



International Conference Call
Vale
4th Quarter 2007 Earnings Release
February 29th, 2008

Operator: Good morning ladies and gentlemen, thank you for standing by and welcome to Vale's conference call to discuss fourth quarter 2007 earnings results. If you do not have a copy of the relevant press release, it is available at the company's website at: www.vale.com at the Investors link.

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions will be given at that time. If you should require assistance during the call, please press the star followed by zero. As a reminder, this conference is being recorded. The replay will be available until March 10th, 2008. To access the replay, please dial (55 11) 4688-6312 (access code: 818). The file will also be available at the Company's website at www.vale.com, at the Investors section. This conference call and the slide presentation are being transmitted via internet as well. You can access the webcast by logging on to the Company's website, www.vale.com, Investors section or at www.prnewswire.com.br.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors.

With us today in Rio de Janeiro are Mr. Roger Agnelli, Vale's CEO and Mr. Fabio Barbosa, Vale's Chief Financial Officer. First, Mr. Agnelli will make his opening remarks and then Mr. Barbosa 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. Agnelli. Sir, you may now begin.

Mr. Roger Agnelli: Thank you very much. Good morning everybody, it is really a pleasure to be here with you today. First of all I do not like really to talk about the past, but let us talk a little bit about 2007. 2007 was a bumpy road, here we had a lot of problems, we had a lot of challenges to be overcome. I think we were able to deliver a very good result. The beginning of 2007, the first quarter, was a disaster in terms of performance, we had a lot of problems with rain, with social movements stopping our roads and we had problems with costs, with supply, with a lot of things etc., etc. But during the year we improved a lot our operation, the last quarter was really very strong. This first quarter of 08 is going to be much better than was last year; I think we invested a lot of money in automation, in improving our facilities, improving our personnel in terms of training, in terms of processes, etc. So 2007 was a very nice and very good year in terms of results, we achieved records in almost every single operation in terms of results.

The investments we had some problems with licenses, we had problems with permits but anyhow we could, we were able to deliver all the investment that we were supposed



to realize. So I am very happy with the results, the team worked very, very well. We finalized the acquisition of Inco in the first quarter of 2007, the integration is going very well, Inco's result was very good and I think it is completely stable; of course we had some problems, we faced some problems in Inco in terms of maintenance, in terms of the reliability of the operations, but we invested a lot and I think 2008 is going to be much better than was 2007.

In terms of market the market is still very strong, was very strong last year, I think for 2008 the demand is still very, very strong in China, in Japan, in Middle East, in Europe, everything is going very well. Brazil is growing, the demand is growing here, I think what have in mind, what is concerning the right now is only the projects; we need really to invest, to pay attention about the costs, about the schedule of the investments. You know it is not going to be ... it is not easy, it has not been easy to overcome all these challenges that we have to realize, all the investments that we have in our pipeline. But anyhow, 2007 was good, I think was a record year. 2007 was maybe worse than is going to the 08 – I am very optimistic that we are going to have or to realize a very nice and very sound year in 2008. I would like now to ask Fabio Barbosa to talk a little bit about the past and I will be very happy to answer any questions you may have later on. Thank you.

Mr. Fabio Barbosa: Thank you Roger, good morning to all of you who are attending the conference, thank you very much for that. Let us start with our performance in 2007. As we put there we believe that is the second vintage year for Vale after a great year in 2006 - that we called of vintage by then - and now we are repeating the same label because we do believe it was a great year for the company. It is an outstanding operational performance with nine production records and outstanding financial performance as you can see in the several indicators as you put there.

As for iron ore we would like to stress the fact that we are the only player with a global reach actually, we are in all the five continents and last year we reached the record production of almost 296 million mt and in shipments 296.4 million mt.

We are the largest supplier and the leading supplier to China, which is the most dynamic market that we have today and again we were able to negotiate a very satisfactory price increase with our clients for both, fines in the Southeastern and Southern systems and the high quality ore of Carajás. We are happy with the outcome, we believe that was a very satisfactory agreement between the parties ensuring or stressing again the long-term nature of our relationship with our clients. So that is a very important signal that we convey to the market.

As we look at our performance in the last five years we did deliver very strong results, our net earnings grew average per year 66.2% and our Ebit margin jumped from 30.7% to 44.2%, despite the cost pressures that we have been facing associated in particular with the long cycle, the appreciation of the currency and the inflation costs as you could appreciate in our list.



Our operational margins are very sound, ferrous minerals 47.9%; non ferrous minerals 47.1%; aluminum 31.2% and logistics at 24%. So it is a very good performance across the board in our operations in 2007 making this, again as I mentioned before, a vintage year for the company.

