Company Participants

- Gerd Peter Poppinga
- Jennifer Anne Maki
- Luciano Siani Pires
- Roger Allan Downey
- Unverified Participant

Other Participants

- Alexander Hacking
- Alfonso Salazar
- Carlos F. De Alba
- Christian Eric Andre Georges
- Felipe Hirai
- Fernando Mattos
- Humberto Meireles
- Jeremy Sussman
- John C. Tumazos
- Jonathan Brandt
- Julian Lautersztain
- Marcos Assumpção
- Michael Wolcott
- Rene Kleyweg De Monchy
- Rodolfo de Angele
- Thiago Lofiego

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. Welcome to Vale's Conference Call to discuss Second Quarter 2016 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 August 3, 2016, on 55-113-193-1012 or 2820-4012, access code 8020044#. This conference call with 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 comment as a result of macroeconomic conditions, market risks and other factors.

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; Mr. Roger Downey, Executive Officer of Fertilizers and Coal; Mr. Humberto Freitas, Executive Officer of Logistics and Mineral Research; Ms. Jennifer Maki, Executive Officer of Base Metals; and Mr. Clovis Torres, General Counsel.

First, Mr. Luciano Siani will proceed to do the presentation. And after that, we will open for questions and answers.

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

Luciano Siani Pires {BIO 15951848 <GO>}

Good morning for everyone. Welcome to our webcast and conference call. Thank you for joining us to discuss our results. And we are proud to report that we had another good operational and financial performance in the second quarter of 2016. On the operational performance, we have reached several production records for the second quarter. For example, we achieved production records in Carajás iron ore production, in total nickel production, in total copper and in gold production, all for the second quarter.

On the financial side, we're proud to share with you that we achieved very good cost and expenses reduction in the first half of the year. Cost and expenses decreased by $1.8 billion from the first half of 2015 to the first half of 2016, enabling us to achieve a 22% improvement in EBITDA from $3.6 billion to $4.4 billion in the first half of 2016 despite the $860 million drop in revenues due to lower prices. So, that's the key highlight I'd say, of the entire results of this quarter. An increase in EBITDA despite the falling revenues, thanks to costs and expense reduction.

Moving to the second quarter performance, adjusted EBITDA was $2.4 billion, about 20% higher than the first quarter of 2016, with very good results especially from our Ferrous Minerals and Base Metals segments. Our capital expenditures totaled slightly less than $1.4 billion in the second quarter of 2016, with project execution totaling $900 million and with $540 million spent in S11D project.

We focus on strengthening our balance sheet and continuing to reduce our leverage in the second quarter. Net debt decreased slightly to $27.5 billion with a cash position of $4.3 billion. But most remarkably, in this quarter, we reduced almost $400 million in debt. So we paid more than we drew down from our facilities. However, this was partially offset by the impact of the appreciation of the Brazilian real, on the translation of Brazilian reais denominated debt into U.S. dollars. So that's the reason why we didn't see a more substantial reduction in debt this quarter.

Talking now about Ferrous Minerals. Our C1 cash cost for iron ore fines totaled $13.2 per ton, increasing $0.90 per ton when compared to the first quarter of 2016, despite the appreciation of the Brazilian real against the U.S. dollar that would have entailed a growth, an increase of $1.2 per ton, showing the resilience of the ongoing cost cutting initiatives. So, therefore cost increased, yes, but less than what it would have hadn't we done our cost reduction initiative.

Our freight cost slight increased to $11.8 per ton due to the negative impact of higher bunker oil prices in our chartering contracts. And our iron ore and pellets EBITDA breakeven landed-in-China was almost in line with the previous quarter, marginally increasing from $28 per ton in the first quarter of 2016 to $28.5 per ton in the second quarter. So despite the effects of the appreciation of the real, higher bunker oil prices and also higher royalties because of the higher prices, so which impacted by also another $0.50 in our overall landed-in-cost. We achieved significant improvement in price realization in higher volumes. So EBITDA in the Ferrous Minerals segment was $2.1 billion increasing 23% quarter-on-quarter in the second quarter of 2016. And S11D, the most important project in our history is being commissioned, 90% physical progress at the mine and plant, 70% at the logistic sites, the Estrada de Ferro Carajás and the railway spur. In the railway spur itself 92%. We had the pleasure yesterday myself, Mr. Ferreira and others to ride on a passenger train to the entire railway spur, so it's almost ready.

