Q4 2015 Earnings Call

Company Participants

- Gerd Peter Poppinga
- Jennifer Anne Maki
- Luciano Siani Pires
- Murilo Pinto de Oliveira Ferreira

Other Participants

- Andreas Bokkenheuser
- Anthony Rizzuto
- Carlos F. De Alba
- Christian Eric Andre Georges
- John C. Tumazos
- Leonardo Shinohara
- Marcos Assumpção
- Rene Kleyweg De Monchy
- Sylvain Brunet
- Wilfredo Ortiz

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. Welcome to Vale's Conference Call to discuss the Fourth Quarter of 2015 and Full Year 2015 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.

As a reminder, this conference is being recorded and the recording will be available on the company's website at vale.com at Investors link. The replay of this conference call will be available by phone until March 2, 2016, on (55 11) 3193-1012, or 2820-4012, access code 6759495#. 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. Murilo Ferreira, Chief Executive Officer, CEO; Mr. Luciano Siani, Executive Officer of Finance and Investor Relations, CFO; Mr. Peter Poppinga, Executive Officer of Ferrous Minerals; Mr. Galib Chaim, Executive Officer of Capital Project Implementation; Mr. Roger Downey, Executive Officer of Fertilizers and Coal; Mr. Humberto Freitas, Executive Officer of Logistics and Mineral Research; and Ms. Jennifer Maki, Executive Officer of Base Metals.

First, Mr. Murilo Ferreira will proceed with the presentation. And after that, we will open for questions and answers. It's now my pleasure to turn the call over to Mr. Murilo Ferreira. Sir, you may now begin.

Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

Ladies and gentlemen, welcome to our webcast and conference call. Thank you all for joining us to discuss both our 2015 and fourth quarter results.

Vale's financial performance was impacted by the sharp drop in commodity prices in 2015. Despite this drop, we have successfully managed to reduce cost and expenses, implemented growth projects, and advanced our divestment program, while maintaining a stable gross debt position.

Despite all our efforts, Vale reported a net loss of $12.1 billion in 2015. This result was impacted by two non-cash event s, impairment in the amount of around $9 billion as a result of sharp decline in commodity prices, financial losses stemming primarily from the depreciation of the Brazilian real on our U.S. dollar denominated debt and derivative positions.

Despite their immediate impact on Vale's earnings, these events will not impact our cash flow generation in short-term to medium-term, and can potentially be reversed depending on the market conditions in the medium-term. Additionally, our efforts were overshadowed by the failure of Samarco's tailings dam at the beginning of November 2015. As we have said in many occasions, we have been working diligently with Samarco since the beginning and we maintain our commitment to support the effective regions, the communities, and the environment.

Now, to talk about the financial and our operational performance, I'm pleased to report that Vale delivered a sound numbers performance in 2015 with annual production records in iron ore, pellets, copper, nickel, cobalt, and gold. Our adjusted EBITDA in 2015 amounted to $7.1 billion. In 2015, we achieved a reduction of over $5.9 billion in costs and expenses.

Our costs decreased by 20%, our general sales and administrative expenses decreased by over 40%, our research and development expenses decreased by 35%, and our pre-operating and stoppage expenses decreased by roughly 20%. We also had a decrease in capital expenditure for the fifth consecutive year, with a strong reduction of $3.6 billion in our investment, from $12 billion in 2014 to $8.4 billion in 2015. Total annual CapEx exceeded the previous guidance by $200 million as a result of a better than expected execution of S11D project and its associated logistics.

Despite a scenario of declining commodity prices and a still high capital expenditure, Vale paid $1.5 billion in dividends in 2015, while maintaining its gross debt relatively flat at $28.9 billion. Our average debt maturity was over 1.1 (sic) [8.1] years, with an average cost of debt of 4.5% per annum.

In line with our divestment program, asset sales amounted more than $3.5 billion in 2015, including the sale of a minority stake in MBR for over $1 billion, the sale of 12 very large ore carriers for roughly $1.4 billion and $900 million from another goldstream transaction and about $100 million on the sale of energy assets.

