VALE

Conference Call and webcast

2nd quarter 2014

July 31, 2014

Portuguese: 10:00 a.m. (RJ time)

Introduction

Operator: Good morning, ladies and gentlemen. Welcome to the Vale teleconference, in which the 2nd quarter 2014 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 require assistance of an operator during the conference call, press asterisk (*) zero (0). I should remind you that this conference call is being recorded. The recording will be available at the company website, www.vale.com, investors section. Replay of the conference call will be available until August 6 at phone +55 11 3193-1012, access code: 3436560#.

This conference call has been simultaneously transmitted by Internet, being accessible at the company site.

Before proceeding, I would like to clarify that possible statements likely to be made during this conference call 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;

- Mr. Luciano Siani – Executive Officer of Finance and Investors Relations;
- Mr. José Carlos Martins - Executive Officer of Ferrous Minerals Operations and Strategy;
- Ms. Vânia Somavilla – Executive Director of Human Resources, Health and Safety, Sustainability, and Energy;
- Mr. Galib Chaim – Executive Director of Capital Project Implementation;
- Mr. Peter Poppinga – Executive Director of Basic Metals and IT; and
- Mr. Clóvis Torres – General Counsel

First, Mr. Murilo Ferreira will comment on Vale performance in the second quarter of 2014. 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: Good morning everyone, welcome to our webcast and conference call. Thank you all for your time to discuss our results for the second quarter. We are really excited with our solid performance. I think that in general, at least according to the figures I received from a large number of analysts, results exceeded the Ebitda average, in a more favorable way compared to the cost of products sold, SG&A, research and development funds and even capex. Being under the expected value, this means maintenance, ultimately, of the positive cash flow.

Therefore, we are very happy to report these figures, with record numbers in iron ore production in the second quarter.

Of course, some numbers are less favorable in basic metals, but with very consistent cash generation. And with many significant projects in ramp up. We also had positive operational profit in our fertilizers business.

As I mentioned, we had savings in costs and expenses approximately of $250 million compared to the first semester last year. In spite of lower prices for iron ore, we also had very solid cash generation, and paid

$2.1 billion in dividends. And we have maintained our gross debt and cash flow in levels similar to the first quarter. Therefore, our net debt has almost remained unchanged.

We experienced decrease in net profit, mainly impacted by the impairment of related assets in Simandou. And the Integra Australian mine, the coal mine.

We continue with a positive discussion agenda with the government of Guinea and we are diligent to develop alternatives to recognize and offset somehow the amounts invested in that country through our subsidiary BBG.

In our results, I believe it is clear, that we continue to focus on productivity, having the ramp up, aiming the best efficiency possible to reduce costs, expenses and investments, with the most discipline as possible, in order to generate value for the shareholders.

Thus, we will begin with the financial performance, in terms of profit. As you noted, our Ebitda remained above $4 billion. Therefore, very similar to the first quarter. With the significant performance of iron ore, basic metals, which had Ebitda over $600 million.

This was despite the stoppage in Sudbury. Our maintenance stoppage. It is good to note that, although we interrupted our operations, the mine continued to operate. Therefore, later, we want results. The bottleneck of basic metal operations is exactly the mine. I have flexibility in operations, the refinery, and the smelter.

In the first half, we reduced costs and expenses by $250 million, comparing to the first half past year. SG&A continues to decrease, expressively, by 25%, after great reductions seen last year. You do remember that we were committed to deliver 10% more this year. We managed to get 25%. And pre-operational expenses decreased to something close to 40% compared to our goal of 50% per year.

In the first half, investments totaled approximately $5.1 billion, representing a $2.1 billion decrease, compared to $7.2 invested in the first half 2013. It is important to explain this reduction, as it is expected in our 2014 budget. In the second half we have great concentration of investments due to the rainy season in the North, especially where we have our greatest project. And we have a dry second half, providing for stronger investment in our projects, in the deployment of our projects.

However, we had savings due to the seasonality, but also due to the optimization of the scope, commercial negotiations done at a time that was more favorable to the buyer, and good execution of our projects. Maintenance capex also experienced a 20% decrease compared to the first half 2013. Net debt was maintained at levels similar to the last quarter, a little over $23 billion. With $7.1 billion in cash by the end of the quarter.

Our main business, iron ore, presented very favorable results, really well indeed. Despite lower prices. Production reached approximately 80 million tons, being the best production in a second quarter, during the whole history of Vale, due to greater productivity, ramp ups of +40 and Conceição-Itabiritos.

We have more than two million tons in stock in Malaysia, to provide for our supply chain. The project was concluded. We are finishing up some arrangements and it is ready to receive these two million tons. This project in Malaysia will increase a lot our flexibility to support greater sales volumes in the coming quarters.

