Company Name: Vale
Company Ticker: VALE3 BZ
Date: 2014-07-31
Event Description: Q2 2014 Earnings Call

Market Cap: 266,284.68
Current PX: 50.39
YTD Change($): +10.13
YTD Change(%): +25.161

Bloomberg Estimates - EPS
Current Quarter: 0.823
Current Year: 5.442
Bloomberg Estimates - Sales
Current Quarter: 32750.833
Current Year: 127532.200

Q2 2014 Earnings Call

Company Participants

- Murilo Pinto de Oliveira Ferreira
- José Carlos Martins
- Luciano Siani Pires
- Gerd Peter Poppinga

Other Participants

- Rodolfo de Angele
- Wilfredo Ortiz
- Carlos F. De Alba
- Thiago Lofiego
- Alexander Hacking
- Andreas Bokkenheuser
- Alan Glezer
- Amos C. Fletcher
- Renato Antunes
- Leonardo Correa

MANAGEMENT DISCUSSION SECTION

Murilo Pinto de Oliveira Ferreira

Business Highlights

Fertilizer Business

- First of all, I'm pleased to report that Vale delivered a strong operational performance in Q2, with the best results ever for iron ore production in Q2 despite a lower price
- We have big projects ramping up, we have also have consistent cash flows in our base metal business and also improved operational results in the fertilizer business
  - This H1 the year we continue to achieve savings in cost and expenses amounting to close to $250mm compared with H1 last year
- Despite lower iron ore price, we generated strong cash flows and were able to pay $2.1B in dividends and maintaining our gross debt and cash position at similar levels to first quarter 2014

Simandou Project

- This quarter, we suffered a drop in net income of some $1B reflecting the impairment of assets related to the Simandou project and the Integra Coal mine

- Discussion with the Government of Guinea are advance and we are diligent in developing alternatives to recover value from our investment in Guinea
- Overall, we are continued to focus on productivity and continue to ramping up important operations and reduce cost expenses and CapEx in order to achieve our goal of sustainable shareholder value

EBITDA

- Now, I would like to talk about our financial performance, and then I will talk about our business segments
- In terms of the financial results our, EBITDA remained at just over $4B similar to Q1 with the continuation of our strong base metal performance with an adjusted EBITDA of $609mm in H2 – second quarter despite major maintenance work in Sudbury
- As mentioned early, in this H1 the year, we reduced costs and expenses by close to $250mm when compared with the first semester of last year

G&A and CapEx

- G&A decreased by over 25% vs. our 10% reduction target for the year and pre-operating and a stoppage expenses decreased by close to 40% vs. our 50% savings target for the year
- In H1 2014 Vale’s CapEx amounted over $5.1B, representing a decrease of $2.1B when compared to the $7.2B spent in H1 2013
- The reduction is partially explained by – a forecast lower CapEx budget for 2014 by the concentration of the year’s CapEx in H2 and by savings from scope optimization, commercial negotiations, and project execution
  - Sustaining CapEx also showed a decrease of about 12% when compared to H1 2013

Net Debt

- Net debt remained at level similar to this last quarter as just over $23B with a cash position of $7.1B at the end of the quarter
- Our flagship area as you know is ferrous minerals. in this segment we had solid results even faced with lower iron ore price
- Iron ore production reached almost 80mm tons, the best performance for Q2 ever
- With the ramp-up of the additional 40mm tons and on Conceição Itabiritos

Supply Chain

- We have over 2mm tons stockpile in Malaysia to feed their supply chain as part of our logistic structure to give greater flexibility and to support stronger sales volume in the coming quarters
- Although our average sale price for fines suffered a drop to $84.6 per ton, this was softer than the relative decrease in the plus iron ore reference price
- Cash cost per ton for iron ore fines increased due to an adjustment in reporting methods in which we are breaking down sales into fines in Run-of-Mine
- Later on, Luciano and Martins can discuss these in more detail

- The cost level is low and will decrease even further as production increases, diluting fixed costs and our internal cost reduction initiatives bear additional fruit

