International Conference Call
Vale
1st Quarter 2009 Earnings Release
May 7, 2009

Operator: Good morning ladies and gentlemen, thank you for standing by and welcome to Vale's conference call to discuss First Quarter 2009 Results. If you do not have a copy of the relevant press release, it is available at the company's website at www.vale.com at the Investors link.

At this time all participants are in a listen-only mode and later we will conduct a question and answer session and instructions will be given at that time. If you should require assistance during the call, please press the star (*) key followed by zero (0). As a reminder, this conference is being recorded. The replay will be available until May 13, 2009. To access the replay, please dial (55 11) 4688-6312 (access code: 454). The file will also be available on the Company's website at www.vale.com at the Investors section.

This conference call and the slide presentation are being transmitted via internet as well. You can access the webcast by logging on to the Company's website, www.vale.com, Investors section or at www.prnewswire.com.br.

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

With us today in Rio de Janeiro are Mr. Roger Agnelli, Chief Executive Officer; Mr. Fabio Barbosa, Chief Financial Officer; Mr. José Carlos Martins, Executive Officer for Ferrous Minerals; Mr. Tito Martins, Executive Officer for Non-Ferrous Minerals and Mr. Eduardo Bartolomeu, Executive Officer for Logistics, Project Management and Sustainability.

It is now my pleasure to turn the call over to Vale's Executives. Gentlemen, you may now begin.

Mr. Fabio Barbosa: Good morning to you all. It is a pleasure to be here with you. This is Fabio Barbosa speaking. I will start and then after the presentation Mr. Roger Agnelli will make some comments as well. Our agenda today involves two major items: first, how we are dealing with the current environment and second, how see the future.

On the first topic, we believe that the performance of Vale in the first quarter was a very solid one given the environment that we are facing and we posted adjusted Ebit margin of 31.6% as you can see there; our Ebitda reached US$ 2.3 billion; net earnings US$ 1.4 billion; we invested US$ 2.6 billion through the acquisitions that we paid for in the first quarter; and we managed to keep a very strong balance sheet with our liquid assets position of US$ 12.2 billion at the end of the quarter.

As you can see in the next page, Vale was really affected by the shift observed in the seaborne market. Vale is the most global company in terms of iron ore market exposure. We have a very strong presence in every single market in the world and what we see here in page 6 was a major change in the geography of the seaborne demand, and of course affecting Vale's sales.

We used to have 55% of our sales in the Western Hemisphere and in the 1Q09 this percentage went down to 19%. At the same time this is as a direct correlation with the seaborne demand performance. In the 1Q08, 79% of the seaborne was in the Eastern Hemisphere and in the 1Q09 this number jumped to 93%. So we were affected, more affected than other players in this case due to this specific geography where we operate.

Facing this environment, we promptly reacted to the circumstances by adjusting our costs and you can see there in the next page that we made a major effort in cost reduction, more than US$ 1 billion if we also add the R&D efforts that we did in the 1Q09 compared to the 1Q08. Of course the declining Ebitda was a direct result of the decrease in sales volumes and also price changes that we observed.

But as we mentioned before, we are not quiet waiting for the better times. We are working very hard to slash our cost structure in order to provide the company with the financial strength is deserves and our shareholders with the return they aspire. So there is a major campaign under way combining short-term reduction with the enhancement of the foundation of our long-term competitiveness and we believe that those savings will be much more visible over the next six to twelve months.

In the 1Q09 can already indicated that in terms of discretionary spending we reduced in US$ 89 million several items like infrastructure and support, consultant services, outsourced services, travel, advertisement, etc., very important items, discretionary items that we slashed in almost two-thirds in the 1Q09 compared to the 4Q08.

Also the working capital requirement was sharply reduced by almost US$ 900 million.

And the result of this could be visualized in the chart 10 as it is also spread in our operations. As we see, the unit cost for iron ore and nickel declined visibly in the 1Q09 compare to the 1Q08, but also on a year by year basis.

On a quarter over quarter basis the decreases were 35% and 33% respectively, despite the reduction in volumes that we observed.

We achieved pass through several measures. We are trying of course to work with a linear corporate center; we are insourcing some activities; we are re-sourcing, renegotiating contracts with suppliers; we are cutting costs of project development; we are optimizing plant and labor utilization; optimizing the flow of materials; streamlining the line of products; and shutting down higher cost operating units.

At this stage I would like to invite Tito Martins, from our nickel operations, to make some comments on what we have been doing in our nickel business to cut down costs.

Mr. Tito Martins: Thank you Fabio. I think it is important to stress - and I will not be long in my speech - but it is important to stress that despite the difficulties we faced in the second semester of last year due to the drop in the price and markets, we tried first to, as was mentioned before, streamline our production and at the same time work on some overhead costs we had in our operations worldwide.

