International Conference Call
Vale
2nd Quarter 2009 Earnings Release
July 30, 2009

Operator: Good morning ladies and gentlemen, thank you for standing by and welcome to Vale's conference call to discuss the Second 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 section.

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 (*) followed by zero (0). As a reminder, this conference is being recorded. The replay will be available until August 5, 2009. To access the replay please dial (55 11) 4688-6312 (access code: 999). 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 in Rio de Janeiro 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. Sir, you may now begin.

Mr. Barbosa: Thank you very much, good morning ladies and gentlemen. It is a pleasure to be here with you today. Let's start our comments today by saying that by the same token that we commented that during the announcement of the 3Q08 results that the 3Q08 was part of a world that did not exist anymore as the world had changed dramatically, I would say that we could say about the same regarding the developments in the 1H09.

Of course, the adjustment continued during this 1H09 in the world economy and companies, of course, companies' results reflected this reality of adjustments and as I will comment with you later in this presentation, we have several reasons to believe that the worst is over and we are in a new stage of development of the world economy and our industry in particular.

So the 2Q09 results they do reflect a transition from this old world that we are commenting to a new world of recovery. Our operating revenues were limited to US$ 5.1 billion; adjusted Ebit of US$ 976 million; Ebit margin limited to 19.7%; and our adjusted Ebitda reached US$ 1.7 billion.

Of course we are not quiet waiting for the improvements of the environment. We are working very hard to implement several initiatives to push further down our cost structure and if you took a look at our release, you noticed that we had results across the board in our cost structure.

Of course, we were affected by the depreciation of the US dollar. That is another indication of the strength, the relative strength of the market. The appreciation of the real, sorry, that is another indication of the relative strength of the commodity market. But it is clear in the figures, if you look in more detail, that in every single item we have a meaningful effort in terms of cost reduction.

We have some highlights here in this presentation and I would like to invite my colleague Tito Martins to comment what is going on in the nickel business and what he is doing to improve remarkably the development of this business. Tito, you could comment on that?

Mr. Tito Martins: Ok. Good morning everybody. We have been trying hard along the last six months - specifically in terms of the nickel business - to set some restructuring program. What we are trying to do is to set up a new way to work from a geographical approach in our operations in Canada and in the other operations in the nickel business around the world to a more functional approach.

What I mean by that is we decided to put to the operating team together and run business from one operating center in Sudbury. The idea is to combine, because before that until the beginning of the year, most of the Vale Inco operations they were run independently.

So the idea is to combine and generate some synergies among all the operations through services, contracts and maintenance systems, IT systems - everything that is related to the operations. So we are expecting to see along 2009 results coming from this combination of, based on the new structure.

We have already managed to achieve some reductions in the managerial positions around 20%. With the restructuring we expect to have some gains; as I mentioned before, some gains in synergies and we would be able to have technical people working in different sites, providing services for two different sites throughout the world.

Of course we also working in renegotiating some services contracts and at the same time we are expecting to achieve some cost reduction through renegotiations with suppliers and maintenance contracts. Fabio Barbosa.

Mr. Barbosa: And the global sourcing as well is applying to you, right Tito, in your operation?

Mr. Tito Martins: Exactly, it applies to everybody. We view a reduction in all the contracts that are being put in place right now.

Mr. Barbosa: So this is a very important item of our cost structure and we managed to diversify our sources of supplies, so this should mean a very important cost saving over time and the results, we believe, they are impressive as you can observe in chart number 7.

We managed to present further cost savings of US$ 186 million. Of course we increased the volumes and the appreciation of the real exchange rate, in particular, they more than offset this effort; but it is clear that we are, again, working very hard to get the results on the ground.

And this is clearly shown by the unit cost that we observe in chart number 8 and we see that for the 2Q in a row we have meaningful results to be presented both in nickel and iron ore, iron ore more intensely in the 1Q. So this is another very important result: US$ 1.3 billion in cost savings. It is nearly, it is close to 80% of our Ebitda in the 2Q, to give you a dimension of the effort that is being put in place.

Of course the Ebitda reflected the market conditions and it was primarily determined, its reduction, was primarily determined by the prices decreases, despite very important contributions by sales volumes and cost savings and also dividends. But unfortunately we had these market circumstances and the numbers are reflecting that.

More specifically, the driver there of the drop was - of course, due to this importance and the very fact that it was the most relevant item in cash generation in the 1H - was the iron ore price reduction.

