Vale S.A.

4th Quarter and FY 2017 Earnings Results Conference Call

February 28th, 2017

Operator: Good morning, ladies and gentlemen. Welcome to Vale's conference call to discuss Fourth Quarter 2017 and Fiscal Year 2017 Results. At this time, all participants are in a listen-only mode. Later, we will conduct the question-and-answer session, and instructions will be given at that time.

If you should require assistance during the call, please press star followed by 0.

As a reminder, this conference is being recorded and the recording will be available on the company's website at vale.com at the Investors link.

This conference call 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 comment 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; and
- Ms. Marina Quental - Global People Director

First, Mr. Fabio Schvartsman will proceed to the presentation and after that we will open for Questions and Answers.

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

Fabio Schvartsman: Good morning to all. Thank you very much for joining our conference call regarding the results of fourth quarter of 2017. I would like to start mentioning that we just closed this result of 2017 that was, in our opinion, a very good result, and the quality of the balance sheet has improved meaningfully during the year.

Everything that we've been doing in the company in the last few months was related to become a more predictable company, and this translates, that for instance, in the fact that we anticipated the results of the first quarter – sorry, the fourth quarter of 2017 -, more or less in line with the actual results that were delivered, that we made of our focus in performance and in capital allocation, our main goal in the company and, in this purpose, the first results of Base Metals are already showing the benefit for the company of this approach.

Because of this more careful capital allocation, we were able to contain investments below US$4 billion, and the good news about that, is that this is sustainable. We can make it this way in the next several years.

Finally, regarding strategy, I would like to make a quick mention regarding the deleveraging process of the company that is evolving in a very proper way. We already reduced indebtedness by a lot and, receiving the cash from the sale of Vale Fertilizantes and of the Nacala Project during the next few months, we are coming to a very comfortable indebtedness level. With this, more or less coming to an end in the necessity of deleveraging of the company.

Next, I would again emphasize that we want Vale to remain and to become a diversified company. But, by that, I don't mean that we are going to acquire other companies or we are going to start in other businesses. But much on the contrary, we are going to start to realize more value from our existing assets, especially in Base Metals where we think that we have a big opportunity. And we are going to continue with the same discipline that we've shown in iron ore, being very cautious regarding how we evolve the production in order not to put too much pressure on the market.

A few things about 2018. First, I want to comment that we now have our team – the executive team of the company - complete with a very good mixture of people that are coming from inside Vale and executives that are coming from outside, in a very good balance for managing the company.

Next, commenting on our business in general. I would like to start with iron ore. Iron ore, our expectation regarding prices is that, given the growth that we can see in all the major economies in the world, the expectation is that there will be no downward pressure on prices during 2018. So, we are optimistic regarding where prices will stay. And we are going to continue to invest in reducing cost in this iron ore division, through supply chain optimization, starting in a very determined way in digital transformation, and we are going to continue the cost reduction process that started with Professor Falconi and in the matrix process of managing costs and expenses.

Obviously, it is of utmost importance to control the investments and therefore allocation capital will be key in this business during 2018.

In Base Metals, it's necessary to be a little bit more cautious given the volatility in the nickel prices. I think nobody can guarantee where prices of nickel will go in the near future. Nevertheless, we are investing heavily in the transformation of this business. We brought in Eduardo Bartolomeo to run this business with the purpose of restructuring it, and with the purpose, in the year 2018, of putting focus in Sudbury and in Nova Caledonia.

In Sudbury, trying to extract more value of this excellent asset that belongs to Vale. And in Nova Caledonia, is time to move from the status of project that Nova Caledonia had till recently, to the status of a real operation, bringing all the profitability and the benefits for the company.

The purpose of all that is to be cash positive in all of our operations, and it is important to emphasize that it's the first time in many years that we are cash positive already in all of our sites. That happened in the last two months for the first time, I suppose, ever.

Finally, in coal, we are going to complete the ramp up of Moatize in Nacala, with the purpose of diluting fixed cost, and we can expect the results to be better in the first quarter of 2018 than they were in the fourth quarter of 2017.

Regarding the results in Vale as a whole, it is our expectation that, even taking to consideration that the first quarter is typically more weak in seasonal basis, that we'll be able to deliver the same kind of result that we had in the fourth quarter of last year.

