Vale S/A
Second Quarter 2018 Earnings Results
July 26th, 2018

Operator: Good morning ladies and gentlemen, welcome to Vale's conference call to discuss 2Q18 results. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions will be given at that time.

If you should require assistance during the call, please press the star followed by zero. As a reminder, this conference is being recorded and the recording will be available on the Company's website at: VALE.COM at the Investors link.

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. Alexandre D'Ambrosio – General Counsel; and
- Mrs. Marina Quental – Director of People.

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

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

Fabio Schvartsman: Thank you. Good morning to all. It is a special pleasure to have you in this call, in this quarter call.

This quarter is actually a very special one for us, the management of Vale, the reason being not only because we had a predicted but good result in the quarter, but the quality of this result was very good, as I'm going to explain in the sequence, and it is also very important for us to see several aspects of our strategy illustrated during the quarter.

First of all, this result that we achieved was achieved even with the reduction in the iron ore Platts price, that went down US$9 in average in comparison to last quarter and in spite of the trucker drivers` strike, that basically stopped the whole country for several days, and Vale, in this circumstance, was able to beat records in production of iron ore and sales of iron ore, therefore, showing our great flexibility.

Meanwhile, the reason why we overcome the price reduction in the Platts is because the price realization of Vale has increased by US$7 in this quarter.

I would like to emphasize as well the fact that we are thinking costs, we are thinking costs in low term, and we are thinking short-term and long-term, long-term as well. Long-term in this case we are talking about this recent announcement of 48 new ships that will be built for utilization of Vale and, most importantly, they will represent a reduction in freights for Vale of US$5 per ton in comparison to the average of freight of Vale as of today.

But the most special thing that I would like to emphasize or put light on is in capital allocation. We achieved the indebtedness that we were looking for, close to US$10 billion of net debt by the end of the quarter, and this gave us the opportunity to start a number of movements that demonstrate very clearly how Vale is twisting capital allocation.

First, we transformed a lousy investment, a potential lousy investment in Voisey`s Bay into a highly-profitable one through streaming of cobalt, and this emphasizes the fact that we are open to business if we can find investments that are very accretive, as this was the case.

Secondly, we had started our dividend payment according to our new policy, for the first time we are going to pay a little more than US$2 billion next September regarding the results of this semester, therefore, a very good achievement for the Company.

And finally, representing the trust that the company will remain performing and delivering, we are announcing a buyback program of US$1 billion that represents our decision to invest in stock of the Company, that is by far the best asset that the company knows and that we can buy it without a premium in the market.

So, this is a very quick summary of what has happened in the semester. Now I'm going to pass to Luciano, that will give a more clear view of how the operation went in the last quarter.

Luciano Siani: Good morning everyone. I would like to start by addressing iron ore C1 cash costs. You saw the very steep depreciation of the Brazilian Real in the quarter, and one would expect, given the exposure of Vale to the Brazilian real, C1 cash costs should have come down by about US$1 per ton. And why it didn't happen? Four factors are nonrecurring on the second quarter and should not be present in the third quarter, and in addition with the volume dilution that underpins our forecasts that we are going to be substantially, distinctively below US$13 per ton in the third quarter already.

Talking about those 4 factors: 2 of them are directly related to the truck drivers' strike that Mr. Schvartsman mentioned; US$0.30 per ton was a direct effect of the increase in cost because of the way we dealt with the strike, there is a list of things that we made that increased costs; another US$0.30 per ton were caused because of the lack of feed for direct reduction pellets in our pelletizing plants, so we had to reschedule some of the ships and we paid demurrage for that, and the lack of feed came from the lack of inputs for our processing plants, which could not produce, then, the necessary feed in the necessary quality to feed our direct reductions pellet plants. So demurrage costs about US$0.30 per ton. Then there are maintenance costs which are typical of the second quarter, which is the quarter in which we prepare Vale's operations for the tremendous growth in volumes that usually happen in the third and fourth quarters, so there is a US$0.30 increase in maintenance costs that should come down as well; and finally, now that we have more inventories along the chain, it takes longer for reduce production costs to flow through the cost of goods sold. So that's another US$0.30 per ton of carryover from the higher cost of the first quarter towards the second quarter.

So, in the third quarter, in the absence of all of these effects, costs should be (because of this) US$1 per ton lower, and because of volume dilution we expect 9% to 10% increase in volumes over the third quarter, another dollar per ton at least reduced. And then we will see if the exchange rates will continue to provide today, as of today, the exchange rate is higher than the average for the second quarter.

