International Conference Call
Vale
1st Quarter 2010 Earnings Release
May 6, 2010

Operator: Good morning ladies and gentlemen, thank you for standing by and welcome to Vale's conference call to discuss 1Q10 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. 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. To access the replay please dial (55 11) 4688-6312, the access code: 46525. The file will also be available at 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 at 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 are Mr. Fabio Barbosa, Chief Financial Officer; Mr. José Carlos Martins, Executive Officer for Ferrous Minerals and Mr. Tito Martins, Executive Officer for Non-Ferrous Minerals.

First Mr. Barbosa will proceed to the presentation and after that we will open for questions and answers. It is now my pleasure to turn the call over to Mr. Barbosa. Please sir, you may now begin.

Mr. Fabio Barbosa: Good morning ladies and gentlemen, thank you very much for attending this conference. It is a pleasure to be here with you today. Let us start our discussion in this conference call by saying that what we saw in first quarter of the year just confirmed our best expectations about the future of our company and our industry and markets in general.

We saw a very positive development and very much in line with what we discussed in the previous earnings releases, in particular in the second half of 2009. So recovery is on the way and we are happy to see that we were right including preserving our growth capacity, our investments throughout one of the most difficult periods of the world economy in the last 80 years.

So our agenda today we are going to talk about some few variables in our first quarter release and then a very important topic: how we are dealing with the structural change that is taking place particularly in the iron ore market; then we will comment on how we see the world economy evolving; and finally a few comments in how we are addressing this very bright scenario in terms of our strategy in managing the tools to promote growth and value creation.

Starting with first quarter release we had a very sound performance. Operating revenues grew by 4.7%; adjusted Ebitda margin by almost 1400 bps; Ebitda 33%; and net earnings 5.6% growth, a very positive performance, clearly stating what we said about the recovery of the economy.

Not only the absolute numbers, but the very quality of the results sharply improved in 1Q10, with a predominance of operating income explaining the performance of net earnings, another evidence of the strong operating performance we had.

At the same time our Ebitda was favored by a very clear effect of prices, prices associated with the development that we commented just now and also cost reduction, a very important element explaining the variation of Ebitda from 4Q09 to 2010.

Some seasonally lower R&D expenses and exchange rate would explain the remaining effect, counterbalanced by lower dividend and sales volumes that we observed in the first quarter compared to fourth quarter given this seasonality and also related to the production, particularly in the northern region and the rainy season.

Well, and costs, as I said, was a major achievement in our view with US$ 354 million of actual cost savings. We said in fourth quarter release that there were some nonrecurring elements explaining the sharp increase in costs observed then, but also on top of the lack of those elements in first quarter we also had an important contribution of cost savings to drive down total cost to US$ 4.4 billion down from almost US$ 5 billion in 4Q09.

Well, turning to the second section let us talk about these structural change that is taking place in particular in our iron ore market. This is, of course, a result, direct result of the shift of geographies and the new players that came to the market particularly in the last decade and this very decade - we are talking about China.

So if in the past Japan was a major driver of the establishment of a new price system, a new supply/demand arrangement, now we see that China is also playing a role of a transformational player in the iron ore market and we see that today most of the seaborne (almost 70% of the seaborne) is driven by China.

So it is a massive change in this market and of course in line with this change of players that also changes the way things are done, the way things are discussed and the emergence or the very increase of the relevance of spot iron ore in the total global seaborne is an important element of this discussion and with that I would like to turn the floor to Martins to comment about these transformations and how he sees the new arrangement taking place.

Mr. José Carlos Martins: Well, good morning everybody, good afternoon. First of all, Fabio already explained China is now the driving factor behind the iron ore demand in the world: 70% of the seaborne is now driven by China and the second consequence is that the spot inside China is a very important factor. So the combination of huge increase in demand from China and also the huge increase of seaborne … huge increase of the spot market, spot price in the iron ore in China is driving the market now.

