**VALE**

**Conference Call and webcast**

**2Q2013 Results**

**August 8**

**Portuguese: 10:00 am (RJ Time)**

## Introduction

**Operator:** Good morning, ladies and gentlemen. Welcome to the Vale teleconference, in which the 2Q2013 results will be discussed.

At this moment, all the participants are connected as listeners only. Subsequently, the questions and answers session will be open and the instructions to participate in such session will be provided. Should you required the assistance of an operators during the teleconference, just press asterisk [*] zero [0].

I should remind you that this teleconference is being recorded. The recording will be available at the company website, www.vale.com, investors section. Replay of the teleconference will be available at phone (55 11) 4688-6312, access code: 5146627 #. This teleconference has been simultaneously transmitted by Internet, being accessible both at the company site: www.vale.com, investors section, and at www.prnewswire.com.br.

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

Our participants today are:

- Mr. Murilo Ferreira – Chief Executive Officer (Diretor Presidente);
- Mr. Luciano Siani – Executive Officer of Finance and Investors Relations (Diretor Executivo de Finanças e Relações com Investidores);
- Mr. José Carlos Martins – Executive Officer of Ferrous Minerals Operations and Strategy (Diretor Executivo de Ferrosos e Estratégia);
- Ms. Vânia Somavilla – Executive Director of Human Resources, Health and Safety, Sustainability, and Energy (Diretora Executiva de Recursos Humanos, Saúde e Segurança, Sustentabilidade e Energia);
- Mr. Humberto Freitas – Executive Director of Logistics and Mineral Research (Diretor Executivo de Logística e Pesquisa Mineral);
- Mr. Galib Chaim – Executive Director of Capital Project Implementation (Diretor Executivo de Implantação de Projetos de Capital);
- Mr. Peter Poppinga – Executive Director of Basic Metals and IT (Diretor Executivo de Metais Básicos e TI); and
- Mr. Roger Downey – Executive Director of Fertilizers and Coal (Diretor Executivo de Fertilizantes e Carvão)

First, Mr. Murilo Ferreira will comment on Vale performance in the second quarter of 2013. Afterwards, he will be available to answer questions, should there be any.
Now I would like to invite Mr. Murilo Ferreira. Mr. Murilo, you may proceed, please.

**Murilo Ferreira:** Good morning everyone, today I will limit my participation in the conference call to the beginning and end of the call. I work in a mining company and I ended up removing 14 gallbladder stones, reason why I have some restrictions, but I wanted to take part in the conference call, anyway, to thank you. Today I had a chance of reading eight reports. There are some others to be read, but I was very, very happy. The motivation of our team increases a lot, with so many positive comments, a unanimous vision on what we achieved in the second quarter, which makes us very proud. Vale's team is very happy with everything that was said. As you know, we had solid financial results in this second quarter in 2013 despite of highly challenging world economic environment and the price of ore, metals, somewhat in decline. We continue with our strategy, we deliver what we promise, several initiatives in progress has generated substantial and continuous improvements as is the case of total costs and expenses. In the first quarter, some analysts had mentioned, in a very cautious way, that they needed a longer period to evaluate. We noted the continuity of this cost program in the second quarter, we are strongly committed to continue to take important steps in the third and fourth quarters, and so forth.

Supported in the cost decrease, we had an adjusted Ebitda almost stable compared to last year, semester by semester, and despite of a US$ 2.1 billion decrease in income. And this is because of the decrease in prices as I mentioned. We have to highlight also that all this was achieved with an exchange rate between Brazilian Real and Dollar of 2.07 in the second quarter. This also shows the amount of effort in cost, with its own merits, as in fact the depreciation in the Brazilian currency will be seen in terms of cost reduction in the third quarter, fourth quarter and so forth, if there is no reversion in currency cost. But, initially we have the impact on the debt, which was in the end of the second quarter in 2013, R$ 2.23. But this is a debt we have to pay in 10 years; there is just an accounting impact at this time. Another data I would like to highlight is that our total debt had a reduction, despite of the fact that we had paid US$ 2.250 billion in dividends and had made investments in the amount of US$ 3.billion in the second quarter. This is very good news, as our goals, as you know, include maintenance of a very prudent policy regarding our cash flow, and this debt position makes us even stronger.