Base Metals costs and Coal, certainly you will have the opportunity to discuss with my colleagues, so let me jump to expenses. I always talk about the pre-operating expenses, they came this quarter at US$67 million, and my point here is that they should be approaching zero very soon, by the end of the year, because S11D pre-operating expenses should come down to zero, pellets pre-operating expenses should come down to zero given the restart of our pellet plants, the three pellet plants that come back in 2018, and also the Mariana operations, we had maintenance costs because of the conveyor belt that was damaged, and now it's coming back as well. So, this is an expense line that should come to zero.

R&D expenses increased, that is expected from a first quarter. However, I would like to underscore the quality of the R&D expenses, that part of it goes to our digital transformation program, which will bring results very soon, and part of it is exploration expenditure, especially in the Carajás region, especially to generate and to accelerate the growth options in copper in the region. So, this is to bring good news also soon.

Financial expenses also, compared to a year ago, are decreasing by about 30%, this is the side effect of the reduction in indebtedness, and obviously we also expect those expenses to come down substantially over the next quarters as we retire more debt.

I'm sure you noticed also investments coming at a very low number, US$705 million, this shows our commitment to capital discipline, obviously it is going to go up, especially sustaining investments given the approval of, for example, Voisey's Bay mine expansion, but this is a testimony to our commitment and you should look forward over the next few years to very well-behaved capital expenditures.

Finally, on cash flow, conversion of Ebitda into cash was very good, without any detractors, there was a US$200 million equivalent build-up in inventories as you saw given the sales lower than production, but nothing remarkable, except the good progression.

Net debt significant decrease, in the third quarter we are expecting a smaller decrease because most of the cash flow generated in the third quarter will be funding the dividend payment in September, but still we will approach even more the US$10 billion net indebtedness, and if prices stay where they are, we should then (and depending on how the buyback goes) we should pierce the US$10 billion target in the fourth quarter, and therefore then we will engage in discussions of what to do with this additional excess cash.

The dividend we are declaring US$2.05 billion, represents 53% of underlying earnings and this is what we expected, so although we had a policy based on Ebitda, our expectation is that this is going to be the range of income payout ratio going forward.

Having said that, we should jump into Q&A straight forward.

Question-and-Answer Session

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

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

Carlos de Alba: Good afternoon everyone. Thank you for taking the question and congrats on the very strong dividend and your buyback. So the question has to do with Samarco, if maybe Fabio could give us an update as to what are the latest developments for the operations to come back and start producing, and also particularly if there is any progress on the conversations with BHP to potentially one of the two companies becoming the sole owner of Samarco, and if it is still a possibility that Vale ends up with Samarco, with 100% of Samarco, how would the consolidation of Samarco's debt affect the US$10 billion net debt target and the possibility to pay more dividends next year.

And then, the second question that I have has to do with the increase in costs that we saw in VNC. Could you comment a little bit on what we should expect for the remainder of the year and 2019, your direct operation has been delivering quite good performance with a positive trend, there seems to have been a hiccup last quarter, but I just would like to see if it is something relatively temporary or we should factor in higher costs for a little bit longer. Thank you.

Fabio Schvartsman: Carlos, thank you for your questions. Regarding Samarco, what I would like to emphasize is that we had very good progress recently regarding the legal actions against the Company and the shareholders of the Company, that has eliminated a cloud over the business and that helps for the possibility of starting up again the operation of Samarco. So, we are now more than ever 100% focused in bringing Samarco back on stream.

For the sequence of your question, regarding BHP, I have to tell you that it is of macro importance for Vale (and I guess for BHP) this issue right now. We are 100% focused in what can be done in order to speed up the return of Samarco, and even if and when a deal regarding BHP and Vale will be made, the point that has to be understood is that there is no business benefit here. Here the purpose is solely on the benefit of returning Samarco. That's the way Vale is looking into it, and I'm pretty sure it is the same way that BHP is looking into it.

So unfortunately, it's less of a business opportunity and more a social obligation that we are taking into consideration together with BHP.

Secondly, regarding VNC, I would like to give a clear view on where we are. We are now better than we were a year ago, the carrying cost of VNC has disappeared, we are not paying for operating this company, this is a much better situation that we had before.

