# VALE
# Conference Call and webcast

## 1st quarter 2014 Results
**April 30, 2014**
**Portuguese: 2:00 p.m. (RJ Time)**

## Introduction

**Operator:** Good afternoon, ladies and gentlemen. Welcome to the Vale teleconference, in which the 1st quarter 2014 results will be discussed. At this moment, all the participants are connected as listeners only. Subsequently, the questions and answers session will be open and the instructions to participate in such session will be provided.

Should you required the assistance of an operators during the teleconference, just press asterisk [*] zero [0]. I should remind you that this teleconference is being recorded. The recording will be available at the company website, www.vale.com, investors section. Replay of the teleconference will be available at phone **+55 11 3193-1012 or 2820-4012**, access code: **2352816#**.

This teleconference has been simultaneously transmitted by Internet, being accessible at the company site.

Before proceeding, I would like to clarify that possible statements likely to be made during this teleconference with regard to the Company prospects and businesses, as well as projections, consist of estimates based on the Administration expectations for the future of Vale. Such expectations are subject to macroeconomic conditions, market risks, and other factors.

Our participants today are:

- Mr. Murilo Ferreira – Chief Executive Officer;
- Mr. Luciano Siani – Executive Officer of Finance and Investors Relations;
- Mr. José Carlos Martins - Executive Officer of Ferrous Minerals Operations and Strategy;

- Ms. Vânia Somavilla – Executive Director of Human Resources, Health and Safety, Sustainability, and Energy;
- Mr. Galib Chaim – Executive Director of Capital Project Implementation;
- Mr. Humberto Freitas – Executive Director of Logistics and Mineral Research;
- Mr. Peter Poppinga – Executive Director of Basic Metals and IT; and
- Mr. Clovis Torres – General Counsel

First, Mr. Murilo Ferreira will comment on Vale performance in the first quarter of 2014. Afterwards, he will be available to answer questions, should there be any.
Now I would like to invite Mr. Murilo Ferreira. Mr. Murilo, you may proceed, please.

**Murilo**: Good afternoon to all. Welcome to our conference webcast. And thank you for those who participate to discuss our results for the first quarter, we announced today. We have the pleasure to inform that Vale had solid operational performance in the first quarter of 2014. As you could see, we had the best performance for a first quarter since 2008, with iron ore. And we also had record production of coal and nickel, compared to any first quarter in our history. In short, this quarter presented a positive evolvement in every business segment, despite of the usual seasonal effects of the beginning of the year and a more challenging price environment. We would like to share with you the news we received from Moody's, in April, about changing the rating perspective for Vale, from neutral to positive. You can rest assured that more than the compliment, more than the words we can read in the report, this gives us more motivation, more confidence in the path we adopted, the path we are following. We continue with our efforts to make Vale an increasingly effective company able to create significant value for its shareholders on a sustainable base. First, I would like to talk about our financial performance, and then I will tell you about the business segment.

In terms of financial results, our EBITDA summed over $4 billion, in fact $4.058 billion to be more precise. We would like to mention our base metals division, which contributed with $549 million to our EBITDA, and is getting better every day. We have reduced net depreciation costs and expenses in this first quarter by $218 million compared to the first quarter in last year. You remember that in the first quarter last year, you all noted the great effort and great results of cost reduction. We continue with these efforts and were able to present these results today. When we look at expenses without depreciation, we see that the SG&A decreased 20%, research and development expenses reduced 15%; and pre-operational and maintenance stoppage expenses decreased 33% compared to the first quarter of 2013. CAPEX totaled $2.6 billion in the first quarter and investment for operation maintenance was approximately $750 million, 24% less than the expenses with maintenance in the first quarter of 2013. With no risks to any of our maintenance programs. Net debt decreased $1.3 billion in the quarter, to little over $23 billion. On March 31, this year, we still had $7.2 billion in cash by the end of the quarter, even without receiving the cash from the sale of VLI, which was paid up by two shareholders on April 17. We had a solid result in ferrous minerals, despite of lower prices and seasonal aspects.

