Vale 2Q12 Conference Call

07/26/2012 – 10:00 a.m.

Transcription – Portuguese

INTRODUCTION

Doris: Good morning, ladies and gentlemen. Welcome to Vale conference call to discuss the second quarter 2012 results.

At the time, all participants are connected in a listen-only mode. Later, we will open a question and answer session and instructions will be given at the time. If you need operators help during the conference call, please press star followed by zero.

We remind you that the conference call is being recorded. The recording will be available at the company website at www.vale.com, at the Investors section. The conference call replay will be available by phone (55 11) 4688-6312, access code: 3537885#. This conference call is simultaneously broadcasted on the internet, to be accessed by the company website at www.vale.com, Investors section. Or at www.prnewswire.com.br.

Before proceeding, I would like to make clear that any statements that may be made during this conference call related to company business perspectives, as well as projections, are predictions based on management expectations regarding the future of Vale. These expectations are subject to macroeconomic conditions, market risks, and other factors.

Today, we have with us:

- Mr. Murilo Ferreira – Chief Executive Officer;
- Mr. Tito Martins – Executive Officer of Finance and Investor Relations;
- Mr. Luciano Siani – Incoming Executive Officer of Finance and Investor Relations;
- Mr. José Carlos Martins - Executive Officer of Ferrous and Strategy;
- Mr. Humberto Freitas –Executive Officer of Logistics and Mineral Exploration;
- Ms. Vânia Somavilla – Executive Officer of Human Resources, Health and Safety, Sustainability and Energy;
- Mr. Galib Chaim – Executive Officer of Capital Projects Execution;
- Mr. Roger Downey – Executive Officer of Fertilizers and Coal; and
- Mr. Peter Poppinga – Executive Director of Base Metals and Information Technology.

First, Mr. Murilo Ferreira will comment on Vale performance in the second quarter in 2012, and after he will be available to answer questions that may be presented.

I would like to turn the call over to Mr. Murilo Ferreira. Please, proceed, Sir.

Murilo Ferreira: Good morning everyone. I apologize for the technical issue, but as I am abroad, this might happen. We would like to comment on our second quarter results, a quarter that was especially challenging in a lowering price environment, and with operational issues in Base Metals and coal businesses. The iron ore production estimate was very positive, and we had an increase of more than 15% compared to the third quarter. For pellets, we reached the highest quarter value with 14.3 million tons.

Regarding iron ore, production in the first half of the year reached 150 million tons and we continue to strongly work towards our target. Many people questioned our target of 310 million tons, after facing rain and logistic issues in the first quarter, but with our performance in the second quarter, as expected, and after overcoming weather problems, we believe we are able to reach our 310 million tons target.

Regarding operating revenue, operating income and margin, as well as cash flow, we had an improvement compared to the first quarter. The second quarter was better in operating revenue and margin, despite of price changes, with significant impact on our results, as seen. The impact on EBITDA was close to US$ 630 million.

Company earnings were subject to impact from the devaluation of the Brazilian real against the US. dollar, which is our operating currency. On the other hand, the appreciation of the US dollar before a series of currencies, including the Canadian dollar, produced, in the end, a positive impact of US$ 334 million on EBITDA. But as we mentioned before, whenever there is exchange devaluation, there is a positive impact due to our debt, although being a non-cash impact, and Vale always has great benefits, as exporting company. Not only Vale, but every Brazilian company.

In the same quarter, we should mention some milestones. Certainly, the most significant milestone is the granting of the environment permit to S11D, which is an important step and we are looking forward to get the LI for S11D. As most of you mention, indeed, well, in your reports, this is expected to happen next year, but we are thoroughly working to get this license in 2012. This is not a commitment, but an effort to be developed by our team, and that has been developed since the first permit.

We know that S11D will be a very important step not only in terms of offering a new operating reserve, but for all technology to be used, as truckless, dry processing and the electro mechanic assembly and manufacturing to be deployed. We are very positive as this will represent quality improvement. I know many of you are concerned with price, and Martins will get the chance of discussing this in detail later on, and quality, referring to ore quality. This is precisely why we have a positive view regarding S11D.

Not only related to S11D, but also with project Conceição Itabirito, which provides us with a very favorable view regarding the reestablishment of the order quality in the Southeast and South of Brazil.

