



**Vale S.A. 2Q12 Conference call**  
**07/26/2012 –12:00 pm**  
**Transcription - English**

**INTRODUCTION**

Good morning ladies and gentlemen, and welcome to Vale's conference call to discuss 2Q12 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](http://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 followed by zero. As a reminder, this conference is being recorded. To access the replay, please dial (1 877) 919-4059 (1 334) 32307226 – access code 86474542#. The file will also be available at the Company's website at [www.vale.com](http://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](http://www.vale.com), Investors section or at [www.prnewswire.com.br](http://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. Murilo Ferreira – Chief Executive Officer (CEO);
- Mr. Tito Martins - Executive Officer of Finance and Investor Relations – CFO;
- Mr. Luciano Siani – Incoming Executive Officer of Finance and Investor Relations – CFO;
- Mr. José Carlos Martins – Executive Officer of Ferrous and Strategy;
- Mr. Roger Downey – Executive Officer of Fertilizers and Coal;
- Ms. Vânia Somavilla – Executive Officer of Human Resources, Health and Safety, Sustainability and Energy;
- Mr. Galib Chaim – Executive Officer of Capital Projects Execution;
- Mr. Humberto Freitas – Executive Officer of Logistics and Mineral Exploration; and
- Mr. Peter Poppinga – Executive Director of Base Metals and Information Technology.



First, Mr. Murilo Ferreira 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. Murilo Ferreira. Sir, you may now begin.

**Murilo Ferreira:** Good Morning, and Good Afternoon. The 2<sup>nd</sup> quarter of this year was marked by challenges posed by the lower pricing environment for all our products and operational issues in the base metals and coal business. Our iron ore production recovered, and recovered very well, increasing 15% against the 1<sup>st</sup> quarter and pellet output reached the all time high of 14.3 million tons. In the end of the first half of the year our iron ore production reached 150 million tons which is in line with our target of 310 million tons this year. As you noticed, we improved substantially the volumes of our production in the 2<sup>nd</sup> quarter of this year. Operating revenues, operating income and margins, as well as the cash flow improved, in relation to the first quarter of this year, despite of the negative contribution of prices, which produced a negative impact of US\$ 630 million on EBITDA.

Our net earnings suffered a large non-cash balance sheet impact from the devaluation of the Brazilian real against the US dollar. On the other hand, the appreciation of the US dollar against our basket of currencies like 15% Canadian dollar and others produced a positive impact, of more than US\$ 330 million. But we need to call your attention to some important milestones like the granting of the environment permit to S11D, which is an important step and we are looking forward to get the final environment permit this year. You know that this is a very important milestone for us in terms to contribute to improve the average quality of our iron ore output, to lower our operating costs, and to create a new platform for low capex brownfield projects. I think that this is a milestone, one of the most important milestones in our history. We had already signed an agreement with the Government of Mozambique for the construction of the greenfield railway and the maritime terminal of Nacala. I think that with this logistics system, Moatize will provide us with scale, cost structure and quality to transform the coal business in an important source of shareholder value creation in the future. Last week we signed a memorandum of intention with the Government of Argentina, which is a positive step towards the agreement which will provide a roadmap to facilitate the execution of Rio Colorado, and this is a key element in our structure in the future of the fertilizers business.

Effective management is an important tool for our shareholder value creation, and we are looking to improve this management and I think that for some assets we believe we are not the best owner for them. On the other hand, we bought an additional stake in MBR, a core asset, as part of our discipline in capital allocation and this is very important for us. The investment is under continuous review. Given the large volume of resources involved, the execution of S11D will imply in a review of priorities for our projects portfolio; and as a manager we believe that its very important we establish priorities and we need to provide some review in some of them. What we must give emphasis, is that our intention is to finalize mainly 2012, 2013 a lot of projects, like Usina VIII, Conceição Itabirito, Serra Leste, Plus 40, the logistics system for 150 Mtpy,