In terms of Ebitda, excluding the effect of the non-cash adjustment of inventories our Ebitda reached US\$ 16.8 billion and also a growth rate of around 67.7% per year over the last five years, a very strong performance and the composition changed to reflect the acquisition of Inco and now non ferrous minerals are representing 43.2% of our total cash flow; ferrous minerals 47.3%; aluminum 5.8%. If you put together aluminum and non ferrous we would have almost an equal split between ferrous and all non ferrous materials that we have in our portfolio. So it is a very good balance, exposing the company in an equal way to the bulk and the more volatile markets in our products.

As for the evolution of our Ebitda we have a growth of US\$ 4.5 billion compared to 2006 and of course prices were a major driver, volumes as well - given the increase in our production - and then we invested more in research and development; we had some non-cash adjustments; we faced the challenge of coping with the cost inflation that is being observed it in all operations, mining operations around the world as you can see; and of course the appreciation of the currency that implied a major impact in our cash flow - although, as we mentioned before, margins were up and with a very sound figure in terms of consolidated margins.

Another point that I would like to make - and this was a major challenge when we acquired Inco in 2006 - was the fact that we did deliver again what we promised in terms of de-leveraging the company and at the same time keeping the remuneration to our shareholders in line with the expectations, so in 2006 we invested US\$ 20.6 billion; 2007 we disbursed US\$ 11 billion in Capex; at the same time our dividend per share reached 39¢ - US\$ 0.39 - a growth, accumulated growth rate of 26.8% in the period that Vale invested very heavily in the expansion of its operations and also had a very important acquisitions program.

So we were able to combine a very aggressive Capex¹ program with a sound dividend payment to our shareholders and at the same time with a very sound balance sheet, with our total debt/Ebitda coming back to the same level it was in 2005, in the first quarter of 2005 after the acquisition of Inco at the end of 2007 ... 2006.

So after reaching 2x total debt/ Ebitda in 2006 our total debt/Ebitda is now 1.1, a very comfortable position that we are. And, at the same time, we took advantage of the very favorable market and we were able to improve sharply the profile of our debt structure.

I believe that another important note would be on the capability to generate value to acquisitions growth as we put there in page 13 and the fact that we did have a very successful integration of Vale Inco in our operations. It was a major challenge for our company considering that it was the first major international acquisition for a company that until then was basically a Brazilian company. We were able to combine operations,

¹INCLUDING ACQUISITIONS



to keep the production in line with the budget and we delivered a very strong result and at the same time we enjoyed a much better environment than we anticipated by the time we made our offer.

So we were very happy, very fortunate to see this very good combination of good integration and a much better than expected market for our products and I believe that this was a remarkable achievement for our company, we feel that we delivered what our shareholders expected from us with a in record nickel production of 247,900 metric tons in 2007; with the new projects in the Sudbury Basin - for instance Totten that is the first project in the Basin in the last 30 years; the increase in reserve in Sudbury Creighton Deep that we announced during our investors tour in May, last May and June and the capability to explore the synergies in the Sudbury Basin, the global procurement there in place and mineral exploration that we now have a global mineral exploration office, let us say.

I think that the most emblematic aspect of this integration is the successful implementation of Goro, the development of Goro. It was a very challenging project and if you recall every single day we had some bad news in the press about the project - either with the community, or the government, or the permits, the fact is that the project disappeared from the press - nothing against the press, but it is just a fact - so we were able to implement the project and in page 14 you have a comparison between December 2006 and 2007. It is amazing what we were able to achieve in just 12 months and the project is on track to reach the startup of the first autoclave in October and production will start by the end of 2008. It is impressive, a very large project and again we are delivering what we promised.

Finally I would like to mention that in 2007 again we ranked first as a global leader in terms of total shareholders' returns when we compare the last 5 years ended in 2007 with 73.7% of TSR, is understood that in the mining industry in terms of total shareholders' return. We are very happy with the outcome and if you look at the other ranks comparing with the large companies we also performed extremely well. It means that the right strategy was met, the right environment and the right execution - so we were able to deliver value to our shareholders over all these years and I believe that our market cap is reflecting that at this stage.

A brief comment on the topic social responsibility. We are very keen on building a safer place to work, so we have been working very hard ... we are not happy yet, but we were able to sharply reduce the lost time injury frequency rates by 31% - a sharp decline - but we are not happy yet, it is something that Roger is personally involved, is very focused on that and he is asking every single week about our performance. So this is actually something that is in our daily agenda and all our operations as well.