Going to Ferrous Minerals, I'm proud to inform you that our iron ore fleet C1 cash cost decreased by $9.6 per ton through 2015, and reached the level of $11.9 per ton in the last quarter, the lowest in the industry. Our freight costs, excluding the effect of the hedging account for bunker oil decreased to $14.1 per ton due to lower bunker oil price and favorable renegotiation of our contracts and the reduction in spot freight rates.

Our unit cash costs and expenses for iron ore fines landed in China, adjusted for quality and moisture, went from almost $65 in the last quarter of 2014 down to $32 in the last quarter 2015 on a dry metric ton basis. If adjusted for the sale of pellets, this cost will be close to $31.

Ferrous Minerals EBITDA reached $5.9 billion in 2015. Still on Ferrous Minerals EBITDA, I'd also like to share with you to the fact that Vale's hedging accounting program has a negative impact of around $440 million in 2015. However, adjusted EBITDA will no longer be impacted by Vale's hedging accounting program since our outstanding bunker oil exposure recorded under this program was settled in the last quarter 2015.

Physical progress on the S11 [S11D] mine and plant project reached 80%, while the physical progress of our railway and port achieved 57%, with 81% progress on the railway spur. Base Metals adjusted EBITDA amounted $1.4 billion in 2015, representing a decrease of 45% against 2014, mainly due to lower sales prices.

Nickel production achieved a new annual record as a result of higher production at VNC and Onça Puma. Copper production supported by Salobo's ramping up was also a record amount.

Coal and Fertilizer. With coal, we continue to focus on reducing costs, increasing profitability, and delivering milestones projects such as the Nacala Logistics Corridor. The Nacala Corridor was completed in 2015, while the Moatize II mine should be completed in the first quarter 2016. Coal EBITDA was negative $149 million in the last quarter 2015, and should improve with the ramping up of the Nacala Logistics Corridor.

With Fertilizer, our adjusted EBITDA reached almost $507 million in 2015, driven by lower costs and expenses and gains on realized price due to the commercial initiatives. Despite the reduction in sales volumes in 2015, the Fertilizer business segment increased its market share in Brazil. Adjusted EBITDA was $117 million in the last quarter, decreasing quarter-on-quarter mainly driven by lower sales volumes following the usual annual sales.

Just to finalize, I wanted to say 2015 was a challenging year and we recognize that the sharp decline in commodity price expected by many market participants can represent a challenge to our strategy of deleveraging the company after the conclusion of S11D. We wanted to restate that we are exploring more aggressive option to reduce our debt, including the sale of core assets.

We don't have a specific attachment to any assets from any commodity. So we will explore other options rationally assessing the trade-offs between the portfolio of assets that we envision in the long-term, the valuation of those assets in the marketplace and the potential debt reduction that will be associated with each divestment. Our objective after concluding this divestment is to provide Vale with more financial and a strategic flexibility.

Thank you for your attention. And let's open this webcast for your questions. Thank you.

Q&A

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes from Rene Kleyweg with Deutsche Bank.

Q - Rene Kleyweg De Monchy

Afternoon, gentlemen, and congratulations on the comments about addressing the balance sheet proactively. Away from that, just on the trade, which is now your single largest cost given the cost-out on the mining side, current spot rates are obviously very low and your hedged cost is running at $14 and but it's – the potential is there pick up vessels at a reasonable price and you've got a ramp up in production coming through from Carajás. Could you talk to us just in general terms how you're thinking about your freight and the opportunities and maybe comment about the $300 million of cost savings that you've been able to extract?

And then secondly, could you provide us an update just in general terms on how you're thinking about nickel in terms of your asset base and the market? Thank you.

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

We can start with Jennifer doing some comments about the nickel.

A - Jennifer Anne Maki {BIO 16392645 <GO>}

I think, in Q4, we finally delivered the production that most were expecting from earlier in the year and we've shown that when we deliver the production especially in North Atlantic our costs are competitive, that's not to say that we're satisfied, we continue to review our costs at all our operations in this challenging market and looking to reduce them.

Our focus in 2016 is on our fixed cost basis across Canada and we're doing a review of that. And, obviously, we continue to review our asset in New Caledonia. And, in Indonesia, the performance there, they delivered significant cost reductions in 2015 and we look to continue that trend in 2016.

I would also say Onça Puma, in this market, remains cash flow break-even and they're doing a good job to manage their cost as well.

