Company Name: Vale
Company Ticker: VALE5 BZ
Date: 2015-02-26
Event Description: Q4 2014 Earnings Call

Market Cap: 186,753.34
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

Q4 2014 Earnings Call

Company Participants

- Murilo Pinto de Oliveira Ferreira
- Luciano Siani Pires
- Gerd Peter Poppinga
- Jennifer Anne Maki
- Galib Abrahão Chaim

Other Participants

- Rodolfo de Angele
- Carlos F. De Alba
- Wilfredo Ortiz
- Alfonso Salazar
- Thiago Lofiego
- Leonardo Correa
- Andreas Bokkenheuser
- Garrett S. Nelson
- Paul A. Massoud
- Rene M. Kleyweg
- Jeremy R. Sussman
- John C. Tumazos
- Marcos Assumpção

MANAGEMENT DISCUSSION SECTION

Murilo Pinto de Oliveira Ferreira

Business Highlights

Operational and Financial Performance

- First of all, I'm pleased to report that despite the declining commodity price, Vale delivered a sound operational and financial performance in 2014, with annual production records in iron ore, copper, and gold, as well as the highest production in nickel since 2008
- I would like to state that for the fourth consecutive year, our continued efforts to protect and take care of our workers are supporting the improvement of our health and safety numbers, with our total rate dropped from 2.6 per million hours worked to 2.3 per million hours worked

Expenses and CapEx

- In 2014, we achieved a reduction of over $1.2B in expenses, in addition to the big reduction in costs and expenses achieved last year

- Our general, sales and administrative expenses decreased by over 20%, and our pre-operating and stoppage expenses decreased by roughly 45%
- We give emphasis, a reduction in CapEx for the fourth consecutive year, with a reduction of $2.2B in our investments from $14.2B in 2013 to $12B in 2014
- We've reached a deal with Mitsui in Vale Moçambique, with an expected impact of $3.7B, both in terms of CapEx avoidance and cash inflow, once the transaction is completed

Adjusted EBITDA and Dividends

- However, despite our efforts, the lower commodity price took their toll of our adjusted EBITDA in 2014, which decreased to $13.4B
- Our underlying earning was $4.4B
- Despite a scenario of declining commodity price and still high CapExs, Vale paid $4.2B in dividends in 2014
- Vale maintained its net debt almost flat, at the level of $24.7B
- I would like also to highlight that base metal adjusted EBITDA reached $2.5B in the year and the fertilizer EBITDA increased to $278mm in 2014, against to a negative EBITDA of $54mm in 2013, despite lower volumes and sale prices

Iron Ore

Production, Operating Revenues and Sales Volume

- Iron ore had a record production in 2014
- Operating revenues is slightly over $26B, a decrease of about 27% when compared to 2013
- The decrease was primarily a result of lower iron ore sales prices, around the $9.2B, and lower product sales price around $1.1B
  - These were only partially offset by sales volume increase

Cash Costs

- It's important to note that iron ore cash costs will decrease even further from the $23.20 per ton that we had in Q4 2014, as our internal cost reduction initiatives brings additional fruit and will increase production and dilute our fixed costs
- In 2014, the iron ore market was hit mainly in H2 2014 by the growing supply of iron ore combined with the reduction in the global demand
  - However, as iron ore price decreased, higher cost producers in China and overseas lost competitiveness and started to leave the market, providing for adjustment in the supply and demand balance for the commodity

Base Metal

- The other market conditions are expectant with our new price equilibrium being reached in the medium term
- Base metal increased its share in revenues from 15% in 2013 to 20% in 2014, mainly due to the improvement in nickel sales volumes and prices

- Base metals adjusted EBITDA was $2.5B in 2014, representing an increase roughly 54% in relation to 2013
- Nickel price and new volumes of both nickel and copper more than offset the weaker price scenario for copper in 2014

Long Harbour and Salobo II Projects

- Also, I'd like here to highlight Long Harbour and Salobo II projects, two important milestones of our base metals business, both which are in a very positive ramping-up trend
- Although 2014 was a tough year for copper prices, the market is likely to see improved prices in 2015, as difficulties with the new copper projects around the world and lower production guidance at existing operations decrease expectations for supply growth from 2015 on
- With coal, we continue to forecast on a reduce in costs and increase in profitability

