Company Name: Vale
Company Ticker: VALE5 BZ
Date: 2014-10-30
Event Description: Q3 2014 Earnings Call

Market Cap: 186,541.96
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

Q3 2014 Earnings Call

Company Participants

- Murilo Pinto de Oliveira Ferreira
- Luciano Siani Pires
- Gerd Peter Poppinga
- Roger Allan Downey
- José Carlos Martins
- Clovis Torres, Jr.
- Humberto Ramos de Freitas

Other Participants

- Rodolfo de Angele
- Carlos F. De Alba
- Leonardo Correa
- Alexander Hacking
- Amos C. Fletcher
- Thiago Lofiego
- Rene M. Kleyweg
- Andreas Bokkenheuser
- Tony B. Rizzuto
- Paul A. Massoud
- John C. Tumazos
- Marcelo Aguiar
- Ivano Westin

MANAGEMENT DISCUSSION SECTION

Murilo Pinto de Oliveira Ferreira

Business Highlights

EBITDA, CapEx and Net Debt

- First of all, I'm pleased to report that Vale delivered a strong operational performance in Q3 with record output of iron ore, copper, and excellent production of nickel
- Once again, we achieved savings in costs and expenses of over US$500mm compared with the first nine months of last year
  - This quarter we posted EBITDA of $3B, reflecting lower iron ore price
- We saw a drop in the net income of about $2.9B in the quarter, mainly driven by a noncash impact of the depreciation of the Brazilian real against U.S. dollar
- CapEx came at $3.2B in the quarter and $8.2B in the first nine months of the year, which is $2.2B lower than the CapEx in the first nine months of 2013

- Overall, our balance sheet continued to be healthy with low leverage, high debt coverage, low debt maturity and also low cost of debt
- Net debt decreased by almost $2.2B since the end of June this year
- Even though iron ore production reach a record, sales volume remained stable, and our flagship area, ferrous minerals, suffered most from the reduction in sales prices, which brought to the overall EBITDA decrease of $1.1B vs Q2 the year

Commercial Strategy

- Inventory increased in the quarter mainly due to the blockage in the Carajás Railway and to the commercial strategy
- There was also an increase in cash costs to $24.07 per ton, mainly due to some non-recurrent impacts of higher maintenance and logistics costs in preparation for an increase in production volumes in the coming quarters and for the processing during the quarter of the outstanding invoices related to the introduction of the new system
  - Iron ore cash cost will decrease even further with the production increase, diluted fixed costs and our internal cost reduction initiatives
- A depreciated Brazilian real vs. the dollar will also contribute to the reduction of our cash costs

Base Metals

- Now for base metals, I am pleased to inform that base metals business was yet again a success story with another excellent contribution to our results due to the increased nickel production and a record copper output
- Base metals EBITDA increased almost by 30% to US$781mm in Q3 2014 vs. second quarter 2014
- Looking forward, the ramp up of the ongoing projects reinforces our confidence that the base metal segment is set to achieve its EBITDA target of US$4B to US$6B.

Murilo Pinto de Oliveira Ferreira

Q3 Highlights

Coal and Fertilizers

- We apologize
- Now to look at coal and fertilizers
- With coal, we continued to focus on reducing costs, increased profitability and developing milestone projects that will secure our shareholder value in the future
- We continue our investments at Moatize and Nacala with big physical progress
- Moatize II achieved 70% and Nacala is close to 74% physical progress

Fertilizer Business

- With the fertilizer business, we continue to make progress with adjusted EBITDA increasing by almost $100mm in the quarter, while production of phosphate rock reached 2.2mm, a record for a third quarter
- We continue to discuss partnership opportunities with a view to maximizing our strategies in the business

Costs and Expense

- As we head towards the end of 2014, we recognize our many achievements
- Costs and expense have been reduced over the last two years
- Production volumes have been increased across all business segments with the completion and ramping up of projects, in particularly the base metals segment has started to bear the fruit of all of our restructuring and investment efforts

CapEx and Cost-Cutting Initiatives

- We pay attention in the challenges that face us, including global change in the supply and demand for iron ore and knowledge that the investment commitments ahead of us in 2015
- We remain focused on our cash flow generation and are further exploring divestment opportunities and reinforcing CapEx and cost-cutting initiatives to support our FCF

QUESTION AND ANSWER SECTION

<Q - Rodolfo de Angele>: I think the bulk of the questions I had specifically to the earnings were answered in the other call. So I just wanted to ask, first a question on looking forward in terms of potential divestitures outside of the assets in the coal side. Is there an opportunity that you can discuss at this point to help on the FCF story? So that's the first question.

