# Q3 2018 Earnings Call

## Company Participants

- Fabio Schvartsman, Chief Executive Officer
- Luciano Siani Pires, Executive Director, Finance and Investor Relations
- Luiz Meriz, Global Director for Iron Ore and Coal Sales

## Other Participants

- Alexander Hacking, Analyst
- Alfonso Salazar, Analyst
- Andreas Bokkenheuser, Analyst
- Carlos F. De Alba, Analyst
- Christian Georges, Analyst
- Grant Sporre, Analyst
- John C. Tumazos, Analyst
- Jonathan Brandt, Analyst
- Marcos Assumpção, Analyst
- Thiago Lofiego, Analyst
- Tyler Broda, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning, ladies and gentlemen. Welcome to Vale's Conference Call to Discuss the Third Quarter of 2018 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 the Investors link. This conference call and the slide presentation are being transmitted via Internet as well, also through the company's website.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996 (sic) [1995]. Actual performance could differ materially from that anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks, and other factors.

With us today are Mr. Fabio Schvartsman, President and CEO; Mr. Luciano Siani Pires, CFO; Mr. Eduardo Bartolomeo, Executive Director, Base Metals; Mr. Louis Eduardo Osorio, Executive Director, Sustainability and Institutional Relations; Mr. Alexandre Pereira, Executive Director, Business Support; and Mrs. Marina Quental, Director of People.

I would like to inform you that Mr. Peter Poppinga will not join the conference today. Mr. Luiz Meriz, Global Director of Sales of Iron Ore and Coal, will be available to answer any questions related to the Iron ore and Coal business.

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

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

## Fabio Schvartsman {BIO 2067677 <GO>}

Thank you. Good morning to all. It's a pleasure to be here, and discuss with you the latest results of Vale. And on top of everything, we think that we are moving forward in the right direction, becoming, as expected, a more predictable company, showing consistent results during time (02:34). We have a meaningful evolution. And it is important for Vale's (02:40) that even with the reduction in price of the index of iron ore from the third quarter of last year to the first quarter of this year of 4%, we were able to more than compensate that through our quality premium, actually. This is how the company is dealing with this scenario. And we've been helped by the lower volatility in the iron ore world in comparison to other ores, where the change in volatility is much more meaningful these days.

I want to make a quick remark on capital allocation. I think that this is the most significant thing for a company in the mining universe, and because of that, we are taking a very cautious look towards anything that relates to capital allocation. Our primary goal is to distribute dividends and to buy back shares in order to compensate our shareholders.

And marginally, we are making investments as the two that we have announced to-date, the Salobo investment and the Gelado investment, both are a brownfield investments that they have a very meaningful return on investment. And they basically showcase how we think about investments and how we think we should handle them from now on.

One quick word in our business strategy moving forward. First, iron ore. Iron ore, we have a very simple equation in front of us. We are hunting out S11D. We are hunting after three pelletizers that we started this year. Therefore, our goal is to introduce more high-quality ore in the market, a market that is today driven towards higher quality for the right product for the right market.

Meanwhile, it's important for you to understand that we have a clear strategy for base metals as well. Base metals, as we anticipated since last year, we made, on purpose, a reduction in production, not reduction capacity but in production, of around 50,000 tons of nickel per year in 2017, 2018, and 2019. Therefore, our play in nickel aims towards 2020, where we will have, at the same time, much higher production; and we are aiming to have 310,000 tons of nickel production. That's just coming back to our capacity in 2020. We are working towards a total restructuring in our business that will reduce, in a very meaningful way costs. And these will be present in 2020 as well.

And finally, we expected to see a clear reversion and increase in price of nickel by that time. So, while we are going to enjoy the good moment of iron ore, we are preparing ourselves to substitute or to add to it the good performance that base metals will show with a jump in results in 2020.

So, one quick word about next quarter. Our expectation is to continue to deliver next quarter in a comparable basis. Therefore, with the fourth quarter of last year, we are expecting a very nice growth in results, as it happened in the third quarter, driven by the recent increase in iron ore prices in the market that is passing quite well. Meanwhile, you have all this noise regarding trade wars. And you see that iron ore is a physical demand and it is working accordingly.