the Malaysia project, Konkola in Zambia, and Salobo, our copper project. We are completely focused to go and to end these projects. On the other side, we need to focus mainly in our projects, the iron ore projects in the north of Brazil. We need to give emphasis in Moatize, we need to seize the project, the Rio Colorado project, as a key element for us. We know that we have several challenges today, but we are very confident that in the next 20 years we will see a lot of people, millions of people, moving to the middle class, acquiring housing, infrastructure, consuming proteins, and we need to provide a lot of fertilizers and raw materials to them. And Vale is investing, and we are investing in good projects, big and good projects. And we are very focused to bring return to our shareholders. As I said in my first discussion with you in May 2011, it is our focus to bring return to you. And we believe that in this regard, we need to have a focus, very focused in discipline in capital allocation. We have to be very concerned about the leverage of the company, and to provide dividends in accordance with our cash flow. In the end, I would like to say our gratitude to our friend for his professional devotion to Vale, dear Tito. Thank you very much in my name, the name of the Executive Board, the name of our friends at Vale, I would like to express again our gratitude and to say very welcome Luciano Siani, as the new CFO. And now, we are completely open for new questions and I call my friends at the Executive Board in order to help us with the answers. Thank you very much.

## **Q&A**

**Operator:** Thank you. Ladies and Gentlemen, we will now begin the question and answer session. If you have a question, please press the star key followed by the one key on your touch tone phone now. Please restrict yourselves to two questions at a time. Our first question comes from Felipe Hirai from Merrill Lynch. Please go ahead.

**Felipe Hirai:** Hi good morning good afternoon everyone, first question is related to any potential changes that you could do to your capex, when do you think that you could give more specific details on how, or, you are going to do that, or should we just expect to see that on a quarterly basis whenever you report your earnings, or are you planning to make any kind of announcement of the updated capex budget sometime towards the end, or the beginning of the fourth quarter. And my second question is related to the recent news on the dispute of the CFEM, just if you could give an update on how is the current situation and what you think of these R\$ 4 billion to R\$ 4.5 billion value that was expected to be paid to the government. Thank you.

**Mr Murilo Ferreira:** Very good question I think that there is a big misunderstanding regarding the discussion and our negotiation on the CFEM liability with DNPM. The working group, composed by representatives of Vale and DNPM, completed the analysis of the documentation related to the basis of calculation of the assessment of that question of the payment of mining royalties. And what I can tell you, that at this point of time, we have already completed and we got a very important reduction regarding this number. It is very important to say that we are not talking about the agreement with them; because the first step it was to provide a complete assessment in all the documentation regarding these royalties. We did the analysis since 1991 up to now, and in this regard what I have to have to tell you, that we have completed the



assessment, and the number that we got is very important. But now we have the second step. The second step is to have a discussion with our Board to discuss with the Board members about all the thesis that we have with that. And then, to go to the DNPM and to address all the points with them. Then, we have two elements, the first one is the assessment to the numbers, the second will be the discussion with the DNPM. And about the capex, I think that we must provide a review based in the cash flow. I think that it's very important to say that we intend to finalize all the projects. We don't want to review the capital, the numbers that we are investing in all of these projects. But we must be ready to review in sustaining and R&D. I think that it's very important to provide this review. We don't want to go to the market and to provide some announcement because as you know with this volatility that you are facing, it can be very premature to take a decision for the remaining of the year. But we will be following very closely in a weekly basis, what happens with our investment mainly in sustaining. Thank you very much, Felipe.

Thank you for your question.

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

**Ivano Westin:** Good day everyone, and thank you very much for the call, my first question refers to depletion, the Board of Director approved the Itabiritos Cauê project, which is based on a capex of 1.5 billion and 24 million tons of iron ore capacity. However this volume will be used to replace depletion volumes resulting in no additional volume to the market. And I believe it is the same case of Carajás North 40 million tons capacity. So my first question refers to you depletion I would appreciate if you'd comment on the depletion ratios of all your mines as an overview, and the second question refers to your average iron ore price which reached US\$ 103/ton this quarter which represented a discount to spot price. So I wonder whether Vale has the intention to revisit the overall pricing strategy, and start getting into iron ore derivatives, as an alternative to hedge your price. Thank you very much.

