Q1 2014 Earnings Call

Company Participants

- Clovis Torres, General Counsel
- Galib Chaim, Executive Officer, Capital Project Implementation
- Jose Carlos Martins, Executive Director, Ferrous & Strategy
- Luciano Siani, CFO
- Murilo Ferreira, CEO
- Peter Poppinga, Executive Director, Base Metals & IT

Other Participants

- Alex Hacking, Analyst
- Carlos de Alba, Analyst
- Ivano Westin, Analyst
- Louis Diaz, Analyst
- Marcelo Aguiar, Analyst
- Rene Kleyweg, Analyst
- Rodolfo De Angele, Analyst
- Tony Rizzuto, Analyst
- Wilfredo Ortiz, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to Vale's conference call to discuss the First Quarter 2014 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. (Operator Instructions). 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 investor's link. This conference call and the slide presentation are being transmitted via Internet as well. You can access the Webcast by logging onto the Company's Website. A replay of this conference call will be available by phone on 55 11 31 93 1012 or 28 20 4012, access code 7647771 hash key.

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 Ferriera, Chief Executive Officer, CEO; Mr. Luciano Siani, Executive Officer of Finance and Investor Relations, CFO; Mr. Jose Carlos Martins, Executive Officer of Ferrous and Strategy; Ms. Vania 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. Clovis Torres, General Counsel.

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 {BIO 15951848 <GO>}

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. It was the best performance for the First Quarter since 2008 for iron ore in terms of production.

We also had record production ever for nickel, by the way just 200 pounds 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's being managed and giving us more confidence that we are on the right track. Therefore, we'll continue our efforts to make Value a more efficient company in every dimension and to create value for shareholders.

In terms of financial performance, we had an EBITDA which was close to $4.1 billion. Special mention must be given to the base metals division, which contributed with $549 million to our EBITDA, and it's still improving. That EBITDA was realized with an average nickel price of $14,200, which is far off the level that we are observing in the market right now, closer to $18,000 per ton.

Overall, across Vale, we'll reduce cost and expenditures net of depreciation and excluding the effect of the gold stream transaction of the First Quarter of last year by $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 the 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 $2.6 billion in the First Quarter, sustaining CapEx around $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 or by $1.3 billion this quarter, just over $23 billion. Our cash position stood at $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 got into our cash position just in April.

And now, 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, the railway shipments. So the operation system is functioning very well.

And however, we had sales volumes below (potention), about 3 billion tons was the decision of Vale not to position those 3 billion tons across the supply chain. But they are available for sale in the coming quarters.

Average sales price suffered with the $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 $9.5 billion.

Despite the sharp decrease in IODEX, the pellet premiums kept firm. And thus, the pellet prices, realized prices, fell by just above $2 per ton, despite the falling IODEX.

Cash costs in iron ore are keep under control, $21.6 per ton. We're confident that we're going to keep reducing those as we dilute cost 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 have already -- has already received the first Valemax. We've 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 Plat 2 in Carajas, part of the plus 40. And we're successfully also developing Serra Leste, which is commissioning its processing facility.

In base metals, we're pleased to inform that we had excellent contribution to our results in terms of cash flow generation, adjusted EBITDA $549 billion, 14% of our total EBITDA, about a $300 million improvement in comparison to previous quarter. And as I mentioned, with nickel prices, which substantially lower the ones we're observing right now.

The main projects are ramping up successfully. Salobo I reached close to nominal capacity. Also, Tubarao already generating EBITDA, about $50 million, New Caledonia producing 5,600 tons in the First Quarter, of which almost 3,000 tons in March alone. So we're 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 -- continue to be confident that we will deliver the guidance of $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, very challenging environment, and we continue to struggle with the rail import capacity. But we expect to resolve this with the logistic 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 restriction 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 $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.

So 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 {BIO 1921488 <GO>}

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

Luciano Siani {BIO 15951848 <GO>}

Well there was a mismatch between the expectations and the realized prices that we had 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 the -- everyone's minds. But the $9.5 impact of the provision prices 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 there 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 $135 per ton. So the revenues were booked in the last quarter for this -- the sale based on this price.