So, this was my introduction. And I will now pass to Luciano to complement with some information. Please feel free, Luciano.

## Luciano Siani Pires {BIO 15951848 <GO>}

Good morning, and good afternoon. I will start with costs. As you could see, iron ore costs reduced from $14.7 to $12.4 per ton, so we delivered on our promises. We should expect for the fourth quarter this level to remain. And as you are aware, in the first quarter of next year, due to seasonality and the rain season in Brazil, likely, volumes are going to be lower and costs should slightly creep up.

In terms of base metals, I want to point out that not only we have higher unit costs because of lower dilution, because of lower volumes, but also there was extra spending in the maintenance shutdown for Ontario, so therefore, more spending over less volumes, and not only less volumes.

In terms of coal costs, although you saw improvement in volumes, the costs did not come down accordingly. And the reason for that is because we are moving a lot of material in the mine as part of the de-bottlenecking process. So, there's a lot overburden being moved. This should continue for the next three quarters, and we expect a meaningful uptick in product volumes in the second half of 2019. Actually, probably, we're going to be running close to 17 million tons of capacity on the second half, average for the year. The total for the year will be lower, but the rate of production in the second half will be very meaningful for coal in 2019.

Now, moving on to the projects. Some color on Gelado. The investment of $428 million will be roughly half financed by the savings on replacement of equipment in Carajás, because the remaining mining operations of Carajás will be reduced. And in addition to that, because it operates without trucks and zero transportation distance, the operating costs, the C1 cash costs on Gelado will be $3.50 lower than the operating cost of the Carajás mine, which are already amongst the lowest within Vale, so very accretive project.

In terms of Salobo III, the expectation is to receive the bonus from this in 2023. The risk associated is very low, given the production targets that we need to achieve. We're very confident. It's a sister plant of the two that we have already there. Very detailed engineering in place. We see very low risks of achieving the bonus. And even if there is a slippage in terms of ramp-up, the sensitivity of the size of the bonus received is very low related to the timing of the ramp-up. We're talking about tens of millions of dollars, so therefore, it's a given that we are going to get a substantial amount of money in 2023.

Capital expenditures also hit a low in the quarter. That's a consequence of finishing some important projects, like the emissions reduction product in Canada and the beginning of other important projects such as VBME and Gelado, and also of the comprehensive review during the year aiming at optimization, capital allocation, also in sustained investments. So, you should expect capital expenditures to go up in the fourth quarter to more normalized levels.

Finally, looking into balance sheet and capital allocation, you saw the 50% sale of Eagle Downs. We have not touched on this before, but this is just an example and a proof that we continue to trim down our portfolio, aiming at a more simplified company and bringing in the proceeds. We also performed, I would say, quite well on our share buyback. We have almost 50% of this completed in the third quarter alone at an attractive price of $13.27. We were very opportunistic, riding the volatility in external and internal markets.

And finally, debt management. We are very close to our net debt target. We reduced overall investments by $800 million. But if you look at debt maturing until 2021, the reduction was even greater, about $1.3 billion. So, we continue also to optimize the overall profile of debt.

Having said that, we can jump straight to Q&A.



# Q&A

## Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes from Carlos De Alba with Morgan Stanley.

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

Hi. Good morning or good afternoon. So my first question, maybe for Fabio or Luciano. How do you decide between paying dividends or buying back shares? Is there a particular information? What should we expect going forward? What are the parameters that we would need to consider in order to understand your rationale.

And then, second, if I understood correctly, Fabio, you basically suggested that this year, the story has been about iron ore and high-quality premium for – high premiums for high-quality material. And then, in 2020, the story would be base metals. How do you see next year? What is going to drive the company's performance in 2019? Thank you.

## A - Fabio Schvartsman {BIO 2067677 <GO>}

Carlos, thank you for your questions. First, the discussion between the dividends and buyback is basically opportunistic. It's a decision that we will make every time that we have a decision on these. And last time, we made a decision to invest in buyback, instead of more dividends.