We are right now working on a better definition of some functions not only in Canada, but in the operations in Indonesia and in New Caledonia. We do have an extra effort related to the cost-reduction when talking about the line of products and some specific items of consumption: I could stress energy and fuel consumption. That is why we decided to shut down part of the operations in Indonesia by the end of the year and that is why we decided to have the shutdown in the following weeks in Sudbury.

We decided to do that as a response to the market condition and at the same time to go for a maintenance process in our furnaces in Sudbury.

Mr. Fabio Barbosa: Ok. Also we promoted a structural shift in our iron ore output towards Carajás as we put there in slide 12 and, of course you all know, Carajás is a low cost, high-quality operation and we just now released our 20F report, we have filed our 20F report in which we indicate that we are doubling our Probable and Proven reserves.

And now in total Vale reserves in iron ore reached 14.2 billion tons and in Carajás alone we had 7.2 billion tons of iron ore @ 67% Fe content. It is a major reserve, the largest reserve of the highest quality material that is available in the world and so we are supplying the high quality ore and in relatively higher proportion, so that we are trying to maximize the higher value in use of our ore.

And today 43% of our iron ore production is coming from Carajás against around one third in the last five years.

At the same time we continue with our initiative in terms of strengthening our competitiveness through changes in our logistics and also in our iron ore marketing policy. In logistics I would like to invite Eduardo Bartolomeu to comment on what he has been doing in the activation of ships and contracts of freights …

Mr. Eduardo Bartolomeu: As you mentioned, we keep on our strategy to increase our control over the maritime freight towards mainly Asia. We have now under our control 20 ships, either ownership of old ships we used to have, the three old ones; we bought five ships and we have around 12 COAs. And we are looking to the market; we see a lot of opportunities in that sense - conversion of tankers … so we will be able to secure a very light size of freight as these changes happen in the market.

Mr. Fabio Barbosa: So we have ordered already 12 VLOCs and we have options for 4 more and we are looking for more ships in the market in order to speed up the coverage of our sales to Asia.

So we are trying at the same time to increase our customer base by developing new markets, a new client base. We are, of course, with the distribution centers in the Middle East and Asia in order to optimize our product mix and we are adopting a more flexible stance towards iron ore pricing and on that I would like to invite José Carlos Martins to make some comments on that as well.

Mr. José Carlos Martins: As we have already announced to the market, we are flexibilizing our pricing policy in order to cope with the customers' requirements and also with the competitors' moves.

Cost-wise we have conditions to sell iron ore at lower prices if it was needed, but we are always managing the price/volume situation. If we increase too much our sales, probably we are going to drive prices down a lot and on the other hand we can pressure freights to Asia.

So we are operating under these three points, which is the price that we need to sell our production in markets where we really have elasticity because, for instance, in Europe, Japan and in the Western World market, price is not the issue; people will not buy because you have a lower price.

The only elastic market today is China because you have local production which has a higher cost. So our flexibility today mainly relates to the Chinese market because of this situation and also we need to cope with our competitors' movements. So from now on that is the way we are operating.

Mr. Fabio Barbosa: Yes, so flexibility will be the name of the game.

Mr. José Carlos Martins: That is it.

Mr. Fabio Barbosa: Ok. Let us move to the second session of our presentation today where we have some comments about how we see the future.

The first point I would like to make is, of course, the performance of the PMI. It is yet in the negative spectrum of the index, but in our view it is issuing clear signs of stabilization in the steel production - which is good news, as the industrial production is the most deeply correlated with the minerals and metals demand.

On the other chart we see the very positive combination as well in the world of declining inventories and increasing, rising new orders indicating that we may actually have reached the bottom of the current crisis. This is a possibility, we expect this is the case; of course nobody could be absolutely sure, but there are very strong indications in this direction.

Chinese PMI is also in the 50+ region. It is also a very important indicator considering the rate of Chinese demand in the total consumption of our industry.

And in slide 18 we see that the fixed assets investments responded very quickly to the stimulus package implemented by the Chinese Government. So the growth of fixed assets investments reached over 28% in the first quarter, in the last month of March.

So global steel production, of course, reacted to the negative environment but now it is showing signs of recovery, particularly China that is already showing growth on a three months average seasonally adjusted basis, 14% growth when compared to the previous level at the end of the year, of a 15% decline, and this is driving back the global steel production. It is still in the negative territory, but less negative than it was in the last quarter of 2008.

As a result of this recovery, of course the Chinese demand for iron ore imports is showing a very strong performance and now … the last 12 months level reached was 476 million tons. So we believe that we are dislocating some high-cost local producers and we have been able to share part of this growth that was shown by the Chinese imports. They are growing now at 18% average and that is relatively closer to the peak observed in the middle of last year, 2008

Another element that gives us more hope about the future is that the loans to the property sector are expanding very quickly, as we can see in slide 21. We are talking about a growth of around 9 to 10% that compares to the -2% observed in the last quarter of 2008.

