Company Name: Vale
Company Ticker: VALE5 BZ
Date: 2015-07-30
Event Description: Q2 2015 Earnings Call

Market Cap: 186,489.12
Current PX: 33.36
YTD Change($): +10.02
YTD Change(%): +42.931

Bloomberg Estimates - EPS
Current Quarter: 0.783
Current Year: 4.075
Bloomberg Estimates - Sales
Current Quarter: 27196.500
Current Year: 107335.950

Q2 2015 Earnings Call

Company Participants

- Murilo Pinto de Oliveira Ferreira
- Gerd Peter Poppinga
- Luciano Siani Pires
- Jennifer Anne Maki
- Roger A. Downey

Other Participants

- Wilfredo Ortiz
- Carlos F. De Alba
- Tony B. Rizzuto
- Amos C. Fletcher
- Alexander Hacking
- Jeremy R. Sussman
- John C. Tumazos
- Thiago Lofiego
- Marcos Assumpção
- Andreas Bokkenheuser
- Rodolfo de Angele
- Leonardo Correa

MANAGEMENT DISCUSSION SECTION

Murilo Pinto de Oliveira Ferreira

Business Highlights

Production, Adjusted EBITDA, Sales, Revenue and Expenses

- First of all, I'm pleased to report that Vale had a sound operational result with production records for Q2 in iron ore, copper and gold
- Adjusted EBITDA was $2.2B, 38% higher than first quarter 2015, as a result of lower cost and higher sales volume in most of our business segments
- Gross revenue increased to over $7B despite lower iron ore and nickel reference price based on higher sales volumes and better price realizations
- Cost and expenses decreased by more than $1.6B in H1 2015 when compared with the same period in 2014, despite the higher sales volume
- Our SG&A and other expenses decreased by over 15%, while R&D decreased by 22% and our pre-operating and stoppage expenses decreased by roughly 16% vs H1 2014

CapEx, Divestment Plan and Gross Adds

- Our CapEx was $4.3B in H1 showing a reduction of over $700mm when compared to H1 2014
- In line with our divestment plan, we concluded the sale of four Valemax for US$445mm in the quarter
- Our gross adds increased by $1.23B amounting to $29.8B mainly as a result of:
  - First, the lower cash collected from seasonally lower sales volume in Q1 the year
  - Second, the impact of the end-to-end appreciation of the Brazilian real on the translation of Brazilian reais denominated debt in U.S. dollars
  - And third, the $1B paid as dividends in the quarter

Ferrous Minerals

Adjusted EBITDA, Sales Volume, Pricing and Cash Cost

- Now talking about Ferrous Minerals, our adjusted EBITDA for iron ore and pellets reached $1.8B, increasing roughly $800mm from last quarter despite the decrease in iron ore plus 62% reference price
- This increase in EBITDA was driven by higher realized prices, higher sales volume and lower cost of goods sold
- For this second quarter, our CFR reference price for iron ore fines on a dry metric basis was $61.50 per ton, being $2.09 per ton higher than $58.40 per ton plus 62% reference price for the same period
- Our realized price considering the mix of FOB and CFR sales was $50.60 per ton
- Above all, I'm proud to inform you that our iron ore cash cost excluding royals decreased by $2.5 per ton and reached $15.08 per ton this quarter

Production Cash Cost

- Now I would like to highlight that our production cash cost from Carajás at FOB port was already less than $12 per ton in June
- Our freight cost also decreased reaching $16.08 per ton due to successful renegotiation of our chartering contracts

Iron Ore Fines and Base Metal

- Our unit cash cost and expenses for iron ore fines landed in China adjusted for quality and moisture landed in China reduced from $43 in Q1 2015 to less than $40 in second quarter 2015 on a dry metric ton basis
- Physical progress on the S11D mine and plant project reached 67%, while the physical progress at CLN S11D, railway and port, achieved 41% and 62% progress on the railway spur
- Base metal adjusted EBITDA was $406mm in second quarter 2015, having improved by roughly $40mm after the effect of goldstream transaction in Q1 and lower realized prices during this quarter
  - This improvement was driven by lower unit cost of production

