

**Coal Mine and Railway & Port Infrastructure Projects in Mozambique**

**Telephone conference Q&A**

1. **Date/time:** December 10<sup>th</sup>, 2014, 17:00~18:00
2. **Speakers:** Michihiro Nose, General Manager, Investor Relations Div.  
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General Manager, Second Dept., Second Projects Development Div.
3. **Q & A:**
  - Q How much is the annual production forecast of the coal project? Will sufficient transportation capacity be available on the Nacala railway all the time?
  - A The coal project has already started production and is currently undergoing expansion to increase volume as the transportation capacity of the Nacala railway ramps-up towards its completion in the beginning of 2017. The plan is for coal production to reach full annual capacity of 22 million tons by 2017.
  - Q Does that mean production will increase from next year and throughout the ramp-up period of the railway capacity?
  - A Yes, that is correct.
  - Q In regards to the 4 million tons annual transportation capacity of general cargo on the Nacala railway, is it your expectation to capture cargo demand during the ramp-up period up to 2017? Also, are tariffs for general cargo set the same way as coal on a per ton basis?
  - A Under the concession agreement, the railway is required to always make available certain capacity to transport general cargo and passengers, and we will transport them during ramp-up. Cargo will mainly be agricultural products. The down line going to the port would carry coal and agricultural products. The up line from the port would carry fuel and construction materials. The tariff would be set differently from that of coal.

Q Please provide profit plans or the income curves of the coal project and the railway project respectively. When are they expected to start generating profits, and by how much?

A We do not disclose details. Both the coal and railway projects are expected to reach full operation in 2017, and we expect to generate robust earnings by then. Until then earnings will not reach full potential. This can be said for both the coal and railway projects.

Q Projects in Mozambique are prone to delays. Please explain whether there are any risks of delay and/or cost overruns in these projects, and any measures taken to mitigate those risks.

A The coal mine development consists of two phases, and the first phase is already complete. The second phase is basically identical in substance with the first, progressing towards 22 million ton capacity, and currently on schedule at north of 70% against plan. Therefore, the risks of cost overrun and delay are limited. Infrastructure project consists of a 912km of railroad and port for coal and general cargo, which have progressed by 74% and 89% respectively at present. The railway is already connected, and trial transportation of coal has begun. Major construction works are mostly completed and the remaining are basically supplementary works, and therefore a significant delay is not expected.

Q I was under the perception that these projects were experiencing delays in the past, but if this is correct, please explain the reasons for the delays and whether they are remedied.

A There may have been ups and downs in the past, but they are currently running on schedule.

Q If the first phase of development is completed, is it correct to understand that the current annual production capacity is 11 million tons per year?

A That is correct. We have placed a photo of the new coal export terminal on the page 7 of our presentation material. The coal shown in the picture is the first cargo delivered by the Nacala railway.

- Q Is it correct to understand that the exposure related to the coal project is the sum of the initial investment and your share of the future development cost? Also, in regards to the infrastructure project, is it correct to understand that there will be no risk capital required because it will be funded through Project Finance? Please also explain the price adjustment provision related to the coal project.
- A Your understanding is correct regarding the coal project. The risk capital involved in the infrastructure project is the US\$313 million initial investment only. If a parent guarantee is required in arranging for project financing then we will consider that. Price adjustment is made to our initial investment ranging from an increase of US\$30 million to a decrease of US\$120 million, depending on performance indicators such as production volume and yield over a certain period of multiple years.
- Q Does “stringent selection” mean any changes to your approach towards internal investment hurdles?
- A There are relatively more (better quality) investment opportunities under current market conditions, and the conditions allow buyers to be more selective.
- Q Is it correct to understand that it (“Stringent selection”) does not mean that investments will be suppressed?
- A The cash-flow management framework that we indicated in our new Mid-term Management Plan has not changed.
- Q Please provide the breakeven coal price where the coal project becomes IRR positive.
- A Although we cannot provide exact numbers, the stripping ratio of this coal project is less than half of what is generally seen in Australia, which makes it very cost competitive.

Q In regards to the expansion of annual general cargo transportation capacity to 4 million tons, what sort of cargos are anticipated when the expansion is completed?

A If the quantity of general cargo does not reach the 4 million ton capacity, there is flexibility that allows the remaining capacity to be used for coal transportation. The current cargo quantity is about 70 thousand tons, but we envision reaching 40 times this quantity to 3 million tons by on or around year 2030. Cargos in bulk are corn, cassava, peanut, cashew nut, sesame, tobacco and lumber. The up line cargo will be diesel fuel, fuel oil, jet fuel, fertilizer, wheat, steel stock and other construction materials.

Q Please provide the cash cost when the coal project reaches full production capacity. If exact numbers cannot be provided, could you provide some sort of indication by comparing with your projects in Australia? If the number is higher than your projects in Australia, with your projects in Australia making losses for two consecutive quarters, please explain the economics of this project.

A Although we cannot provide exact numbers, Vale has explained that it is expected to achieve its cost competitiveness among the top 25% of all coal mines in the world when this coal projects reaches full production.

Q What are the fiscal terms / royalties of coal mines and railway concessions in Mozambique? Is there any country risk of these terms being changed in the future that may result in deterioration of the economics?

A Under the new Mining Law, Royalty rate is on par with those seen elsewhere in the world. The new Mining Law seems to have been made with return to the government in mind, but it does not significantly affect the competitiveness of the coal project. In regards to the railway of the infrastructure project, all fees are clearly defined in the concession agreement.

Q What is the ratio of coking coal and thermal coal of this coal project?

A About half and half.

Q What is the marketing situation of the 10 million plus tons of coking coal?

A The coal project is already producing 4 million tons of high quality hard coking coal, and has commenced sales to countries such as Japan and the far east, China, India, Europe and Brazil. India will be the key in particular due to its geographical location and growth potential.

Q (as confirmation of a previous question) When you say the royalty is on par with other parts of the world, do you mean under the new Mining Law?

A Yes, that is correct.

Q Please provide railway transportation cost of the coal project.

A We are unable to disclose that.

Q What is the difference in cost between using Beira Line and Nacala Line?

A We expect significant improvement (because Nacala line will be able to transport the coal of the project more safely and effectively compared with Beira Line).

Q (as confirmation of a previous question) When Vale explained that the coal project will be in the top 25% in terms of cost competitiveness, does it mean the FOB cash cost at the export terminal?

A Yes, that is correct.

Q Is the concession agreement for the Nacala railway made with the Mozambique government? What is the arrangement with the Malawi government, and are there any country risks involved?

A The concession agreement is largely divided into four, the existing and new lines in Mozambique, and existing and new lines in Malawi. Each line has a concession agreement with the corresponding government. In preparation for Project Financing, an overlying framework agreement that will regulate the relationship between these four concession agreements is executed, which is recognized by each government.

Q What is the relation between the duration of the railway concession and the coal mine concession?

A The duration of the railway concession is longer than the coal concession.

End