And in terms of investments in corporate social responsibility our social projects absorbed US\$ 251 million last year and the environmental protection activities US\$ 400 million. In the period between 2008 and 2012 we are going to invest US\$ 4.2 billion,



almost US\$ 4.2 billion in both activities - again, a record sum to be invested in those areas.

Trying to join Roger here and talking about the future, let us move to page 21 and I think this first chart is a very interesting one because its position the reference there is July 1st, 2007 and July is the month where the major turbulence associated with the subprime started and as you can see there in the red line Vale's shares clearly decoupled from the performance of the world equities and also the specific performance of our sector and MSCI, Metals & Mining meaning that we were actually able to show market and markets were able to perceive that we were in the midst of something of a different nature, but the company has a very good strategic plan, has a very good environment to work with and was delivering the results the market was expecting and in a way this price evolution indicated that the market did not buy the perception that that would be a major deceleration in the global economy with negative effects on our specific market.

And if you turn to page 22 you will see that this is something that is evident by the numbers if we take into consideration previous episodes of deceleration of the global growth - let us take the end of the '80s and '90s, where we had a reduction of the world economy growth below 3% per year and then in the late '80s and 1990, 1991, there was a clear decline in the metal prices, combined metal prices; the same happened after the Asian crisis and with the deceleration that followed, 1998, 1999; and then technological bubble in 2001, after September 11 as well; so metals, they are in a way lead indicators ... metal prices are lead indicators of the deceleration of the economy if we can say that.

On page 23 it is in more details of the same argument, so we see the combination of page 22 and page 23 the message here is that there is no single sign of deceleration of the world economy that would affect in a meaningful way our markets; to the very contrary, prices are very steady. If will look at the latest figures for nickel, aluminum and copper we see they are reaching record levels this week, this very week - not for nickel that reached a higher level last year - but clearly aluminum and copper are in a very high level and in the case of iron ore even after the settlement of the benchmark price the spot prices did not decline. So Indian iron ore is being treated at US\$ 215 per ton and the Chinese iron ore spot market is US\$ 204 per ton. The same goes for metallurgical coal and coking coal, hard coking coal, clearly the spot prices clearly decoupled the contract prices indicating a very strong market and this is in a way a concern that we have due to the associated demand of hard coking coal and iron ore. So there is an absolute discard of hard coking coal, it could affect in a way our iron ore sales as hard coking coal is also required to produce steel.

This performance of the commodities is of course associated with the change in the world economy, particularly driven by the emerging market economies that are in a massive process of urbanization and industrialization. So this is what makes this cycle longer, stronger and different from previous shorter cycles that we saw in the last few years. So we do not believe that what is happening right now is a reversal of this trend, actually we believe that it is just a small adjustment, a short-term adjustment that would



not change the long-term trend of very solid growth of the market and particularly of the economies, the emerging market economies.

And if you look at the chart on page 27 you see a very interesting comparison. As China is the major driver of this market today, as you may appreciate, we are trying to figure what would happen to the Chinese economy considering what happened in the past after the deceleration of the U.S. economy. So we see that clearly small economies like Hong Kong, Singapore, Taiwan, they were affected, sharply affected by a deceleration of the U.S. economy that is more evident in 2001; but at the same time we see that the Chinese economy kept its steady growth rate and actually it increased the growth rate in the following year, so it is not clear at all that a deceleration in the U.S. economy will be able to revert this very sound set of macroeconomic policy that is being put in place in China that is allowing the country to grow at faster rates as it is growing the last few years.

And another aspect of this comment is that if you turn to page 28 you see that the bulk of the growth, the Chinese GDP growth, is associated with the domestic demand - it is not export driven. So, of course, nobody in his or her right mind could say that it would be unaffected, the economy would not be affected by the U.S. economy slow down, but we have to measure this effect and not assume that it will be a major change in an economy that has a different set of fundamentals in place. So if you look at the growth that took place in the last 30 years, we see that the bulk of the GDP growth in China is determined by domestic demand and this trend is to continue in our view.

And in page 29 we indicate our forecast for the next five years saying that ok, we may have a deceleration in 2008 when Chinese GDP growth would not grow 11.4, but just 10.4% - but again an impressive figure by any standard and we are indicating a deceleration of this growth rate up to 8.6% by the end of the period in 2012. So by any measure it is a very solid environment and that is why we have this very strong pipeline of projects that we will comment later on.

As for the global GDP, of course the weight of the U.S. economy should bring down the average growth rate of the world economy, so the world economy should grow 3.6% in our expectation, but look at this figure and compare with the cumulative growth rate we indicate there in the same chart for 1970 - 2006; it is coincident with this long-term growth rate of this period, it is a very long period. So again, in the very year when we had a major adjustment determined by the subprime what we will reach in terms of growth is a growth that is similar with a long-term trend of the world economy, well above the growth of the world population, so it is a benign environment anyway and it is maybe less benign this year, but it is a benign scenario this year and the following years as well.

