VALE

Conference call and webcast presentation

1Q14 Earnings Release

April 30th, – 3:00 p.m. (RJ time) / 2:00 p.m. (NY time) / 7:00 p.m. (London time)

<u>Operator</u>: Good afternoon ladies and gentlemen. Welcome to Vale's conference call to discuss 1Q14 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 key followed by zero. As a reminder, this conference is being recorded. If you do not have a copy of the relevant press release, it is available at 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. You can access the webcast by logging on to the Company's website. The replay of this conference call will be available by phone, on +55 11 3193-1012 or 2820-4012– access code 7647771#.

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. Murilo Ferreira – Chief Executive Officer (CEO);
- Mr. Luciano Siani - Executive Officer of Finance and Investor Relations (CFO);
- Mr. José Carlos Martins – Executive Officer of Ferrous and Strategy;
- Ms. Vânia Somavilla – Executive Officer of Human Resources, Health and Safety, Sustainability and Energy;
- Mr. Galib Chaim – Executive Officer of Capital Project Implementation;
- Mr. Humberto Freitas – Executive Officer of Logistics and Mineral Research;
- Mr. Peter Poppinga – Executive Officer of Base Metals and Information Technology; and
- Mr. Clóvis Torres – General Counselor.

First, Mr. Murilo Ferreira 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. Murilo Ferreira. Sir, you may now begin.

Luciano Siani - This is Luciano Siani speaking. I'm going to do the introduction and Mr. Murilo will be coming back to join us for the Q&A session. Thank you for joining the call to discuss our first quarter results. We're pleased to report that Vale had a solid operational performance in the first quarter. That was the best performance for a first quarter since 2008 for iron ore in terms of production, we also had record production ever for nickel, by the way, just 200 tons short of leadership in the market, record production for coal for the first quarter as well. Positive progress across all of our business segments, despite the usual seasonal effects of the beginning of the year, especially weather related, and despite the more challenging pricing environment.

Also as good news, in April, Moody's, the rating agency, have changed our rating outlook from neutral to positive with several nice comments about the way the company has been managed and giving us more confidence that we are in the right track. Therefore, we are continuing our efforts to make Vale a more efficient company in every dimension to create value for shareholders.

In terms of financial performance, we had an Ebitda which was close to US$ 4.1 billion, special mention must be given to the base metal division which contributed with U$ 549 million to our Ebitda and is still improving. That Ebitda was realized with an average nickel price of US$ 14,200, which is far off to the level that we are observing the market right now closer to US$ 18,000 per ton. Overall across Vale we reduced cost and expenditures, net of depreciation and excluding the effect of the gold stream transaction of the first quarter last year, by US$ 218 million, in comparison first quarter to first quarter. This was due to our continued cost cutting efforts throughout the company. If you look at expense side net of depreciation, SG&A decreased 20%, R&D decreased 15%, pre-operating and stoppage expenses decreased 33%, so giving confidence also that we will achieve our guidance for a 50% reduction for stoppage expenditures this year.

Capital expenditures were US$ 2.6 billion in the first quarter, sustaining Capex around US$ 750 million, also 24% less than in the first quarter of 2013. As a result of this capital discipline and recovery in working capital, we had a fall in net debt to, by US$ 1.3 billion this quarter, just over US$ 23 billion, our cash position stood at US$ 7.2 billion by the end of the quarter. Notwithstanding the fact that we did not yet have received the proceeds from the sale of VLI which guiding to our cash position just in April. And I'm talking about the each of the segments, in terms of iron ore, as I mentioned, we had record first quarter since 2008, 71 million tons, great performance in terms also of transportation of railway, shipments, so the operation system is functioning very well. And, however, we had sales volumes below potential, about 3 million tons, was a decision of Vale not to position those 3 million tons across the supply chain, but they are available for the sale in the coming quarters. Average sales price suffered with the US$ 14 fall in the Platt's reference price and also because of price provisions that I will address in more detail later, which had an effect of US$ 9.5 billion. Despite this short decrease in Iodex, the pellet premiums kept firm, and thus the pellet prices, realized prices, fell by just above US$ 2 per ton, despite the fall in Iodex.

