International Conference Call - Vale
2nd Quarter 2010 Earnings Release
July 30, 2010

Operator: Good morning ladies and gentlemen, thank you for standing by and welcome to Vale's conference call to discuss 2Q10 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, access code: 47095. 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 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. Roger Agnelli, President and Chief Executive Officer; Mr. Guilherme Cavalcanti, Chief Financial Officer; Mr. José Carlos Martins, Executive Officer of Marketing, Sales and Strategy; Mr. Tito Martins, Executive Officer of Basic Materials Operations and Mr. Eduardo Bartolomeo, Executive Officer of Integrated Operations.

First Mr. Cavalcanti 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. Cavalcanti. Sir, you may now begin.

Mr. Guilherme Cavalcanti: Thank you, good morning to all and thank you very much for attending this conference. We will have a brief presentation about results and perspectives and then we will go to our Q&A session.

We believe that we delivered an outstanding performance in 2Q10, reaching operating revenues of almost US$ 10 billion; Ebit margin of almost 48%; Ebitda of US$ 5.6 billion; and net earnings of US$ 3.7 billion, all significant increases from the previous quarter and also very significant increases compared to the same period of last year.

On the cost side we presented savings in two quarters in a row, summing up US$ 500 million.

Adjusted Ebitda almost doubled, being driven by strong demand for minerals reflected on the price variation and we presented a decrease on the leverage ratio from 2.4 to 1.8 gross debt/Ebitda and to 1.3x net debt/Ebitda.

Our powerful cash generation also allowed us to increase our investment in 88%, from 5.2 billion to almost US$ 10 billion in the first half of 2010.

Now talking about the short-term outlook. It appears that the financial markets were predicting risks that did not happen. This trend was reflected on the commodity prices that now appear to be recovering as we can see on page 12.

In core countries of Europe recovery also remains strong and on page 14, following the history of US industrial production, we can see a pattern of moderate growth after strong recoveries.

On page 15 we see China continuing to grow at high rates, although lower than previous quarters. We believe it is a more sustainable pace.

On page 16 we can see global carbon steel output returning to the peak reached before the crisis.

Despite the short-term volatility the demand for iron ore remains strong. The quarterly pricing system is being consolidated with all our clients.

Nickel inventories have been dropping, while prices are hovering around US$ 20,000, therefore we believe that markets already priced the end of the strike.

While stainless steel output could weaken due to seasonal factors, we believe the demand for nickel to non-stainless steel applications will remain strong.

Our constraints to asset utilization and sales growth are being removed, for example the end of the strike in Sudbury and our gradual recovery of Ponta da Madeira shipping iron ore capacity.

Now talking about growth opportunities, this year we delivered three projects already, Carajás additional 20 million tons of iron ore; TKCSA steel mill; Bayóvar phosphate rock mine and we have four projects to be delivered until the end of this year: Oman pelletizing plant; Onça Puma nickel mine; Tres Valles copper mine; and Estreito hydroelectric power generation. Those projects amounted US$ 7.7 billion in investments that now will start to generate value to our shareholders.

And there are many more to come from an exciting pipeline and moreover many growth options to feed this pipeline in the future, as we can see on pages 23 and 24.

On slide 25 we have a summary of Bayóvar phosphate project that came on stream on time and on budget and as you know we announced yesterday a public auction to acquire 100% of Paranapanema copper smelter, which can reach an investment of US$ 1.1 billion, representing a belief in the Brazilian internal market and also a strategic fit to our copper mines.

With that I would turn out to the Q&A session please. Ok sorry, I will turn out to our President and CEO Mr. Roger Agnelli.

Mr. Roger Agnelli: I was not supposed to speak, but I think it is good to say something about the results. First of all good morning everybody, it is a pleasure to be with you today and I am very happy to see that Guilherme Cavalcanti is a …. we call him in Brazil "pé quente" (hot feet), because in his first presentation he is showing very good results in 2Q.

What I would like to say is that everything is going well. The trend is very good in terms of revenues, in terms of costs, in terms of perspectives. We are very happy that we are in a very nice and very good year for Vale.

We had several projects that we are finalizing right now. As you know we have been investing heavily in the last three, four years and have almost US$ 15, US$ 16 billion in capital allocated to those investments without any revenue and now we are going to see some return on those investments.