So the tightening observed in the credit for this sector was reverted and then we have now an expansion at levels that are even higher than the ones observed in 2007.

And the floor space sold also is showing the same trend. After the -25% in the end of last year we are showing now a recovery and they are close to zero. It is not brilliant, but it is much better position than we had in the end of 2008.

And this is very important as you can see in page 22. It is very important for our market, iron ore in particular, given the weight of the construction sector in the demand, in the steel consumption. So we show there in slide 22 that construction responds for 51% of the steel consumption in China, and out of it properties, residential properties 37%; commercial property 40%; infrastructure 23%. So it is very good news what is happening in this specific segment as it has a direct effect on the demand for steel and consequently iron ore.

And in this connection I would like to point out an important point that I would like José Carlos Martins to comment as well: how well Vale is poised today to capture the future of upside in the iron ore market. Martins, if you could comment please.

Mr. José Carlos Martins: Yes, I think the worst of this first quarter results is the volume. We lost, because of this, trend in the geography of the market. We lost; a big part of the slowdown in the seaborne market Vale took it, so we lost around 100 million tons per year volumes.

But on the other hand, from now all on our competitors are operating full capacity. So any additional market that will come - and for sure will come, mainly in Europe - Vale is prepared to take advantage of it.

So we are now the only producer that has spare capacity to supply the market and we are prepared to do it, as long as it is needed. So we have this upside potential that for sure will be captured in the next quarters.

Mr. Fabio Barbosa: Well, turning now to the nickel demand it is also showing the same pattern. There are some early signs of recovery and the stainless steel production is near the 5 million tons level - it is far from the peak of 7.7 million three years ago - but it is moving up and this is good news.

And also the austenitic ratio is also starting to recover as we can indicate there, reaching almost 75% in the 1Q09. And the reality is that the prices of high-nickel stainless steel have plunged, so the demand, the elasticity - there is of course some elasticity of the demand regarding prices as we could see in the last few years - so it is operating to bring down demand and it should operate the other way around now when prices are low, very low compared to the peak levels reached in 2007 and they are back to the levels of early 2004.

So it is important to have the view that the combination of low inventories and low prices could bring the foundation of better prospects for the nickel business in the future. Of course we are positive about the future considering the environment that we are facing, but we see that there are ... there is still a long way to go before we can say that the crisis is over.

Recessions caused by global financial crisis tend to be longer and this is precisely the case; we had a massive destruction of wealth worldwide. We had an erosion of the capital base of banks, this is still an issue today in the financial system and of course credit is a key element in the recovery of economic activity on a sustainable basis.

Of course we believe that we reached a situation that the downsides of it are very limited and the Government, the policies are having an important effect in bringing back the economy to the positive territory. So this is good news.

And in this connection I would like to stress again that Vale is very well prepared also to capture value in the recovery of the economy when it happens and we are, of course, prepared to continue to generate value across the cycles.

Thank you very much for your attention, now I would like to turn the floor to Mr. Roger Agnelli to make his comments. Roger please.

Mr. Roger Agnelli: Thank you Fabio. Well, good morning everybody. It is a pleasure again to be here with you. I think Fabio, Martins, Tito and Eduardo said almost everything about the results, about the performance of the company in the first quarter. I would like only to add some comments about that.

Last October we started to face the crisis. Our first decision was to rethink our business model, our strategy, rethinking our investments, rethinking the costs structure, etc., etc. and we made some commitments to be achieved in the first quarter of 2009. We said well, until March we need to go forward carefully. Let’s wait a little bit to see how the market will accommodate, how the market will be reacting in the different areas that we are operating and in March we are going to take our decision how to go forward.

I think this is the most important thing to mention to you. So everything that is happening right now or everything that we are showing in our first quarter results I think we are happy, we are happy because we reached almost everything that we were committed to achieve.

The first thing is the unit cost for nickel, for iron ore, logistics and phosphate in our operations is right now the same as it was before the crisis, even considering a much lower volume, a much lower level of operation. I think this one is a very good result for us.

Of course we took some very tough decisions to shut down some mines here in the South system and bring volumes to Carajás. I think that was correct. If you see the unit cost of our iron ore or the cash cost of our iron ore business, a drop of 35% in the first quarter compared to what was last year.

In the nickel business the same thing. We rethink the material flow; we rethink the working capital involved in the operation and we reduced the cost a lot.

We adapted our corporate core activities to a new level of activity. We were growing very fast and now we can say that we are stable in terms of growth. Of course we are keeping investing in our projects, but we are not really in a hurry to increase our production or increase our opportunities for M&A’s, etc. So we are, let us say, calm. Very, very calm and we are not in a hurry.