Cash cost in iron ore keep under control, US$ 21.6 per ton. We are confident that we are going to keep reducing those as we dilute costs over a larger production volume, and as we move on with our cost reduction initiatives, and as we capture the fruits from S11D coming on stream at a lower cost level. Distribution center in Malaysia has already received the first Vale Max, we started to build inventory there. This will allow us to blend different quality ores in the near future, and improve our cash flow generation. And also we are successfully ramping up plant II in Carajas, part of the +40, and we are successfully also developing Serra Leste, which is commissioning it's processing facility.

In base metals, we are pleased to inform that we had excellent contribution to our results in terms of cash flow generation. Adjusted Ebitda, US$ 549 billion, 14% of our total Ebitda, about 300 million improvement in comparison to previous quarter. And, as I mentioned, with nickel which were substantially lower than the ones we're observing right now. The main projects are reaping up successfully, Salobo 1 reached close to nominal capacity; Onça Puma already generating Ebitda, about US$ 15 million; New Caledônia producing 5,600 tons in the first quarter, of which almost 3,000 tons in March alone, so we are gathering speed; and Long Harbour is expected to produce first nickel by the end of the second quarter, and start contributing for cost reductions across the business. So we are continuing to be confident that we will deliver the guidance of US$ 4 billion in Ebitda for base metals by 2016.

In coal, production at Moatize was the best for the first quarter. We had negative Ebitda because of the low coal prices, is a very challenging environment, and we'll continue to struggle with the rail import capacity, but we expect to resolve this with the logistics solution. The Nacala Corridor advanced in line with our plans, reached physical progress of 62% in the greenfield sections which are the ones, the main restrictions for the passage of the first train at the end of the year. So we keep targeting the last quarter of this year for the first train at the Nacala Corridor.

We continue to do our homework in the fertilizer business. We had savings of around US$ 166 million compared to the fourth quarter of last year, so, turning the business into positive territory, and we are also advancing partnerships discussions to maximize our strategic options for the business.

Well, no business can truly flourish if we do not take care of the employees, who together are one of our greatest assets. So we, within Vale, want to take this opportunity to repeat that all of the executive officers and our CEO are committed to achieving the highest possible health and safety standards in our operations.

So in summary, we continue to work towards streamlining our business, invest only in world-class assets to generate positive free cash flow in any price scenario, and to maximize shareholder value.

Murilo Ferreira - Now, before we move to question-and-answer, I would like Luciano to stay to provide further information about mainly some details regarding the iron ore prices in the first quarter of the year.

Luciano Siani - Well, there was a mismatch between the expectations and the realized prices that we have delivered. The page 12 of the presentation basically shows what happened. So, as you can see, there were some positive and negative effects. The Iodex fall is in everyone's mind, but the US$ 9.5 impact of the provisional price is the one I will address and I'll provide you with some summary calculations to allow yourselves to better estimate this impact in the future.

The sales that we made in the fourth quarter, so about 23 million tons, were sold based on the future pricing mechanism. To get to those 23 million tons we just have to get the previous release and multiply the total sales by the proportion that we told then that were sold under this future pricing mechanism. The best estimate that we had by the time we closed our books for the fourth quarter, for the price for these sales, was close to the last price observed in 2013, which was around US$ 135 per ton. So the revenues were booked in the last quarter for these sales based on this price. However, as ships arrived at the clients' ports, the actual prices were revised downwards because of the fall in iron ore price. So we had an average Iodex of US$ 120 per ton in the first quarter, when compared to the US$ 135 that I mentioned that were booked in the past quarter, we have a US$ 15 per ton difference. When you apply this to the 23 million tons you get to an effect, which is 327 million tons, which had to be removed from our revenues and impacted the average realized prices of iron ore in this quarter.