First, because we had just created that policy, and we were pleased to pay dividends according to the policy, not in a different level in order not to confuse the market. Second, now we've got the opportunity for buying back was a good one. And we feel that we were right, because we bought back our shares around $13, and the rate of the shares today are around $15. Therefore, the return on investment there was quite fast actually. And this is a good thing. It reinforces that we made the right decision to move in this direction. So, it will depend on circumstance. It will depend, say, how it's going to be the environment in the fiscal area that impact or not dividends. This decision will only be effective on (15:24) will be evaluated at any given moment.

The second area, about the 2019. 2019 will be similar to 2018 but better. That means that we'll have more of the same in iron ore. We are going to have more high-quality ore coming on stream, more pellets coming on stream. And therefore, our average price should be higher than this year. On top of that, in these methods, our cost reduction is in process, so we are going to see some initial results coming out of it. But base metals is a story, basically, for 2020, where we are really expecting a big jump in the performance, that we'll achieve the goal that we have for, say, 30% of our EBITDA (16:25) coming from the base metals.

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

Thank you.

## Operator

The next question comes from Andreas Bokkenheuser with UBS.

## Q - Andreas Bokkenheuser {BIO 7182883 <GO>}

Yes. Thank you very much for taking my question, and thank you very much for doing today's Q&A session as well. It's been reported that, obviously, you're considering investing a bit more in S11D, but obviously, you don't want to bring more iron ore volumes to the market, so effectively, displacing some of the volumes in the Southern System. Can you talk a little bit more about your plans if that is, in fact, what you're considering? What are you thinking in terms of timeline? What are you thinking in terms of CapEx? What's required in terms of infrastructure and licenses and so on? Thank you very much.

## A - Fabio Schvartsman {BIO 2067677 <GO>}

Andreas, thank you for your question. You're right, we are really studying to extract a little more from S11D with marginal investments. We are actually in this phase, so our information is not sound at this point. That's the reason why we are not sharing the precise information. But I think that we stand to have a chance to deliver that by (17:46) moment when we should have tabulated all these analyses, and we will have all the information regarding this. And it will be developed in a very short period of time.

## Q - Andreas Bokkenheuser {BIO 7182883 <GO>}

Understood. If I may then, instead, ask another follow-up question more on the freight side of things. In the last couple of quarters you've obviously mentioned that you are in negotiation with some of your ship vessel providers ahead of the whole new IMO regulation that's coming online in 2020, effectively trying to convince them to invest in more environmentally-friendly equipment, scrubbers for the ships, and so on and so forth. Do we have any update there? How are these negotiations doing? And how do you think you'd be affected by the new IMO regulation? Thank you very much.

## A - Fabio Schvartsman {BIO 2067677 <GO>}

Just to correct a little bit. We are not convinced in convincing them. Actually, we're paying for the treatment that is soon to be sold in other ships for this purpose. So, as we are paying, it means that we are getting a lot of traction here. And we can say at this point that we have most of our fleet converted already for the scrubbers. That means that we are poised to actually benefit from the reduction in the cost of the bulker that is more quality (19:21) or more prolific (19:24). And therefore, we are good here, exactly as we've mentioned in the last conference here.

## Q - Andreas Bokkenheuser {BIO 7182883 <GO>}

That's very clear. Thank you very much.

## Operator

Our next question comes from Jon Brandt with HSBC.

## Q - Jonathan Brandt {BIO 17988091 <GO>}

Hi. Good morning, good afternoon. Congratulations on the very strong results. I first wanted to ask you about, I guess, your shares. Firstly, on the share buyback, so you said you did about 50%. And I can see that they're still sitting up in treasury shares. Are there any plans to actually cancel those, or should we expect to see them as treasury shares going forward? And related to that, I see that BNDES has been selling down part of their stake. I know it's not really your decision, but I was wondering if you have any update as to whether or not the controlling shareholders might be looking to sell down?

And then I guess my second question was related to the iron ore pricing and the premiums. You said, about 79% of your volumes that were sold were premium products. But my understanding is you're not actually getting a premium price for all of those products because of contracts. So, I'm wondering if you can sort of shed some light on how much of your volumes are being sold on contracts. I'm really trying to get a sense of if iron ore prices stay the same because of the mix shift going from contracts to using the new Metal Bulletin benchmark that you've created, how that will impact premiums. How much higher they can go? Thank you.