Milestone Projects

- Milestone projects, such as the Moatize mine, are already contributing to our production targets; while underperforming coal mining, such as Integra and Isaac Plains coal mines, have put in care and maintenance

Coal and Fertilizer Business

- Also in the coal business, as previously highlighted, the deal with Mitsui allow us to receive cash back and reduce our investment needs in both Moatize and the Nacala Corridor projects, while maintaining our operational control of the mining
- As previously mentioned, in the fertilizer business, we saw improvements with adjusted EBITDA increasing to $278mm in 2014 from a negative $54mm in 2013, despite lower sales volumes and prices
- Fertilizer demand in the international market is likely to remain strong, and prices should continue to improve with constraint in supply in various parts of the world

Accomplishments

- In 2014, we achieved many important accomplishments, such as the granting of the permit to open N4WS mine pit located in Carajás; the completion of eight projects; an investment agreement with Mitsui and Vale Moçambique; the renegotiation of the extension of our contract in Indonesia and its mining concession until 2045, among others
- For 2014, we stand firm in our intention – sorry, for 2015, we stand firm in our intention:
  - To further advance in the cost and expense reduction
  - To seek higher productivity in our operations
  - To optimize our CapEx
  - And to accelerate our divestiture and partnership programs

Dividends, Capital Structure and FCF

- Finally, I would like to assure you, that we'll continue working to preserve the payment of good dividends and to maintain a healthy capital structure in 2015 and 2016, while we will still invest in our key projects and prepare the foundations for an even strong FCF generation from 2017 onwards

QUESTION AND ANSWER SECTION

<Q - Rodolfo de Angele>: I just wanted to start with a follow-up question to what was discussed in the call in Portuguese. There, we were discussing ways to bridge or improve the FCF, explore especially in this year and next year. And one of the strategies is, of course, the divestitures. And within the divestitures, we discussed again the potential of IPO in the base metal division. So, in there, Murilo, you mentioned that new Vale is working on this, as if there was a set date, but it's not currently affirmative.

So, I mean, my question is, how should we think about this, or what is the thought process once that date – once you get to a point where you're ready to do it? What is going to be the key driver? Is it going to be the state of markets overall? How are you going to think about it? And the second question is on effects, if you could give us currently what is your estimate in terms of the sensitivity of the effect of the valuation in your cost and your CapEx.

<A - Murilo Pinto de Oliveira Ferreira>: Rodolfo, in fact, we are working hard in the IPO process, and you mentioned very well, whether I think we had a set date. We needed to consider that the main purpose of this project is regarding unlocked value. It's not just to bridge funds to Vale mainly in 2015 and 2016. Then, in this regard, all depend of the market conditions, and in case of having some proposal that could be considered very attractive for us. I could say that probably, if you just will see today, could be very challenging to have this transaction in place.

But I think that, mainly in the next coming weeks, we will see a new scenario in the nickel, the nickel price. Then I prefer to say, to wait and see before going ahead with any conclusion. The most important is to go ahead with all the procedures that must be done, in order to be ready in accordance with our plan. Luciano?

<A - Luciano Siani Pires>: Rodolfo, if you remember, maybe a year-and-a-half ago, we used to say that every BRL 0.10 on the Brazilian real would represent a savings in cash of about $1B. This number is now lower for two reasons, first, because now BRL 0.10 represents a smaller percentage in terms of the value of the dollar, and also because our investment plan always reduce. So, this number is more now around $800mm for every BRL 0.10 on the Brazilian real.

<Q - Carlos F. De Alba>: The first question has to do with an update, if you may, on the project finance, a component of the Nacala Corridor deal that was announced last year, where are we in terms of closing that part of the transaction? And the second question, if you can comment on what are your expectations of working capital or change in working capital, as well as cash taxes for 2015 that are embedded in the comment that you don't think net debt – or gross debt, sorry, will increase in 2015. Thank you.

<A - Luciano Siani Pires>: Carlos, we are very – Luciano. We are very actively working on the project finance. We have all the banks already fully engaged on that, leading more the lateral institutions working on a weekly basis on that deal move towards us. However, it's a very complex transaction. We have to first clear a certain – the regulatory approvals in the government of Mozambique and Malawi for the transaction itself, for the Mitsui deal, which should be cleared by May, April, May, according to our estimates. And now, we're working with the project finance, just probably at the end of Q3 next year, beginning of fourth quarter for the closing of the project finance.