Base Metals Segment

- Turning now to the base metals segment, I'm pleased to inform you that base metals business has made yet another excellent contribution to our results with consistent cash flow generation
- Adjusted EBITDA reached over $600mm this quarter despite major maintenance work at Sudbury, 10% more than last quarter's good results
- Sales revenues of close to $1.9B were 9.3% higher than Q1 2014 due to better sales price in spite of lower production volumes because of the stoppage at Sudbury

Salobo II

- [indiscernible] (9:19) at the conclusion of projects was a major contributor to the increase in base metals performance
- Salobo I and Onça Puma generated consistent cash flows and contribute 32% of base metals EBITDA
- Salobo II came in on time and under budget, with total CapEx of $1.22B at the end of Q2 2014
- The completion of Salobo II in Q2 2014 concludes a successful phase of investments in our copper operations
  - With the Salobo projects coming on stream on time and under budget, CapEx amounted $3.7B out of our budget of $4.22B
- The first line at Salobo II produced the first copper concentrate in June
- VNC is back in operation, with two out of the three HPAL lines running at emergency stoppage
- Long Harbour produced its first finished nickel on July 14
- Looking forward, the ramp-up of ongoing projects reinforces our confidence that the base metals segment is set to achieve its EBITDA target of $4B in medium term

Coal

- Now to look at coal
- Production in Moatize was slightly more than in first quarter
  - However, adjusted EBITDA was negative $154mm due to low coal prices and also the low utilization of our asset base as we wait for the conclusion of the Nacala Corridor
- We have made progress on the Nacala Corridor in the key of our logistic challenges with advance in line with our plans and reached physical progress of 77% in the Greenfield sections
- The first train is expect to run in Q4 this year and our first shipments are expected by first quarter 2015

Fertilizer Business

- The fertilizer business continued to make progress, adjusted EBITDA increased to $72mm in second quarter 2014 from $35mm in Q1 2014, mostly due to positive impact of sales price

- Production of phosphate rock grew in both Peru and Brazil, with a record output for Q2
- We also continue to discuss partnership opportunities with a view to maximize our strategic option for the business
- Vale is committed to maintaining efficient operations, reducing costs, expenses, and optimizing CapEx in order to generate positive FCF in any price scenario

José Carlos Martins

Q2 Highlights

Inventory

- Leonardo, when I answered your question before in Portuguese, I forgot to say what's going on with the stock – inventory information, okay, because we invoice less than we produce, than we ship
- So what's going on is, we are now fulfilling the inventories in Malaysia
- Malaysia is able to storage 4mm tons, and we are storaging there mainly high-silica material that we intend to blend with the Carajás Serra Sul as soon as possible

Volume and Working Capital

- By doing that we intend to improve the price realization, because the material that will go to the market after the blending will be a superior-quality material
- So we expect two consequences of it
- First is improving our average quality and also improve price realization
  - So our practice is to move our volumes as close as possible to the customers, and to sell these in the best time to sell
- So it's a double target, and we don't intend to increase the inventories on general, because we are moving the inventories that we already have in the mines closer to the customers
- We expect, with this practice, not to be a burden our working capital, because we expect to keep the same total volume
- But with the iron ore more and more closer to the customers in our distribution center in Malaysia, and also in our ships that is moving from Brazil to Asia in a more regular basis
  - So I think it's part of our strategy, this – increase the inventory in this period of time, but long-term, and also in the total, there won't be any additional increase in inventories in our company

QUESTION AND ANSWER SECTION

<Q - Rodolfo de Angele>: In the First Call, but just wanted follow-up with two things related to CapEx. First one, I guess with these numbers are starting, I think it's pretty clear that you're delivering on growth on various aspects that we are seeing and our volumes going up. But I wanted to ask you to detail if possible how the big project, Carajás Serra Sul S11D is going on. If you give us some detail on the works that are being done? And my second question is still on CapEx, we saw Salobo been delivered under budget, something in the past, we were used to see the other way around. And so I wanted to ask exactly what drove the potential, the savings that we achieved, the 12% savings there just to kind of use it as a case study to – for us here to kind check for potential savings on the rest of your CapEx budget still in place. That's all from me.