In Base Metals, EBITDA totaled $376 million almost 15% higher than in the first quarter of 2016, as a result of lower cost and higher prices, which more than offset the impact of the appreciation of the Canadian dollar which happened as well like the Brazilian real. The nickel prices slowly recovered in the second quarter. Our nickel realized prices were positively impacted by higher premiums over the LME, increasing 4.5% in the second quarter of 2016 versus the first quarter, more than 3.8% increase in the LME nickel prices, so premiums increasing.

In Vale New Caledonia, VNC, unit cost net of by-product credit achieved $12,200 per ton in the second quarter of 2016, decreasing again now by about 5% over the last quarter. And Salobo's EBITDA totaled about $122 million, practically in line with the EBITDA in the first quarter despite the depreciation of the Brazilian real.

Coal and fertilizers. With coal, we continue to focus on reducing costs, increasing profitability and ramping up the Nacala Logistics Corridor. Coal performance was positively impacted by the cost decrease in Mozambique. The production cost per ton in Mozambique for the coal transported through the Nacala Logistics Corridor decreased by almost 40% compared to the previous quarter, should continue to improve in the coming quarters with the ramp up of the Nacala Logistics Corridor and the Moatize II mine project. The ramp up of the Nacala Logistics Corridor, as we mentioned, continued as planned, with almost 1.7 million tons of coal transported in the railway and 19 shipments concluded in the quarter. The startup of Moatize II as I mentioned is expected by early August. And fertilizers' EBITDA was negatively impacted by lower market prices and by the appreciation of the Brazilian real, totaled $32 million in equity.

We would like to conclude by telling you that we stand by the belief that the Samarco agreement provides a concrete effective and long-term framework to remediate and compensate for the impacts of the Samarco dam failure. But given the uncertainties related to the date of resumption of Samarco's operations, we've provisioned in this interim financial statement, the amount of BRL 3.7 billion, equivalent to Vale's secondary responsibility under the agreement to support the Samarco foundation on the long-term recovery of the communities and the environment. So it's a conservative stance but that's the one we decided to adopt.

We're pleased to inform that despite the inflationary pressures, we increased our competitiveness in the iron ore business. C1 cash cost for iron ore fines reached the lowest level ever of BRL 46.10 per ton, so continue decreasing in reais. And we remain committed to our divestment program, having sold three very large ore carriers this quarter.

Looking forward, we remain fully focused on completing our CapEx program, therefore reducing CapEx, improving our operations, maintaining our CapEx discipline and deleveraging our balance sheet. And as we approach the completion of our CapEx program, we are reaching an inflection point, the ramp-up of brand new mines and logistics infrastructure in iron ore, coal and copper, expand our operational flexibility and the ability to operate on a higher margin levels while reduces our future sustaining CapEx needs. For us, the future is now.

Thank you for your attention and now let's open this webcast for Q&A.

Q&A

Operator

Thank you. Our first question comes from Carlos De Alba, Morgan Stanley.

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

Yeah. Good morning, gentlemen and Jennifer. First question, if you could maybe, Luciano, give us please an update on the asset sales. I think this is an important point on the deleveraging story? So, do you have any comments, that will be very useful.

And second is on the sustaining CapEx for the iron ore operations. They have continued coming down, they reached $1.8 billion in the second quarter, how sustainable is this level? And if you can provide us any outlook, that will be also useful for modeling purposes. Thank you.

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

Carlos, thank you for your question. First, an update on the Mozambique coal and project finance deal. It had a substantial progress in this quarter. So we closed the agreements with Mozambique, with Mozambique government. We concluded the negotiations on the term sheets, so all the structural points have been cleared with the banks. Now, we're just into documentation phase. Yes, we still need the approvals of Malawi, the Government of Malawi, but it's going on very well. So, the likelihood that we will have signed by the fourth quarter is increasing as the day passes and that's a firm goal that we have. So, that's a very important one for deleveraging.