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

And let's go to Peter Poppinga and with some additional comments by Luciano Siani.

A - Gerd Peter Poppinga {BIO 17245689 <GO>}

Hi, Rene. Thanks for the comment – for the question. The freight, as you well said, is an important and we have an advantage there because we are far away from the main markets. But what we are doing is the $300 million you were referring to, probably, on page 34 where we've said that we took out of the business that we improved our business net of exchange rate around $3.5 billion, part of that is $300 million of freight, that's pure renegotiation of the freight contract and existing COAs being replaced in a more competitive basis by new COAs.

Now we are – it's going to be a little more in 2016 where we have some COAs running out in the second half of this year, and the optimization also of the supply chain will fall into that because there's lots of freight inefficiencies today when we have our own ships sometimes having to be diverted directly to customers because the Malaysia operation was still ramping up. This will be now not the case anymore because Malaysia will be fully ramped up this year.

And also the floating transfer stations where we have two operations in the Philippines, we are – we don't need them anymore because now we can go directly to China. Remember, that was one of the plan B's we had in the past. So, all that optimization of supply chain will also fall into this freight optimization. And then a little more, longer term, a new generation of Valemaxes coming in will be, of course, a very big boost because they have a significantly lower operation cost.

Now on the spot exposure, there is a limit we can – I'm not disclosing – never disclosed what's our spot percentage, but it will be at least the double of what we have today – of what we had in 2015, we are going to have in 2016. So that's an important leverage as well.

A - Luciano Siani Pires {BIO 15951848 <GO>}

Just to add on this point that if you consider the landed costs in China of $32 that we released today, this assumes an average freight of $14 per ton as you also said – saw. But if you consider the tons which are on spot, which are the marginal tons basically, this landed cost in China is already $24 per ton because the spot is at $6, not at $14. So that's, as you pointed out, a huge opportunity that we tend to capture as Peter just mentioned.

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

Thank you, Rene.

Operator

Our next question comes from Andreas Bokkenheuser with UBS.

Q - Andreas Bokkenheuser {BIO 7182883 <GO>}

Thank you very much. Thank you for hosting the call. Just a quick question on asset sales, you mentioned during your call earlier this morning that you're looking to reduce net debt and you mentioned that this morning, as well earlier on this call, to about $15 billion. Just in terms of asset sales, what are you thinking in terms of valuations for the individual assets that could raise that kind of money? I think you were mentioning coal assets, so I'm assuming that includes iron ore. So can you provide a little bit more visibility on the valuations on the specific assets you have in mind?

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

For sure, we are including everything in our core business. We don't have any constraint regarding the iron ore, as nickel, copper, fertilizers, and met coal. For sure, we needed to see some trade-offs between what's happened and what's our – which means our long-term vision and the valuation of the assets in order to recommend it to my board.

But I strongly believe that we have some opportunities, it's something that we have already started to see to test the market. And we have – our feeling that in case of having good assets with good margins regardless of the market that we are living right now, we can see good opportunities. Thank you very much.

Operator

Our next question comes from Wilfredo Ortiz with Deutsche Bank.

Q - Wilfredo Ortiz {BIO 6113152 <GO>}

Yes, good day, everyone. Just to follow-up on some of the comments as far as the targets, what have you, in terms of net debt and recognizing all the initiatives that are in place, when should we start to see – could some of that be seen throughout the course of 2016, and by that I mean in addition to the announced asset sales that you had sort of alluded to during the course of the Vale Day. How advanced would you be in some of these incremental potential asset sales, is it something more towards the latter part of the year into next year? And then as far as cost, expenses, CapEx, considering where we are right now, do you have any targets or further reductions in any of these items that you have previously guided for?

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

Thank you for your question. In fact, we are – our agenda to have everything in place in one year, one year and a half. But, for sure, we don't think – we don't need this to go just in one shot, probably we can spread in different tranches. But it all depends of our negotiations. I believe that you should consider – you could consider one year and a half as a tenor that we will be able to build good alternatives. And, by the way, I think that we needed to provide some further clarification about the project finance as well. And I leave you with Luciano about the cost and some clarification about the project finance.