<A - Murilo Pinto de Oliveira Ferreira>: Rodolfo, thank you very much. I'll leave it with Luciano and Gerd. Please.

<A - Luciano Siani Pires>: Rodolfo, I'm Luciano, I will address the second one first and before handing to Gerd. The major two levers for the savings on Salobo are two-fold. The first one, the [indiscernible] (17:51) which we did not use because of good project execution, and the second one the exchange rate, the depreciation of the real in comparison to the original budget was not translated into cost inflation. We were able to keep the cost in reais at the same level that we've embedded it. So we fully took advantage of the depreciation of the real.

<A - Gerd Peter Poppinga>: Rodolfo, good morning. Well, about the S11D, the project is going well, no problem so far. We have contracted up to now something around 50% of the project and spent around $5B considering mine, plant, and the entire logistic. The physical progress reached something around 32%, in line with the plan of the work – that is very important to say. We had some important good achievements in this period of time to see the construction progress in their well, the mine, and plant sites in the dry season, it's very important. Now, remembering that we have been working now in dry season, the production it's much higher. The 100 models – we have already assembled 58 completed models among 109 models to be completed to be finished up to the end of this year.

And the expansion in the railway, it's also progressing well. We delivered two expansion expanded segments that is very important to increase the railway capacity. In the port side, the onshore and offshore, everything is going well, and no, we don't have any problem with contractor, they are performing in a very good way. And we have up to now 28,000 workers on the site. That means that it's a huge amount of people working on the project. And so I believe that we don't have any surprise, everything is running according our plan.

<Q - Wilfredo Ortiz>: I just wanted to ask you first on the SG&A front, we've seen some interesting reductions compared to last year and I just wanted to get a sense as to whether these are levels that should remain going forward given that pre-operating and stoppage expenses should continue to trend down as the year progresses. And secondly, on the price realizations on iron ore, could you give us a sense perhaps as to the difference and that you're gathering from the Northern System vs. the Southern System and whether you are seeing or expecting an improvement from the discounts perhaps that you're realizing on the southern system with the investments that you've done so far? Thank you.

<A - Luciano Siani Pires>: Starting by SG&A, I'm happy to say that not only we believe that those levels are sustainable, but we're actually already building plans for further reductions in the future. Starting by SG&A, I'm happy to say that not only we believe that those levels are sustainable but we're actually already building plans for further reductions in the future. Thanks for the productivity improvements that we expect from the implementation of new computer systems across the company. On the pre-operating expenditures, we believe that if you see the numbers, we believe that you're right it should trend down as they ramp up of VNC resumes and progresses, because that's the major contributor for the pre-operating expenditures to-date. So if we can eliminate that, those pre-operating expenditures, we should get to the 50% target that we've announced.

<A - Murilo Pinto de Oliveira Ferreira>: Regarding price, Martins, please?

<A - José Carlos Martins>: Yes, Wilfredo, as far as average price of our products, the [indiscernible] (22:40) commands a better price, almost $10 above the Southern System price. And there, I think this situation will be reduced as time goes by because we intended to blend more Northern System ore with the Southern System ore. So by doing that we believe that we can get a net improvement in our price, because parts of the Carajás [indiscernible] (23:09) is not fully recognized by the market. So by mixing it with the Southern System, we can have a much better price for Southern System material, and not lose too much price from the Northern System. So going forward, I believe our price for Northern and Southern System [audio gap] (23:32) because of the blending practices that we are implementing. And in the future, when we have all those itabirites project under production, we are not going to need it to blend so much ore and then we can have a better price in the Southern System and also keep the premium that we have in the Northern System. Generally speaking, it's what we intended to do and that's what the development we expect to our blending and shipping strategy going forward.

<**Q - Carlos F. De Alba**>: The first question is on cost, if I looked at the outsource services and excluding the impact of volume and exchange rate, I see an increase, year-on-year, in Q2 and also an increase, year-on-year, in Q1. So I know that the company is putting a lot of effort in reducing cost. Expenses clearly have been trending down. But I wanted to hear your comment, and may be Luciano, on what is happening with this outsource service line, which is the most important component of the company's COGS? And then my second question is coming back to Carajás, I see the company's still expecting to receive the global license to expand the mining operations of the current Carajás unit. And we're going to get into H2 the year, when is the limit by when you need to get these licenses so that you can still hit your production target next year given that, maybe December through March, you have the rainy season in Carajás and that could affect the preparation of the mine and the expansion of the mine? Thank you very much.