In terms of transactions, we also have two other important transactions on the pipeline, which we should expect announcements soon. So, we cannot advance details right now, but what we can say is that, we are very confident that we will bring to the market very good news in a very short period of time during this third quarter. So, that's where we stand so far.

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

Hi, Carlos, Peter speaking. On the sustaining CapEx, you're right, it came down quite a lot. We're optimizing our supply chain but it's reaching a limit. It will probably still go down a little bit further but it's probably close to a healthy limit and this is sustainable.

Some examples are, for instance, we need to decrease our haulage distance and we are installing some conveyor belts from the mine to the beneficiation plant like, for instance in the N4 mine in Carajás or in the Minas Gerais or Itabira mines to the Cauê plant, such examples are typical examples of sustaining CapEx, but, it will be reaching a limit, and it is sustainable.

Operator

Our next question comes from Rene Kleyweg with Deutsche Bank.

Q - Rene Kleyweg De Monchy

Thank you, everybody. One clarification and two questions, if I may. Luciano, I presume the two imminent transactions that you referred to do not include any discussions regarding the strategic asset that you're potentially looking to sell a stake in. And then, in terms of the questions, one, Peter, could you provide an update again, sorry, on how the commissioning of S11D is going and what visibility you have in terms of first production and first shipments?

And secondly, on the timeframe and CapEx involved in terms of Tubarão 1 and Tubarão 2, you have made comments in recent weeks that you're reanalyzing the potential of starting up those operations again. Thank you.

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

Rene, Luciano. We would prefer to leave the answer as it was, so I'm not giving you indications about the transactions to come. So, let's wait for the news when they break out.

A - Operator

But in a way, Rene, what we would say that, we are very positive about the closing for these transactions.

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

Rene, in terms of S11D, you saw that it is very advanced -well advanced and it's now being commissioned as this project is divided into three lines, hit the mine and also in the beneficiation plant downhill. So, the first line is being commissioned, and until the December – until November, actually, we plan to have at least one line fully commissioned and it will start up. The first production will start in December but no sales are forecasted to happen in this year. This is for January, until it gets to the port and fill the pipeline. In terms of truckless, you will see, it's also moving in parallel and it's also going well. All the conveyor belts are nearly all installed and are also being commissioned.

So, S11D is going well and what I – in terms of ramp-ups, we have targets, but what's more important is what I said earlier is that we have a defined capacity at the railway. My colleague Humberto always trying to increase that, but realistically speaking for 2017, we are talking about – something about 175 million tons and that will come of course majority from the northern range and the rest will come from S11D and this will be filled.

Tubarão 1 and 2, it's a very low CapEx to restart that. And we are not going to use the full capacity. Please remember that Tubarão 1 and 2 today already grinds – part of the circuit we used to grind for the other pellet plants. So the capacity increase there would be not very big, but it's a very low CapEx to restart. And it will be a swing plant to come in and it's necessary to come out very easily again. Thank you.

Operator

Our next question comes from Jon Brandt with HSBC.

Q - Jonathan Brandt {BIO 17988091 <GO>}

Hi. Good afternoon. Just two quick questions for me. If you could comment a little bit on the iron ore market itself and what your expectation is for the second half of 2016. How sustainable you think are prices above $60?

And then secondly, I wanted to ask about Samarco and the provision. My understanding is most of this is not cash though there is about $150 million that will have a cash impact. At what point, if production doesn't re-start at some point, will you have to put more cash into Samarco and then sort of if you could help me understand is that later this year, or is it sometime in 2017? When do you have to start putting even more cash into the Samarco? Thank you.

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

Hi, Jon. It's Peter speaking let me comment on the iron ore market then. I think you know the macro story which has been when China heavily decided to invest in infrastructure and construction again and gave the credit stimulus through the fixed asset investments through public spending mainly. Then it changed the whole game for 2016 and the demand reacted, production of steel increased and we had the iron ore price reacting to that, right?

If we just have a quick look at what happened with the inventories that steel inventories were very low at trade-off and at mills, lowest ever, in spite of the record production in June. So, this is a very good sign. And the iron ore inventories when we look to that, although they are high at the port but it is – throughout the whole supply chain we can say it's at normal levels, 50 days consumption more or less, in the whole chain.