In the past we never had a liquid market to drive the prices of iron ore and now we have. So I think that is the main change which is going on. In the last three or four years this fact is increasing and now reached the point that we cannot live with the system we used to live with in the past.

Vale always defended the benchmark system. We always supported the benchmark system, but we learned in the last crisis that the benchmark system is not working anymore. Part of our customers in China decided to buy in the spot. Outside China we have a lot of different behaviors, but one way or another disregarding the contractual commitments.

Some customers postponed their purchasing in order to get better prices after the new benchmark was settled. Some of the customers did not treat us what we call in a fair way, because if the customers …. iron ore is only used to produce steel, we recognized this fact. So when the customer is not producing he can reduce the purchasing of iron ore from us, but has to do it in a fair way.

And Vale learned during this crisis that we were the most affected iron ore company. Although we defended the system, we were affected by the system negatively. So our commitment to benchmarking is over and we now want to move to a pricing system that has more relationship with the market that now is there.

In the past we did not have a kind of spot market reference, but now we have. So if you have, if the size is big enough to give liquidity, to give transparence and also to avoid manipulation that is very reasonable for us to use this market as a reference, and so that is what we are doing.

We have for this quarter 100% of our sales under the new system, which is based on an average of the market price. We have decided that we have a kind of one month for the customer to see where the price will be for the next quarter. We also have reference for the quality, so we have how to price the VIU (value in use) for our ore.

And also we established a kind of band. If the price stays inside that band we keep the same price. So we are not telling that the price has to be fixed only for three months; if we do not have a big variation in the average price the price could be the same forever - as long as the average stays inside that band.

So we consider not only quality difference, but also proximity. The customer that is closer to the iron ore will pay less on a CFR basis.

So I think the system we designed, we are negotiating with our customers has some very good correct statistics inside it and I think it is fair.

Another point we look in the system is transparence, the system we can look the price. I think today you can see every day several sources of spot price in China. You can look the sites, you can look the newspapers. You have a lot of publications that have these prices, so the price is very transparent and we are completely open to negotiate different indexes or a basket of indexes and different averages. So whatever the customers can agree with us and we are open to give freedom to negotiate the average and to negotiate the indexes in a basket of indexes, we can also negotiate the bands, so there is a freedom for negotiation.

So we are not imposing a system, but we want a system that avoids discussions and avoids every year disputes. We want to have a more proactive and more beneficial relationship with our customers and every year discussing if the price will increase 60%, 70% or going down 30%, 40%, 50% is always a question of dispute between customers.

In the past the benchmark system variation was 2%, 3%, 5%, 10%. So now we are going to a period that the market is changing so fast that we need a system that can have what we call flexibility to adjust faster to the market conditions and we believe that after we have more time with this new system customers will feel more comfortable with that.

We can avoid a lot of distortions like with this big difference between spot and benchmark, people trying to buy at benchmark prices to sell on a spot basis to make a lot of money. So all of these distortions that brought not only economic aspects to the business we want to avoid and we think that the system that we are discussing with our customers now will help in this way.

Mr. Barbosa: If you want more detail on this new arrangement that we are discussing we have in our earnings release a detailed description of what we are discussing with our clients.

Moving to the prospects of the economy, what we see is that a manufacturing boom is underway and of course industry performing and industrial production increasing is a major driver of additional demand for minerals and metals. We have the PMI back to record levels and the global industrial production also resuming a very steady growth path, meaning that more demand is out there for minerals and metals in particular, but not only minerals and metals; the world economy as a whole should grow this year in the range of 3.5% to 4% and so this is part of this process in which emerging market economies are, of course, the major drivers, but counting on a very clear recovery of the US economy.

Global carbon steel output, if you see slide 17, is back to the peak level before the crisis in June 2008. Of course there is a major change in composition with China assuming a larger share, but the fact is that from the standpoint of steel production, global steel production, we are back to where we were just before the collapse of Lehman Brothers.

And the very positive environment is, of course, favoring price formation of iron ore and we see their in slide 18 that one of the latest figures we had iron ore ton at US$ 176 according to Platts IODEX index at 62%.