We applied it retroactively to the 1Q to part of our sales and an important message here: all sales from now on independently of achieving agreement on prices, they should ... the prices that we are accounting for in the 2Q consider that all adjustments have been already made. It means that there should be no more retroactive adjustment relative to the benchmark pricing that we apply - independently of the negotiations that, of course, may continue for some clients as Martins (José Carlos Martins) will explain.

It means that this effect - unpredictable effect - is no longer expected considering market circumstances as what we just did in terms of adjustment.

So in the case of iron ore we have this effect, this important effect in the price changes, in the non-ferrous business we had a sharp recovery of average prices, and this is indicated by the contribution to Ebitda of US$ 269 million. And at this point is very important to mention that Vale cut production in the 4Q08 and kept production well below its nominal capacity in the 1H because we believe that that was very important to contribute for a rebalancing of the market and we believe we are being successful in this regard.

At the same time we intensified our sales efforts in the nickel business. So we sold much more nickel in the 2Q09 - 17% more - than we sold in the 1Q09. This is, of course, a result of the market development, but also our own marketing strategy as we can see in chart number 11. The prices, the LME for commodities - including nickel recovery - the numbers indicate a very sharp recovery of prices and in this regard our sales efforts were very timely.

And the non-ferrous minerals as a whole Ebit margin, that was negative, it was sharply recovered to reach a positive figure - very modest yet - but a positive figure of 0.2% in the 2Q.

The major challenge that we have today is to reconcile our quest for growth, as we do believe that long-term is very promising and we believe that investing in creating more capacity for the future demand is create value for the shareholders.

And in this regard we invested US$ 5.2 billion in the 1H09 and I would like to call your attention that we have almost US$ 10 billion invested in projects on the ground that are not generating any cash at this stage. That certainly will contribute when the operations start to enhance further our capacity to create, to generate cash in the long-term.

We have, of course, a very strong and sound financial position with large liquid assets, low risk debt portfolio and long-term credit lines as you well know. And considering the position that we are in the cycle, the down cycle, we are in a very comfortable position in terms of leverage, with our total debt/Ebitda limited to 1.5x.

Now let’s talk about the future at this new world that we are already starting to see with several signs of strength of the world economy and particularly in our industry. Global industrial production started to recover, it is clear, and more than that: the lead indicator (new orders/inventory ratio) is clearly showing that there is more expansion to come and our business is deeply connected with the industrial production figure.

So this is good news and we see in chart number 14 a clear improvement of the situation and if you are able to see in color you see the red line, the PMI new orders/inventories indicating further strength of industrial production still to come compared to the actual figures observed in the 2Q.

And this recovery is being led by emerging market economies. They are still small compared to the developed economies to produce a faster recovery of the world economy, but they are very intensive in consumption of minerals and metals and they are driving back our market to a better position. Of course, the developed economies are also improving compared to the situation, let's say, the critical situation they faced in the 4Q08 and the 1H09, but there is a clear path of recovery considering the several stimuli packages that were delivered in the most important economies of the world and also in the emerging economies.

So this is having an effect on the industrial production of the developed economies as we can see in chart 16 and there is a clear convergence towards a better performance in the 2H09 compared to what we observed in the 1H09.

As for China, Chinese GDP is rebounding after two quarters. According to the numbers that we collect, the marginal GDP growth in the 2Q09 was almost 15%. Of course we do not believe that the GDP growth in China will remain as such for the year, at 15%, but it is a clear indication that the stimulus package in China and the recovery of the economy is presenting a very strong performance this year.

And in chart 18 we have another indication, which is the Chinese real estate sector. We have floor space sold increasing by 51% in the 2Q, at the end of the 2Q; and floor space started 12% growth. So very solid numbers that are behind, in a way - given the importance of the Chinese real estate to the demand for steel - they are behind a major part of the recovery of the global carbon steel output.

At this stage I would like to invite Martins (José Carlos Martins) to comment on the sector and the perspectives.

Mr. José Carlos Martins: Well, good morning everybody. Let us start with chart number 20, where we can see that steel production starts a recovery in this year, late this year ... sorry, it is chart 19.

So we can see that steel production starts recovering worldwide - not only in China - and also mainly in Europe, which is very important to see in chart 20 the recovery in Europe.

For Vale Europe is very important as our sales in Europe uses to be higher than our sales in China in a regular year.