We must also mention the agreement we signed with the Government of Mozambique, the railway concession and the maritime terminal Nacala-à-Velha. These concession agreements are very important in our strategy of having a strong logistic system to support not only current production, but to reach our 18 million tons exporting target of metallurgic coal.

We all know that the Moatize project in Mozambique will provide us with scale, cost structure and quality in an important source of Vale shareholder value creation. This project has already showed by the ramp-up and the quality showed by our clients that we should have a very positive expectation.

Last week, we also took an important and essential step towards transforming the Argentinean project. The agreement is an important step towards a future decree and refers to some elements we must have available regarding the deployment of that project. We are aware this is a world-class project, but we should not disregard all the steps that must be overcome.

Another important thing to mention is the acquisition of an additional share in MBR, a core asset in our portfolio. I wanted to highlight that this will occur this year, upon conclusion of the strategic planning we started now and we will present it to the market at the last quarter. We are fully aware that the deployment of the Serra Sul S11D project will imply in an even stronger capital discipline deployed at Vale.

For us, effective management is, without limitation and maybe more importantly, to set priorities related to our portfolio and company management and its shareholders will require the appropriate setting of these priorities. We are also aware that a series of projects that were under deployment are in their final stages, for 2012 as well as 2013. I'd like to mention Usina VIII, Conceição Itabirito, Serra Leste, Serra Norte +40, the logistics project CLN 150, the distribution center in Malaysia, the copper project Konkola North in

Zambia, Africa, and Salobo, which we are in part ahead with. All these projects are very important for our growth.

We have travelled a lot, permanently visiting our operations, talking to our colleagues, as well as our clients. We are told by our clients that the market faces a challenging point this time. We refer to the European market that faces a debt crisis, an important crisis that has affected world economy in general. We have been to China where we noted that the government has recently adopted some measures.

As you know, the Government was strongly focused to achieve a growth that is more based on consumption than investment, but considering a reduction in the motivation of the Chinese private sector in investment, the Chinese Government has taken some measures that will reflect in the second half in accelerating public investments. We believe we will see the impact in the second semester this year. However, we know that a long term view, related to a large number of people, millions of people in emerging countries will increasingly require households, infrastructure, durable consumption products, proteins and these will cause raw-material supply companies to be well-prepared. We have a diverse portfolio and we hope to offer the benefit from these savings to our shareholders and clients.

Before concluding my introduction, I would like to present my thanks and acknowledgment to Tito for all the years he dedicated to Vale, since he joined the company as a recent-graduate until more important tasks as financial director, CEO of Caemi, Executive Director in Canada, and now more recently as our CFO. He has complied with all his tasks with great dedication and brilliantly. In the name of all my colleagues in the management, and I am sure in the name of all collaborators of Vale, I acknowledge and would like to express my gratitude for his dedication to Vale. he decided to follow a new path in his professional life and we respect that. We would like to let him know that the friendship and relationship will remain untouched. And now, I open the question and answer section and thank you for your participation. Thank you very much.

Q&A

Operator: Ladies and gentlemen, we will now begin with the question and answer section exclusive to analysts and investors. To make a question, please press star (*) followed by one (1). To remove your question from the list, please press star (*) followed by two (2). Questions are limited to two at each inclusion.

Operator: The first question was made by Mr. Felipe Hirai from Bank of America.

Felipe Hirai: Good morning, everyone. I thank you for the opportunity to make this question. My first question is related to effective prices used by Vale for iron ore. I would appreciate it if you could better explain to us how to turn the spot price we see in Platts of approximately US$ 140 in the quarter for the US$ 103 effectively reported, and if you use some kind of discount in the market since when we check Vale transactions in the spot market apparently Vale is selling with an approximate 5% discount.

My second question refers, perhaps, to issue presented by Murilo on setting priorities since today we face a cash generation scenario that may be 30% lower than what you expected, or what the market had been working with in the beginning of the year, while when we consider the company capex, in a US$ 21 billion budget with US$ 6 billion dividends, the company would have a negative cash flow of about US$ 10 billion a year. I would like to know how you consider this and if we could start working with a lower capex from now on. Thank you very much.

Murilo Ferreira: Well, Felipe, thank you for your question. Martins will certainly address the price issue, but you posed it well: we have to set priorities, we are working in a scenario with a price lower than expected for the year, therefore we have to make some adjustments. The first adjustment is a natural one, as we will be working with a currency that is depreciated, which means we should disburse less resources in dollar.