However, as ships arrived at the clients' ports, the actual prices were revised downwards because of the fall in the iron ore price. So we had an average IODEX of $120 per ton in the First Quarter. When compared to the $135 that I mentioned that were booked in the past quarter, you have a $15 per ton difference.

When you apply this to the 23 million tons, you get to an impact 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, it was a positive one, around $3. So the fact that we had a positive $3 in the last quarter and now we're having a negative $6.5 in this quarter leads us to a perceived difference between realized prices of $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 any one that we can give in addition to that, you can better estimate Vale future performance based on the information that we give.

Murilo Ferreira {BIO 1921488 <GO>}

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

Questions And Answers

Operator

(Operator Instructions) Carlos de Alba, Morgan Stanley.

Q - Carlos de Alba {BIO 15072819 <GO>}

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 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 -- these 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 Chinese companies who are buying under provisional pricing?

And my second question is your -- is in despite the theme on the performance at the EBITDA level (regarding) to expectations, we were positively surprised by cash from operations. And there were a couple of things we noticed there. First one was about $1 billion improvement in working capital coming from accounts receivable and -- $1.8 billion, 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 high inventories of around $800 million was related to the iron ore inventories that you built up in your Malaysia location? Thank you.

A - Luciano Siani {BIO 15951848 <GO>}

Okay. Because -- Luciano speaking before I hand over to Martins to comment on the commercial aspects of sales. Let me warn you that, in order to book a sale and revenues, you need to have a customer assigned. 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 one wanted to do that. Martins?

A - Jose Carlos Martins {BIO 1715332 <GO>}

Exactly what Luciano said, the sale was done. Even we had a level of credit for it, so based on the provisional price. And the main market for these sales is China. The opposite to this situation would be to sell at spot base. Okay. So at the end would be 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.

A - Luciano Siani {BIO 15951848 <GO>}

With regards to cash flow from operations, the reduction in working capital, it's been 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 performed in the Fourth Quarter. 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, similar phenomena also happened.

In terms of inventories, not only in iron ore production was above sales, but in other commodities as well. So because we had such a strong production in the First Quarter and not all of this production was sold either in nickel or in iron ore, so we are going to have more flexibility going forward.

And a small portion of it, a small portion relates to the implementation of our ERP system, where we have anticipated some purchases of parts and in order to be on the safe side. So when you put in a large system like that one, you better have a little bit of caution in terms of your purchases. So you should see the inventory accounts reducing in the coming quarters.

Operator

Wilfredo Ortiz, Deutsche Bank.

Q - Wilfredo Ortiz {BIO 6113152 <GO>}

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're pretty much going under budget. Is there a possibility that you might announce some CapEx reductions going forward if this trend continues?

Then my second question is regarding the (received) balance on the balance sheet. It seems to have increased quarter over quarter as opposed to decreasing despite payment. 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.

A - Murilo Ferreira {BIO 1921488 <GO>}

Thank you for your question. I think that we continue working based on our budget for each project. For sure, we have some saving. I think that it's very early to announce, mainly in the south range in S11D, but we are doing very well. Today, the market's not so hot as 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 you face in Mozambique as well in the Nacala corridor, in the expansion in Moatize. It's right.

A - Luciano Siani {BIO 15951848 <GO>}

As regards the (fees) balance, the reason why it has increased, it's because the real has appreciated against the US dollar at the end of the quarter, so the same reason why we recorded a positive result in financial expenditures. So these expenditures, we decided not to hedge those to the US dollar.

So because of the trend in -- 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 you translate it to -- into US dollars, the amounts are a little higher.

A - Murilo Ferreira {BIO 1921488 <GO>}

Thank you.

Operator

Alex Hacking, Citi.

Q - Alex Hacking {BIO 6599419 <GO>}

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 pellet premium was so strong relative to the underlying price of (fines), which was kind of weaker than we were expecting.

Then the second question would be on the nickel market. I don't know if Peter is there or not. But maybe an update on what's happened in Indonesia so far and what you think could happen to the nickel price over the next 12 months. Thanks.

A - Murilo Ferreira {BIO 1921488 <GO>}

Thank you. Peter, you can start with some comments regarding the nickel. I think that you have a good crystal ball to gather about the future.