On top of that, the same effect, if you made the same calculations for the fourth quarter compared to the third quarter, was a positive one, around US$ 3. So the fact that we had a positive US$ 3 in the last quarter and now we're having a negative US$ 6.5 in this quarter leads us to a perceived difference between realized prices of US$ 9.5 just because of this effect. We apologize for perhaps not having communicated properly in the past, but we hope that with those explanations and anyone that we can give in addition to that, you can better estimate Vale future performance based on the information that we gave.

Murilo Ferreira - Thank you, Luciano. Let's go with the question-and-answer.

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 start key followed by the 1 key on your touch tone phone now. If at any time you would like to remove yourself from the questioning queue, press start 2. Please, restrict your questions to two at a time.

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

Carlos de Alba, Morgan Stanley - Thank you very much. My first question is regarding pricing, obviously. Could you please comment about the provisional pricing in terms of these shipments? Are they done under contracts or are just sales in the spot or perhaps even without a final customer when they are shipped from Brazil, and that's one of the reasons why this provisional pricing mechanism is used, or were they, there is with contracts, under contract? Can you comment what type of companies or in what market, I guess it's China, but could you confirm that it is mostly the Chinese companies who are buying on the provisional pricing. And my second question is, despite the seen on the performance of Ebitda level relative to expectations, we were positively surprised by cash from operations. And there were a couple of things we noticed there, first one was, about US$ 1 billion improvement in working capital coming from accounts receivable and, US$1.8 million, sorry, and I just want to understand what happened there, and how sustainable this improvement is. And also if you can confirm that a negative movement in working capital due to higher inventories of around US$ 800 million was related to the iron ore inventories that you built up in your Malaysia locations. Thank you.

Luciano Siani - Luciano speaking, before I hand over to Martins to comment on the commercial aspects of the sales, let me warn you that, in order to book a sale, and revenues, you need to have a customer assignment, that you cannot book revenue just because you put the iron ore on the ship and put it in the ocean. So this is very strict on that and this is, the auditors wouldn't allow us to do differently even if we, if one wanted to do that. Martins.

Martins - Exactly what Luciano said, the sale was gone, even we had the level of credits for it, so based on the provision of price, and the main market for these sales is China. The opposite to this situation would be to sell at the spot base, so at the end would be at the current price. So this mechanism was developed to have more stable sales, and more stable commitment from our customers in China, so that's the reason we developed this model of future price.

Luciano Siani - With regards to cash flow from operations, the reduction in working capital, it's big on absolute terms, but if you look at days of receivables, the reduction is not so dramatic. So a great part of it is the effect of receiving the sales performing in the fourth quarter, and then as you see, the sales in the first quarter are smaller than the sales in the fourth quarter, so there's a mathematical effect, but yes there is also some marginal improvement in receivables as well. So if you look at one year ago, a similar phenomenon also happened.

In terms of inventories, not only in iron ore production was above sales, but in other commodities as well. Because we had such a strong production in the first quarter, and not all of this production were sold either in nickel or in iron ore, so we are going to have more flexibility going forward. And a small portion of it, the small portion relates to the implementation of our ERP system, where we have anticipated some purchases of parts in order to be on the safe side, so when you put in a large system like that one, you'd better have a little bit more of a cushion in terms of your purchasing. So you should see the inventory accounts reducing in the coming quarters.

Operator - Our next question comes from Wilfredo Ortiz from Deutsche Bank.

Wilfredo Ortiz, Deutsche Bank - Yes, good afternoon everyone, just a couple of questions. I believe in the press release you mentioned that in terms of a number of your projects, they are pretty much going on their budget, is there a possibility that you might announce some Capex reductions going forward if this trend continues? And then my second question is regarding the Refis balance on the balance sheet, it seems to have increased quarter-over-quarter as opposed to decreasing despite payments. So I just wanted to get a better understanding of how this line item in the balance sheet should be progressing going forward as you continue to make payments?