<**A - Murilo Pinto de Oliveira Ferreira**>: Luciano, and later on [indiscernible] (25:48), please.

<**A - Luciano Siani Pires**>: Carlos, thank you for your question. The first two quarters of this year, where you're usually high in terms of maintenance services and that explains part of the outsource services – most of the outsource services increase. So we had, as already mentioned, the shutdown in Sudbury. We had also a safety shutdown also in Sudbury in Q2. We had some fertilizer maintenances. I think in Q1 we also had some corrections that we had to make on the projects ramping up: Onça Puma, Salobo and even Plant 2. So I would say part of it has to do with the adjustments on the operations, which are ramping up, which are generating cash. So they don't go into pre-operational expenditures because the cash generation is still [ph] positive (26:43) so they go into cost and they are recorded as outsource services. So we should expect, as the operations normalize, to have this line also trending down.

<**A**>: [indiscernible] (26:57)

<**A**>: Sorry. Regarding the license, we really don't expect problems and this should be coming soon. It will all depend on how it will be – what will be written in the license if we have a bigger license for the whole area or we have a smaller license? And then if we have a small license, so we have to adjust our production plants to this area. And then we had to adjust but we are going to produce it and ask for more licensing in a separate way. But it's okay, we can manage this. We can handle all the situation. I guess Martins should add something to this.

<**A - José Carlos Martins**>: Yes, complementing what [indiscernible] (27:49) said, we have everything on place to produce 150mm tons by next year in Carajás. Even if you have restricted license, they don't see any problems in reaching this number, but sure if you get complete license for the whole area that will solve our problems for many years. Otherwise, we needed to keep licensing year-after-year. But we are expect to have a full license and then we have our free hands to produce as much as possible, to do what we do better which is to produce in larger scale and larger volumes.

<**Q - Thiago Lofiego**>: I have one follow-up question, Martins, if you could comment on your expectations of new supply for 2015 in the market, you mentioned in the Portuguese call, you expect addition of 140mm tons of new supply in the market this year. But if you could share with us your expectations for next year and also if you could comment on or give us some more color on capacity closures in China. Do you think they will be significant going forward or do you think that Chinese are [ph] in a position would (29:21) be more resilient than you expected?

<**A - José Carlos Martins**>: Talking about your first question, I believe that the market is really in good condition and the additional supply this year came in mainly from Australia and we reached something like as I told you before 140mm tons but 90mm – 93mm to be more precise, was already absorbed by the market. So I think in H2, the additional volume that will come to the market against the same last half-year of 2013, will be around 50mm tons. So I think in H2, the pressure of the additional supply will be lower. And as you know, steel production continues growing in China and everywhere not so much, but continues growing.

For next year, we believe that our estimation, at this point in time, additional 100mm tons will come to the market, but next year, the main source of this additional volume will be Brazil, and it's specifically, Vale. I think, normally, people focus too much on price of iron ore and also in China. I think they are some reasons for it, in the last six or five years, because Vale was not increasing production too much and also because Vale had a lot of projects under erection that was not contributing for the bottom line. I really believe that you and your colleagues needed to focus a little bit more on the basis of the business – in our portfolio of business. I think, when we didn't have a good situation in other business, it was okay to look at [indiscernible] (31:50) look China. But I think going forward, I really believe that you have to put those things on a second priority, because it is looking much better what we are delivering in the other business, okay.

I think we have a very good upside on the nickel business. We are finishing our investments on coal that also you bringing more volumes, and copper also. Then I think the issue of China and the issue of price will have a less impact when analyzing our results, and I may be participating in this meeting so many years, and it's amazing how much we focus on China and how much we focus on iron ore price. Now I think is a moment that we are increasing volumes, we are reducing cost, so the drivers of our results will depend much less on what will be the price in China.