And, as a closing note, as we mentioned in our release, it is our purpose to deliver to the market a new dividend policy by the end of March. This policy that will aim to be at the same time more aggressive and sustainable for a long period of time.

That was my opening statement and now I am going to pass to Luciano to give a more detailed information on the results of the last quarter of 2017.

Luciano Siani Pires: So, good morning, everyone. My intention is to walk you through a one single analysis of the 2017 results, which, we believe, shed some color on all of our strategy and some structural factors affecting Vale. For those who have the webcast, it's page 6, which shows a buildup from the EBITDA in 2016 to the EBITDA in 2017. For those who don't have it, I will give you the numbers.

So, we start with US$12 billion of EBITDA in 2016, and the very first effect which boosted our results, it’s obvious, it's the increase in prices, a net effect of US$3.8 billion. There's an important factor I would like to call your attention, which is we are netting in this US$3.8 billion, a downward effect of almost $700 million of what we've being calling now, in the release you're going to read, pro-cyclical effects of higher prices. What exactly is that? This is not the typical cost inflation that many of you are thinking about in the industry. It is the direct linkage between some of Vale's costs to the iron ore and pellet prices. We're talking about the purchase of third-party fee. We're talking about royalties. We're talking about the leasing of some of our pelletizing plants, the contracts provide for a lease price, a lease expense, which is directly linked to the pellet premiums. And we're talking about profit sharing. The difference between these and other cost components is that if iron ore prices or pellet prices reverse, this immediately reverses as well. These are formula-based. This is different from cost inflation, which we are going to talk later. So, this is the first component, US$3.8 billion, net of this cyclical effect in costs, improving EBITDA.

The second effect is US$1.4 billion approximately of improvement in premiums and commercial initiatives. So, as you all know, our premiums for our high-end products have increased during the year but also Vale proactively managed its product mix, Vale proactively is blending products and is proactively also renegotiating contracts to take advantage of this market moment. And sometimes when you do that, you increase costs as a side effect. For example, if you blend you increase costs, but you get better price realization. If you produce more pellets, which is the case this year, you also increase costs, because to produce, to concentrate iron ore into pellet feed, there's more cost associated. So, the key here is that one should not look into Vale's performance just from the perspective of cost but has to have an integrated view and look at margins.

Now, we come to the next components of the results, which now all of them which I'm going to mention have diminished EBITDA. And now we come to the overall theme of cost inflation in the industry. We start with US$725 million of foreign exchange effect, both in Brazil and in Canada mainly. No comments on that.

We now come to US$409 million of bunker oil increases. And the key point here is that we're not going to just watch moves in the bunker oil prices. Vale has ongoing initiatives to reduce its short position and exposure to bunker oil prices over the long run. We're not talking about hedge here. I mean, at the right moment, you'll get to know what these initiatives are all about.

There's another component: freight. Freight increased Vale's cost by US$267 million. And as you know, we've been trying to actively manage our exposure to freight. We just received the first ship from the second generation of Valemaxes, which are more efficient than the first generation. And this is the first of about 30 new ships that are going to be delivered to Vale in 2018 and 2019 to help us manage down freight costs.

The next component with a cost increase of US$215 million is energy costs, electricity costs mainly in Brazil. And here I have to tell you that we are open for business looking for opportunities to increase self-efficiency at Vale. We produce 60% approximately of our own energy needs and we intend to go as high as 100% to avoid those impacts going forward.

And finally, as the last component, there was indeed around US$300 million of cost increases, endogenous cost increases in our operations. But they are all related to Base Metals and they are all related to the structural transition that went on in Sudbury in the second and third quarters, transition from two furnaces to one furnace, and the stoppages in Manitoba in the first quarter. As a proof of that, that these were one-off effects, if you look in the release at the fourth quarter cost performance for Base Metals, we have all of our operations performing atcost levels below the 2016 and the 2017 average levels, with a highlight for Ontario as well where the furnace transition took place.

So all in all, that explains why the US$12 billion come to be US$15.3 billion in EBITDA. And, in a nutshell, the key messages here is we are managing for margins and we're actively addressing the fundamental cost inflation factors that are starting to affect the industry.