In our view China still remains the main driver of global materials demand as we indicated there on page 21 that China should represent 54% of the iron ore consumption in seaborne trade; nickel 31%; aluminum 41% and copper 30% and look



for where they were in 2000, so it is a transformation that is taking place in an economy that will actually change the world.

If the demand is so strong we do have some issues on the supply side and this is part of the equation that we must discuss, is the fact that we have no doubt that the market remained very strong for the next few years, but there are a lot of uncertainties associated with the supply-side. So if you look at the pipeline of projects of several players you will see that in some cases there is a lack of large-scale world-class projects in specific markets, making difficult to adjust the supply in the short term. The so-called easy discoveries are gone, so we have to look now for more challenging resources that involve higher costs of operation and higher Capex cost as well.

Natural resources nationalism - this is a phenomenon that is of course logical to happen in an environment where commodities are benefiting from these long cycles, so it is natural to have more discussion and debate about this but this has an effect on the availability of resources to be explored and developed. The same goes for the environmental permits - that is a worldwide phenomenon in terms of getting tougher to get those permits, delaying projects in some cases, making some projects impossible to develop in other cases. So it is an issue that is faced by every single mining company today. Higher Capex costs and shortages, of course, skilled labor and technological challenge. So it is not evident that supply will be able to catch up with demand over the next few years.

And on page 33 you have our pipeline of projects and we have 30 major projects to expand our production over the next few years in the several business areas that we operate. I will not comment on each one of them, but I just call your attention that the size of the pipeline so we do have a great option in pursuing organic growth for our company.

And in this year 2008 we are going to deliver 7 major projects. Just a reminder, in the last 5 years we delivered 20 large projects and this year we will deliver 7 large projects: iron ore Fazendão with 15.8 million mt per year; 2 pelletizing plants in Itabirito, former MBR and now Samarco, as well 7.6 million mt; the Goro Project with 60,000 mt of nickel and 4,600 mt of cobalt; the second stage of Paragominas with an additional 4.5 million mt per year; alumina, Alunorte 1.9 million mt per year of addition, of additional production; and copper the hydrometallurgical plant, the plant of copper in Carajás that will test this technology that will enable us a possibility to explore other deposits with 10,000 mt per year capacity. So again, we are delivering what we promised on time; sometimes not very on budget, but we are delivering what we actually promised you a few years ago.

And if you look at the next page, page 35, you see that we were early deliverers in the duration and strength of the cycle, so that is why we are able to deliver the value, the TSR that we commented a few minutes ago. We have been growing our production at 11.6% average rate in the period 2003 - 2007, one of the most, if not the most dynamic player in the metals and mining industry. And our strategic plan will allow was to keep



the same path with a growth of own production in both, greenfield and brownfield projects of almost 11% per year.

So we should reach in 2008 a capacity of 325 million mt in iron ore; 41.8 million mt in pellets; nickel 280,000 mt; copper 300,000 mt; alumina 5.3 million mt and coal 5.6 million mt, a remarkable growth rate for the volumes.

And finally in the page 37 you see our production profile in 2012, with a production by the end of 2012 of 450 million mt of iron ore, in 2012 we should produce 422 Mt; pellets 55 million mt; nickel 507,000 mt, doubling our capacity from last year's production; the same goes for copper, we are doubling our capacity in 2012; alumina 8.2 million mt and finally coal with 15 million mt. So it is a very strong pipeline of projects and growth that is embedded in our strategy.

Thank you very much and myself and Roger Agnelli will be at your disposal to answer any questions you may have. Thank you.

Mr. Agnelli: Before that I would like to make some comments about M&A, I think everybody is curious about what we are doing or what we have been doing. We always we have been saying that our priority is organic growth and is going to continue to be organic growth our priority. Of course we believe that the cycle you saw that Fabio Barbosa is really bullish about the future of our industry and I include myself in this point of view, I am really bullish about the market in the coming years and of course we cannot close our eyes to what is going on in the industry in terms of consolidation, in terms of M&A transactions. You remember that we have been buying a lot of companies in the last five, six years and we tried to acquire other assets and we could not be successful in two or three transactions. But anyhow we are always open and we are always analyzing opportunities.