During the conference call to discuss the first quarter results you may remember that somehow we expected a disbursement potentially higher in 2012. This will hardly happen, if the current exchange rate scenario continues. This is an adjustment factor that will occur and it will surely prevail related to capital, sustaining, and R&D projects.

I would say that we have no intentions of making sudden moves regarding capital projects. These projects must end. I chose some of them which are in the final phase and I think the worst management move would be interrupting a project in the final stage, and this will surely not happen. Now, regarding sustaining and R&D, we are not slaves to the Gregorian calendar, and we must permanently update our disbursements in order to have a comparison with our net earnings.

Certainly, this discipline in capital allocation, as well as the priority in next year projects, is very important. Again, I repeat, we now started our strategic planning, and we will contemplate a series of discussions, but always aligned with this discipline, since we have such an important project as S11D to move forward, but we must also consider the company's debt. This will surely be approached carefully. Martins, please go ahead with the price issue.

José Carlos Martins: Good morning, Felipe, good morning to all other participants in the conference call. We will discuss the price issue initially mentioning that the iron ore market is still highly dynamic and volatile. The pricing is increasingly based on CIF China, which has an increasing impact on pricing. Our average price in the second quarter decreased approximately US$ 6 compared to the average price in the first quarter.

Large portion of this decrease is explained by the direct analysis of IODEX and the value charged by the additional percentage of iron. We noted that IODEX decreased from one quarter to the other approximately US$ 2.50 and the value of iron tenor decreased approximately US$ 0.50. If we apply this to Vale's average iron tenor, which is close to 65%, we will note that practically 4%, US$ 4 out of US$ 6, is explained by the market situation, according to the decrease of the ore value in the Chinese market. The remaining US$ 2 is spread onto a series of factors which are difficult to explain separately.

In general, I would like to offer you a guideline to help you estimate pricing. If we consider our average price, the IODEX average price in the quarter was approximately US$ 141/ton of ore for 62% ore. This is a CIF China price, in dry form. To convert it into FOB, we would have to reduce an average of US$ 25 for freight, which is the long term freight Brazil-China.

As you know, when we introduced this new price system, instead of using freight spot price which is subject to great variations, we negotiated with our clients the use of long term freight, which is the condition for many of our clients that purchase under FOB mode. This means they have always bought FOB with freight. We had to convert the CIF price for FOB, and the criterion used was long term Brazil-China freight since this is the reference price there. This figure today is around US$ 25/ton, and we have to deduct this freight to find the FOB price. And we have to deduct the impact of ore moisture, since the reference price is for dry matter, dry ore, and the price in our report is a wet price, the price for the ore shipped as is. Therefore, with its proper moisture.

The deduction related to the transformation of the dry ore into wet ore is equal to US$ 12. We thus have a FOB price, for wet ore, shipped at our port at approximately US$ 104. We then have an addition which is freight quality, quality difference. We experienced in this semester a quality difference around US$ 7, which brings our price again to the range of US$ 111. However, we have domestic market sales with a deducted price, for instance due to savings with logistics, plants in the domestic market buying our ore do not use the port or the entire railway logistics. We experience the impacts related to this factor.

Another important factor is that we have a relatively significant sale to our associate, our subsidiary Samarco. We sell the run of mine, which is practically the ore as extracted. And this ore, Samarco area of concentration is next to our mine, which means that this one is not concentrated and almost does not need transportation. This means the realization price is much lower. This single factor presents an impact of approximately US$ 3.30 on our average price.

The remaining US$ 4, US$ 5, are distributed due to sales in the domestic market, due to different types of agreements we entered into. For instance, we have prices related to the previous quarter, approximately 15% to 20% of our volume; we have prices related to the effective average of the quarter, closer to the IODEX perceived by the market; we have prices related to the monthly average, and not the quarterly average, depending on how volumes are distributed into each of the months of the quarter; and, lastly, we have been selling large volumes cash at the spot market, with no relation to IODEX. IODEX is a derivative of this price. Today, in the last quarter, we have approximately reached 20% of ore sales abroad at the spot market, almost entirely destined to the Chinese market.