**Murilo Ferreira:** Martins, please go ahead.

**José Carlos Martins:** Talking first about the depletion, in the Southern system we have a situation where many mines are entering the end of their life. But at the same time we are developing new operations based on concentration, so the Cauê Project together with Conceição, and also...(interruption)...so coming back to the issue, so we have many projects in the Southern system mainly devoted to improve quality, and give continuity to the volumes, and extending mine life. So we have four projects under way today, one is Conceição Itabiritos, that will start operating 2013, to have further expansion of this Conceição Itabiritos adaptation 2014. Also Cauê and Vargem Grande. So those projects will be entering operation between 2013 and 2014, the main objective is to increase mine life, and also improving quality by concentration. So only to give you an idea the quality will improve for something like 65% today to 68%. And also silica will reduce sharply from the level of 4 or 5% today to the level of 2%, so all those projects in the Southern system are based on extending mining life, and improving quality in the Southern system. As far as Carajás, all the projects we have in



Carajás now is to increase in capacity and also improving quality because we have been developing new ore bodies. So we have in Carajás area today the Plus 40 project, we have also the Serra Leste project, besides S11D. So all those projects will be aiming to increase the volume and also improve quality. We also have to open new mines in existing body fields, based on new areas that can be developed in the North System. So in these cases we are working to get the approval and the license to also open these new bodies in the existing mining area. Those bodies will bring more volume and also more quality. So, roughly speaking, the projects in the Southern system are mainly designed to improve quality and extending mining life, and the projects in the North system are mainly improving volumes and also improving quality by opening new mines.

**Murilo Ferreira:** So just to complete your question we think that we don't have enough liquidity in the market to go about an extensive hedging program but I would like to hear much more from Martins about this issue.

**José Carlos Martins:** I think it's better for Tito to explain because it's a financial issue. Commercially speaking we are not very much interested in doing it, in going for this kind of financialization of the iron ore price. We believe that we are the lowest cost producer, even with this level of price, profitability in the iron ore is very good, so we don't see any reasons to develop this kind of operation. We believe that would be more useful for customers that want to protect their margins. So that's our position so far but I also would like to hear Tito's opinion about it.

**Tito Martins:** I think what happens is not just a matter of liquidity. Given the variety of ore in the world today, I think it's going to be very complicated to do that. Then when you compare with the base metals for example, you have some standardization on the products that are used. And also the storage capacity which is a big issue as well. The tonnages of iron ore we are talking about, the volumes are much higher than other commodities, and other minerals. It's going to be very difficult to see a huge or a significant market, future market for the iron ore.

**José Carlos Martins:** Another point is about the price, this quarter average our price was around US\$ 103 and last quarter it was around US\$ 109. If you look the IODEX went down about US\$ 2.50, and also the 1% iron ore content value went down also 50 cents for each 1%. So only the IODEX and also the 1% content can explain US\$ 4 of this decrease. The remaining US\$ 2 are spread in a lot of different items but I would like, as I did in the previous conference in Portuguese, I would like to address the issue with a little bit more detail. So the transparent price the market can see is the IODEX average which was US\$ 141 in the 1<sup>st</sup> quarter of this year this price is dry and C&F China. To bring this to FOB condition and also to wet basis, our average price is on a wet basis, you have to reduce the long term freight that we use in our negotiation with our customers, which is US\$ 25/ton. Also you have to reduce the average moisture that we have in our ore, so this will bring down another US\$ 12. So the FOB price wet basis is US\$ 104. On top of this we have to add the quality difference of that we deserve because our ore has a 2 to 3 more percent content, relating to the IODEX, so this adds US\$ 7 to our price. So we come back to FOB wet basis 64.5% around US\$



111. From this we need to deduct all the different sales that we have, for instance, when we sell domestically in Brazil we deduct all the logistics involved, not only port but also railways. We have a special contract with our subsidiary Samarco, we sell them 10 million tons per year of ROM which is not processed ore, and also has no logistics involved, it's a door-to-door operation, our mines are just nearby Samarco concentration plant, so we deliver this ore to them and this ore is based on a long term contract and it has a lower price because it is not iron ore 68%/67%. So this ore implies a reduction in our average price of US\$ 3.5, only this aspect. We also have some carry over, that we have different price systems in our portfolio, the average price we see is the quarter price, you are looking for, is the quarter price, we are presenting, second quarter price, but we have different systems, part of these are based on former quarter average, part of it is based on the real actual quarter price, and part of it is based on monthly average price. On top of this we have some sales on a spot basis, which is not based on IODEX but it's based on what we get in the market. If you put all of these points that I raised here to you, we have an US\$ 8 deduction from the US\$ 111, and then we reach the US\$ 103. So this is roughly the explanation of why our price went down US\$ 6 and how we come from the US\$ 141 to the US\$ 103. I hope that explanation was useful for you.