In terms of working capital, we believe there's potential for several hundred million dollars of additional gains, and we're working diligently on a daily basis to increase that number as we continue to see opportunities to discount receivables, to reduce inventories and to finance ourselves with our suppliers.

In terms of cash taxes, again, the cash taxes are going to be probably minimal. We have, if you could look at the balance sheet, have a lot of prepaid taxes in excess of – well in excess of $1B. We also have now credits, because of the recent losses on the devaluation of the real. So, we expect cash taxes to be minimal next year, going forward, on the back of this, but I won't give you a figure for that.

<A - Murilo Pinto de Oliveira Ferreira>: By the way, I think that it's good to mention that we got the sections in accordance with the Brazilian law, regarding the project S11D.

<Q - Wilfredo Ortiz>: Just two quick questions. And as far as the iron ore price realizations, we've seen already that the discount between the reference price vs. what you're actually realizing has been coming down over the course of the past quarters, and obviously, there's a combination of a number of different things that go to it, whether it's CFR, FOB basis, the premium discounts that you're receiving from the different products that you do sell, and also with the potential blending.

So, could you give us a little bit of a better sense as to where you see this discount or differential, if you will, from the reference price vs. your realizations going forward over the course of this year, as things progress the blending, more product from the north region, perhaps, more sales on a CFR basis?

And secondly, as far as the pellet premium, you've obviously been able to achieve good realizations on the pellet side, and you provided some comments that seems to be fairly positive on pellet, particularly from China. If you could also comment a little bit on where your expectations are going forward.

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

<A - Gerd Peter Poppinga>: Thank you, Wilfredo. The iron ore price realization, as I said, is a combination of several factors. We achieved $6.40 per ton better numbers, so we narrowed the gap between the pellets and our own figures. It is essentially, those things which we'll continue, we are increasing our CFR sales. This will continue, and this is always has a positive effect on that, although, like I said, it's not all revenue – it's revenue, it's not all EBITDA. Some EBITDA is there because of the bank.

Then, we have, in this case, we have $4 positive contribution because, simply, because of the fact that the decline in iron ore price in Q3 was steeper than in Q4. So, this makes our price models, makes a positive – gives you a positive contribution. Of course, if the price then goes the other way around one day and this will come, then this effect becomes – leaves the equation. The biggest effect which will start to be seen, and it's just today very timid, you have, from one quarter to the other, you have just $1 in this effect, it's the higher iron ore, it's the iron content and the lower humidity because of the better qualities coming because of our projects.

So, this will probably, it's to date, it was $1, in the next quarters, you can expect $2 or $3 in this respect, once we have our carburized project is coming on since they have, last year, higher and higher contribution from the Carajás mines in the south – in the north area. And then, in two years, when we have the big quantities of the Southern range, S11D coming, it will of course then have another jump.

And then, what we are – we're negotiating premiums, it is a fact that we are having success in our premium negotiation, and that it's again, linked to the MB 65% index, where we are getting higher premiums. So, that is a trend, and I would say, there's one, of course – and one caveat, if the price goes up again, we will probably have in the first moment, a different momentum in the pricing system, there will be a negative contribution, but this will be offset by the iron content and lower humidity content. So, I'm positive that in the next quarters, that price utilization will be going in the right direction.

Okay, on the pellets, we have a higher demand. It's very interesting, although, you have a mark which is depressed, it's very interesting to see that the pellet demand is increasing. Gradually, not only in the DR market, but also in the blast furnace market, the premiums are holding surprisingly high. Although, we had a small decrease in the last months, but it's holding firm. And this has to do with lots of things, for instance in China, we are selling more products to China. You saw the lump premium increasing a lot as well from our competitors. This means also, some pellets become more interesting. And also, the pollution effect that China is treating very seriously, the pollution issue. And as you know, pellets are a charged material, high-grade material reduces – increases the energy efficiency and reduces pollution. So, this trend is also positive. And we, as I said, we will – last year, we produced 43mm tons of pellets and we are going to more than 10%, or more than 15% actually, probably increasing this figure into 2015.

<Q - Alfonso Salazar>: I have a question on Long Harbour and the Voisey's Bay mine. Can you kindly give us an update on how is the Long Harbour ramping up? And also, if you can explain a little bit, the negotiations with the province for exporting more oil from Voisey's Bay? Thank you.