The decrease in our prices for fines to $84.60 was smoother than the decrease in Platts' reference price for iron ore. Cash cost increased due to the separation for reporting purposes between iron ore fines and run of mine. Later, if needed, Martins and Luciano may discuss this with you.

Our cost level, which is very competitive and, will decrease even more with dilution of fixed costs exactly by the production increase and other initiatives aiming cost reduction.

Basic metals had excellent contribution for results, with very consistent cash generation. Ebitda achieved over $600 million in the quarter, 10% above the good results we have seen last quarter. As I said, and again, I repeat, despite maintenance in Sudbury. Operational income was approximately $1.9 billion dollars, 9% higher compared to the first quarter. This is due to best sales prices, although we had lower production volumes.

I would like to highlight that Salobo I and Onça Puma had Strong cash flow and contributed 32% in the Ebitda in basic metals, therefore, projects we recently put into start up. Salobo II was delivered on schedule and within the budget, with total investment of $1.22 billion by the end of the quarter. Conclusion of Salobo II, in the second quarter, ended a successful phase of investment in our copper operations. With Salobo I and II coming into operation in a very positive way on the investment discipline point of view. Total investments summed $3.7 billion, therefore, below the $4.2 billion budget. Following exactly this discipline line we have been promoted for quite some time. The first line in Salobo II produced the first concentrated copper in June this year.

Regarding VNC, we have been operating with two HPAL lines, after the stoppage notified to the market. We continue to look in a positive way, in the same way that we informed you that iron ore was working efficiently; we reinforced our trust on basic metals for growing goals, in terms of Ebitda, as well as free cash flow.

We will have a very expressive free cash flow this year from now on. Coal. The production in Moatize was higher than the first quarter, however, adjusted Ebitda was negative by $154 million and then, as you see, this is mainly due to low coal prices and also low use rate of our asset base, while we wait for the conclusion of the Nacala corridor. The Nacala corridor continues to move along, and reached 77% physical completion in greenfield sessions. The first train, again, this will happen, we will circulate it by the last quarter this year.

Therefore, from Moatize, where we are, to the port of Nacala, there are 912 km in railroad and we will move from one end to the other in the last quarter this year. The fertilizers business progressed, and the Ebitda increased to $72 million in the second quarter, compared to $35 million in the first quarter. This was mainly due to sales prices. The phosphate rock increased in Peru, as in Brazil, and we reached a record production in the second quarter. We continue to discuss partnership opportunities, aiming to maximize our strategic options for the business.

We repeat that we are, every day, the whole team at Vale, we are committed to bring the greatest efficiency to our operations, reducing costs and expenses, and making investments in a very serious, and strict manner. We aim to generate positive free cash flow in any price scenario. I repeat, the Company cash flow, the debt did not increase, despite a more challenging price scenario, project deployment, expansion of S11D, the greatest project, the greatest investment in our history, despite o four investments in the Nacala corridor, railroad and port, and the Moatize mine, Itabiritos projects, just to mention a few. And our debt remained unchanged. This is the result of the great efforts employed by Vale.

Let's move to questions and answers, and we will try to clarify your doubts. Thank you very much.

Operator: Ladies and gentlemen, now we will start the questions and answers session. 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.

Our first question comes from Mr. Marcelo Aguiar, Goldman Sachs.

Marcelo Aguiar: Good afternoon, good morning, gentlemen. Thank you for this opportunity. Congratulations on the management of the Company cash flow. The improvements are really significant. Two questions. The first one is focused on the capex issue, to continue with the discussion on cash flow, Murilo. There was realization of only 37% of the maintenance budget projected for this year. You said capex is concentrated on the second quarter, I believe more on projects. Can you share with us what would be the expected payments, for investments on fixed assets in the second half, considering this very lower performance, especially in maintenance. And also this capex issue, looking forward, capex drops quite significantly by 2016. I would also appreciate if you could, in the long run, if the Company would be able to bring new relevant projects that cause capex, for instance, 2016, be higher, than, $10, 11 billion. I believe you are modeling below $10 bi. And the second question would be regarding costs. We have seen a very good production in this second quarter, with greatest concentration in Carajás and I believed that the cost per ton would decrease, quarter by quarter, considering Carajás and a higher volume. Just to understand the trend of costs for the Company and how do you perceive this trend for the coming quarters. Thank you.