You remember that three years ago or four years ago we were talking with Noranda guys regarding to the Falconbridge asset; we could not reach an agreement at that time, but right after that we got Inco, which is a much better asset than Falconbridge - of course Falconbridge is a very nice as it also - but Inco for us in terms of value, in terms of results, seems to be much better than that. Later on last year we bid for Alcan, Rio Tinto bought it - great, congratulations for them, but we do not regret because we have limits to what we are able to pay and we reached our limit and that is it, I do not regret about that, it is done.



Right now we think that Xstrata is a very nice fit for our future strategy, they have very nice assets, we are bullish on copper market, we are bullish in metcoal market, thermal coal also, nickel we are really bullish, we are bullish about iron ore, so if we can or if we could combine these assets we are going to create a very strong, very nice and very growth oriented company because we have a huge pipeline of projects. This is our priority, to deliver all these projects in the right time. So Xstrata is in the press, everybody is talking about that, of course we are interested, we are open to continue to analyze the possibility.

We made an indicative proposal. Of course, there are three parts involved in this negotiation: one is Glencore, which has 35% of the Xstrata shares; another one is Xstrata and the other one is Vale. Glencore we have a very good relationship, I am a very close friend of Ivan and have been discussing that for a while right now. They are very good, they are traders, they are very successful. Ivan has a very nice and very good strategic orientation; he knows exactly what is looking for. The same thing for Mick Davies, he is the Xstrata CEO, I admire him very much, he is very good, he has been doing a very good job to put together several assets and create this very strong company, Xstrata. They have a very good team, very good people there; they have knowledge, they have very good operations - not high-cost operations. So for us, Vale, seems to be a very nice and very good and very sound fit that can really strengthen our position in the mining industry.

We have been discussing that, we have limits, we achieved our limits. The problem is that Glencore must or can agree with that or not. We depend on Glencore's position to continue to discuss and to continue to build this transaction. Xstrata of course it depends on the Glencore's position to go ahead with the transaction. But anyhow we are right now in a position that we achieved our limit; we are very disciplined, we are not in a rush to buy or to acquire any assets, but if it makes sense and if it is good for our growth strategy, if it is good to strengthen our position in the market we are always open to buy new good problems to solve in the future. We have a very strong pipeline of projects, so this is our priority, we are really focused, really committed to realize, to deliver all these projects. So we are not in a rush to buy anything, only if it makes sense, only if we can add value for our shareholders. I always discuss with my team that we must be really very disciplined, we cannot just jump into a very exciting period of M&As, we need to be disciplined because we are a long time mining company, we are not short time mining company. So what we want to buy is asset quality, people quality, knowledge, technology and market position.

So Xstrata if we become successful to realize this good, if not it is good also. I can tell you that it is really very difficult to overcome all the issues that we have there, but we are keeping trying to solve that or to clean up all the issues, all the obstacles. We have problems with antitrust that we have been investing a lot of time to see how we can overcome all these issues but ok, we are open, we have enough energy to continue to discuss if they want, if they do not want it is ok also. But in it is in their area, in their position to say if they want to go ahead or not. But again, this is not our single option; we are keeping analyzing other options. I told you that we are bullish on copper, we are



bullish on coal, we are bullish on nickel and this is our core business. We are a mining company, we are focused on asset quality, we are continuing to be very disciplined to give priority to the organic growth and that is what we are going to do. Ok, I am ready to answer any questions you may have.

Mr. Barbosa: Thank you.

Q&A Session

Operator: Thank you. Ladies and gentlemen, we will now begin the Question and Answer session. If you have a question, please press the star (*) key, followed by the one (1) key on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue, please press star (*) two (2). Please restrict your questions to two at a time. Our first question comes from Felipe Hirai with Merrill Lynch. Please go ahead.

Mr. Felipe Hirai: Hi, good morning everyone and thanks for the clarification on Xstrata and a great outlook. My first question is regarding the costs, where we saw a significant cost increase in the quarter. Can you comment on how you are managing to control your costs and if you are increasing your hedging activities aside from the payroll in Brazil that we saw that you, for the first time, you were somehow hedging your costs. And what kind of cost increase can we expect for 2008?

Mr. Barbosa: Thank you, Felipe, for your question - and I think we did have an effect in costs, both in SG&A and the costs of goods sold of salaries, but this is associated with a very important change in our relationship with the Brazilian workers that correspond to about 75% of our labor force: is that we are now able, for the first time a Brazilian company was able to settle an agreement with the labor force for two years. If you recall, we postponed previously our labor agreement used to end in July, so last year in 2006 we extended to November - so it was 15 months, 16 months - and now we settled for 24 months and this was associated with a salary increase, a nominal salary increase in reais of 7%, but I believe that what it gives us is a very satisfactory arrangement that will increase the predictability of our disbursement, it is a very important item of our costs. So that was in a way a specific cost associated with the discussion. Also, as you know, we changed our brand, so the branding effort consumed US\$ 50 million roughly at the end of the fourth quarter of 2007 and affected SG&A.