Combining all the factors I mentioned, including the sale of run of mine to Samarco, there is a net impact on our price of US$ 8, which means we achieve the US$ 103 price. Basically, this is it. This is how we move from US$ 142 to US$ 103. For some of these items, we act, that is, in long term freight we can improve this as we receive larger ships with lower cost the trend is to have the freight reduced at least when we deliver CIF. Additionally, for sales on CIF, when there is no freight hired, we can acquire it at the spot market, where the difference today is approximately US$ 6 lower. We mean freight hired at around US$ 25 and ore spot price at around US$ 6.

This is an area where we can act. In terms of moisture, we can also act as we have been attempting to improve it, but it depends on weather conditions. The question of ore quality is also defined by the geology, we face a quality decrease process especially in Southeastern mines, but this will be reverted in the medium and long terms with new mines with higher quality.

All these factors basically explain how the prices begin at US$ 141 and end at US$ 103. I am not sure I made myself clear, but I am available if there is any additional question.

Operator: Excuse me, our next question is by Mr. Rodolfo de Angeli, from JP Morgan.

Rodolfo de Angeli: Good morning, everyone. I would like to discuss Capex a little further. Murilo, I think the prioritization you will adopt from now on is clear, you will obviously equate to the new earning reality. But at the same time, we heard you mention that one or two projects would be reviewed for higher budget. How can we consider dividends in the new prioritization you will adopt? My second question is about Base Metals, Vale growth projects, there would be many things coming into operation this year. I wonder if you can give us an update on this and, if possible, some guidance on what we can expect in terms of volume for now and the near future. Thank you.

Murilo Ferreira: Rodolfo, thank you for your question. Undoubtedly, we are very focused on this discipline and it will surely include high priority on iron ore which, as you know, has presented almost stable volume since 2007. For that reason, our projects in the Southeast and the North of Brazil, specifically Conceição Itabirito, Usina VIII, Serra Leste, +40, are projects that will help us along this line, but with strong emphasis on S11D. We also have strong convictions on the Mozambique projects and the fertilizer area.

Base Metals has presented performance lower than expected, we are paying attention to that. We will discuss this during company strategic planning, including projects being deployed at the moment, including some with ramp up issues as the New Caledonia project and the Onça Puma project, and others favorably, which is the Salobo project, we want to make the necessary adjustment, but we should not present anything in terms of growth for Base Metals in the coming years. Now, in terms of iron ore, coal, and fertilizers, we have strong priority, Base Metals needs to present results left in the past.

Regarding dividends, we want to address this clearly for all shareholders, for everyone investing on Vale, we know we are working with an adverse price scenario, this was thoroughly mentioned in the report I read today, and this certainly presents a less enthusiastic scenario regarding extraordinary dividends some people could expect for this year, as I've seen in some reports prior to these results.

Our policy regarding dividends is a well-known policy, adopted for many years. We had a very strong year last year and we would like to repeat it this year but, as I said, with the scenario where we are working, this will not be possible. But we continue on focusing on a dividend policy that is highly reasonable for our shareholders and we should publish it for 2013 in the last quarter. You can be sure that capex, sustaining, R&D, debt, and dividend policy are pillars that will be careful observed while we plan what we want not only for 2013, but specifically 2013, 2014, and 2015, when there will be demand for exceptionally high results for the projects.

Rodolfo, this is my answer. I will ask Peter Popinga to comment on issues we are facing with the Onça Puma and the New Caledonia projects, so you can have a better knowledge on this issue.

Peter Popinga: Thank you, Murilo. Good morning, Rodolfo and good morning everyone. Undoubtedly, Base Metals is going through challenging times in the short run as we know, not only related to the nickel price, but mainly due to the poor performance of two projects in ramp-up, that is, New Caledonia and Onça Puma.

It is important to recapitulate what is going on, starting with New Caledonia. There was a recent incident at the acid plant, in May, a spill in the heat exchanger where water diluted with acid caused internal corrosion. This is being worked at the time and it is important to point out that this problem is a technology known in steel plants, and is not related to the challenges we had that were solved with new technology, that is, percolation, extraction using solvents. We demonstrated this with an integrated test throughout the plant, producing more than one thousand tons of nickel, our end product, in the beginning of 2012. It is important to note that the problem we faced now is not related to the problem we had before, technology problems that are solved by now.

