

Q1 2015 Earnings Call

Company Participants

- Galib Abrahão Chaim, Executive Director-Capital Projects
- Gerd Peter Poppinga, Executive Director-Ferrous Minerals
- Humberto Ramos de Freitas, Executive Officer-Logistics & Mineral Exploration
- Luciano Siani Pires, CFO & Executive Officer-Finance and Investor Relations
- Murilo Pinto de Oliveira Ferreira, President & Chief Executive Officer

Other Participants

- Alexander Hacking, Analyst
- Anthony Rizzuto, Jr., Analyst
- Carlos F. De Alba, Analyst
- Jeff Largey, Analyst
- Jeremy R. Sussman, Analyst
- Marcos Assumpção, Analyst
- Rene M. Kleyweg, Analyst
- Rodolfo de Angele, Analyst
- Thiago Lofiego, Analyst
- Wilfredo Ortiz, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. Welcome to Vale's Conference Call to discuss First Quarter 2015 Results. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time.

As a reminder, this conference is being recorded and the recording will be available on the company's website at vale.com, at the Investors link. The replay of this conference call will be available by phone until May 6, 2015, on 5511-3193-1012 or 2820-4012, access code 2029237#. This conference call and the slide presentation are being transmitted via Internet as well, also through the company's website.

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

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With us today are, Mr. Murilo Ferreira, Chief Executive Officer, CEO; Mr. Luciano Siani, Executive Officer of Finance and Investor Relations, CFO; Mr. Peter Poppinga, Executive Officer of Ferrous Minerals; Ms. Vânia Somavilla, Executive Officer of Human Resources, Health & Safety, Sustainability and Energy; Mr. Galib Chaim, Executive Officer of Capital Projects; Mr. Humberto de Freitas, Executive Officer of Logistics and Mineral Exploration; Ms. Jennifer Maki, Executive Officer of Base Metals; and Mr. Clovis Torres, General Counsel and Chief Compliance Officer.

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

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

Ladies and gentlemen, welcome to our webcast. Thank you, all, for joining us to discuss our first quarter 2015 results.

First of all, I'm pleased to report that despite declining commodity price, Vale maintaining its leverage, reduced costs and delivered \$1 billion in asset sales. We had sound operational results with production records in copper and gold, as well as the highest production of iron ore and nickel for our first quarter.

In the first quarter, we achieved a reduction of over \$560 million in costs and expenses when compared to first quarter 2014. Our general, sales and administrative expenses decreased by over 30%, and our pre-operating and stoppage expenses decreased by roughly 18%.

As I will comment later on in more details, we have reduced our cost and expenses in iron ore, including freight costs, by \$13.10 per ton in the first quarter of 2015 when compared to the fourth quarter of 2014. We have also reduced our sustaining investment by \$4.50 per ton.

In the quarter, we have recorded CapEx of \$2.2 billion. Now, I would like to highlight that our CapEx is accounted for on a cash basis. And if measured on accrual basis, this \$2.2 billion will amount to roughly \$1.9 billion. This lower CapEx number indicates more accurately our CapEx trend for the following quarters.

In this quarter, we divested over \$1 billion with \$900 million coming from the goldstream transaction and \$100 million from the sale of a minority stake in the Belo Monte hydroelectric power plant.

Despite our efforts and good results in reducing costs and expenses, this environment of lower commodity price took a toll on adjusted EBITDA, which decreased to \$1.6 billion.

Our gross debt decreased by \$320 million, amounting to \$28.5 billion with a cash position of \$3.7 billion prior to the distribution of \$1 billion in dividend scheduled to be paid today.

I'm proud to announce that iron ore achieved record production in the first quarter. Adjusted EBITDA for iron ore and pellets reached \$1 billion, decreasing over \$600 million from last quarter. This decrease was primarily driven by lower iron ore sales prices.

As we have forecasted in our results call in February, our iron ore cash cost decreased by \$3.40 per ton to \$19.80 per ton. If our cash costs were presented excluding royalties, on the same basis of our competitors, our cash cost will be \$18.20 (sic) [\$18.30] per ton. Nevertheless, we are not satisfied and maintain our relentless focus in costs and expense reduction.