And my second question is a very simple one, but it's a question that was asked a lot yesterday, but there's only one person I can ask, which is Murilo. The press has been reporting that you were considered for the government, so if you could enlighten us on what's your position there. That's it. Thanks.

<A - Murilo Pinto de Oliveira Ferreira>: Thank you very much, Rodolfo. In fact, I didn't receive any invitation or even been consulted to be a minister in the new government. I am very focused into working the market we know that now you are facing big changes to the mining industry and even the oil industry as well. And I am very focused and myself and the whole team in Vale to bring a good future, a gorgeous future for our company. And we are extremely devoted to delivered our projects on time and below budget and to increase the efficiency of the company.

Regarding divestments, I think that we have an opportunity in bauxite. We have a nice stake in MRN and I believe that we will be able now that the bauxite market is much better, the ore bin in Indonesia is working very well and I think that we have an opportunity to look for a divestment in MRN. Thank you very much for your question.

<Q - Carlos F. De Alba>: Just a couple of questions. The first one has to do with dividends and net debt. Clearly your FCF is going to be tight, given what is happening to commodity prices, particularly iron ore. So Murilo, when the management company presents to the Board of Directors its recommendation for dividends, how do you balance cutting dividends potentially over raising net debt in the future? Or you can tell us how you approach as a CEO this challenge, that would be useful.

And the second question has to do with the sharp increase that we saw in maintenance costs. Quarter-on-quarter, excluding the effects of volumes and FX, they increase about $330mm. You mentioned in the press release that it was related to iron ore and pellets primarily as well as base metals. How do you see these lines going forward? I suspect that it's going to decline, but if you can give us an estimate of how much do you think this number will decline, that would be also useful for modeling purpose. Thank you.

<A - Murilo Pinto de Oliveira Ferreira>: Thank you very much for your question, Alba. What I can say that we continue with our policy to be extremely prudent in the leverage of the company. We have now just a few projects, as far as I know, six projects to be finalized, which is a great achievement for us. In the beginning it was more than 100. And then we are very focused in delivering mainly S11D, the [ph] Itabiritos (14:36) project, I think that's just the last one for next year. And Moatize, I think that can be a big surprise for most of the investors. I believe that the amount of money that we will bring is extremely relevant for us considering mainly 2015 and 2016.

Right after the implementation of S11D, I believe that we have enough options and the question will be about investment in world class projects. Up to there, mainly towards 2015 and 2016, I think that the first decision is regarding the amount of money that we will receive regarding the Moatize project in the Nacala Corridor.

And we have options. We have many options that could be considered in the near future in case of if you need. I wanted to continue a company with high yield dividend. I think that is very interest for us, can bring a good motivation to our shareholders. I think that as we have to announce this transaction, I prefer to finalize my answer at Vale Day in New York and London in the beginning of December. Thank you very much and, Luciano, go ahead.

<A - Luciano Siani Pires>: Carlos, I believe you are referring to the comparison between Q3 2014 and Q3 2013, because if you compare to the previous quarter, to Q2, the increase in maintenance costs was much smaller and it was mainly explained by the preparation that we mentioned of some trucks for the increasing production in iron ore.

If you look third quarter 2014 against third quarter 2013, there are some effects that affected only Q3 2014. For instance, we have Thompson right now in a planned maintenance that we didn't have. We didn't have any nickel plants in planned shutdowns in Q3 2013. As we mentioned, we've been embarking in higher maintenance costs to improve the asset integrity in fertilizer. This is something that we have emphasized this year. So we believe that a better way to look at maintenance costs is to consider Q2 this year figures [indiscernible] (17:27) should be. And the comparisons to one year ago, I gave you some color about why these are higher. But looking forward, I would say the numbers of Q2 are more representative.