Nickel, Copper and Coal

- Nickel production was 136,000 tons in H1 2015 and should increase in the second semester as Long Harbour continue its ramping up and also our facilities in Indonesia and New Caledonia, and Onça Puma operate at full capacity after the completion of the planned maintenance shutdowns for the year
- Copper production was 212,000 tons in H1 2015 with roughly 35% coming from Salobo
- We expect Salobo's production to increase in the second semester as it continues its ramping up this year
- With coal, we continue to develop those projects which are key to our long-term business profitability as we eliminated the existing logistic bottleneck in Mozambique
  - In this regard we achieved 93% fiscal process in Moatize II and 89% in the Nacala Corridor

Fertilizer

- With fertilizer, I'm very pleased to inform you that our adjusted EBITDA continues to improve and reached US$163mm in Q2 2015 compared to the $90mm in Q1 2015
- The $73mm increase was mainly driven by lower cost and expenses and higher sales volumes
- More than ever we remain confident in the long-term perspective of our fertilizer business segment
- In Q2 2015, we foresee to deliver our promise having forth reduced expenses and cash costs especially in iron ore
- The granting of operational licenses for the extension of N5S mine together with the opening of N4WS mining and with the ramping up of the Itabirites projects will support the improvement in our average product quality and reduce our production cost going forward, further improving our competitive position
- We also progressed in the implementation of our project portfolio laying down the foundations of an even more competitive and profitable company in the near future

Transactions

- But before we go to our question and answer session, I'd like to mention that as you may have seen today we just announced two other transactions
- The first one for the sale of further four additional Valemax for about $450mm and the second one for the sale of a minority stake in MBR, the owner of the assets in the iron ore smelter system for R$4B
  - Both transactions were part of our divestment plan for the year
- I think that, I'd like it to highlight that in the context of these transactions, we don't have any obligation to buy back the preference shares and we have the right to buy these shares
- We cannot avoid to say that we are not pay dividends but we must pay these dividends based on the results of MBR and in accordance with the Brazilian law we must pay 50% of the profit

QUESTION AND ANSWER SECTION

<Q - Wilfredo Ortiz>: Just wanted to get a better sense as far as the ongoing efforts to increase production, which as far as we understand you are pushing forward with all your projects. Now considering the improvement that we saw on the EBITDA margin for the iron ore business, how are you monitoring or will monitor production vs. sales going forward i.e. would you consider selling less in an effort to balance the market and perhaps keep your margins and how are you kind of monitoring or queuing that?

And secondly, as far as your CapEx, obviously it's trending at much lower levels than the budget for the year. Based on what you are seeing now, where do you see things going, I know that there is the FX potential benefits, but you are certainly trying to reduce the overall cash outlay. So just wanted to see where more or less these levels could come this year and next year as the two largest projects are moving forward, i.e. S11D and Moatize? Thank you.

<A - Murilo Pinto de Oliveira Ferreira>: Peter Poppinga?

<A - Gerd Peter Poppinga>: Thank you, Wilfredo. Regarding your question about increased production and balancing the market. It's not exactly like that that we are looking to it. We have said that it is about margin in our case. We look at market share but it's not the most important thing. So in 2015 we are going to substitute low margin high silica products and purchase from third parties around 25mm tons on an annualized basis and we are going to substitute that by higher grade material from Carajás and Southeastern system, the new projects getting ready.

So that roughly the 340mm tons target for 2015 is being kept for 2016; however, what we are saying is that we have – you may recall that we had a target in Vale Day last year about getting to 376mm tons production. We will optimize our margins and we don't know yet what will be the production level, it will be for sure higher than the 340mm tons this year and it will be less than the 376mm tons announced during the Vale Day last year. The exact number we are going to announce during the next Vale Day in December but it will be in order to – it will be depend on our margin optimization results and that's all what I can say to that. So margin is more important than volume.