During this crisis our sales in Europe dropped almost 80%. Although steel production in Europe went down 50%, the European market decreased a lot in terms of iron ore because of destocking - heavy destocking -, some usage of their own mines for some customers, and also in some markets an increase in scrap usage.

All of these three points that happened during the 1H of this year is now changing and coming back to the old pattern. So the recovery in the European steel industry and market will be very important for the recovery of our sales of iron ore.

Prices for steel are also going up as we can see for billets and hot rolled coils in every market. The price of steel is a proxy of demand and also steel production, so steel production moves after the price increases.

This phenomenon is already happening with many steelmakers restarting their blast furnace operations in Europe. Not only in Europe, but also in the States and even in Brazil we can see a lot of announcements of blast furnaces restarting production. So all of this is bringing a good impact in our prospects for sales.

As you probably know, our sales are mainly based on a FOB basis and now we see a lot of customers nominating vessels for the next quarter. This is a very good prospect for shipments from now on.

Another interesting chart to show you is the chart number 22, which is the iron ore price in the spot, as we can see moving up. Yesterday China spot prices reached US$ 93.50/t - so it seems that the market is very tight and the demand for iron ore is very strong in China.

And one of the reasons is that as other markets are recovering - like Europe, Japan, Korea - other markets outside China are recovering, some shipments that used to go to China are now moving to other places. So this is bringing some kind of feeling of shortage in the Chinese market.

What we can see in the chart 23 is our effort to increase our sales, because considering our high dependence on the European market and also on the Brazilian market, the drop in those markets let us with any other choice than trying to sell more in China and we make a lot of effort to increase our sales in China, and besides that a lot of effort in shipping area, because we have to hire a lot of ships. 70% of our sales to China were made on a C&F basis, so we had to hire all those ships.

Being a company that is used to sell 100% of its sales in FOB basis, to move to C&F basis was a tremendous effort in our company, in our structure, and we needed to understand that we are 45 days from China, so we had to hire the ships, to send ore and sell later, and as the market in China was very dynamic in the spot area, you can imagine all the pressure we had to send this ore 45 days ahead without knowing what would be the price, what would be the customer.

But we did it and we are very proud now to say that we, even at this very difficult moment, we were able to increase our sales to China by almost 40% above our traditional level. I think, if I may say, one of the best points of our performance in this quarter was what we reached in China by changing the way we sell, by changing the way we ship, changing our portfolio of customers. It was a big transformation and I think Vale made a very strong demonstration of our capacity to change when we face different market circumstances.

The implementation of our C&F sales has been very instrumental in enhancing our competitiveness in China and we built a low-cost portfolio of maritime freight. We are less dependent on spot freight. We are hiring long-term freight contracts, long-term ships to work for us.

We also are building a fleet of more than 20 vessels now being built in China that we will start delivering in 2011.

So we are going to be in a very stronger position from now on, because we started this game without having a ship, without having a contract and having to sell a big part of our sales on a C&F basis. But in six months we built a very strong portfolio of ship contracts and we bought many ships also to work for us.

So we are minimizing our exposure to spot freight prices and we are increasing reliance in our own fleet based on long-term contracts on ships, and these are very important points we reached during this half and we are now much better positioned going forward.

We see the recovery in global demand for iron ore increasing. The destocking process has finished and none of our customers has iron ore in their stockyards, so they needed to buy in order to produce what they are producing. In the 1H they were using the stock to produce; now they have to buy to produce. If they do not increase their production, they will have to buy much more than they did in the 1H.

And Vale is in a situation in which it is the only big player that has capacity available, so all the increase in the iron ore market will be captured by Vale, because we kept our capacity intact as we can see by our cost efforts that we did a lot in the 1H.

But we kept our structure to produce up to 300 million tons of iron ore if it was needed. So now we have this capacity available, and as we increase the sales our unit cost will be much lower, because we are going to dilute fixed costs. In the mining industry fixed cost is a big part of the total costs.

As we see, in the 1H we sold 212 million tons, annualized, in the rhythm of 212 million tons of iron ore, and our capacity is 300 million tons, so we have near 80 million tons capacity available to feed the market if it was needed.

For sure our dependence on the Chinese market increased, but I do think it is a bad new. I think it is a good new, because if you depend on a market that is buying it is a good new; if you depend on a market that is not buying it is a bad new - like it happened in Europe in the 1H.