And I think that the most important thing is that the major part of the projects are greenfield projects and we have already prepared those projects to brownfield expansion and we are going straight in almost everything: in Bayóvar we are going to inaugurate that in August 5 and we are going to announce that we are going straight for the expansion. We are going to finalize Mozambique and again, we are going straight for the expansion. We finalized already the CSA, maybe in the end of the year we are going to decide if we are going to expand the project again or not.

Other projects that we are finalizing next year also we are going straight to the expansion: example, Salobo. So of course the greenfield project, in the very beginning, the return is lower; but when we add additional capacity we are going to speed up, we are going to increase the return on those investments.

So I think we have several options of growth, organic growth. As you saw in the presentation we have several other projects that we are right now finalizing the strategic planning, but our intention is to go ahead with those projects. We are confident that there is market for all the new capacity we are adding to our systems in different areas.

We are not concerned about that because all those projects they are very, very competitive - all of them. Big resources, big reserves and we know that we can really be in the first or the second quartile of cost in all those projects. After the expansion we will be in the first quartile. So we are very confident that we are going to bring a lot of return to our shareholders.

What we are focusing today - at least I am really focused today - is innovation. Innovation is something very important for the company. As you know, any project we will run for at least 20 years and the world is changing. Everybody in the society, the global society is concerned about the environment, is concerned about social development.

You know that we are right now investing heavily in Africa. Africa is a place that we need to pay attention about social development, we have to pay attention in sustainability. They need that, they deserve that and that is why we are creating some opportunities for the local people. It is really important for a mining company like us to be really very sensitive to this kind of issue and we understand that Africa everybody sees as a risky continent, but we understand very well the needs that they have, how we have to carry the investments there in Africa.

So we do not see any problem there. We are very happy in Mozambique, we are very happy in Zambia, in Kenya, everywhere that we are developing our projects we are happy. Of course we need to learn, they need to learn. It is a matter of getting together and show that we are company that we are going to respect the sustainability in our projects.

Of course the issue is to create the mining of the future and we are working in all projects considering that in 10 years nobody will accept the same ratio of water consumption that we have today; nobody will accept the fuel emissions that we have today; everybody will ask for clean energy, much better than we have today. So in every single new project we are delivering those projects and we are considering those projects as much more clean, much more sustainable projects.

So this is a challenge for the natural resources industry, mainly after the issue that the United States are facing in Gulf of Mexico that is polluting everything. So we have to really be careful with the projects. We need to bring today the mentality that we are going to face in 10 years. So it is really very important to be innovative, to be concerned about the environment, see how we can help local governments to develop their communities, their social standards in every single country that we are present.

I am very confident that Vale is ahead of the other companies, of the other mining companies in terms of sustainability. I am very confident and I am very proud for the work that we are developing today in Vale.

As I said, the trend is good. We are prepared to take advantage of this very good moment in the global economy. Of course there are some concerns about the near future but again, we are here to look for the next 20 years, not for the next quarter or the next year. We are confident that the market will be very strong, will be good for everybody and will be good for our operations in order to sell whatever we are going to produce. Again, we are in a very strong position, I should say that we are in the best moment in our history. We are in the best moment of our history. We adjusted the company last year heavily in terms of costs; we trained our people; we developed our assets a lot in terms of maintenance; we are facing some day-by-day issues like every year we face them and we are overcoming all the difficulties that we have.

That is what I would like to say to you. I am very confident that the trend is positive, the trend is really positive. Thank you very much.

Q&A Session

Operator: Thank you. Ladies and gentlemen we will now begin the Question and Answer session. We kindly ask you to please restrict your questions to two at a time. 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). Again, please restrict your questions to two at a time.

Our first question comes from Mr. Felipe Hirai from Merrill Lynch.

Mr. Felipe Hirai: Hi, good morning everyone. Guilherme, good luck on your new role at Vale. So I have two questions here related to iron ore, my first one is regarding prices, if you could just give us some explanation on what happened to the realized prices. According to the formula we were expecting prices closer or above US$ 100 per ton, the average price came at US$ 92, maybe if you could talk on what happened with prices in May and June.