**Operator:** Thank you for your question Mr. Westin, our next question comes from Carlos De Alba.

**Carlos De Alba:** Thank you. My first question is regarding to the coal and the base metals operations, the performance of these businesses have been far from stellar, so I would like to understand if there are any action plans that the management team has, talking about to address what is going on, in these two businesses, and when can we expect to see some results of this actions if any. My second question has to do with what are the plans in terms of the financing of the capex and dividends for this year, given the fact that the cash flow from operations based on what has been obtained so far and based on consensus expectations doesn't seem to be enough, I mean the free cash flow would be hard enough to pay the dividends.

**Murilo Ferreira:** Carlos, thank you very much for your question, regarding the base metals, we have already started our discussion about the strategic plan, and we intend to finalize in November, in order to present to our shareholders in the New York day, in the London day as well. We believe that, for sure, the performance is below our forecast, we need to address carefully everything, the assets that we have in copper and nickel, and the results that we can see today. For sure we have some influence regarding the price of nickel and copper, but the main problems that we had were regarding Onça Puma and New Caledonia projects, to provide a deep analysis, but before these I think I would like to hear from Peter, what happened with our project in New Caledonia and Onça Puma, in Brazil.

**Peter Poppinga:** Thank you Murilo and thank you Carlos for your question. There is no doubt that base metals is having a challenging moment in the short term, although in the long term we have a good strategic plan, but this is not only because of the low nickel prices today, but as we just talked about the main reasons are the two ramp-up



operations in Onça Puma and VNC in New Caledonia. If we go to VNC in New Caledonia there was this incident in the acid plant, it was a diluted acid leak in the heat exchanger, the water mixed to the acid and corroded part of the equipment, now, it's very important to state that this has nothing to do with high technology HPAL and SX columns issues, so this is completely different issue, and the HPAL and SX technology was proven in the beginning of the year, where we produce in an integrated over 1,000 tons of nickel final product, and the acid plant only supplies an input to those downstream acids. So we are going to repair the acid plant, and we are going to start operations in New Caledonia in the end of Q3 and start to produce nickel in Q4. Regarding Onça Puma we had to stop the furnaces also in May, 2 furnaces due to furnace run-outs, for safety reasons we stopped them, we are still assessing the extent of the repairs, and the period of time required to perform them, but we think they will be out for some months in operations. So that is the situation which is very challenging and I am happy to take further questions if necessary. Thank you.

**Murilo Ferreira:** Carlos, I just to say that we had problems in some operations not just in the base metals, but in the coal business as well. I'd like you to hear from Roger Downey regarding the coal business as well.

**Roger Downey:** Good afternoon to everyone, we had a very good performance at the Moatize mine, the ramp-up is progressing very smoothly and very strong, however of course in Mozambique we have been slightly hindered by the performance of the railway down to Beira, so we had to slow operations a bit in order not to accumulate stocks because some of our coal has short shelf life before it oxidizes, so I think in terms of production we are OK, we need to focus and we are working on initiatives to increase output from Beira, we have today significant initiatives and investments in order to speed that up, but as I think Murilo has mentioned, a very significant outcome of our negotiations with the Government of Mozambique to explore the Nacala Corridor will be a significant triumph in terms of bringing Moatize up and beyond its current ramp-up. In terms of Australia, we had several different issues with the operations there, and Carlos, yes, far from stellar there, in Carborough Downs we had we had a problem with oxidation, in the underground mine there, so we had to stop there and its been stopped since the end of May, basically, the good news is that we have not lost the equipment, with oxidation we basically had to flood the mine with ash that basically dampened and got the equipment wet, so we lost a little bit of electronic part of the equipment, but the equipment is in general in a good state. We should resume operations shortly, we are cleared with the local authorities in terms of re-entering the mine and we're now working on getting that started. In the rest of Australia, there are issues here and there, but very small impact on the Isaac Plains and Integra operations, so we are operating there quite smoothly, and in general we are expecting a recovery in terms of the operations in the end of the year.