A - Luciano Siani Pires {BIO 15951848 <GO>}

Okay. So, for clarification, the asset sales we're talking about to reduce net debt to $15 billion, they are in addition to what we have announced over Vale Day. Right? So, the Vale Day asset sales, they are more geared towards financing our – the end of our investment program in 2016, bridging any cash flow gaps depending on the behavior of prices whereas the more strategic ones, they intend to really slash net debt. So, in this front – so you heard a lot about the project finance, some of you might be wondering why it takes so long. So the deal with Mitsui was signed in December 2014, by the same time when there has been a change in the government of Mozambique. So, all the approvals for the interest of Mitsui in the entities, they took about six months to get. So we have the tax authorities, the central banks, Ministry of Mines, Ministry of Transportation. So in fact the discussions towards the project finance, they really started more intensively on the second half of last year.

We got some, at that point, some conceptual deadlocks. These deadlocks were resolved by the end of the year. You saw the African Development Bank approving the transaction in December. Now, in 2016, I would say – and then there was a lot of due diligence ongoing so technical due diligence, social due diligence, environmental due diligence in the mine, in the railway. IFC has just published in its site a very extensive report on the environmental and social due diligence of the project. As you can see, the amount of work that's being put into that.

And now in 2016, I – we would like to make a public acknowledgement here, especially to the government of Mozambique and Malawi because of their full engagement into bringing this to fruition, their support and the intensity at which they have been dedicated to the negotiations. That's why we are now so confident that we should be able to finalize the term sheets and have the approvals of the other financing, the lender institutions by the next few months. And, therefore, we can finally proceed to the more detailed documentation and to closing somewhere and receiving the money somewhere in the beginning of the second half of next year.

So it's simply very complex – yeah, of this year exactly – so it's simply very complex. It's five institutions, two governments, you've got a lot of work. And – but I have to say especially with the energy that the governments are putting right now, which I do acknowledge here publicly and we do acknowledge publicly that we are very confident in a successful closure of the transaction.

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

Thank you very much.

Operator

Our next question comes from Carlos De Alba with Morgan Stanley.

Q - Carlos F. De Alba {BIO 15072819 <GO>}

Thank you. Thanks very much. Just a follow-on on the project financing, if you are more or less have – the amount will remain the same around $2 billion maybe $3 billion on this transaction or has it been revised because of the delay in closing it?

And secondly, if you could give us any update you have on any more specific targets in terms of cost reduction or expense reductions for 2016? Thanks.

A - Luciano Siani Pires {BIO 15951848 <GO>}

Okay. So I'm sorry, Wilfredo, I forgot to address the cost and expenses, Carlos is giving the opportunity. So I'll start by that. We actually engaged in a full companywide review of our plans in the beginning of this year. Those plans were just approved by the board. So I would say the company is indeed targeting additional cost and expense reductions. Our – for instance, I'll give you guidance for CapEx. Now, we are targeting more something around $5.5 billion instead of the original $6.2 billion that were disclosed during the Vale Day. I'm not going to give specific details on cost and expense reduction, but I wanted to make sure that whatever the plans that we did as of the end of last year that we approved on our annual budgeting process, they are now superseded and the company is putting all its energy to deliver, in addition to that, additional value and competitiveness. And the heads of the businesses can address those opportunities specifically.

On the project finance, so just remind you that the transaction as a whole should bring around $3 billion being $1 billion from the equity portion from the Mitsui agreement. And the project finance itself, we are setting a conservative target of $2 billion. We have commitments for more than that, but we believe that perhaps at $2 billion we can reach the optimal balance between the cost and the capital structure of the entity which will bear the debt. But if need be, we have the opportunity to go above that.

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

Thank you, Carlos.

Operator

Our next question comes from Christian Georges with Société Générale.

Q - Christian Eric Andre Georges {BIO 1557701 <GO>}

Yes, hello. Thank you. Just a couple of questions I would like to clarify. In terms of your cash flow, how much of the proceeds which you announced last year, the sales of Valemax and so on, that should be accounted for in 2015 and how much do you still have to account for in 2016, if any, and whether you could give us an idea of how much more outside the project financing in Mozambique you have in mind in terms of potential proceeds of other assets, actually excluding the divisional failure you're contemplating.

And the second question, I believe that you've got about 30 million tons roughly of additional iron ore production that you're able to produce to the market in 2016. What would be your behavior if overall demand is static or even lower in 2016 with lower demand from China, how would you behave with those 20 additional million tons? Thank you.