And also on that if you could talk a little bit on where you expect to see prices in 3Q. Again, according to the formula we would expect to see prices going up by US$ 30 in 3Q. So that is my first question, thank you.

Mr. José Carlos Martins: Ok Felipe, Martins speaking. As far as the price system it is rolling out very well. In 1Q there was no problem of the new pricing system because as you know the spot market at that time was going below the formula price and in this quarter it is the opposite, but this system is going well, very well also.

We shipped every ton in these first months and we have all the vessels nominated for the next month and we do not believe we are going to have any kind of problem. Customers are fulfilling their obligations as far as the price system, also as far as the quantities. So the system in itself is going very well.

The difference you see on the price realizations in 2Q against your forecast based on the market situation, probably you did that looking the average of the market and you are making your assessment.

We have three points that put our price a little bit down: the first was the carryover, because as you know we faced some problems in delivering our volumes in 1Q, then we have the rain and all the issues that we already talked about last time. So we have carryover volumes that we had to deliver with the former price. This is a contract obligation, that is the way we work and we will never change what we agree with our customers if it is in a contract. So we had to face this situation and we delivered near 10 million tons in 2Q based on the price of 1Q. So that is one of the problems.

Another issue you have to consider is that we sell part of our sales in the domestic market and for the domestic market we take out the logistics that we do not use, so for the sales in domestic price the price is a little bit (lower), because it is not FOB based on the port, on the ship; then there is a small discount based on it because we do not spend this money with the logistics so we do not charge the customers.

And the third point is that probably you are assuming 66% all over our sales and it is not true, because 66% is only in Carajás. So in the Southeast system we have something around 65% and in the South system it is around 64%. So if you take all of those effects that is the reason we have this difference in price.

Going forward we will know the index, how much the price will increase in this quarter and that is going on also. But also I need to make this point that some carryover we have from 2Q to 3Q. So we expect in this quarter to finish all the carryover because the operation is performing better now. We do not have the impact of the rain, so 3Q also is the best quarter in our track record. If you look at other quarters in the past you see that the third is always the best. So we believe that we can finish the carryover.

So as price is concerned things are moving very well and we are very optimistic about the new system and the market is following up the same system and so I think it was a case of success and again, it is a good demonstration of Vale as the leader in these markets. So I do not see any kind of problems going forward, because even with this big stress this quarter based on the spot much lower than the average we are using for contracts, customers are committed and are behaving like we expected. So that is the point I hope I was able to explain in your question.

Mr. Hirai: Ok thank you Martins and my second question is related to the production and the logistics issues that we had in 1Q and 2Q. Can you just explain to us what is going on now at Ponta da Madeira and the other ports? When do you think that you are going to be able to resume your full production? If those issues have been solved and what do you think about production and shipments for the next two quarters? Thank you.

Mr. Martins: First because Eduardo will talk about it and I think we made a big change in our structure and I hope now that we have mines, railway and ports under the same direction I think we are going to have a much more smooth operation, because those areas will be much more together and I think that will bring a lot of improvement in performance as far as the integration between mine, railway and ports and so Eduardo will talk about this point.

Mr. Eduardo Bartolomeo: Ok Felipe. First of all you should try to separate what is from behind; behind it is we had a normal ramp up of the fourth line in Ponta da Madeira started in November with the fourth dumper, then it is really catching up the normal of the yard, the reclaimer, the stackers and now is all finished. If you look at June, for instance, we did the best month this year and we are looking very positive.

We can say, as Martins already mentioned, during the first semester added to the normal problems that we face in day-to-day operations on quality of equipment of course it hurts a little bit more in Ponta da Madeira; but technicians worked very well and it is already solved.

So we have the rainy season that in the case of the North goes a little bit further into June. But anyhow if you look at the second semester the ramping up of the fourth line is ready and growing and is going well. The rainy season, of course, is over as Martins already mentioned, so we are looking … and the normal problems that we have in the day-to-day operations we have been tracking them and solving them and we are very, very close and adhered to our budget. So I am very optimistic about the second semester.

Mr. Agnelli: And Felipe this is Roger. Of course it is very important to mention that we are preparing all the systems in the company for the coming production. So you know that we are expanding production in the North system, in the South system and we needed to prepare the ports for this new capacity requirement.