In terms of outsourced services we did have an increase associated with a change of tracks in some of all our railroads, particularly Carajás railroad, the poor quality of the tracks that we had to replace, they were not resisting the volumes that we were transporting so we spent a little bit more. The furnace in Albrás that we had to replace, some issues in the potash operations, also I would like to highlight the fact that we consolidated TNRC, a Taiwanese subsidiary that was not under US Gaap consolidation procedures, we consolidated it the fourth quarter of 2007 and this brought, of course, costs that were not included previously.



We had, in terms of other expenditures, I would like to point out the establishment of our Shared Service Center, it is a major change in the way we manage our companies - it may represent an additional costs now, but we believe that the cost of the transactions at the Shared Service Center will be much lower than the current structure, so it will be able to support operations worldwide, in a global basis, and we do hope that this will represent a structural reduction in our costs moving forward.

So I would say that roughly - of course, the exchange rate also affected our costs - but I would say that we are not happy yet with the costs that we face, we are fighting every single day to reduce them; we are changing, for instance, from outsource to in source some services where we were previously in the market; we are very active in this area, we are not simply waiting for the results. But we have to recognize as well that it is a very tough environment, because not only the currency is appreciating but all of our competitors are searching for the same services – contractors, equipment - and things are more expensive, things are more expensive. So this is a challenge that we will continue to face over the next few quarters.

Mr. Agnelli: If I may I would like to add some comments about energy. Energy is going to be and is a very tough issue for everybody in the industry and for everybody, consumers worldwide. The price is going up I feel that it is going to be a major problem for everybody in the industry. You know that we have been building several hydropower plants; we are going to invest in thermal power plants also in order to have a hedge in terms of costs. So I think we have a small part of our consumption hedged by our own operations. Of course, we are making a lot of cash in our hydropower plants right now; for the future you know that we bought several areas here in Brazil to explore gas, gas maybe it is going to be another alternative for us in the future to supply of our needs of energy. Another cost that went up sharply and is keeping, is still growing, is oil, diesel. The oil price in the market is going up; yesterday was US\$ 102 per barrel so oil and diesel is really an issue for us. As you know, we developed a technological center in São José dos Campos in Sao Paulo state to find out new processes or new ways to produce cheap energy and clean energy also, so we are working hard to solve this problem for the long term, not only for the short term but for the long-term.

Another issue is the spare parts and everything that is related to steel, steel price went up last year sharply and is still growing due to, maybe, the cost and the demand that the market has today. So we feel that steel affected almost everything in terms of cost because the spare parts mainly are made by steel. Anyhow, last year we invested roughly US\$ 60 million in automation, I think that in 08 we are going to repay all the investments that we made last year.

In Inco operation we had a sharp cost increase due to the upgrade of several plants that we see and we feel that we need to bring to the level that we are confident, that we are comfortable with and some facilities, some plants were not in a very good shape so invested a lot of money including automation also and we are continuing to invest this year in automation.



What I would like to say is that our target is to be or to become a benchmark in terms of cost in two years and we are spending, we are investing, we are even increasing some costs to realize or to deliver or to be the benchmark in terms of cost. I think we are able to do that, we are continuing to work; I feel that compared to our competitors or compared with our industry I think we are now very good shape, we are in a very good shape but is not enough, we need to be the benchmark in terms of cost in two years. This is our goal.

Mr. Hirai: Ok Roger. If I may add another question here, you mentioned about all this issue that you had to overcome with the negotiation with Xstrata. Could you comment with us what are the main issues, is it the financing you did and you are going to have to pay with PN shares with no tag along rights or is it the marketing rights on the metals ...

Mr. Agnelli: Ivan is a tough negotiator and Mike is also is a very tough negotiator. I like that, I like that. Of course they have their points of view, we have our point of view. So some principal issues I think we are going to be in a position to close the deal. In terms of past issues really I think we solved everything: financing, concern about rating, concerns about everything that we could have I think we solved everything, we overcame all the big issues that we had. In terms of issuance of preferred shares it is not really an issue, our shareholders they are very comfortable, they are supporting us very much. The press always is saying that we are facing problems here with the government - I can tell you we did not have any, any interference, any issue with the government; none, no one, no issue regarding that. All our shareholders are supporting that, but they know and always they remind us that we need to be very disciplined and we are very disciplined. I think we proved that, we have been proving that to the market, that we have been very disciplined. So I should say that from our side we do not have any problem to conclude the deal.