A - Luciano Siani Pires {BIO 15951848 <GO>}

All right. On the proceeds, again, making a clear distinction between the transactions announced during Vale Day which were intended to be done in 2016, and the other more core assets that we're not going to talk about proceeds. So, but focusing on the transactions which were announced on the Vale Day, a few days after Vale Day we concluded the sale of four ships for around $400 million. So, therefore, that was actually accounted in 2015 rather than in 2016.

We've already talked about the project finance. We do have also a transaction of energy assets and bauxite assets that – again, I'm not giving particular figures, but we've indicated that we could see, each of them, several hundred million dollars. But – and that would – in addition, we have also another seven ships still remaining on our portfolio that can be sold. We have also other alternatives which you know about, which are, for example, additional preferred shares or additional streaming operations that we are constantly evaluating. So beyond the project finance, we've indicated then at Vale Day that we could reach somehow something around $4.5 billion and maybe even $5 billion of asset sale if you put all those transactions together and that's – again, that's what has been announced end of 2015 do not relates to what Mr. Murilo has started his speech talking about, which is the sale of core assets to reduce debt.

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

Thank you very much, Christian. Peter, please?

A - Gerd Peter Poppinga {BIO 17245689 <GO>}

Christian, thanks for the question. The guidance – although I said in the previous call that seaborne market, in my opinion, is balanced of what is coming in of new supply which is around 60 million and what is coming out which is 40 million and rest is depletion. We think it's not time to push for extra production. That's why we have – we gave the guidance at Vale Day of 340 million tons to 350 million tons. And it will depend really on market condition and our margin optimization – continues margin optimization efforts. So I think that's a very balanced answer I can give you.

Operator

Our next question comes from Tony Rizzuto with Cowen & Co.

Q - Anthony Rizzuto {BIO 1490590 <GO>}

Thank you very much. And congrats on the successes in driving costs lower and good to hear the initiatives to try to delever at a meaningful way. My question is follow up, I was not on the earlier call, but on the iron ore market, I was wondering if as a result of the Samarco tragedy, are you diversifying or diverting more supply to Europe and possibly away from China to make up for that shortfall that was previously going in Europe out of Samarco?

A - Gerd Peter Poppinga {BIO 17245689 <GO>}

Thanks for your question. This is not a Samarco subject only. Yes, we are increasing our sales in Europe, but naturally because some of the smaller companies are struggling to cope with the volumes there and also because Europe is recovering a little bit in terms of the steel market.

Samarco, yes, there we're also stepping in for the moment, but it's much more about Europe naturally needing more iron ore from Vale, because of some of the smaller suppliers reducing or stepping out of production. So it is actually both, but much more the natural trend to go to Europe again.

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

Thank you.

Operator

Our next question comes from Sylvain Brunet with BNP Paribas.

Q - Sylvain Brunet {BIO 3194710 <GO>}

Good morning, gentlemen. I had a question on VNC gold because I'm a bit puzzled by the strategy when we see the losses of, like, over $400 million EBITDA in 2015. First, I wanted to understand how good a proxy this was for the cash losses the operation is now making? Second, could you confirm that on your guidance you would still proceed at current prices with a ramp-up that would lose roughly $4,500 per ton cash, all right, and that's on top of the proceeds that you would have to pay to Sumitomo for the exit? So, could you please square that with your medium- to long-term view for nickel that would justify you spending this sort of money in this business? Thank you.

A - Jennifer Anne Maki {BIO 16392645 <GO>}

I think the first thing is to reiterate is, as we said at Vale Day, is that we're considering our options in New Caledonia and that exercise is ongoing and, later this year, we'll be able to update you on that. Essentially, we're projecting a unit cash cost of about $13,000 in New Caledonia this year. And we've originally guided around 46,000 tons. I'm not sure that we will do 46,000 tons this year. That 46,000 tons required an investment in the mine fleet that, at this time, we're holding back given the nickel market. So we could be 5,000 tons or 6,000 tons less than that. And I think just to balance the conversion on New Caledonia, because I know there's a lot of negative sentiment on that and, as I said, we're doing our review, you have to remember that it is a very long-life resource base and so you don't make a decision in the moment, you take your time and make sure you've fully considered all the factors that go into making a decision with a reserve base that is over 30 years in terms of life of mine.