We have a huge market share in Europe and the market was very, very weak, then we faced a lot of trouble because of that. So I think that this dependence on the Chinese market for iron ore is a very good point.

As far as pellet is concerned, pellet is mainly used when you need high productivity; and considering the low capacity utilization in the steel industry, pellet was one of the most affected products in our portfolio.

All the steel makers decided to use more sinter in their burning and so they stopped buying pellets. I think in the deep point of the crisis, if you consider that we have 13 pellet plants considering the three pellet plants that we have with Samarco, only three of them were operating. And then since this point and since we made this adjustment in price to reflect a better economic balance with the other forms of iron ore, sales of pellets started increasing and now we have only three pellet plants idle. All the others are in operation or starting to resume operation. So we think that for pellets 2H will be a much better performance.

So the next point I think Tito (Tito Martins) will ...

Mr. Barbosa: Yes, Tito could you comment on the last two slides and then we open for the Q&A.

Mr. Tito Martins: Of course. As you can see from slide 27, we are seeing a recovery in the stainless steel production and mainly that was driven by the Chinese market. When you see the numbers from the 1H09 and you compare them with the 1H08, we had a very steep increase in demand in China, 70% growth compared with the 1H08; and when you compare the 2Q09 over the 2Q08 we are talking about 139% increase in demand.

We estimate that Chinese stainless production set a new quarterly record on 2Q09. We are talking about a market around 2.1 million tons of stainless steel.

So what is happening outside China? China is the main driver, but we are also seeing some signs from different geographies. Europe, US, Japan, Korea, Brazil; some countries in Asia they are showing some recovery already. You have to bear in mind that 70% of the total consumption of nickel in the world is outside China, so when we see those signs we become more optimistic about a more stable market in the 2H.

Some important comments: we are seeing the stainless steel growing - demand is growing - but we are also seeing some good signs from other nickel markets, like plating and powders. Some recovery has been observed in the batteries and electronics market and also in the automotives.

Because of all of that, as you can see in the slide 28 nickel prices went up mainly in the last eight weeks and looking at the scrap market, the tightness of the scrap market and the consumption - the level of output in the 300 series and nickel - we can see that the market is consuming more and more nickel.

So we intend to believe that the forecast for the 2H for sure should be better than the 1H. I think it is that Fabio (Fabio Barbosa).

Mr. Barbosa: Ok thank you very much. We are ready to take the questions that you may have. Thank you.

Q&A Session

Operator: 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 now. If at any time you would like to remove yourself from the questioning queue, press star two (*2). Please restrict your questions to one at a time. Thank you.

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

Mr. Felipe Hirai: Hi, good morning everyone. Fabio, one thing that you did not comment was the interest that you are having on the fertilizer business. Could you comment a little bit on the strategic value of this business and how you think that you could eventually grow in this area and if you could eventually consider any big acquisition in this sector? Thank you.

Mr. Barbosa: Thank you Felipe. Well, we have been saying for some time now - and I believe that in several quarters - that we believe that fertilizers is a very important and interesting line of business for Vale.

It is mining and Brazil in particular is a natural consumer of fertilizers but not only that, the Americas as a whole they are very well poised in terms of deposits and resources and it is part of the mining business and we have an operation in Sergipe, that is Taquari-Vassouras, and we have several projects in our pipeline.

And in the last year we concluded the negotiations and in the 1Q of this year we acquired very interesting assets from Rio Tinto that are Rio Colorado deposit in Argentina and Regina deposit in Canada.

Our ambition is to develop all the projects that we have in our pipeline and to become a major player in this sector and we can become a major player in this sector without any further acquisitions.

And as we commented by the time there were some rumors in the press, we said that we are always looking for opportunities in all lines of business that have to do with Vale, but our focus is organic growth.

Mr. Hirai: Ok. thank you.

Operator: Our next question comes from Mr. Marcos Assunção with Itaú Securities.

Mr. Marcos Assunção: Hi good morning everyone. One comment was to explore a little bit the Chinese iron ore market. The first question is: you sold 36 million tons - a record volume - to China and 25 million tons out of these were on a C&F basis.

So I just would like to confirm that the remainder 11 million tons sold in China were done probably on a benchmark basis and also if you expect any changes regarding this mix, which was almost 70% of your volumes on a C&F basis and 30% on potentially close to benchmark prices.