A - Peter Poppinga {BIO 17245689 <GO>}

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 ban 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 who will be building smelters in Indonesia allowing to export the ores while they would construct it, those doubts are now gone. It's very clear, and the whole country supports that.

What you see today is we have premiums going up, although the LME stocks are still high, but the physical market is getting very strong. Mainly (they won't stay) in this market. Premiums are going up. And all discounts where there were discounts on 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 facts, 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 really to know what's happening in the nickel market, you look to the ore, for the nickel ore market.

And there you have seen because all from Indonesia can't go out anymore, so people are turning themselves to the Philippines, for instance, although they don't have the right ore in terms of satellite for 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 very tight. So we are very -- we knew this was coming. We think that, the next months, the nickel price will still evolve. And definitely, in 2015, there will be a shortage of nickel, 150,000 or even more tons as a deficit, which will for sure lead to prices distinctly over $20,000. Thank you.

A - Murilo Ferreira {BIO 1921488 <GO>}

Thank you. Martins, please, about the pellets?

A - Jose Carlos Martins {BIO 1715332 <GO>}

Well first I would like to put in place two situations. Pellet price is based 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 was good. The premium for pellets today is about $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, it's 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.

A - Murilo Ferreira {BIO 1921488 <GO>}

Thank you.

Operator

(Louis Diaz), Espirito Santo Bank.

Q - Louis Diaz

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 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.

A - Murilo Ferreira {BIO 1921488 <GO>}

I will ask Galib Chaim, who is in charge of our project, to answer you.

A - Galib Chaim {BIO 17562473 <GO>}

Yes. 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 is 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 the plan.

And we still on our track. And the fact that, for the mine and the production, this work 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 S11B.

A - Murilo Ferreira {BIO 1921488 <GO>}

And by contrary, it's not time to announce. At this point of time, we have some saving. It's not the right moment to announce. But the project is doing very well financial perspective as well. Thank you.

Operator

Tony Rizzuto, Cowen & Co.

Q - Tony Rizzuto {BIO 1490590 <GO>}

Thank you very much. Hi, everyone. My first question is 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.

A - Murilo Ferreira {BIO 1921488 <GO>}

I will leave with our legal counsel Clovis Torres in order to answer your question.

A - Clovis Torres {BIO 17711179 <GO>}

Good afternoon, Tony. We had a favorable judgment at the superior court. We got three votes out of five. One was declared conflicted. And now, we have to wait until the decision is published for us to decide on our next steps.

The press have been saying that the tax authorities will appeal. We have to wait to see what'll be their reasons for the appeal. But so far, what we have is a very important decision. It's very difficult to be reversed. And the decision actually deals that the Brazilian government has no right to tax revenues that are originated from countries with which they find double tax treaties. So this is the decision and that we have been defending from day one. So in a way, we're very happy with it, but the next steps will depend on whether or not the tax authority will appeal.

A - Murilo Ferreira {BIO 1921488 <GO>}

Regarding the financial market in China, it's absolutely important to say that 8% of the market is the hands of the government with the top four banks. We have the shadow banking. The local banks, they are struggling today in order to continue with the same level of transaction. But we needed to consider that 8% in hands of the four top banks. Martins, you could add some further comment?

A - Jose Carlos Martins {BIO 1715332 <GO>}

I do not see any reason why the shadow bank situation could impact out on our market. (What having) some monetary policy in China that are restricting money supply, and all the businesses in China are being affected by that.

In case of iron ore, as you'll have a lot of traders, not only iron ore, but also steel in China 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's a permanent impact, something transitory to depend how long it should take for the Chinese government to put some solution in this financial situation, shadow bank, and so and so.

A - Murilo Ferreira {BIO 1921488 <GO>}

Thank you.

Operator

Rodolfo De Angele, JPMorgan.

Q - Rodolfo De Angele {BIO 1541593 <GO>}

Yes. 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 40 and also about how the (inaudible) projects are coming along.

And my second question would be to Peter on the (inaudible). I think 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.

A - Luciano Siani {BIO 15951848 <GO>}

Okay, Rodolfo, thanks for your question. In terms of cash flow generation and base metals, you're 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 will be all positioned once they are ramped up in the first and second cost quarter. That's already clear.