So Eduardo mentioned about the North, Ponta da Madeira. I consider that it is not a problem; it is something that you have to face in a ramp up phase and as you know 2007, 2008 and 2009 all the equipment that was produced in this time some of them faced some quality issues, so everybody is facing this kind of thing, so the ramp up instead of taking like 3 months took like 3.5, 4 months, so this is natural.

You are going to see in 3Q that the Guaíba port in Sepetiba Bay stopped the port two, three weeks just to prepare the port to receive the new car dumper … sorry, the new ship loader. So what we are doing is the work that is necessary to do to prepare the system to increase capacity in the near term.

Mr. Bartolomeo: And to consume all the iron ore that is produced in the mine. That is the most important thing, so we are going to move it through the ships.

Mr. Martins: And Felipe, as far as the price issue is concerned I would like to add another point that I forgot to say. When you make your calculations you use our deliveries, which is in wet basis, and the pricing system is in the dry basis; so this brings something like US$ 5 or US$ 6 difference, ok? Because you calculate your volumes in wet basis and we price on a dry basis. So this is another point that you have to consider when you assess the average price that we are realizing.

Mr. Agnelli: And 1Q and 2Q the ore was really wet, because it rained a lot.

Operator: Excuse me. Again, please restrict your questions to two at a time. Our next question comes from Mr. Ivan Fadel from Credit Suisse.

Mr. Ivan Fadel: Good morning everyone, good morning Roger, Guilherme, Martins, Tito, Bartolomeo. My first question is regarding the project, the Capex when I compare the Capex budget in 1Q and 2Q releases there were some changes in Carajás + 30 Project, also in Vargem Grande, Itabiritos, Tubarão VIII, Moatize and Tres Valles. Could you go over them briefly to explain why the Capex increased in most of them and why particularly in Carajás + 30 you have now a lower budget specifically for 2010?

And my second question would be related to Vale's growth prospects and M&A. So Vale is to generate very strong cash flows in the next few quarters and perhaps years on very high iron ore prices expected and every once in a while I notice that there are concerns from market participants, from investors that Vale might undergo large acquisitions in the future, perhaps taking lower return.

How do you see this going forward, if this is something that Vale is planning for larger acquisitions given that you get very strong cash flows ahead for you will keep disciplined and perhaps focus on organic growth. Thank you

Mr. Cavalcanti: Thank you Ivan. Beginning with the second question, first of all remember that Vale is the only mining company in the world who can double the capacity only with organic investments. So our focus really is organic growth. So there is a lot to do in this sense and again, big acquisitions has also today - not only for Vale, but also for the mining industry as a whole - restricted from the financing capacity of the banking system today. So that is not our focus today.

Mr. Bartolomeo: I can go over the projects. When you look at Serra Sul … sorry, Carajás + 30 that you asked it is because of the moving target of the startup date because due to environmental license that we faced problems to take the vegetation, etc.
When you look specifically each one of the projects like Moatize, Moatize added some logistics on it, so we had to readjust the budget to take that into account. We are going to move to track access, we are going to have to make a solution on the port, so that is basically normal adjustments on the budget.

Conceição and Itabiritos they are on FEL II and FEL III studies. Those things as Roger already mentioned are being challenged and discussed, anyhow it is the best number that we have now. But they are normal adjustments that we have over the projects.

Mr. Agnelli: Ivan this is Roger. How long have you been working for Credit Suisse or covering Vale?

Mr. Fadel: Sorry, say it again?

Mr. Agnelli: How long have you been working covering Vale?

Mr. Fadel: Eight years.

Mr. Agnelli: So you know very well that in the last 10 years we are following strictly a strategy plan that we announced there back in 2001. As soon as I took over as a CEO here everything that we made in terms of M&A was opportunistic approach, and of course there are some assets that we would like to hold, we would like to acquire, but they are not at our disposition.