So, if you then now consider that seaborne supply is roughly flat with 2015, right. Although, there is some seasonality coming now in second half of 2016, we see it quite as balanced through restocking.

So, if demand stays firm, what seems to be happening that the iron ore price will for sure stay above $50 in the second half of 2016, and that's what we believe in. And that's actually what we forecasted in Vale Day in December 2015 sometime ago. But if you have a quick look into 2017, that's what where we have a maybe probably the biggest disagreement with some analysts. We think the seaborne supply will actually increase a little bit, because worldwide steel production may increase 1% or 2%.

We see much less new supply, but much less new supply being added from as it was in 2016. So, in 2017, what we think will happen, you will see 60 million tons new supply coming probably seaborne against 110 million which entered this year, which are entering this year. So much less new supply being added.

We have some scrap situation and I'm saying it again and again, market is underestimating depletion and overestimating major product ramp-ups. You can see it in all the countries you look at. And the other thing which I have to add here is, of course, Vale will always have a mature eye on the market. And our aim is to maximize margins. So, having that in mind, if there is not a complete collapse in steel demand, what we don't believe, I don't see iron ore below $50 for longer periods next year. Thank you.

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

Jon, on the Samarco provision, you're right, it is non-cash. There is also an expectation of $150 million to be disbursed to the foundation in the second half of this year. There is a box in our results release with very detailed information about how the agreement between Samarco and the authorities develops in terms of cash outflows. And just give you the numbers for next year, for Samarco, there's a forecast of $374 million for next year. And for 2018, these amounts have to be split between Vale and BHP, should Samarco does not come back, which that's your question, so how it would develop?

And from 2019 to 2021, then the amounts can vary anywhere between $250 million and $500 million again for Samarco and the shareholders would bear half of it. So, therefore the cash outflows, in this scenario that you envisioned will have this profile. We also approved as per the release of yesterday, $100 million for working capital needs for Samarco and that is outside the scope of the provision, well, maybe netted against the provision in the near future, but that entails our support as we still envision Samarco coming back into operations. So, this is discretionary. This is not something that is mandated by the agreement.

Operator

Our next question comes from Alex Hacking with Citi.

Q - Alexander Hacking {BIO 6599419 <GO>}

Hi, thank you. Good morning, and thanks for letting me ask few questions. Peter, you just mentioned that the market maybe overestimating the pace of new supply coming from projects. Can you remind us of what your guidance is for the ramp-up schedule for the S11D project. Will you ship any iron ore from this project this year, and then what's the guidance for shipments for 2017 and 2018, if there is any?

And then the second question, if I may, which is just effectively the same question from Moatize. We're seeing the project ramp-up there with the shipments on the Nacala Corridor. How much coal is Moatize expected to ship in 2017 and 2018? Thank you.

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

Hi, Alex. Thanks for the question. I prefer not to speak about S11D as an isolated system, because it will be one system together with the other range, the northern range. We have at least for 2007 where we see room in the market and where we need to ramp up correctly carefully with all the security, we see the determinant factor is the logistics, the railway system which in 2017 is forecasted to have a capacity of 175 million tons. From there, you can infer the ramp-up in 2017. 2018 onwards, of course, we will progress with the ramp-ups but I repeat here what I said, we will have the mature eye on the market and balance everything as much as possible to maximize our margins and also our cash flow.

A - Operator

Roger, please.

A - Roger Allan Downey {BIO 7419641 <GO>}

Okay. Hi. Well, as you've seen, yes, ramping up Moatize does have a significant effect on the dilution of costs. And today, we're feeding Plant 2 Moatize II at a rate of about 200,000 tons to 300,000 tons a month. This compares with about just under 1 million tons from Moatize I. So it gives you an idea of where we are in terms of feed rate to the plants and where we are with the ramp-up. So that maybe helps you estimate how we're going to ramp up going forward.

Essentially, the ramping up has to go hand in hand with the logistics, so we are hoping to achieve 18 million tons of logistics and therefore 18 million tons of coal in 2017.

