VALE
Conference call and webcast presentation
2Q14 Earnings Release

Jul 31th – 12:00 p.m. (RJ time) / 11:00 a.m. (NY time) / 4:00 p.m. (London time)

Operator: Good morning ladies and gentlemen. Welcome to Vale's conference call to discuss 2Q14 results. 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 and the recording will be available on the Company's website at: vale.com at the Investors link. The replay of this conference call will be available by phone until August 6th 2014, on ***+55 11 3193-1012*** – access code ***9285610#***

This conference call and the slide presentation are being transmitted via internet as well, also through the Company's website.

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. Luciano Siani - Executive Officer of Finance and Investor Relations (CFO);
- Mr. José Carlos Martins – Executive Officer of Ferrous and Strategy;
- Ms. Vânia Somavilla – Executive Officer of Human Resources, Health and Safety, Sustainability and Energy;
- Mr. Galib Chaim – Executive Officer of Capital Project Implementation;
- Mr. Peter Poppinga – Executive Officer of Base Metals and Information Technology; and
- Mr. Clóvis Torres – General Counsel

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, good afternoon ladies and gentlemen, welcome to our webcast and conference call. Thank you all for joining us to discuss our second quarter results. First of all, I'm pleased to report that Vale delivered a strong operational performance in the second quarter, with the best results ever for iron ore production in a second quarter, despite of lower prices.

We have big projects ramping up and also had consistent cash flows in our base metals business, and also improved operational results in the fertilizer business. This first half of the year we continued to achieve savings in cost and expenses amounting to close to US$ 250 million compared with the first half last year. Despite lower iron ore prices, we generated strong cash flows and were able to pay US$ 2.1 billion in dividends, and maintaining our gross debt and cash position at similar levels to first quarter 2014.

This quarter we suffered a drop in net income of some US$ 1 billion, reflecting the impairment of assets related to the Simandou project and the Integra coal mine. Discussions with the government of Guinea are advanced and we are diligent in developing alternatives to recover value from our investment in Guinea.

Overall, we are continuing to focus on productivity and continuing to ramping up important operations, and reduce costs, expenses and capital expenditures in order to achieve our goal of sustainable shareholder value.

Now I would like to talk about our financial performance, and then I will talk about our business segments. In terms of financial results, our EBITDA remained at just over US$ 4 billion, similar to the first quarter, with the continuation of our strong base metal performance with an adjusted EBITDA of US$ 690 million in the second quarter, despite major maintenance work in Sudbury. As mentioned earlier, in this first half of the year, we've reduced costs and expenses by close to US$ 250 million when compared with the first semester of last year. SG&A decreased by over 25% versus our 10% reduction target for the year, and pre-operating and stoppage expenses decreased by close to 40% versus our 50% saving target for the year.

In the first half of 2014, Vale's capital expenditure amounted to over US$ 5.1 billion, representing a decrease of US$ 2.1 billion when compared to the US$ 7.2 billion spent in the first half of 2013. The reduction is partially explained by a forecasted lower Capex budget for 2014, by the concentration of the year's Capex in the second half of the year, and by saving from scope optimization, commercial negotiations and project execution. Sustaining Capex also showed a decrease of about 20% when compared to first half of 2013. Net debt remained at a level similar to the last quarter, as just over US$ 23 billion, with a cash position of US$ 7.1 billion at the end of the quarter.

Our flagship area, as you know, is ferrous minerals. In this segment we had solid results even faced with lower iron ore prices. Iron ore production reached almost 80 million tons, the best performance for a second quarter ever, with the ramp up of the Additional 40 million tons of Conceição Itabiritos.

We have over 2 million tons stockpiled in Malaysia to feed the supply chain, as part of our logistic structure to give greater flexibility and to support stronger sales volume in the coming quarters.

Although our average sale price for fines suffered a drop, to US$ 84.6 per ton, this was softer than the relative decrease in the Platts iron ore reference price. Cash cost per ton for iron ore fines increased due to an adjustment in the reporting method, in which we are breaking down sales into fines and run-off mine. Later on, Luciano and Martins can discuss this in more details. The cost level slowed, and will decrease even further as production increases, diluting fixed costs and our internal cost reduction initiatives bear additional fruit.