This is a very important comment - Martins just reminded me about this - because another indication of the strength of the market is the very cost attributable to the percentage Fe differential that is showing a very high level compared to what we observed throughout 2009. Now it is estimated to be around US$ 5.50/ton per 1% per ton. So if we are talking about Carajás at 67% we are talking about US$ 27.50 more on top of the price that we are seeing here, just to give you a reference of what Martins said about the news.

We also believe that it is a nonsense talking about a deceleration in the Chinese economy. This economy has shown its resilience over time and what we see today is an increased importance of domestic demand in a much more selective macroeconomic stabilization set of measures.

So instead of what we saw in 2007/2008 when credit was curtailed across the board now, as we put in our release, we have a clear target for the measures that are being adopted, whereas speculative buying of homes, for instance, has been cut and the developing of new supply of lower income, lower-end houses are being stimulated by the Government.

So it is a much more clever, smart approach and this should not represent any stress in our view to the future growth prospects of China. To the contrary, what we see is a growing importance of domestic demand in total GDP and this should further reduce the vulnerability of the economy moving forward to fluctuations in the developed world, particularly in Europe where, of course, the continent has a major challenge ahead of it.

So the result is that prices are reflecting the strength of the market, as we saw in the Platts IODEX 62% and we do not see any meaningful change in the supply of iron ore, right Martins? You do not see in China at this stage even with this price incentive that is right there.

Mr. Martins: Yes, I think the main competition could come from local ore and it seems they are reaching their limits as far as iron ore content, as far as environmental difficulties that they have there. So it seems that the local production cannot grow as fast as local pig iron production is growing.

Mr. Barbosa: So supply is very restricted and the demand very strong, so the result is being shown by market indicators, as you can appreciate by the last few slides.

Turning to the stainless steel I would like to ask our colleague Tito Martins to comment on the industry and the nickel industry and its demand. Tito, could you please?

Mr. Tito Martins: Yes Fabio, thank you. As you can see in slide 20, we are seeing a recovery in the stainless steel market. As was said before, most of the metal markets are returning to growth. We see a very strong demand coming from China. In terms of nickel consumption we are not sure about the levels of the stock of nickel in the Chinese market, but we know that if the situation remains as it is today we should see a more stable level for nickel prices.

If we look at slide 21 prices are back where they were in 2008, in mid-2008, showing that demand is strong. As a consequence of demand in China we can see also some movement in the US and less in Europe, but in any case our customers they have been much more concerned about the supply of nickel in the world and we are confident that the market should be more stable along the next year.

Specifically about our production it is important to mention - you will not see it in our numbers - but we have been managing to return to the production in the Canadian operation, Sudbury and Newfoundland Labrador, and on second quarter we should be able to show in our numbers the results of this return. We have already managed in the last quarter to produce more than 6.3 thousand tons of nickel content in Sudbury and reflecting actually almost less than three months of production, because we started the furnace in Sudbury at the end of January.

So we are committed to supply to our customers everything that the market is actually eager to see our products coming back. Thank you Fabio.

Mr. Barbosa: Ok thank you. Well, to finalize this initial discussion let us talk a little a little bit about the strategy and how we have been managing the several tools to reach growth and value creation and as you can see in slide 23, discipline in capital allocation is of essence of our strategy.

So we have a multilane road to value creation, as we put there, through existing assets and new assets. So we have been exploring all of them in a way that we believe is very efficient given the result that we are delivering to our shareholders, we have been delivering to our shareholders in the last several years.

So as part of our development of existing assets, we had the expansion of Carajás, the additional 20 million tons, a very creative project that was devised Martins' team and we managed to, by adjusting the original project, to double the expected result of our original additional 10 and the results this is the only major project that we have coming into stream this year and at a very low Capex cost, at US$ 29/ton. It is a very important achievement and on top of that it is environmentally friendly as you can appreciate what we say there.