<A - Murilo Pinto de Oliveira Ferreira>: Luciano?

<A - Luciano Siani Pires>: Yes, so we have CapEx this year probably will be between $8 billion and $8.5B. We were targeting this range even before the recent more drastic depreciation of the Brazilian real, so it obviously helps to achieve that. And for next year, we are still reviewing the plans. We are actually getting better performance in terms of controlling or sustaining capital that we envisioned before.

But I think a good target should be anything between $6.5B and $7B. Reminding you that for the next year the only major project remaining to have expenses is S11D, so we conclude the expenditures in the Itabirites projects and the Moatize, expansion Nacala project this year. So for next year we have basically just sustaining capital in S11D should be between $6.5B to $7B.

<Q - Carlos F. De Alba>: Quick questions regarding first the Nacala Corridor financial transaction [ph] or the bridge finance, (18:04) can you give us an update on how that is going and if it is still expected to be closed in H2 this year and in case it doesn't, how does that affect the payment of the dividend in H2?

And then regarding the MBR transaction that was announced, how should we interpret the lease payments that Vale will make to MBR, are those going to be paid out as dividend to shareholders out of which around 36% will go to the new partner of Vale in MBR? Thank you.

<A - Murilo Pinto de Oliveira Ferreira>: Luciano, can you start about MBR please.

<A - Luciano Siani Pires>: Okay. Carlos, thanks for your question. The existing lease agreement between Vale and MBR, this is actually an old agreement, so this has been in place for quite a while. So Vale pays the lease payments to MBR, MBR has to retain part of those payments to do its own sustaining investment, so it's around R$500mm per year. And that shows in the income statement as cost because it's the depreciation of the existing assets of MBR and basically it's retained in order to finance the sustaining investments within MBR.

After that, MBR pays the regular taxes on its profits, which is around again about R$400mm to R$500mm. So therefore what is left out after all those payments is around R$1B. So therefore under the current lease conditions of around R$30 per ton. So therefore it's going to be paid mostly as dividends and so we should expect the investor to receive anywhere between around R$400mm of dividend payments, which should be around a 10% yield for him.

However, obviously this is variable according to the iron ore price and to the sub-system production, so both risks, these are equity risks, the ownership of the MBR shares and....

<A - Murilo Pinto de Oliveira Ferreira>: Regarding the first question Carlos, at this point of time we don't have any change in our agenda regarding the project finance. Then we continue work to finalize everything in H2 this year. About dividends, I think that we had our recommendation in the beginning of the year and the subject will be discussed internally in the board meeting in the beginning of October. But for sure, everything is depend of the FCF of the company, but we cannot say because it's absolutely in the hands of our board. Thank you very much.

<Q - Tony B. Rizzuto>: I have got several questions. The first one is solid gross performance by the way on iron ore, but it seems like you've already exceeded your target, your landed cost target to China I believe that's by yearend, so my first question is are you resetting that target now and what is that level now maybe for the end of the year or early part of H1 2016?

Second, I wanted to find out how you are thinking about the Chinese steel and iron ore market. As the no margins continue to be under pressure, I am wondering if you are seeing an acceleration in steel production curtailments and is there any scope for steel price increases in China?

<A - Murilo Pinto de Oliveira Ferreira>: For sure what we know that recently we note some improvement in the steel production in China. It used to be below 1-point – it was roughly 1.6% below last year and this month it's 1.3% below last year. I think that we note some improvement in the production and sales in the Chinese steel industry. Regarding the first issue, Peter Poppinga?

<A - Gerd Peter Poppinga>: Yes, thanks for the question. You saw that our landed in China, theoretical landed in China price decreased around $39 per ton. We, of course, continue with the efforts to – and there will be a more [indiscernible] (23:33) business coming, this mainly through the ongoing productivity efforts, also the higher iron content helps when you deduct from the cost as a credit and the S11D of course when it comes will be something very powerful.