**Murilo Ferreira:** Thank you Roger, and Tito please, some words about of our cash flow.

**Tito Martins:** Clearly, what we were forecasting for price for 2012, we are not seeing that happening, we will have some benefits from the exchange rate, mostly in Brazil,



the devaluation of the real against the US dollar in some ways will help us with some reduction in the investment in the sustaining and in capital growth, so were expecting benefit from this reduction and increasing little in our leverage will actually match the needed cash flow for the whole year. We are not expecting to see our balance sheet ratios changing dramatically, the long term debt on EBITDA has been below 1X, and as we have promised since last year, were expecting to have this number around 1X, no more than that. And we are confident that even with this drop in prices we may actually finance the full cash flow and keep the investments at the level they are today. And pay the minimum dividend that was announced in the beginning of the year. Thank you.

**Operator:** Thank you for your question. Our next question comes from Alex Hacking with Citibank.

**Alex Hacking:** Good morning good afternoon and thanks for taking my question. I have 2 questions, I guess probably for Roger. The first one is Moatize. At current coal prices and using the current logistical setup, do you believe that project is going to EBITDA positive, or do we need new logistics and higher coal prices to generate positive EBITDA there? And secondly, Rio Colorado, I noticed there was no increase in the capex budget; it was a little bit surprising given the inflation we are seeing. Barrick announced a big increase in Pascua Lama today in Argentina, is the financial review of that project complete, or should we, or are you still working on a budget there? Thank you.

**Roger Downey:** Thanks, Alex. Murilo do you want to make any comments before me?

**Murilo Ferreira:** No, just to give some notes regarding the last weeks. Two weeks ago Vale signed with the government of Argentina a memorandum of understanding which is a positive and a key step towards the agreement that will provide the roadmap and the full assessment to the logistics , but please go ahead.

**Roger Downey:** Thank you very much. Alex, starting with Moatize. Moatize is a world-class mine. We've got vast resources of low-cost open cut coal mining there. Most of it 70% is hard coking coal, so I think that even with prices as we've seen today we are seeing a positive contribution from Moatize. I have no fears that this will become a very high return project, obviously we are suffering the pains of growth, that's applicable to every single project around the world, I think, and we are no exception. We are building a world-class operation. Our challenges today are more to do with rail, of course, and like I've mentioned earlier on, we've just made a very important development, a very important milestone in the development of this project, which is the signing of the agreement to develop the Nacala Corridor. That will be a world class railway, operated by Vale, and once we're there we can certainly start looking at Moatize II with much better eyes. In terms of the PRC (Project Rio Colorado) we made a very significant move in Argentina, the signing of the *Acta Acuerdo* which basically establishes the foot print for us to develop the infrastructure that we need to go ahead with that project. That project, your questions were more related to scenarios I think, and right now, as were maintaining our capex for that project, were are looking at all the different



scenarios. One of the scenarios I think you have to look at as well, is the scenario where we could see some favorable exchange rate fluctuations favoring the dollar in relation to the peso, which would actually have a very positive effect on capex, bringing our capex below our target. So far we've got about 35% of execution up at the mines, we're on track there, so I think any capex update at this stage would be a little premature.

**Murilo Ferreira:** About the risk of the project, what we have to tell you that you are analyzing many alternatives - one of the alternatives could be to have a partner in the project. But it's just one alternative, we have many alternatives that must be analyzed carefully, to be presented in our strategic plan to the Board. Thank you very much, Alex.

**Operator:** Thank you. Our next question comes from John Brant, with HSBC.

**John Brant:** Hi good afternoon thank you for taking my question. Two questions. First, on the unit costs, we noticed that the unit iron ore costs fell 5-6% in the second quarter, my understanding is that when the real depreciates it typically takes a few quarters to see the full benefit of that. What should we expect in the third quarter, should we expect an even bigger fall in unit costs? And secondly, just on iron ore, what are expectations? We are right above what we saw as the lowest of last year. What are your expectations for the rest of the year? And have you given any thoughts to production cuts to help support the price, or is this more of a seasonal issue at the moment, thank you.

**Murilo Ferreira:** Tito, please go ahead about the costs, please.

**Tito Martins:** Usually we don't give any guidance on unit costs, what I can tell you is some of the effects of the exchange rate were already accrued during this last quarter, and we should expect some additional effects along the the rest of the year, for sure. But I can't tell you more than that. Second question.