And on the other side, on the acquisition of assets I would like Martins to comment a little bit on Simandou that is a major, important acquisition that we just announced and Martins was the chief negotiator and strategist behind this very important acquisition for Vale. Martins, could you comment on Simandou very briefly please?

Mr. Martins: Yes. Simandou is a project that was always in our radar. So Vale arrived a little bit later in that area. Competitors were there many years before, so it took some time for us to put our foot there and finally we got the opportunity to do it.

Simandou is one of the largest resorts of iron ore in the world, high quality, similar to Carajás, also quality and quantity wise. So for Vale it was always a dream to be there and we came little bit later, but we had the opportunity to reach this agreement with BSGR, so now we are there and our plan is to foster as fast as possible production in that area.

As you probably know, we have a lot of resources in Brazil and we are developing it; but the situation here is taking more time to get the approvals, environmentally speaking it takes a lot of time and we believe that in Simandou we can move faster in this development.

This is a project that will affect not only Guinea, but also Liberia because we have the rights to ship the ore through the Liberian corridor. We are negotiating with the Liberian Government also the right to use the existing railway, but also the rights to build a new track and a new port in order to optimize the volumes looking forward.

We expect by 2012 to be producing ore there, something between 10 and 15 million tons, but the project will reach 50 million tons in 2014 and could produce even more if we find enough resources to it. So we are going to put a lot of effort in Simandou and by doing that we can guarantee that we can reach the 450 million tons that we designed to be produced by 2014.

Fabio made some comments about the new 10 - 20 million tons project in Carajás. That project was designed to cope with the delay the project for 30 million tons in Carajás, because for the 30 million tons we did not get the permit, so we had to find a way to increase production in the existing pit.

And then we came up with this 10 million tons projects that we increased to 20 million tons and what we learned with this project now makes us very comfortable to increase also the 30 million tons projects to 40, because we are adopting the same system, which is to process iron ore in a dry way instead of through washing and all of this stuff that requires a lot of water and a lot of area for the dumps.

So by looking for solutions relating to the permits we came up with those lots of solutions that increase the possibility of increasing production and also our idea is to bring the same principle to Simandou in order to avoid the environmental consequences and also to speed up the whole project.

Simandou is only four hours from Brazil by flight, so we are in a very strong position to leverage from our people in Brazil, because even for a system, production system based on the fly in, fly out it will be much easier for Vale to do it than everybody else. We are very close to that region and this is another advantage that we have by doing that there. We know the kind of ore, we have the experience in new technologies for producing ore and we are closer to Simandou, which will reduce the risk of implementation a lot.

So we are very confident in this project that will bring more consistency in our production and will give to our customers a new source, new production system that can increase even the reliability of our deliveries to the market.

Mr. Barbosa: Ok. Well, so we see we have organic growth (the additional 20 as Martins explained), the acquisitions (Carajás and Simandou) and then we have the portfolio asset management, through which we are aiming at locking asset value; improve capital allocation; and focus our efforts in larger business areas.

And with that I would like to turn to Tito that was … and is in charge of the aluminum business and was a chief negotiator at the deal with Norsk. Tito, could you comment on the following two slides please?

Mr. Tito Martins: Thank you Fabio. It is very simple and I think most of the analysts have already made some comments about what we announced last Sunday. Basically Vale owns very good reserves, very important reserves of bauxite in Brazil. We have the expertise, the knowledge developed in aluminum production. Alunorte became the most important aluminum plant in the world with the implementation of the last phase and of course we have some constraints about energy costs.

So our future in the aluminum business is directly linked with the possibility to integrate our assets to assets in a more competitive level of cost of energy. So it was natural to join Hydro in this transaction. Hydro has technology and expertise in aluminum production and at the same time very competitive costs of energy.

So we combined the assets in this new organization, this new Hydro. Vale is not leading the business, it remains with 22% stake in the new company, enjoying the potential upside of this integration, and the total transaction amounted to something around US$ 5.3 billion when we consider the cash that will be received and also the debt that we will be overtaken by Hydro.