We would also like to comment on some events in the second quarter, with the license to deploy project S11D. We continue with great progress in operational performance with base metals, we have seen significant improvements in coal. Fertilizers, we must note, we must consider Brazilian seasonality in the second semester, and we had many elements in the second quarter 2013. We are evaluating the hedge accounting over IAS, in order to minimize the volatility of our accounting profit and allow our reports to better reflect the company economic performance. We are evaluating for future periods the use of the hedge accounting program according to rules in a way that our revenue can be used as hedge item for hedge accounting purposes.

We did not want to do that immediately as it could appear to be a measure adopted due to the strong depreciation of the Brazilian currency in this quarter, but we were entitled to note in our reports if programs were adopted in 2013 what would have been the result. We then saw that we would have had net profit of US$ 424 million to US$ 3.2 billion. We also compared to the first quarter and saw a reduction from US$ 3.1 billion to US$ 2.7. we tried to do that, properly indicate, I think we managed to show you, the press apparently did not seen it the same way, interpreting it differently, which is a whole other story. Maybe we did not communicate as best as possible.

Cash generation was good, we had negative impact from lower prices in cash generation, but we had greater volumes, we also received dividends from subsidiaries, these could be a bit higher, we hope them to be higher in the second half. We worked with lower costs and we were excited regarding SG&A expenditures as we were able to deliver what we had promised.

We want to repeat again and again our commitment since the first talk to analysts, and investors, to offer the best return to the shareholders and for that we are committed with our discipline in capital allocation. And with world class projects. We use highly advanced engineering in every project, we are focused on construction management in order to reduce plan deviations. We have been working hard, one of our last measures; we are doing adjustment with our vendors in the execution in S11D on quarterly basis. As if the project is done every three months, without allowing conflicts, pending issues to be postponed to the end of the project. And we are fully committed with this discipline and we want to deliver it.

Another important point is our investments in R&D, with a significant decrease of almost 39% compared to the first half in 2012. We will increasingly focus on a slimmer pipeline of project, however, extremely selective, world class projects, with higher return rate, consistent with our discussions and as approved by our shareholders. We should also consider that our projects will also include a benefit if there is decrease in the Brazilian currency, where we have a large project in progress, S11D, and at this stage, there will be benefits. We know, for instance, that in our project in Serra Sul, expenditures in reais represent almost 90% of the budget, these benefits have not appeared in the figures we presented to you. In this project, we have a major vendor, a counterpart with all points already decided, and we have almost 70% as economic results, minimizing any uncertainties regarding deployment of these projects.

In this environment with high discipline in capital allocation I once again thank you for your understanding and positioning on our results.
I will move on to questions and will ask our colleagues to answer and in the end I will make any additional comments. Thank you very much

**Operator:** Your attention please. Ladies and gentlemen now we will start the questions and answers session exclusive for analysts and investors. To ask a question, please press asterisk (*) one (1). To delete your question from the queue, press asterisk (*) two (2). The questions will be limited to two at a time.

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

**Rodolfo de Angele:** Good morning, in my questions I would like to initially explore that the great highlight in the results is the cost. Looking ahead, how do you see the opportunity to maintain and increase this reduction in cost for the coming quarters? And my second question, I think we have seen that the production in Carajás was indeed a little lower than expected in the release you commented that it was one-off, but I would like Martins to explain a little bit about what happened, how can we see it, if is there any aspect in this lower volume related to environmental licensing? If you could detail to help us understand how you're going to run this operation in the second half, I think it would be nice. Thank you.

**Luciano Siani:** Good morning, this is Luciano. I will answer the question on costs. In the short term, aside from the exchange that Murilo mentioned, and by the way every ten cents the dollar rate increases, there is an impact of around US$ 700 million, to give you an idea, in our costs and expenses on annual basis. Additionally to the exchange, we expected a cost dilution effect. This is because the volumes in the second half are higher in iron ore and therefore there is a dilution in fixed costs in the second half. Thus, due to this effect, there is an expectation to reduce unit cost. We also see this effect with copper, which is highlighted in Salobo. In the release we had mentioned that if we had the first positive Ebitda in June and the expectation is that this monthly Ebitda increases while we dilute Salobo costs under a higher production base.