A - Operator

Thank you, Roger.

A - Roger Allan Downey {BIO 7419641 <GO>}

Thank you.

Operator

Our next question comes from Alfonso Salazar with Scotiabank.

Q - Alfonso Salazar {BIO 18358082 <GO>}

Hello, everyone. Thank you for the question. My question is regarding Salobo. Compared with the original plan in the ramp-up, is it still behind or has been behind in the past. And you are still very confident that Salobo will reach full capacity in the second half. So, just wondering if you can explain what's happening here, what's going to be the change at Salobo that will let you get to full capacity in the second quarter?

A - Operator

I will leave with Jennifer Maki, but for sure the big issue that we had it was mainly with the power supply.

A - Jennifer Anne Maki {BIO 16392645 <GO>}

Yeah, we had a number of instances in the first half where we lost power due to power outages and we've been able to rectify that and it's improved a lot. But when that happens, it takes quite a bit of time to recover. In addition to that, I think we've had some normal challenges of any ramp-up but happy to confirm that we definitely will meet capacity in the second half of this year and in speaking with the team yesterday, it looks like July will be a new record and so we're well on our way to a strong second half of production at Salobo.

A - Roger Allan Downey {BIO 7419641 <GO>}

Can I just step in and correct something, well, not – just to clarify. When I say 18 million tons in 2017, that's the run rate, that we will achieve a run rate of 18 million tons in 2017, it should be the capacity of Nacala. So, we will be working with the coal mine hand-in-hand to reach that run rates within that year. Okay, so the accumulated for the year will be lower, will be inferior to that according to our ramp-up.

Operator

The next question comes from Christian Georges with Générale.

Q - Christian Eric Andre Georges {BIO 1557701 <GO>}

Thank you. On your CapEx, just to confirm that you had I think, a guidance of $5.5 billion for the current year. And I think going down towards $3.5 billion to $4 billion by 2020. Is that that still the idea or should we consider especially in the light of the stronger Brazilian real?

Second thing is Fortescue, I think, seem to look forward to blending some of the grades in Asia perhaps as early as yearend. Is that a realistic target, and these are the targets for you? And the third thing – which is a side question I think in the Brazilian magazine, Valor I think, suggesting that deal with Mitsui, would have been revised down like 30%? I think they're implying for the stake in the mine? Is it something that isn't accurate? Thank you.

A - Operator

First of all, about the Mozambique group. I think that the relationship and the documents with the Mozambique government have been finalized, it's okay. We are in the end of the process, the same process with the Malawi government. We're just in the end in doing some revision with the documentation with the international banks, and with Mitsui we are just in finalized. And we would be able to bring the full number shortly. I think that we cannot confirm anything. We believe that we must provide some adjustments because in fact it's something different comparing with the 2014 but the relevance of the deal will stay.

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

Christian, on the capital expenditures, so this year should be a little higher than $5.5 billion, more towards $5.7 billion, $5.8 billion because of the appreciation of the Brazilian real. But looking longer term, if that's true that, in one hand, we have appreciation of the Brazilian real, on the other hand, as you can see, the running rate of sustaining capital is much lower than the $3 billion, $3.5 billion that we have indicated in the past. So, I'd say that there is a lot of room for reducing the normalized CapEx which sustains as of the last Vale Day in $4 billion towards a much lower number. And we will provide an update accordingly when we revise our plans. But longer term, it will be lower than that.

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

Christian, about the blend. The idea is to help – it helps or to optimize the value chain upstream in south and southeastern system. That's the general idea behind it, and it's happening. Last year when Malaysia was still ramping up, we blended roughly 15 million tons. This year in Malaysia, we are going to 25 million tons, 26 million tons, and then we will be probably reaching full capacity next year. And other offshore blending last year we had roughly 5 million tons, this year, we are doing around 25 million tons and this will be increased again in 2017.

Operator

Our next question comes from Jeremy Sussman with Clarkson.