Murilo Ferreira - Thank you for your question. I think that we continue working based in our budget project. For sure we have some saving, I think that it is very early to announce mainly in the south range, in S11D, but we are doing very well. Today the market is not so hot as it used to be, but then we can enjoy some merits, you can get some discounts. And I think that it's the same scenario that we are facing in Mozambique as well in the Nacala Corridor and the expansion in Moatize. It's right.

Luciano Siani - As regards the Refis balance, the reason why it has increased it's because the Real has appreciated against the U.S. dollar at the end of the quarter. So, the same reason why we recorded a positive results in financial expenditures. So the Refis expenditures, we decided not to head those to the U.S. dollar, so, because of the trending, if you see the trends in Brazilian economy, we believe that maybe the Real will continue to depreciate, actually it did since November when we made the decision. But, end of quarter compared to the end of quarter, the increase in balance it's only that, because of the appreciation of the Real. So, when it is translated into U.S. dollars, the amounts are a little higher.

Wilfredo Ortiz, Deutsche Bank - Got it.

Murilo Ferreira - Thank you.

Operator - Our next question comes from Mr. Alex Hacking from Citi.

Alex Hacking, Citi - Hi, thank you for taking my questions. The first question relates to the pellet premium which was very strong in the quarter. I wonder if maybe you could help understand why the wider pellet premium was so strong relative to the underlying price of fines which was kind of weaker than we were expecting. And then the second question will be on the nickel market, I don't know if Peter was there or not but, maybe an update on what's happened in Indonesia so far and, you know, what we think could happen to the nickel price over the next 12 months? Thanks.

Murilo Ferreira - Thank you. Peter, you can start with some comments regarding the nickel. I think that you have a good crystal ball to guess what the future is.

Peter Poppinga - Thank you, Alex, for your question. So regarding the nickel market, as you all know, we are definitely now in the new dynamics. We see the export band in Indonesia working very well, and if there was some doubt in the past that they would flexibilize those rules in order to allow some companies would be building smelters in Indonesia, allowing to export the ores were they would construct it, those doubts are now gone, it's very clear and the whole country supports. But you see today we have premiums going up. Although the LME stocks are still high, but the physical market is getting very strong, mainly the market, premiums are going up, and all discounts, were discounts in the physical market are all gone, this is on top of the LME development. Because LME then jumped roughly 30%, from 14 to 18, but the real, because people are anticipating, in spite of those talks, they are anticipating the expectations and adjusting, of course, the price. But the main game, and it's not so transparent, but if you want to really to know what's happening in the nickel market, you look to the ore, to the nickel ore market. And there you have seen, because ore from Indonesia can't go out anymore, so people are turning them south to the Philippine's, although they don't have the right ore in terms of nickel pig iron, but in terms of ore, nickel ore prices actually have doubled in three months, and so this is the real indicator that things are getting are very tight. So we're very, we knew this was coming, we are, we think that in the next months, the nickel price will still evolve, and definitively in 2015, there will be a shortage of nickel around 50,000 or even more tons as a deficit, which will, for sure, leads to prices distinctly over US$ 20,000. Thank you.

Murilo Ferreira - Thank you. Martins, please, about the pellets.

Martins - Well, first I would like to put in place two situations. Pellet prices bases in two points, one is the Iodex and the other is the premium itself, okay, and this is important. Another point is that we don't sell too much pellets in China. The majority of our pellets are sold in Brazil, America, Middle East, Europe, Japan and Korea. We barely sell pellets in China. So, the price formation for pellets is not affected by this provisional price or future prices that we have in iron ore. So all the sales of pellets are based in the present quarter or, even, in the former quarter. So then we don't have this impact of the prices going down as we have in iron ore. As far as the premium part of the price, it's very stable, because the market for pellets is rather balanced, and so the conditions for the premium is good. The premium for pellets today is above US$ 40. So that is the situation that makes for things for pellets completely different of things that we have in iron ore today. So basically is related to these different markets we work and different pricing mechanism that we have for pellets. But anyway, it's good, the performance for pellets is good.

Murilo Ferreira - Thank you.

Operator - Our next question comes from Mr. Rui Dias, from Espírito Santo Bank.