So what we are – we have no number, but what we think is – yes, we have $39 in Q1. This will go back in this quarter and in the existing quarter, Q2. What we see is this going down in the next two years in 2018 when the S11D is almost fully ramped up. This will be very close to the $30s, but we don't have any firm guidance on that. It will come down dramatically from now going on.

<Q - Tony B. Rizzuto>: One thing is clear that we promised in Barcelona in the Merrill Lynch conference about to reach a target of $37 to $41 and we are under this range and you are working hard in order to reduce?

<A - Gerd Peter Poppinga>: I think when we – just completing the Murilo's comment on China and on the steel industry; it is true that there is a transition phase here now. We still believe that the peak is still ahead of us and will be over 900mm tons steel production per year between 2020 and 2025. So that's going to come. However the steel exports will increase that's for sure. And they are already at the pace of 100mm tons per year.

<Q - Amos C. Fletcher>: I have two questions if possible. First one is in iron ore, if we look at your sales volumes relative to production, it appears that you've built over 10mm tons of inventory over the last 18 months, is that just a reflection of the new shipment centers that you've been building and should we expect to see this to be released at any stage over the coming years?

And then secondly, I saw your maintenance CapEx of $4.1 a ton in the iron ore business in the quarter. Can that go down any further from here do you think? Thank you very much.

<A - Murilo Pinto de Oliveira Ferreira>: Yeah. Thanks for the question. Although you are seeing in this quarter slightly increase in our inventory, until the end of the year and mainly also during – until 2016, end of 2016, you will see a dramatic decrease of inventory actually. This is because it's a very simple equation, we reduced the low margin products coming out of the Southern System purchased and own ore. And so there is space on the railway, on the MRS system and we are going and not everybody knows, but we have around 20mm tons, 20mm tons of rich ore, rich stockpiled products sitting in the Southern System. So this railway, this free space will be used to sell those 20mm tons in 2015 and 2016. So this means that actually probably 50mm tons will go down in this respect.

Compensating a little bit in the next quarters when we are fully operating in Malaysia. So yes, this quarter we had a slight stock increase, but until end of 2015 and mainly in 2016 you will see a drastic reduction in stock levels in Vale.

And what was the second question again?

<A - Luciano Siani Pires>: About the distribution center…?

<A - Murilo Pinto de Oliveira Ferreira>: Sustaining, the sustaining CapEx, the trend is to go down. I'm not sure it was maintenance or whether it was sustaining.

<A - Luciano Siani Pires>: Sustaining.

<A - Murilo Pinto de Oliveira Ferreira>: It was sustaining. Sustaining is already falling, probably we were – in the past we were $5 to $6 a ton. Now we are around $4 a ton and probably this will go down another dollar in the next years. Thank you.

<Q - Alexander Hacking>: Let me ask a couple of things if it's okay. The first one is, is there anything that you can disclose about the terms of the call option on the MBR transaction in terms of kind of like the timing or the price levels there, if it's not all confidential?

And then the second question I guess is a bit more strategic, I mean you talked about keeping iron ore in the ground that doesn't make money, you don't want to basically pay the Chinese to take it, I mean at what nickel price do you start to make similar kinds of calculations or settlements on the assets there? Thank you very much.

<A - Murilo Pinto de Oliveira Ferreira>: Luciano, please.

<A - Luciano Siani Pires>: And also complementing Carlos question, the lease payments to MBR in order to be available for the investor has to be deducted first of the expenditures in sustaining capital within MBR which shows an income statement as a deduction to revenues, as depreciation of the existing assets, so that one is around R$500mm per year and also the tax payments, another R$400mm to R$500mm. So therefore what's leftover at the current lease payment and current iron ore price is something around $1B which if paid out 100% of the dividends would yield 10% return to the investor. But there is other smaller expenses as well.

The call option, it's exercisable between the 3rd and the 10th year and the price, we cannot disclose the exact terms. But we can say that it's pretty much close to the sale price for a wide range of iron ore prices. But if iron ore prices climb high enough then there is kicker and there the spot price increase a little bit. So that's what we can say.