<Q - Leonardo Correa>: My first question is regarding growth, iron ore growth and S11D. Just wanted to understand with you if there's any iron ore pricing level that would potentially slow up the ramp up of the project? I'm just asking because I mean the project is coming onstream by the end of 2016 and 2017 and by then, supply/demand models would potentially forecast a bigger surplus in the market. So just wanted to see if there's any iron ore pricing level that would potentially reduce the pace of expansions, even though I acknowledge that this is a very competitive and very low cost project, which make sense basically in any environment. So that's my first question.

And the second question is regarding the strategy with your non-ferrous division. Just wanted to get some additional color on, on a potential spin-off, I mean what are the options for your non-ferrous division? And moving into a smaller aspect of it, I mean, VNC, right, Goro, how comfortable are you with the sustainability of this asset and is there any timeframe really to consider a sale or a potential shut-down of this asset? I mean we saw the numbers in the quarter coming in still negative EBITDA of around $100mm. Those are two questions. Thank you.

<A - Murilo Pinto de Oliveira Ferreira>: Okay. I think as far as S11D is concerned, I think the lower the price, more compelling is to bring this project in operation because it's low cost and high quality. So there is no way that we are going to reduce the pace of invest in S11D. We believe that it's a low cost, high quality and could substitute other productions outside Vale or even inside Vale that have a higher cost and lower quality. So to be frank, we do not see any chance of slowing down this project at any price of iron ore.

<A - Luciano Siani Pires>: Regarding non-ferrous, I would like to explain more deeply about some options that could be considered during the Vale Day, Leonardo. What we have in mind that we have plenty of opportunities now. Most of the – we have the integrity of the assets in Sudbury and Thompson in a very advanced way. We have the Long Harbour working. We have the Totten mining doing very well and many opportunities regarding the base metal that we intend to present in the Vale Day. Regarding Goro, please Peter Poppinga, could you explain what's happening with our project in New Caledonia?

<A - Gerd Peter Poppinga>: Of course. So regarding our VNC operation, it's an ongoing story as you know. We have the certainty now that the process works and it's proven. The technology is working. We need to improve availability of the operations and constant operations and of course, improve the stakeholder relations where we had some problems. You know that we had [indiscernible] (21:21).

In March 2014 this year we had reached 60% of capacity of the plant, but then came the acid spill. By the way there was, just to remind everybody, there was no ocean damage. It was all in a small creek, but it triggered a social unrest and [indiscernible] (21:44) because the social problems in certain parts of New Caledonia, they go well beyond the VNC events. But that interrupted everything and in Q3 we ramped up again, you saw that we produced around 4,000 tons.

If you take September only, we produced almost 2.5 kilotons, which multiplied by 12 gives you around 50% capacity. So we are back on track today, surpassing again the 50% capacity hurdle and we are now currently with two autoclaves constantly for the last quarter of the year planning to make a step change well beyond before and it's probably going to be around two-thirds of capacity.

And so that's the thing, it's going up slowly, interrupted by the social unrest. We produced 16,000 in 2013, that was last year. This year it will be well over 20,000 in spite of the three months we were shut down. And next year it will be well above 30,000 and this will lead us to a cash breakeven situation at VNC and then we will decide along the year how we are going to pursue with this asset in the future.

<Q - Alexander Hacking>: The first question I guess is for Roger, if it’s okay. Could you remind us of the sales that you expect from Moatize in 2015 and 2016 and what kind of EBITDA per ton you think you could achieve at the current coal prices?

And then second question will be on iron ore. Murilo, you mentioned that the build in inventory was partly a commercial strategy. Maybe you could describe the thought process behind, I guess, not selling some material, and if you have any concerns that putting this material into the market in Q4 could negatively impact the price. Thank you.

<A - Roger Allan Downey>: Okay. Kicking off with coal, you asked on our operations in Moatize and how competitive they are essentially. Obviously we have to look at Moatize when it's a steady state operation when we're fully ramped up. According to our schedule, we should reach a 22mm ton run rate on the railway by the end of 2016. That's when we'll be able to really fully dilute all of our costs there. And both the mine and the railway will be fully ramped up to that sort of scale.

At that level, at that stage, with a tariff of somewhere in the order of $20, $25 on the railway, we should be comfortably in Q1 out of cost curve. So even if the current coal prices maintained at these levels through the next couple of years, or even into the end of the decade, Moatize will certainly be one of the lowest cost coal producers in the world.