We also forecast our freight cost also decrease by about \$4.50 per ton to \$17.20 per ton as a result of the positive impact of lower bunker in our contracts and of lower spot freight costs. And our total expenses excluding (sic) [including] SG&A, R&D and pre-operating expenses were reduced by \$5.20 per ton from \$9.20 per ton to \$4 per ton.

As I mentioned in the beginning of this call, we decreased costs and expenses in the first quarter 2015 versus fourth quarter 2014 by \$13.10 per ton, including freight, excluding the hedge account impact in bunker oil. However, iron ore price dropped by \$12 per ton in the first quarter of the year. In addition to this price decline, our price realization was negatively impacted by almost \$7 per ton from our price system, namely our provisional price mechanism, in the fourth quarter 2014 and first quarter 2015. This represented a negative impact of about \$450 million, which will not happen again if price is stabilized.

Base metal adjusted EBITDA amounted \$678 million in the quarter, represent an increase of about \$100 million when compared to the last quarter. It's fair to say that our base metal EBITDA was impacted by the goldstream transaction. However, I would like to call your attention to our low operational costs in the quarter and to Salobo's EBITDA which reached \$100 million.

With coal, we continue to develop our projects which are key to our long-term business profitability, as we eliminate the existing logistic bottleneck in Mozambique. We achieved 86% physical progress in Moatize II and 85% (sic) [99%] in the Nacala Corridor.

Once again, we saw improvements in the fertilizer adjusted EBITDA, which increased by 20% quarter-on-quarter despite the impact of lower sales volume and prices. Looking forward, we expect Brazil fertilizer demand to increase this year, despite of a weak first quarter. Purchase will probably increase in the second half of the year to provide for the summer crop.

2015 will be a year to set the basis for an even more competitive and profitable company as we intensify and consolidate our cost cutting efforts, delivering productivity improvements and increase our production volumes. The opening of N4WS mine, the ramping up of the Itabirites project will also be important milestone leading to big improvement in the quality of our products. Despite the challenging market scenario, we remain confident on delivering of strong results in our ability to deal with these more challenging times.

Thank you so much. And let's now open this webcast for your questions.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Please restrict your questions to two at a time. Our first question comes from Carlos De Alba with Morgan Stanley.

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

Yeah. Thank you very much. I appreciate the opportunity. Just wanted to get your sense as to what potential supply adjustment can we see on the iron ore front from Vale? Clearly when iron ore prices were close to \$47, there may have been some operations in the Southern System that were just breaking even or barely breaking even. Can you comment as to what are the mines or the tonnage that may be susceptible to shutdown if prices do go back to the \$47, \$45 level?

And the second question, maybe for Luciano. Luciano, could you help us understand a little bit what happened to debt in the quarter? When we looked at the cash flow statement, debt appears to have increased by about \$1 billion. However, in the Appendix 3 of the press release, it showed that total debt basically fell by less than \$500 million from the fourth quarter. So if you can help us understand and reconcile those numbers, it will be appreciated. Thank you very much.

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

Hi, Carlos, thank you very much for your question. So it is very important to - this is a very important question, and we have to differentiate between having a certain capacity and actually utilizing it no matter what. So Vale already has committed its investments in logistics in the Northern Corridor, right. It will take us from today's 350 million tons to 450 million tons capacity. This is 410 million tons for exports and 40 million tons for domestic market. And we will, of course, aim to maximize its utilization rate, right? So this is a given.

However, Vale will operate with a mature eye on the markets, particularly with a long view on the tendency for Chinese steel mill production so that we make sure that we maximize value and the returns to our shareholders. So this means, concretely, that with the recent improvements in licensing conditions, particularly when you look at Carajás, and it means also that with our several new Itabirite projects ramping now in the Southern and Southeastern System, we now can optimize our upstream operations and mines.

So it enables us to close higher cost and lower quality production flows, if necessary, in those systems according to market conditions. All this in our quest to improve overall margins. And if we look at the production flows, we are constantly analyzing and watching and it could be up to 30 million tons in the South and Southeastern System. This we know, but it's not necessarily going to happen. It's our discretion according to the market

developments. So in a nutshell, the capacity will be there, 450 million tons, and we are going to use it according to the market conditions. Thank you.