And now, we can move for questions and answers.

Operator: Thank you. Ladies and gentlemen, we will now begin the question & answer session. If you have a question, please press the star (*) key, followed by the one (1) key on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue, press star (*) two (2). Please restrict to two questions at a time.

Our first question comes from Novid Rassouli, Cowen & Company.

Novid Rassouli: Thank you for taking my questions. The first is on iron ore. You mentioned being cautious on how you progress iron ore production to not put too much pressure on the market. I just want to see if you can just speak to anything that would potentially make you adjust the current kind of 400 million metric ton run rate expected in 2019 and beyond or is that pretty much set in stone and you're talking about future increases from that point?

Fabio Schvartsman: Okay. Look, our target of 400 million is here for staying. It's not something that we are going to change, unless a structural change happens in the market. Because we do have this idle capacity that would allow us to go further than that, but we are not going to use it unless there is a meaningful change in the market. And this change is not anticipated by us in the next couple of years.

Novid Rassouli: Got it. And then, in your release, you'd mentioned that you forecast coal prices to lose steam throughout first half of 2018 as supply normalizes. In the past, we've seen lower coal prices having the ability to weigh on iron ore prices as well. I was just wondering if you could speak to how you expect to get your coal forecast to potentially impact the iron ore prices throughout 2018?

Peter Poppinga: I think there is a correlation, like you said, but it's not coal. It's actually more coke. The coke price – when the coke price goes very much up, then you have, in our case, a favorable development for premiums.

We are not a big player in the Coal business. I would say we have a view on the long-term coal price, which is a little lower than the prices of today. But the correlation you're mentioning is not a direct one, I would say.

Novid Rassouli: Okay. And then just switching gears to copper for a second and these are my final questions. I just wonder if you can give us your expectation for Chinese copper demand in 2018, as well as if you have a surplus or deficit forecast for 2018?

Eduardo Bartolomeo: Well, from my limited knowledge, we are stable since the last two years, and there's going to be a small deficit this year, not as high as nickel. Nickel is the one that is presenting deficit. And so, coal is more or less stable. But you have to see the movements that are happening for copper, I mean, copper, on Chile on the labor movements, there are some noise there, but basically with the… we think this is stable. Not as much as nickel.

Novid Rassouli: Okay, got it. And you outlined the 800,000 tons of disruption in 2017. As you mentioned, there are significant labor contract negotiations taking place in 2018. Any thoughts on if the level of disruptions have the potential to reach what we saw in 2017?

Eduardo Bartolomeo: No. Not in our operations at all.

Novid Rassouli: Got it. Thank you for taking my questions.

Operator: As a reminder, to ask a question, you have to press star (*), one (1). Our next question comes from Thiago Lofiego, Bradesco BBI.

Thiago Lofiego: Hi. Thank you. I just have one follow-up question. I'm not sure if you addressed that for – I'm sorry if you did. Just to clarify about an update on VNC, the potential deal to sell a stake. How is that evolving? What's the timing? I remember, Fabio, you've mentioned before that the potential timing was end of this year. If you could refresh us on that? And also about the needed Capex there as well. Are you already spending money on that or are you waiting for the deal to go through?

And the second question also related to the same thing, which would be on the cobalt's potential divestment. What kind of deal are we talking about here? What's the potential size in terms of tonnages and also in terms of value, and also timing? Thank you.

Fabio Schvartsman: Okay. Thiago, thanks for your question. No, we didn't comment on that yet. And thank you for giving us the opportunity of doing so now. In VNC and cobalt, the idea is basically the same in both cases. We are working in a way that will guarantee that each and single one of our sites is cash positive throughout the years.

So, the reason for using this kind of, let's say, non-typical financing is with the objective of facing the investments that we have to make. First in VNC, because of the tailing, and then in Voisey's Bay because of the underground mine that we have to invest there. And the process continues moving forward, in both cases., and the decision in the case of VNC is not expected before the end of the year, where we have to come to a decision.

The size of the investment, on the other hand, has been recently reduced by the effort of further analyzing all the alternatives that could allow us to employ less capital to do the same investment. So, we have good news in this subject as well.