<A - Jennifer Anne Maki>: With regards to your question on the nickel operation, when you look at our operations across Canada, in Q2 we had cash costs of $3200 a ton which is first quartile there. So we don't have any concerns in our Canadian operations. And I would add that in Long Harbour we are in the early days of the ramp up but it's going very well. And we are exceeding our plans that we had for 2015.

In Indonesia, $7100 a ton, we've seen very good cost reduction and cost control there, so the operations is going very well. And in New Caledonia, we're just coming back from a three-week long shutdown where we did some major maintenance and overhauls. And I think the next six months will be very key in New Caledonia and happy to say today we know they are doing about 100 tons a day to 110 tons a day and we believe that number will only get stronger as the next six months go on. And Onça Puma is also doing well. So we're not reviewing the operations in the manner you suggested.

<Q - Jeremy R. Sussman>: Just following up on an earlier question, you mentioned that you plan to drastically reduce the inventory over the next 18 months, can you just remind us where your inventory levels are at today?

<A - Murilo Pinto de Oliveira Ferreira>: Thank you. Yes, so roughly, the inventories are a little more than 30mm tons in the mines, there are 9mm tons in the ports, and 6mm tons on the sea or in Malaysia and floating. So we are talking about 50mm tons and I'm saying that we are going – at the same time that we are going to increase little more the stocks overseas because of our blending strategy in Malaysia. We are going to reduce 50mm tons sitting in the mines. So we have 20mm tons in the Southern System and we are going to reduce that by 15mm tons over the next 18 months.

<Q - John C. Tumazos>: Concerning the boat transaction and the MBR transaction, roughly do you expect that there would be any gain or loss?

<A - Murilo Pinto de Oliveira Ferreira>: Luciano please?

<A - Luciano Siani Pires>: No. No gain on loss. They are being made very close to the book value of the assets.

<Q - Thiago Lofiego>: Just a follow up on the MBR transaction, how is it impacted by the 25mm tons to 30mm tons of high silica or volumes you are taking out of the market. As I understand, they are mostly coming from the Southern System. So I just wanted to understand if volumes – if we can consider lower volumes for MBR in the outer years? And the second question is if you could give us an update on the potential timing for an eventual deal on the fertilizer assets, is the idea still to sell a minority stake like 30% to 40%, could you give us some color on that? Thank you.

<A - Murilo Pinto de Oliveira Ferreira>: Thiago at this point of time, we cannot share with you regarding some analysis, some discussion that we have about fertilizer. We continue to work hard in order to provide a strategic movement. But nothing that could be announced now. And Peter?

<A - Gerd Peter Poppinga>: Regarding the MBR transaction and our production profile in this region, the only thing I can say is that there is no interference – our efforts to optimize margins and maybe reduce some production there, compensating it somewhere else or not depending on the margin. There is no interference between this operational business effort and the MBR transaction itself.

<A - Murilo Pinto de Oliveira Ferreira>: Any further comment, Luciano?

<A - Luciano Siani Pires>: I just would say that – just let you know that MBR is not the entire South System, so there are assets in the South System there are outside of MBR.

<Q - Marcos Assumpção>: First question is on the nickel business. Given the low prices that we're seeing right now, when do you expect to see some capacity shut downs in the industry or eventually even consolidation as well? Basically why we're not seeing that yet?

And the second question on the iron ore business, if you could comment little bit, Peter. You mentioned in the press release that you're expecting some capacity to be taken out of the market this year. Where this is coming from? We know that high cost producers in China shutting capacity. You also announced – I don't know if you're expecting other players to be announcing capacity shutdowns as well given this tight or difficult or challenging price environment right now? Thank you very much.

<A - Murilo Pinto de Oliveira Ferreira>: Marcos, first of all about the nickel, I will leave you with Jennifer Maki, but the displacement in the market is mainly in the nickel pig iron that used to produce 450,000 tons. And now it's probably around 300,000 tons, 320,000 tons. But Jennifer, go ahead.