Turning now to the base metals segment, I'm pleased to inform you that base metals business has made yet another excellent contribution to our results, with consistent cash flow generation. Adjusted EBITDA reached over US$ 600 million this quarter, despite major maintenance work at Sudbury, 10% more than last quarter's good results. Sales revenues of close to US$ 1.9 billion were 93% higher than in the first quarter 2014, due to the better sales prices, despite of lower production volumes because of the stoppage at Sudbury.

Ramp up at the conclusion of projects was a major contributor to the increase in base metals performance. Salobo I and Onça Puma generated consistent cash flows and contributed to 32% of base metals EBITDA. Salobo II came in on time and under budget, with a total Capex of US$ 1.22 billion at the end of the second quarter 2014. The completion of Salobo II in the second quarter 2014 concludes a successful phase of investments in our copper operations, with the Salobo projects coming on stream on time and under budget. Capex amounted to US$ 3.7 billion, out of our budget of US$ 4.2 billion. The first line at Salobo II produced the first copper concentrate in June. The NC is back in operation with two out of the three HPAL lines running at emergency stoppage. Long Harbor produced its first finished nickel on July 14th. Looking forward, the ramp up of ongoing projects reinforces our confidence that the base metals segment is set to achieve its EBITDA target of US$ 4 billion in medium term.

Now, to look at coal. Production in Moatize was slightly more than in first quarter. However, adjusted EBITDA was negative US$ 154 million due to low coal prices and also the low utilization of our asset base, as we wait for the conclusion of the Nacala Corridor. We have made progress on the Nacala Corridor in the key of our logistic challenges, with advances in line with our plans and reached physical progress of 77% in the greenfield sections. The first train is expected to run in the fourth quarter this year and our first shipments are expected by the first quarter 2015.

The fertilizer business continued to make progress. Adjusted EBITDA increased to US$ 72 million in second quarter 2014, from US$ 35 million in the first quarter 2014, mostly due to the positive impact of sales price. Production of phosphate rock grew in both Peru and Brazil, with a record output for the second quarter. We also continue to discuss partnership opportunities with a view to maximize our strategic options for the business.

Vale is committed to maintain efficient operations, reducing costs, expenses, and optimizing capital expenditure, in order to generate positive free cash flow in any price scenario.

Now, we move to the question-and-answer section. But before of this, I would like to ask Martins to answer Leonardo Correa, the analyst of Pactual, in order to give some further clarification regarding the pellets. Martins.

13:25

José Carlos Martins: Leonardo, when I answered your question before in Portuguese, I forgot to explain what is going on with the inventory formation, ok. Because we invoiced less than we produced, less than we shipped. So, what's going on is, we are now fulfilling the inventories in Malaysia. Malaysia is able to storage 4 million tons, and we are storing there mainly high silica material that we intend to blend with Carajás ore as soon as possible. By doing that we intend to improve price realization, because the material that will go to the market after the blending will be a superior quality material. So we expect two consequences of it, first is improving our average quality and also improve price realization. So, our strategy is to move our volumes as close as possible to the customers, and to sell this in the best time to sell. So it's a double target, and we don't intend to increase inventories on general because we are moving the inventories that we already have in the mines closer to the customers. So we expect this strategy not to be a burden on our working capital because we expect to keep the same total volume, but with the iron ore more and more close to the customer in our distribution center in Malaysia and also in our ships that is moving from Brazil to Asia, in a more regular basis. So I think it's part of our strategy this increase in inventory in this period of time, but long-term and also in the total, there won't be any additional increase in inventories in our company. I hope the explanation was good enough for you.

Murilo Ferreira: Sorry, Leonardo. Then, let's go to the question-and-answer.

Operator: Ladies and gentlemen, we will now begin the question & answer section. If you have a question, please press the star key followed by the 1 key on your touch tone phone now. If at any time you would like to remove yourself from the questioning queue, press star 2. Please, restrict your questions to two at a time.

Our first question comes from Mr. Rodolfo de Angele, JP Morgan.

Rodolfo de Angele: … in the first call, but I just wanted to follow up with two things related to Capex. First one, I guess with these numbers we're starting, I think it's pretty clear that you're delivering on growth on various aspects, so we're seeing your iron ore volumes going up, but I want to ask you to detail if possible how the big project, how S11D is going on, if you could give us some more detail on, you know, the works that are being done. And my second question still on Capex, we saw Salobo being delivered under budget, it's something, in the past we were used to see the other way around. So, you know, I want to ask exactly what drove, you know, the potential, the savings that were achieved, the 12% savings there, just to kind of use as a case study to, for us here to kind of check for potential savings on the rest of your Capex budget still in place. That's all for me.