Thiago Lofiego: Okay. Thank you, Fabio.

Operator: Our next question comes from Humberto Meireles, Goldman Sachs.

Humberto Meireles: Hi. Good morning, everyone. Question on iron ore production versus shipments. If you look at last year, production increased by around 30 million tons while shipments were flat. At the same time, you had offshore blending, your blending capacity increased by roughly 30 million tons. As we look into 2018, the expectation and the target is to increase blending by the same amount of last year. So, how should I think about the gap between production and shipments? Is it reasonable to expect a similar magnitude that we saw last year? And put this question in another way is, could you also provide the guidance, not only on production, but also shipments of iron ore for this year?

Peter Poppinga: Okay, Humberto. Thanks for the question. You're right, since we were building up stocks in Malaysia and in China, the shipment production ratio was not normal. So, what is the normal shipment production ratio? It's around 97.5% to 98%, because you lose some material during the process and the pelletizing. So that's the normal ratio. So, in 2017, instead of 97%, 98%, this ratio was 94%. This was in 2017. So, you saw in this quarter and the end of this quarter, and if you only take the fourth quarter, you saw the ratio of 100% because we had… so we shipped actually more than we produced in the fourth quarter, even though we are saying that we are going to, we postponed some sales into the first quarter of next year. The first quarter of next year, therefore, will be a normal ratio, which will be around 98%.

Now, the rest of 2018 will almost be there. We would still have some, let's say, around 1% difference of a normal ratio. And then in 2019, we will be fully normal again, at 97% to 98%. So take away is first half, first quarter of 2018, you will have a normal ratio, and then in the second half you will have maybe 1% plus, still having some stocking building in China. And then in 2019, it will be completely normal again. Hope that helped. And the good thing is that in the first quarter, we are going to have a normal… since we postponed some sales, we will have a normal ratio again in the first quarter.

Humberto Meireles: Got it. Thank you. Just to make sure that I understand. So, if we look at last year, right, the offshore blending capacity increased by 30 million tons and, as you described, that required a lot of inventory buildup. But if you go to this year, we have the same offshore blending capacity increasing at the same amount. So, technically, the inventory buildup will be the same. So, why isn't reasonable to work with a similar delta that we saw last year?

Peter Poppinga: Because we are blending less and less. I mean, with the big blending, the big building of stocks happened last year, and this year it will be even less. There will be still some inventory building up, but much less than in 2017. And in 2019, it will be stable.

Humberto Meireles: Got it. Thank you.

Operator: The next question comes from Carlos De Alba (Morgan Stanley).

Carlos de Alba: Yeah. Good morning, everyone. Thank you very much. I'll try to squeeze three quick questions, if I may. Fabio, if you could comment a little bit on the spirit of what you're trying to get in terms of the new dividend policy. You mentioned it's going to be more aggressive and more sustainable, hopefully. But is the company trying to target a specific dividend yield? Is it you're trying to target a specific payout ratio or a percentage of cash flow generation? If you could just generally speak about the spirit of the new dividend policy, that would be useful.

Second is in the comments in the earnings release. Once again, you said that Vale should be a more predictable company. So, for me, to be honest, it is still difficult given the link that you have to the commodity prices and also we have seen in the last 18 months, 24 months, they have been quite volatile and have come as a surprise to many of the forecasters. So what … could you elaborate a little bit more about what specifically do you mean, or how you plan to achieve that goal, despite the volatility that we see in commodity prices?

And then finally, Luciano, given the cost pressures that you alluded to in the call and also that were mentioned in the press release, do you expect material changes to the guidance or outlook that was provided in the Vale Day in New York and London back in December? There were a few slides there that talked about breakeven for iron ore, cost for nickel operations into 2020 year. Do you foresee many pressures, or you think the company will work and try an offset some of the pressures by other management initiatives? Thank you.

Fabio Schvartsman: Carlos, thank you for your questions. Starting with the dividend policy. As we've been mentioning, we want the policy to be at the same time aggressive and sustainable. And the only way that I know to make it sustainable is to make it proportional to the cash generation of the company. Any other one will be outside of our control and so it's not going to be sustainable. That's the reason why you can expect something correlated to the cash generation of the company.