Murilo: Marcelo, thank you very much for your question. I will answer the question and then I will pass it to Luciano. You are right, we will have a reduction on capex disbursement starting in 2016, but this is not something new, right? We said and we are following what was promised, that is, we will invest in world class projects. Vale will not increase volume at any price. We want to increase, whether the iron ore, copper, nickel, coal or fertilizers business, in something that is different. Projects that we can expand in the future, when the cost is in the first quarter, maximum in the second quarter, to produce different products, that are well received by our clients.

Then, evidently, you don't have projects with these characteristics, in the world, especially after a period that is as excessive as we have seen recently. It is natural. It will be challenging to shareholders, to the Company, to present projects of the same quality as the ones we are presenting, especially, in the dimension they are now. There are $8 billion in Moatize, in the Nacala Corridor, and $19.5 billion in Serra Sul. Very expressive values. But we do not intend, this is the Company strategic plan, this is the same story we have been telling since 2011, this discipline and, if you don't have these projects, there are two ways to allocate the funds. Reducing the debt and paying more dividends. Luciano, please.

Luciano: Marcelo, regarding the capex trend for the year, Murilo, said, regarding capital projects, there is a trend to make more in the second half. Therefore, we are a bit careful to reflect other effects in a lower estimate, which are scope management, better Project management. In terms of maintenance capex, as you mentioned, we think we maybe can really signal a decrease in the year compared to what we had originally predicted. This decrease may be between 5% and 10%. I think we have some security to say that. Then, therefore, this is the scenario. There must be an important recovery in capital projects, maintenance capex projects will also have some recovery, but we will possibly end little below the budget this year. Regarding costs, composition of iron ore costs is very complex. There are many effects that sometimes offset negatively and positively. What I can say is that if you look, if you translate cash cost reported in Reais, using Exchange rates, you will see that the cost in Reais remained constant. Therefore, the slight increase was basically caused by appreciation of Real. This means that in a challenging scenario, we have many, especially personnel and services, which is a more important component of the iron ore costs, we see increase in Reais, by 8% to 10%, parametric formula due to the lack of labor scenario. But in this quarter, despite this pressure, the cost in Reais remained constant. Some accounts show performance indicating reduction even in Reais, which are outsourced services, own personnel, them I believe that, although one quarter is a short period to see a trend, we clearly see that costs are under control and have significant structural elements, where we perceive a reduction. When the exchange rate stabilizes, if it does not continue to appreciate, we should see that translated as a decrease trend in dollar costs.

Murilo: Marcelo I would like to emphasize something that Luciano said. We have not added sustaining. The changes were as follows. Today, we have almost an agreement between the parties, between corporate and operational managers, where they have a multi-year plan, they do not have to make estimates to be subject to the budget each year, each of them can establish their own schedule, relying on it, funds will be available, and we are able to make a better schedule. This type of agreement, today, is done in a scenario that offers more certainty, more conviction. As we are based on well developed projects, and, also, a scenario where purchases are made in a more competitive way. Thank you, Marcelo.

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

Thiago Lofiego: Good morning everyone. Congratulations on the results. I have two questions. The first one is regarding environmental licenses that you expect for the second half, if you could tell a little bit regarding exactly what you expect and the timing, as well as how this will impact the ramp up of + 40, plant II. And if you could quantify the ton capacity of plant II expected for this year and next year. The second question, regarding realized price, I would like to understand if we can assume greater share of CIF sales compared to FOB sales in the coming quarters, as it happened in this quarter, that increased to 56% of CIF sales. And on realized price, if there was any gains in terms of quality in this quarter, if you sold more tons with greater grades or lower impurities.

Murilo: Thiago, thank you for your question. We certainly will not present guidance regarding next year, but Vânia can give you a Picture of how she sees the licensing process, the steps we have ahead in the coming months.

Vânia: Good morning, Thiago. Thank you for your question. Regarding licensing, we really expect now for the second half, and we have had some achievements this year, for instance, the renewal of the LO for Corumbá, and the LP for the expansion of Corumbá, we also believe in the LI for Corumbá this year. But also, which is very significant for us, is what we call the Global EIA, which we believe is in the final stages of study, of the assessment by the environmental entities. We call them environmental entities, as this is a licensing in the National Forest of Carajás, there is involvement of Ibama and ICMBio. Every interaction we have had with environmental bodies have been positive, regarding this license, and the Global EIA, we call, and the Global EIA is the remaining portion of Serra Norte. We moved to Serra Sul, which is S11D, but the portion of Serra Norte, which is the part in operation, the Southern portion of Serra Norte, this is what we call the Global EIA. Then, we have a very positive expectation for the beginning of the second half, to obtain the license.