Murilo Ferreira: Rodolfo, thank you very much, I will leave you with Luciano and Galib. Please.

Luciano Siani: Rodolfo, is Luciano, I will address the second one first and before handing to Galib. The major two levers for the savings on Salobo are twofold. The first one, the contingencies, which we did not use fully because of the good project execution, and the second one, the exchange rate, the depreciation of the Real in comparison to the original budget was not translated into cost inflation. We were able to keep the cost in Reais at the same level that we've budgeted, so we fully took advantage of the depreciation of the Real.

Galib Chaim: Rodolfo, good morning. Well, about the S11D, the project is going well, no problem so far. We have contracted up to now something around 50% of the project, spent around US$ 5 billion, considering the mine, plant and the entire logistic. The physical progress reached something around 32%, in line with the planned work, that is very important to say. We had some important good achievements, in this period of time the civil construction progressed very well, the mine and plant sites in the dry season, is very important, now we, remember that we have been working now in the dry season, the production is much higher. The one hundred, we have already assembled 58 completed models, among 109 to be completed, to be finished up to the end of this year. The expansion in the railway is also progressing well, we delivered two expansion, expanded segments, that is very important increase the railway capacity. In the port side, the onshore and offshore, everything is going well, we don't have any problem with the contractors, they are performing in a very good way. We have up to now 28 thousand workers on the site, that means, it's a huge amount of people working on the project. And so, I believe that we don't have any surprise, everything is running according to our plan. (pedir para o Marcelo) – Claudia, olhando o release de resultado do 2Q14, o S11D e a logística integrada somados não chegam aos 5 bi comentados . Ficam em torno de 3 bi, o progresso físico de 32% também não está em linha com os valores do release

20:41 Murilo Ferreira: Thank you, Rodolfo.

Operator: Our next question comes from Mr. Wilfredo Ortiz, with Deutsche Bank.

Wilfredo Ortiz: Good morning, I just want to ask you first on the SG&A front, we've seen some interesting reductions compared to last year, I just want to get a sense as to whether these are levels that should remain going forward giving that pre-operating and stoppage expenses should continue to trend down as the year progresses. And secondly, on the price realizations on iron ore, could you give us a sense, perhaps as to the differences that you are gathering from the northern system versus the southern system, and whether you're seeing or expecting an improvement from the discounts, perhaps, that you're realizing in the southern system with the investments that you've done so far. Thank you.

Luciano Siani: Starting by the SG&A, I'm happy to say that not only we believe that those levels are sustainable but we are actually already building plans for further reductions in the future, thanks for the productivity improvements that we are expecting from the implementation of new computer systems across the company.

On the pre-operating expenditures, we believe, if you see the numbers, we believe that you're right, it should trend down as the ramp up of VNC resumes and progresses, because that's the major contributor for the pre-operating expenditures today. So if we can eliminate those pre-operating expenditures, we should get to the 50% target that we've announced.

Murilo Ferreira: Regarding prices, Martins, please.

22:42José Carlos Martins: Yes, Wilfredo, as far as average price of our products, the northern system commands a better price, almost US$ 10 above the southern system price. And I think this situation will be reduced as time goes by, because we intend to blend more northern system ore with the southern system ore. So, by doing that we believe that we can get a net improve in our price because part of the Carajás advantage is not fully recognized by the market. So by mixing it with the southern system we can have a much better price for southern system material and not lose too much price from the northern system. So, going forward, I believe our price for northern and southern systems [23:37 – mute] … because of the blending strategy that we are implementing. And, in the future, when we'll have all those Itabiritos projects under production, we are not going to need to blend so much ore, and then we can have a better price in the southern system and also keep the premium that we have in the northern system. Generally speaking, it's what we intend to do, and that's what the development we expect to our blending and shipment strategy going forward.

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

24:26 Carlos de Alba: Thank you very much. First question is on cost. If I look at the outsourced services, excluding the impact of volume and exchange rate, I see an increase year on year in the second quarter and also an increase year on year in the first quarter. So, I know that the company is putting a lot of effort in reducing costs, expenses clearly have been trending down, but I want to hear your comments, maybe Luciano, on what is happening with these outsourced service line, which is the most important component of the company's cost.