## A - Fabio Schvartsman {BIO 2067677 <GO>}

Okay. Let's start with share buyback. To frame this properly, you want to know if we are going to continue to buy back in the same speed that we've done so far? Was that your question?

## Q - Jonathan Brandt {BIO 17988091 <GO>}

No. I guess, I was wondering if you were hoping to cancel the shares that you've bought back...

## A - Fabio Schvartsman {BIO 2067677 <GO>}

The idea will be to eventually cancel that, but we have no other plans for the shares other than canceling that. Regarding BNDES and the (21:46), the only thing that I know is what I hear from them. And what I hear from them, especially from (21:56) is that they are not willing to sell in the short term. So, I have no idea if, on the other hand, BNDES is aiming to sell or not to sell. It's something that unfortunately I don't have information.

So, regarding prices, I must ask Luiz Meriz to give you more color in this issue of contract that you asked.

## A - Luiz Meriz {BIO 17928527 <GO>}

Hi, Alex (sic) [Jon]. Thank you for your question. Basically, the premium we are capturing arise from three major families of products, let's say, right. You can say that the pellets, which have the prices discussed on a yearly basis; the Carajás, which is already fully indexed to the index [indiscernible] (22:44) represents pretty much the value of the Carajás.

And the third part of that will be related to the brand (22:55), which is a lower alumina price. But majority of this band is sold on a yearly basis, so we expect that as from the next quarter, we already will be in a position to capture the value that the market is recognizing on the alumina quality, on our products. Does that clarify your question?

## Q - Jonathan Brandt {BIO 17988091 <GO>}

Yes. Thank you very much.

## A - Luiz Meriz {BIO 17928527 <GO>}

Thank you.

## Operator

The next question comes from Alex Hacking with Citi.

## Q - Alexander Hacking {BIO 6599419 <GO>}

Yeah. Thanks for the questions. On the first question, I just wanted to follow up on the previous answer. Is the goal to sell 100% of Brazil Blend Fines (sic) [Brazilian Blend Fines] linked to the low alumina index next year?

And then, I guess, second question, just on Moatize. As the mine ramps up, what's going to happen to the mix of met coal and thermal coal? Because obviously, I think there's been a bit more thermal coal in the mix than what was originally anticipated. I'm just trying to figure out, like steady-state, once the mine's at full capacity, what does it look like. Thank you.

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

Alex, thank you. And the first query, related to the Brazil goal. I mean, contracts have a different duration. I mean, majority of those contracts are done a on a yearly basis, as I've just mentioned. So, on those runs, the bids will be implemented in a faster way. For some others, you may have a small part of that which will be slightly longer, and then it will take a few more time to happen.

Yes, in general the market recognizes that the alumina is a natural movement in terms of pricing. We have a specific index. Now, it should be published to – which represents the low alumina on our (25:05). And this is the most fair way to assess the value of this product.

## A - Luiz Meriz {BIO 17928527 <GO>}

Alex, in terms of Moatize, the mix, we have several different pits and sections on the mine. The current sections we are mining, you are correct. So, we have a slightly lower proportion of met coal. The new sections which we are going to be opening as of now and next year are much richer, so therefore, the situation in 2019 will be similar in terms of – so, volumes will improve strongly in the second half, as I pointed out, but the mix will continue to be similar. In 2020, the mix improves a little further, and in 2021, it improves dramatically. So, the profitability of Moatize will increase over time, but gets a big, big jump from 2020 to 2021.

## Q - Alexander Hacking {BIO 6599419 <GO>}

Thank you.

## Operator

The next question comes from Christian Georges with Société Générale.

## Q - Christian Georges {BIO 1557701 <GO>}

Yeah. Thank you. My first question is on the pellets. Could you give us an idea of what is the breakdown between pellets – or how much of your pellets do you send to China these days compared to what, I guess, you send more to Europe? And linking to the contract question earlier, do you have some contracts on pellets which are maybe six monthly on the European destinations?

## A - Fabio Schvartsman {BIO 2067677 <GO>}

Yes, Christian. Thank you for your question. Well, China is not traditionally a big consumer market for our pellets. I would say that the majority will stay in Europe and Brazil. So, that basically is – I would say about eventually less than 10% of our volumes are directed to China. But our full production is committed in the long-term contracts. That's the scenario.

