PTVI in operations that can serve class 1.

So, it's a double… I would say double sword, but double way, we are going in the short-term commercially explore the supply demand and balance production, to leave production, by the way, because it's extremely expensive to dig underground this high-quality material and to operate New Caledonia, to serve market when it's there. So, I think it's a well-structured way to wait, but generate cash on a very reasonable way. If you look at our margins comparison to first quarter, it's doubled. So, I think it's working and the price is coming back as well as the market is facing deficit, so I think, as a leader in the market, we have the responsibility to do that.

Fabio Schvartsman: Just to finalize, with this movement we've been able to produce cash positive operations in all of our sites, that makes our lives sustainable while we wait for the success of the EV demand. And as Eduardo just explained, we are preparing ourselves for the search in the market that will put Vale in the front end of the suppliers for the EV market.

Carlos de Alba: Right, thank you very much.

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

Andreas Bokkenheuser: Thank you very much. Just one question from me on freight. We've obviously seen a lot of freight volatility in the last few quarters, we saw freight rates heading US$ 21/ton in Q4, I think down to 13 in Q1, now we're back to US$18 per ton from Brazil to China. Obviously your Valemax constructions site has kind of come to an end and you're waiting for delivery on the last vessels, but is there anything you can do from here to kind of mitigate or hedge your freight exposure or, you know, do you just want to expose your […] to whatever fuel past through there is at the Valemax's… how are you thinking about that volatility? Thank you.

Peter Poppinga: Andreas, thank you for the question. You are right, there's lot of volatility, but maybe you have seen also that our freight cost came down from one quarter to the other, and we are managing it more actively. In the past it was not the case, we had the freight department detached from our business and now we are more integrated in the supply chain.

And what we are doing is exactly against this volatility, we are, it's a long-term strategy, which started some years ago, but the vessels they have not yet arrived. So, you have the first-generation Valemax, which are… they are all there, 35 vessels. Now, the second-generation Valemax is arriving, more efficient energy-wise and less emissions than the first generation, but it's just the second or third vessel arriving now, it will take another year for all to be delivered. And yes, we are thinking, and we are discussing some more vessels as a third-generation. It's not decided yet and it's in the studies, but if you compare those generations one after the other they are dropping progressively and just take a bunker of 300, it's coming down, right, from 13, 12, 11 dollars/ton. So, this is a net advantage vis-à-vis the recent spot markets, and will reduce exactly the freight volatility you're referring to. So… but it will take some time because those ships they are not delivered yet. Thank you.

Fabio Schvartsman: Just to complement him on business remarks, regarding this new generation of vessels. We are studying, as Peter mentioned, and I expect that in the next quarter we will have a better scenario in order that we… eventually will be able to announce a new generation of ships coming in.

Andreas Bokkenheuser: That is very clear, thank you very much.

Operator: The next question comes from Novid Rassouli, with Cowen and Co.

Novid Rassouli: Hi, this is Hanna dialing in for Novid, thank you for taking my question. So, I just have a couple. First, could you please discuss if the commodity price movements were taken into consideration of your new dividend policy and the net debt target in the near term? And also, iron prices have come down from the March-high, I was just wondering if you could give us the sense of your view on commodity price outlook and if they would affect the new dividend policy anyway.

And secondly, on pellets, I think you guys talked about the 2018 average of US$ 60 per ton, which is very sizeable, and we're just wondering how sustainable do you think the premium will be in 2019 and what would happen next in order for us to see the pellet premium improving next year. Thank you.

Fabio Schvartsman: Thanks for your question, it gives us the opportunity of making a very important clarification in how this dividend policy was structured. It was structured to work in any price scenario, that means that this policy is here to stay. It is a minimum policy, it means that we can go further than that, but we cannot go below that. It means that, as I mentioned in my opening remarks, we already have US$1 billion that is guaranteed for the next quarter, and if conditions continue more or less the same, we are going to accumulate US$1 billion every quarter until the end of this year, at least.

Peter Poppinga: You mentioned about the iron ore price dynamics, I can only say we haven't changed our mind from the last call, means, we think it's a balanced market from the supply and demand perspective. Why it's balanced? Because we see around 40 million coming in from the seaborne, out of which 20 million is from Vale, 10 from

Australia and 10 from others. They are some people exiting, so we think there's a symbolic 20 million tons surplus which easily gets absorbed by the higher steel demand worldwide.