Iron ore production reached 71.1 million tons, the best performance for a first quarter since 2008. Favored by better climate conditions and the *start-up* of Conceição Itabiritos Project. Despite of the strong production in the first quarter in almost all of our businesses, the sales volume of iron ore were below its potential, around three million tons, over 71.1 million produced. This will offer us, you will see along the year, better flexibility, better efficiency in our sales in the coming quarters. On the other hand, the average sale price suffered with lower benchmarking of platts iron ore, around $14.2 per ton. And also due to adjustments in the provisioned price for sale, priced upon delivery. The effect of these reversions represented a reduction in the quarter around $9.5 per ton. However, even with the marked decrease in IODEX, premium for pellets remained solid, contributing with support to realized prices for pellets, around $147. The cost of iron ore was kept at the level we had planned, $21.60 per ton, excluding iron ore bought from third parties. We are increasingly confident that this cost level will reduce even more, as production grows and fixed costs are diluted. And our cost reduction initiatives had additional effects with S11D at a much lower cost. Our distribution center in Malaysia has received the first Valemax and we started building up the inventory. This will allow blending metals of different qualities and generating stronger cash flow in the near future.

Talking about project delivery, we are successfully operating the ramp-up of plant 2 in Carajás and advancing the development of Serra Leste, where we are commissioning the processing plant.

Now, talking a bit about base metals, and we have already showed our pleasure with the contribution for our results, showing increasingly consistent cash generation. Adjusted EBITDA totaled $549 million in the first quarter, 14% of total EBITDA and approximately $306 million better than the previous quarter. It is important that you note, however, that average prices at $14 thousand in the first quarter are much lower than the current level. From the end of the first quarter and April. This is very important because we are in the $18 thousand range and we were at $14 thousand in the average of last quarter.

The ramp-up of several projects is going well. Salobo has reached nominal capacity of 100 thousand tons a year. Onça Puma, which ramp-up was looking good, has generated $15 million in EBITDA in this quarter, million dollars. Production at New Caledonia was 5,600 tons in the first quarter, and March represented almost 50% of that, with 2,700 tons. And our Long Harper, in Newfoundland – Labrador, Canada, should produce nickel first in the second quarter of 2014. We remain confident that base metals is about to meet our goal of at least $4 billion in EBITDA by 2016.

As for coal, the production in Moatize was 1.8, the best in a first quarter, although we reported a negative EBITDA of $162 million. This is because of the low price, as you have seen, coal price is at historically low prices and the lack of capacity at the railroad and the port. This is something we will work on during this year, the logistics at Moatize. The Nacala Corridor advanced, in line with our plans. And physical progress is very important as we plan on having the first wagon going through before the end of 2014.

The fertilizers business still requires our best efforts, and results start to appear, with a $166 million reduction compared to the last quarter of last year. We continue discussing our partnerships, as we mentioned in Vale Day. This applies to coal, Nacala Corridor, as well as fertilizers.

We are still concerned with our colleagues in Vale, who are our best asset. I want to repeat that our executive directors and I are absolutely committed to our best value that is life and the best health and safety standards in our operations. We continue to work to have a simpler company, to invest only in world class assets, to generate positive cash flow at any price scenario. And to bring value to the shareholder. Before we move to questions and answers, I will ask Luciano Siani, our CFO, to bring you additional information to help your understanding for some of the questions. Thank you.