So from last September to last March we reduced the number of employees involved in our operations or working in our sites by 2,000 employees, which is really very, very strong adjustment and we made that until the end of last year, until December.

Of course we are keeping our talents, we are keeping our people and we just in-sourced some work that contractors used to do for us. So we reduced the workforce directly and indirectly involved in our operations by 2,000 employees. So this is something that was not good, but was imperative for the company to achieve our goals.

The other point is: we carefully drove our iron ore business. We said well, we have the lowest cost of operation in the world. We have the best iron ore in the world. We have our natural market, which is Europe, affected much strongly by the crisis than other areas in the globe.

We are far from China. We, in the first moment, we reduced our shipments to China. We were talking with our clients; we discussed a lot with our clients about the future of the iron ore business, our supply capacity. We discussed a lot about the benchmark system or spot market or index or whatever.

Now I should say that we are prepared for anything. We will be very happy if our clients decide to keep the benchmark system. We will be very, very happy because we truly believe that this is the best model for the steel chain, this is very important for everybody. It brings a lot of stability, reduces volatility of the market and we can really predict the capital expenditure because we have long-term contracts.

But if our clients decide not to follow the benchmarks system and they decide to follow the short-term view, we will be very happy to do that. We will be very happy to do that, no problem at all.

Why that? Because we truly believe that the market, the iron ore market for the coming year will be very tight. It is going to be very tight and as José Carlos Martins said, our competitors they do not have room to maneuver because they are working, they are already working at full capacity and we have the market - any additional ton in the market - I think Vale is much more prepared to supply this additional market than the other competitors. So we are not in a hurry.

In nickel we are in the same situation. We are finalizing two big, very big projects: Goro and Onça Puma and the market just consumed all the stocks that they used to have in the last years. So today the market, the nickel market is a little bit tight and we have capacity to bring to the market and to take advantage of any recovery in the economy in the following months.

In copper we are ok, we are working at full capacity. We are not really a big producer in the market, so we are following the market.

In coal we are fully ahead investing to be a player, or let us say a significant player in the market that we are not yet - but we will be a significant player in the market.

Logistics we are investing, still investing to repair or to restore our efficiency and I think today we are working with very good efficiency in the system and we are increasing the capacity for the coming years.

So we had a lot of homework to be done. We finished almost everything. Of course we are keeping, renegotiating our contracts with our suppliers. We are reshaping the volumes or the necessity for goods or materials for the coming years. I thing we got a lot of a cost-reduction from our suppliers. They are our partners and we are working together and I think we are accommodating everything.

So in the point of view of the company today: ok, the first quarter I think was the bottom in terms of all kinds of problem that would have happened in a crisis like we are facing right now. I should say that in Europe we are in a whether that is -30 degrees centigrade. In China today we are working at may be 35/40 degrees centigrade. So it is hot there and very cold here in Europe. As an average I think we are ok, in a very pleasant weather from -40 to +40, so we are in a very pleasant weather.

So I think we are, I believe we are prepared to take advantage of any recovery in the market. I feel that we are right now in a situation that we can at least see what is going to happen in the next six, or seven, or ten months that was completely impossible to see three, four, five months ago. My feeling is that the whole market is not getting worse. It is not recovering yet, but it is not getting worse.

But at least nobody has stocks in the market. Even ourselves we do not have stocks. We have a little bit in the nickel that Tito is going to take care about that, but it is a very, very low inventory there. But the point is: any recovering I think we are prepared.

We are open to face any challenge in the market. Financially speaking we are very sound, we are very strong; we do not have any constraint, we do not have any pressure to generate cash flow to pay debts or whatever, so we are very comfortable in this regard.

So again I cannot say that I am happy with the results, I am very happy with the current situation because I am not. Nobody is really happy. But I believe, I should say that compared to others I think we are in a very good situation and we should be very, very happy.

Looking forward I think we are much stronger than any other main competitor in the market. So we can increase production; we can increase shipments to China; we can increase shipments to Europe; we can sell more nickel; we can sell whatever is necessary to sell.

The cost I think we have room to improve a little bit more and you are going to see that in the second quarter of this year, because some measures that we took in the past is maturing right now. The level of goods in our warehouses are going down from April on because of course, last year we were working with a lack of everything and we increased our inventories, our spare parts inventories etc., etc. and right now it is accommodating, it is starting to reduce.

So those are the comments that I should give to you and I think Vale is in a very good position. I am very confident that we are going to deliver a very good result, even with this very tough situation that we are facing in the market.

Regarding iron ore everybody is betting if the benchmark will die or if the benchmark will survive or the spot market will be the market for everybody. What I would like to say is that listen, if it is benchmark, great; if it is spot, great also, great also.