## Q - Christian Georges {BIO 1557701 <GO>}

Right. But the proportion going into China is increasing, right?

## A - Fabio Schvartsman {BIO 2067677 <GO>}

Not necessarily, right? We are increasing – this year eventually we might see a small amount heading to China as the production increases. But that would be eventually spot sales, as the majority of the volume is in long-term contracts, of which China is a relatively small part of that.

## Q - Christian Georges {BIO 1557701 <GO>}

Okay. Thank you.

(28:02)

Thank you. And my second question on Moatize. So, we're looking at 70 million tons in 2020. What is the target for 2019? I mean, are we going to be flat versus 2018 and gradually going on to 2020 at 70 million tons, or is it just in there (28:23)?

## A - Fabio Schvartsman {BIO 2067677 <GO>}

We will provide the full guidance by Vale Day, so I just wanted to give you a direction where we're heading. So, we should be at a rate of 70 million tons for the second half, but we're still sorting out the details. So, we'll give you precise guidance for the full year 2019 at Vale Day.

## Q - Christian Georges {BIO 1557701 <GO>}

Okay. And very last thing, VNC was back in losses. Does this – in New Caledonia. Is that a disappointment to you, or is it part of the plan that you currently have?

## A - Fabio Schvartsman {BIO 2067677 <GO>}

Look, we never hid the fact that VNC is a very difficult operation that Vale has. And we have the new management of these matters very focused on changing that for better. So, we are now in this process. We want to reach a decision of what is that we are going to do with VNC shortly. And as soon as we have the decision, we are going to share with the market.

## Q - Christian Georges {BIO 1557701 <GO>}

Okay. Thank you very much.

## Operator

The next question comes from Grant Sporre with Macquarie.

## Q - Grant Sporre {BIO 6780152 <GO>}

Good afternoon, gentlemen. Thank you for hosting the call. My first question is just a little bit more on VNC, if you're able to share anything. The question really is around, it would seem to me it's more of a revenue problem than actually a cost problem at VNC in terms of some of the realizations you might be getting from the intermediate products. So, I don't know if you could share any details on that. That would be my first question.

And then the second one is back on Moatize. You gave some guidance at Vale Day 2018 in terms of how the costs would evolve. Is that still your current thinking as to how those costs would evolve over time? Thank you.

## A - Fabio Schvartsman {BIO 2067677 <GO>}

Hi. Regarding VNC, VNC is not only an issue of price. It's an issue of cost as well, and it is an issue of capacity. We are operating at low capacity utilization at this point, and we are focused in increasing that. If we can increase that, we are going to save thousands of dollars per ton that will be as important as a price increase. So, there are two issues. The future prices obviously eventually can help, but we are not counting on prices. We are looking if we are able to be in a position to produce a lot more from the same equipment that we have there. Regarding Moatize...

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

On Moatize, we have no change to the cost guidance that we provided at Vale Day. And just reminding everybody, we look for – in the longer term, to have a total cost structure at Moatize at around $80 per ton cost at port, which means $60 per ton of operating cost. To us, $20 per ton of an additional tariff required to service the project finance, so very competitive. Obviously, will take a few years to get there.

## Operator

The next question comes from Tyler Broda with RBC.

## Q - Tyler Broda {BIO 16281303 <GO>}

Thanks. Thank you, and thanks very much for the call. Excellent performance on the quarter. I just wanted to ask, on Salobo, the third concentrator coming in, is that going to be the same size and design as the previous two concentrators, or is there any on what we should be looking for in terms – any specifics on what that might change in terms of the cost profile?

And then secondly, on that, if you could just, provide a bit more clarity exactly on what needs to happen before the Wheaton money comes through? And then, just secondly, on Samarco, the pellet market's still quite strong. It's just if you could give an update on where things are there at the moment? Thank you.

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

Okay. Tyler, on Salobo, this expansion is exactly equal. It's a sister plant than Salobo I and II. So, in theory, it should have 50% of capacity. But the reason why Salobo doesn't go from 200,000 tons to 300,000 tons is because corporate rates, they decline over time. So, therefore, the peak production would be actually 268,000 tons.