So, for me this is balance. The steel margin influencing that as well, we have sustained, synchronized growth in the world's economy and we had the supply side reform in China, we don't see the steel margins collapsing. And the cost curve, which is the other dimension of this analysis, as we have said before several times, the cost curve is getting steeper. Why is it getting steeper? Because of depletion, the inflation is returning to some of our competitors, not in Brazil actually, because industrial inflation in Brazil is because of the low inflation is quite low and because we have no depletion. And why is the cost also getting steeper? Because of low grade penalties, which are very substantial. So, if the cost curve gets steeper, price gets the higher support, I don't see any reason why we should have prices on average of the year lower than last year, which means something around US$ 70. That's the rough analysis, right?

So, on the pellets. On the pellets we have a US$60 premium average for the whole year. Some of our customers have annual contracts and others they have to negotiate now, and we are negotiating already. We see the pellet market very strong, we are completely sold out, we are doing whatever we can to anticipate our new pellet plant in Tubarão and in the Northern system in São Luiz to anticipate the ramp-up. Those countries where we see actually the… which counts for the pellets demand is, for instance Europe, the big iron ore production went up by 2%, in the Middle East and other countries producing DRI it was a 16% growth year on year. So the demand is very strong and the supply is lagging behind also because of some suppliers, which are out of the market, and others which are on strike and so on.

So it's a very tense situation and we, for the annual contracts, it's far away to start negotiation and for the second half of this year contracts there is probably going to be very stressful and intense negotiation for these pellets supplies.

Fabio Schvartsman: Again, just a quick complement. There is a very interesting phenomenon that I think is important to look into it. Now that the market has been segmented, among different qualities of ore, with a meaningful premium for Carajás, for instance, and with a meaningful discount for the lower quality, the consequence is that prices are actually less volatile in the iron ore as they were in the past.
If you look for a longer period of time, you're going to see that now the variation is typically contained between US$60 and US$80 for the Platts. Why? Because this segmentation is absorbing part of the volatility.

Hanna Abdulin: Got it. Thank you, guys.

Operator: The next question comes from Grant Sporre, with Macquarie.

Grant Sporre: Good afternoon, gentlemen. I have two questions if I may. The first one is really on the nickel market and your outlook. And I guess my question is: what do you need to see in the nickel market for you to start investing in the business again? For example, going underground in Voisey's Bay. That's my first question.

And the second one is perhaps one for Luciano. Just can you give us a sense of, in your copper business and your nickel business, what percentage of your costs are fixed costs? And what are variable costs? Please.

Fabio Schvartsman: Regarding nickel and, specific regarding Voisey's Bay, Voisey's Bay is a very important investment decision for Vale. It will be taken if we can have a scenario where this investment will become profitable in no matter what nickel price levels. That's what we are working in, and the good news here that we are highly confident that we are getting to this equation and if we get there the investment will be made, because as I'm saying, it will be basically independent of the nickel price.

Luciano Siani Pires: As regards the cost break-down, typically in Brazil, and that works for the copper mines in the North as well, the proportion is 2/3 fixed costs, 1/3 variable costs. In fixed costs you have labor, you have some services, maintenance and there it goes. However, for nickel, the tendency is to have more fixed costs, like 75-25 would be more of the proportion, and that's because, for example, in Canada the wages are higher. And in surface plants typically as well, the cost of material inputs and reagents it's more marginal in relation to the fixed costs.

An interesting example, for example, if you take New Caledonia, the total cost base on New Caledonia currently is about US$520 million per annum, and that doesn't increase much if you increase production, let's say, from US$40 to 55 thousand per ton. And curiously, if you take cobalt, once New Caledonia reaches full ramp-up, it will be producing approximately 4,000 tons of cobalt per year at a price of US$90 thousand per ton, you get US$360 million of annual revenues in cobalt. So, you see that cobalt alone will be able to pay for a significant portion of the fixed costs in New Caledonia once it's fully ramped-up.

Fabio Schvartsman: Only to clarify that what I said before regarding Voisey's Bay is the same thing. The cobalt content that we expect to have in Voisey's Bay will make the magic of guaranteeing the feasibility of the investment.

Grant Sporre: Thanks very much. I appreciate your answers.

Operator: The next question comes from Alfonso Salazar, with Scotiabank.

Alfonso Salazar: Thank you. Again, I have two questions, and the first one is regarding free cash flow generation and the minimum dividend. If we assume that the price of iron ore is going to stay at least similar to last year, I think Vale will be generating a lot of free cash flow, above the minimum dividend. So, what is the plan for… once you reach the 10 billion net debt level, what is the plan if you don't have any massive or important investment opportunities? Are you going to be paying up cash or you prefer to be paying dividends? What's going to be the final decision regarding the size of the dividends?