So if someone decides to sell we are prepared to buy if it fits to our strategy, if it strengthens our position in the market, if it brings a lot of synergies for our company. I do not believe too much in synergies, etc.; the issue is quality. If the asset is very good we are going after that. That is the reality. In terms of leverage if we are going to spend the money we have our commitment to grow the company, to speed up implementation of some projects or we can delay some projects, so we can adjust our Capex as we want to adjust or if it is necessary to adjust. Last year we postponed some projects because we said well, let us analyze a little bit more how is going to be the economic environment in the globe and so we saw it was good, ok, let us start some investments and that is what we are doing.

Regarding to Paranapanema, this asset we were discussing and looking around that for …. we have been looking for that for more than three years right now and there is an opportunity and we feel that we are growing strongly in copper. Copper, as we mentioned many, many times is something that we believe that is going to be very good, the market is good, we are bullish about copper and we are going to double or triple our concentrate production - so it is time to have a smelter here or in any other place in the world. Why not? It is just to manage risk.

And another point that is really very important: we believe that Brazil is an economy that will perform very well in the coming years. So we would like to increase our exposure to the Brazilian market. Why not? So Paranapanema is good. So you can say whatever you want to say; but Vale has been disciplined and I hate that; but sometimes you have to have some debt just to optimize the return on equity.

Mr. Fadel: Roger, that was very clear and I fully agree with you and I think that the continuous reinforcement of that is very important for investors to understand. That is why we basically have Vale at a top pick and I believe fully that Vale has enough organic growth to boost its growth pattern throughout this high cycle and I think that it was very clear to basically mitigate this risk that every once in a while I see some investors raising concerns. So I was really looking for this reinforcement which I think was something to expect anyway. So thank you very much for your clear and very straight to the point answer. Thank you Roger.

Mr. Agnelli: Thank you Ivan.

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

Mr. Rodrigo Barros: Good morning everyone, congratulations on the very good results in particular when we consider the nonrecurring effect of the delayed shipments. I have two questions, the first one on the value in use. We noticed that although iron ore prices came down from almost US$ 190 per ton to US$ 120 per ton, at the same time the value in use increased from US$ 4.5 to US$ 6 per ton now. I would like to know if you have any explanation why the value in use is increasing despite the falling iron ore prices. This is the first question.

Mr. Martins: First of all we need to understand that this new price formula was built exactly to get this, because the former price system was based only in the iron ore content, so if you have iron ore with 58% or 66%, the price per percentage of iron ore would be the same. So that was unfair for Vale, because that situation would allow us to correct price … to correct the iron ore from others without getting the value in use for it.

So exactly what is going on is that the price goes down and you have more low-quality ore available, more you need high-quality ore. So in order the customer to get advantage of the low-quality ore, they have to buy a more good-quality ore and they have to pay for it.

So I think that is the beauty of the new system for Vale: it is because now we really have value for our quality and the market is recognizing it and that is the most beautiful, because the market is recognizing and paying it.

So if the Australians have the freight differential we have the quality differential. So I think both can be happy, ok? Australian can be happy with the freight differential and we are happy with the quality differential and the customer will be also happy because they can take advantage of proximity and can take advantage of quality and they can mix their burden according to their best calculations.

So I think the market is proving our long-term thesis we always told you about it and people are paying. So if people pay that is the reality. So I do not think we need to explain too much why, because as long as the market is paying is because the market is recognizing it and if the market becomes stronger probably the VIU will be lower, because when the market is very strong what the market needs is iron units more than quality, because if you do not have iron units you cannot produce steel. So in a very, very strong market the VIU will decrease and in a weak market the VIU we will increase.

That is the way the market is recognizing it and it makes sense when you look logically inside the system, inside the blast furnace burden, how the people use the ore and all those things. So we are very happy with the new system and you believe that as time goes by they will be stronger and everybody will recognize the advantages of it.

Mr. Barros: Perfect, thank you for your answer. My second question regards the Rio Tinto iron ore assets that Vale purchased recently and we all know that these are extremely high-quality assets, which definitely would commend very good value in use for Vale. I wonder if you could share with us what are your plans for developing that asset.

Mr. Martins: Well, Corumbá asset is the best lump ore in the world. This mine is a big producer of lumps and has very high quality, similar to Carajás, but lump, so that is an additional value, which is, when you have lump, you do not need to sinter your ore, so there is an additional advantage: besides the quality, the sizing is also better.