So, when you think longer term, there is then a trend for Salobo costs to come slowly up. Although from a variable level, you all know that we have cost that grows below $1,000 per ton. But on the other hand, on the first few years of the start-up of Salobo III, actually there's a counter effect that keeps costs at the same level, which is the fact that there's an already mined stockpile of ore, very close to where the mineral crusher will be for Salobo III. So, transportation businesses will be $0, mining costs will be $0. So expect Salobo cost to be stable at least over the next five years.

## A - Fabio Schvartsman {BIO 2067677 <GO>}

So, regarding Samarco. This year was a year of important achievements in Samarco. First, we had an agreement for all departments involved, especially the persecutors. That was a very complicated thing to get. And this was the most important step forward, because it's taking out the uncertainty which will be the impact of the liabilities that Samarco had because of the accident that Samarco had because of that.

The second good news is that very recently, we decide to start the construction of the tailings dam that will support the early start of the operation called, Alegria Sul, where we are not only decide to start, but we've got the licenses to build it. And we are under construction right now. That means that by the end of 2019, we will have everything in place to ask for the license for restarting operation. Therefore, if we are able to get these licenses, we will have everything ready for restarting the operation by the beginning of 2020.

## Q - Tyler Broda {BIO 16281303 <GO>}

That's perfect. Thanks, very much.

## Operator

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

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

Thank you very much. Two questions. Should we expect another cobalt stream in New Caledonia to finance the next project there? Second, I was rereading my notes from the October 2011 Mozambique Vale tour, and the guidance was 77% met coal, trending to 22 million tons future output fully developed. There was emphasis on the Chipanga seam 25 meters thick, but the other seams were 17 meters, or 10 meters, or smaller in variable. Is there a difference, where when you open up and get into the mine, it just isn't as good as when promised?

## A - Fabio Schvartsman {BIO 2067677 <GO>}

John, this is Fabio. Let me start with the cobalt stream. And then I'll gladly pass on Luciano, because I was not there and so I have no idea what was planned back then.

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

I will send you my notes, Fabio. I already started to write you a letter.

## A - Fabio Schvartsman {BIO 2067677 <GO>}

Thank you. Regarding cobalt stream, I would like you to understand that in our point of view, it's a totally different story our cobalt stream in Voisey's Bay from our one in VNC. The reason's a very simple one. In Voisey's Bay, we didn't have the cobalt. So, the cobalt is totally dependent upon opening the mine. If we didn't open the mine, no cobalt would be available before we sold something that we didn't have in order to make the buying feasible. That was the proposal.

VNC is a totally different story. We already have the cobalt in our stream of revenues. The cobalt is there, so in fact, cobalt streaming in New Caledonia will be neutral (38:58). So, the benefits that we have in the case of Voisey's Bay would not be present in the case of VNC. I hope this answers your question.

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

Thank you.

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

So, John, on Moatize, starting by the production volumes. So, the 22 million tons encompass 18 million tons through the Nacala Corridor plus 4 million tons through the Velha (39:23) Corridor. So, as you know, we ceased operations in the Velha (39:27) Corridor, so we would theoretically be limited to 18 million tons. However, we're going to go to 20 million tons based on debottlenecking of the logistics corridor. So, what's going to limit the capacity currently is the logistics.

In terms of the split, the 77% will not be achieved over life of mine. Now, we know more about the orebody, and it will probably peak once we go through the new sections that I mentioned, Section 5 and Section 6, at 65%. From today, it's like 55%.

Chipanga will not be as meaningful as it was before. So, the quantity of Chipanga is reducing. However, the other seams of coal that we're mining, we have also very good quality. They have strange names, like (40:17) whatever, but they are achieving very good price realization. So, the fact that Chipanga is decreasing, should not be a concern in that respect.



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

Thank you.

## Operator

The next question comes from Alfonso Salazar with Scotiabank. Hello, Mr. Salazar, your line is open.

## Q - Alfonso Salazar {BIO 18358082 <GO>}

Sorry, thanks. Good morning. I have two questions. The first one is regarding the timing that you will get from return once Salobo III is up and running. If you can provide more details or anything else that you can share about this.