Another question regarding this iron ore price. Do you see any challenges in the long-term regarding iron ore demand? There are many moving parts today, you see India is planning to increase steel capacity substantially, on the other hand you see China promoting more electric furnaces. So, I don't know if you can give us like a long-term view on what do you expect for iron ore demand beyond this year? Thank you.

Fabio Schvartsman Thank you for your questions, I will start with the answer regarding the free cash flow and dividends. For the time being, any excess cash flow will be paid out as for the dividends for the shareholders. We don't have, as you did mentioned, we don't have any massive investment in front of us, so there is no reason for holding this cash back.

We are trying to deliver a very clear message to the market here, where we want to build trust in the management of the company in such a way that we are going to be able to use the market if and when we find investments that are worth doing it.

And now I'm going to pass to Peter to mention a little bit about the market of iron ore as he is our specialist in the issue.

Peter Poppinga: Right. Thanks for the question. The iron ore price in the long term of course depends on lots of issues, supply and demand and everything. You mentioned the scrap price, the scrap… increase of scrap usage potentially in China, right? I think if this is correct, this is one element which has to be considered, but, you know, we have to also look at what's realistic. Today the scrap price in China is higher than the pig iron price, right? Because it's not only about scrap, it is a good scrap for steel making. After the shut-down of the induction furnaces we had lots of scrap available, but the distribution channels are not ready, and the good scrap is not available.

So, yes, I think they will build some new capacity on electrical arc furnaces but, first of all, this will have a balance because energy is very expensive in China, right? Energy is based, as you may know, in China, mostly on thermal coal, which goes against the pollution and the supply side reform from the government. So, it's not so easy to justify electrical arc furnaces by… when you look to the energy.

So, I think there will be… yes, there will be a long-term evolution, there will be some iron ore being substituted by scrap, but I don't believe in that in the next five to ten years, that you will not feel it substantially hurting anybody in the next five to ten years.

On the domestic mines in China, they will come down further, and this is very important, we have breakeven today of roughly 55, probably 55, on the average, but you may go to US$60 when you look to the four peer producers getting complicated the situation and the less and less investments in the mines means that you will see, even in the SOEs, you will see a reduction of concentrates in China and then if you go seaborne there are some marginal suppliers. If you look at the situation today where you have this 30% discounts when it comes to penalties, you will need at least US$65 price for the breakeven and that is probably 100 to 150 million tons out of the market if the price falls lower than 65 because of the…you multiply it by 0.7, which is the penalties and then you come to production cost… breakeven cost is 40/45, which lots of people will be having trouble with.

So that's why I see scrap not in the near-term, concentrates in China coming down further, even in the SOEs, and the seaborne there's also… it's not only cash cost, you must consider the huge penalties and the marginal suppliers under 55, some of them will struggle very much. So that is my view. Thank you.

Alfonso Salazar: Excellent, thank you. Very helpful.

Operator: The next question comes from João Lorenzi, with Bank of America Merrill Lynch.

João Lorenzi: Good afternoon everyone and thank for the questions. So, my first question is regarding the strategy on nickel, is a follow-up question mainly made from Carlos previously. So, what would make Vale change its intents regarding nickel production and increase it again closer to the total capacity? Should we look at premium request for nickel, meaning that you would continue to say premium assets for higher demand of EVs, even if we see rebounding prices, or I should look only at absolute prices? And how fast and costly would it be to increase the production closer to the 300,000 tons capacity?

And my second question is on iron ore. We can see that the current price increased this quarter likely as of a result of the sale of the unsold volumes from the 4Q. My question is: is there any strategy on iron ore pricing regarding the share of current and provisional pricing going on?

Fabio Schvartsman: I will start with the comment on nickel. Look, the scenario that we are looking for in the nickel business is similar to the one that we were able to build in the iron ore business. The segmentation is the right answer in order to each market pay the right price for different products, and this will allow the nickel market to grow and Vale to produce more, because it is very important that the steel makers, they need lower cost and lower price in nickel and this has to be the fact. This has to continue like that.

On the other hand, the class one is not for this purpose and the cost of using and having class one is much higher. So, it is very important to separate one thing to the other, and that will enable companies in general, being them, companies like Vale, that have a high-quality nickel, or companies that are producing nickel pig iron to have the right pricing for their products.

Eduardo Bartolomeo: And João, just to add on Fabio's comment, I think we're going to follow-up closely, as we said prior as well, to supply and demand in a sense not to overflow class 2 with class 1. So, in a reserve, our reserves, they are very expensive to the future. We have no rush, we need to balance that, I think it's sensible, it's reasonable, it makes sense and we captured, our numbers are proving in this quarter, we believe that this is the right track. But it's, again, it's a supply and demand issue that will come with time and we have to have patience and look a lot internally to our cost base, to our cost structure, even our switching from batteries, because we can switch our production to batteries. So, it's a long-term game with a short-term pain, let's put this way.