Our clients are going to decide. They have to decide and now is the time to decide what they want. If they want the benchmark ok, they should pay for the guarantee of supply; they should pay for the quality; they should pay for the low volatility that we are bringing to the chain.

If they decide to go for spot I will be very happy because we are going to have upsides. I do not think we are going to have downsides because the market is a little bit tight right now, that I can tell you.

If they want to have or to see the benchmark below the spot I prefer to go to the spot. If they want to keep their guarantees, they want to keep their comfortable situation to have a very reliable supply with a price that they can control, they can see how is going to be the costs in the future, how they will sign their contracts with their clients ok; if not, is this ok for us, it is ok for us.

We are now prepared to do whatever what our clients decide to do. If it is benchmark good, if it is spot good; the only thing is benchmark guarantees investment for long-term; previsibility, etc. This is something that costs and we are going to charge; if it is spot ok, let us go and play in the spot and I like that also. That is it not bad, that is good also. That is it, thank you very much.

Q&A Session

Operator: Thank you. Ladies and gentlemen, we will now begin the Question and Answer session. If you have a question, please press the star (*) key, followed by the one (1) key on your touch-tone phone. If at any time you would like to remove yourself from the questioning queue, press star (*) two (2). Please restrict your questions to two at a time.

Our first question comes from Mr. Felipe Hirai from Bank of America.

Mr. Felipe Hirai: Hello, good morning everyone. My two questions are related to iron ore. In the last conference call you said that at this first quarter you would ship about 50 million tons and that was pretty much what you did in the first quarter. What kind of numbers are looking for in the second quarter of the year in terms of shipments and for the whole year in 2009?

And my second question on prices would be could do give us an idea what is going on with the benchmark price negotiations, if we should assume that the 20% provisional pricing should be the price for the remainder of the year or if you see any kind of risk that prices could be actually lower than these 20%? Thank you.

Mr. Fabio Barbosa: Felipe, this is Fabio Barbosa speaking. As far as your first question we are not providing any guidance of volumes moving forward, so as the year evolves we will let you know what happens in our shipments and I will pass the floor to José Carlos Martins for the second question.

Mr. José Carlos Martins: Yes. I think that as far as price is concerned, looking in the figures we presented and the volume sold and comparing our sales performance against competitors' performance it is clear that Vale was a very disciplined company during this period.

We did not reduce price to get at the market and the volume we lost is a clear demonstration that we were not the first to drive the prices down like it happened.

From now on, as we told before, we are applying a more flexible policy and also we are considering other forms of selling. During the first quarter we did not sell a ton in the spot market. All our sales are based in long-term contracts with some flexibility, it is true, but all of our sales - including China - was done based on long term contracts.

We sold nearly 15 million tons of new sales in China for new customers at the benchmark price.

So when you look forward from April 1^{st} we started developing a price ... a flexibility that is according to the market situation and another issue is, as we told you before and Roger stressed, considering that all our competitors are operating full capacity, our flexibility probably will bring us additional volumes.

We face in the Western World a huge destocking process that in the first quarter amounted above 10 million tons of iron ore that was consumed based on the stock inventories that the customers had.

We also had some impact of captive mines from some of our customers which amounted near 5 million tons in the first half. So we lost almost 15 million tons based on inventories and based on captive production - but I think that this is the cap; they cannot go above it and so from now on even if they continue to consume the same quantities of iron ore they consumed in the first quarter, they will need to buy more ore.

So besides that everybody knows what is going on in China. With the present spot price in China a huge quantity of a local ore is being sprayed and every day we have more and more customers looking for imported ore and the only company that has capacity available to sell more is Vale.

So we see a good perspective not only for volumes, but also for quantities … and for prices. Why we think that? If you look in the last three months, China bought almost 50 million tons per month in the seaborne market. This is almost 20% of above their best figures in the last year. So even with this huge quantity, spot price in China stopped going down and showed some signs of recovery. So we think that going forward, considering our flexibility to work in this market - not only in quantity, but also in price - we see good perspectives for Vale.

Seaborne market as a whole had a huge impact in this first quarter. According to our calculations consumption was down 40 million tons, but above that we had this destocking, we had this captive mining production which together brought this seaborne market down near 55 million tons in this quarter - that could be around 220 on a yearly basis - and part of these 55 million tons was offset by increases in seaborne imports from China in this quarter, which accounted for 25 million tons of additional ore being imported from China in this period.

So in general seaborne market went down 30 million tons in this quarter and by the figures you can see that we took almost all the blow. So we do not think that the situation can be worse than that and from now on we really believe that all the odds are for the good upside for Vale not only based on volumes, but also in prices.

Mr. Fabio Barbosa: Thank you Martins, thank you Felipe.