We decided to hold the 40% stake in MRN given the agreements we have in the company right now. But we are actually enjoying various benefits from this MRN production, which is considered one of the benchmarks and of course, with this we will have the time to focus in the business that we actually can enjoy more profitability where we are based right now. I do know if Fabio wants to mention.

Mr. Barbosa: Just to stress that this aluminum deal will make feasible our growth through integration with Norsk, so Norsk brings in what we lack, which is competitive energy costs. So this deal has a lot of sinergy and through integration we will make feasible growth in a business in Brazil that was not feasible, doable considering the prevailing energy costs.

And as Tito mentioned, of course this deal is part of the overall portfolio management and we just last quarter we announced our acquisition of fertilizer assets, so in some we have been extremely active in exploring all the tools to promote growth and value creation in our company.

Thank you very much and with that we close our initial remarks.

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 key (*1) 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 Merrill Lynch.

Mr. Felipe Hirai: Good morning, thanks for the clarification on the new iron ore pricing. I have two questions here, the first one is related to your production … sorry, your Carajás Serra Sul Project, because you are talking about now doing the 450 million tons by developing the Simandou asset and maybe not Carajás; so I just would like to understand how is the importance of Carajás Serra Sul in the order of importance here and also if you decide to go ahead with both projects at the same time if you think that there is going to be demand for a 50 million ton project in Simandou and a 90 million ton project in Serra Sul by 2014.

And my second question is also related to Simandou, if you could give us some more details on the project, mainly related to the costs, the Capex that you would have to spend there and also some of the legal aspects of the ownership of the concession, given that Rio Tinto used to be the owner then and that they might challenge the ownership of the concession. Thank you.

Mr. Barbosa: Martins, could you please?

Mr. Martins: Ok Felipe, a lot of questions. So starting with the Simandou and Serra Sul, our intention is to move with both projects, but you probably know we have a delay already for the Serra Sul project. It is a huge project, it is a greenfield project and so we are facing difficulties in getting all the approvals and we are going to get it, but it will take much more time than we first realized.

So Simandou will give us flexibility to start producing sooner there, because the conditions for producing sooner are there in the Zogota area and then we can move later and adjust according to what we are doing in Serra Sul also. So I think both projects will go forward, but the time schedule could change a little bit according to the licenses that we can get.

And also we have many other projects in the Southern system that can be delayed a little bit. So Simandou will give us big flexibility for us as far as the permit is concerned. In the case of, for instance, Carajás 30 million tons project we are now more than two years late. We have a delay for more than two years because of this licensing.

For Serra Sul we already have more than one year delay. So in case of Simandou that will give us a lot of flexibility and then we can adjust later our investment, our Capex according to the market situation.

We do not intend to create overcapacity in the market and I do not think we need to do it; but I think to have a new area for producing and a new environment, even in terms of environmental concerns will help us to guarantee that in 2014 we can get 450 million tons, which will be what the market will need, and reasonably with the same Capex. We do not intend to invest more and to create overcapacity, but to have some strategic freedom to develop other areas, ok? So that is the main point.

Mr. Barbosa: Do you want to talk about the demand, the inelasticity of the demand for high-quality ore?

Mr. José Carlos Martins: Yes, because we know that we do not have good ore in the world. What you have is reasonable ore and more and more production will come from this reasonable ore and for using the reasonable ore they need to use a good ore. So demand for high-quality ore will always be there. During this crisis we did not reduce a ton of production of Carajás, for instance. We had to reduce a lot production in the Southern system, in the Southeastern system, but in the North we keep Carajás running at full capacity with no reduction.

So demand for good ore will be there, because more and more people are producing bad ore and that is the situation. Unless we have a big change in technology in the steel industry that will move from existing blast furnaces to another kind of reduction system, the premium and soft good ore will be there and we see it, by the way we are pricing now the VIU more than US$ 20 above the normal ore. So we do not see big problems in producing and shipping high-quality ore going forward.