<A - Murilo Pinto de Oliveira Ferreira>: And Martins, regarding of the double of the inventory?

<A - José Carlos Martins>: I don't believe it will have any important impact because we are talking about a market that will buy around 300mm tons of iron ore in the last quarter. So 9mm tons is not a big volume that could influence the price. So in my view, the impact if any it will be minimal. Even because the second 3mm --

<A - Murilo Pinto de Oliveira Ferreira>: Yes, that’s done.

<A - José Carlos Martins>: Yes, it was precisely in the first week of October.

<Q - Amos C. Fletcher>: I had a couple to ask. Firstly on iron ore, I just wanted to clarify whether Vale will potentially respond to the current level iron ore price environment by taking any tonnages offline. For example, you've got your ROM tons, which are getting quite low realized prices. The Midwestern operations are quite high cost as well. So I just wanted to ask what sort of volumes could we be talking about here and what sort of price levels could you potentially be induced to take some capacity offline? Yes, that's my only question. Thanks.

<A - José Carlos Martins>: Well, for the time being we don't have any tonnage that we could take off the market without reducing our cash generation. We have some volumes in the

Corumbá area. We have some difficulties with them, but we are managing to get breakeven on these volumes. So we do not intend for the time being to reduce any volumes from our sales. We keep monitoring all our lines of products to see if your have problem with any of them, but for the time being, there is no reasons for taking volumes out of the market.

<A - Luciano Siani Pires>: Martins, if you will allow me just to complement. The run-off mine which was mentioned, it actually showed a lower price because we don't incur any of the processing costs, which are done by Samarco and then we fully capture the additional margins as a shareholder of these volumes.

<Q - Thiago Lofiego>: I have two questions. First one, if you could give us an update on the tax dispute in Brazil. So what are the next steps we should watch and what's the likelihood of you attribute to the reversal of the payments already done? And the second question is on your freight strategy. If you could give us some color on how many more ships do you have in your fleet and that could be subject to the future lease agreements and what's the timing for that to happen? That's basically it.

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

<A - Clovis Torres, Jr.>: Hi, Thiago. Thanks for your question. We have as expected an appeal from the tax authorities to the Supreme Court. It was filed about a month ago. There's no reply or acceptance yet from the Supreme Court. We still believe that we're not dealing with constitutional methods and therefore, the appeal should be recused, refused and as such, we would have a final decision from the Superior Court that's right under the Supreme Court. So that's what we have at the moment. Once we have that final decision, what it means that when the Supreme Court refused to hear the appeal, we will then start talks with the Ministry of Finance to see how we would go forward and recover amounts already paid and would make a decision on stopping future payments.

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

<A - José Carlos Martins>: As far as the ships is concerned, we have now 35 ships under operation and we are negotiating in order to sell some of them, some of them to some shipyards in China. We have two agreements already in place and our idea is moving step by step on this regard. And also start ordering more ships, because considering the volumes we are going to increase in the next three years, we need more ships to move it to China.

<A - Humberto Ramos de Freitas>: Today in fact we have, Martins, 31 in place, and 19, it's our own fleet. And we did, as Martins said, to increase our fleet through an agreement with third parties in terms of the ownership of the ships and for sure having long-term contract with us. Thank you very much.

<Q - Rene M. Kleyweg>: Murilo, it sounds from your clarification earlier on that we're stuck with you a little bit longer. Just two questions really. One, in terms of Leonardo's point earlier on about the displacement of tonnage as a result of S11D. Martins, after hearing you referring to potentially displacing volumes in the south and southeast system in terms of the volumes that may need some CapEx in terms of upgrading the processing capacities there.

And then the second question is on Salobo, just in terms of the ramp up profile there. Could you give us some color about how that looks going into 2015, 2016? Thank you.

<A - Murilo Pinto de Oliveira Ferreira>: Martins and then Peter Poppinga about Salobo.

<A - José Carlos Martins>: As far as displacing some quantities, our idea is to displace competitors' quantities, okay. So it's not our idea to displace our quantities, but that will depend on price. The very fact is that on average our cost is very well competitive in the market, so we believe that many others, competitors you needed to exit the market before we needed to reduce production in southeast or southern states. And that's our appraisal in this moment.