And I think we are preparing ourselves to live in this moment. So I'm not very much concerned like many people are about China, sure that China will not grow so fast as what used to grow, but will continuing growing. And we at Vale, in the last seven years, we didn't increase any volume in iron ore. And now we are increasing, our volumes are coming to the market, but also our cost will be down and our average quality will also increase. So – and the other business we had are delivering better results also. So, I kindly ask all of you to focus a little bit more your analysis in the other business, and the results that we are getting in other parts of our portfolio of products.

<Q - Alexander Hacking>: The question, and congratulation on the improved operating performance. I have two questions on CapEx, if it's okay. I think in H1, the CapEx spending was only $5B, I understand there's seasonality there, but have you revised lower your annual guidance for CapEx, because $14B seems high at this point. And then I guess the second question, more higher levels of looking out a little bit, you guys are done with Salobo II now, congratulations, Mozambique is the only non-iron ore project left, should be finished next year. So at what point do you start thinking about what else should be going in the pipeline, are you planning to wait to see how iron ore prices shake out over the next couple of years, or are you willing to move sooner than that, in terms of pushing some other non-iron ore projects into the pipeline? Thanks.

<A - Murilo Pinto de Oliveira Ferreira>: Thank you for the question. I think that you are right, we are almost finalizing many projects like Salobo, Mozambique, we are in process to implementation of S11D in south range of Carajás. The Carajás project, we had so many projects that intended to finalize into 2016, 2017. And, as we have shared with you, we are looking for the best return. We're not looking at the highest volume, to be the number one in volume, we wanted to have our assets in the first quartile, maximum in the beginning of second quartile. We wanted to have the chance to expand, to call Brownfields, and we must have just [ph] rolled last (35:59) project. In this regard, in case of not having new projects based in these assumptions, for sure we prefer to pay dividends and to reduce our debt. Again, it's our priority to bring the best return to our shareholders. Luciano, please, about the CapEx?

<A - Luciano Siani Pires>: Alex, so let's discuss first capital projects. We have, yes, seasonality, especially because the weather conditions favor, in Brazil, the construction works on H2. So, we should expect acceleration of the CapEx spending on H2. We're not sure at this moment if we're already able to announce a reduction in CapEx for the year, because we still not only we expect this uptick, we're still working to realize more savings on procurement and on not spending in contingencies on the projects which are only final stages, which are finishing. And also on scope optimization, but perhaps too early to give you an expectation of reduction. On maintenance CapEx, I believe we can already talk about 5% to 10% reduction in what we plan for the year and that has nothing to do with the deferral of reporting investments of less sustained to preserve the integrity over the assets but rather again with better planning, better engineering even of the sustaining projects which can lower the budgets. We are analyzing the trade-off and those are investments which have a shorter construction field. So you can make decisions within the year that impacted the year itself. So I would say that, so far, we are happy to see maintenance CapEx trending downward and 5% to 10% reduction is something that we believe is achievable.

<Q - Andreas Bokkenheuser>: Just a quick question on costs, so you've been guiding that, obviously, costs are going to come down as you ramp up production at Carajás and of course there's always the chance of FX – of favorable FX movement as well. Are you seeing any other options for cost to come down, can you see any efficiencies being gained now or have most of the stuff been done and is now down to Carajás at this point? Thank you.

<A - José Carlos Martins>: Well, Martins speaking. As I told you before, we have a lot of opportunities for cost reduction [ph] conduction (39:12) not only by managing costs but also by managing volume, okay. We have a different mines different cost structure and we are bringing additional capacity with much lower cost. So then we can manage our internal mix, because we have a cost curve for the market but also you have cost curve internally, that we can manage to found the better mix between volumes and margins. And also it's sure that we try to operate as much as possible with our lower cost mines. On top of it we have also a strategy to reduce our cost by better negotiating with suppliers and by improving – the operations in our plant. And also I think there is lot of space for innovations in what we are working now. We have also possibility to reduce cost on the shipping side as long as we put our, the senior operations. But we had a lot of areas that we can reduce our cost.