Nevertheless, the factor remains that this is an operation still to be stabilized, and it is the most complex operation that Vale owns, therefore, the decision of what to do and when to do it is not taken yet. So, we are looking into options basically because everybody knows that we had… if we are to continue with the operation in Nova Caledonia we have to build a new tailing dam there, and this decision has to be taken until the end of the year. So, we are going to reach a final decision of how to fund it and if we are going to make it or not till the end of the year.

So, in that occasion we will let you know what's our idea in the future of VNC.

Carlos de Alba: Thank you.

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

Thiago Lofiego: Hi, thank you. Just one follow-up question from the Portuguese call. Back to the capital allocation issue, when should we expect Vale to initiate a new growth cycle, even if a more modest one? We understand the company's really focusing on business right now, the net debt level it's close to the target of US$10 billion, but just looking in 2 or 3 years, 4 years out, when should we expect Vale to start investing in growth projects again? You guys have mentioned about potential projects on copper, eventually energy, logistics in Brazil, so what's the mindset of the company regarding those at this point? Thank you.

Fabio Schvartsman: Thiago, thank you for your question. We have a very clear stated policy for dividends in the company, so we will be paying dividends in the future according to this policy. It doesn't mean that it will demand all of our cash flow for this payment. For the decision what to do with the additional, it will be made in any given moment comparing alternatives.

This time we decided to make a buyback because it was clearly the best option for creating value for shareholders, and we are going to continuously do that. Nevertheless, we announced investments in Voisey`s Bay. Why? Because we think that the return on investments there is such that we will certain going to create value to shareholders.

There is not such a thing in our mindset that is a growth season or a dividend season. Actually, we have a dividend policy and we are going to use the excess cash either to distribute more, or with buybacks, or in projects, if any, and if the returns are deemed adequate. So, the decision will be made at any given moment.

Thiago Lofiego: Okay, that's clear. Thank you, Fabio.

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

John Brandt: Hi, good afternoon and congratulations on the results. I first wanted ask about the freight rates. There is some new legislation coming in in 2020 that will require lower sulfur content. I know that you've, to some extent, mitigated that with the new freight contracts that you had in your result today. I'm just wondering how exposed you are to this, if you look at the current fleet of vessels, is this something that is still an issue and what is that if you could take to mitigate that?

And then secondly, for Luciano, I'm just wondering if there is any more to do on a liability management side and how we should think about interest expenses, obviously they will continue to come down in the next quarter or 2 as you pay down net debt, but is there anything left to do on the refinancing side or are there other liability management options that you are considering, you know, perhaps buying back the stake in MBR or debentures? Thank you.

Peter Poppinga: John, thanks for the questions. It's Peter speaking. So, as you pointed out, this is something important, structurally shift coming in January 2020 the IMO, and Vale`s action plan is to progressively install scrubbers in order to progressively depend less on the low sulfur oil because we don't know how fast the refineries will react to this new demand.

But, as a rule of thumb, in a nutshell, you can work with the following equation: So there will be an increase in costs, let's say, the low sulfur oil costs US$200 more than the high sulfur oil it is spread if you believe in that, then the average freight cost that we have today will be roughly the same if you take into account this effect as the average freight in 2023, because what we're going to do, scrubbers will reduce this delta, this gap to the low sulfur in US$1.8, the new Guaibamax coming, this third generation we just announced will also reduce it in US$1, and the Valemax second generation, which is coming on stream now, we already have 7 in the sea, it is also reducing US$1.

So, all this together, the scrubbers, the Guaibamax, the third generation and the second generation of Valemax coming in, will compensate this increase in the spread between the two oil categories, provided… there is always the worst case, if of course the refineries react and the spread narrows, then we will be much better off. Thank you.

Luciano Siani: John, on liability management, we continue to look into and to do liability management. If you look at the statement of cash flow, you will see that we actually retired US$2.6 billion in debt this quarter, but we issued another US$700 million in debt. Some of the capital providers now are coming to us with very cheap and low attractive rates, so we continue to extend the duration of our debt, some of these are loans that we made or replacing others that were to mature in the short term.

So, yes, we will continue to do that exercise, we will continue to have loans which cost more than they should given the current financial position of a Vale, and as regards MBR, it is one of the main alternatives that we have to use our capital and we will be comparing this to other alternatives that we have in order to make a decision on the MBR stake.

John Brandt: Thanks, Luciano. Thanks, Peter.