Q - Jeremy Sussman {BIO 15112588 <GO>}

Hi. Thanks very much for taking my question. I was hoping - just looking for a little clarification here. I think on an earlier call, you mentioned divestments you were looking forward to announce in next week, and touched briefly on some imminent transactions earlier today. Can you just elaborate on this front? I mean it sounds like Mozambique is more of a Q4 event. Any clarification would be helpful. And just my follow-up would be in terms of what you've talked about with Mozambique, do you still expect the up to $2 billion of project financing, or are we just talking about the equity portion closing in Q4? Thanks very much.

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

So, the two transactions that we mentioned do not include Mozambique. So, Mozambique as you said it's more of a Q4. And the project finance may be between $2 billion and even up to $2.7 billion. We actually have more commitments from the international banks than those amounts. We will depend a little on the syndication process as well for those processes which are covered by some of the ECAs but we remain very optimistic that we can get values close to the higher end.

So therefore, we will receive not only the equity portion. And reminding you, the equity portion, it includes not only the mine portion but also the logistics portion and reimbursement of the capital expenditures incurred since June 2016 at the proportion of the stakes in each of the mine and the logistics. Well, there's several components of mining which will come in and the project finance. So, it's a substantial transaction and we continue to guide for at least $3 billion on that transaction in Q4.

Operator

Our next question comes from Thiago Lofiego with Bradesco BBI.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you, gentlemen. I have two questions. One, if you could comment on your additional iron ore inventory build in Malaysia, at what levels can we expect you to work with once you reach normalized levels? And also if you could comment on your - or give us an update on the blending strategy at the Chinese ford. How that is evolving through this? Thank you.

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

Hi, Thiago. I think we are, in Malaysia we already reached our stock level there. It's going smoothly now. It's a question of optimization. In China, but there is other offshore blending possibilities like Oman, which we're also using, but mainly China, we have several ports, we have several ports agreements where we are blending with our own ore, the Brazilian blend.

Brazilian blend is very well accepted in China getting a constant premium of - this quarter it was something around $3 on top of the benchmark. And so it's going well. We will increase that like I said, this quarter, we are aiming at 25 million tons in three or four ports, major ports and this will go up. Still a learning curve, still let's say an optimization also on how to blend and how to distribute, because it's not only about blending, it's also about distribution. There is bonded warehouse. There is other possibilities if you want to sell in renminbi. And so, there is lots of things going on, but it's going well to Chinese businessmen and port authorities and other participants are working very well with us. So, that we are very optimistic that this will create value for us and for our customers.

Operator

Our next question comes from Felipe Hirai with Bank of America Merrill Lynch.

Q - Felipe Hirai {BIO 15071781 <GO>}

Hi. Good afternoon, everyone. Thank you for the question. We have a follow-up question and another question on VNC, if we may. First, you mentioned, Jenny, that the project finance could be larger than initially announced amounts. And we were wondering if there is any figure you could give on what the cash impact to Vale from this transaction could be considering all of this?

The second question is regarding VNC. We saw a couple of months ago an announcement from ERAMET that did a deal with the French government, providing some support of the operation. And we are wondering if there is something on Vale being studied that could provide a similar support from the government or being discussed with the government for a similar support. Those are our questions. Thank you.

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

On project finance, the goal continues to be at least on the equity – in projects and in portion at least $3 billion, but with, I would say upside risks.

A - Jennifer Anne Maki {BIO 16392645 <GO>}

Okay. On the ERAMET, SLN transaction, my understanding is that, they're in a unique situation of having the French State as a shareholder, owning approximately 25% of ERAMET. And also in New Caledonia, the local government there owns approximately 35% of SLN. So, I think that gives them some special qualifications as I understand it under French rules to be able to get some funding. We don't obviously qualify for that as the French State isn't a shareholder. But of course we continue to explore all options. And in the past, the French State has supported us with the and financing for the initial construction and that is something that is possible for us to use again in the future.

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

Just for the sake of clarification, all the amounts received under the project finance will flow entirely for Vale because they will be used to repay existing facilities between Vale parent company and Vale Mozambique and Vale Logistics.

Q - Felipe Hirai {BIO 15071781 <GO>}

Okay. Thank you.

Operator

Our next question comes from Rodolfo de Angele with JPMorgan.

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

Hi. The question I'm going to make it's probably for the shareholders, but since you interacted on board meetings with them, I'll give it a try. I just wonder if you could comment on how the shareholders agreement, the discussions are going? That's all. Thanks.