These resources have a big challenge with the logistics. The mine is 2000 km from the sea; whatever side you look it takes 2000 km to get the sea, so we are developing a fleet of barges to bring it to the Prata River (Rio da Prata) so down to the sea and it is not only the issue, because that place is not suitable for big vessels, so we need to make transshipment, so there is a lot of logistics.

I think it is not a mining issue to develop those resources, but logistics speaking the challenges very big. We are moving to produce 6 million tons there. We made some investments and we are developing, as I told you, the barge system for it. But we believe that we can reach 15 million tons by 2012 and 2013, but that ore will always depend on the price of the ore in the market because logistics wise it is very expensive to do it and that was the reason that this mine was never fully developed. But as the price of iron ore probably stays above US$ 100 per ton long-term, we believe that we can get full potential for this mine by 2012, 2013, in the range of 15 million ton per year.

Mr. Agnelli: This is a technical reserve.

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

Mr. Leonardo Correa: Yes good morning, thank you very much for the call. My first question is regarding the iron ore quarterly pricing mechanism, the question is for Martins please. We have been recently hearing the high resistance levels of the industry in other quarterly pricing mechanisms and this is basically given the time distortions they might generate. So just to hear from Martins if Vale is contemplating to change the system into a monthly pricing system going forward, just to get your views on that.

And the second question is regarding - also for Martins - regarding the outlook on iron ore demand for Europe, given that the restocking is now close to complete. What type of demand levels are you seeing for Europe during the upcoming quarters? Those are both of the questions please.

Mr. Martins: Well, as far as the pricing system is concerned we just come from a price that was established for a period of one year to a system that the price is established for quarters. So it was a big improvement from one system to the other.

I think the answer for your question will be given by the market, because as long as volatility stays too high probably there will be need for some adjustment; but I believe that after this overshooting this year in these two quarters - and you see now the iron ore pricing stabilizing in the stock market in China - I believe that this volatility will be reduced going forward and maybe we do not need to change it.

But the answer will be given by the market. So as we told before, we need a system that can cope with the volatility and I believe the quarterly price can cope with that and it will help to reduce volatility and if you reduce volatility and you have also a kind of band that will keep the price stable if the variation is under the same level, long term I believe that we can have a more stable price and then maybe … the price is established quarterly; but probably the price could be kept for a year or two if the volatility is not so big.

So I think volatility and customers will have an answer on that. For the time being customers are committing themselves with the new price system. It was a big change for them. They come from a one-year price system to a quarter, so they have their relationship with their customers. So this is a big challenge. It is really a big challenge and we need to realize how customers will behave under this system and there is a lot for this to stay or not.

One thing is for sure: if you look oil prices, oil prices are commodity much bigger than iron ore, much important than iron ore worldwide and the prices are established daily and the market is living with that. I do not think that talks about iron ore prices moving every quarter is not good or is bad; I think it is only a question to be used to that and as time goes by people will adapt to it and I think also volatility can be much lower under a system that can self-adjust quarterly. So I believe the quarterly system will stay.

You asked the second question about Europe. The European market recovered faster than any other. It was a big recovery, very fast, also put a lot of pressure on us because of the deliveries, because all the customers started putting more orders almost just in time asking for more ore and so I think that was the history during the first half. Now the market stabilized a little bit and it is normal because we have vacation in Europe. Every year was the same and so I think it is a natural movement.

One thing that we look is that performance in Europe is uneven; the countries have a different behavior, being Germany practically coming back to the same level of pre-crisis as far as steel production and iron ore consumption is concerned, but some countries are lagging and Europe as a whole, even after this recovery, on average, is 15% below pre-crisis level. So I believe that there is space for some growth ahead, because the 15% decrease is too much for Europe. So I think in 4Q we are going to see some recovery in Europe.

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

Mr. Rodolfo de Angele: Hi good morning. My first question is about the Chinese iron ore industry. I wanted to ask you if you could comment on what is going on there, specifically if you have a view on its marginal cost production and if there is any structural changes going on such as consolidation, anything in those lines.

Mr. Martins: The performance of the Chinese iron ore production was very good in the last three months. I think they are operating near their full capacity and that was one of the reasons that brought some stability for the spot market also, because after the winter they came to produce almost full capacity and this brought a lot of the ore to the market and brought some stability for the iron ore price - which is not bad.