**Luciano Siani:** Well, good afternoon everyone. I would like to specifically focus on the issue of iron ore price, as we can see that there were some changes between the estimates some investors made and the company performance. The pricing for future sales appeared in the third or fourth quarter of 2012, in response to a demand from the clients due to decreasing prices at the time. If you remember, at the presentation of results for 2012, when Vale experienced an increase in net debt, we noted that there was a very significant amount, approximately $600 million to be received due to price adjustment. And that this amount would be received along the first quarter of 2013 and the second quarter of 2013. As indeed happened. From then on, as price settled at a level with very few changes, comparing quarter to quarter, the effects of a very strong decrease or increase on the price of future sales, were not very notable. However, last quarter, we ended the quarter with approximately 31%, as seen in the release of the fourth quarter of 2013. 31% of the sales are under future prices, that is, at the date when the ship arrives at the client port. I will show you a calculation to illustrate the logic that should be applied from now on to anticipate these changes to realization price. If you take 31%, I will mention public information only, to help you reproduce the same logic. If you take the 31% we registered with future sales in the fourth quarter of 2013, and apply that over the 74 million tons sold at the time, we would have 23 million tons at provisional price. The price of the last day of trade in the fourth quarter of 2013 was close to $135. And the average price for the first quarter of 2014 was close to $120. There is a difference of almost $15, between the last price of 2013 and the average price of 2014. If we multiply this difference, we would have the following. A ship that left exactly on the last day of 2013 and had arrived at a Chinese port, and had invoiced the final price exactly at the average price of the quarter, it would suffer an effect of $15, on the income accounted for in the fourth quarter. It should be adjusted down $15 in the first quarter. Multiplying the $15 by the 23 million tons, to illustrate, we would have something around $330 million. A figure we disclosed in the release was a bit higher than this, at $348 million, but this gives a good idea about how to estimate the effects of these price changes, which cannot be anticipated. When we close the balance sheet for the quarter, our best price estimate for the sales in the following quarter, which will be priced when ships arrive, is very close to the last price of the quarter. It is impossible to have a futurology exercise and forecast a much higher or much lower price. Therefore, this is the effect we have seen. And it is comprised and amplified by the fact that from the third to the fourth quarter, we experienced the opposite effect, with lower magnitude. But if you remember at the last call of results, when there was a question about the realization of a premium, an improvement in realization price of about $6. I said that there were three important components: an improvement element, increasing the percentage of CFR sales, when you, Vale realizes higher prices than in FOB sales, as freight costs incur as well. An important portion of this effect I just mentioned, as there was a price increase from the third to the fourth quarter. Therefore, at the time, we realized a positive difference. And finally, the practical effect of higher commercial premium was only a fraction that at the time I estimated at $2 out of the $6. And therefore, composition of those $3 higher that we received in the fourth quarter compared to the third quarter, with $6.5 lower that we receive this quarter due to these effects. There is a perception of difference in realized price due to this effect of only $9.5.

On page 12 of the presentation in the webcast, we also ad other effects. Then, note that we are recognizing a positive effect of about $3 per ton in priced sales compared to the previous quarter. We still have some sales using this pricing model, about 15%. As the prices for the fourth quarter were better than the prices for the first quarter of 2014, this effect is positive. We experienced again the impact of freight sales, with lower prices, because we proportionally sold less CFR. And you can see in the graphic, you can understand the causes for price variation from the fourth quarter to the first quarter of 2014. The question you will naturally make is what to expect from now on. Obviously, depending on market conditions, if we have decreasing prices, we will have negative effects, if we have price recovery, we will have positive effects, over this 41% proportion you see in the graphic on page 12. I think that's it.

**Murilo:** Yes, and all this depends on the percentage of future priced sales. This is a very important number, Luciano mentioned 2012 when this percentage was very low, compared to today. But our clients increasingly want the price of raw materials, close to the price of steel. Now, let's move to questions and answers. Thank you all.

**Operator:** Thank you, ladies and gentlemen. Now we will start the questions and answers session. To ask a question, please press asterisk (*) one (1). To delete your question from the queue, press asterisk (*) two (2). The questions will be limited to two at a time.