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

Carlos, I'll give you an explanation on what happens with our debt position when the Real devaluates and then reconcile with the overall picture. When you have a debt position denominated in reais and the Real devalues, when expressed in U.S. dollars, this falls, right. On the other hand, you have a derivatives loss. So part of the loans that you mentioned, the \$1 billion that we raised, were actually used to repay those losses on derivative positions which, in a nutshell, works as if you were repaying part of your debt in reais because actually the debt in reais, when translated to U.S. dollars, instead of becoming constant, it reduces by the devaluation, it generates a loss. But then, you have to settle this loss by paying cash, right. So you don't see it on our cash flow statement, but actually the \$1 billion that gets in, most of it was used to repay the derivative positions, which is the current part of the reduction of that denominated in reais. So another way of looking at our total debt is to summing up the total gross debt with the open derivative position. You will see that also in this metric that that total debt was somewhat stable as well.

Operator

Our next question comes from Alex Hacking with Citi.

Q - Alexander Hacking {BIO 6599419 <GO>}

Hi, good morning and thank you for the question. The first question is around the cost savings. Firstly, congratulations on the very strong cost savings in iron ore in the first quarter. I know it's not easy. As we look forward, I think you talked on the Brazilian call about another \$2 per ton of cost saving. Is that just referring to, at the mine level, another further possible cost savings in freight or other areas?

And then I guess the second question would just be you probably could give us your view on sort of the mid-term iron ore price. I know iron ore forecasting is very difficult, but what do you view as kind of sustainable level over the next, say, five years based on your view of the cost curve in Chinese steel production? Thank you.

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

Yes. Hi, Alex. Thanks for the question. On the cost guidance we gave here, we are confident with that we can take out another \$2 this year. And we are only speaking about - we are only taking the cash costs until the port, of course including royalties. So we are aiming for \$17 this year. This doesn't exclude of course that we - in the next years, once you have S11D coming and also other logistics chains optimization and more dilution of fixed costs that, of course, will bring costs down even further. But for this year's cost guidance, we are aiming at least \$17 cash. And this includes - and this is at similar level of exchange rate.

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Now on the iron ore price, I really - as you know, the volatility is very high, and we are really - it's a difficult task to forecast iron ore prices. For me, the \$47 or the under \$50 was a \$3 undershooting. However, there is a lot of supply coming on stream and there is - the demand in China is, there are some mixed signals as you know. We saw some reaction in the steel market, we saw some restocking going on. But to extrapolate the iron price from there is really not my goal today.

And so that's it. I strongly believe that we are very well positioned. You will see a different Vale in the next months, quarters and years, very focused on productivity and cost cutting, of course also on health and safety more and more. And we are going to give priority over the margins than over the volumes. Although, as I said before, we will have the capacity to go to 450 million tons with the S11D, which progresses very well in terms of project implementation. However, we will also look at the market conditions. And according to the market conditions, we are going to adjust some of our production levels in the South and Southeastern System.

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

Alex, Murilo. Just to highlight on a positive note as well that the daily production in April in China reached the highest rate since September 2014, I think that is a good signal as well. But I have to call your attention for a message of Mr. Chairman, Zhu Jimin, Executive Vice President of CISA saying that the Chinese mine must survive even if the global price of iron ore falls to \$60. I think that the message is clear. And again, I think that in our view what's happening in Chinese mine is much more dramatic that most of the analysts are seeing. Thank you very much.

Operator

Our next question comes from Wilfredo Ortiz with Deutsche Bank.

Q - Wilfredo Ortiz {BIO 6113152 <GO>}

Yes. Good morning, everyone. Just very quickly on the CapEx, I just wanted to get a better sense as to what is the run rate that you would expect to see for the year given some of the comments that you mentioned earlier on the sensitivities that you provided. And if you could also give us a better sense of where the sustaining CapEx could end up being, perhaps, this year going forward. And then if you could also perhaps remind us of some of the announced asset sales that have already taken place. When will the cash proceeds come in and what are the amounts of those cash proceeds? And again, I'm talking about announced asset sales and, perhaps, what's next to come based on the pipeline of what you're seeing?