Fertilizers also have a cost dilution effect in the second half due to the seasonality that Murilo mentioned. Then, if the company does nothing, which is not what we will plan to do, these effects would bring some improvement in the cost base. But we continue with our programs to simplify, we believe that in administrative general expenses, as well as in R&D, we had not yet concluded the work. Company simplification is in progress, and there are still some opportunities in both.

In the medium term, operational areas also expect to increase productivity, we have identified opportunities, we know we can work in a more productive way and increase volumes without adding personnel. We are also reviewing the scope of service agreements in operations. These are opportunities in cost, and these are being explored. And the review of the supply model is in the initial stage for a cost reduction process. We remind you that we have privileged the creation of larger packages and more intense negotiations instead of quickly meeting internal demands.

There will be impact in the short term in pre operational expenditures, especially due to the interruption in Rio Colorado. This impact should end in the second half in 2013. For 2014, we expect this to have a significant decrease, especially due to the continuous ramp-up in New Caledonia and go live in Long-Harbour, as well as the end of Rio Colorado effects.

And in the long term, we count on progress in the environmental licensing process, opening of pits closer to the surface, opening of new mines and dilution in the base of assets, as I said, increase in productivity ion projects as +40, pelleting, we have the manpower in the field ready to start these projects, although they are still not in production. While volumes increase, costs will be diluted also because of that. Martins, please, your comments.

**José Carlos Martins:** Good morning everyone, good morning, Rodolfo. The issue regarding production in Carajás, we have had a good quarter in Carajás in fact. The first quarter was very good, in the second quarter we have had some problems with the rain that delayed us a bit. I mean, there was less rain in the first quarter, much more in the second. This has had some impact in the production, associated to the fact that Carajás, as you have seen by attending the meetings we have had with analysts, you can see the pits in Carajás are very deep and in this case, the geological uncertainty is higher which has affected our production plans for the second quarter.

Perspective ahead are positive, we have a very good production rhythm from the time the rains have stabilized and we believe that during the year we will be able to recover production lost in the meantime. Regarding the environmental issue, there are restrictions, but we are highly optimistic that such restrictions will be resolved, the negotiation with environmental entities is advancing and we believe we can come to an end in good terms and solve eventual restrictions we have been facing. Thank you.

**Rodolfo de Angele:** Ok, thank you.

**Operator:** Excuse me, our next question is from Mr. Thiago Lofiego, Merill Lynch:

**Thiago Lofiego:** Good morning, everyone, congratulations on the results. The first question is on the average price realized. If you could comment on the mix of contracts and price benchmarking used in this quarter, looking at the percentage of sales linked to VRP agreements. This increased from 12%, 13% in the last quarter to more or less 19% this quarter. What would be the impact on the average price realized for the quarter and what can we expect regarding this mix of contracts for the coming quarters? This is the first question. The second question is one the 306 million tons production guidance, which implies an additional production for the second half of about 30 million tons and looking at the history, do you usually determine 20 to 25 million extra tons compared to the first semester. I would like to know if you think this additional production is compatible in this half and if you could comment on the 2014 production, what is the impact from +40 for the coming year. Thank you.

**Luciano Siani:** Well, here is Luciano speaking. Regarding the impact from the mix of sales on iron ore prices, as we have had anticipated in the first quarter, our VRP sales have an outdated impact. We are capturing higher prices from December, January, and February, in the second quarter results. This effect, when compared to the first quarter this year, you have a swing of round US$ 10 per ton, in terms of pricing performance explained by this mix effect. I would like to highlight the following. VDP, which are our forward sales, as seen the price in the last day of June was US$ 116 per ton. Therefore, this should confirm the trend we see on prices we may have for the third quarter a positive carry over effect once the revenue was accounted for based on lower price at the end of the quarter. I will hand over to Martins to comment on future perspectives on the mix of contracts and talk about production.

**José Carlos Martins:** Well, the mix of contracts is very stable. I mean, there is a difference from one quarter to another much more due to the delivery schedule with clients than effective changes in the sales model. I believe that we have come to a point of stabilization that is very strong, where sales in China, especially in China, where future pricing will be the biggest component of our sales. The advantage of such a system, one is that it eliminated the uncertainty we had when prices varied down that clients would not comply with the agreement, they did not want to receive the material. The system we have adopted made us equal to our competitors in Asia and somehow gave us much more stability in terms of process, and you can see that Vale has closed many deals in the spot market because there is no need, most of our clients have complied with their contractual obligations within this new pricing model.