And then my second question is, coming back to Carajás, I see that the company is still expecting to receive the global license to expand the mining operations of the current Carajás unit, and we are getting, we are going to get to the second half of the year. When is the limit by when you need to get this license so that you can still hit your production target next year? Given that, maybe December through March you have the raining season in Carajás, and that could affect the preparation of the mine and the expansion of the mine? Thank you very much.

Murilo Ferreira: Luciano, and later on, Vânia, please.

25:55Luciano Siani: Carlos, thank you for your question. The first two quarters of this year were unusually high in terms of maintenance services, and that explains part of the outsourced services, most of the outsourced services increase. So we had, as already mentioned, the shutdown in Sudbury, we had also a safety shutdown also in Sudbury in the second quarter, we had some fertilizer maintenance, and in the first quarter we also had corrections that we had to made on the projects ramping up- Onça Puma, Salobo and even in Plant II. So I would say, part of it has to do with the adjustments on the operations which are ramping up, which are generating cash, so, they don't go into pre-operational expenditures, because the cash generation is still positive, so they go into costs, and they are recorded as outsourced services. So we should expect, as the operations normalize, to have this line also trending down.

Vânia Somavilla: Regarding the license, we really don't expect problems and this should be coming soon. It will all depends on how, what will be written in the license, if you have a bigger license for the whole area or if you have a smaller license. And then if we have a smaller license, so we will have to adjust our production plans to this area, but, and then we will have to adjust but we are going to produce and ask for more licenses in a separate way. But it's ok, we can manage this and we can handle all the situation. I guess Martins should add something to this.

José Carlos Martins: Yes, complementing what Vânia said, we have everything on place to produce 150 million tons next year in Carajás, even if you have a restricted license, we don't see any problem in reach this number. But sure, if you get a complete license for the whole area, that will solve our problems for many years, otherwise we'll need to keep licensing year after year. But we are expecting to have a full license and then we have our free hands to produce as much as possible, to do what we do better, which is to produce in large scale and large volumes.

Operator: Our next question comes from Mr. Thiago Lofiego, with Merrill Lynch.

28:50 Thiago Lofiego: Thank you for the question, I have one follow up question. Martins, if you could comment on your expectations of new supply for 2015 in the market, you mentioned in the Portuguese call you expect additional 140 million tons of new supply in the market this year, but if you could share with us your expectations for next year. And also, if you could comment on, or give us some more color on the capacity closures in China, do you think they will be significant going forward or do you think that Chinese iron ore production is being more resilient than you would expect?

José Carlos Martins: Talking about your first question, I believe that the market is really in good condition, and the additional supply this year came mainly from Australia, and will reach something like, as I told you before, 140 million tons, but 90 million, 93 million to be more precise, was already absorbed by the market. So I think in the second half, the additional volume that will come to the market, against the same last year, half year, last half year of 2013, will be around 50 million tons. So I think in the second half, the pressure of the additional supply will be lower. As you know, steel production continues growing in China, and everywhere not so much, but continues growing. For next year, we believe that our estimates, at this point in time, is that additional 100 million tons will come to the market. But next year, the main source of this additional volume will be Brazil and specifically Vale.

I think normally people focus too much on price of iron ore and also in China. I think there is a reason for it, in the last six or five year, because Vale was not increasing production too much, and also because Vale had a lot of projects under erection, that was not contributing for the bottom line. I really believe that you and your colleagues need to focus a little bit more on the basics of the business, to focus in our portfolio of businesses. I think when we didn't have a good situation in other business, it was OK to look iron ore and to look China. But I think going forward, I really believe that you have to put those things in a second priority, because, and look much better at what we are delivering in the other businesses, OK? I think we have a very good upside in the nickel business, we are finishing our investments on coal that also will bring more volumes, and copper also. Then I think the issue of China and the issue of prices will have less impact when analyzing our results. I've been participating in these meetings for so many years, and it's amazing how much you focus on China and how much you focus on iron ore prices. Now I think is a moment that we are increasing volumes, we are reducing costs, so the drivers of our results will depend much less on what will be the price in China, and I think we are preparing ourselves to live in this moment. So I'm not very much concerned like many people are about China, sure that China will not grow so fast as it used to grow, but will continue growing. And we, as Vale, in the last seven years, we didn't increase any volume in iron ore, and now we are increasing, our volumes are coming to the market, but also our cost will be down, and our average quality will also increase, so, and the other businesses that we have are delivering better results also. So I kindly ask all of you to focus a little bit more in your analysis in the other businesses, in the results that we are getting in other parts of our portfolio of products.