**Murilo Ferreira:** Martins, about the price, the scenario that we are using.

**José Carlos Martins:** Well, we believe that we are reaching the bottom of the market as far as price is concerned. If our assumptions are correct, and the prices are reaching a point where many players will be put out of the market and then we believe that there will be some stabilization or even rebound of the price. We do not see a strong recovery, but we see some stabilization and even slight recovery in the next few weeks, we want to see it very soon, because we believe this price was reached before in the second quarter of 2010 and also in the fourth quarter of 2011, and didn't stay in this level for long; it recovered very fast. So, I think we are going to see in the next 2 or 3 weeks the behavior of the market. My view is that the iron ore price will range between US\$ 120 and maybe US\$ 180, in the long term. We consider this to be the range because US\$ 180 many steelmakers cannot compete, so demand will decrease. And also US\$ 120 mainly miners will not be able to compete in the market, many local



miners in China. So we see this range as where the iron ore price will stay in the next 2 or 3 years. But what could change it is a lot of supply from outside that could change the economics of the pricing system; because today the economics of the price is supported by local miners in China. As local miners in China are displaced by foreign, more competitive players, these economics will change. But it will not be in the short range. It will take a long time for us to see the point where the economics of the pricing of the iron ore will be based on pure seaborne players. I think the local players and the less competitive players continue to play a big role on the price, as far as the floor price is concerned.

**Murilo Ferreira:** Thank you John.

**Operator:** Thank you for your question. Our next question comes from Rene Kleyweg, from Renaissance.

**Rene Kleyweg:** Afternoon gentlemen, thanks for taking my question. I just want to touch on a couple of things, one in terms of the internal review of the Simandou project, if you could give us an update on when we can expect, or when you expect, to complete that internally or is that also tied into Vale Day, and a couple of things about Salobo, comparing Sossego with Salobo, Sossego obviously is not delivering the results that you've hoped for, so if you could provide some clarification in terms of why the outlook on Salobo is significantly better, if I may, just opening up the potential for you to talk a little bit about the blue sky in terms of further expansion in the Northern systems that Martins was suggesting presumably that would take place around Serra Sul, and are we back to sort of low capital intensity projects because the infrastructure build-out has taken place, I know that's beyond the current planning but if we are looking on a five year.

**Murilo Ferreira:** Peter, just a few words about Salobo.

**Peter Poppinga:** Thanks for the question. Salobo is in the beginning of the start-up, we are now, since June, ramping up with two lines, and we have so far produced some small tonnage of concentrate. This is not unusual, it is just the transitioning from the commissioning and the ramp-up. Both projects Sossego and Salobo are very similar, in terms of concept, in terms of floatation, stages, and there is some small differences in terms of mineralogy, but comparing Salobo is almost a copy/paste of Sossego. So what we have is that there was a capex adjustment in Salobo 1 was adjusted to US\$ 2.5 billion, and Salobo 2 which is also 100 thousand tons concentrate capacity, was adjusted to US\$ 1.4 billion. But in the next month we will see a robust ramp-up from these operations, because there is a very similar situation as we have in Sossego. Thank you.

**Murilo Ferreira:** But for sure the new project in the north of Brazil will contribute to improve the average of the quality of our iron ore output, I think that it will reduce the operational costs, and mainly, mainly to create a new platform for low capex in our



future brownfield, its very important for us, this project in this regard. This can be the milestone regarding the logistics system as well. Tito, any further comment?

**Tito Martins:** The first question was about Simandou. You want to make any comment about that?

**Murilo Ferreira:** Simandou - I think we didn't receive any new message from the Government of Guinea, regarding the new legislation, the new mining code. We believe that we need that we have to reserve everything regarding the shareholders' scheme, the royalties, the logistics, the ownership of the logistics, before going to the Board of Vale, and receiving some sign regarding the future of the project. Unfortunately, we stay as it was in the end of the first quarter of the year, we know that it's a very important issue in the political context there, a matter to be addressed carefully by the government, but in the end we don't have any answer in this regard. Thank you very much, Rene.

**Operator:** The next question comes from Marcos Assumpção with Itau BBA.

**Marcos Assumpção:** Good afternoon everybody. The first question is to Murilo regarding capex inflation risk for new projects, we are starting to see some lower pressure on equipment and material prices, as some projects are actually being cancelled or even postponed, so do you already see this happening for Vale as well – some reduction of capex risk and if this could reduce the risk of revising capex upwards for new projects, like Serra Sul. And the second question for Martins, if he could comment a little bit about the iron ore market in Brazil the domestic market if he believes that there could be a small catch-up in terms of prices in the domestic market for the coming years, mainly 2013 and probably 2014 when there could be a little bit of excess capacity in terms of port, with the start-up of new competitors. Thank you.