And I expect that this pricing model will increase within our portfolio. Sales with prices based on the last quarter, they are highly restricted to Japanese and Korean clients and some European clients, and they have maintained this policy and have shown no interest in changing it. Then, I believe this circumstance should remain and as Luciano mentioned, due to the characteristics in the mix, when there is price growth, the effect is much more positive in our results, as the sale closed in the past has a better price in the following quarter, and when there is a price decrease process, the effect is the opposite. We come from a process, in the second quarter, of decrease, therefore we have had a less positive impact and now with the high pricing trend, in this quarter the average price of ore is close to US$ 130, US$ 128 more precisely, and there is a trend for a better price.

The sales mix should not be substantially changed and if there is any change it will be regarding future pricing which, in my opinion, tends to increase in our mix.

Well, regarding production this year, you see in the figures that we have had a not very positive performance in the first half, considering the first and second quarters. But we have maintained our plan and we have been developing the production, and in this third quarter, it is going well, and we are confident that we can reach the figures we projected of 306 million tons of ore this year. Thank you.

**Thiago Lofiego:** Perfect. Thank you.

**Operator:** Excuse me, the next question is from Mr. Ivano Westin, with Credit Suisse.

**Ivano Westin:** Good morning everyone, thank you for taking my question. You have reported a very strong cost reduction this quarter. The ore price is still strong over US$ 130, I would like to know if it is reasonable to expect an increase in dividends to be paid in 2013, any return to the shareholder. This is the first issue. And the second question in about the nickel unit. The production is stable quarter to quarter, if we look specifically at Thompson and Voisey's Bay, they had a production reduction of 13% to 19%, quarter to quarter. I would like to hear about the expectation to resume this production in the second half in 2013 and for 2014. Thank you.

**Luciano Siani:** Good morning, Ivano. Thank you for your question, this is Luciano. Regarding dividends, it is too early to talk about increasing dividends. The Company priority continues to be to maintain leveraging under control, considering that, in spite of believing that capex tends to decline, we have major investments ahead, especially regarding S11D and Nacala. As you know, there are many different opinions and uncertainties and volatility on the future, therefore, the priority is still to maintain leveraging under control. Of course, if during a longer period this situation persists, we may go back and reevaluate increasing minimum dividends. I will pass to Peter Poppinga to comment on base metals.

**Peter Poppinga:** Good morning everyone, thank you, Ivano, for your questions. In fact, I think there is a bit of a confusion regarding Voisey's Bay. Voisey's Bay did not reduce the production, we consumed less from Voisey's Bay as the mine in Sudbury produced more, and we reserved part of the inventory from Voisey's Bay for the second quarter. Regarding Thompson, in fact, Thompson does not change much, in the forecast for the second half this year is good. Together with Voisey's Bay, we have had a production of 13 thousand tons and if compared to 14 thousand in the last quarter, there is no large difference about it. Thank you

**Ivano Westin:** Ok, thank you, Luciano, thank you, Peter.

**Operator:** Excuse me, our next question is from Mr. Renato Antunes, Brasil Plural.

**Renato Antunes:** Good morning, everyone, thank you for taking my question. The first question, back to production, as you discussed before. I would like to understand when we look at the release, project CLN150, you have advanced the expected start up. I would like to understand if this is correct and if so, to understand if this could somehow indicate that 2014, maybe this is too soon, but if 2014 could by now offer better production, in sales, than 2013. This is the first question. And the second question is on non-core assets. You have been talking for some time, if you could share with us a bit on the VLI and Norsk strategies, I would appreciate it. Thank you.

**Galib Chaim:** Good morning, Renato, Galib speaking. Regarding CLN150, in fact, we have concluded the project, there is a difference, the original 150 was approved with 11 sessions and due to environmental restrictions, we have ran five sessions in trunk, in the Carajás railway, the other six portions were incorporated into S11D , in the logistic capacity of S11D, and this is very transparent in the budget we presented. Then, CLN150 with railway, doubling five sections, adding 14 million tons in capacity to the railway is concluded, is in operation and at the Ponta da Madeira port, the on shore, off shore portion and the railway terminal were also concluded adding around 60 million tons in capacity to the logistic system for exporting activities. And, by the way, the first Valemax will be loaded this month, which allows for flexibility and lower operating cost in the North logistic system. Thank you.