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

<A - Gerd Peter Poppinga>: Okay. So in terms of Salobo ramp up, it's actually going very well. As you know, we have two lines. One, the first line is around or nearly over 80% of capacity already and the second line came in middle of this year and it's ramping up well and now we have, we can say it's around one-third of the capacity. And if we look into 2015, I would expect that both lines would be on full capacity by the end of 2015. And so just reminding you again, this will be a very big boost to our base metals division because if you take a round copper price of $7,000, you deduct our OpEx after byproducts of a little more than $2,000, it gives you at least $5,000 margin times 200,000 tons, gives you the $1B. So it looks as of now we no fatal flaws and we are very happy.

<A - Murilo Pinto de Oliveira Ferreira>: Rene, thank you very much for your comment regarding staying in Vale. I really appreciate it and it's motivation for us to continue working, to work hard in order to bring good results and new projects on time and under budget. Thank you very much for your comment.

<Q - Andreas Bokkenheuser>: Just a quick question from me. It's really more of a clarification. Obviously, there's a bit of excitement in regards to the potential asset sales of the Mozambique coal assets, some of the Valemaxes and so on. Going back in time, I seem to recall I mean all of these assets were part of Vale's core business and effectively by selling them, even though it does raise cash upfront and it does reduce your CapEx, it also removes future cash flows from your discounted cash flow valuation, at least in the eyes of an analyst, and that effectively tends to reduce your valuation as well depending on the price you're selling at, of course. So I'm just trying to understand. Can you give me a little bit more clarity about why investors and shareholders should get excited about asset sales at this point? Thank you.

<A - Murilo Pinto de Oliveira Ferreira>: Yes, Roger Downey explain you our strategy regarding selling some assets in Mozambique.

<A - Roger Allan Downey>: Yes, thanks for the question. Very good one, indeed. The strategy is unchanged and we are still seeing ourselves as a very promising and profitable coal supplier in the future. Mozambique is a very promising place to be in terms of coal. And the Moatize project remains a core asset. The transaction that we announced last year at the Vale Day in New York basically entails a sell-down of, and a shared control of our stake in the railway. And that's what it's centered around. Associated with that, we might sell a, as Murilo mentioned earlier and we did publicly disclose last year, a target of about 15% to 25% in the mine.

I remind you, we make money at the mine, right. We don't really make money on the railway. The railway, we look at it as basically if we can get the tariff as close to cost as possible, that's where we should be. So the concept, and trying to answer your question as best as I can, is to retain as much as we can of what we really are good at and where we do make the money, which is the coal mine, and still keep the railway servicing and having an integrated operation but using that to sell down to free up some capital right now.

And obviously that also brings us an opportunity. As you know, the terms of concession of the railway in Mozambique are that it is an open access railway, open not to just other coal producers but also other cargos. So by bringing in a partner that can actually develop different businesses and bring in different cargos to the business, might even reduce our tariffs going forward. So in the future, this sounds like a transaction that is very closely connected with our strategy. Thanks.

<A - Luciano Siani Pires>: Andreas, this is Luciano. We have a strategy and we want to increase the return on capital and the return on equity for our shareholders. That's why you should be excited about whenever we invest, for instance in ships, and they are still part of our core strategy. The core strategy is not to own the ship, it's trying make sure that they are available at competitive rates to transport the ore from Brazil to Asia.

But owning a ship is basically a business where you break even on your cost of capital because it's an asset that you hold. It doesn't have upside in terms of returns. Basically, when you own them, you take out the economic costs. If you pass on to someone else which has a competitive economic cost, then you're actually raising the return on capital of the remaining assets of the company because you're pretty much breaking even on the ships.

And by the way, the Chinese companies which we are dealing with, they have means of financing the ships at very, very competitive rates, so therefore the economic cost for us will be cheap as well. So therefore, we want to be concentrating on the asset in which we believe we can generate returns which are above the cost of capital, and usually that's more difficult in logistics assets. And if you'll, for instance you take for example the VLI transaction, that was basically a similar idea. We did that because we understood that the value creation was better performed outside the balance sheet of Vale than within Vale. But on the core mining assets, the goal is to raise return on capital and return on equity.

<Q - Tony B. Rizzuto>: I've got two questions. First on Indonesia, you were able to secure pretty quickly an extension to your contract of work. Other international miners are still negotiating and I'm curious what you attribute your level of success to.