Luciano Siani Pires: João, all of the sales, especially to China, they are provisional, so the final price is only known when the ship arrives at port. So, the difference between current and provisional is just because the current sales, they were completed within the quarter. The provisional ones were still open at the end of the quarter. Usually the fourth quarter is a very strong one where Vale used to empty the pipeline and because of demand preceding the winter in China, strong production and so on.

This year was different, part of the sales, they moved into the first quarter. So these sales that moved into the first quarter, they were settled within the quarter. So that's the reason why the current portion went up. But there's no whatsoever a deliberate strategy towards one or the other.

Peter Poppinga: Stabilized…

Luciano Siani Pires: Yes. We had a more stable, homogenous profile timewise of sales within the quarter than in past quarters. That's the reason why currents went up, provisional went down as a percentage.

João Lorenzi: OK. Thank you very much.

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

John Tumazos: Thank you very much for the dividend policy, I'm a shareholder. With regard to the 30% paid out of Ebitda minus sustaining capital, should we interpret from this policy that Vale will never build a project again as large as S11D or Goro in New Caledonia? Or if Vale were to undertake a large project, would there be external financing, debt equity, joint venture partners or, if you have a large project how would you undertake it given the dividend policy?

Fabio Schvartsman: I will have my specialist here, Mr. Luciano Siani, our CFO, delivering your question.

Luciano Siani Pires: John, if we had delivered a dividend policy which said that you would receive a portion of cashflows after growth investments, then we would be telling investors that "look, investments take precedents amongst everything". The idea was precisely the opposite, to establish a competition and give preference to dividends towards investments.

So, in other words, the excess cash beyond the minimum dividend, there will be a competition amongst all the alternatives for them. If we had done it differently, we would be signaling that the dividend policy would be just something left over after management did with the cash whatever it pleased with it, which is absolutely not the case. We are giving priority to dividends, for the minimum dividend, whatever is left over, then everything will have to compete for that.

Fabio Schvartsman: Then, finally, if I may, we are not in the business of distributing dividends or making big projects. We are in the business of creating value to the shareholders. And every moment in time, what is better for creating value to the shareholders is different. Now, we are convinced that, given the recent investments that we have done, given the opportunities that we have in improving all of our operations, that we want to have a straight focus in delivering that and, therefore, there's no reason for keeping money back in the company.

So, we have no decisions regarding project as we have no decisions regarding dividends. What we are saying is that, today and for the time being, it certainly will create more value for the shareholders to pay bigger dividends. And that's what we're going to do.

John Tumazos: Thank you.

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

Marcos Assumpção: Hi, good morning everyone. A question for Eduardo Bartolomeo, still on the nickel strategy. I'd like to understand a bit more on how Vale's contracts work on the nickel side, and if… so, to understand how quickly can you stop supplying this class 2 market with a premium material that you have. And eventually, what would be the impact of you reducing your production by eventually another 20-30% in terms of… on your costs or on labor issues. Is there any restriction to do that? Thank you.

Eduardo Bartolomeo: Ok, thanks, Marcos. On the contract base, we sold, we analyzed our discussions with our suppliers, so we have some contracts as well, but we are able to capture, yes. But I think I need a clarification here because we supply for the class 2, for sure, from PTVI and from New Caledonia and from Onça Puma. So, we'll keep this production, and we reduced a little bit as well, if you see the premium for class 2, we captured already on the first quarter as well, that's double from the last quarter.

And class 1, the idea is to balance, as I said before, on the size of the market we can supply to, mainly plating and high alloys, and for those contracts we've fixed our price in premium. So, there are some producer pricing that we do as well, so it's a myriad of strategies to capture that, and it's been proven again, as I said before, successfully because we did, for class 1, double of last year, and in absolute terms and even in a dollar term as well. So, I think we are able to capture that.

And your second point, could you repeat, please?

Marcos Assumpção: So, if by any chance you stop supplying the steel market, for example, with your class 1 material, would there be any restrictions or what would be the implications of reducing production on nickel even further like another 20 - 30%, yes?

Eduardo Bartolomeo: Now, we don't need, I think there's the point. I think I answered in the first time, we don't need to do that because actually our production is going to be switched to class 2, for class 1 is going to be New Caledonia and PTVI. So it is a long-term thing, as we said before, the pain is for now and the gain is for the future. So we're still selling that there and it's profitable as well, as we said before, but we won't have any 20% reduction, I don't think we need to do that. As I said, we just did 5,000 tons of nickel this quarter to class 1 and… that's for class 2, sorry, and that's normal, that's not… that's inaccessible. So, it's a reasonable size, we could reduce 5,000, but that's nothing in a sense, so I would do that by the way. We are managing supply and demand, that I think is the most important take-away from our strategy. We are very cautious on supplying the right segment, we are segmenting the segments and doing the right approach and, of course, as I mentioned before as well, reserving to the future, because the price is wrong.