**Luciano Siani:** We remind you that associating to +40, this is Luciano speaking, it is important that the additional production depends on the logistic capacity availability, therefore, volumes will depend on how much the next portions Galib mentioned will evolve, their conclusion. Regarding the disinvestment plan, it is still in progress, we continue to reevaluate our non-core assets, as you know, the environment is challenging for the sale of assets, despite of this guidance, we seek to maximize the value for the shareholder, looking for better opportunities in the short term, I will pass to Humberto to comment. Humberto Freitas, comment in a while about the disinvestment of VLI, presented as more concrete and our stake in Hydro, according to this philosophy of maximizing value, we are studying and waiting for the best moment, if applicable, to go to the market.

**Humberto Freitas:** Renato, good morning, Humberto Freitas. Regarding VLI, on the 31th, we had a meeting with the Board, and we have the green light to close a deal with some candidates, which should happen by the end of this month. We believe we will be able to close with two partners initially, this year, and at a second moment, with a third partner. Things are going well and we should disclose this at the end of the month.

**Luciano Siani:** It is important to note that we do not have a philosophy to sell assets at any price, we will go very smoothly and always considering pros and cons of maintaining the asset in the portfolio or sell it. This is a guidance, which does not mean that, contrary, perhaps, to other companies that will get rid of assets at any price. Thank you very much.

**Renato Antunes:** Thank you all.

**Operator:** Excuse me, our next question is from Mr. Marcelo Aguiar, Goldman Sachs.

**Marcelo Aguiar:** Good morning all, thank you for the opportunity and congratulations on the results. I would like to hear from you regarding your potash assets and their profitability and potential opportunities of decreasing costs in this new scenario where price is highly reduced for potash. How will these assets work and will these projects fit this scenario, because looking at current costs in your potash business, their cash flow generation is highly reduced, if not negative, in the new price outlook.
And the second question, also regarding some assets with potential to improve cash generation. Moatize, considering logistic restrictions, until, Nacala is in operation. Can you help us model these assets after Nacala, operating in full capacity, what would be, for instance, the delivery cost at port, can you give us some guidance, can you guide us in this case with Moatize. Thank you.

**Roger Downey:** Marcelo, Roger, good morning. How are you? Marcelo, starting with potash. Really, with the last events, this has placed some burden on potash prices, the market suffered a bit with the BPC division. Now, we have to look at the potash market in a more constructive way. If you look back to 2002, when iron ore prices kept on decreasing and said: well, I won't get into the potash market because I do not believe this market, you would have lost a major opportunity. Brazil is well on its way. Brazil is the new China for potash, and then, this depends on how you're placed in the cost curve to know if you have a good investment or a good business opportunity or not.

Today, we have a very small operation; you mentioned our annual production in Taquari Vassouras, a very small production, a mine with over 20 years, really in a high cost phase. Now, the important thing with this mine is that it is in Brazil and when you look at potash prices FOB, you do not necessarily see the price of this product placed in the market. And being in Sergipe, we are very close to our largest market, and probably the largest potential market in the world which is the Brazilian Northeast. This is the *cerrado* market that really promises to be the largest buyer of potash, as it already is today.

Brazil exports, imports much more than what we can produce and even so, we cannot place the potash on the ground. There is a very strong demand that is not met. It is important to be close to the client. Looking ahead, if we have a distribution position, a division through our logistic, competitive access to this market, we have a very good future opportunity, then today our challenge is to look for projects that allow us to provide potash to this market in a more competitive way. We are looking for the first quart in this promising market.

Back to Moatize, well, Moatize. To match the cost as you asked, to match these figures, I will ask you to call the IR and they will be able to help you with some guidance or some ideas. But the thing there is, you know, the story is not new, production is going well, and we are even reducing production a bit in Moatize at the mine, in front of the mine, but we meet the timid growth of the Sena-Beira railway, which has not performed well yet. We have had some recent problems with railway stoppage, we had problems with rain in the beginning of the year, this is not a railway operating as expected, and we are a bit lower than our target. But what comes ahead, as you mentioned, Nacala, will really make the difference and for that we already have the capacity, and this will easily appear in these trains. Thus, if we have logistic capacity, we will have product and this will change completely the equation for Moatize.