**Operator**: Our first question comes from Mr. Rodolfo Angele, JP Morgan.

**Rodolfo:** Good afternoon, I will insist a bit on prices. Thank you for addressing part of the question many people have. I was going to ask you to comment on other variables that affect price. If we can get an idea. How much was the premium influence by ore quality and if you could comment a bit on some kind of penalty, or how is the business with silicon? Then we can have not only future sales but other things we always try to understand and that our clients always ask. This is my fist question.

And my second question is about capex. We know you have a public budget, that you discuss every year. But I would like to know if you can give an update on how is the performance point of view? Is there any fattening? Have you experienced better conditions while contracting capex? Then we can try to calculate what can eventually come as positive surprise in the future. Thank you.

**Murilo:** Well, Rodolfo, thank you for your question. I will start with the second one, about capex. No, we are executing our projects in line with the budget, respecting climate conditions of the areas we operate. But we have nothing different from what we had on Vale Day. And the market, I can tell you that it is favorable. Yes, we have had better conditions contracting, better than expected. And we expect to continue with this stability. But we won't do updates on gains at the moment, which could appear to be imprudent. But we are confident. Martins, please.

**José Carlos Martins:** Well**,** Rodolfo, about premiums. In fact, this quarter was a time when demand increased less than expected and offer increased a bit more than expected. Then, if you imagine a staircase and a slope, the offer increased using the staircase, it jumped. And demand is growing by the slope, then, demand, especially in China, is growing about 2% to 3%. And we had an avalanche of ore due to production increase projects, especially FMG and BHP. And this ore enters, and this was a quarter which historically is affected by storms and cyclones, which didn't happen this quarter. There was a series of factors that brought the Market with a bit more offer than expected. And logically, this affected the premiums. Therefore, if you consider the 62% as reference, you'll have premium for better ore and discount for worse ore. The premium for better ore decreased, while the discount for worse ore increased. This is basically due to the fact that great part of the additional offer entering the market relates to worse quality ore. Logically, producers of this ore are nearby, they sell at market price. Practically they sell at spot price. This brought prices down and premiums down. Looking forward, I believe there is a trend of stability in this movement. Recovery will appear when the slope meets the step. And there is balance between offer and demand. But at the time, in fact, we feel that offer is moving better than demand. And this affects the prices. I mean, not only China is growing less, steel demand. Last year, the steel production in China increased 8%. This year, it is growing at 2% to 3%. We expect improvements in the second quarter, but at the moment, this is what we have. Outside China, if you consider Europe and other markets, although there was improvement in the economic scenario, this has not reverted to steel production and ore demand. We are there, climbing up the slope. But we had not achieved the staircase. I think the best scenario will appear when this slope meets the staircase, and we will experience better balance in the market.

**Murilo:** We also had, am I right, Martins, in the first quarter, the pollution issue with winter in China, at the province of Hubei, that produces more steel than the United States and Europe together, 200 million tons.

**Martins:** The pollution issue. You can't fix pollution right away, right? The measures adopted today are administrative measures. When there is pollution peak in specific areas, the reaction by provincial governments is to ask to stop the coke oven, stop sintering. Somehow reduce emission. And logically, this will always have some impact on the production. We are experiencing these effects. And civil construction in China is a bit weaker even because of the government economic policy. But we see a much better trend for infrastructure works. Although the weight of civil construction is still much higher than infrastructure. We have to wait for improvements in this ratio, between offer and demand, to see a better behavior in price and especially in premiums and reduction of quality discounts.

**Murilo**: Thank you, Rodolfo.

**Operator**: Our next question comes from Mr. Thiago Lofiego, Bank of America.

**Thiago**: Good afternoon, I have two questions. First, if you could talk a bit about the realized pellet price in the quarter. The performance was rather good. How much of that is linked to past agreements with higher prices, as mentioned in the release. Also if you could comment about pellet premium, what is the trend you imagine?

The second question refers to the ramp up of +40. What is the current capacity usage of this plant and when do you expect to reach 100%? And if you could give us an update regarding the licensing process to supply this plant, the environmental licensing process to supply this plant with ore.