But looking forward they do not have too much space to grow and when you look at their structure the largest mines in China can produce 10 million tons per year, so the majority of their mines is below 2 million tons per year. So their cost structure is very high.

Another issue is that 30% of their production is underground and you can imagine how expensive it can be to bring iron ore from … the strip ratio is very big. So their cost structure is very, very different. For some mines it can be as low as US$ 50 (open pit and big mines); but for some mines it can be near US$ 140, US$ 150 and those mines, when the spot price goes down like it did, the tendency is they get out. On average their cost is around US$ 80 to US$ 90 per ton and that is the reason I believe long-term price for iron ore we will be not below this level because that was their cost structure.

As long as China continues to grow their economy and their steel industry, they will need iron ore and their cost structure for their local mines can be a floor for the iron ore prices. Also quality is another point that is important. Today if you look 66% iron ore from Carajás and a 58% iron ore from India you have almost US$ 30 difference between both - so it is a huge difference for iron ore quality, so long-term I believe that this price will not go below US$ 100.

We had that problem in 2008, but in 2008 we had a slowdown all over the world. Europe almost disappeared and everybody dumped Chinese market with iron ore and their market at that time was not so good also, so there were so many factors that put together and then the price went down as low as US$ 50 but I do not believe that will happen again and I believe that the iron ore price will be sustainable in the range of US$ 90, US$ 100 per ton long-term, ok?

Mr. de Angele: Thank you very much.

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

Mr. Tony Rizzuto: Thank you very much. I wanted to confirm something I thought I heard and then also ask a question about pricing for iron ore and I think I heard earlier that Martins, when you were mentioning about the carryover tonnage in 2Q I think I heard a figure of 10 million.

Mr. Martins: Yes, 10 million tons.

Mr. Rizzuto: All right, thank you and did I hear you say that would be behind you or a little bit further in 3Q as well?

Mr. Martins: Yes, we have some carryover for this quarter - lower than that for sure - and I think that we can finish all carryover by end of this quarter. So I am going to enter 4Q without any carryover.

Mr. Rizzuto: Right for that and then the second question is when I think about the realization - obviously there has been a lot of discussion … on that and as the carryover … you are operating a better levels … to see a pricing increase that could be closer to 40 … sequentially …

Mr. Martins: We have a problem, we cannot hear your question because there is some interruption, there was interruption in your line.

Mr. Rizzuto: Can you hear me now?

Mr. Martins: Yes.

Mr. Rizzuto: Ok. Let me repeat it then, I apologize, I do not know what is going on. If we think about the pricing mechanism with your operational issues behind you at the port, a little bit dissipation … carryover. Is it … increase … in 3Q?

Mr. Martins: Sorry, but it continues to interrupt so I cannot understand your full question. I know you are talking about carryover, about the price realization, but I was not able to get what your question was. Sorry, but it is interrupting.

Mr. Rizzuto: One final shot; can you hear me now?

Mr. Martins: Yes.

Mr. Rizzuto: All right I am just trying to get a better handle on 3Q price realization for iron ore. With these issues moving behind you is it likely that we could see an increase of maybe in the order of magnitude of 40% to 50% in 3Q on your realizations?

Mr. Martins: Well, I think the situation in 3Q will be positively affected because the price went up. If you look at the average of spot it went up, so that information you have and also we have some improvements in the point that you raised about the carryover.

But I ask you to be very cautious about it, because I told you before that you are making calculations on a wet basis and the price system is on a dry basis, so then you have US$ 5, US$ 6 difference only on that.

Another point is the sales that we have in the domestic market. Vale sells much more than our competitors in the domestic market. The Brazilian domestic market is a big market for iron ore and all those sales are done a price that is lower than FOB base price, because we have the logistics that cannot be considered.

So the price will go up because of the average that increased the spot in China and also because the carryover will be lower; but you have the other factors that will be present anyway. So in my view you have to be very careful when you make your assessments and as you know we cannot make any kind of forecast about where the price will be. The system is there, you know about the price. I told you what are the points that could influence this average price. But it will be up to you to draw what the number will be. Sorry for that, but I cannot elaborate more about this.