**Operator:** Excuse me, our next question comes from Mr. Marcos Assumpção, Itaú BBA.

**Marcos Assumpção**: Good morning everyone. My first question is for Martins, regarding the inventory level of iron ore in China. You mentioned you expect an inventory replacement for the second half, I would like to know what is the level you consider to be the regular level of inventory in China and looking for steel, how do you see the steel inventory levels in China today, are they lower, higher, or average. Lower than regular, or above or at the average. And my second question, regarding the nickel business, relates to the evolvement of new technologies, we see a support price that may be a little lower, what do you see as a sustainable support price for nickel, looking ahead, and does this change Vale's view regarding the strategy and this business? Thank you.

**José Carlos Martins:** Well, the inventory in China. The first thing is that this depends on the offer. The inventory volume depends on the availability, on the offer of iron ore, I mean, when you have higher availability of ore, the trend is that client reduces the inventory at the most. Then, we have seen in recent months, a great reduction in the ore inventory not only at ports, but at the plants, and this reduction of ore at the ports and at the plants was not accompanied by an increase in the steel inventory. Then, this means, it was an extremely positive process to the extent that great part of this increase in steel production in China ended up being used. That is, there was not an issue to store steel, the ore inventory did not change to store steel.

Then, if you sum this whole inventory, China counts on approximately 60 inventory days in the pipeline, this is the historic figure for ore. And the increase in ore production, mainly higher availability of Australian ore, we see that they have been reducing this level. I would say that replenishing the inventory will highly depend on the increase in steel demand, because if there is an increase in steel demand, clients tend to be concerned with the level of ore inventories and tend to increase the inventory. But it is hard to define this level. I think you can look at the trend and the trend in recent months has been towards inventory reduction. The trend for the coming months, we bet on a replacement, but as I mentioned, this depends a lot on the increase in offer as well. As you see in Vale figures, I mean, we expect a substantial growth in offer in the second semester due to production, the end of the rain season, there is increased offer from Australia.

Thus, I think this factor is also a minimizing factor of the need to replenish the inventory, good part of the inventory aims to meet, let's say, the technical cycle of production, this is the time the client needs to refill its inventory, there is a speculation inventory, people store ore, especially trades, waiting prices to change. This depends on interest rate and perspectives in the Chinese economy, and there is a third inventory I call safety inventory. What happened in this whole period was a great reduction in the safety inventory, and the inventory maintained for speculation purposes and there might be a replacement mainly of inventories, for safety reasons. Speculation inventory, I think the future trend, China has changed the policy for iron ore.

Recently, they have eliminated a sort of notary they had to obtain importing documents, only a few companies were able to obtain importing documents, and these companies were in a position to resell the documents or the ore. This has ended in China, and whoever wants to import ore, can import ore, there is not even a need to be in the steel industry, the only requirement is to be classified in the Chinese government agencies and you are authorized to import ore. Recently, they have allowed forward stock exchange in China as well. I believe the ore inventory for speculation purposes tends to reduce in China and the inventory tends to increase, financial movements, in the forward market. I think the need for speculation will be replaced by a larger paper market. This is the scenario we work on and I do not think the inventory factor will have a major role on the future in pricing, I think this tends to be transferred to futures market for ore and stock exchanges that negotiate, let's say, the iron ore paper market.

**Luciano Siani:** Peter, please, the nickel price issue. We will move to the next question, Peter Poppinga has been disconnected, as soon as he returns, we will address the nickel price issue.

**Operator:** excuse me, I remind you that to make questions, please press * 1. Our next question comes from Mr. Leonardo Correa, HSBC.