Operator

Our next question comes from John Tumazos with John Tumazos Very Independent Research.

Q - John C. Tumazos {BIO 1504406 <GO>}

Thank you for all your good work. The current time is sort of an extreme moment of $26 oil, $6 iron ore spot freight, $3.75 nickel, et cetera. If iron ore rebounds just $10 next year, it's $4 billion of EBITDA. I'm worried that you might make too many decisions during the extreme moment, sell core assets cheap. What will you do to lock in low costs, more contract shipping and keep your upsides open, just a little patience in 2018 could reduce a lot of debt just from the wonderful assets in place.

A - Luciano Siani Pires {BIO 15951848 <GO>}

John, this is Luciano. This is a great question. That's precisely why we do not want to rush and to be making decisions at the spur of the moment or pressured by market conditions, but we have to balance with the insurance that we need to have in case prices go lower. So you can be sure that in the tradeoffs that we're going to make, the preservation of an upside will be paramount. We do believe that over the medium- to longer-term, being in possession of the great assets will be rewarding. So, therefore, that has to be in place.

On the other hand, we need to acknowledge that there is a large chunk of debt that we need to refinance over the next few years. So, striking the adequate balance is what management is looking for on the benefit for shareholders.

Operator

Our next question comes from Marcos Assumpção with Itaú BBA.

Q - Marcos Assumpção

Good morning, everyone. Two questions here. First one, what were the price assumptions that you used for the impairment test on nickel, iron ore and coal?

And the second question maybe to Murilo, or to Peter, we saw given the recent results in the mining industry. We saw, like, Anglo saying that they could be selling iron ore assets. We also saw BHP and Rio Tinto reducing their dividends. Do you think that – and even cutting CapEx for future expansion as well, do you think that there is a read across to the mining industry and more specifically to iron ore prices of these recent results in the mining industry?

A - Luciano Siani Pires {BIO 15951848 <GO>}

Marcos, Luciano, on your first question. And this comes from the financial statements, there is a footnote 15 that talks about impairments, the numbers are there. So just for the sake of clarity for iron ore, we are using a curve that starts at $48 and goes longer term to $65. For coal, we start at – we're going to $85 to $140 and nickel starting at $13,000. Phosphate $105 to $125. So – and you see you have all the details on that footnote.

Operator

Our next question...

A - Luciano Siani Pires {BIO 15951848 <GO>}

Marcos, could you please repeat your second question, I'm sorry.

Q - Marcos Assumpção

Okay, no problem. If – given the difficult results that we saw for other mining companies like Anglo saying that they could be selling iron ore assets, BHP cutting CapEx and also cutting dividend, do you think that this shows that we're probably close to a bottom here even like the large companies or the low cost producers, theoretically the more prepared company are already saying that this kind of price levels maybe are not sustainable. Do you think that there is anything that we can read from these results or from these recent actions from these companies?

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

I think that, as you can see, Marcos, with most of the ratings in the bond market and share price, I think that there is a clear demonstration that, at this level of price. And as Peter mentioned a few moments ago regarding what happened with the supplier in Europe saying that the spot producers, they are not able to confirm some contracts.

In our view, it's very clear that if you are not in the bottom, you are very near. In the context of – even if it's not a decision by themselves, it's a decision by the credit issues. Thank you very much.

Operator

Our next question comes from Thiago Lofiego with Merrill Lynch. Mr. Lofiego your line is open. Our next question comes from Leonardo Shinohara with HSBC.

Q - Leonardo Shinohara {BIO 18788974 <GO>}

Yeah. Thanks for the question. Just a quick question, you had a more CapEx disbursement because of better than expected physical progress at S11D. So the question is, given that and you have put it out that in the second half of 2016 you might start production there, can you expect anything for this year in terms of tonnage coming or will there be a shift, in other words, producing better product, higher FE content as opposed to lower? Thank you.

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

I think that we can have more flexibility in the ramping up. We don't think that we are – to go the market and to sell. The context, it's mainly in order to assure the ramping up can be more smoothly.

I think that you are in the end of our webcast. Thank you very much for your questions and all the best.

Operator

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