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

Wilfredo, thanks for your question, Luciano. If you look at the release, we provide a table with sensitivities of CapEx to exchange rates. So this is one effect. Also on the Portuguese call, Murilo Ferreira mentioned that we are targeting a level of sustaining CapEx for iron ore between \$3 per ton to \$4 per ton. And obviously, we're doing our best to reproduce the performance of previous years, whereby we announced a higher number and we end

up the year with a smaller number. So you can count on the same tenacity to pursue a lower CapEx without jeopardizing the scope of our works.

In terms of announced sales, so we already had the proceeds in the first quarter for the goldstream transaction and the sale of \$100 million of our energy assets in the north of Brazil. And we announced last year also transactions involving ships of which we haven't received yet. We announced a sale of four ships to COSCO on China. So this is a transaction that we expect to close soon.

We also announced the coal transaction end of last year with Mitsui and we haven't received any money yet. So it's about \$1 billion from Mitsui itself. And we're still expecting and we working on that we already also announced at that time on the project finance that should bring an additional \$2 billion.

So these are the amounts related to transactions we have already announced.

Operator

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

Q - Anthony Rizzuto, Jr. {BIO 1490590 <GO>}

Thank you very much. My first question is just a follow-up on your iron ore flexibility. Did I hear correctly that similar to BHP Billiton that you would look to flex production possibly to the tune of 30 million tons with some of your less competitive output in the South and Southeastern areas? And then secondly a question on the U.S. market. Do you see it as an opportunity, particularly as players there are struggling to bring on supply? And I was wondering if you could address what you think the cost would be from a capital standpoint and what might the cost be if you could land material pellets, DRI grade pellets into the U.S. market? Do you think you can be competitive there? Thank you.

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

Tony, thanks for the question. Well, yes, you're correctly - we are not flexibilizing our capacity. However, what we are saying is we stick to our plans which are ongoing in the Northern Corridor and our capacity goes from 350 million to 450 million tons overall in Vale. However, what we are saying is that, given that we have all those Itabirite projects now ramping up in the Southern System and Southeastern System, that we there can really substitute some low-margin ores with some higher margin ores. And if necessary, if the market requires that, we will analyze, up to 30 million tons we are going to reduce production flows. It doesn't mean that we are going to close mines, but there are mines with several products and several different beneficiation plans where we can optimize it. And we would take out up to 30 million tons per year while keeping our pace towards the 450 million tons capacity in the year.

Now, the U.S. market is very interesting. Yes, we are selling some pellets there, but not very much. So given the recent shale gas evolution and the competitiveness of DRI plans in the U.S., we are looking at the U.S. and we have several supply agreements already in

place to the U.S. However, we are not participating in any capital expenditure or in any joint venture in the U.S. What we are doing and it's increasing that our products, pellets mainly, and remember we are going to increase pellet production naturally over the next years, that those pellets are becoming - are very interesting, very competitive in the U.S. market. Thank you.

Operator

Our next question comes from Jeff Largey with Macquarie.

Q - Jeff Largey {BIO 7464932 <GO>}

Yeah. Hi, good afternoon and thanks for the opportunity to ask a question. My first question was just to go back on the announced transactions in terms of raising cash. When you talk about the four ships where there the deal should close hopefully soon, and also thinking about the coal JV, I mean would you expect that those transactions when you - I assume that they actually close here in the second quarter, that would be my first question.

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

Yes for the ships. No for the coal JV, it should take longer. And we also have other efforts that we're doing that we expect closure already in the second quarter, which goes beyond those two transactions and part of it also involves additional sales of ships.

Q - Jeff Largey {BIO 7464932 <GO>}

Okay, great. On the second question, it was just to - still sticking with coal and Moatize, it was just to get a sense given the rains and flooding we saw in the area earlier this year. Are there any lingering effects in terms of getting particularly the Nacala Corridor construction complete or is that all sort of behind us and things are moving along smoothly?

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

Galib?

A - Galib Abrahão Chaim {BIO 17562473 <GO>}

No. We don't have any problem regarding the Nacala Corridor. We have already transported something around 200 wagons from Moatize to Nacala Port. And the port onshore is working very well, no problem at all.