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

<A - Jennifer Anne Maki>: Yeah. The Long Harbour ramp-up is going well. We're on plan to produce 10,000 kilotons of nickel in 2015. And by the end of the year, we'll be positioned to take these from Voisey's Bay, right now we're using a blend of matte from Indonesia and Voisey's Bay.

On the development agreement amendment that we signed with the government of Newfoundland, it gives us additional flexibility in 2015, 2016, 2017 as we ramp up the Long Harbour facility to ship out the middling concentrate into Siberia and to Thompson, until that there's a facility in Long Harbour that can take up the quantities that are produced by the mine. And in exchange for that, we agreed to donate $30mm into the province, as well as we pay a small processing charge to the government, so.

<Q - Thiago Lofiego>: Two follow-up questions. First on the Itabirite project, would you consider postponing, if needed, of course, the Cauê, our hard Itabirites projects, given your capital structure concerns in the next couple of years, is that an option at all? And also, what's your medium- to long-term view on further hard Itabirite project, considering the current iron ore price outlook?

The second question is on your – the redeemable [ph] PN shares (27:07) operation at MBR, you mentioned this the other day, is that something that you're effectively analyzing for this year, or is it just one potential lever that you could eventually pull if you decide to? Thank you.

<A - Gerd Peter Poppinga>: Thanks for the question. I'd take the Itabirite one, and then if Galib wants to comment on that, too. From a project perspective, everything is on schedule. But this is very important that we don't misunderstand this year. We have a clear strategy, Vale has a clear strategy, and is committed to reach within two years, once S11D comes on-stream, 450mm tons a year. This means we want to maximize the utilization of our existing infrastructure and port capacity. We have four ports, right?

So, this port capacity is 410mm tons to 420mm tons, or will be, once we finish the S11D. And we have in domestic market, give or take, another 30mm tons to 40mm tons, gives you the 450mm tons. So, we want to maximize the utilization of this existing infrastructure. We want to fill the pipeline with high-margin upstream ore coming from the S11D, of course, and some optimizations in the Southern System.

So, we have finalized the first, the projects in Itabirites, Vargem Grande, Conceição, Conceição II, which actually gives us new capacity, which is almost – it's ramping up. Cauê Itabiritos is roughly...

<A - Galib Abrahão Chaim>: It's on schedule.

<A - Murilo Pinto de Oliveira Ferreira>: ...it's on schedule.

<A - Galib Abrahão Chaim>: Forecast for H2 at the end of this year.

<A - Murilo Pinto de Oliveira Ferreira>: For H2 at the end of this year. End of this year, we're be starting up.

<A - Galib Abrahão Chaim>: For Cauê

<A - Gerd Peter Poppinga>: And the fifth line of Brucutu is already done as well. By doing that, we don't need – we can – and this will come in some years, some optimizations in the South System and the Southeast System, but we don't need a big amount of new greenfield projects to fill this pipeline I mentioned. So, that's our plan, and it's 450mm tons, and a 30mm tons to 40mm tons domestic market, and the rest will be exported and maximizing the utilization of our port capacity.

<A - Galib Abrahão Chaim>: Which means at the end, that we are not considering, at least in a short period of time, new Itabirites project.

<A - Luciano Siani Pires>: Thiago, on these transactions and the preferred shares, all the transactions that were listed on the New York, day on the Vale Day, are being seriously considered and the purpose there was to show that we have enough flexibility, and we will choose the ones which are most value accretive and have better adherence to our strategy. The preferred shares in that respect, they have a feature, they are very quick to execute, and now we know who the interested parties are, and it's sort of a plug that we can pull at any time in order to – if it – we'll feel the need to do that in terms of our strategy.

So, I would say, you should take into account that this is a definite concrete possibility, but very flexible that we can do it at any time.

<Q - Leonardo Correa>: The first one, first question on my side is regarding a potential streamlining of some operations in the iron ore unit. I mean, you have certainly a lot of different moving parts in iron ore with some systems in place. I just wanted to get a sense on what potential assets, or which systems now we could see? I mean, if final prices deteriorate further, where could we see some potential streamlining of assets which would be, perhaps, the targets? If you can elaborate a little bit on that, that will help a lot.