The problem is there are some principles that we do not want to abandon. I think we are very stick to it. Marketing is something very important for us, we like to have a very good and very open and straight relationship with our clients; of course we can accommodate things, we can really compromise things, but there are some principles that we do not and we will not abandon. So let us see what is going on, I can tell you it is not an easy task, not an easy transaction, it is very complex, very difficult to realize. But let us be optimistic.

Mr. Hirai: Thank you Roger, thank you and good luck.

Operator: Thank you for your question, Mr. Hirai. Please remember to restrict your questions to two at a time. Our next question comes from Jorge Beristain from Deutsche Bank. Please go ahead.

Mr. Jorge Beristain: Hi good morning gentlemen, Jorge Beristain with Deutsche Bank. My question is one more strategic. Talking about energy you detail in your press release that you are investing in certain electric generation projects in Brazil and as well in Indonesia but collectively those are going to read about 1 gigawatt of capacity, which



would increase your energy self-sufficiency by 4.4%. You are looking at increasing our volume of output by probably 12% in 2008.

So I just wanted to understand how these relatively small investments in energy will shorten or actually increase your energy integration overall as they do not seem to be keeping pace with the growth in your volume projections and if maybe Roger could talk about that point a little bit as to is energy becoming a missing component in Vale's overall portfolio?

Mr. Agnelli: No, it is not really a concern for us. We are growing mainly in iron ore operations and iron ore is not really intensive in terms of energy, so we are not concerned about the iron ore. We have long-term contracts to supply all the other operations: nickel here in Brazil or in Canada we are very well positioned there; Indonesia I think we are going to be self-sufficient with the number 3 hydro power plant that is under construction right now; with the thermal power plants that we are going to build, each one we are looking for three coal-fired power plants each with a 600 MW capacity, so we are able to grow a lot in this area.

The problem is for iron ore we do not have any problem; for nickel here in Brazil we have the contracts, long term contracts, we do not have any constraints in terms of growth. If we talk about copper also we do not have any constraints to keep growing the copper business. The big issue is aluminum business, this is really a big issue. In this specific area we have constraints, we do not have enough energy supply to build a new smelter in Brazil. That is why we are looking in other countries to build or to have energy supply guarantees for long term - I can include Colombia in this area, there are some potentials to develop new hydropower plants there in Colombia and we are talking with the government, I went there one month ago and I had a very good and very open discussion with Uribe, President Uribe and it was really very good. We are looking for some areas in Middle East where we can have access to gas and to build a thermal power plant there, so for aluminum I can tell you, is something that we need to carefully analyze how to expand our smelting capacity. The problem - or let us say the benefit - is that we have huge bauxite deposits that we can really grow very much in this area. Alumina we are building, we are long in alumina, so smelting capacity is something that we need to really focus. For the other operations we do not have any problems. We are right now building the Estreito project, we are going to add a lot of megawatts to our portfolio, but mainly what we are looking for is the possibility to find out new areas to build new capacity and we are working on it, we are working on it.

Mr. Beristain: I am sorry, just the second part of my question was: is energy becoming a strategically more important part potentially of Vale's overall portfolio?

Mr. Agnelli: No, no. We are not looking for self-sufficiency or we are not looking to increase very much investments in energy. I think it is clear that energy for us we are looking for hedge in terms of costs. I believe that for the next years the price of energy continues to go up. We have very good contracts signed with the distribution companies here in Brazil and Canada, Indonesia, China, in Australia, so it is not really something that we need to rush, we need to be really concerned about the supply of energy. It is



just a matter of adequating our portfolio in terms of hedge, costs and how to control a little bit the booming of the cost for energy. So it is not going to be really a major investment for us.

You know that we are in the gas exploration right now together with Petrobrás. We have several areas and maybe if we are lucky we are going to find out new gas deposits, I am really optimistic about that. But if we put together the hydropower plants, the thermal power plants, the coal that we are going to produce or in Australia or in Mozambique projects and if we put together the gas, of course if we call it as energy, the energy portfolio as a whole is going to grow in terms of representative in our turnover, but only if we consider gas, coal and our hydro and thermal power plants as a single entity.

Mr. Beristain: Ok, thank you very much Roger.

Operator: Thank you for your question, Mr. Beristain. Our next question comes from Carlos De Alba from Morgan Stanley. Please go ahead.

Mr. Carlos De Alba: Yes, good morning. Two questions, the first one would be regarding the rapid increase or the sharp increase we saw in the depreciation expense in the fourth quarter vis-a-vis the third quarter of 2007.