Now, regarding predictability. You're right, commodity prices are and will always be very volatile. It's true that we are making the efforts that we can to dilute this effect with the discipline in the production of iron ore, reducing capacity available of nickel, in order to cope with bad moments in the market. That helps in the sense of reducing volatility because of this behavior of ours. That's the purpose. But by predictability, I mean another thing. I mean that, obviously, we have to cope with changing prices environment all the time.

And to be predictable, in my way of thinking, is that in any given price scenario, you'll be – the market and everybody has to be able to easily identify how Vale will perform. This is predictability. This is only possible if you have full control in everything else than the price of the commodity, meaning we have to have a very strict capital allocation policy, we have to have a constant focus in improving performance, and we have to look very cautiously in all of our capital structure and cost structure in order to optimize it. By doing that, we certainly will become a company that everybody will understand better, and that's what I mean by predictability.

Luciano Siani Pires: Carlos, on the cost reductions, keeping constant the external factors that I mentioned, we continue to guide in iron ore, to a US$3 to US$5 margin expansion until 2020. I mentioned in the earlier call that S11D alone should have a contribution of around 60 cents of a dollar this year, and that we are targeting to end below US$14 per ton. But having said that, on the external factors, that guidance does not include any initiative to control and to lower energy and bunker prices. So, this should be an upside.

In the nickel operations, we've already guided for 200 million Canadian dollars cost improvements over two years in Sudbury. That doesn't change. And for this year, across all the Base Metals operations, there is a target also for a cost reduction of around US$200 million. That doesn't change.

Finally, in coal, because of the ramp-up, that needs, the costs need to come down, and they will come down, simply because of higher volumes. You have seen that story, although in the short term we had a problem with an excavator which we will be fixing. So, no material changes to the guidance, keeping external factors constant.

Carlos de Alba: All right. Thank you very much.

Operator: The next question comes from Gustavo Gregori, Bradesco BBI.

Gustavo Gregori: Hi, congratulations on 4Q results. I have a quick question regarding debt. Given Vale's massive cash generation during fourth quarter and expected strong cash generation first and second quarter, I wanted to see if you guys could give us a little bit more clarity on the company strategy regarding what we can expect in terms of gross debt reduction and also take into account how relevant the market there has become in Vale debt portfolio, if the company has any preferences in terms of what bonds they potentially tender or call.

Luciano Siani Pires: Obviously, we will continue to reduce gross debt. You've seen in the fourth quarter some retirements of debt. We're kind of … we retired a lot of debt with bilateral operations with the banks, but now, naturally, there will come a time when we will have to be more active in the capital markets. So, we tendered for the 2019 and 2020 bonds last year and we will certainly, we will have to come back to repurchase some of our outstanding bonds. We cannot give more details about where in the curve we're going to act, but this is a natural consequence of having to retire debt. Capital markets today represent about 55, if I'm not mistaken, percent of Vale's total debt. So repurchase of debt has to pass through capital markets debt as well.

Gustavo Gregori: All right. Perfect. That's very clear. Thank you.

Operator: The next question comes from CJ Baldoni, Principal Global Investors.

CJ Baldoni: Yes, hi. I realize this is a small part of your business, but I'm curious with respect to your mine in Corumbá and the new port in Uruguay, do you intend to shift your minimum volumes under, you know, the agreement that you have or you'll just pay the minimum guarantee?

Hello?

Fabio Schvartsman: Give us just a second.

Peter Poppinga: Look, we were just wondering how much detail we have here, but maybe it is worth that we can… if you have, if you want to go into much detail, we could have a conversation later through the Investor Relations, but what I can tell you now is that Corumbá has… we have done a very good work there in terms of reducing costs, we have also renegotiated some of our take-or-pay contracts with parties, and … but, effectively, we have actually reduced the volume. The volume in the past was much higher. We have… we are not dealing with fines today, we are much more dealing with lump, we are focusing on lump, and we have also renegotiated our contracts with our main clients, the Argentinians. So overall, Corumbá is now more competitive, but if you wanted to have some details, I invite you to go through our investor relations, we can provide you those details. Thank you.

CJ Baldoni: Okay. Thank you, I'll follow up.