Martins: Good morning, Thiago. Good morning, everyone. Regarding the ramp up of the +40 plant, this is going on normally and we believe that by the end of the year we will be able to operate Carajás in the capacity limit, which is, today, around 150 million. The plant is ready for that. Regarding CIF and FOB sales, we have a policy that aims to increase our CIF sales and this has been going on normally, including negotiation with clients, especially those with agreement and contracted vessels, and this takes some time. But you can consider the increasing volumes of CIF sales, as this is a policy we have defined and have been evolving towards this. Regarding quality, quality in this quarter was basically equivalent to the quality we produced in the previous quarter and we really believe that to the extent that the ramp up of our production capacity in Carajás and the projects deployed in the Southern system come into effect, we will have a more positive evolvement in terms of quality. To date, we have been operating within the same quality standards and, with that, indeed, we cannot expect, unless there is a change in market conditions, any positive impact in quality, in the short run, during this year.

Operator: Rodolfo de Angeles, JP Morgan

Rodolfo de Angeles: Good morning, my two questions are as follows: First, regarding cash generation, we have discussed about the main drivers, you gave some guidance on volume, costs, etc, but there are two aspects that I believe to be important for the next, for the second half, and next year, which I would like you to comment. First the base metals performance, how do you see cash generation this coming year and the next? And what can we expect in terms of potential divestments? And my second question is about Simandou. Murilo, you mentioned there is positive expectation, I wonder if you could give us some details. Thank you.

Murilo: Rodolfo, thank you for your question. Regarding Simandou, we made investments of over $700 million, whether in civil works or equipment, and we believe this will be valuable for the winning party of the dispute with the Government of Guinea. We have had contacts with a very good positive understanding agenda with the government of Guinea, to be acknowledged in the document. And there is another thing, although we had it internally, we believe the arbitration procedure against our former partner in the Simandou mine will come to an end and we believe we have a favorable case.

Regarding cash generation, I will ask Peter to talk a bit, but regarding divestments, we continue on working very focused on our coal business. We are going through an important time in this aspect. Negotiations are ongoing, I'm sorry for not concluding them in the first half, as we wanted, but the delay is not very significant, and we are working as hard as possible to have this result. Regarding fertilizers, we said before that we had an agenda to be built by the end of the year. Things sped up a bit in the last weeks and we continue on working hard to have some new facts. There are some divestments, but I will talk about them timely. Please, Peter.

Peter: Thank you, Rodolfo, for your question. Cash generation, with no guidance, but if you consider the first and the second quarters, free cash flow from base metals, was almost $500 million. As Murilo said, we have some recovery, from the production in Sudbury expected for the second half and the ramp ups, and prices probably evolving for the better. Therefore, second half will be stronger, probably, than the first, in terms of free cash flow. And in the medium term, naturally, these figures will increase substantially considering our efforts to reduce costs, which are on-going. There will not be a drastic reduction as we had from 13 to 14, but there will be a reduction. And prices are improving. Again, I say that our estimate from a few months back, if prices, in terms of Ebitda, if you look ahead in the medium term, if prices continue as they are, which we do not believe will be the case due to the trend in Indonesia. But then, we would have, in the medium term, base metals Ebitda over $4 billion. But if we look at nickel prices, a bit more conservative, 20 to 25 thousand, we talk about an Ebitda of $6 billion. Thus, someone who wants to believe in more realistic and less conservative prices, for each thousand dollars per ton, you add $300 million in Ebitda. This is an increasing cash generation for base metals.

Murilo: This cash flow is well favored, as we have no new projects, we are enjoying the fruit from recent years, when we invested a great amount, right, Rodolfo? And now with Long Harbor in operation, this is the milestone of our operation, Salobo I, Salobo II and Onça Puma which restarted, as we expect that New Caledonia will not offer negative uncertainties and only positive ones. Thank you, Rodolfo.

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

Renato Antunes: Good morning, everyone. Thank you for the question. The first question is about pellets price, in the pellets market, we have seen a second quarter with very strong price, very high spread. If you could tell us how you see the pellets price, pellets margin, this would be interesting. And the second question, in a past issue, but there might be something new, which is the payment of Refis, from foreign subsidiaries. How do you see the court dispute or the chance of making payments at least in court? If you could share something with us, this would be interesting. Thank you.

Clóvis: Good morning, Renato, this is Clovis. Renato, as you know, regarding Refis, there was a decision in STJ, 3 to 1, and as expected the Treasury appealed. And today, this appeal is under analysis. I mean, there is nothing new. The process is ongoing. No new case has arrived at the STF. Therefore, we must wait, until the STJ schedules the analysis of the appeal by the Treasury. Basically, the Treasury asks that it is taken to the STF. As we imagined. They want to remove the discussion from the STJ, as they have realized the result is basically consolidated and they want to discuss this in the STF. We hope the STJ considers that this matter is not unconstitutional as we said all along.