Mr. Barbosa: Ok and Martins, he also asked about the project Simandou and of the legal issues that could be associated with it.

Mr. Martins: As far as the project, our intention is to produce, as I told you, 50 million tons there. For mining investment this is really … we can see investment around US$ 2 billion in the mining area and the remaining will be on the logistics system and also in the compensations, because to get ore through Liberia we have to compensate Guinea Government and make some investment in an existing railway there for people usage and small cargo usage. So the total investment there, looking as today, could be above US$ 5 billion. But we need to work more on it and to make all the engineering in order to give a better figure for you.

As far as the legal ownership is concerned, we took all of the precautions. As you probably know we would not have to make an investment like that without knowing all of these legal aspects and we are not concerned with any bad developments on this regard. We took all the precautions and we have all the measures in place to go forward with this without any big problems as far as legal aspect is concerned.

Mr. Barbosa: Thank you Martins.

Mr. Hirai: Ok thank you.

Operator: Excuse me. Our next question comes from Mr. Rodolfo de Angele from JP Morgan.

Mr. Rodolfo de Angele: Hi good morning. I have a question on the pricing mechanism. I wonder if you could comment on how it will work for pellets. I think it is the same type of index pricing and since especially you mentioned, Martins, one of the virtues of the new system is transparency, if we take the index, the Platts index or whatever Index you are using today, what would be the price increases for both iron ore and pellets in second quarter compared to what was the contract price last year?

Mr. Martins: Well, as far as pellets we have a premium above the fines as we were used to do in the past, and unfortunately we have to negotiate customer by customer and that is what we did and we got an agreement based on that and I think that the price for pellets will change more than the fine price, because the condition in the pellet market is even more dynamic than the condition in the normal ore. For this quarter we reached an agreement with the customers to charge around US$ 50/ton of premium for pellets, so that is what we are doing; but I do not know what will be the next quarter, because as I told you the dynamics in the pellets market is bigger than the normal fine. If you have direct competition with scrap, with solid pig iron, with other sources of iron units.

So as you remember, last year we had to reduce the price of pellets below the price of lump ore, so there is a completely different market for pellets and a little bit different market dynamics. But for this quarter we got something around US$ 50.

Mr. Barbosa: Thank you.

Operator: Excuse me. Our next question comes from Mr. Rodrigo Barros from Deutsche Bank.

Mr. Rodrigo Barros: Good morning gentlemen. My first question is now on the pricing mechanism for 3Q. Since it is one month delayed and mostly based on Platts, if you do roughly a calculation based on the past two months Platts Index and next month Futures, it would suggest that for fines you would have another 31%, 32% price increase in 3Q. My first question is if this calculation matches what Vale thinks for the market in the 3Q for fines.

Mr. Barbosa: Rodrigo, this is your call. Let us wait for 2Q results and we will let you know.

Mr. Barros: Ok perfect and my second question is regarding the freight. I want to know if you can update us what you are doing in terms of freight, in terms of hedging your volumes, converting ships, and what would be ultimately the target size of Vale's fleet to ship iron ore to China.

Mr. Barbosa: Martins, could you comment?

Mr. Martins: This is very important of our strategy, because the freight is a source of arbitrage in the market, so in the past when you had the benchmark system, and the spot price in China the freight always made the balance between the spot and the benchmark. So that was the situation before.

Now that we are going to a more flexible mechanism and that we are pricing based on CFR prices in China back to Brazil, so freight is very important in our strategy.

What we have been telling people about our shipping strategy, we are going to have as much ships we need in order to keep the freight differential as low as possible, which means that as close to the spot freight is to the replacement cost that will be the best for Vale and we have to have a fleet that can support it.

We bought a lot of ships, now we have more than 20 ships being built for us. We bought a lot of existing ships, we have now a big fleet of own ships that we own and we also signed long-term contracts with a lot of ship owners to work for us and for the time being the strategy is working, because the pressure on freight rates is very low and we believe that in the future the pressure will be even lower when we get these new vessels entering in the market. We have more than 20 being built now and from the end of this year we are going to start getting every three, four months a new ship, a new big ship coming.