Mr. Martins: That is it. 70% of our sales in China were based on C&F basis and the remaining FOB was based on benchmark, being provisory prices or fully benchmark prices.

From now on you have to consider that the Chinese are looking the trend in the spot market and the spot market now is going up and over the benchmark level. So we immediately saw a trend to nominate vessels and to try to buy more based on the contracts, based on the benchmark prices.

So this is something that we are managing for the best of interest of our company and our shareholders. But clearly the Chinese are now moving faster to the benchmark level, to the contractual level. And this trend is not only with Vale, but is happening with the other producers and probably that is one of the reasons that the last shipments are sending to spot and so this creates some kind of shortage in the spot, because all the suppliers are now selling more FOB contractual basis. So I think that will be a trend as far as the spot continues to increase as we see now.

Mr. Barbosa: And just to complement if I may, Martins, this is a very clear indication of certain imbalance of the market out there, because the implied FOB price is more attractive than the C&F spot price. I am not forecasting anything, I am just concluding by the numbers that we are observing currently in the Chinese market.

Mr. Martins: And also a point to be considered is that clearly - I do not know the level - but there will be a cap in the spot price in China, which will be the level ... because you have more local production; as the price goes up, more local production will be brought to the market. So I think the market is now testing what will be the best balance between imports and local production and what price level that will happen.

Mr. Barbosa: Thank you.

Mr. Assunção: Ok.

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

Mr. Rodolfo de Angele: Hi good morning. My question is regarding freight and your strategy now that you are selling a lot in C&F basis here. Could you please comment a little bit more on how much, in terms of volumes, you have already the freight contracted – what is at least a range of the costs that you are seeing there?

And in terms of your own fleet do you have any idea that you could give us in terms of how much of capacity that you have in place right now?

Mr. Martins: This is a very sensitive question, because everything we say in this aspect could have impact on the level of freight prices. What I can tell you is we are prepared to ship every ton we produce if we have a market, if we have customers and freight will not be a problem for us like we had in the beginning of this year. We left a lot of iron ore behind because we did not have competitive freights for it.

So we are prepared. We are preparing ourselves now to deliver every ton we have, despite what is going on with the spot market for freights and you may consider that to reach a position like that we have to have a big portion of our sales based on C&F basis and we have a big portion of our sales with our own fleet.

So we are managing this issue according to market conditions and according to the situation. This will be from now on a very sensitive issue for Vale, so unfortunately I cannot disclose to you how much we already have. But I can tell you we are now in a very comfortable position based on that.

Mr. Barbosa: Thank you.

Mr. de Angele: Thank you.

Operator: Our next question comes from Mr. Ivan Fadel with Credit Suisse.

Mr. Ivan Fadel: Hello everyone. My question is regarding a recent CISA statement trying to limit iron ore import prices in China for the spot market and if implemented what could be the impact for Vale in your views?

I see that on one hand it can create oversupply that could increase spot prices further; but as Fabio and Martins (Jose Carlos Martins) were saying it could also start to create more market for domestic production there that could supply the market at higher prices and maybe reduce a little bit volumes from exporters to that region. So how can this issue impact Vale in your views if implemented? Thank you.

Mr. José Carlos Martins: Well, this is a US$ 1 billion question. But I think we need to wait to see what they will decide. I think China is becoming more and more important in the iron ore business, more and more important to the whole economy. So I think it is not only iron ore, but in other commodities, other issues.

So economically speaking China is becoming more and more important and the question if we are going to have more market oriented decisions or not, it is not up to us to conclude.

But we really believe that as time goes by, more and more decisions will be done based on market situations. That is what we can expect based on that. But we have no idea what will be the outcome of this present situation.

Mr. Fadel: Right. I just had a follow-up on … since you touched the point of the market decision. We are seeing, as you said, many blast furnaces now reigniting in Japan, Europe and Brazil as you mentioned in the presentation.

Also we have seen some signals from Baosteel, recent newswires news that they are seeing demand in China leveling up a little bit. So it is clearly good for iron ore that blast furnaces are reigniting, for the short term it means very likely more demand.

So my question is from your side if you are still seeing final demand for steel, or where we will that steel go to and if you are seeing that already in the recent numbers?

Mr. José Carlos Martins: If you look … you have worldwide better signals in the economy side. During this period from September on we have, I would say, a kind of overshooting in the iron ore market and in all of the markets, because of the destocking process.