<A - Jennifer Anne Maki>: I think the reason we're not seeing some of the shutdowns is because the nickel operations tend to be integrated and the shutdowns would be relatively permanent with high shutdown cost. But if prices continue at these levels, we would expect some shutdowns in quarters to come. And that's more in the non-integrated nickel operations, but we have seen, as Murilo mentioned, some small NPI producers shut down in China. And we also see the responses as in terms of say that Filipino ore and lack of demand for the Filipino ore.

<A - Murilo Pinto de Oliveira Ferreira>: Yes, Jennifer, I think that NPI producers they need at least $13,000 per ton to produce in China.

<A - Jennifer Anne Maki>: Yes.

<A - Murilo Pinto de Oliveira Ferreira>: It is the floor. That for sure below this level they are under water. Peter?

<A - Gerd Peter Poppinga>: Hi, Marcos, regarding your question on the challenge tonnage and on the seaborne balance. What we can say is that there's two factors in my opinion which the market is underestimating very much.

One is the so called depletion. It's a question between tonnage and quality. Vale alone is taking out 50mm tons – so we invested in the Southern System much more than we are going to produce and this means taking out 50mm tons in terms of depletion. But the other effect is the cost reduction. Some of the cost reductions we are seeing out there is not sustainable, right. So under today's market at around $55, today's market we for sure know that even in spite of the cost deflation we have seen and cost efforts of everybody, that around 150mm tons are not competitive and 50% of the Chinese concentrates productions are probably not competitive.

This year in 2015 what we are seeing is that another around 40mm tons of Chinese concentrate is exiting the market, and this is more or less in line with the figures you have seen that runoff mine production in China in the first six months decreased by 10% year-on-year. If you transform this into concentrate and extend it through the whole year, you are reaching 40mm tons, which will be exiting. And there is another 50mm tons of some junior companies in Brazil, some integrated steel companies, some exotics suppliers like from Mexico, Indonesia, et cetera, exiting. So we are talking about 90mm tons exiting really. And there is about the same quantity coming in, right. And so this is the situation today and really if you compare to what's going on with the runoff mine production in China, this year the first six months, you see that more or less these figures are going to happen.

Next year and 2017, again, I am saying people are underestimating very much the depletion and this will probably show some surprises going forward.

<Q - Andreas Bokkenheuser>: It's a two-part question just going back to your inventories. You mentioned 50mm tons of iron ore inventories at the moment. First question, I mean, it sounds like a high number, but it's really eight weeks of production. Is that a high number in historical terms? What is sort of the normalized levels? That's the first question.

And secondly, how do you think about your inventory strategy? Is that predominantly based on where iron ore price levels are or are there other factors that you take into consideration in determining how much inventories to hold? Those are the questions. Thank you.

<A - Murilo Pinto de Oliveira Ferreira>: Peter, I think that to see what's happened as normalized, it's not easy because in the last few years Vale was struggling just in produce in order to go from the hands to the mouth because of some constraint that we had mainly in the environment perspective. Now we are going to the normal level that used to be right, but your comments please?

<A - Gerd Peter Poppinga>: We are going to the normal level like it used to be, but there is only two caveats. One is the fact that we are building up the Malaysia blending facility, so the stocks there will increase. That's part of our strategy to blend offshore. But the other thing is that really is one anomaly in the mines because the mines have very normal stock levels, around 30mm tons is a normal operational level and the ports as well. But this anomaly has to do with the Southern System. There's MBR and there's others and we have 20mm tons sitting there from old stockpile, that are rich stockpiles which we can only now export because now we will have space in the MRS railway.

And so, this will bring, in spite of us increasing the stock level in Malaysia, the fact that we are going to use this railway capacity because we have taken out our high silicon material will be used for the next 18 months to reduce this 20mm ton stockpile sitting, this anomaly in the Southern System going back to a normal stockpile level of 5mm tons, so 15mm tons will be reduced. So overall, the stock level, the inventory level of Vale will be significantly reduced that's all I can say. I have no details yet, but that's the trend.