And I think as I told you before, more and more, our focus is in managing volume and in managing costs and managing quality. I think these three points are very important in our strategy. And as long as we are bring new mines to market its clear that you are going to see a very positive impact on our cost structure and also in our price structure. New mines also bring better quality and also bring lower cost. In the last seven years, we are very much pressured by the depletion of existing mines that come deeper and the distance come longer. And so that's now factored in our results, but from our own we are bringing new production with a much lower cost. So I think we are in a very bad situation to reduce our costs and I'm sure that you are going to see, as time goes by, these lower costs to be in our results.

<Q - Alan Glezer>: I have two quick questions here. The first one is regarding the corporate business. I was looking at Vale's average sale price, it was 5% higher Q-on-Q but meanwhile we saw that the reference price at LME was down around 3% Q-on-Q. I was wondering if you guys could explain why we had this difference, maybe if it was regarding the distribution of sales along the quarter? The second question is regarding iron ore, I was wondering if you guys could give a color regarding the iron ore inventory level at the Chinese mills at the moment. We know that the inventory report remained elevated above 112mm tons, but I was wondering if you guys could give a color regarding the inventory at the Chinese mills themselves? Thanks for taking my questions.

<A - Murilo Pinto de Oliveira Ferreira>: Please, Peter, explain part of the copper.

<A - Gerd Peter Poppinga>: Okay, thanks for your question. It's like you said it's very normally adjustments. In copper we have some intermediate products in our mix like copper-concentrated anodes so this explains some difference in the price. Regarding to LME, we also have our pricing system, it's a month after month of arrival, so sometimes you have – they're provisionally priced at time of shipment, with the final prices then settled on the basis of the LME price for future period. So generally one month to three months after shipment to customers. So it is a quarterly thing, the timing of sales and should be normalized in the next quarter. Thank you.

<A - José Carlos Martins>: Well, as far as iron ore inventories in China, the number for the [indiscernible] (43:59) there, no, but the number of the inventories on the customer hand is not that easy. In average, we believe today these inventories were only 20 days and reducing. As the market is becoming more liquid, the customers know that there is a huge inventory in the ports and a lot of ships coming to China. It's quite understandable that they are reducing the inventories that they need in their plant. So our last evaluation was around 20 days and we don't believe that they can go too much below that. Who wants to remember that these inventories was more than 30 days some years ago and has been reducing slowly as customers becoming more confident that there will be always some ships arriving and there will always come inventories on the ports. So that's the situation today, but I don't believe that they have space to reduce more than 20 days their inventories in their plants, in their steel plants.

<Q - Amos C. Fletcher>: Just had a couple of questions, firstly on the nickel business and particularly the VNC asset, I was just wondering, it's running well below the guidance you gave of 40,000 tons of production this year. What do you think is a realistic number for this year's production given what's been happening in H1? And then secondly, do you think that it's realistic for it to decrease its full capacity at the medium term, or do you think it's more realistic that only having two lines out of three lines operating at any one-time is sensible? And then my second question is just relating to the joint venture with – potential joint venture with Glencore that we discussed about a year ago in the Sudbury Basin and there was number put out there, opportunity to develop up to $550mm back in 2006 and the original

Xstrata-Falconbridge proposed merger I was just wondering where the discussions have got to and what the potential could be there in your view? Thank you

<A - Murilo Pinto de Oliveira Ferreira>: Please, Peter Poppinga.

<A - Gerd Peter Poppinga>: Okay. Thanks for your question. And so on VNC we had achieved, we are on a good track. We had achieved for months [ph] as much 46:44) as 60% of the capacity of the plant. And by the way, when you say three autoclaves were of this two because we have three lines but for it to achieve 100% of the capacity, you don't need to operate the three lines actually because there's always frequently a maintenance, schedule maintenance. So actually you have to only to operate with 2.5 autoclaves on average along the year, that's the right number to have in mind. But then we had this acid spill and there was by the way, no damage in the ocean and then afterward, some social unrest being just the catalyst of that.

So now we are back to the operation but you're right, this is of course not achievable anymore. Our target of 40,000 tons we wanted to achieve this year. So we're probably going to revise that and for now it looks that 30,000 tons would be achievable which by the way is not very close from the break-even price which on the current price levels. So at the end of this year if we get good pace and good momentum, we would then reach break-even at VNC end of this year.