As for columns, you might remember that we are building 21 columns at the final stage of construction, incorporating the new design and to be done by the end of the third quarter. We will resume nickel production in New Caledonia at the fourth quarter this year.

While in Onça Puma, recently, in may as well, there were spills in the furnaces during ramp-up. There were spills in furnaces 1 and 2, and we decided upon stopping the furnaces for safety reasons to be able to assess what was going on. Today, while the investigation by an independent team is still under way, we are using the best experts and we know the furnaces will remain out of operation for a few months. We will shortly have more information to decide when and how we will start the ramp-up at Onça Puma. That's it. I am available if you have other questions, thank you.

Operator: Excuse me, our next question is made by Mr. Marcos Assumpção, from Itaú BBA.

Marcos Assumpção: Hello, good morning everyone. Murilo, my first question regarding the scenario you described, surely a challenging scenario in the short run in terms of commodities prices, even with some optimization on company's capex. I would like to understand specifically for the iron ore market if this scenario changes a bit your perspective regarding the iron ore price, can we continue working within a range that

Martins likes to determine as being between US$ 120 and US$ 150/ton, do you believe there is a risk of decreasing the range?

And second, how do you position yourselves today in terms of volume, while I think that surely the risk is lower than in the past, during stronger crisis. And, lastly, if Martins can complement this question, if we note in China and in India some instances of capacity closure of iron ore due to the fact that the spot price is a bit lower than US$ 120/ton, as we have seen in the past. Thank you.

Murilo Ferreira: Marcos, thank you. Indeed, we are now living a price scenario that is highly volatile. This would not be surprising being aware that the world economic conditions are highly volatile.

We do continue working, and Martins will have a chance of commenting on it, but we continue working with this US$ 120 scenario. Just as in the past, the last quarter last year, reached the range of US$ 116 for a short period of time, and we know this presents great impact especially for private mines in China and it brings a quick adjustment due to the reduction on ore supply.

We continue working exactly within this scenario, we have nothing to change. I repeat, the volumes we will work this year are the same ones we had projected, and we had a good recovery in the second quarter, we will not face the same problems we faced in 2008 and 2009. Today, Vale has a very clear strategy regarding logistics, protecting the company, a great percentage regarding these events. We do not predict any scenario equivalent to that one. Please, Martins, go ahead.

José Carlos Martins: Marcos, we have not changed out price estimate. This means that the range we are working with is this one. I would even add that in the upper portion it may be a bit higher, logically depending on the market status. But the lower range of US$ 120, it proved twice in the past and I believe it will happen again now. Today, this is US$ 119.

In the second quarter 2010, the price was in this range, lower than US$ 120 after almost US$ 180. The price recovered to US$ 180 and decreased again, in the third quarter 2011, again lower than US$ 120, and recovered again. And we note this fact again, and I believe that recovery will happen soon. Really, at this level, many producers suspend the production, not necessarily leaving the market, or start stocking the ore until a situation when the ore is better positioned.

In fact, if you study the first semester this year compared to the first semester last year, there was a great replacement in China. If we study steel production in China, first semester 2011 compared to the first semester 2012, there was an increase around 3%, 4%. And ore importing operations increased by 10%. In the first semester this year compared to the first semester last year there was a 10% increase in ore importing operations.

The phenomenon is happening. For different reasons, in India due to legislation, due to higher domestic consumption, and in China effectively because the price decreased. And why did the price decrease? Less due to lack of demand in China, as we have seen a 10% increase in importing, but mostly because of increased offer. There is a very expressive additional offer from Australia, Brazil as our traditional markets present lower demand, which means that part of our ore, although production has not increased, is being allocated to China. These facts caused prices to decrease. However, in our opinion, it reached a level from which it will probably recover in the short run. Not to US$ 180 as seen in the past, but we believe in a recovery. It is a matter of time, it will not be long until we confirm if this theory is right or not.

Operator: Excuse me, our next question comes from Mr. Leonardo Correa, from Barclays.

Leonardo Correa: Good morning, everyone Thank you for the opportunity. My first question to Murilo, regarding priorities, going back to a point you mentioned earlier, not only in questions but also in the introduction speech, the non-ferrous business has presented lower performance for some time. As you said, two projects present challenging ramp-up, a bit lower than expectations. I would like to understand, as you indicated, the reevaluation will be based only on reevaluating the strategy and focus of this area? If you could help us, Murilo, only related to the timing, as you said, the business can clear no longer be the focus? Could it be an area of divestiture from now on? At least, this is my understanding.