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

Alex Hacking: Hi, good afternoon and thank you for the questions. First, I just wanted to follow-up on the freight, Peter. I just wanted to clarify the new ships with 62 million tons of capacity, will that be incremental freight capacity for Vale or that will be replacing some other long-term contracts that were rolling off?

And my second question is just broader to your capital allocation. Could you maybe discuss the framework when you're deciding about capital return on buyback first as dividends? Thank you.

Peter Poppinga: Hi Alex, no, you are right, this third generation we just announced, the 48 ships, which we are calling Guaibamax, 325 dwt , that's new capacity coming and will be replacing of course some older contracts or even some capesize. They are very large ore carriers and they come on top of the existing fleet.

Fabio Schvartsman: Just to clarify, your second question was regarding dividends against buyback, right?

Alex Hacking: Sorry, the question is how you… when you return capital next year above and beyond the stated policy, how will you decide between buyback and dividends? What's the framework for that decision Thank you.

Fabio Schvartsman: That's a good question. I can explain you how we reached the decision to say dividends according to policy and have an additional through a buyback. And the reason in this moment was basically the following: We have just announced this new policy, it was, in our point of view, very important to demonstrate that this is a policy that is here to stay, and we are going to follow this policy. Therefore, we thought it would be better in this moment not to add more dividends, but, instead, to give it back to shareholders through a buyback that is equally at the benefit of the company and, more importantly, it gets a very important sign of how the management sees the future of Vale, because we are very positive in the return on the investment that we are going to make in this buyback.

What is going to happen in the next year (that this is a flexibility that we are going to hold) it will depend on evaluating the situation in any given moment, and we are going to analyze and see which is the best for the company to pay more dividends than the policy or should we pay more through buybacks again, but this will be decided when the time comes.

Alex Hacking: Thank you.

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

Grant Sporre: Hi, good afternoon gentlemen. Thank you for my questions and congratulations on the good results. I have two questions, please. The first one is regarding your Coal division. First, if you can just give us an outline as to how you see the best division sort of improving its performance going forward. And attained to that, if you can give us some guidance on the costs, so how we should think about the costs going forward, particularly the Nacala tariffs.

And my second question is just in the iron ore division, under a scenario perhaps in the second half or later in the year if we have a, let's say, a slowdown in the market, would you still… are you still flexible to being able to take down some tons in the southern system perhaps to, let's say, support the market or be a little bit more market-friendly? Those are my two questions, thank you.

Peter Poppinga: Okay, Grant, thank you for the question. Let me start with the iron ore, if there is a slowdown in the market, which we don't see coming so soon, but if there is something cyclically happening, yes, first thing we would do is to reduce our third-party purchasing, which is around 10 to 15 million tons a year, and second, yes, in the southern system ore or in other small mines we have mines we could reduce or shut down temporarily, where we have the lower margins. So that's a possibility and that's our flexibility, and then we would manage, of course, our contracts through our offshore inventories.

Regarding the Coal, the Coal actually we have some success, we are thinking about 2018, this year, as a year of stabilization, a year of trying to put things in order with the philosophy of the iron ore business, the iron ore drives helping the coal price to achieve that.

We had already good progress in the commercial front, where the price realization is getting better and better, the Opex came down a little bit this quarter, but what we're doing is deliberately fixing some problems and deliberately maybe sometimes slowing down some areas.

I give you an example: We have some waste, strip ratio was behind schedule in some specific areas, so we took the decision to recover that strip ratio to normal levels, and we are […] much more in order to get to better planning possibilities as well as one very important thing, which also affects the mix, the yields of metallurgical coal to thermal coal, which is slightly below 60 now.

This is the decision we took, to mine out a certain pit called Souza Pinto where there is some ore still there, but we need to mine that out in order to use this pit for the new tailing dams to avoid to build the new tailing dams.

So, you see, there is lots of actions we could mine better, but we are deliberately going for the more sustainable preparation for 2019 in order to be more sustainable operation. And if you take out the tariffs for the loans, the project finance instruments, if you look down the road, we see Opex around US$60 a ton.

Luciano Siani: And the tariff also has an important fixed cost component, so therefore, with increased volumes should come down, we are expecting it to stabilize between US$20-US$25 per ton.

Peter Poppinga: Which added them to the US$60.

Luciano Siani: Exactly. And the return to Vale between US$5-US$10. So, all in, it should be a pro-forma cost that you can see in the release around US$80 per ton.

Grant Sporre: Thank you very much. Just to clarify, so the tariff is basically a fixed cost, it's not a variable cost?