And the second question. I'm not sure we touched on this also in the portion of this call, but on the impairments, right? We saw a result on impairments which was, to a certain extent, offset by a gain that you booked on Onça Puma. But just thinking forward, I mean, we've been seeing in the industry several impairments from competitors. of course, the long-term pricing outlook of iron ore has also deteriorated quite a bit. So, I just wanted to get a sense on whether your potential iron ore assets going forward, there is a risk that we see some potential revisions on those book values, just considering this new very weak, kind of, pricing environment. Those are the questions. Thank you.

<A - Murilo Pinto de Oliveira Ferreira>: Thank you, Leonardo. So, on the streamlining, so we indicated, and this is not being calibrated, but it's around this number, 340mm tons production this year, indication from the Vale Day of December, very close to reality. And we believe with the 340mm tons, we have healthy margins, even in the current environment of price. So, we will keep those.

What I mentioned before, is that we have several projects which came on-stream in 2014, which are coming on-stream in 2015. And if you take the difference, additional capacity from 2015 in relation to 2014, you have in Serra Norte, for instance, 5mm tons and more; you have in Serra Leste, 4mm tons more or 5mm tons more; Vargem Grande is increasing 6mm tons, in relation to 2014, because they already produced in 2014; Conceição I and II, 8mm tons; and fifth line Brucutu also 8mm tons. All this together, gives you, from these new projects, gives you an additional quantity in 2015 of 30mm tons.

But as I said, we will only use from this 30mm tons, we will only use 10mm tons to increase production; 330mm tons we produced this last year to 340mm tons we want to produce next year. So, 10mm tons from those ramp-ups will be used for increased production. The other 20mm tons will be used for substitution of low-margin ore. While we have two types of two low-margin ore, we have third parties already, probably, will reduce it by half. So, let's say, 7mm tons or 8mm tons less. And we have another 15mm tons out of this 30mm tons from the ramp-ups, we have 15mm tons where we will substitute our own ore in some regions. Those are some marginal mines in the South System, some marginal mines in the Southeast System, some satellite mines. And eventually, Corumbá, we are going to adapt the right size, the production, so that we have positive margins there, because, today, it's the only system where we have a slightly negative margin. So, that is the plan.

From the 30mm, which come on-stream from the new projects, which come into play in 2015, we will only use 10mm tons to increase our production. So, that means we will increase the margin, and we will use 20mm tons to substitute low margin ore from third parties and from our own mines.

<A - Luciano Siani Pires>: Yeah. I'm Luciano. On the impairment side, on the iron ore, we don't see any forecast for impairments any time soon. The asset base of the existing iron ore assets are very depreciated, so we have just – if you look at the financial statements, you will see that it's around $35B. So, proportionally to its contribution to the cash generation and even to the market value of the company, still it's a relatively small asset base.

There's a lot of property, plant and equipment that we'll be investing through over the past few years, which are still have not been added to the existing set of producing assets. So, when you look at producing assets, that number is small, actually it's small when you compare it to the cash flow generation potential, so, very far away, unless, we decide to close a specific mine then maybe, on that specific mine, we will need to do some reassessment.

On the overall impairments, as you saw, fertilizer was a big number because of the decreased prices and decreased outlook. But on the other hand, there was a reverse on Onça Puma, thanks to the good performance, thanks to the good outlook. VNC, Vale has a proportion of the cash flow, which is, I would say, more than its fair share of cash flows on the equity stake because of other financing arrangements, so that plays into account as well. So, we do it all every year, we do an impairment test on VNC. That's the result. So, I would say, we have nothing against providing you transparency of what we think what their assets are worth, and that's what we've been doing, we'll continue to be doing.

<Q - Andreas Bokkenheuser>: Just a couple of questions from me. Firstly, management has on previous occasion, obviously, reiterated its preference for not gearing up the balance sheet. But I mean, let's assume for a moment here, that iron ore prices give up another $10 to $15 a ton, which certainly seems to be within the realm of likelihood, what effectively happens then? Do you think you can do enough asset sales basically to cover your CapEx commitments, or do you think there's a point here where CapEx get delayed and maybe the Carajás expansion gets delayed as well? So that would be my first question.

And my second question, you've also previously maintained that you're not going to do the base metals IPO at any given price, and you are marginally bullish on nickel prices as is consensus, but is there are minimum valuation level that you will accept for the base metals IPO that you have in mind? And further, to the base metals question, what is your committed CapEx to your Vale Indonesia operations, in view of your commitment there to your contract of work into the country? Thank you.