And the second question would be generally speaking on M&A strategy obviously Xstrata is a diversified producer; is this the type of acquisition that you would like to pursue not only in this case, but in general going forward? Or would you be looking at also single commodity companies in order to expedite your growth in coal, copper or aluminum? Thank you very much.

Mr. Barbosa: Carlos, this is Fabio, thank you for your question. I will answer the first one. The depreciation in the fourth quarter is reflecting the effect of the appreciation of the currency, of the increase in asset base but also a one-off adjustment in Vale Inco plant, so it is basically an adjustment of around US\$ 100 million or so that was a different procedure that was adopted in the fourth quarter, it was adjusted and it should not have a recurrent nature moving forward. And now I will give the floor to Roger for the second question.

Mr. Agnelli: Carlos, you know that it is not easy in our days to acquire or to find out new or good reserves, it is not easy. The cost is very high nowadays and to develop a greenfield project it is not easy. Of course, to develop a brownfield project is easier and cheaper and that is what we are doing in Vale, we are really speeding up of all the investments in brownfield projects; greenfield projects everybody is facing problems with cost. It always changes, always changes. Maybe one day is better you develop a greenfield project and the very next day is better if you require assets.

The problem is, again, quality, we are looking for high-quality deposits, we are looking for high-quality mines - that is what we are looking for. If we have in a combined company everything together as we have in Xstrata ok, let us go for it. If we find out a company that has a very strong asset base and a very high-quality asset base and is



able or is open to discuss or to sell or to do something together with us ok, we are going too.

Our main areas are copper, we are bullish; coal, we are bullish about of the market; of course, something in aluminum business is something that is interesting - I am not saying that we are discussing or we are looking for to acquire any company in this area, I think it is more feasible to develop greenfield projects attached to the energy supply - this is very important - cost of energy for aluminum is really very important and there is nothing really good or really nice in the market right now that we need or we must pay attention. There is nothing really available ready in the market right now, I think we need to develop this area. So again, if there are some companies, very good companies in the market but everybody is full of cash, everybody is making a lot of money and everybody is bullish about the future, so price is not easy to negotiate; the cost is not easy to negotiate and what we are doing, again, our main priority is organic growth. So we are not in a rush. If someone wants to exchange some ideas or dating with us ... we are open to dating, but I do not think we are able to marry at first, ok?

Mr. De Alba: Thank you.

Operator: Thank you Mr. De Alba for your question. Our next question comes from Gaurav Bana from Alliance Bernstein. Please go ahead.

Mr. Gaurav Bana: Thank you, good morning, this is Gaurav Bana from Alliance Bernstein. A couple of questions, one how should we think about any time constraints that you may have in your current round of discussions with Xstrata?

Mr. Agnelli: We do not have any time constraints.

Mr. Bana: Ok, so you are willing to wait as long as it takes?

Mr. Agnelli: No, no. I think everybody must be fair. We do not have time to spend in one thing that is not feasible, so again, I do not know, let us see what is going to happen. They need to move, they need to do something. If they do not do ok, I am really concerned about our projects, what I am going to do next week I am just going to start traveling again to visit all our operations and to see and to analyze how are going our projects around the world. That is it, this is really not a priority for us.

Mr. Bana: Ok, thank you. A follow-on question, under what circumstances would you sacrifice your investment grade rating?

Mr. Agnelli: I think we have a very strong balance sheet, we are doing everything and we are building all the solutions for any acquisition, any acquisition, in order not to jeopardize our investment grade status. We do not want to jeopardize that and we are comfortable that even if we go for a major acquisition we are able to go around or to avoid any downgrades in our status right now, including this conversation with Xstrata.



We are really very careful to build a solution that is not going to jeopardize our current status.

Mr. Bana: Thank you.

Operator: Thank you for your question Mr. Bana. This concludes today's question and answer session. Mr. Barbosa, at this time you may proceed with your closing statements.

Mr. Barbosa: Just to thank you all for attending this conference and as usual ourselves and our team should be available for any further questions you may have. Thank you very much.

Mr. Agnelli: I would like to thank you very much for your support, for your time with us today and I can tell you we are working hard to keep under control the costs, we are working hard to increase our production, we believe that for the next two, three years we are not going to see any problem in terms of demand in the market. Let see what is going to happen in four or five years, because there are some greenfield projects newcomers entering in several different industries and if the demand stays like this today I do not feel any problem to absorb other new production in the market. Again, I think you can trust on us that we are not going to do anything that can jeopardize our growth strategy, our TSR and we are very disciplined to that. Thank you very much for your support.

Operator: That does conclude our Vale's Fourth Quarter 2007 Earnings conference for today. Thank you very much for your participation. You may now disconnect.