Our price today doesn't pay to produce 99.9% nickel, so we cannot just give this away and when the future comes we don't have our reserves anymore. So, it's a strategy to follow-up the market, supply and demand and then capture the premiums.

Marcos Assumpção: OK. And just a follow-up here as well on the potential agreement between Vale and Glencore in Canada. Do you see any opportunities there? Anything in the short-term that we could expect?

Eduardo Bartolomeo: Marcos, we are still discussing with them, I think it is an opportunity of win-win for both parties. We believe that we can come to an agreement, but still we are discussing with them.

We have a good partnership, by the way, in the business with them, operationally speaking, and it's just a matter of finding a solution, we're advocating for a very simple one and I think we'll be successful, but we're still under negotiation.

Marcos Assumpção: Alright, perfect. Thank you very much.

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

Thiago Lofiego: Thank you, gentlemen. Have one follow-up question back to the coal asset. Do you guys have any breakeven target you're willing to reach this year and the coming years considering the ramp-up of the operation in Mozambique? And would you consider divesting from coal eventually, especially considering M&A activities seems to be picking up in that space. I know you are now in ramp-up phase, but eventually, let's say three years from now or two years from now, would you consider divesting?

Fabio Schvartsman: Thiago, I will start answering then Peter will give a more precise information on this. Regarding strategy, our view of Mozambique is that we have in place a very big infrastructure. We put an investment there that is ready to leverage other size of operation there. So, it would be a mistake, in our opinion, to consider selling this operation without realizing its full potential. Because the value will be in realizing this potential, and this will take time. Several years. So, then it means that there's no chance of analyzing and discussing selling this business during the next few years.

Peter Poppinga: Thiago, look, we are ramping up in Mozambique, it's not an easy operation, but we are making lots of progress. We are aiming to get to 20 million tons in the next two or three years, right? To do so, we must do some mine plan optimization, we have to increase the productivity of the mine equipment, we have to have an intermediate stockpile between the mine and the plant, which is not… doesn't exist, we need to interconnect to the two beneficiation plants, lots of actions, which it will not cost a lot of money, but we have to do that in order to improve, and also get a better training to our workforce, all this is in place now. So, in some years 20 million tons a year, and if you were to breakeven on something we… the OPEX, which we already discussed in the Vale day, the OPEX… the long-term OPEX should be around US$60 with the real OPEX mine, railway and the port, but then you have the Nacala tariff, on the net basis you should add another US$20 or something on a net basis and that would be the breakeven so to say. And we are confident that we in the next couple of years will get to the 20 million tons, consolidate the business and then we'll go from there. Thank you.

Thiago Lofiego: OK, thank you, Peter.

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

Fabio Schvartsman: Well, I would start saying that we think that we made the right movement by putting our people in iron ore in charge of our Coal business in Mozambique, given the expertise, specialty that they have in this kind of operation. It is proven very helpful and I'm pretty sure that during the next few quarters, results will start to show up.

Well, and to finalize, I would like to say that Vale is building its future. Our future now is clearly linked to the quality of our products, but quality demands investment and therefore we are restarting, re-inaugurating, with meaningful effort, three new pelletizers in Brazil, two in Vitória and one in São Luis this year, and we are ramping up S11D, that will represent more capacity available of high-quality iron ore, and we are increasing a lot our blending outside Brazil, what means that we are able to deliver a very standard level of quality to our customers, therefore focusing exactly in the demand and the needs that they have.

So, quality not comes as an accident, quality comes as a continuous effort that the company is making. In Base Metals we are in the process of restructuring the business, I think that we are doing the right thing, we are generating cash, consequently we have the time to do the right thing and we are doing a complete turnaround in all of our operations and results will start to show and, obviously, there is this optionality of the EV, that it's not there yet, but eventually it will become a major source of results for Vale in the future.

Finally, paying the dividends and reducing at the same time the leverage is not a small thing. This will be delivered this year as well, so we are pleased to say that we have, unfortunately, no big surprises to the market, and I hope that we can continue for a long period of time without surprises.

So, thank you very much and let's be together in next quarter, hopefully without any surprises. Thank you.

Operator: That does conclude Vale's audioconference for today. Thank you very much for your participation. Have a good day.