**Leonardo Correa**: Good morning, everyone. Congratulations to the board for results in this quarter. My first question relates to the scenario for iron ore prices, Martins. Insisting on the price outlook and offer and demand for 2014, I mean, the financial market has been a little negative in recent years regarding the expansion of offers and apparently we are closer to that, right? I mean, looking at Australians, they have potential for more than 100 million, or even more, for next year. Of course, there are always performance risks, but I would like to hear your opinion regarding absorption of all this material, and if you could also talk about Vale's current view on depletion, depletion in the industry, maybe give us an annual figure, I think this could help us understand what percentage of this expansion would be replacement and not incremental. And my second question is for you, Luciano, regarding working capital. I mean, Vale had a very strong result reducing working capital, close to US$ 1 billion. Then, I would like to understand if there is room to win on this. These are my two questions. Thank you.

**José Carlos Martins**: Well, talking about ore price, I repeat, I said and I repeat, I'm not concerned because of China. Many people can't sleep, but I'm not concerned about China. I think the urbanization process in China will continue, and if it does, the demand for steel in China will keep on growing. The relationship between urbanization and, the correlation between urbanization and steel consumption in China is almost unique. I mean, everything indicates that the urbanization process in China will continue, there is a lot of room for it to grow, then, logically, we will not see a 12%, 14%, 15% growth. There was a year when steel demand in China increased almost 20%.

Logically, this will not happen again, but as we see in this year, despite of everything, despite of what we read, everything that's been written about China, there is a very strong growth in steel demand in China, steel production, ore consumption, ore demand was not higher because there was a strong reduction in inventory, as we mentioned, I mean, the inventory has taken 2, 3 percentage points from the growth of ore demand, finally, I don't see any major disruption, I mean, a decrease in steel demand and everything. Naturally, the pricing system works. And as prices were very positive, in recent years, offer appears, offer comes to the market. But if you check the additional offer that has been absorbed, this is a significant figure. In recent years, I think more than 200 million tons of additional capacity was absorbed and without major problems.

The price has varied, if you consider a long series, the price has varied around U$ 130, the average price of iron ore, if you consider last year was U$ 130, if you consider this year, the average is U$ 135 until now, I believe in the end the figure will not be very different from that. There is a great sustainability in ore price, regardless of the scenario. Of course, if there is a larger growth in demand, any issue in the offer, this price will test upper limits. As we have seen, the price got to US$ 190, US$ 200 and at the bottom there is great resistance in the range of US$ 110.

We remember that last year, if I'm not mistaken in September, the price got to US$ 88. Promptly, one day. But if you consider whatever average, whether monthly, quarterly, every six months, it never got under US$ 110. There is a strong resistance in the range of US$ 110 regardless of demand or offer level, as there is a buffer with higher cost products that sustain the price.

Then, really, I don't have a very negative view, that I see especially regarding China and regarding ore, regarding depletion I can give you an estimate that I use. I think that depletion varies between 3% and 5 % a year, logically depending on the price, right? With better price, depletion decreases, as production at a higher cost is justified and these mines where you would eventually interrupt production, they become operational, and when prices decrease, depletion increases. There is some variety, but between 3% and 5%, maybe closer to 3%, is a reasonable figure, which sums to a ceiling of 50 million, 60 million tons a year in depletion.

This means that every year, you need at least this volume to cover mine depletion and, besides, there is a growth in steel demand that despite of the world crisis, has grown. This year, it should grow between 2% and 3% and you have to add another 70 to 80 million in need of ore, and then you have at least 100 million tons in additional capacity that you have to bring every year to the market, adding with higher cost producers, especially in China, this ends up with good price stability. I don't believe in a scenario where prices will decrease in a sustainable manner under US$ 100, US$ 110. And this is the level for Vale, especially for the kind of mine we have, the kind of operation we have, this is a price level that is very profitable, that justifies investment, maintenance of capacity and increasing capacity. Thank you.

**Peter Poppinga:** Luciano, this is Peter, I had gotten disconnected, but I'm back, ok? I don't know if the question was answered.

**Luciano Siani:** No, it wasn't. You can present your comments.

**Peter Poppinga**: I think that Marcos asked about the price, the new level of nickel prices, this is indeed a reality. In the short term we see a new level, but nickel is volatility, as you know, very high volatility. In the short term, we have a repressed demand, we have pig iron nickel, really, the key to this business is Indonesia, in 2014, when we think new rules to export the ore will be in effect, but they might take some time. In the short term I don't see many changes regarding this price. In the medium term, there are new technologies, but pig iron nickel, as you know, depends a lot on a very specific ore, maybe you don‘t know, known as saprolite, it has to be a high tenor, especially for pig iron nickel furnaces. These new furnaces have come to stay.