I would like to better understand the philosophy and the timing regarding when this could happen, which could be quite helpful for us. Along the years, Vale has tried to diversify and obviously, in 2006, upon acquiring Inco, diversification is much faster, and now, with possible divestiture in the non-ferrous business and slower ramp-up in coal and fertilizers, how do you see Vale mix in the future and the ideas related to diversification? I would appreciate it if you could mix these two subjects into one and help us with Vale priorities, in terms of product mix, for the future.

My second question is related to China, pricing, pellet spread, if Martins could help us. I mean, Martins, we note in other markets, especially in thermic coal, some agreement cancellations, and great difficulty in delivering volumes in the Chinese spot market. I would like to know if you feel something similar with ore and if you could help us regarding pellet spread, if there is any recovery expectation closer to the end of the year. These are my questions. Thank you.

Murilo Ferreira: Leonardo, thank you for your questions. I would tell you that we are aware of the difficulties with Base Metals in Vale's portfolio, and we don't want to conceal these, to avoid discussing this issue with you and our investors. Frankly speaking, this is not limited to Base Metals, the coal business in Australia has also presented lower performance than expected. We must permanently evaluate what is going on and build the scenarios. We are not thinking about divestiture at the time, we will build scenarios to help our shareholders be aware of different alternatives, we will be doing this in time, and we are beginning with this work.

I can tell you that a series of projects that could favorably help cash generation in Base Metals have begun, with great impact on performance. Important investments were made and fail to bring the expected return. But, without a complete diagnosis, discussing things based on speculation, for sure, this is not the pathway we prefer. We would rather admit the problem, we have problems with non-ferrous assets, especially the ones that were concluded recently, Onça Puma and New Caledonia. We have lower than expected performance in Australia, and similar to several parallel investments made by Vale, we can mention, for instance, VSE (Vale Soluções Energia), VEL (Vale Energia Limpa), a series of initiatives we are discussing internally with the management team to bring the discussion to our shareholders.

You can be sure that we are absolutely focused on the Company, and our discipline regarding capital allocation, the results, the metrics for such results, must be known by everyone in the area, everyone in the management of Vale and its shareholders. This will be presented in our conclusions this year. regarding the second question, Martins, please proceed:

José Carlos Martins: Leonardo, let's see. Regarding pellet spread, I mean, in a volatile market as we see today, a market where quality pricing suffered a significant decrease, the impact on pellets is even higher, considering that, unless in case of direct reduction, where the client has no alternative other than using pellets, in other markets, the client may choose to use cheaper solutions, with great impact on pellets. For instance, lamp spread decreased a lot. When lamp spread decreases a lot, I mean granulate ore, there is also great impact on pellets.

I can tell you that we are working with a range between US$ 30 and US$ 40 in terms of spread, depending on the market situation. I mean, today is a bit better, but the trend we note with decrease in value, is a higher impact on pellets in the coming months.

In terms of sales, the best proof of what is going on is the increase in our sales at the spot market, as the sales in the spot market indicate that clients are not complying with agreements. I mean, when you prefer the spot market is because clients are not meeting the agreements. In the last quarter, we significantly increased the sales volume in spot, almost to 21% of our total sales, from less than 15% in the first quarter. This does not necessarily reflects a market decrease, but a more opportunist view in some markets, looking for prices that are less indexed while the price is decreasing.

We have not stopped selling everything we produce, we continue shipping and selling. Maybe with a longer timing, to the extent that when you load the ship, if the client cancels, you do not know to whom you will be selling. But ships are loaded, are shipped, sent and to this time we had not failed to sell any ship arriving in China. We see the impact on the price, I mean, if you are a price-taker, the volume does not decrease, but the price is affected. This is not a privilege of ours, every player in the market is going through the same thing as we are and we believe that the less competitive ones will face losses and loss of market-share. This applies to local producers in China, Indian producers and other newcomers in different markets, including in the Brazilian market. If you do not have competitive costs, everyone in the market with costs much higher than this limit placed on the range of US$ 120, in China, will suffer the consequences. Fortunately, with the approval of new projects, in the coming years we will probably not only increase the volume, but also the quality of our ore. New projects under development have substantially better quality than previous projects. We will have a combination of higher volume with higher quality. And as we have low cost, we expect to be the last party to be affected in terms of volume. This is how we are working, this is our strategy regarding the iron ore market. Thank you.