Mr. Hirai: Thank you.

Operator: Excuse me. Ladies and gentlemen, please restrict your questions to two at a time. Our next question comes from Mr. Marcos Assunção from Itaú Bank.

Mr. Marcos Assunção: Hi, good morning everyone. First question is regarding iron ore as well. What percentage of total volumes sold also in the second quarter do you believe are going to be on the provisional discounts? Because in the first quarter 55% of total volumes were sold with a 20% discount; how much do you think in the second quarter will be?

Mr. José Carlos Martins: As I told you before, we continue to work in this flexible pricing policy and as far as the provisional price, from April 1st all our sales based on long term contracts are subject to the provisional price policy, ok?

Mr. Assunção: Ok and the second question is regarding what level of premium do you think Vale can charge for on the spot prices for the higher quality, the guarantee of supply, and a more stable quality of iron ore when compared to other players?

Mr. Fabio Barbosa: Marcos, we are not going to provide any guidance about future price performance. We will disclose the results as we end the quarter and you will see how much we managed to achieve every quarter.

Mr. Assunção: Ok, so if I can just a last question here on capex. Fabio, if you could comment on the maintenance capex is very low at US$ 400 million in the first quarter. If we annualize that number it will be like US$ 1.6 billion for the year, the previous capex guidance for maintenance was US$ 2.5 billion. You think that for an extraordinary year you could see a lower capex, even maintenance capex, in 2009? You see room for reduction even on maintenance capex? That is my point.

Mr. Fabio Barbosa: As we indicated in the press release, we are in a process of reviewing our investment program as we commented in the last call and this process is not over yet. What I could say about the first quarter investments, sustaining, is that there is a seasonal pattern that usually execution budget at the first quarter is lower than the average of the year, so it may not be a good sample to extrapolate to the full year. Thank you.

Mr. Assunção: Ok thank you.

Operator: Ladies and gentlemen again, please restrict your questions to two at a time. Our next question comes from Mr. Carlos de Alba from Morgan Stanley.

Mr. Carlos de Alba: Good morning gentlemen, thank you for taking the question. The first one is on China iron ore market. How much do you expect the total demand for iron ore in 2009 will be from China and at what price do you think the domestic Chinese production stops declining? In other words, at what price do you assume that the substitution from imports stops?

And my second question would be in the first quarter the production of Carajás was around 20 million tons, down about 6 million tons from the peak in the third quarter of last year. How much can you produce from Carajás going forward as volume peak stops, so that you continue to reduce your cost or maintain the very good cost of iron ore that you achieved in the first quarter?

My feeling is that if volumes peak stop, will you have to restart the Southern system range, and therefore the costs of your iron ore will go up a little bit? Those are my questions, thank you very much.

Mr. José Carlos Martins: As far as the Chinese market is concerned, in the first quarter China imported additional 25 million tons of ore, which means from last year we can guess that they will buy at least 100 million tons more which means this volume, considering their production was almost the same as last year, this volume will come from local production.

I think to this price level that we have now in China, at least 100 million tons of iron ore will be displayed from local mines. That is the situation we see in this moment.

As far as Carajás, I do not know if everybody is aware, but we have one of the toughest rainy seasons in the North of Brazil and our production in the first quarter was below the production that we could have done in normal situation. In the North of Brazil this year is raining 20% above the last record that was in the year of 2000. This impacts our production.

But with the situation we have now we can produce up to 100 million tons per year in Carajás, in the rhythm of 100 million tons per year, which is around 8 million tons per month.

In the Southern system, although we cut a lot of costs we keep a lot of people in the company prepared to restart production in these mines. Although we reduced production, we are prepared at any moment to recover production if it was needed. So we have a lot of flexibility as production is concerned not only in Carajás, in which we can increase a little bit more, but also in the Southern system where we have everything in place to restart production if it was needed.

And that is the importance of the cost reduction we reached in this first quarter, because we have some redundant costs in the company that we pay for it but only to be prepared to resume production if necessary according to our market sales.

Mr. Carlos de Alba: Thank you.

Operator: Excuse me. Our next question comes from Mr. Alex Thumlert from George Weiss.

Mr. Alex Thumlert: Yes, good morning. A quick question based on the pricing. You said that it does not really matter if benchmark or spot prices you can do either one. But if one imagines to go to spot prices do not you think this is going to put a lot of pressure on spot prices because of the volume that is going to be thrown into the spot market?

Mr. Roger Agnelli: By the contrary, by the contrary. I think the market today is tight, is tight. Anything that can happen in Europe recover, if the market recovers in Europe of course our sales to China will decrease a little bit and our competitors there are working in full capacity. So I think that any recovery in Europe means price increases.