So again, the fleet will be as big as necessary to keep the freight differential as low as possible and also we have another important issue, is that to get on a quality basis the VIU enough money to eliminate the freight differential, ok? So on one side we want to have the freight differential as low as possible; and on the other side we want to get a premium for our products that offsets this disadvantage against our competitors that are nearby the Asian market. So that is what I can tell you about our shipping strategy.

Mr. Barbosa: Thank you.

Operator: Excuse me. Our next question comes from Mr. Leonardo Correa from Barclays Capital.

Mr. Leonardo Correa: Hello, good morning, thank you for the call. My first question is regarding the potential tax regime in Australia for the miners that is being discussed. I just wanted to hear your thoughts on the potential impact this measure could have on the iron ore industry going forward and also about the risk for higher taxes in Brazil. So please, if Martins can comment on this that would be great.

And also my second question is regarding iron ore volumes. We saw that shipments in this quarter were impacted by the heavy rainfall and maintenance works at Ponta da Madeira. Just to get a sense if these issues, mainly port issues have been solved in 2Q, because given that we saw Secex data out for April which were weaker, just to get a sense on how the evolution for 2Q volumes, iron ore volumes have been playing out? Those are the question please.

Mr. Barbosa: Well, as for the tax, Martins, I do not know if you want to comment, but it was a surprise to markets the way it was put, and not only the way, but the dimension. This implies a distortion in the industry, of course, and we have to analyze very carefully the extension and dimension of the final outcome that will be discussed in the Australian Congress. Martins, I do not want if you want to make an additional comment on that.

Mr. Martins: I think that although this will affect the Australians, I think it is an undesirable solution, because you know, this kind of things give space for the same behavior in other countries. So I think the less tax we have in the industry the better will be and we hope that this tax system in Australia has to be discussed, has to be passed through the Congress, and so it will take a long way until it reaches the market, because as far as I know the system will answer in July 2012 and I hope until July 2012 there will be a lot of changes to make it more reasonable. We have some operations in Australia also, and all the mining industry in Australia will be affected, not only iron ore. So we see it as undesirable.

Mr. Barbosa: OK and as for the second question?

Mr. Martins: For the production problem we have first the rainy season was stronger than usually; second we have been ramping up production after we cut a lot of production last year. We shut down a lot of mines, so it took some time to bring all this in production and also we have the rainy season and also we had a big accident in Ponta da Madeira where we lost some conveyors and the port had stopped operating for almost four days.

So all of these problems together reduced our volumes. But we believe that in the next quarter we can get a much better performance and as far as our production is concerned, we are in conditions to reach this year our full capacity as we planned.

Mr. Barbosa: Thank you.

Operator: Excuse me. Our next question comes from Mr. Marcos Assumpção from Itaú.

Mr. Marcos Assumpção: Hi, good morning everyone. First question is for Martins, if he could comment a little bit on the supply/demand drivers that should impact the spot prices in the second half, how you are seeing them right now. You already mentioned, you already commented on some of them, then you mentioned that the Chinese demand should remain strong and also on the supply side you do not believe that the Chinese will be able to increase a lot of their domestic supply. I would ask if you could comment a little bit on the other factors like India and the rest of the world demand, India's supply and the rest of the world demand and how you are seeing this evolving going forward.

Mr. Martins: I think we have some factors increasing supply, but other factors also increasing demand. If you look in the Western world you have a stronger recovery, even in some countries in Eastern Europe you have some recovery. So less and less opportunity ore is available in the market. What I call opportunity ore is the ore that two years ago was devoted to the local market and during the crisis this ore went to the other markets.

Even the States or Canada increased their exports of iron ore during this tough period and as their economies are recovering and their industrial production is growing, more and more the ore is coming in their countries. So this is a factor that is helping the market to be more bullish.