A - Operator

Hi, Rodolfo. I think that for sure this subject belongs to the shareholders, but I'm very positive for sure in this Brazilian political context. They need us to be the more careful about analyzing some key items of the discussion but I am extremely positive about having a happy end in the course of this year.

Our next question comes from Marcos Assumpção with Itaú BBA.

Q - Marcos Assumpção

Hi. Good morning, everyone. First question, if you could comment a bit on the iron ore sustaining CapEx. It was also an impressive performance at $1.8 per ton. You already mentioned that probably this number will be a little bit higher in the second half, but how you are seeing this on a sustainable basis probably after the S11D? How could we estimate this number in the future?

And the second question, if you have any update on the MoU side with FMG for the joint venture on blending and distribution of iron ore? Thank you.

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

Yes, Marcos. As I answered before this, sustaining CapEx is sustainable, we will probably achieved a little less than we have today, but there will be a limit of course. You must remember also that we have lots of new mines coming into production like in the Southeastern System and also in S11D. So, the trend is going to be down, but if they have some upward pressure, it will be for sure sustained. And as I mentioned before, we are investing in some conveyor belt systems inside other mines in order to reduce the distance of the hauling business. All those things together, we see that there is still some room to decrease the sustaining CapEx, especially because as you know in new mines, they need less sustaining CapEx than old mines. And that's our position on the sustaining CapEx.

On the MoU, we are progressing well with FMG but at a much slower pace than we had anticipated. I don't think we will have ore blended in 2016. That's something for 2017. And on one hand, there is a tactical focus on the blend itself and on the upstream value chain optimization, but I think one must consider also some of the strategic consideration and that's being discussed now.

The lab results are very promising. We have done some simple tests in labs but also in pilot plants in sinter pot. And there is for sure value creation for the steel plant, this is now a certainty. Thank you.

Operator

Our next question comes from Fernando Mattos with Merrill Lynch.

Q - Fernando Mattos {BIO 16613014 <GO>}

Hi. Thanks for taking my question. I think it was answered already but just to confirm on the information regarding the project and how much of the funds would actually equal to Vale's specific – how much cash Vale will receive? So, if I understood correctly, that should amount at least to – estimates, the $3 billion depending on the success of the project finance. But just wanted to confirm how much of that would actually flow to Vale, the $3 billion more or less or it's more? Thank you.

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

Exactly all the amounts will flow to Vale. Just remember that after the project finance, there will be a JV 50%-50% on the Logistics Corridor, so therefore the project finance debt will be no recourse to the shareholders and will be – therefore not consolidated within the Vale financial statements. And all the amounts on the project finance will flow directly to Vale repaying existing facilities plus the equity amounts already discussed.

Operator

Our next question comes from Julian Lautersztain, Millennium.

Q - Julian Lautersztain {BIO 15953565 <GO>}

Yes, hi. Thank you for taking the question and congratulations on the result especially on the cost side. My first question was on the cost side, specifically, given the royalties that you're currently paying, do you expect any risk that those could actually be increased under the new administration and sort of new Environmental Minister?

And the second question I had was, we've seen slippage on Mozambique getting the project financing in line and given the tightening in your debt market yields, how do you sort of look at that market currently? Thank you.

A - Operator

About royalties, I think that now we have some turbulence in the political context in Brazil. And right after the decision regarding the future of the government in the end of August, we have elections - municipality elections and I don't think that it's easy to have this discussion in 2016.

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

On the tightening of the markets, that's something that we're looking very closely. As you can see in our financial statements, we have a lot of a debt to be refinanced. Our cash position has been increasing and will be expected to increase with the transactions but ultimately it is likely that Vale will come to the markets at some point in time. And therefore, it's a development that we are watching very closely.

Operator

The next question comes from Sarah Leshner with Barclays.

Q - Michael Wolcott {BIO 19369736 <GO>}

Hi. This is Michael Wolcott on for Sarah. Thank you for taking my question. So in reference specifically to the $100 million working capital facility for Samarco, along with BHP's recently announced loan, should we read into it that Vale and BHP will continue to support Samarco's financial obligations in addition to the settlement? Thanks.