<A - Murilo Pinto de Oliveira Ferreira>: Thank you very much for your questions. And just to say that we're having a consensus with our board, that the S11D will go ahead at any scenario, and we have plan, different plan, in case of different prices with different strategy regarding the source of money. One decision is very clear, it's regarding S11D, it's our priority, it's very low cost, it's good quality, much better that you can see in the market. Then we, for sure, will stay with the implementation of S11D.

Regarding the IPO, we're having a range, but I think that we are not authorized to discuss at this point of time, and we believe that it's not efficient as well. But we have a range that should be considered, at least now, to pursue the IPO.

<A - Luciano Siani Pires>: Andreas, just additional comment, taking our reasoning to the extreme, if iron ore falls to $30 per ton, obviously, we won't be able to fill the gap with asset sales. So, there will be a point in which you would simply say, well, let go of my leverage, because we have a priority to conclude the strategic projects for the company as S11D.

On this line of reasoning, for instance, we believe, again, as I mentioned on the Portuguese call, that we are already pre-funded at spot prices scenarios, given the coal transaction in place that we will close this year. We are already very well-advanced in terms of additional transactions that we'll be eventually required to fund an eventual gap in 2016. But that could, obviously, in a doomsday scenario, be used to fund additional gaps in 2015.

As for 2016, if you get to 2016, with S11D very well-advanced, the rhythm as it is progressing. There's no harm in increasing slightly your leverage, as you are in the eve of completing your major project. I would say, everyone would understand that. Again, I'll stress that under this doomsday scenario that you're pointing out. But we still believe that given current spot scenarios and so on, that Vale will comfortably bridge the two years until S11D is completed.

<Q - Garrett S. Nelson>: I just had a couple of macro questions. What is your outlook for Chinese steel production in 2015 as you see the market today? Does your view change at all since the Investor Day in early December? I mean, Chinese steel prices and spreads have declined significantly over the past few months, and I think China steel production was down, close to 5% in January y-over-y, after about 1% growth in 2014. I know overcapacity is a major problem, obviously, and there's some very complex issues impacting that market. Maybe just some intelligence regarding what you're seeing right now in China?

<A - Murilo Pinto de Oliveira Ferreira>: Before we go into that question, we will let Jennifer just answer the previous question on the Vale Indonesia commitments.

<A - Jennifer Anne Maki>: So, on Vale Indonesia, we have a commitment to expand the capacity of the plant to 90 kilotons per annum, and we have flexibility in the short term when we undertake that. We're just completing the final feasibility study on that and expect to bring that forward shortly. It's not a huge capital number, it's in the $400mm phase 1 is the estimate, and it's spread over a number of years. So – and it can be funded by the cash flow in Indonesia as well. So, the other commitments in the contract, that work that relate to future development in [ph] PAMA and Vale OB, (43:19) they're in early feasibility stages of studies, and there's no immediate need to spend money there. And we're also looking at partnerships for those projects as well.

<A - Gerd Peter Poppinga>: Yes. So, yes, thanks for the questions. So, and regarding steel production in 2015, what we expect for China is, of course, in the very short term, what we are seeing is that in January, steel production was down, but it's traditionally, as we know, January is always a weak month. What we think is that, it will grow in the year a little less than 1%. Certainly, not any more like in the past, but it will grow marginally, and then picking up stronger. We think, in spite of the shift from infrastructure to consumption, still some organization is very much needed in the hinterland of China, and this will probably peak in 2020 or 2025. Until then, steel production and consumption will go up at a pace which is less than it was before.

Surprisingly, rest of the world in 2015 is seeing strong behavior, like, for instance, in the Middle East, we have strong demand. Also, India, where in India you have some infrastructure being built, interest rates are going down, and actually we are seeing that India is transforming, is migrating from a – it's now our net importer of iron ore, and actually, we sold 4mm tons last year into India. And we, according to our forecast and our order books, we are probably going to double these sales to India this year. So, there are – it's of course, still all about China, but there are other things happening in the world which will mitigate that. Thank you.

<Q - Paul A. Massoud>: I apologize that this is a repetition from the Portuguese call, but in the past, I think at Vale Day, you had talked about 220mm tons of global production on the iron ore side, being uneconomic. And so, I was wondering if you could just give an update on that figure. And if we've seen additional cuts since early December, that may have taken some of the high-cost production out or if potentially is there a shift downward in the cost curve?