**Murilo:** I will move to Vânia, and she will talk a bit about the licensing process. But I would like to tell you that we are working absolutely in line with the schedule we had established while discussing with our authorities. Everything that Vania said at the time and what she explained also in Vale

Day, and later at the call. We are very confident as the schedule has been followed with no changes at all.

**Vânia:** Thiago, good afternoon. In fact, that's it. Only to complement what the president said. Our licensing schedule is rigorously on time. We are waiting the LP of what we call EIA Global, which is the southern area of Serra Norte, where we already operate, but to the south. Studies were concluded, inspection was carried out by environmental entities, by IBAMA. And we expect to have the licensing in the nest quarter, exactly according to the schedule. There are no surprises, no study have been questioned. On our side, as well as for environmental entities, everything is going as planned. We are fully confident to achieve the expected capacity this year.

**Murilo:** Martins will tell you about past agreements, about the pellet price.

**José Carlos Martins:** Well, regarding the pellets, it is exactly as you put it. Different from virgin ore. Pellets, most part of the agreements are linked to the price of the quarter or past price. Somehow this is beneficial at times when price goes down. Regardless, the pellet market is very tight. This allows premium to be sustained. The ore price itself, that comprise pellet price, will follow what happens with IODEX, with no carry over effect from one quarter to the other. Most prices are defined at the quarter and some of it is tied to previous quarters. But premiums are supported in the $38 to $40 range. And this is the good side. And we don't expect great changes on that. We believe that it is possible to maintain these premiums. And whatever IODEX we have, this can be changed. regarding production, additionally to the environmental issue that Vânia explained. It is also good to mention that +40 experiences, or was experiencing, a restriction in logistic capacity. As investments were not concluded yet. The purpose of our work is to have, by 2014, 2015, +40 operating in full capacity. Since them we will have logistic available. At the time, our logistic is moving towards a 130 million ton capacity. We haven't got there yet, but we are moving towards it. And next year, we will complement the logistic capacity, and then we will be able to enjoy all the potential of this investment. We hope that by then all environmental issues are fully solved, as Vânia mentioned. We will finally be able to have expressive production growth, that additionally to being 40 million tons, it is a high quality ore, which improves a lot the price realization.

**Murilo**: Thank you, Thiago.

**Operator**: Our next question comes from Mr. Renato de Azevedo Antunes, Brasil Plural.

**Renato:** Good afternoon, everyone. Thank you for the question. Going back to provisioned prices, that Luciano explained very well at the beginning of the call. I'd like to understand, have these agreements been gaining relevance? I'd like to understand if you expect that this trend of agreement with greater portfolio relevance will increase? And also, when you mark, let's put it this way, this agreement at the end of the quarter, I would like to understand what price do you use? Of course, this will depend, the impact on the next quarter will depend on where the price goes. I just want to understand, if there is such calculation, if it is simple. Is it just the closing price of the quarter or by the end of the balance sheet? This is my first question.

And the second, about leveraging, again, we saw a beautiful work showing net debt decreasing in the quarter. And looking at cash flow, the receivables were very good this quarter. I'd like to understand what is behind this. And if you think that working capital is something where you can get more improvements from now on. Thank you.