We never saw in the world economy a destocking like that. It is not only in iron ore but steel, cars, appliances; a lot of constructions being sold and not new ones being started. So destocking was everywhere, because there was a credit crunch and people had to free money from their inventories.

So what we are seeing now in my view in the Western world is coming back to the level to the underlying demand. So there is an additional demand for commodities because production was always there, but now we are replenishing inventories and this will bring additional demand also.

So we think that we have, I would say, a kind of big growth in these two or three months and then probably we are going to level off afterwards. But that will be in a much higher point than we were in the 1H.

And as China is concerned, their investment package is fully working. You have a lot of investments going on in the country and they are buying more steel. But also we can see some small overflow in this growth. I think after this period we are going to be stable in a higher level of demand not only for iron ore, but for steel and everything and also prices are a little bit higher than they used to be.

So I think we are moving to a new level and I would say in a better level for producers.

Mr. Barbosa: Thank you.

Operator: Our next question comes from Mr. Owen Flanagan with Occam Asset Management.

Mr. Owen Flanagan: Hi. My question relates to what guidance you could give us on iron ore sales volumes and prices for the rest of this year. I mean, you said how you think the 2H of the year potentially could be a very different environment from the 1H. Can you share with us some numbers of the kind of sales volumes you think are achievable?

If we look at the 1Q and 2Q you sold pretty much 50 million tons of iron ore in both quarters and in this 2Q obviously your production is higher, 58 million tons. Is it possible in the 3Q and 4Q that sales volume improves the level of production?

Mr. Barbosa: Mr. Flanagan, all the indications that we provide in our presentation is that there is a recovery process on the ground. We believe that the 2H09 could yield a better result in the standpoint of market strength, of market performance, industry performance; that the world economy should perform much better and that is the scenario that we are working with.

But unfortunately we do not provide any specific guidance about sales volumes or prices that we expect. We will provide this information after the end of the quarter and disseminate this information for everybody interested in the numbers of our company.

Mr. Flanagan: On. Can I just ask one other question about prices in the 2Q? Your realized price in the 2Q was US$ 47, which is below even the level of the spot prices that you have on slide 22. Can you tell us why is there a differential between spot prices and your realized prices?

Mr. Barbosa: This price that you have there is an index. It is the Platts index that involves several materials that are not necessarily the same that we sell. Martins, could you comment on that?

Mr. José Carlos Martins: Well, you have to consider that the spot price is delivered in China; so our price realization is less freight.

Mr. Barbosa: It is FOB.

Mr. José Carlos Martins: It is FOB basis. Then the difference is basically because our price, the price we delivered in our results is FOB and the spot is a delivered price in China, so there is a difference in freight and also quality you have ... some contracts were based on benchmark, some contracts were based on spot. There is a lot of different reasons for this difference, but the main one is spot and C&F price and our price is FOB.

Mr. Barbosa: Thank you.

Operator: Ladies and gentlemen as a reminder, please limit your questions to one. Thank you. Our next question comes from Mr. Jorge Beristain with Deutsche Bank.

Mr. Jorge Beristain: Hi Tito and Fabio. I guess I only get one question, so I better make it count. I just wanted to understand what in Vale's mind does the rising C&F price mean in China? In other words, if you are currently selling at, rough numbers, US$ 50/t FOB Brazil, but now the advantage is clearly with the spot at US$ 90/t and freight out to China US$ 30/t, you could be realizing US$ 60/t at your port for C&F sales.

So I just wanted to understand would you be in a position in the 2H to capture that differential and actually generate more Ebitda per ton if you continue to sell primarily on C&F basis into China or are the contracts are set up in a way that the client would capture that benefit?

Mr. José Carlos Martins: That should be possible. We have two differences to capture: one is the difference between spot and benchmark and that will depend if the spot market will be open for foreigners and foreign companies to participate on it; and another difference is if you can get lower freight than the spot we can capture this difference.

So I think it is a possibility that we can capture a better price, but I cannot elaborate how much.

Mr. Beristain: Ok thank you.

Mr. Barbosa: Thank you.

Operator: Our next question comes from Mr. Leonardo Corrêa with Barclays Capital.

Mr. Leonardo Corrêa: Hi, good morning and thank you for the call. I would like to explore the cost side a little further. We have seen that although overall costs were negatively impacted by currency movements and the cost of idle capacity, we noticed that your cash cost specifically in the iron ore business decreased.