Operator: Our next question comes from Mr. Alex Hacking, with Citigroup.

34:05**Alex Hacking**: Congratulations on the improved operating performance. I have two questions on Capex, if it's okay. I think in the first half, the Capex standing was only US$ 5 billion. You know, I understand there's seasonality there, but have you revised lower your annual guidance for Capex? Because US$ 14 billion seems high at this point. And then I guess the second question, you know, more high level, just looking out a little bit: you guys are done with Salobo II now, congratulations, Mozambique is the only non-iron ore project left, should be finished next year, so at what point do you start thinking about, you know, what else should be going in the pipeline? You're sort of planning to wait to see how iron ore prices shake out over the next couple of years? Or are you sort of willing to move sooner than that in terms of pushing some other non-iron ore projects into the pipeline? Thanks.

35:12**Murilo Ferreira**: Thank you for your question. I think that you are right, we are almost finalizing many projects like Salobo, Mozambique, right in process to implementation of S11D in south range of Carajás, the Itabiritos project we have so many projects that we intend to finalize until 2016, 2017. And as we have shared with you we are looking for the best return, but not looking at the highest volume to be the number one in volume. We want to have our assets in the first quartile, maximum in the beginning of second quartile, we wanted to have the chance to expand, call it, the brownfields and we must have just world-class project. In this regard, in case of not having new projects based on these assumptions, for sure we prefer to pay dividends and to reduce our debt. Again, it's our priority to bring the best return to our shareholders. Luciano, please, about the Capex.

36:26**Luciano Siani**: Alex, so let's discuss first capital projects. We have, yes, seasonality and especially because the weather conditions favor in Brazil, the construction works on the second half, so we should expect acceleration of the Capex spending on the second half. We are not sure at this moment if we are already able to announce a reduction in Capex for the year because we still, not only we expect this uptick, we are still working to realize more savings on procurement and on not spending the contingencies on the projects which are on the final stages, which are finishing, and also on scope optimization, but perhaps too early to give you an expectation of reduction.

On maintenance Capex, I believe we can already talk about a 5% to 10% reduction in what we have planned for the year, and that has nothing to do with deferral of important investments, of less sustain to preserve the integrity of the assets, but rather again with better planning, better engineering even of the sustaining projects, which can lower the budget, we are analyzing the tradeoffs and those are investments which have a shorter construction period. So, you can make decisions within the year that impact the year itself. So, I would say that so far we are happy to see maintenance Capex trending downwards and 5% to 10% reduction is something that we believe is achievable.

Operator: Our next question comes from Mr. Andreas Bokkenheuser, with UBS.

38:35**Andreas Bokkenheuser**: Good afternoon, gentlemen, thank you for hosting the call. Just a quick question on cost. So you have been guiding that, obviously, costs are going to come down as you ramp up production at Carajás. And, of course, there's always the chance of a FX, a favorable FX movement as well. Are you seeing any other options for costs to come down? Can you see any efficiencies being gained now, or had most of the stuff been done, and it's now down to Carajás at this point? Thank you.

José Carlos Martins: Martins speaking, as I told you before we will have a lot of opportunities for cost reduction, not only by managing cost but also by managing volumes, OK. We have different mines with different cost structure and we are bringing additional capacity with much lower cost. So, there we can manage our internal mix because we have a cost curve for the market but also we have a cost curve internally that you can manage to find the better mix between volumes and margin. And also ensure that we try to operate as much as possible with our lower cost mine. On top of it you have also a strategy to reduce our cost by better negotiating with suppliers and by improving our operations and our plants. And also I think there is a lot of space for innovations in what we are working now. We have also possibilities to reduce cost on the shipping side, as long as we put our, our, [40:34] DC operations. We have a lot of areas that we can reduce our cost, and I think, as I told you before, more and more our focus is in managing volume, and managing cost, and managing quality. I think these three points are very important in our strategy and as long as we are bringing new mines to the market, it's clear that you are going to see very positive impact on our cost structure and also in our practical practise?? [41:06] structure. New mines also bring better quality, also bring lower cost. In the last seven years, we are very much pressured by the depletion of existing mines that come deeper and the distance come longer and so that's now factored in our results. But from now on, we are bringing new production with much lower cost. So, I think, we are in a very better situation to reduce our cost, and I am sure that you are going to see as time goes by this lower cost to be in our results.