**José Carlos Martins:** I will talk a bit about the trend in pricing. I will then move to Luciano who can offer better explanation about the accounting issue and receivables. Regarding price, what happens. In practice, it is not much different from the past, instead of selling at future price, we were selling at spot. This was the case. Sometimes I see analysts' reports and they say that Vale reduced spot sales a lot. We reduced spot sales because we started offering future prices, which gives the client some tranquility. As we are more far away from China compared to our competitor, what happens is, the client prefers to buy from who is closer, as he knows the price to be used in the structure. He sells steel in future and buys the ore right there, and he is better protected. When he buys from Vale, as the ore takes longer to arrive, he is under price risk. Up or down. He prefers future pricing. Otherwise, what happens is, he does not comply with the agreement. If you send the ore to China and the guy there notices that prices are going down, he finds a way to refuse the ore. And we are forced to sell at spot price. We believe this price trend, this is a trend that should continue around 40% of our sales. It may drop in the future, as we manage to improve our distribution system. Then the ore is closer to the client and we sell from the distribution point. For instance, the Malaysia deployment, somehow, should reduce the need of future pricing. And reduce a lot the accounting impact of this situation. But the fact is that Vale prices today are 40% future and 25% past. Then, depending on how the price behaves, up or down, you end up with great impact on accounting. This is much more an accounting effect than an operational effect, so to speak. In the period, if you add one or two quarters, you will note that there is not much of a variation. These carryovers end up off setting each other. But I believe that as our distribution strategy improves and grows, the future price trend will be reduced. And as price volatility also reduces, this impact will be less noticeable. But I agree that in the current market, with these events and Strong variations, it is difficult to have a price projection. Considering that these percentages of future sales and sales based on future price and past price are not constant, they do change. And this makes it difficult to make price projections.

**Luciano:** Well, regarding prices for quarter closure of future sales. What I am about to say is not exactly precise, in technicality terms, but the best estimate is, indeed, use the last price of the last day of the quarter. The price we effectively register the sales for may vary a little up or down due to some technicalities, but this gives a good idea, the use of the last price of the quarter.

Regarding leveraging, the first quarter, traditionally, is a quarter where we see some decrease in accounts receivable due to the receipt of large sales volumes that normally occur in the fourth quarter. We are working to continue with incremental improvements in working capital. We expect some improvement, but not in a significant proportion as in receivables, the receivables profile. And we started to be successful extending payment of important input with great value to our operation. It is indeed possible that we see more effects in working capital cash flow.

**Operator**: Our next question comes from Mr. Marcos Assumpção, Itaú BBA.

**Marcos**: Good afternoon everyone. Two questions. First to Martins, regarding China, if you could tell us about the steel demand growth expectation for 2014. And if we see prices in the $100 to $110 per ton range, if we start to see the closure of the iron ore capacity in China.

And my second question, regards the distribution center in Malaysia, if you expect that the discount in Vale price may go down, or if there might be a bit higher premium, with the new freight and blending strategy. Thank you.

**José Carlos Martins**: Well, regarding China, if you look at the first quarter, the growth of steel production there and demand was around 2%. But ore importation was much higher than that. This means that there has been some change on local production. For a production that sees demand for iron ore at around 2% to 3%, ore importation was over 5%. That is, the market is absorbing the production from abroad and reducing internal consumption. Logically, the price mechanism is working. As much so that we experienced price decrease, which, in the last few days, has been accentuated due to the monetary policy in China. But in general, is it unavoidable that in the 110 range, we will continue to see an increase in seaborne demand for ore, exceeding local needs, internal consumption of steel. This year we expect a steel demand growth in China around 3% to 5%. We don't have a clear vision about Chinese steel exportation. Maybe we will see a reduction in exportation to the extent that the environmental issue has some weight. China exports today approximately 60 million tons of steel. Around 8% of the total production in China is exported. There might be a reduction in production in China related to consumption, considering reduction in exportation. This is not bad for us, as this steel must be produced somewhere. If China exportation reduces, there is space for growth in Europe, and in the United States. Somehow, the need for iron unit, the need for steel, ore, will continue in the country where this steel is produced. But we cannot have this forecast yet, and I would work with this estimate between 3% and 5%, 5% is being a little optimistic and 3%, being more conservative.

Regarding CD, evidently, we didn't do this to… this was a well-thought investment, right? We invested $1.3 billion in the Distribution Center in Malaysia. The purpose is exactly to add value to it. For instance, if you analyze today, premiums we obtained for our better quality ore are not equivalent to the discounts we have to offer for worse quality ore. Blending of ores generates an excess, a net gain in premiums. The possibility of blending ore should offer better stability in price level and guarantee some premium recovery due to the better quality of this ore that is not priced accordingly. Today, this ore leaves Vale, and is blended with ore from other sources. This gain occurs either to the client or the producer of lower quality ore. With blending, we expect to participate in the gains that come from blending ores.