Second, iron ore market, and I'm wondering, both BHP and Rio Tinto recently have provided their view of the Chinese production capability and the complexion of that supply. I'm wondering how you view the Chinese iron ore production and what level is being displaced and how much of that production may indeed be more sticky to exit the market? Thank you.

<A - Murilo Pinto de Oliveira Ferreira>: Thank you very much, Tony. First of all, we have spent more than two years with these negotiations because the negotiation was established in the Indonesian law in 2009. And myself, I had a chance to visit there three times in order to discuss some key issues regarding these agreements. But Peter Poppinga, briefly we can explain the full context of our agreement in Indonesia.

<A - Gerd Peter Poppinga>: Yes, okay Murilo. Thank you, Tony, for the question. So this is actually some very exciting news for us, and Murilo, it's actually, I think it's actually three years that we are negotiating. The timing now is just because it was [indiscernible] (42:23). And we can't be compared to the copper guys because we have a completely different situation. We already have a smelter in Indonesia whereas these guys, they don't have that so it's a completely different [indiscernible] (42:38).

But we secured this amendment of the contract work with new mining law and so essentially we reduced the area from 190,000 to 118,000 hectares. By the way, hectares doesn't mean reserves. And that's what some people don't understand, that we had lots of land out there where absolutely no oil was located or where we have other things like [indiscernible] (43:14) or it was even mined out by some former owner. So this doesn't mean a lot.

And the second step we have after the year 2025 we have agreed to reduce further the 118,000 to 25,000 hectares required by the mining law. And exactly -- our ore of course -- and over 90% of the resources and reserves are in those 25,000 hectares. There's time until 2025 to select those areas, plus we will have some project areas where we can keep them where we use this for our mining for our projects. So those reserves will have enough, more than enough, much more than enough then in order to do our brownfield expansion plans we have for Indonesia.

And then we agreed to increase the royalties to 2% depending on nickel price and if the nickel price goes over $21,000, we agreed for 3%, which is of course high as of today, but it's still reasonable if you compare it to the average in the world. We also plan a divestment within five years of another 20% to Indonesian participants. And this is done by inflation adjusted book value, which is more like the fair value we have. Okay. So PTVI in the future after five years will have a 40% public float.

And what did we get in return? I think it is very important to state we are now in compliance with the mining law and also with our contract work undertakings, which we have renegotiated. And we have now enough ore, like I said, for our expansion plans, which may go to 115,000 tons in the future; brownfield expansion only, nothing greenfield. And we also secured, which is the most important thing, we secured an extension of our contract of work until the year 2045. So I think pretty much that's it. It was a long process, three years, but we are very happy and I think it was a different process than the copper sect for the reasons I explained.

<A - Murilo Pinto de Oliveira Ferreira>: And it's important to say that the agreement was reached with the old government and we had a chance to discuss with the new government as well. Martins?

<A - José Carlos Martins>: Okay. As I explained before, we believe that more than 50mm tons of ore produced outside China was already displaced, okay, between 50mm and 70mm. Considering the low growth of the market and the increase in capacity, we believe that by year-end near 120mm tons will have to be displaced from the market. In China, it seems that you have some resilience but we believe that near 100mm tons of China production is already below water level. Okay. So it's a quest of time when that volume will be displaced.

Another point is that some of this resilience is because you have a important part of Chinese iron ore production that does not go directly to sinter machines or to blast furnace. They goes to pelletizing plants. They are transformed in pellets and then compete with a sinter feed or lump or pellets from outside. So this is not displaced immediately because those companies in China that have pelletizing plants needed to find another source of pellet feed before changing. So and then you can see that this ore inside China is better priced than imported ore, around $10 to $15 above imported ore, but that's because of this pelletizing capacity that you have in China. It should take much more time to displace it. So I believe that long term, China local production will be around 200mm against the 350mm that they had been producing before this low price area started.

<Q - Paul A. Massoud>: I just had a quick clarification. On the copper realized price during the quarter, a back of the envelope calculation, especially after you removed the impact of provisional pricing, it seemed like realized pricing there was a little bit lower than I would have expected based on where the market was. So I was just wondering if you could take a little bit about some of the pricing dynamics that are happening there with copper and if there are any issues around quality. Thanks.