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

Thank you for your...

Q - Jeff Largey {BIO 7464932 <GO>}

Okay. Thank you.

Operator

Our next question comes from Rodolfo de Angele with JPMorgan.

Q - Rodolfo de Angele {BIO 1541593 <GO>}

Hi. Sorry to insist on the theme, I just wanted to follow up with you on this discussion of the volumes versus market conditions trade-off. It was discussed also in the previous call and we started getting a few questions from investors. So I just wanted to make sure I understand this broadly. So this management team has been talking about capital discipline for a long time. And in that kind of philosophy, there is a mining plan for the years to come in place that considers that you're going to have the new Itabirito projects that you have - and for the U.S. now.

And those two projects and you explained you already had the intention, I guess, to replace some higher cost capacity or at least that you deal with some depletion that we're seeing. So when we're discussing this trade-off volume here, Peter, are we talking about something new and in addition to what has been planned? And I ask this because people have been asking us specifically the number that was discussed on Vale Day of production of iron ore for this year, including third parties, at close to 340 million tons. Could we see that number going lower or is this trade-off something that you already had incorporated in your plans for the year?

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

Hi, Rodolfo. Thanks for the question and opportunity to clarify. You are right. What we are talking here, volumes versus market is something new. Let me recap what's the Vale Day 340 million tons production guidance, this is one thing. And there is also depletion involved here. As you know, we produced 330 million tons and plus including some purchasing in 2014. Now, we added new capacity in 2015 around 32 million tons, the Itabirito projects, part of them already in 2014, the other part in 2015 now. Then the difference is 32 million tons. Now, we are substituting already low-margin ore 22 million tons coming out. So the 32 million tons minus 22 million tons are 10 million tons. So that means that you add to 330 million tons plus 10 million tons gives you the 340 million tons, which we announced at the Vale Day.

And this is margin optimization, okay. On top of that, what we are saying is that we are keeping our capacity plans to 450 million tons, mainly now due to the Northern Corridor, the investment in logistics which are underway. But depending on market conditions, now since we have lots of more flexibility in the Southern/Southeastern System, depending on market conditions we would be able to close higher costs and lower quality production flows in those systems to improve, again, further the overall margins, of course taking out proportionately the fixed cost as well. And that's it, up to 30 million tons we could do on top of this. So this doesn't mean that we are going to do it and not maybe part of it, maybe nothing, maybe all of it. It depends on the market condition. It depends on how can we maximize the margins for our shareholders.

Operator

Our next question from Rene Kleyweg with Deutsche Bank.

Q - Rene M. Kleyweg {BIO 16569285 <GO>}

Morning. Just a follow-up on that. The 30 million tons does not include any third-party purchase decreases and what is your obligation in terms of, let's say, a minimum level of third-party purchases that you have to make? And then just a second one following up, again, on Nacala specifically around power supply to the ports given the weather disruptions and so on that we've seen and the effects of that on the Northern grid in terms of outages in Mozambique. How are you getting on or has there been an agreement with the local power supplier in terms of upgrading the network that Vale was potentially going to be contributing some capital towards? Has that reached a conclusion? Thank you.

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

Thanks, Rene. Regarding the third-party ores, we purchased 12 million tons last year. This year, it's roughly half of that and most of it is already taken out. So when we say up to 30 million tons, means our own production flows. But again, it's up to, it doesn't mean that we are going there. Thank you.

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

And the obligation to buy from third-party?

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

The obligation to buy from third parties, these are flexible contracts. Most of them are done on a quarterly or annual basis. So we have lots of flexibility there. Galib will take it.

A - Humberto Ramos de Freitas {BIO 17479092 <GO>}

Okay, here is Humberto Freitas. Acquiring the energy for the Nacala Port, we are little bit late with the construction of the line. We will have this line in four or five months, till there we are operating with diesel fuel, this is the information.

Operator

Our next question comes from Thiago Lofiego with Merrill Lynch.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thanks, gentlemen. I have two questions. Just to understand about the timing of the project finance, what's the expectation there for that deal to unwind? And if it doesn't happen this year, how would you offset the lack of cash from that deal maybe with other asset sales? So what could be done in terms of leverage if that deal doesn't happen this year for example?