Luciano Siani: It has variable components as well because the logistics corridor has to pay some… has some obligations of the concession which are variable, you may argue that some of the maintenance costs are variable as well depend on volume because it pays for everything, there is 2 components, but the debt service component is mostly fixed.

Fabio Schvartsman: So, most of it is fixed.

Luciano Siani: Yeah, so most of it is fixed.

Grant Sporre: Got it, okay, thank you very much.

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

Alfonso Salazar: Thank you. My question goes back to future growth. I understand that right now the priority is in dividends and the buyback, but if the opportunity arises later on to grow through M&A, is there any preference in terms of commodity or any possibility that Vale diversifies? I understand you want to be less exposed to iron ore in future. So, what do you think that could make sense for Vale's portfolio? And regarding the logistics and energy, what are your plans to unlock value there? Thank you.

Fabio Schvartsman: Alfonso, thank you for your question. Regarding the diversification, it is important to emphasize that we are totally dependent upon the work that Eduardo Bartolomeo will do in Base Metals, because this is our real diversification, this is what we will be looking for: Is to increase the stake of Base Metals in our total cash generation.

So, yes, we want to be more diversified, but the diversification has to happen internally through the effort that we already made in the past. We are not looking into any other acquisition that will represent a diversification additional to the company.

Alfonso Salazar: Thank you, and regarding the logistics and energy portfolio that you own?

Fabio Schvartsman: Actually, our policy for Energy is a very clear one: We want to be self-sufficient in the production of energy because in Brazil regarding taxes and transportation cost is very efficient return wise when you are self-sufficient, and we are far from that, that means that we have a lot of opportunities to increase our stake in energy for the purpose of reducing our total cost in our operations.

In Logistics, we are, again, in the opposite position, we want to increase our stake in VLI as of today because we think that VLI is a very good operation, with fantastic upside. So, if there is an opportunity, we are going to increase and not decrease our participation in VLI.

Alfonso Salazar: Excellent, thank you very much.

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

John Tumazos: Thank you very much. I am a shareholder and I couldn't be happier. The production in the first half was below the rates of the Vale Day guidance December 6 to each product line. Will the second half catch-up?

And first half rate was 35% short in coal, what do you think the total coal production will be this year and next year?

Peter Poppinga: Hi John, thanks for the question. Peter speaking. Yes, what we think, and we are keeping our guidance of around 390 million tons production in this year, that means in the second half of this year we are going to produce in both quarters we are going to produce over 100 million tons. For your information, in June we already are close to this pace.

Regarding Coal, we are really analyzing during this quarter all the actions we have taken in order to recover the production loss, and we will probably then analyze it and (if the case) we are going to pronounce and talk about the new guidance in the next quarter. Thank you.

Operator: Our next question comes from Tyler Broda, with RBC.

Tyler Broda: Yes, thank you, thank you very much for the call today. I just have a quick question perhaps for Peter, just on the changes in the iron ore market. We've seen a big increase in the discounts for elements like alumina and phosphorus. Following them, if you could just describe, in your view, how much of this is Minas-Rio being out of the market, or is this more just the natural progression now with the change in the blast furnace size in China?

And I guess, in your view, what level of profitability would you need to get to in China to move the market away from the structural trends that we've seen recently?

Peter Poppinga: Hi Tyler, thanks for the question. I stated in the previous call that I do believe this is a structural trend, it has to do with three facts actually: The fact that the Chinese concentrate, which has a very low alumina silica ratio dropped and went out of the market substantially in the last years; Vale itself took out some high silica products which happens to have a low alumina too; and then there is the whole depletion going on and will get worse (not in terms of quantity, but in terms of quality, alumina wise, phosphorus wise in Australia), therefore, I don't expect this to change so drastically.

That explains also why our new product flagship, the Brazilian Blend Fines, which next year will become our biggest volume of sales, why this is so successful, we are achieving premiums of US$5-US$7 over the 62 benchmark, we also have developed a niche product called Low Alumina Sinter Feed, which comes directly from Tubarão, and this is achieving actually US$10 premium in certain segments.

So, we believe this is here to stay and it's actually what we believe is (if there is a change in margins of stillness or in the coke price, which will actually reinforce the existing transfer productivity which comes from the supply-side reform). So, we don't see this change, and it is a tremendous opportunity for Vale to differentiate itself, this is what we're doing, we first differentiated ourselves with 65 Carajás premium and now we are going to differentiate further progressively with the Brazilian Blend Fines in terms of low impurities. Thank you.