Operator: The next question comes from Alex Hacking, Citibank.

Alex Hacking: Yes, hi, thanks for the questions. I have a couple of questions for Peter, if it's okay. First one, Peter, given the costs…, some of the cost issues that you're seeing, but also the ramp-up of S11D, how do you expect your C1, your iron ore C1 cost to trend next year?

And then the second question, you know, could you just talk a little bit about how you're seeing demand for iron ore evolving outside of China? It seems like you sold more material outside of China last year, and obviously we're seeing China exporting while the rest of the world picking up, but I'm curious on your perspective on that development. Thank you very much.

Peter Poppinga: Thanks, Alex, for the question. So, on the C1, I think Luciano gave you already some guidelines about what happened to the C1. You can see that in 2017, we had a C1 of US$14.8, right? Now, the main driver for the C1, of course, is S11D. There is a big… there is a reduction coming, which will be captured in 2018. We estimate it being half a dollar, and then, we have the… our productivity work with Dr. Falconi and our management, cost management, matrix cost management. So, those things together we expect this to be around US$1.0, and captured in 2018 and, of course, this will go on into 2019.

On the other hand, we had a cost inflation. But you also have probably a foreign exchange variation. We are working … if you work, for instance, with R$3.3… if you take a number of R$3.3, this gives you probably an offset on the cost inflation, which we know that this is coming. There's energy, there's services, there's diesel. So, if you… just simply offsetting FX and cost inflation, if you do that, and we take the one dollar I've just spoke about, then you come to the figures Luciano has talked that we are aiming, that it's going to be possible to be under US$14 on the C1, right. This is concerning all Vale. And C1 and S11D, if you specifically take S11D, it's a very nice surprise, we are in the first two months, we are on a run rate of 46 million tons a year, which is exactly what we are targeting for a ramp-up, and this in a rainy season is good. So, and if you take the cost of that and exclude the capacity, which is not utilized, which is not being utilized and not counted, so you come close, you come very close to those figures we presented in Vale Day in New York. So, it's all going well in S11D. And, again, we are targeting, in spite of cost inflation, we are targeting a C1 cost slightly lower than US$14 in next year.

And then the other markets, you mentioned outside China, that's the good thing, that's the good surprise that it's booming. We see the Middle East very demanding, we are increasing our sales in Eastern Europe, we are… also Europe is picking up strongly, because it is like that, 2.5% higher steel production and consumption probably happening this year. So, it's very positive, and China, of course, is our main market, but we shouldn't forget about the rest of the world. Thank you.

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

Marcos Assumpção: Hi, good morning, everyone. Congratulations on the strong results. First question on pellets, if you think that the start-up of Tubarão and São Luís plants are expected for the coming quarters, if this could have an impact on the pellet premium in the coming quarters?

And the second question to Fabio, talking about governance in the future, a lot has been done in the past year, but what is your view or your vision for the corporate governance of the company? How do you think you could still improve in the coming years? And also, considering the end of the lock-up period of some of the controlling shareholders, if you believe that sooner rather than later we could have a reshuffle on the Board of the company? Thank you.

Peter Poppinga: Marcos, thanks for the question. On the pellet side, the only thing… I cannot speculate, it's too early to speculate on the… how will be the premiums next year and, the only thing I can tell you is that we have a huge overbooking, a huge overbooking, and this earlier start-up in Tubarão I and II and the normal timing of the Northern pellet plant in the second half of this year will only help us to reduce the overbooking.

So, it's a very stressful situation today because we have to manage all this overbooking and all this spot business and people comingand wanting pellets. But maybe it's going to be slightly better in the second half because of the ramp-up, but it's too early to talk about premiums of next year.

Fabio Schvartsman: Okay, Marcos, regarding your question on governance. We are evolving in the process of perfecting the governance of Vale. We are on the road to becoming a true corporation, and there is a lot to learn how to or how to work with the Board, the relationship between the Board and the executives. These are all new stuff for everybody.

And this transition is moving smoothly, and we are, both sides, we are learning how to do this. Now, we have a number of committees that are starting to supervise everything that the company is doing. So… and we, the executives, we have to participate in these committees and we have to feed these committees in order to make a better decision making process. So, we are learning, and in the next couple of years we are going to become a real corporation and behave as a proper corporation.