Rui Dias, Espírito Santo Bank - Hi, good afternoon all. Just one question here on the physical progress of S11D. You say on your report that physical progress is at 50%. If I look, and correct me if I'm wrong, please, if I look at your theoretical plan, or physical evolution plan, we should be expecting a 65% of physical progress by now, this is a 15% difference. I think it should be a delay of around nine months. And the question is, can you offset this delay if in fact it is a delay and if this is not going to cost you an extra Capex? This is the question. Thank you.

Murilo Ferreira - I will ask Galib Chaim, who is in charge of our projects, to answer you.

Galib Chaim – We, according to our plan, we don't have any delay in our project. We are developing all the works together with the contractors according to our plan. The earthworks in the mine and the plant, it's progressing very well. Our forecast for the railway extension, it's also progressing well. Indeed, we have the first section being delivered today, 8.3 kilometers of the railway expansion will be delivered today. And the onshore and offshore construction is also progressing very well, according to their plan, and we still on our track and the start up for the mine, the production, the spur will be in the second half of 2016 without any delay. So far we don't have any, we don't expect any delay in our production for the S11D.

Murilo Ferreira - And by contrary, it's not time to announce, but at this point of time, we have some savings. It's not the right moment to announce, but the project is doing very well in the financial perspective as well. Thank you.

Operator - Our next question comes from Mr. Tony Rizzuto from Cowen & Co.

Tony Rizzuto, Cowen & Co. - Thank you very much. Hi, everyone. My first question is that, regarding China, and a lot of discussions about the shadow banking system, I wonder what your thoughts are about how much of the inventories are tied up in financing arrangements, and how do you see this playing out? My second question is in regards to the recent Brazilian court ruling on foreign tax disputes. What are the next steps we should be looking at? And will you ever be compensated for the monies that you have paid out thus far? Thank you.

Murilo Ferreira - I will leave with our Legal Counsel, Clóvis Torres, in order to answer your question.

Clóvis Torres - Good afternoon, Tony. We had a favorable judgment at the Superior Court and we got three votes out of five, one was declared conflicted. And then now we have to wait until the decision is published for us to decide on our next steps. The press has been saying that the tax authorities will appeal. We have to wait to see what will be their reasons for the appeal, but so far, what we have is a very important decision, it's very difficult to be reverted and the decision actually deals that the Brazilian government has no right to tax revenues that are originated from countries with which they'd find double tax treats. So this is a decision and that we have been defending from day one. In a way, we are very happy with it but the next steps will depend on whether or not the tax authorities will appeal.

Murilo Ferreira - Regarding the financial markets in China, it's absolutely important to say that 80% of the market is in the hands off the government with the top four banks. We have the shadow bank, the local banks, they are struggling today in order to continue with the same level of transaction, but we need to consider that 80% in hands off the four top banks. Martins, you could add some further comments?

Martins - I do not see any reason why the shadow bank situation could impact iron ore market. What have is some monetary policy in China that are restricting money supply and all the business in China are being affected by that. In case of iron ore, as we have a lot of traders, not only iron ore but also steel, in China, it is mainly sold by traders, so you have a lot of financing in this area. So the market will be affected accordingly, but I don't believe it is a permanent impact, is something transitory until depending how longer it will take for the Chinese government to put some solution in this financial situation, shadow bank and so and so.

Murilo Ferreira - Thank you.

Operator - Our next question comes from Mr. Rodolfo de Angele, from JPMorgan.

Rodolfo de Angele, JPMorgan - Hi thanks again, just two questions, two follow-up questions actually. First, on iron ore we discussed a lot the S11D project but I wonder if you could just give us an update on the volumes coming from the former additional furnace, and also about how the Itabiritos projects are coming at along. And my second question would be to Peter on the base metals. I think, you know, investors have been focusing of course on prices of nickel and that's of course extremely good news. But I just wanted to hear from you what are you expecting in terms of cash flow generation, mainly as I understand Capex levels should be substantially lower going forward. So, could you just comment on that as well. That's all, thanks.