Operator: Our next question comes from Aman Budhwar, with Westwood International.

Aman Budhwar: Hi, thank you for doing the call today. Actually, my question that I had in mind was along the same lines of the previous question. In the second quarter you had average premium of US$7. I just wanted to know what you think are the sustainable premiums.

And also, if you can comment on your competitors, we've heard various recent pieces of news of other players also trying to adhere their product, and you did mention in your previous remarks that Australian product is depleting. But if you can talk about any of your competitors and their strategy and how they might benefit from this to the detriment of Vale, if at all.

Peter Poppinga: Hi Aman, thanks for the question. Yes, this is a trend, of course, nobody's standing still, what you see is lots of initiatives happening in Australia, FMG announced their Eliwana project, which has a high Fe content, you have others like the BHPB and Rio announcing South Flank and Silvergrass, and then you have the Yandi depletion coming looming in the next years.

So, this means that there is a structural… the quantities will be there, but the qualities will be different, and they may achieve the same Fe content, but the impurities will not be the same, that means the alumina silica ratio will go up, which helps our premiums, and that's where we differentiate ourselves.

So, you mentioned the US$7 premium in this quarter, and it will go up, it will go up in the next… of course, cyclical elements will be there, but it will be going up. For instance, the new BRBF we are selling to the market we have some contracts where we don't have these premiums right, and we are company honoring our contracts, but the market will, in the next quarters and years, realize that this is a new trend and it will be priced accordingly to the benefit of everybody.

So, I think we are in a very good moment and, again, we are differentiating ourselves from our competitors through the premium products.

Aman Budhwar: If I can add…

Fabio Schvartsman: Sorry, just a second, I just want to complement, what Peter has just said just to emphasize it and make it clear. The factors that we are going to increase our price realization, our premiums, are: First, we have more volumes coming out of Carajás; second, we have more pellets production coming into streaming in the next few quarters; third, we have this BRBF that was explained by Peter that we are going to renegotiate contracts and, therefore, during time prices will react accordingly to the premiums that the markets are seeing today.

So, all in all, all these movements translate into premiums increases during time. So, we are very pleased with the fact that we are going to see in the next quarters, for instance, that premiums will continue to increase.

Peter Poppinga: And just to finalize, Aman, the other fear that the market has is that Carajás will have excess volume coming because we are still ramping up in S11D. That is not a concern for us anymore, we are completely sold out in terms of Carajás for the next years, we are selling Carajás into different segments, like the Eastern Europe, like some volumes to India, we are feeding Carajás fines into our own pellet plants in order to maximize productivity, and in China it is opening up a big opportunity for us since China is investing very much into the pellet business because of the pollution, because of the supply-side reform, I don't know if you know, but they are investing roughly the capacity of 50 million tons, new capacity of 50 million tons of pellet production capacity in China, with traveling grate technology, which means they can use hematite ore. This 50 million is the size of the whole Vale of pellet business, is 50 million tons.

So, where is the feed going to come from for this new capacity? And we hope, and we expect that part of this new demand would exactly come from the Carajás fines, which will be ground and will, therefore, be absorbed by this new market opportunity. So, no excess volume at all anymore in the market of Carajás fines.

Aman Budhwar: This is a follow-up to that in terms of investments happening in the Chinese market. We've also heard various reports about them investing in electric arc furnaces and developing the scrap market, which at a long-term would be a threat I guess to the iron ore market as a whole, and especially to Vale.

In the short term I guess that's not different, what we've heard has not taken up as much due to the cost differential of scrap being higher, but do you think that is a threat that, of course, the market is worried about, but is Vale concerned about the threat from electric arc furnaces taking up market share from blast furnaces in China?

Peter Poppinga: I think, of course, there is this element structurally there, but China will have more obsolete scrap generated in the next years, but the scrap story is a really long-term story, it is roughly 10 years out, and it has to be structured first in China, first of all the electric arc furnaces, the energy, the energy is not cheap in China, so electric arc furnaces they use lots of energy, the scrap distribution channels in China are not organized. So, of course, there will be some effect, but I don't expect this to be in the short or medium term, it will be in the long-term.

Fabio Schvartsman: In this movement, they will need at least a portion of pellets of high quality for the production of steel in electrical furnaces, and therefore, the feed for it will mostly come from where it is going to come today; from Vale.