So I just wanted to get a sense of how you see the evolution of cash cost in the iron ore business going forward, given that FX appreciation might continue, which would weigh negatively on your results.

But on the other hand you have the impact, the positive impact of ramping up capacity. So I just wanted to get a sense of how you see the evolution of cash cost in the iron ore business specifically, please.

Mr. José Carlos Martins: Well, we have cut a lot of costs from the system and these costs that we cut were mainly fixed costs. But as you said we produced much less than our capacity. So in the 2H, as we are ramping up production and we are selling probably much more than we sold, this fixed cost should be diluted.

I cannot make any kind of statement on how much, but it is clear that our cost will be down in the 2H on a unit basis.

Mr. Corrêa: Ok thank you.

Operator: Our next question comes from Mr. Terance Ortslan with TSO Associates.

Mr. Terance Ortslan: Thanks, good morning. You mentioned that about half of your pellet capacity shut down and you said that as of 2Q there would be only [x]. I did not hear if you said that you are going to be turning demand in the 2H of this year.

And secondly on the projects themselves could you give an update on the major projects please, such as Goro? Thank you.

Mr. Barbosa: Well, the pellets, the pelletizing plant - if I understood it correctly - our plan is to ... we have about five plants in operation right now. We are starting up the Vargem Grande plant - it is the Itabiritos Project - and we believe that depending on market circumstances two more could be brought online. This is our idea.

As for the Goro Project we are expecting to start up ... to start the ramp up in this quarter and it is progressing according to planned and I believe that Tito could have additional comments on that.

Mr. Tito Martins: The only thing is, Fabio (Fabio Barbosa), we had a minor delay because of the acid spill that happened in April, but we have already managed to be on schedule again, so the first autoclave should be starting probably by the end or at the very beginning of September, so we should have first products by end of October or first week of November.

Mr. Barbosa: Tito, very limited production this year, right?

Mr. Tito Martins: Yes, of course. Ramp up will take at least one year, so we are going to have a very limited production in 2009; the second autoclave would come by December and the third one at the beginning of the next year.

Mr. Barbosa: Thank you Tito.

Mr. Ortslan: … the last 30 seconds, because there was a cut off in the line. So you said your first ... operator?

Mr. Barbosa: Yes.

Mr. Ortslan: After the first autoclave ... everybody got cut off the line I assume, we did not hear the end of it.

And also maybe you want to talk about the commercial date of Goro, if it has changed or not and maybe repeat what you said after the first autoclave in the next months or so? Thank you.

Mr. Barbosa: Tito, could you take that?

Mr. Tito Martins: Yes. There is no change, no major change in anything what we expect. We had planned to start with production in the first autoclave by the end of the first semester. Because we had the spill we had to move roughly 45 days, there was a change in schedule.

And in terms of commercial production we are expecting we are going to have a very small production by the end of the year, but we would be expecting to have the third operating in commercial terms by, let us say, the mid of the first semester of 2010.

Mr. Ortslan: Thank you very much.

Operator: Our next question comes from Mr. Carlos de Alba with Morgan Stanley.

Mr. Carlos de Alba: Thanks very much gentlemen. Could you give us an update on the situation in Canada and how long ... how big are your inventories in order to keep producing products if the strike extends for a few more weeks or more? Thank you.

Mr. Tito Martins: Ok. We are in the third week of the strike, the situation has not changed yet. Three weeks ago, when the unions decided to go for the strike, we had made our proposal and put our proposal on the table, they decided not to accept it. We have not done anything yet, we have not gone back to the discussions yet.

I cannot elaborate much about what is going to happen, we do not know how long is going to last this strike. We have kept our original speech about it, which is everything that was proposed was based on the affordability of our business locally.

We do have major obligations about sustaining capital, environmental investments. So we want to keep the profitability of our business in Sudbury and our main concern is to enhance our production and our presence in the operations locally at Sudbury.

In terms of inventories we are fine there. I cannot mention any number; but if you look back to what was our production along the first semester, despite the drop in the market we try to keep a certain level of production in order to cope with the market conditions in the 2H. That is what I can tell you right now.

Mr. Barbosa: Thank you Tito.

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

Mr. Barbosa: Thank you all very much and, as usual, we all will be available for any further questions that you may have. Thank you very much.

Operator: Vale's Second Quarter 2009 Earnings conference call is over for today. Thank you very much for your participation and have a good day.