**Murilo Ferreira:** Marcos, in fact, right after some years seeing capex inflation and the appreciation of the Brazilian real against the US dollar, I think now, because of the weakness of the market which you are seeing, for sure we have our feeling that you see some benefits in terms of the capex. But we need to see in the next coming months if this feeling is right or wrong. I believe that it can be good news in terms of implementation of the S11D, but we need to wait a little bit in order to give you some level of certainty in this regard.

**José Carlos Martins:** As far as the Brazilian domestic market for iron ore is concerned, our view is this market has become not an iron ore market any more but a steel market. So if you want to sell iron ore in domestic market you have to produce steel because all the steelmakers in Brazil are vertically integrating their operations. And what we sell in the domestic market today if you look carefully is indirect exports. So the 10 million tons we sell to Samarco is totally exported, the iron ore we sell to CSA and also to CST, big part of it is exported also, so the Brazilian market for iron ore is completely disappearing, and becoming a steel market. So we do not see any changes in it, and that's the reason we are supporting some ventures to produce steel



in Brazil, because that way we think we can keep some market share in this market, I think Brazil has a lot of iron ore, availability of iron ore is big, although not high quality anymore in some areas, but for vertically integrated concept, it's rather good, so I think the challenge to compete in the steel market for local steelmakers will drive more and more to vertical integration. I think that is my view about it.

**Operator:** Thank you. Our next question comes from Rodrigo Barros, with Deutsche Bank.

**Rodrigo Barros:** Thank you very much for taking my questions. My first question is regarding the strategy to acquire EBM, which owns 51% of the Southern system, and the leasing of Hispanobras if you could comment a little on this strategy, and if there would be any interest in acquiring more participation in iron ore assets, and my second question is regarding the Carajás Serra Sul Project: one question which some clients asked us, is whether the existence of caves could increase costs or pose some sort of implementation challenge to the project so if you could comment a little bit on how the caves impact the Carajás Sul Project, or if it doesn't impact at all, that would be great. Thank you very much.

**Murilo Ferreira:** Martins, the MBR.

**José Carlos Martins:** As far as the acquisition of a small share of MBR and also the leasing mechanism for Hispanobras, it's part of our long term strategy of consolidating our assets in iron ore, we have this small participation from Japanese players in former MBR, and every time we have an opportunity to buy back we are buying the shares, so it's not a big problem for us to keep this participation, but we believe long term it makes sense for us to do it. And as far as the Hispanobras, it's better to operate under this system because it gives us much more flexibility to use different plants to reduce operational costs; so until recently all these joint ventures were independent companies, and each one had its own storage, its own management, its own infrastructure. Now, under this system, we have much more flexibility to operate the parent plant, to shut them down, or to keep it working full capacity, and things that in the past were difficult, we always had to negotiate with the partners these issues. So I think both movements are in a way to consolidate our assets in iron ore, and also improve the operations, reduce costs and make them more flexible. As far as the Carajás case, Vania will explain a little bit.

**Vania Somavila:** OK, Good morning. The existing legislation allows us to compensate the caves, I cannot say it's easy, but for the maximum relevant caves we cannot compensate, but there are just a few, for the medium relevant caves we can compensate, all of this is under negotiation, just to negotiate with all the environmental organizations how we can compensate this, but it's just a matter of how, because the legislation already allow us the compensation. So it's not a big issue, we can overcome it for sure.

**Murilo Ferreira:** Thank you.



**Operator:** This concludes today's questions and answers session. Mr. Murilo Ferreira, at this time, you may proceed with your closing comments.

**Murilo Ferreira:** Thank you very much for your time, the most important is to leave a message that we continue completely focused in the discipline in capital allocation, looking to increase the volume, to be more efficient in the use of our reserves, and we know very well that it's an important new platform for the low capex costs what we are building today, we are building in S11D, in Moatize, and in Rio Colorado. I think it's very important to see these three projects as a new platform for low costs, and the future for excellent brownfield projects. Thank you very much and we would like again to express our gratitude to Tito, and welcome to Luciano Siani. Thank you.

**Operator:** That concludes the 2<sup>nd</sup> quarter 2012 results conference call for today. Thank you for your participation.