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

The support is for general working capital purposes. And we're currently engaging with the creditors on the discussions specifically about the financial obligations.

Operator

The next question comes from [Erica Roth] with Imperial Capital.

Hi there. Thanks for taking the question. One of my questions actually already been answered. But I did want to specifically ask around some of the tailing dams that you currently have in Brazil. Am I correct in thinking that you have 155 tailing dams as it currently stands? And I just wanted to know, specifically whether there is a viable alternative to such dams given some of the movements, I guess, from the Brazilian prosecutors about potentially banning upstream tailing dams. Thank you very much.

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

Yes, that is a difficult but a very important question. We have in fact in the iron ore business 148 tailing dams. Now what we are doing is independent of what will be changed potentially in the law or in the licensing process what we are doing anyway in order to maximize our margins, what I said was, that we're trying as much as possible to dry process and also to take advantage of our offshore blending capability.

What we are doing on top of that is, that we are now always separating the coarser tailings from the slimes and the slimes will be from now on preferentially being deposit into exhausted pits instead of in tailings. So that's another way of optimizing the tailings story.

That means that in our new integrated plan looking forward some years, instead of having only 40% dry process like we have today, we will go to 70% dry process. And there is another maybe item which we should put on the table, no matter what will happen in terms of specific - the upstream, the construction method of tailing dams in Brazil, in terms of legislation or restrictions. We must say that Vale, we don't have those dams, right. We don't have - we practically have no upstream dams in our operation continuously. And also in the future, we were not considering any of those upstream dams, new dams. So, that is something which - it's very different from what other companies may be experiencing. Thank you.

Operator

The next question comes from Thiago Auzier with Goldman Sachs.

Q - Humberto Meireles {BIO 16541842 <GO>}

Hi, everyone. This is Humberto Meireles. Thanks for the questions. So, a follow-up question on the tailing dam, sort of debate, in this scenario where you can use old pits as a substitution for tailing dams, essentially what would be - what this implies for the environmental licensing process? How different is that the licensing process when you use old mines for a tailing dam versus just building a new tailing dam?

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

So pit storage of slimes into exhausted pits is for sure much easier than to license a new dam. So that is one of the non-brainers we have and we are planning full speed ahead into direction and this solves our, let's say, bottlenecks for the next 20 years.

Operator

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

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

Thank you very much. First question, must you have the Samarco issues entirely addressed and wrapped up before you can resume a common dividend. Second question, if next year benchmark 62%, average $60 or better and nickel was $6 or better, what do you think the possible range of dividends would be? As I read the cmegroup.com, the August month is $58.03 for iron ore and yesterday the 2018 futures was $6 higher than it was a week or two ago. And I recall lovingly in the first six months of 1987 or 1988 after a long downturn, the nickel price rose sixfold. And I want to praise you for being so polite when people ask you to discount the Mitsui deal 30% and give away 10% of the iron ore business and run mines without tailings dams. You're so patient. God bless you. I think you're being very, very, very polite. Things are great right now. Things are good.

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

John, thanks for, as usual, your very kind and stimulating comments. On the dividend, everything that we say and do, we plan for the worse, right, and we are actually assuming that the most dire predictions of some of the analysts on the Street, they may materialize. So that's a risk that we take into account. So therefore, once you do those forecasts, we need to be more careful and therefore not to anticipate so enthusiastically such scenarios.

However as long as they materialize, obviously it changes completely. The leverage profile may change overnight completely under the scenarios you described. And obviously the approach - on a timing perspective, the approach to higher dividends will also change completely. I'd say what shareholders must have in mind is that because of our capital discipline, there's no other destination for surplus of cash rather than deleveraging or paying dividends. So Vale will not engage in expansion plans like we did in the past because the market isn't there. So therefore there's only two directions to go. So the debate on where to use excess cash when the time comes, I'd say would be a very nice moment to be in and certainly dividends will have a key and large role on that destination.

A - Unverified Participant

Then, we, I think, at the end of our conference call. Ladies and gentlemen, thank you very much for your time and your questions. See you soon.

Operator

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