Operator: Our next question comes from Mr. Alan Glezer, with Bradesco BBI.

42:10**Alan Glezer**: Hi, good afternoon everyone. I have two quick questions here. The first one is regarding the copper business. I was looking at Vale's average sales price, it was 5% higher Q-on-Q, but meanwhile we saw that the reference price at LME was down around 3% Q-on-Q. I was wondering if you guys could explain why we have this difference, maybe if it was regarding the distribution of sales along the quarter? The second question is regarding iron ore. I was wondering if you guys could give a color regarding the iron ore inventory level at the Chinese news at the moment. We know that the inventory at the port remains elevated, above 112 million tons, but I was wondering if you guys could give a color regarding the inventory at the Chinese mills themselves. Thanks for taking my questions.

Murilo Ferreira: Please Peter Poppinga, about the copper.

43:07 **Peter Poppinga**: OK, thanks for your question. It's like you said, it's very normal adjustments. In copper, we have some intermediate products in our mix, like copper concentrate and anodes, so this explains some difference in the price regarding to LME. We also have our pricing system, it's a month after month of arrival. So sometimes you have a provisionally price at time of shipment with the final prices then settled on the basis of the LME price for future periods. So generally one to three months after shipment to customers. So it is a quarterly thing, a timing of sales, and should be normalized in the next quarter. Thank you.

44:00**José Carlos Martins**: Well, as far as iron ore ventures in China, the number for the [44:08 – unaudible]…to know, but the numbers of the, the inventories under customer hand is not that easy. In average we believe today these inventories are around 20 days and reducing, as the market is becoming more liquid, as the customer know that there is a huge inventory in the ports and a lot of ships coming to China, it's quite understandable that they are reducing the inventories that they need in their plants. So our last evaluation was around 20 days and we don't believe that they can go too much below that. Also to remember that the inventory was more than 30 days some years ago and have been reducing slowly as customers become more confident that there will be always some ships arriving and there will be always some inventories on the ports. So that's the situation today. But I don't believe that they have space to reduce more than 20 days their inventories in the plants, in the steel plants.

Operator: Our next question comes from Mr. Amos Fletcher, with Barclays.

45:30**Amos Fletcher**: I just had a couple of questions, firstly on the nickel business, and particularly the VNC asset. I was just wondering, it's running well below the guidance that you gave for 40,000 tons of production for this year. What do you think is a realistic number for this year's production, given what's been happening in the first half? And then, secondly, do you think that it's realistic for it to produce at full capacity over the medium-term, or do you think it's more realistic that only having two out of the three lines operating at any one time is sensible? And then my second question was just relating to the joint venture with, potential joint venture with Glencore that was discussed about a year ago in the Sudbury basin. There was a number put out there of synergies of up to 550 million back in 2006 in the original Xstrata/Falconbridge proposed merger. And I was just wondering, you know, where the discussions have got to and what the potential could be there in your view? Thank you.

Murilo Ferreira: Please, Peter Poppinga.

46:42 Peter Poppinga: OK, thanks for your question. So on VNC, we had achieved, we are on a good track, we had achieved two months at March 60% of the capacity of the plant, and by the way when you say three autoclaves versus two, because we have three lines, but for us to achieve 100% of the capacity you don't need to operate the three lines actually because there is always a, frequently a maintenance, a scheduled maintenance. So actually you have to only to operate 2.5 of the clips in average along the year, that's the right number to have in mind. But, then we had this asset spiel and there was, by the way, no damage in the ocean, and then afterwards some social unrest, being this the catalyst of that. So now we are back to the operation, but you are right, this is of course not achievable anymore, our target of 40,000 tons we wanted to achieve this year. So we are probably going to revise that. And for now it looks that 30,000 tons would be achievable, which by the way is not very close from the breakeven price which, on the current price levels. So at the end of this year, if we get good pace and good momentum, we would then reach a breakeven at the end of this year.