Mr. José Carlos Martins: What I could add to Rogers' statement is we are a price sensitive company. We manage … we are in condition now more than before to manage volume and price, so we are going to go after it is best for increasing our profitability. So we are not throwing in the market volumes that could drive prices down for amounts bigger than the profits we can take from this additional volume.

So we are going to manage it. What is different now is as everybody is operating at full capacity, the only company that has the condition to manage the price volume gain is Vale.

Mr. Thumlert: I see. One second question if I may. If my proposition is correct you are saying that … China at some point will have to start defending a little bit their local producers why you will be gaining market share in the first quarter; but do not think that at some point China would have to start defending a little bit their local producers and step back a little bit in terms of importing iron ore and then you would be a lot more depending on Europe?

Mr. José Carlos Martins: I think this is a possibility, but let us wait and see. I think we cannot anticipate; we did not anticipate what happened and we cannot anticipate what will happen from now on. One thing it is for sure: local customers that never used Vale's ore are now using - and I can tell you, they are liking it. So I think now they proved the good stuff we can offer, they are becoming more and more interested in buying.

So I cannot talk about what the local miners will do or what will happen in China, but we have to follow, surf the market, and do what is best for our company and for our shareholders.

Mr. Roger Agnelli: I think one point is very important: we should not forget that the spot market price last year reached US$ 200 per ton. At that time a lot of non competitive, a lot of small miners were able to produce and sell and today the market or the spot market there is at US$ 65, US$ 70 per ton, so they are not able to do that.

So if the Government decides to do something to increase the local production, I think our clients in China will not be very happy with that because they are going to lose competitiveness in the world market. So I think this is a possibility, but there is a trade-off.

Mr. Thumlert: Ok.

Operator: Excuse me. Our next question comes from Mr. Jim Young from West Family Investments.

Mr. Jim Young: Hi. Could you talk a little bit more about your acquisition criteria and what you are looking for? I recognize you made an acquisition of some potash assets in the quarter along with some coal assets. What types of return on invested capital do you expect to generate given the prices paid?

And it would seem that given your long-term nature and the strong balance sheet that you have that you would be a little bit more aggressive than you have on the acquisition front. Could you address those issues?

Mr. Roger Agnelli: In the last year we made some comments about our guidance for M&A. We said that we were looking for small assets that could really increase or strengthen our position in some specific markets and we are following this kind of strategy.

We bought, as you know, Corumbaense from Rio Tinto that is a very good asset to be additioned to our portfolio, we are very happy with that. We bought this Rio Colorado Potash Project in Argentina that is right beside our other project there in Neuquém - it is a huge deposit of potash and very good one and we believe that the market is going to be very good for fertilizers, for potash and phosphate.

We acquired some good assets in Africa also; it is a small amount of money, but with a very big potential in terms of copper, so we are very happy with that. We are analyzing several different opportunities, but we are not considering to move ahead with big or huge acquisitions and we feel that even at the current price our projects are much more competitive.

So we do not need to acquire any other additional iron ore deposits because the deposit that we have in Carajás is much more competitive than any other possible acquisitions. In copper we have several projects being developed like Salobo in Carajás that we do not need to go for a major acquisition.

And to be honest with you, major acquisitions or big acquisitions today I think you can bring more liabilities than assets, so I think it is better to develop, to keep our eyes on the clean, very clean assets and you do that when you buy a project or when you buy a small company, because the big ones are, I should say, not really completely out of liabilities and this is not the right time to bring liabilities to our balance sheet.

Operator: Excuse me. Our next question comes from Mr. Leonardo Correa from Credit Suisse.

Mr. Leonardo Correa: Hi, good morning, thank you for taking my question. The first question is relating to the Chinese domestic iron ore production. With the expectation that the Ex-China market demand comes back in the second semester and spot prices recovering, do you see any risk that the Chinese domestic ore production that has been displaced during the first quarter come back to the market? Because in that case the Chinese imports could be potentially driven down. If you could please comment on that, please.

Mr. José Carlos Martins: Well, there is no free lunch, ok? So for sure in the spot price the same mechanism that took these guys out of the market can bring them back if the price goes up. But then, again, it will depend on how much ore can be sent to China.

We have to consider, for instance, that from now on a big quantity of Indian ore will be out of the Chinese market because of the monsoon. So I think there is space for some price increase and some additional exports from, for instance, additional sales from Vale to

China even in this case, because from now on probably we will see a big volume of Indian ore getting out of this market.

Mr. Fabio Barbosa: And Martins, if I may, part of the consumption of the Chinese ore happened because there was no alternative. The market was sold out and they had to consume any other imported fines. Now clearly Vale represents an alternative, going forward.

Mr. José Carlos Martins: I think it is the only available.

Mr. Fabio Barbosa: Yes. Thank you.