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

<A - Gerd Peter Poppinga>: Yes, so I have to check that, but we have a copper realized price, effectively it's down. And part of it is because of the price adjustment in provisional pricing from the last quarter. I would have to check deeper. I don't know if Luciano can help me but I think mostly it's because of the [indiscernible] (49:48) and some new contracts, but mostly it's because of the adjustment of the provisional price from the previous quarter.

<A - Luciano Siani Pires>: We can after the call update the webcast presentation to include a slide on this matter explaining these variances. Thank you very much.

<Q - John C. Tumazos>: With your various depot and blending locations overseas, ships on the water, port, or in transportation, storage at mine sites, what is the maximum capacity in tons for your iron ore inventory? Hello?

<A - Murilo Pinto de Oliveira Ferreira>: Look, we believe that this extended enterprise, because we have operations in Oman, in Malaysia. We have ships that we sent that we sell afterwards. On average we have around 10mm tons on this volume. Okay. And we believe we continue to have it in the future. But we intended to not to increase our total volumes. The idea is to move the inventories that we have in our mines, in our ports in Brazil, nearby customers. So we are only moving from one side to another to make it closer to the customer and to make it more liquid. So that's the idea. So whole of [ph] total (52:07) you can consider around 10mm tons of volume. It will be always in transit from Brazil to Asia.

<Q - Marcelo Aguiar>: So getting back to the inventory situation of iron ore, Martins. So just to be clear, of the 9mm tons you guys spoke about, 3mm you've already done, so the other 6mm you expect to sell during Q4. And then talking about the Pico-Fábrica, the highway there, I mean you have 20mm tons of ore. How long do you think this will be fully sold to the market? This is my first question.

<A - Murilo Pinto de Oliveira Ferreira>: The road capacity is around 10mm tons per year, okay. So roughly speaking, you take two years to eliminate those inventories and ship to southeast system.

<A - Humberto Ramos de Freitas>: And about the 9mm tons, we have 3.5mm.

<A - Murilo Pinto de Oliveira Ferreira>: Yes. From the 9mm tons that we report as inventory increased. Okay, 3mm tons were in the mines, okay, because they were not transported because of the interruption of Carajás. Another 3mm tons was sales that was already done in China, but the documents were not able to be considered as a sale in the same quarter. And the remaining 3mm tons were mainly in Malaysia. Okay. So those are the figures that we had in the beginning of this quarter and a bigger part of it will be completely eliminated during Q4.

<Q - Ivano Westin>: You have guided a market in your last New York day total production based on your own production and acquisitions from junior miners. The forward curve tells us price at [indiscernible] (54:41) for 2015, which is affecting level for some smaller producers. I'm just wondering if there is any threshold in terms of market price which would bring down your appetites of acquisitions from junior miners. That's the first question. And the second one, I appreciate it if you could comment on your expectations of the timeline for voting and approval of the new mining code in Brazil. Thank you.

<A - Murilo Pinto de Oliveira Ferreira>: As far as our volumes that we presented last year in New York, we continue to operate in the direction to have these volumes done this year. We don't have any change in our forecast, the same for next year. And as far as the ore that we buy from third parties, the price mechanism we have with them is price levers. We come from the price of the market and then we bring it down to the mine costs. So the price is automatically adjusted according to the price of iron ore in the international market. So as long as these miners are able to supply this ore to us at those price, we don't intend to reduce it. So it's a question of the capacity to sell their ore at lower prices. So I think I don't have this answer for you. But we intend to continue to buy as long as they are able to sell to us, even at a lower price.

<A - Clovis Torres, Jr.>: Regarding the new mining law, I think that we have just November to be approved under the committee. Otherwise, we must wait for the next year with the new congressmen acting in order to approval in the committee. Then later on [indiscernible] (56:43) the upper house and the lower house. I consider that they needed almost the range of four to six months to complete the whole process in case of it reaching a consensus in both houses.

Murilo Pinto de Oliveira Ferreira

Closing Remarks

And I'd also like to spend more time in this regard

I notice that you had some doubts about our sales, the volume of sales

It was something that if we pursue based in the best interest of the company

It's not regarding any problem to sell our material and we hope that you see a big number the last quarter of this year