In terms of Glencore, what we are doing is because we realized we did a strategic break in our bigger discussions and what we are doing for now is trying to perform some of the smaller projects individually incrementally and we are doing some progress there. And by doing that sort of a top-down approach we are going more bottom-up approach and having little projects, little synergies being realized. That's where we are today. Thank you.

Operator: Our next question comes from Mr. Renato Antunes, with Brasil Plural.

49:00 **Renato Antunes**: Thanks for picking that follow up. First, on iron ore, if you could talk a little bit about the markets outside China? how are you guys seeing demand in other rival markets, Europe, Japan? And also on that context, today iron ore prices seem cheap on a relative basis when compared to scrap. And if you think that this lower price could increase competitiveness of blast furnace producers? And the second one, on the projects in Minas Gerais, the Itabiritos projects, if you could talk a little bit about project implementation there, how is that going on? If I'm not mistaken, I think Conceição Itabiritos II saw a minor delay to the startup. I just wanted to get your views on how that is moving forward. Thanks.

50:00 **José Carlos Martins**: You raised a very interesting question about scrap, because not only the prices of iron ore but also price of coking coal is now very convenient. So, I think steel makers based on scrap are having tough time to compete with steel makers based on blast furnace. But I believe that scrap has to go to the market at given price, OK, scrap is a price taker and so I believe that the there are many possibilities for scrap price to reduce going forward. As long as, iron ore and coking coal stay with price, the level are today, blast furnace operators will have a near US$ 100 cost advantage against the scrap on the present level. We are seeing in China, for instance, big steel makers that were used to use scrap blending in the blast furnace, they are avoiding it, because now if they put scrap in their blast furnace they will increase their cost.

So I think the moment is not for scrap to grow and I believe that this situation is already going on, not only in China but also in Europe and States, but long term scrap has to go down in order to establish the balance. So, I do not see this fact as a structural factor that can influence the market in long term. The adjustments will come based on price, you have many scraps that go to the market at any price you have. If you look for instance, car industry, they generate a lot of scrap daily, they cannot keep it, they needed to make it move. So, scrap is price taker, scrap processors are, scrap sellers are price takers, so they will have to adjust their price anyway. So I will not put too much emphasis on this as a way to change the technology of the company. You have some companies that have some flexibility, some steel maker that have some flexibility, but many of them or they have to use the scrap or they have to use pig iron, so the impact will be minor.

As far as the project, I will ask my colleague, Galib, to give more details about what's going on with our Itabiritos projects. After Conceição Itabiritos that already started, and it is producing now almost full capacity, but we have three other projects that will enter in the next two years. So, Galib will give you more thoughts about it.

53:20 Galib Chaim: Your question was related to the Conceição Itabiritos II, the second plant. It's very important to explain that the completion of the plant will be achieved at the end of this year. So, there is no delay on the completion of the plant. The problem is that, it's being a, let's say, a brownfield project, we have to do a lot of tie-ins to connect the existing plant to the new expansion. Those kinds of tie-ins, usually take something around two or three months. So that's the decision together with the operations instead of affecting the current year plant production, that means we can imagine of two months of shooting down a huge plant like that, the decision was to do the tie-ins next year, in, taking in the most, the most adequate, or the most, let's say, the time for to do it will be during the rain season, where the production usually is lower. That was the decision. So everything is going well. There is no problem regarding the Capex and the schedule, and no surprise up to now.

55:00José Carlos Martins: Adding another point is, we are now finishing the Pico Fábrica road that will link south system with the southeast system. This Pico Fábrica road will allow us to move near 20 million tons per year from one system to the other system, giving us a lot of flexibility and also allowing us to ship some iron ore that is now trapped in the south system because we don't have enough port capacity. So Pico Fábrica is very important, and also part of the Vargem Grande Itabiritos project is a terminal for loading iron ore that is now being completed and also you add much more flexibility for us, as far as loading ore and also mixing ore from southern system with ore from southeast system. We are putting a lot of small investments, that we call sustaining, in order to streamline production from mine to the port ,and we are going to get results of it from this year on.