Operator: Excuse me, our next question is from Mr. Renato Antunes, from Flow Corretora.

Renato Antunes: Good morning everyone. Thank you for the chance of making my question. The first question relates to the Carajás Serra Sul project, if you could say a bit more about the S11D. What is your expectation regarding the approval of the Board of Directors to this project and if there is a theoretical scenario where this approval is a bit delayed, could it compromise execution? This is the first question. The second question is about the dynamics of perspectives for the coming months in the iron ore market, and its prices. I would appreciate it if José Carlos Martins could talk a bit about the dynamics you experience, and how to expect the from now on the dynamics related to the premium with iron, as we noted the premium dropping severely these last quarters, today around US$ 3 to each 1% increase in iron content. I would appreciate it if you could help us better understand this dynamic in the second half. Thank you.

Murilo Ferreira: Well, Renato, thank you for your question. Regarding Serra Sul, I can tell you that the motivation of our shareholders, our members of the board, is complete regarding this project. They are aware of the importance of the project to Vale. Not only in terms of volume, not only related to Vale leadership in the iron ore market, but mainly for the quality it could offer to the market. As I said, we have been working hard, Vânia's team has been working hard to get the permit, the LI, as soon as possible, and it has presented a strong competence to achieve results. We want, if possible, to get the permit this year. However, usually, this is something that takes one year, although we are working hard to try to do it this year.

We have a series, a 101 km track, we have the railway, and Pier 4. It is highly probable that our Investor Tour, our presentation, should happen at Serra Sul this year. You will have a chance of experiencing the motivation the members of the board have to get this approval. I'd say that they are excited to see the missing parts for the approval process set on the table for deliberation. We have not been working with a scenario different from this one.

José Carlos Martins: Well, Renato, the point you raised is very important to understand the dynamics of iron ore. I mean, the iron percentage was valued at US$ 9, and today, it is US$ 2.70, less than US$ 3.

Additionally to IODEX, this is another aspect that reinforces the idea that at the time there is increased offer of iron in the market, contained iron, and also show some idleness in steel plants, since if you operate with full capacity, ore with higher iron content help increase productivity of the furnaces and the steel plant. In case of idleness, naturally clients are not concerned with productivity and are more concerned with costs. Thus, demand moves to poorer ore.

This is the situation we face at the time. We believe this is a temporary situation, to the extent that there are steel plants not only outside China, but also inside China, with idle capacity, and clients move to cheaper ores. The value of higher-content ore decreases to accompany the market reality. This is the scenario we have been facing, and I believe this is part of the high volatility scenario. As market pricing is focusing on the spot market, volatility is unavoidable. We note that it is hard to work with a fixed pricing system in a market with such a level of volatility and dynamics, and the trend is to go deeper. Variations tend to be stronger while there are changes in local markets.

The fact is that the importance of China in the iron ore market, within the global crisis, tends to grow, and this is a market where clients look for the best opportunity all the time. This is not a market with a tradition of long term relationships, as the European, Japanese and Korean markets. And this will affect the iron ore price and the price adopted by Vale in this market.

Operator: Excuse me, ladies and gentlemen, we close the question and answer section now. I would like to invite Mr. Murilo Ferreira for final considerations.

FINAL CONSIDERATIONS

Murilo Ferreira: I would like to reinforce in this conclusion our commitment with capital allocation discipline, our full commitment with shareholders' return. We want to work on projects offering the best return, with Vale growth as byproduct in a well-disciplined policy, and paying attention on dividends to be paid to shareholders, and on cash flow.

Lastly, I would like to welcome Luciano Siani, our CFO starting on the first. I would like to tell him we acknowledge the work he presented while at McKinsey, then at BNDES, and now for some years with Vale. He achieved this position for his own merits, which is our method of choice to choose people, and tell him that he is very welcome. And to our colleagues in our team, you can rest assure that we are committed on having a Vale that is increasingly focused. Thank you very much.

Operator: Vale's conference call is closed. We thank you for your participation and wish you all, a good day. Thank you.