So, it is obviously always a concern, we are following very closely, but not only it is a long-term concern, but even when and if it happens the market will adapt to another structure, as it happened in the US, where we are selling pellets to all the electrical furnaces there.

Aman Budhwar: Thank you.

Operator: Our next question comes from Gustavo Gregory, with Bradesco BBI.

Gustavo Gregory: Hi, good morning. I have a quick question regarding the debt. I'm trying to understand here, with net debt target being right around the corner, should we expect further reductions in gross debt? And to that point, where would the company place gross debt reduction in its priority vis-à-vis other capital-intensive activities, such as extraordinary dividends or the purchase of new shares or even the purchase of new assets?

Fabio Schvartsman: Look, in the same proportion that we are reducing net debt we are going to reduce gross debt. That means that it is a total priority, it is being performed this way and we will continue to be performing this way.

Gustavo Gregory: Okay, thank you.

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

Marcos Assumpção: Hi, good morning everyone. A quick question, quick follow-up on the BRBF, Peter. The premium on BRBF is quite new to us and it has varied a lot in the recent months according to the chart you put in the press release, so it was below US$2 in May and above US$10 in July.

So, if you could explain to us the main reasons why it varied so much and what is the sustainable level that you think it should be in place going forward.

And a second question for Eduardo, you mentioned in the previous call about the trend of electric cars becoming a reality. So, I'd like to hear from you what is the company's view on the size of the potential market and where would the growth come from. Thank you.

Peter Poppinga: Thanks for the question. Look, the BRBF is in fact a recent story that it becomes so explicit in the market, but it was always there. The difference is that we have changed our policy in terms of sales, we are not selling an index anymore, we are selling at fixed price, that means that the BRBF is becoming part more and more of the price formation of the 62 index, okay?

And the reason (that is the first answer) why is it becoming so clear now and the reason why it happened two months ago is simply the fact that if you look at stock pile sitting in China you see that Australian material is piling up and Brazilian material is decreasing, and that's not because Brazil is not delivering the volumes, it is because the demand of Brazilian ore is higher than the demand of some of the Australian ores, and that means the premiums.

That's why I'm saying on the depletion, I told the alumina story, there is some fundamental unbalanced in the market, which now becomes very explicit, and the market will have to react to that. For the moment, market is reacting giving Brazilian Blend material higher premiums. We expect them to increase a little bit in the future, and then probably stay at those levels.

Eduardo Bartolomeo: Okay Marcos, just to give you some clarity on this story, I think it is […] inside Vale, we believe it is coming, let's say, […]. The question is, always how fast and how big is this trend.

This year we are talking about a 38,000 ton demand for our batteries, from pure nickel for batteries, so it's almost… I wouldn't say irrelevant, but very, very, how can I say, not an impact. But taking scenarios that we could go from aggressive to government decisions that are being taken around the world, we can see from 350 to 500 thousand tons of nickel. That takes all the excess capacity that has today in class 1 that is being fed into class 2.

So, we are positive, we always work in a conservative scenario to do our homework here, that has to be done, as we mentioned in the previous call, we need to organize our house to be ready for this growth, but the growth is coming, and mainly (as we are a China-addict) we believe this is a China play. Although there was initiative coming from the US and Europe is always concerned about the environment, I believe that the true vibe behind the growth of EVs is China due to a multiple factor.

It is relevant for the pollution, that is impacting iron ore, as we've been talking all the time, it is relevant for the geopolitical, so they are going to build a new industry around the EVs, which is relevant for their grid, they are going to have to storage all the renewable that they have.

So, for China is a no-brainer. They are already producing in a range of 1 million cars a year this year, it is obviously a gain, but it is a gain that we are really conservative on how we approach to this, so we are really focused on our homework to be ready for that.

Just to giving some numbers to you, now 38 and we believe it's going to be 350 to 500 thousand in 2025. Okay? Thank you.

Marcos Assumpção: Perfect, thank you very much.

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

Fabio Schvartsman: Thank you again or once more, it was a pleasure to have all of you in this call and I hope to have you back in the next one in the next quarter.

And only to finalize, I just want to emphasize that the company will continue to perform the same wayit has been performing, so the predictability and the stability of the company is there, we are hoping to get in the next quarter the same kind of results or even a little better than the results the company have delivered in the former quarters.

So, thank you so much for all of you and have a good day. Bye-bye.