Mr. Correa: Thank you very much and the second question is relating to Vale's current market share in China. If you could perhaps give some more color on that, if this current trend is sustainable or we should expect them trending down going forward?

Mr. José Carlos Martins: What I see is we never in the past had iron ore available to test our market share in China, because we always preferred to supply Europe and the Western World. So for the first time in many, many years we have iron ore available to test what would be our market share and we think that reaching 30% is something possible considering quality, considering all of the aspects involved.

Mr. Fabio Barbosa: Just to clarify, we are not forecasting that we are going to reach, but it is possible.

Mr. José Carlos Martins: Yes, it depends on a lot of other factors.

Mr. Fabio Barbosa: Thank you.

Operator: Excuse me. Our next question comes from Mr. Jim Richards from Nevsky Capital.

Mr. Jim Richards: Hi. In your release your first assessment was on Q1 unit cost and I know it was very good; that in fact most of what you have done has not naturally had any effect yet, would affect Qs 2 through 4; is there any quantification of further color you could give us on that?

Mr. Fabio Barbosa: We are not providing any guidance on the future performance of our costs. We indicated the measures that we adopted, we indicated, we showed the results that we achieved in the first quarter and some of them have a permanent nature. So we will release the results as the year evolves.

Mr. Richards: Ok thank you.

Operator: Excuse me. Our next question comes from Mr. Tony Rizzuto from Dahlman Rose.

Mr. Tony Rizzuto: Thank you very much for taking my questions. I have got two: first of all gentlemen, on the iron ore side I wonder if you could talk a little bit about how you see ore grades playing out within China and analyze what portion of that is going to be determined by the mix and any internal supply/demand dynamics but if you could talk generally about iron ore grades there?

And then also what do you think about the level of marginal capacity in China from an iron ore perspective?

Mr. José Carlos Martins: If I understood your question, you want to know about the quality of iron ore being delivered in China; exactly what point would you like our comment?

Mr. Rizutto: Yes, I am really trying to get at what do you see taking place with regards to ore grades over the medium term?

Mr. José Carlos Martins: I think when you have a very low capacity utilization, normally customers accept to work with not so good ore because they do not need too much productivity; but as they are increasing their capacity utilization, more and more they demand good quality ore.

And good quality ore is not only important because of productivity, but also because of carbon emissions. High quality ore normally demands less coal to produce pig iron, so you have much lower carbon emissions. So if you look going forward as the market becomes more, I would say, sophisticated, and the market becomes more and more environmental conscious the need of high grade ore increases and so that is why we see a very strong acceptability of our Carajás' ore in China.

Normally, we did not deliver too much Carajás' ore in China - because we are always delivering this ore in Europe and Japan, Korea, so and so – and we always deliver more Southern system ore, which is not so good quality as Carajás' ore.

But from now on we have more Carajás available because those markets, those traditional markets, are not demanding and so the acceptability of this high quality ore is very good.

And also considering that they are buying more low quality ore, they need more high quality ore to blend with it. So there are many mills that only used in the past low quality ore that now have the possibility to blend it with this Carajás or even Southern system good quality ore. I think that the prospects for our ore in China are very positive going forward.

Mr. Rizzuto: Thank you, that was extremely helpful. If I may I have one more question, it is on nickel. I was wondering if you could just update us on the labor negotiations that at Sudburry, that on May 31 will expire, but I wonder if you could talk about future issues that you see going into these negotiations.

Mr. Tito Martins: There is not much to say from now. Basically we started discussions last week and so far we are still sharing views about the future with the employees and those negotiations usually they are done in a way that both sides they provide their views about the future and the business, so we are still discussing most of the forecasts and the future of our business. We have not really started the negotiations, not the process of negotiations.

Usually it happens in the last two weeks of the proper time. Of course I cannot comment anything else about that, but I think that is going to be a very interesting negotiation. We are optimistic. Both sides understand that we are going through a very problematic time.

We have … the nickel business was very impacted by the drop in prices last year, so I understand that the unions they know that, they understand that the future of the business depends on how they will react to what we will propose to them.

Mr. Roger Agnelli: We will need their support.

Mr. Tito Martins: Absolutely.

Mr. Roger Agnelli: We will need their support really to keep our operations in Canada competitive.

Mr. Rizzuto: Thank you.

Operator: Thank you. Ladies and gentlemen, this concludes today's question and answer session. I would like to give the word back to Vale's Executives for the closing remarks. Please go ahead.

Mr. Fabio Barbosa: I would like to thank you all for attending this conference call and of course, as usual, we will be available for any further questions you may have, either I myself or our team in the Investor Relations Department. Thank you very much.

Operator: That does conclude our Vale's 1st Quarter 2009 Earnings conference call for today. Thank you very much for your participation and have a nice day.