In terms of Glencore, what we are doing is because we realized we did a strategic break in our bigger discussions and what we're doing for now is trying to perform some of the smaller projects individually, incrementally and we're doing some progress there and by doing that, instead of a top-down approach we are going more a bottom-up approach and having little projects, little synergies being realized, that's where we are today. Thank you.

<Q - Renato Antunes>: First on iron ore, if you could talk a little about the markets outside China, are you guys seeing demand in other rival markets here at Japan? And also on that context today, iron ore price seem cheap on a relative basis when compared to scrap, and if you think that this lower price could increase competitiveness of blast furnace producers? And the second one, on the projects in [indiscernible] (49:29) be tender-like projects. If you could talk a little bit about project implementation there, how is that going on? If I am not mistaken, I think Conceição Itabiritos II saw a minor delay for the startup, just wanted to get your views on how that is moving forward? Thanks.

<A - Gerd Peter Poppinga>: You raised a very interesting question about the scrap. Because it's not only the price iron ore but also the price of coking coal is now very convenient. So I think steel makers based on the scrap are having a tough time to compete with the steel makers based on blast furnace. But I believe that scrap it has to go to the market at given price. Scrap business is price taker, and so I believe that the main possibilities for a scrap price to reduce going forward. As long I iron ore and coking coal stay with price, the level are today, blast furnace operators will have a near-$100 cost disadvantage against the scrap on the present level. We are seeing in China for instance, a big steel makers that were used to use the scrap blending in the blast furnace, they are avoiding it because now if they put scrap in their blast furnace, they will increase their costs.

So I think, the moment is not for scrap to grow and I believe that this situation is already going on not only in China but also in Europe and in the States. But long-term, scrap has to go down in order to establish the balance. So, I do not see this fact as a structural factor that can influence the market long-term. The adjustments will come based on price. You have many scraps that go to the market at any price to have. If you look for [indiscernible] (51:57). they generate a lot of scrap daily. They cannot keep it, they need it to make it move. So scrap is price taker, scrap processors are – scrap sellers are price takers. So they will have to adjust their price anyway. So I will not put too much emphasis on this as a way to change the technology of the companies. You have some companies that have some flexibilities from – to make, that have some flexibility but may not then, or they have to use the scrap or they have to use pig iron, so the impact will be minor.

As far as the project, I would ask my colleague [ph] validate (52:46) to give more details about what's going on with our Itabiritos project after Conceição Itabiritos that already started and it's producing now almost full capacity. But you have your three other projects that you enter in the next two years, so that will give you more thoughts about this.

<A - José Carlos Martins>: Yes, your question was related to the Conceição Itabiritos II, the second plant. It's very important to explain that the completion of the plant will be achieved in the end of this year. So, there is no delay on the completion of the plant. The problem that it's being, let's say, a Brownfield project, we have to do, a lot of times, to connect the existing plant to the new, to this new expansion. Those kinds of tie-ins usually – it took something around, take something around two months or three months. So, that's the decision together with the operations instead of affecting the current-year plant production. That means you can imagine of two months of shutting down a huge plant like that. The decision was to do the tying in next year, in the most adequate, or the most, let's say, the time to do it, it will be during the rainy season where the production, usually it's lower, that was the decision. So, everything is going well. There is no problem regarding the CapEx and the schedule on the – no surprise up to now.

<A - Gerd Peter Poppinga>: Adding another point is, we're now finishing the Pico-Fábrica road that will link South System with the Southeast System. This Pico-Fábrica road will allow us to move a near 20mm tons per year from one system to the other system, giving us a lot of flexibility, and also allowing us to ship some iron ore that is now trapped in the South System because they don't have enough port capacity. So Pico-Fábrica is very important and also, part of the [indiscernible] (55:39) project is a terminal for loading iron ore that is now being completed and also, you'll add much more flexibility for us as far as loading ore, and also mixing ore from Southern System with the ore from Southeast system. We are putting a lot of small investments, that we call sustaining, in order to streamline production from mine to the port and we are going to get results of it from this year on.