**Operator**: Our next question comes from Mr. Marcelo Aguiar, Goldman Sachs.

**Marcelo:** Thank you for the opportunity. The first question relates to iron ore, Martins, if you could tell us a little bit. I noticed that you talked in qualitative terms regarding quality premiums. If you could discuss quantitatively the Carajás premium, for instance, in the first quarter, the premium for Carajás ore, on 62% iron ore compared to premiums for this ore paid in 2013. And if you can get this premium for the total of the product from Carajás or if it applies to a smaller portion. And also regarding ore, if you could comment a bit about what you believe people based in China, what will be the impact of these new credit measures the government has established regarding the release of credit letters by banks? You have to deposit a greater capital amount upfront.

And the second part of my question relates to capex. Murilo said that there are not many changes. But I would like to understand, you mentioned and used as result highlight that the maintenance capex was low, around $750 million. And you have a year budget of more than $4.5 billion. I would like to understand if the trend is to deliver a lower budget in terms of sustaining and if this investment pace is sustainable in the medium and long run, at $750 million to $1 billion per quarter. These are my two questions.

**José Carlos Martins**: Well, regarding prices. Prices are varying a lot, this is why we avoid establishing a guidance. There is too much volatility. Last quarter we had a premium for Carajás ore around $10. These are not contractual prices, but they are prices, how can I say it, in spot market sales we even got prices above $10. Nowadays, these prices have dropped a lot. But all the Carajás ore continues to have a premium over $2 indicated by IODEX. I can't be precise on this even for commercial reasons. I'm sorry, I can't be precise on this. But all the ore from Carajás has received premium. What happens is that the discount for high silicon ore has increased. The high silicon ore today has a discount for each silicon point above reference, up to $2 to $3 discount. The high silicon ore requires longer coking, this causes greater emissions, and there is an environmental issue. I would say that today our greatest concern regards high silicon materials that contaminate the average price. And with these investments, we try to reduce this need to sell high silicon ore. Then, the premium of Carajás will appear more clearly for you. Up until then, we are trying to fight this. And this quarter, specifically, the greatest negative impact for us was the increase of the discount in high silicon ore. Luciano. He also asked about monetary measures, right?

Monetary measures in China had impact. If you look at the evolvement of IODEX in the last two weeks, they dropped practically $10. The impact of monetary measures are sensible. I believe this is temporary. Because in fact demand is still there. Monetary measures cause a reduction in the chain inventory. With that, in the future, the trend is to have a balance. But without question, especially in this more recent drop, the main reason for price decrease was monetary measures adopted by the Chinese government. These are not directed to ore, to the steel secret. They include almost all of the Chinese economy. I believe that even regarding pollution, it is stronger in the steel sector. Because steel producers who generate greater pollution, that are less.

equipped technically, are the ones more dependent on credit. I think a little bit of both of these have been adopted. Economic restriction, from Chinese economic policy, associated to the pollution issue in China, that is still very severe.

**Luciano**: Regarding current investment. The first thing to note is that there is seasonality along the year. The first quarter is traditionally a quarter with less disbursement. Therefore, we cannot exceed and multiply the numbers of this quarter by four. But it is also true that there is a decrease compared to the first quarter of last year. For a series of reasons that I will give you. But I think it is too soon to anticipate a reduction on what we budgeted for this year. Following the logical sequence, there are four reasons. First, we are much more rigorous to approve current investments. The analysis is done more thoroughly, and therefore, the scope of investments is studied better, when investments are approved. Second, we are planning contractions better. We managed to consolidate some contractions and get better prices. Third, we managed, this is a specific reason for Brazil, we managed to work with better suppliers in average for our current investment portfolio. More productive suppliers, due to deceleration in some sectors of the economy. We managed to work with better suppliers. And finally, maybe the most important reason, we are very disciplined in the execution of capital investments. We are using previous engineering, we are following all the steps, we are engaged in all processes, including those that traditionally we did only for great enterprises, for smaller investments. Thus, we see very less surprises in terms of budget for small maintenance projects.