And then, the second question is to explore a little bit more on your S11D project. I understand the mine and the rail, they have different CapEx evolution timing. So would

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you maybe consider as an alternative not postponing, but reaching peak production levels of 90 million tons, maybe more likely towards 2020, not in 2018 as you've been pointing through a slower CapEx in the rail, would that be an alternative? Thank you.

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

Thiago, Murilo. I think that we can understand, but it is a very challenging decision. With our experience in case of having some delay in this project, we will see increasing costs is the experience that we have. Then this issue regarding to postpone mainly the investment in the railway is something that must be analyzed very carefully. About the project finance, Luciano?

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

The timing for the project finance is expected for the fourth quarter of this year. If there is any delay, the plan is to offset that with two types of transactions. First, \$1.5 billion with sales of ships on which we've already commented, part of it has already been disclosed to the market. And another \$1.5 billion on sale of preferred shares in two specific assets, which are very well advanced, these transactions, and we expect to close them pretty soon.

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

Thiago, just to address properly, we needed to check, we need to analyze in case of having some alternative to postpone the logistics. But at this point of time, we are not analyzing any kind of changing in the agenda in the implementation of the project.

Operator

Our next question from Jeremy Sussman with Clarkson.

Q - Jeremy R. Sussman {BIO 15112588 <GO>}

Yes, hello, and thank you very much for taking my questions. Just one last clarification, trying to get a sense of how soon we could look to see some production adjustments. Is this something that we could see in the near future or is this more predicated once S11D is more up and running and you have a little bit more flexibility on that front?

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

Thanks, Jeremy. This is not related to S11D, this is related to market conditions and our flexibility. We now have in the Southern and Southeastern Systems that we can have new capacity coming and substitute old and low-margin capacity and going beyond that. So production adjustments are a possibility, can happen in 2015, can happen in 2016, but it has to do with the market and not with - our margins, by the way, our margins in the Southeastern and Southern System, none of them are negative, right. So it is a question of adjustments of margins and not - and adjustments of production flows because you can obtain better margins by mixing things differently.

Q - Jeremy R. Sussman {BIO 15112588 <GO>}

Thanks.

Operator

Our next question comes from Marcos Assumpção with Itaú BBA.

Q - Marcos Assumpção

Good morning, everyone. First question on iron ore, actually just to confirm the number here. The EBITDA per ton on iron ore fines in the first quarter totaled \$10 per ton, and I adjusted the price of Vale. Instead of the \$62 per ton Platt's, after adjusting for the pricing systems, we get actually to a price equivalent of \$55 per ton for fines. So basically, I would like to confirm with you guys that if that calculation is right, the breakeven price for Vale in the first quarter was around \$45 per ton, so I would like to confirm that, and to see if you are already closer to \$40 per ton probably in the second quarter, as you continue to cut costs.

And my second question is regarding the coal asset in Moatize. If you could comment a little bit on the expected cost reduction for that operations whenever you start to use the logistics and also you start to increase volumes there, so you would have more dilution of fixed costs. Thank you.

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

Marcos, on the first question, this is Luciano, you are right. The breakeven was around \$45 per ton. And without any – if you just consider the \$2 per ton that was mentioned afterwards in terms of potential cost reductions already in 2015 and another \$2 simply taking out the hedge accounting effects, which affected EBITDA for iron ore, this gives you already without a change in the exchange rate, always remembering the exchange rate on average for the first quarter was 2.84, that we would be already operating near \$40 per ton. But as Murilo said, the goal is to go beyond that with our cost cutting efforts.

Marcos, on the logistics for Moatize, we're expecting OpEx, including railway and port, of between \$18 and \$20 per ton which obviously is a much improved situation compared to the current situation, whereby we're paying around \$60 per ton in the Sena-Beira corridor, so that's our goal.

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

Now in the end of the session, I think that it's time to say thank you very much for your support, for your understanding. And we can say that we continue to work hard in order to deliver our projects below budget and on time, and to be very competitive, invest in the discipline in capital allocation and to bring the best return for our shareholders. Thank you very much.

Operator

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

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