Another question that you raised about the markets outside China. In the first seven months of this year, it is interesting to notice that the markets outside China grew a little bit more, as far as crude steel production is concerned. Outside China, the growth was 3% and inside China was 2%. But as you know also, the market outside China is less, it's more scrap-based – the content of scrap base is much bigger. So we didn't see a big impact on our markets outside China.

We expect that a better performance in the United States, which economy is now moving faster, and also in Europe, will bring some additional demand for iron ore in the next year. But we do not count that this will have a big impact on our sales, only to give you a figure. Steel production in outside China today is 30mm tons below the steel production that was reached in the first seven months of 2008. So, we didn't get the same level of steel production outside China, and I think that this will, one day it will catch up, but I don't believe it will be sooner. I believe it will take more – two years or three years – until steel production outside China reach the same level of 2008.

So, our confidence is mainly based in China, Asia. Korea is increasing volumes, Japanese economy is very stable, and also with good performance as far as steel production is concerned, but not enough volume, that can't change too much the picture as far as iron ore consumption is concerned. On the other hand, the cost curve, we believe it continues to work in our favor and companies that have lower cost, they will increase their volumes and keep very good margin generation, as long as you have – control your cost and really improve your cost structure. As I told you before, our focus today is to manage – better manage our volumes, streamline our operation between the systems we have, blending more material, shipping more on a CNS basis. And then reducing cost which is our main priority to keep Vale in the first priority of the cost curve is our main priority, not only by working daily in our business but also by bringing projects that can really improve our cost structure.

<Q - Leonardo Correa>: My question is regarding Mozambique and potential asset sales. I know that you already spoke about this in the previous call, but just looking at what happened with Rio Tinto, I mean, the company announced a sales of $50mm of the Riverdale asset which they acquired in the past for $3B, $4B. So just wanted to get a sense if anything changes with respect to the growth coming out of the company and CapEx also committed into the business throughout the next couple of years.

And the second question to Luciano. Luciano, this is a smaller detail but anyways I mean, you have a funding line of BRL6B within the BNDES, also infrastructure bonds of BRL1B, I just want to – when you sum all that up considering Vale's current net financial expenses, what is the level of decline that we can see going forward given these very attractive rates of funding? Those are the two questions. Thank you very much.

<A - Luciano Siani Pires>: Leonardo, when we swap into U.S. dollars the infrastructure bonds, you get to a dollar-based rate close to 4% and when you do it with the BNDES loans you get to depending on the credit line you get to 1.5%, 2%. So as you mix shift towards those sources you tend to lower the average borrowing cost for Vale. However, we believe that even because of the size of the exposure to BNDES even to some other export agencies that the opportunities has been more limited now to significantly borrow from those sources. However, if you look at the balance sheet, right? If you look at the income statement when you go into the financial expenses, you see an increase in interest expenses and this is on accounting affect, why is that? Because what goes into interest expenses is the nominal interest rate which is higher in reais than in U.S. dollars. When you swapped into U.S. dollars, you get the derivatives, I forgot exactly what is the name of the line but there is a line that tells you the affect of the swap rates in which your swap not only be currency but also the interest rate. So, there you got both effect both the effect of translating from reais into dollars, and the effects of lowering the nominal rate also from reais to dollars. So, therefore if you focus only on the interest expense line you won't see the decline in the borrowing cost. You have to see at the aggregates on the financial expenditures including the swap rates as well.

<A - Murilo Pinto de Oliveira Ferreira>: Leonardo, regarding the Mozambique project, what we can tell you that as you know in bulk material like coal and iron ore it's really very important to have a definition regarding the logistic – the railway and the port facility and if you are considering to analyze each project, many project in Mozambique, you must take care of these events. As far as I know they were trying to have specifically ruled by Hebra during years and years in our view for knowing very well Mozambique is to us some think that could be almost impossible to them to be implemented. Then we know that it's very premature to analyze the terms and conditions of the transaction. And mainly knowing that they had some issues not solved in the country as well, it's what we have to say it's very premature to analyze even the price. Thank you very much.