Another factor is we do not have too many projects coming on stream. It seems that FMG reached their full capacity. They are not showing capacity to go above this level, CSN also. So the main projects that entered in the market in the last two years seem to be reaching their full capacity. I think ... and if you look the big three, they are also operating full capacity now and I think the only additional ore that will come to the market is from Vale, because last year we shipped below 250 million tons, which is much below our normal capacity. So I think the big quantity of ore that will come to the market will come from Vale.

In China you have the situation of the local ore that I also explained before and in India if you look in the next three months you will have the monsoon in India, which will reduce normally their shipments and the Indian market is growing, steel production is growing in India and more and more their ore will be devoted to the local market. So if you took all of these points I would say to you that the market will continue to be very tight. In the next six months I do not see any ease in the market looking in the next six months.

Mr. Barbosa: Thank you.

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

Mr. Tony Rizzuto: Thank you very much, hi gentlemen. I have got two questions: the first question just to follow-up a little bit further on the pricing mechanism - thanks very much for all the detail you have provided so far - but if you could give us an idea, you may have mentioned something about grade, I had some issues with the call earlier, but if you can give us an idea of the magnitude of the premium for the grade and impurities, lack of impurities, I would like to understand that better. And you indicated this talk about a band mechanism. I would like to learn a little bit more about that as well.

Mr. Martins: Well, the quality issue is that for each 1% additional iron content in the iron ore the market now is paying between US$ 5 and US$ 6/ton. Normally the market price is based on 62% iron ore and for instance Carajás iron ore, which is 66%, we are getting between US$ 20 to US$ 24 additional price based on quality. That is the situation.

The band is another mechanism. We establish a band of 5%. If the average market price stays into the band in the next quarter we do not have a price change, ok? Only if the price variation goes above 5%. So that is the mechanism we agreed with our customers.

Mr. Barbosa: Thank you.

Mr. Rizzuto: Ok also about the impurities as well, does that work in a similar way?

Mr. Martins: Yes, because when you increase the iron content the other way around you are reducing impurities; so the more iron content you have in the ore, the less impurities you have. So that is how it works, it is an automatic mechanism.

But there is one point that we did not factor in our price yet, which is the low phosphorus content; because of the low phosphorus content that we have in our ore - much lower than the average in the market - is another source of value for customers; but it is more difficult to price it, because it is not so transparent and sometimes it has to be fixed customer by customer according to their product range, the steel product range that they have, because that is where the phosphorus content will have a big impact.

Mr. Rizzuto: Excellent, thank you very much.

Operator: Excuse me. Our next question comes from Mr. Rene Kleyweg from UBS.

Mr. Rene Kleyweg: Good morning gentlemen. Maybe we could continue on the theme we have just touched on in terms of the contaminants. When you were talking about capturing the value in use premium, where are we in terms of having that recognized in contracts and should we assume that the current market indications, the US$ 5.50 premium is something we should expect you to start capturing on Carajás volumes in 2Q or is this still a work in progress in terms of discussions with clients?

And then the other point would be just in relation to Simandou. Have you got indication of what sort of alumina content you are expecting there?

Mr. Martins: Look, as far as the price system this VIU system is already in place. From 2Q on our price will be based on the quality of our ore. So we are already getting this quality differential in our prices.

And as far as Simandou ore is concerned, the ore there is very similar of Carajás' ore, so the quality is 66%, some areas go up to 67%. So it is very similar to Carajás and will be priced accordingly, the same way as we price Carajás now.

Mr. Barbosa: Thank you very much.

Operator: Thank you. This concludes today's question and answer session. Mr. Barbosa, at this time you may proceed with your closing statements, sir.

Mr. Barbosa: I would just like to thank my colleagues Tito and José Carlos Martins for participating here and of course thank you all for attending this conference and as usual we will be available for any further questions you may have. Thank you all very much.

Operator: Thank you. That does conclude our Vale's 1st Quarter 2010 Results conference call for today. Thank you very much for your participation and have a good day.