My second question is for maybe an explanation on the difference between your realized copper price and what the LME average was during Q4, I think it was about an $800 a ton difference, and so, I'm assuming there's some provisional pricing implication in that figure. But if you could talk a little bit more about the delta there, and whether or not we'll see that gap continue, or if there's potential to see it shrink in coming quarters? Thanks.

<A - Gerd Peter Poppinga>: Thanks for the question, Paul. So, yeah, some months before, I think it was last year, we said that under the current price scenario, around 220mm tons of the world steel, of the world iron ore production would not be competitive any more. I'm revising this number now. And since we had some people exiting the market, and we also had a strong cost deflation, like because of exchange rate and other things, so today, we can estimate at 150mm tons are not competitive. But it takes some time; this is not from one day to other that people exit from the market or go for carrying maintenance and so on.

What we see, what we have seen in 2014, that 94mm tons of Chinese production has exited the market, and 28mm tons of seaborne has exited the market. So, in 2014, we had a Chinese domestic production, 240mm tons. In 2015, we saw less Chinese, of course, going out, 27mm tons according to our numbers, but 42mm tons exiting from the seaborne side. And the Chinese steel production – this Chinese concentrate production, we are forecasting to be around 210mm tons. And one or two years down the road, this should be stabilizing in China at around 170mm tons, 1-7-0mm tons of concentrate, right.

Interesting also to mention that, in the very short term, what we see is the mines, they have high stocks, but it's coming down now, okay. It's very drastically coming down in the last weeks, one month. We had 20-day stocks coming down to 15 days. And the utilization rate, the average utilization rate of the mines in China was 80% two months ago, now it's 50% only, according to our numbers and statistics from China.

On the other hand, the stocks in the ports are high, and interestingly, the stocks in the steelworks are very, very low. So, what we probably think will happen is an uptick now in demand and in buying for the next – once the Chinese New Year ends. And this will, of course, give a positive momentum in the price, but it won't change the big picture which we have outlined before that prices remain under pressure, since we have more new supply coming than new demand. Thank you.

<A - Jennifer Anne Maki>: On the copper price realization, you're correct. Part of that would be the provisionally priced tickets adjusted, but also our proportion of copper concentrate as total copper sold will increase as the level continues to ramp up. So, you'll see that delta continue as the level ramps up.

<Q - Rene M. Kleyweg>: Two things in terms of follow-up, I guess. One was in terms of VNC, you've extended the negotiations with Sumic again. Could you just clarify what the test number is in terms of the 2015 production requirement and what the potential liability is in terms of buying the 14.5% stake if you don't meet that?

And then, secondly, in terms of your pelletizing operations, you still got three idled plants, and we got a constructive view that you touched on in terms of the outlook for the pellet market. And is there any potential for those plants to come back on-stream? Do you have the raw material to feed that? And what sort of further expansion in terms of pellet premiums would you require to justify that? Thank you.

<A - Gerd Peter Poppinga>: Let me answer first the pellet plant questions. Yes, we have some plans. As you know, the idle plants are in the south. Vale I and Vale II are idled, they need some brownfield work there, some equipment and modernization. And since we had our pellet plant in the South System coming in Vargem Grande, but also in Tubarão VIII coming, it was more – it was a higher profitability to bring those on-stream, get them to full capacity, which means that next year, we are going to produce more pellets than in this year, we are going to produce more pellets than last year, 10% to 15% more.

But it is very easy for us, it is very easy and it doesn't require big investments to go, to restart pellet plant 1 and 2 in Tubarão. Of course, we have all the licenses, it's a compelling business case. However, we are studying it. We are preparing our studies. What would we do different, how would we bring them on-stream again. But there are no concrete plans today in terms of investments or in terms of timing. We will be watching the market, and we're really watching our cash position in order to decide if we invest in pelletizing 1 and 2.

And in the northern pellet plant in the Northern System in São Luis, we don't have any concrete plans yet. We are still studying.

<A - Jennifer Anne Maki>: On New Caledonia, the details of the extension to the end of December 2015 with our partners there is disclosed in the commitments notes in the financial statement, so I would refer you to that. And just say that, our focus remains on achieving our planned budget in New Caledonia in 2015.