Martins: Renato, Martins. Regarding the pellets price, first you have to consider that the premium on pellets remain stable, around $40 above IODEX, right? Another thing to consider is that most part of pellets is sold under agreements, there is almost no sale in the spot market and these sales are basically to Europe, Japan, and pricing, agreements, are almost all of them based on the prior quarter, or the same quarter. It doesn't have the volatility we see, for instance, in ore price, which has very different pricing. Looking at these two parameters, aside from IODEX variations that affect this composition I mentioned, I would say that the pellet price tends to continue with this trend, around $40 dollars above IODEX. But again, I repeat, considering the pricing of agreements of pellets uses a different basket compared to fine ore.

This is why sometimes we see stronger variation in the premium, up or down. But this is all due to the reference. Basically this is it. I'm not sure it answered your question.

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

Leonardo Correa: Hello, good morning, everyone, thank you. Again with Martins, I mean, my question regards iron ore. We see some investors talking about historical seasonality in the production in China, for steel, in the second half. I would like, Martins, if you could talk a little about what you see in the market and the outlook for this second half. I mean, the first half was very strong, an avalanche of offers from Australia, we see data from Port Hedland and Denvior, I mean, the increase was over 100 million in offer, thus, talking on the offer side, that may have come to an end to 2014, compared to the demand, we see data on activities in China improving a bit PMIs above, the real estate market finally stabilizing a bit, and considering your idea on demand and supply-demand in the second half, I think it would be helpful. And my second question is also regarding iron ore, I mean, considering the creation of inventory. I mean, we have seen another quarter with creation of inventory, especially in Malaysia, another two million tons. I would like to have your view on the scope of this inventory creation, I mean, how many more quarters, if there is a view on the creation of inventory, how many more quarters for this movement. These are my questions. Thank you.

Martins: Well, starting with the market, historically, the second quarter, in China, is always better because this is an economy characterized by great government influence in central planning, right? Then, catch up of government goals, is always stronger in the second half. You can see that after a not so good half in terms of GDP, with some concern for failing to meet the goal, there is a clear government effort to reactivate some sectors and release some more credit to meet the goals.

Historically, the end of the year is the time when this fixes appear in terms of goals. Provinces, ministries, all of them have very strict goals to be met and we end up seeing this phenomenon every second half. The expectations for the second half are better. As you said, there was an increase above expected in seaborne market offer. Our figure, which we estimate every year, would be a growth around 120 million tons, in terms of seaborne market offer, and we see a figure today closer to 140 million instead of 120. Then, 20 million more is an appreciated growth. There was contribution by the anticipated ramp up of some expansions in Australia and the favorable climate, regarding hurricanes, the hurricane season, that had almost no impact, and even in Brazil, when the rain season was very weak. We had an increase exceeding our expectations. From the demand point of view, the effect was the opposite. I mean, we expected a little higher demand increase, in terms of steel. And demand growth was a little lower, in the Western Hemisphere and in China. On one side increase in offer, and on the other a little weaker demand, and logically, correction appears in price. The market mechanism works. And the cost curve also shows to be working, since despite this not very favorable picture, the seaborne market is growing this year at almost 20% compared to the year before. This shows that there is a strong potential to take the share from less competitive producers, and I believe this phenomenon will continue. The great offer increase in Australia this year will probably not happen in the same proportion in future years, although there are some ramp ups outside Australia, including Brazil, our case and our project Minas-Rio. There are a series of ramp ups outside Australia which should have some impact next year.

But we are still optimistic regarding China, we believe they have been showing a good capacity to control and maintain their economy, despite negative expectations we have seen and we believe this phenomenon will continue. In our opinion, the next two years will be a catch-up period between this increase in offer and the evolvement of demand. If we have a better behavior outside China, in the case of Europe, United States, Japan, Korea, this would help a lot. I mean, we have been working with this expectation. We are moderately optimistic regarding price, we are very optimistic regarding our ability to gain margin by increasing volume and reducing cost, with new projects coming into operation I believe more and more people will have to consider the price issue and the ability to manage volumes and cost reduction, where we have a great potential to improve our income.

Murilo: Thank you, Leonardo.

Operator: Excuse me, I would like to move to Mr. Murilo Ferreira, for final considerations.

Murilo: Well, again, I would like to thank you for attending our call. Talking about our commitment, there are no changes to the narration by the Company management, approved by the Board of Directors. We will continue to work carefully, in a simple way, focusing on shareholder profit. Thank you and see you.

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