We gave a guidance some times ago. It was actually for the next five years. But now, in the press release, we have a guidance for $4 billion EBITDA and by 2016. This was based on prices like they are today.

If you have higher prices, which we believe -- firmly believe it's the case, you have to add, of course, for every $1,000 in nickel price, since we are producing 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 (PDVI) is $700,000. (B&C) is ramping up now well. And people maybe don't realize that we -- in March, we were at 60% of capacity. And once fully ramped up, the B&C will also contribute $500 million 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.

A - Peter Poppinga {BIO 17245689 <GO>}

Okay. As far as this project S11 (put forth) is under development because we have already the mining operation, the concentration equipment operations, everything's okay. We are ramping up the (logistic area) in order to have the additional capacity in the logistic area until the end of this year. And we expect next year to operate the plus 40 completely full capacity.

As far as Itabiritos, Conceicao is ramping up according to the plan. It's moving very well. Also, we are starting up the number eight pellet plant in Victoria. So as far as these projects that are now under commissioning in iron ore, we are okay with that.

We have the new projects that will be developed in the next years, and not only S11D, but we have -- (working on) other projects and other Itabiritos projects in the system that we 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 Day in New York. There is no change in those plans.

A - Murilo Ferreira {BIO 1921488 <GO>}

Thank you, Rodolfo.

Operator

Ivano Westin, Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

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% (inaudible) 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.

A - Jose Carlos Martins {BIO 1715332 <GO>}

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 a 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 in operation. 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, but not only 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'll reached this point. So we really believe that we're 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 China, will leave the market. So I think the price will be in this range with the potential to be above this level, depending demand behavior.

Operator

Marcelo Aguiar, Goldman Sachs.

Q - Marcelo Aguiar {BIO 3721791 <GO>}

Yes, hi. Thanks again for the opportunity. So focus on cost a little bit, just I'm (giving) you have a lot of (new) capacity coming online in the second half of this year and the beginning of next year. 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 of $22, $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 would like to understand what's going to be the future Vale in Guinea. Will Vale -- is leaving Guinea for good, or Vale will 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, this topic, 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 of (inaudible). Thank you.

A - Murilo Ferreira {BIO 1921488 <GO>}

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, doing something wrong. The President Alpha Conde said that Vale can bid to get the permit again. 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's very early to call any comment. Regarding the Rio Tinto issue, I'm not aware about the contents. We need it to analyze before trying to comment something. Thank you.

A - Luciano Siani {BIO 15951848 <GO>}

Well on costs, as you mentioned, the biggest lever to cost reduction on a structural basis for 2014 and 2015 is cost dilution. And that is applied to both iron ore and to nickel. And 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, and 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 costs than to the total costs. Then you will have a dilution effect over the larger production base. So we hope that we can get closer to the psychological $20 mark and eventually to pierce that once S11D comes in.

Operator

Rene Kleyweg, Deutsche Bank?

Q - Rene Kleyweg {BIO 16569285 <GO>}

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?

Then the other point would be just in relation to the (NC). We had the 40,000 ton production guidance on Vale with First Quarter production just under 7,000. I was just wondering how -- where we were in terms of being on track or whether that 40,000 target for the year was at risk. Thank you.

A - Murilo Ferreira {BIO 1921488 <GO>}

Peter, please?

A - Peter Poppinga {BIO 17245689 <GO>}

Thank you, Rene, for the question. Regarding the NC, as we reported that we had almost 6,000 tons nickel produced in the First Quarter, but you must remember that the 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 (litmus) is going in such a way that we are keeping the 40,000 tons forecast.

A - Murilo Ferreira {BIO 1921488 <GO>}

About the transaction, 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 changes 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 contracts. 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, it's -- in three-month 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 statements, sir.

A - Murilo Ferreira {BIO 1921488 <GO>}

Thank you very much. I think that it's very clear that we 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'd like to ask -- to apologize for the clarification that we did regarding pricing. But it's new. We don't think that that's increasing. And for sure, we have some (inaudible). But today, I hope that we have provided the full clarification in order to have good results aligned with your forecast 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.