<Q - Jeremy R. Sussman>: First, on the Portuguese call, I think you said, you expect nickel prices to increase in the next few weeks. I'm curious, I guess, what you're seeing that gives you that sense? And then the follow-up question is, how much iron ore inventory do you have in Brazil and Malaysia right now? I know it decreased by 5mm tons in Q4, so that would be helpful. Thank you.

<A - Jennifer Anne Maki>: On the nickel price side, we do anticipate a stronger demand for nickel as the months progress in the year, and especially as we come out of Chinese New Year. Just given the significant destocking that we saw in 2014, we remain quite confident that this will happen. And we also see the ore inventories in China have decreased a lot, and so there's lower grade inventories there that will drive up the cost of the nickel pig iron production, and it's not sustainable at this level. And so, we really do believe in 2015, that the market will move from surplus into deficit.

<A - Gerd Peter Poppinga>: I have to check on the inventory in more detail, but we have, roughly speaking, 56mm tons of inventory. In the mines, we have in the ports as well, and we have in Malaysia. In Malaysia, it's probably 8 or – yeah, 8mm tons. But the split between the mines and the port, I have to check on that, we will revert to you that the answer is around 56mm tons of inventories in total, right.

<A - Luciano Siani Pires>: This is Luciano, as a follow-up, just reminding you that we've been talking in the past about the stranded inventory that we have on the South System especially on the Vargem Grande complex, and also in – and that with the Pico-Fábrica road and other development and rail loops of these mines, we have now the capacity to slowly haul this additional ore towards our ports in Tubarão and in the south. So, this is a potential for additional cash flow as well, without incurring the production costs.

<A - Gerd Peter Poppinga>: Yes. Thank you, Luciano. For this reminder, it's actually important to say that the Pico-Fábrica road enables us to flow out this inventory. This stranded inventory, it's around 9mm to 10mm tons in the Southern System. But since the Southern System ports are already at capacity, and we still have some spare capacity in Tubarão ports, this Pico-Fábrica road enables us to transfer the ore, this inventory from the Southern System to the Southeast System, and ship this out of the Tubarão port.

<Q - John C. Tumazos>: Could you elaborate a little bit about the range of a potential nickel copper IPO that you said already has been set? Would such a transaction have debt attached? Would the transaction terms be less than $2B for each 10%? There's scenarios where other mining stocks like First Quantum, Teck, Freeport are down almost 50%. And then in transaction terms, that bad prices might not be as beneficial to Vale?

<A - Luciano Siani Pires>: John, this is Luciano. And obviously, we cannot give specific details on all of those questions. But just for you think about it, we have guided about $4B to $6B of EBITDA. That's what we want to achieve for the business, right? If we don't achieve results on that range, either by reason of prices or others, we will not go towards the IPO. If we reach the $4B to $6B, you'll know what other trading multiples, so you can do, I think, your own math. But we're targeting significant value, if it's not on the table, we'll not do it.

<Q - Marcos Assumpção>: First question here, on the product quality, if you could comment a little bit on the amount of production that is being currently penalized by high silica rates, at how much is the penalty today? And if you expect this production volume to decline, when do you expect that to decline, given the improvements in quality that you are seeing?

And a second question, also here, if there is further price decline, just a question here, what will be Vale's marginal cost of production? Like the average cash cost on iron ore is $22, but what will be the marginal cost of production, and at what – sorry, at what level Vale would eventually penalize, also cutting capacity, if prices are too low? Just a sensitivity.

<A - Gerd Peter Poppinga>: Thanks for the question. Look, regarding the quality, we have around 20mm tons of high silica material today. But this, as I mentioned before, that's why we have Malaysia. We have also other planning facilities, and this will gradually be mixed with the Carajás V, plus, this will be substituted by the new projects where we're coming on-stream, and which we already have on-stream, and then Cauê comes on-stream at the end of this year. And once we have new projects, the Tubarão projects, on full capacity, the trend is that, this goes down very much. So, the high silica will actually be reduced very, very much in the next two years.

Then, for general guidance, you can work with from this year, two years ahead, you will have 1% more. You will have 1% more iron in the mix, in general and on average, which means around $500mm more revenue under the same price conditions. Regarding the low – the marginal cost of our products, we don't, normally, we don't show this in much detail. And so, I would not like to comment on that