The second is regarding the premium that you get for the quality, the premium in iron ore. How do you see that in the long term? And what will you see, especially in the supply side, if you think that outside Australia there could be more supply of high-quality ores that we compete with Vale. And how do you expect that to evolve as China uses more scrap, again, in the longer term? Thank you.



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

Okay. On Salobo III, the (41:45) is a function of three variables. The first one is the timing of the completion and ramp up of Salobo III. So the guidance that we gave you from $600 million to $700 million assumes that we achieve those milestones in 2023, although the start-up of the project is scheduled for 2021, so however. So, therefore, we have a full year to achieve the production targets. And as I indicated, because it's a sister plant of the two which are already operating, that should not be difficult, so timing is one variable.

The second variable is capacity. Again, it shouldn't be an issue, because we've been running the sister plants for a while now. And the third variable is ore grades which, as much as we continue to mine and to know Salobo, there is no surprises we expect. It's been a bit – lower grades have been behaving according to the mine plans. So, level of risk for receiving that benefit, very small.

## A - Fabio Schvartsman {BIO 2067677 <GO>}

Regarding quality premiums in the iron ore universe. Well, we certainly think that it's a structural circular thing, therefore permanent. And there is a fact that I would like to emphasize that helps understanding what's going on in the market these days. If you noticed, in the last few days, the index Platts went up in a very important manner. We are now at the neighborhood of $76 dollars per ton. That was not achieved for a long period of time. That was a combination of two things. A strong demand in China, especially because of the latest stimulus that the government is making to speed up the economy a little bit. But more importantly, our competitors made the right decision of changing the quality of the product that they are offering to the market. It always come with a consequence. It means that certainly there are more costs associated with (44:04). But the truth is that now there is more high-quality vendor coming to the market through the index. And accordingly, the index is moving forward and is the best showcase that we can have that this trend is so real and so important that everybody's now having to adapt to it. Either people are offering more quality products if they have them, or they are cutting production accordingly because the market is punishing very much the low quality.

So, it is implied in this comment that we are quite comfortable that this will continue like that. And we don't see anything meaningful coming in the next few years for the supply. And all the initiatives that you eventually heard of are very complicated, very high CapEx, very high OpEx. And there is a clear doubt if they're closer (45:22) to make this developed or not. This is the situation as we see today.

## Q - Alfonso Salazar {BIO 18358082 <GO>}

Thanks, and very good color. Thank you.

## Operator

The next question comes from Mr. Alex Hacking with Citi.

## Q - Alexander Hacking {BIO 6599419 <GO>}

Hi. Yes. Thanks for the follow-up. I just wanted to follow up on the nickel volumes. You mentioned that those would be back to 310,000 tons by 2020, if I heard correctly in the prepared remarks. Could you maybe disclose where that additional sort of 50,000 tons – at which mines that additional 50,000 tons of nickel is planned to come from? Because if I remember correct, the Voisey's Bay underground doesn't start until 2021, so maybe just some color there would be helpful. Thank you.

## A - Operator

Okay. Alex. Just to clarify that, (46:21) capacity stalled, so it will be around 2021 or 2022. Where it comes from is – the mines, of course, they have to be sustained on the level, and you gave a good example of Voisey's Bay. So, Long Harbour, for instance, we have spare capacity of 10,000 tons there. We still have capacity in Sudbury of over 15,000 tons as well. We have (46:41) with capacity. And as Fabio mentioned, we have a huge increase in capacity in New Caledonia for nothing, just for better management and a small debottleneck that we have to do there.

So, there are a lot of capacity on our industrial plans to get to that. So, the path to get to 310,000 tons will be guided by the market, by the way. So, as we expect the closing of the curtains (47:03) 2020, but I will say, the guidance with which we need more clarity on the Vale Day, by the way, is just a direction, okay? Just bear in mind that we are able to produce – it's a minor investment, just to get it very transparent, it's like the second (47:17) but that's very marginal. But that gets a lot of volume as well. But anyhow, anyway. The direction, it's 3,000 and 310,000 (47:24) is another plan. It's going to be achieved as markets evolves, very, very cautiously and as we've mentioned before, with a better cost structure because we're going to keep our – actually going to reduce our fixed base to run that whole operation. I hope it's clarified you.