Another question that you raised about the market outside China, in the first seven months of this year, it's very interesting to notice that the market outside China grew a little bit more as far as crude steel production is concerned. Outside China the growth was 3% and inside China was 2%. But as you know also, the markets outside China is less, it's more, scrap based, the content of scrap base is much bigger, so we didn't see a big impact on our market outside China. We expect that the better performance in the United States, which economy is now moving faster, and also in Europe will bring some additional demand for iron ore in the next year. But we do not count that this will have a big impact on our sales. Only to give you a figure, steel production outside China today is 30 million tons below the steel production that was reached in the first seven months of 2008. So we didn't get the same level of steel production outside China, and I think that this will be, one day you'll catch up, but I don't believe it will be sooner. I believe it will take more two or three years until steel production outside China reach the same level of 2008.

So our confidence is mainly based in China, Asia, Korea is increasing volumes, Japanese economy is very stable and also with good performance as far as steel production is concerned. But not in a volume that can change too much the picture as far as iron ore consumption is concerned. On the other hand the cost curve, we believe, will continue to work in our favor. Companies that have lower costs can really increase their volumes and keep very good margins generation as long as you have, control your cost and really improve your cost structure. As I told you before, our focus today is to manage, better manage our volumes, streamline our operations between the systems we have, blending more material, shipping more on a CFR basis, and reducing cost, which is our main priority. To keep Vale in the first quartile of the cost curve is our main priority, not only by working daily in our business but also by bringing projects that can really improve our cost structure.

Operator: Our next question comes from Mr. Leonardo Correa, with BTG Pactual.

59:40 **Leonardo Correa**: Hi, good afternoon everyone and thank you very much Martins and Murilo for the explanation from the last call. My question is regarding Mozambique and potential asset sales. I know that you already spoke about this in the previous call, but just looking at what happened with Rio Tinto, I mean, the company announced a sale of US$ 50 million of the Riversdale asset, which they acquired in the past for US$ 3 billion or US$ 4 billion. So I just wanted to get a sense of if anything changes with respect to the growth coming out of the Company and Capex also committed to the business throughout the next couple of years. And the second question, to Luciano. Luciano, this is a smaller detail, but anyways, you have a funding line of R$ 6 billion with the BNDES, also, infrastructure bonds of R$ 1 billion. Just wanted to, when you sum all that up, considering Vale's current net financial expenses, what is the level of decline that we can see going forward, given these very attractive rates of funding? Those are the two questions. Thank you very much.

1:00:50**Luciano Siani**: Leonardo, when you swap into US dollars the infrastructure bonds, you get to a dollar based rate close to 4%, and when you do it with the BNDES loans you get to, depending on the credit line, you get to 1.5%, 2%. So as you mix shift toward those sources, you tend to lower the average borrowing cost for Vale. However, we believe that, even because of the size of the exposure to BNDES, and even to some other export credit agencies, that the opportunities are more limited now to significantly borrow from those sources. However, if you look at the balance sheet, if you look at the income statement, when you go into the financial expenses, you see an increase in interest expenses and this is an accounting effect. Why is that? Because what goes into interest expenses is the nominal interest rate which is higher in reais than in US dollars. When you swap into US dollars, you get the derivatives, I forgot exactly what is the name of the line, but there is a line that tells you the effect of the swap rates, in which your swap not only the currency but also the interest rate. So there you get both effects, both the effects of translating from reais into dollars, and the effect of lowering the nominal rate also from reais to dollars. So therefore if you focus only on the interest expense line you won't see the decline in the borrowing cost, you have the aggregate of the financial expenditures, including the swap rates as well.

1:02:47**Murilo Ferreira**: Leonardo, regarding the Mozambique project, what we can tell you is that, as you know, in bulk material, like coal and iron ore, it's really very important to have a definition regarding the logistic, the railway and the port facilities. And if you are considering to analyze each project, many projects in Mozambique, you must take care of these events. As far as I know they were trying to have a specific route by river, during years and years. In our view, from knowing very well Mozambique, it was something that could be almost impossible to them to implement. Then we know that it's very premature to analyze the terms and conditions of the transaction, and mainly knowing that they had some issues not solved in the [1:03:45] country as well. Is what we have to say, is very premature to analyze even the price. Thank you very much.

I will appreciate to have an opportunity for so many questions. I apologize because we know that we have some further questions but we are not able to answer. We have already finalized our session. Thank you very much to be with us. Bye-bye.

Operator: This concludes Vale's conference call for today. Thank you very much for your participation. You may now disconnect.