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

Mr. Marcos Assumpção: Hi good morning everyone, congratulations for the results. My first question is regarding iron ore volumes in 3Q. I understand that shipping operations will be running at much more normalized levels in the quarter, but I would like to understand if from a market perspective is Vale suffering or facing a little bit of short-term demand on the back of the cool down in the Chinese property market during this period and also a seasonal slowdown in Europe?

Mr. Martins: Eduardo told before that production is running very well, so we are going to have, sure, a better performance in this quarter for many reasons and as far as market we are delivering every ton that we are able to produce and ship. So I told you before that July all the sales were completely normal, no problems, no problems to deliver. For August we have all the ships already nominated and for the time being I do not see any problems arising from this slowdown in the property sector in China and I think a good proxy for analyzing it is the iron ore spot price that is moving up in China in the last two or three weeks.

Mr. Assumpção: Perfect. My second question is regarding the nickel business. When do you expect volumes to return to more normalized levels on this business given the end of the strike recently in Sudbury?

Mr. Tito Martins: This is Tito speaking. Thanks for the question by the way, I was almost sleeping here. We are already bringing back all the employees, so of course we need some time to train them again, so we should be back on full capacity by September. It is good to remind you that we were already operating with 50% capacity, so that is why we understand it is going to be fast. If we were not operating before probably it would take us much more time, probably three months to come back to the full operation.

It is important to address that we are still on strike in Newfoundland Labrador, but it is not interfering with the operations, because even there we are operating in 100%. We managed to bring in … to work with the staffs and replacement workers, so Canadian operations should be in full capacity by the end of September.

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

Mr. Rene Kleyweg: Good morning gentlemen. A couple of questions, one on Simandou. Could you just give us indication of when or what hurdles need to be met for the next payments be made to BSMG and what potential capital commitments would be made prior to that next installment?

And secondly Roger mentioned the challenges facing the industry in terms of water consumption, etc., there has apparently been a mentioned possibility of a dry beneficiation process system for … hello? That has previously mentioned the possibility of a dry beneficiation process system for the 30 million ton expansion at Carajás. Is that still under review? I see you got the CSA establishment but I just wonder if you could update us on the potential dry process there.

Mr. Martins: Well, Martins speaking. As far as Simandou, we are committing now near US$ 200 million for projects, for developing the project for the mining and for the logistics and the next payment will only be done after some benchmarks are achieved as we get the full license to bring ore through Liberia and also after we have this feasibility study on place.

So with what we are committing now is the US$ 200 million for feasibility studies, basically engineering and also the project for the railway that we need to revamp, the railway for Guinea that we need to revamp. So within the next 1.5 years we are not going to have probably any other payment as far as Simandou is concerned.

As far as dry processing, we are now processing almost 50% of the ore in Carajás by dry processing. The new 20-million-ton project is a dry processing system and even in the former system we are processing almost 40% in a dry way, so the 30-million-tons project (+ 30) will be dry processing and also the big Serra Sul project will be dry processing. Our target for now on is to move Carajás to be 100% dry processing, which will be very much environmentally friendly.

Not only we are working on this dry processing, but we are working also in truckless operations, so we intend to reduce a lot the use of trucks in the mining and we believe that we can get 70% the carbon emission reduction by doing that. So we have a lot of initiatives in Carajás with the new technologies, with the new process system, to make it much more environmentally friendly operation.

And only to give an additional figure about it, when we move iron ore through our big ships (400,000 ton ships) to Asia we reduce 35% carbon emissions. So one of our main targets is to produce iron ore in a much more environmentally friendly way. So we have a lot of initiatives on this way that not only bring more environmental concerns, but also can reduce costs. So we can get both lower cost and lower environmental affecting … we can affect less the environment by doing that. So it is a very good combination.

Operator: Excuse me. Ladies and gentlemen, this concludes today's question and answer session. Mr. Cavalcanti, at this time you may proceed with your closing statements, sir.

Mr. Cavalcanti: Thank you very much everybody for attending this call and see you next quarter.

Operator: Thank you. That does conclude our Vale's 2nd Quarter 2010 Results conference call for today. Thank you very much for your participation and have a good day.