Peter Poppinga – Okay Rodolfo, thanks for your question. In terms of cash flow generation in base metals, you are right to say we shouldn't rely only on prices and I think you have seen that we are doing our homework. And our operations would be all positioned once they are rumped up in the first and second cost quarter, that's already clear. We gave a guidance sometimes ago, it was actually for the next five years, but now in the press release we have a guidance for US$ 4 billion Ebitda by 2016, all right. This was based on prices like they are today. If you have higher prices, which we believe, firmly believe, it's the case, you'll have to add of course, for every thousand in nickel price, since we have produced close to 300,000 tons, you have to add roughly 300 million. But, so, this depends on the price, 4 billion we think it's very achievable in 2016 under the current price scenario, but we know the price will be higher. And so, Salobo will be close to 1 billion, Sudbury is a 1 billion operation in terms of Ebitda, and we have PTVI is 700,000. VNC is ramping up now well and people maybe don't realize that we, in March, we were at 60% of capacity. And once fully ramp up, the VNC will also contribute 500 to 600 million to the Ebitda. So we are very confident that 4 billion is very achievable, but probably more, because of the higher prices in the future.

Martins - Okay. As part of this project, S11, +40 is under development, because we have already the mining operation, the concentration equipment operation, is everything okay. We are ramping up the logistic area in order to have additional capacity in the logistic area until the end of this year, and we expect next year to operate +40 completely full capacity. As far as Itabiritos, Conceição is ramping up according to the plan, it's moving very well. Also we are starting up the number eight pellet plant in Vitória. So, as far as these projects that are now under commissioning in iron ore, we are okay with them.

We have the new projects that will be developed in the next years, and not only S11D, but we have Vargem Grande Project and other Itabiritos projects in the system that will enter in operation next year. So everything is under the schedule, and we do not see any problems in this regard, according we previously informed you during the Vale's Day in New York. There is no change in those plans.

Murilo Ferreira - Thank you, Rodolfo.

Operator - Our next question comes from Mr. Ivano Westin from Credit Suisse.

Ivano Westin, Credit Suisse – Hi, thanks again for another question. Just wanted to do a follow-up on the Portuguese call, Martins mentioned that the iron ore supplies coming to the market, and you are forecasting a 3% to 5% cost of production growth in China, and a demand not as strong as before. So, in this scenario, just wondered what is the expectation of Vale in terms of iron ore price for the second half of the year? Thank you so much.

Martins - We expect that the price in the second half will be better than the first half. One thing is for sure, the price will not go below 110 on a sustainable basis. I think we have many times seen the price going below this level, but recovering very fast. I think in the second half there is a possibility for better price, but sure we will need a better performance on demand, because supply is almost given now, so we know all the mines that will enter into operation, so we know how many ore will come to the market. So this is, it's already done, already given. So it will depend on the demand side to improve not only in China, but outside China. We see some better figures in Europe, economically speaking, not in the steel and iron ore market yet, but we believe that we will reach this point. So we really believe that we are going to have a better second half. Anyway, I don't believe the price will go below 110 because those are the level that many producers, mainly in China, will leave the market. So I think the price will be in this range, with the potential to be above this level, depending upon on the demand behavior.

Operator - Our next question comes from Mr. Marcelo Aguiar from Goldman Sachs.

Marcelo Aguiar, Goldman Sachs - Yes, hi. Thanks again for the opportunity. So, focus on cost a little bit, just, I'm giving you still have a lot of new capacity coming online in the second half of this year and the beginning of next year. I mean, assuming the all variables constant, I'm talking about oil prices, currency, so forth, how do you see the average iron ore cost of Vale in 2016 when you compare to 2014? I'm talking about the cost that you guys reported on the press release at US$ 22, US$ 21. And the same thing would be for nickel as well, how do you guys see this cost evolving before by products?