<Q - Rodolfo de Angele>: I just wanted to ask you about the Brazilian blend that you started to sell and I wanted to ask you to compare it with the Tubarão fines, how does it compare in terms of quality, in terms of overall the product characteristics? And if you could also comment on how it's being received by the market?

<A - Gerd Peter Poppinga>: Yes. Thank you for the question. The Brazilian blend as I said is now some months old only and is going very well. It gets a premium. In the beginning it was $1 to $2, now we are already at over $3. So the market is receiving it very, very well because we are selling it at a premium of $3. And the quality is higher than the reference plant [indiscernible] (45:04). And in terms of our existing standard sinter feeds, it's very comparable.

So, this is another success story. The first was that we sold the Carajás fines with the premium, which is much higher than that because of the quality. Now I just mentioned in the previous call that it used to be $6 to $7. Now we are talking $9 and up on the Carajás plant the premium. And here in the Brazilian blends, it's the same the path. People value very much the liquidity, the stability and that's where we are going. Thank you.

<Q - Leonardo Correa>: My first question is regarding the coal business. We've been seeing still [ph] a loss on (46:14) EBITDA line of roughly $100mm per quarter. Clearly this is explained by some of the logistics bottlenecks that you have. Nacala Corridor is still ramping. So just wanted to get a sense on how this could potentially normalize with met coal prices now below – probably continuing below $100 for the foreseeable future, what type of normalized EBITDA level can you see from the coal business at Vale which still continues consuming some capital in the meantime, so that's the first question?

The second question still on dividends, guys. Sorry to return to this topic. I know that you spoke about the dividend for the second semester at start of the year that it will be reassessed by the board. But just wanted to see how you're looking into the dividend in 2016. There could be some mark-to-market risks and when we look at cash flows now with current stock prices in iron ore and base metals, I mean potentially there could be another year of negative FCF generation. You can now move this deal on the redeemable shares.

So my question is, would you be looking to issue additional operations or additional capital like the one we just saw with a counterpart to cover the potential cash flow drop and pay a dividend in 2016. So my question is would you be willing to issue this type of instrument to pay – to cover up for dividend payments in 2016 or would you be willing to temporarily perhaps reduce the dividend payments or suspend dividend payments [ph] to then in turn to (48:05) dividend payments with the ramp-up of S11D. So those are the two questions, first on the coal business o what type of normalizing that we would see with Nacala fully ramped up, I think pricing levels – that is the pricing levels and the second question on the dividend for 2016. How could you continue paying a similar dividend in 2015? That's it guys. Thank you.

<A - Murilo Pinto de Oliveira Ferreira>: Roger Downey.

<A - Roger A. Downey>: Hi, Leonardo. Well, the coal business and the coal markets have been very difficult lately, and today it's really testing whether you can stay afloat even with the prices we have today. Obviously in Australia, we've seen the exchange rate benefit Australian production, but even so a lot of the Australian mines are underwater. So, it really is very testing and very challenging to give you any sort of guidance on what EBITDA levels are going to be in the future.

Mozambique has no relief from exchange rate benefits, and variations. The metical has been very much pegged to the dollar. So we haven't seen any of that. But what we will see in Mozambique is our operation, as soon as we start moving coal through the Nacala Corridor which is very close to completion as Galib mentioned earlier today, we'll see the much expected ramp up of our operations and once we reach normal capacity, we will certainly be a coal producer comfortably within H1 the cost curve, and really moving and pointing towards a first quarter. That's the target we're working with.

<A - Murilo Pinto de Oliveira Ferreira>: About the dividend policy, this discussion we intended to have until the end of the year. We announced in the beginning of the year in our budget process. One thing I can tell you, you are not going ahead with any equity transaction like we did with MBR looking to pay dividends. It's not our purpose. I think that must be considering based in the operational income, the cash flow base in our operations