**Murilo**: In the end, Marcelo. I would like to reinforce our commitment, in our first talk with you in 2011, to discipline capital allocation. This is our commandment, austerity, and we are following it through. Thank you.

**Operator**: Our next question comes from Mr. Ivano Westin, Credit Suisse.

**Ivano:** Good afternoon everyone, thank you for the question. The first point is about ore volume. There is a difference between the reported ore production of 71 million tons and the sales volume. You mentioned three million along the production chain. I would like to understand if this is a strategy that eventually may revert to future quarters. Or was this caused by an operational problem, whether to the mine, railroad, or port. This is my first point.

Second, I would like you to comment about divestments. What can we expect in the pipeline, as the Nacala Corridor, any coal or fertilizers asset. And if in the core business, all the base metal assets continue to be core business or if we can expect some divestment in this unit as well. Thank you very much.

**Murilo**: The divestment issue, we continue on the same page as we were on Vale Day. We continue with our attempts related to Nacala Corridor where we will sell 50% of our share, which means 35% of the company as a whole, /of the corridor. We remind you that we are responsible for 100% of the investment. The investor to work with us, we expect to start in the second half, he will assume half the investment in Nacala, what will be done and what was already done. We also have a divestment of a percentage of our shares in coal assets. Negotiations continue in line. I have no adjustments to make to the working schedule we established on Vale Day aiming a solution for this issue by the end of June this year. As for fertilizers, we are still evaluating strategic initiatives and checking those that best suit us.

You asked about base metals. We analyzed an opportunity in Thompson, but it was set aside for now. We have disregarded it. Canada assets therefore have not changed. Onça Puma, as expected in our last conversation, has had a performance much better than expected. In terms of productivity as well as costs. We don't have, other Brazilian projects going well. In the New Caledonia project, we had the opportunity, we are so confident, that we brought to the Board, during our meeting with the Board of Directors in the end of March in Australia, we held it there. We then went to New Caledonia. Board members were happy with what they saw. Thus, we don't have, we are confident we are following the right path. Especially with the nickel market scenario, the new scenario of the nickel market. Verticalization is a key word in nickel supply for the future. Ivano, this is the clarification on divestment.

**José Carlos Martins**: About shipments, the difference between production and sales, what I can tell you is that almost the entire production was shipped. Then, these three million tons are about to be sold. Part of those will be used, have been used to create the inventory in Malaysia. But great part of these three million tons will be invoiced at some time in future quarters.

**Murilo**: I can assure you, Ivano, that we had an excellent first quarter. In terms of mine and logistics, in our shipments. Numbers are very favorable. This is a decision within Martins directors, and with no operational problem.

**José Carlos Martins**: Nor market problem .

**Murilo**: I have to compliment my colleagues for the performance they had in the chain as a whole. And in the market. There was no offer that failed to find a buyer. What we did was find the most appropriate moment to sell or invoice.

**Operator:** We now close the questions and answers session. I would like to move to Mr. Murilo Ferreira, for final considerations.

**Murilo**: I would like to thank you for your time, and tell you that we continue to be committed to our policy of becoming more effective. You noticed a product cost reduction, more favorable SG&A. The level of investments in research and development. There was a difference in pricing, but I am sure we failed to communicate well in the last call. Many of you did not understand the pricing. What happened, in the past, in the last quarter, and now. This is why Luciano spoke right after I opened the call to give you some clarification, to be as transparent as possible. Thank you very much, and good afternoon!

**Operator:** The Vale conference call is over. We thank the participation of all, and wish you all a good afternoon. Thank you