The other question will be more on Simandou. I mean, I wonder, would like to understand what's going to be the future of Vale in Guinea. I mean, will Vale is leaving Guinea for good, or Vale will, you know, file injunction against your partner to try to get back cash that you paid? And you recently had the news of Rio Tinto filing against you guys in New York. So also in this topic, I mean, if you can comment about the potential impairment you guys can do and if you can already going to be doing this at the second quarter. So just a general update on Simandou, present, past, and future, and about the cost. Thank you.

Murilo Ferreira - About Simandou, about the Guinea issue, it was expressed by the Committee and by the President as well that Vale did not commit any kind of mistake, I mean, something wrong. The President Alpha Condé said that Vale can bid to get the permit gain. And we know that, in the end of this process we will analyze because, for sure, we believe that our former partner in Guinea will go to the court in order to discuss the subject, and I think that it is very early to, to call any comments. Regarding the Rio Tinto issue, I'm not aware about the contents, we need to analyze before trying to comment something. Thank you.

Luciano Siani - Well, on costs, as you mentioned, the biggest lever to cost reduction on a structural basis for 14 and 15 is cost dilution, and that is applied to both iron ore and to nickel. In nickel also you have some industrial optimizations coming, you have Long Harbour coming in, you have core, the optimization project, which you have to have all its effects to be felt. But in iron ore certainly a good assumption to make some calculation, that's what we are targeting, is to consider that the additional production that will come will come more, this marginal production, will come more closer to variable cost than to the total cost. And then you have a dilution effect over the larger production base. So, we hope that we can get closer to the physiological US$ 20 mark and eventually to pierce that once S11D comes in.

Operator - Our next question comes from Mr. Rene Kleyweg from Deutsche Bank.

Rene Kleyweg, Deutsche Bank – Good afternoon, gentlemen. A couple of questions. One, in terms of the tone, as regards potential progress with joint venture partners, that seems a little bit more conservative in terms of your expectations, is there any color that you could add there? And then the other point would be just in relation to VNC. We have the 40,000 ton production guidance on Vale Day with first quarter production just under 7,000. I was just wondering where we were in terms of being on track or whether that 40,000 target for the year was at risk. Thank you.

Murilo Ferreira - Peter, please.

Peter Poppinga - Thank you, Rene, for the question. Regarding VNC, as we reported that we had almost 6,000 tons nickel produced in the first quarter. But you must remember that last quarter we had this pipeline incident, no environmental damages, but we were down. And so once you restart a plant like that you don't produce normally in the first month. So January was not very strong and we had also big problems with weather cyclones. So it means that you can take March as a good reference. We were producing with three autoclaves, sometimes with two autoclaves, and with two FPRs, producing at 60% of the capacity. And so we are confident that the rhythm is going in such a way that we are keeping the 40,000 tons focused.

Murilo Ferreira - About the transaction, the M&A transaction, I can tell you that we are absolutely committed in delivering, as promised, in the end of June regarding the Nacala Corridor and the coal assets as well. For sure it's not just in our hands, but we are working hard and at this point of time I don't need any change about the agenda that we presented to you.

About fertilizers, until the end of the year, it's much more challenged in the strategic perspective because we needed to analyze different concepts. I think that the contest is different as well, but we think that we can deliver. But for sure, the coal and the Nacala Corridor, in three months time, I think that we are much more confident that, more confident than ever, that we will be able to deliver. Thank you very much.

Operator - This concludes today's question-and-answer session. Mr. Murilo Ferreira, at this time you may proceed with your closing statement, Sir.

Murilo Ferreira - Thank you very much, I think that it's very clear that we'll continue to work with huge discipline in capital allocation, trying to reduce our cost, SG&A, R&D, and doing the right investment, and delivering the projects on time, on budget and, if possible, below, and while working hard in order to deliver all the projects below budget. And I think that I would like to ask to apologize for the clarification that we did regarding pricing. But it's new, it's something that is increasing, and for sure, we have some doubts, but today I hope that we have provided the full clarification in order to have good results aligned with your forecasts next quarter. Thank you very much.

Operator - Thank you. That does conclude Vale's conference call for today. Thank you very much for your participation, and have a good afternoon.