## Q - Alexander Hacking {BIO 6599419 <GO>}

Thank you. Very clear.

## Operator

The next question comes from Thiago Lofiego with Bradesco BBI.

## Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you. Fabio, I have one follow-up question. Could you give us an update on the railroad concessions renewals for Carajás and Vitória-Minas? What's the timing expected for those renewals, and what is the potential CapEx linked to those? Thank you.

## A - Fabio Schvartsman {BIO 2067677 <GO>}

I will start, then I'll let my colleagues here complement that. But the state of the art here is very advanced. We are in the agency right now. We are just waiting for a final decision of the agency. I think that by cautious reasons, the agency is waiting for the change of the elections and the change of the President in order to move forward with this.

But this seems it will be a low-hanging fruit waiting for new President to catch. So, I'm pretty optimistic that as soon as he starts in the office he will be allowing this process to move forward. We have everything in place to deliver this as soon as the Brazilian executive power decides. Regarding the investment, I turn it over to the members, and how they are going to be.

## A - Operator

Well, I think it's quite soon to say a number, because in the agency, as Mr. Schvartsman said, we are going through a very technical analysis. It's not final yet. And after that, it's going to go to the union (49:51) court for the final analysis, and then back to the government for final decision and then the renewal of the contract. So, up to now, I would say that would be early to call a final number, because we are going through a technical methodology that is about to be concluded by the agents.

## A - Fabio Schvartsman {BIO 2067677 <GO>}

Wanted to complement that. If you take, for instance, the (50:24) railroad that is selected by the government to become the contract price for the contraction. This will be built by Vale, once the review of the concession is approved. But it will take several years to build. So, the investment, no matter how much it's going to be, it will be spread among many years.

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

And just Luciano complementing. This is a general cargo railway, which by nature costs much less than a heavy haul railroad, like an iron ore railway. So, if you take the numbers from the iron ore industry, they're not a benchmark for this railway.

## Q - Thiago Lofiego {BIO 16359318 <GO>}

Great. Thank you, Fabio. Thank you guys very much.

## Operator

The next question comes from Marcos Assumpção with Itaú BBA.

## Q - Marcos Assumpção

Hi. Good morning, everyone. First question on production and sales volumes on iron ore. In the first nine months of the year, Vale sold 95% of its production volumes, basically to support its strategy of increasing blending volumes. How should we expect that ratio to behave in 2019?

And a second question, if you could comment a bit or give us an update on the pellet premium negotiations for next year as well, at least how the market is so far. Supply/demand is behaving in the trend that you see for pellet premiums for next year. Thank you.

## A - Fabio Schvartsman {BIO 2067677 <GO>}

Thank you, Marcos, for your question. Regarding the 95% sold of last year, well, most likely, we will have the same situation this year in 2019. And the reason for that is because we are using our flexibility. In our fleet today, we are in a different position from the other companies as we have a lot of inventory sitting in China.

We can speed up sales or slow down sales according to the behavior of the market. Naturally, the market slows down by the end of the year, so naturally, we are going to, most likely, hold a little bit of sales for next year. And this explains the level of sales in proportion to production that we had in the first quarter. Besides that, we are trending coming to – more closer to – compare them to between what is produced in sale every quarter, as we now, we are coming to the end of the building of inventories in China.

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

Yeah, Marcos. Regarding the pellets, we basically are starting our negotiation season right the market balance with the – showing the increasing price that you have. We don't have the much more specific than that due to the sensitivity of the negotiation knowing that we are now.

## A - Fabio Schvartsman {BIO 2067677 <GO>}

But the truth of the fact is that we are completely over-sold. And consequentially the demand is higher than our capacity, so the natural consequence that there will be some price adjustments because of this unbalanced situation that I just explained.

## Q - Marcos Assumpção

Perfect. Thank you very much.

## Operator

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

## A - Fabio Schvartsman {BIO 2067677 <GO>}

Thank you. Again, as always, it was a pleasure to have you all on this call with very detailed questions that were presented. And we are very pleased to tell you that Vale is moving forward in every aspect that we were looking for. So, it seems that we are poised to have another good quarter in front of us. And I hope to have you all in the next call by the beginning of next year. Thank you so much, and have a good day. Bye-bye.

## Operator

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