Regarding the lock up, yes, the lock up is gone. The controlling shareholders would have… the former controlling shareholders would have the alternative of selling the stock. They are certainly analyzing that. But one thing, you rest assured, nothing will be done in a not talked way, meaning it will be organized, it will be… if it happens is, through a follow-on in order to preserve the value of the company. So, we are all very attentive to this fact given the size of the follow-on that can be possible out of the intention of the controlling shareholders.

Marcos Assumpção: Okay. Thank you very much, Fabio and Peter.

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

Andreas Bokkenheuser: Thank you very much for taking my question, and congratulations on the strong set of results. Just one question on the iron ore premium. You mentioned it a little bit this morning on the Portuguese call as well and you've said before that you think the iron ore or the high-grade iron ore premium is structural. But we're also seeing a lot of it having to do with steel profitability in China and we've got the whole pollution restriction, you know, debate in there as well. I guess my question is, you know, if a lot of this is driven by steel profitability, and of course steel profitably is extremely cyclical in nature, then how high is your conviction that the high-grade iron ore premium is really structural when it's tied into something that's cyclical as steel margins effectively? Thank you. That's my question.

Peter Poppinga: Thank you for your question. Again, I think we have had a major shift in the industry, we have had a supply side reform, where we have the capacity closures and move to bigger blast furnaces. So, this is actually something interesting, it's not a Chinese invention. If you remember in the past how things happened in Japan and Korea, it was more or less the same. So, I guess China is more and more adopting the operating philosophy of other developed countries. And the coal price is expensive and it generates pollution, so less consumption is important. Now, the third element in all this what you mentioned is the high steel margins. If you take this element out for short days, maybe it can be eased a little bit the need for high mature, high-quality mature but you cannot simply… move to big blast furnaces, and knowing that the coal inside China will be expensive and there is the pollution thing, it is simply impossible to improve productivity and utilization because of closures of capacity, the remaining blast furnaces, they have to produce more than the rest. It's impossible with this structure reality to reduce emissions without improving quality of your raw materials.

So, iron ore high grade, in our opinion, will be priced higher, substantially higher than just the value of the contained additional iron units. That is for sure. And I think maybe some… there will be some fluctuations, some volatility in the premiums, the […] factors will play a role, but the shift to the fly to quality is definitely a structural one. Thank you.

Fabio Schvartsman: If I can help here, with this combination of growth, everywhere in the world, therefore increasing demand for steel everywhere, plus the anti-pollution matters in China that are for real, it seems quite unlikely that we are going to see any change in the behavior of this market in the next couple of years at least.

Andreas Bokkenheuser: That's clear. Thank you very much for taking my question.

Operator: The next question comes from John Brandt, HSBC.

John Brandt: Hi, good morning. Two questions from me. First on Samarco. Wondering if there's any update on a potential restart and if there have been any negotiations with BHP for potentially buying their stake.

And the second, I guess, I just want to come back to VNC with cash costs dropping pretty substantially in the fourth quarter, how much of that was related to by-products credits, specifically cobalt? How much of it was related to, you know, better efficiency and sort of your own internal measures and, you know, with the expectation that cobalt prices should continue to rise, given the technology, how much does that play into, you know, whatever decision you make with the efficiency, considering that asset? Thank you.

Fabio Schvartsman: Very good, thank you for your questions. Regarding Samarco, I want to emphasize, once again, that we think, and mentioning things in my name and the name of BHP as well, we both think that we have a responsibility in this case, a very special one, given the disaster that happened with Samarco. We are trying everything that we can to make the restart of the plant, of the mill, feasible. And this our main focus and we are not spending time on anything else at this point. And both of us we don't see Samarco as a business opportunity, we see Samarco as a social obligation, where we are doing everything that we can to restart.

Regarding VNC. Obviously, cobalt prices, the by-product in VNC, they played a role in the cost reduction, but this is the smallest part. We are talking like 30% of the cost reduction came from the cobalt and the 70% from the efficiency and ramp up of the mill. That makes us more optimistic about VNC, of course. And the recent improvements in prices are making us more optimistic, as well. The truth is that we are waiting to see where things are going to move forward in order to make a decision, how to deal with the VNC situation. It's clear that the situation now is different from where we were six months ago, and so, we are reacting accordingly.