This we cannot support in the short term, but in the medium term, the trend is the improvement, and in the long term, nickel, for everyone, all analysts and the entire industry, offers a large growth perspective because we do not have new one. There is no second wave of supply in the way. But what we have to do, going back to Vale, we have been doing it, we have been trying to control what we can control, that is cost and ramp-up. And without starting new adventures in terms of projects, we are deploying our ramp-ups and our costs in terms of Opex have decreased around 10% to 15 %, and there will be more. We want to place Vale, in nickel terms, in 2014 as a competitor in any price scenario, and this is my comment. Thank you.

**Luciano Siani:** Regarding working capital, this expressive decrease in the second quarter may give the idea that there was some magic in this quarter, but in fact, in structural terms, this was on the way, in terms of accounts, this has decreased for three quarters. The reason to have that masked, if you remember, in the fourth quarter we had a very large volume of accounts receivable, close to US$ 700 million related to VDP, which was a price model that we started at that time.

And our collection procedures for this type of contract were not well-arranged. While we ceased receiving these values, you could see that receiving cycles are much shorter, not only for improvement in commercial terms, but also leveraging to receive credit letters and some cases we consider advantageous, receivable discounts. Opportunities from now on are on the vendor side, we think we can advance a lot, if we fund close to vendors and medium term in inventories. We have a very large amount of inventory stored, especially, in the Southern System, close to 20 million tons in iron ore that could be released at once, as soon as Pico - plant road and some railway terminals are built to transport this ore to Tubarão port.

**Operator:** Excuse me, ladies and gentlemen, if there are no further questions, I would like to transfer to Mr. Murilo Ferreira for final considerations. Please, proceed.

**Murilo Ferreira:** Well, initially, I would like to thank you for your participation, make comments on what I heard today. Regarding China, I would like to remind you that two years ago, this country produced 683 million tons of steel. This year, indications show that it will produce 780 million. Then, again, China proves pessimists are wrong, right? Those who grow, almost in two or three years, the Brazilian capacity, we have no reasons to believe that this country is not doing well. If there is a continent in the world where there is no development, then this is a different story. But really, our view regarding China continues to be positive. What we can't expect is the growth percentage we have seen in the past, as the base was much smaller. But really, especially in civil construction in the first half, we are very excited and we do not see a scenario that is depressive.

This is an issue I would like to raise with you, I noticed some questions related to production, in fact, we had some communication problems that I would like to acknowledge and apologize for as we changed our budget this year, the way we make our budget. In the budget we recognize seasonality related specially to the North of Brazil and place more challenging goals for the second half and less challenging goals for the first half. However, the area proposed that and the board approved, as well as the shareholders. And this was done in a planned way acknowledging difficulties we have always perceived in the first quarter in the North of Brazil.

About nickel, I would like to strengthen Peter's comments regarding Indonesia for next year regarding ore exporting activities. This is a decisive event regarding pricing in the medium term for the nickel market and I think it is very difficult to have a final position on this. I was recently in Indonesia, I heard from the minister, what they are determined to do in terms of market, exporting ore, we have complied with everything they expect for the future. But, however, they are very determined to bring benefits to their country.

I would also like to comment on CLN150, all five patios that we concluded, for the remaining six we have environmental licenses obtained with S11D. And what Galib mentioned regarding the missing patios, they were not built due to lack of licenses, but they were obtained during the licensing for S11D.

VLI this month - I believe this is a big disinvestment, to be disclosed after a lot of hard work, but I think it will be well-taken by the market. We see two foreign investors and one domestic investors, with a substantial amount for Brazilian infrastructure and we see a solid future for this company.

We intend to close this deal as soon as possible, with no rush, but very safely. This operation took a bit longer than expected, but I think it is better than expected. Regarding Marcelo, I want to tell him that we will work on a guidance regarding Nacala as we did with ore from S11D. I would like to announce this on Vale Day, when we might have all the elements, as today it would be in a bigger range, we can bring a study to present to you.

Again, thank you very much. We are motivated with your comments on our performance in the second quarter, in the first half in 2013 and until a future opportunity. Thank you and may you have a good day.

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