Jonathan Brandt: Thank you, Fabio.

Operator: The next question comes from Chris Terry, Deutsche Bank.

Chris Terry: Hi, everyone. Few questions for me. I think on slide 6, when you stepped through the EBITDA from 2016 to 2017, you spoke about the energy cost a little bit and alluded to the fact that you might have some opportunities there. I just wondered if you could expand on that a little bit and perhaps just a bit more color on the bunker fuel costs, how you control those costs going forward? That's my first question.

The second question is just around, you're looking at the new dividend policy, so obviously, the balance sheet is in good shape and net debt trending down. Can you perhaps just talk a little bit around Salobo and potential decisions that would be made there?

And then, my last question is just on the cost efficiency program and the US$150 million mentioned on potential cost reduction. Thank you.

Fabio Schvartsman: Let's start making a quick comment on bunker. On bunker, we are finding several different approaches. One of them being clearly reducing our demand of bunker. We are working on changing the model that we operate our ships in order to have less dependence upon a bunker. This obviously will happen due in time.

Luciano Siani Pires: Okay, on energy costs, the total electricity bill around Vale is around US$600 million per year. And about, as I said, about 60% of that is on production by Vale, and the rest is a mixture of long-term contracts and also spot transactions.

Spot prices in Brazil have been fluctuating a lot, depending on the hydrology, because they are very dependent on hydropower generation, and sometimes spot prices can be three times as large as the internal self-generation of Vale. And the contracts, when they are renewed, they also reflect somehow the view on supply and demand of electricity in Brazil going forward.

So, we're still very exposed to energy, and rule of thumb would be that perhaps this 40%, where we are exposed to market forces, cost around twice the price of our own self-generated energy. So, from these numbers, I believe you can figure out what the size of the opportunity is if we generate 100% of our own units.

Fabio Schvartsman: Now, in your question regarding dividends. Vale is now in a very particular moment. We are the company in the iron ore universe that has the ability now of not investing to keep capacity. We had just made a huge investment in S11D, we have plenty of capacity, and therefore, we have the opportunity of enjoying this moment. And the way we are planning to enjoy it, is to be able to pay back to our shareholders dividend wise, the patience that they gave us during the construction and the investment cycle that we were. So, dividends, as I mentioned before, will become a proportion of our cash flow generation in order to make it aggressive and sustainable.

Eduardo Bartolomeo: Okay. About the US$150 million of cost reduction, just to give more clarity, as Luciano mentioned in his initial remarks, we made the change in Sudbury for the single furnace, so now it's time to harvest that investment. We are looking for a multi-year cost reduction over two, maybe two elements. One is rightsizing the organization for this new flow sheet, so, we still have a large organization that is needed to run it. And the second one is the productivity that we will win from both, the process plants and mainly the underground mines. We see a huge gap on the underground mines, so I think both areas will achieve this CAD$200 million, there are US$150 million. I hope it made it clear.

Chris Terry: All right, guys. Thanks for...

Fabio Schvartsman: Only to comment on that just a little more color. We are planning to have in 2018 10% less cost in all of our nickel operations, and this is way more than US$150 million.

Chris Terry: Okay, thanks for that. And just following up on the second question related to the balance sheet. Is the timeline that you have in mind for making decision on this Salobo expansion?

Eduardo Bartolomeo: Salobo is under the FEL-3, it's going to be taken the decision this year. So, it's a normal process, we're just finalizing the engineering studies, and we're moving forward to the Board in the end of the year. Normal, normal procedures.

Chris Terry: Okay. Thank you very much.

Operator: The next question comes from Tyler Broda, RBC.

His line has dropped.

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

Fabio Schvartsman: Well, once again, we appreciate very much for having you in this call. And we are evolving in a very decent way towards becoming a more predictable company, and a company that you can… that you know what to expect in any given circumstance. And therefore, I ask you to join us again in the next call, to give us a chance to show you that we've been walking the talk the way we had described. Thank you so much, and have a wonderful day. Bye-bye.

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