International Conference Call
Companhia Vale do Rio Doce - VALE
4th Quarter 2008 Earnings Release
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Operator: Good morning ladies and gentlemen, thank you for standing by and welcome to Vale's conference call to discuss fourth quarter 2008 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 key followed by zero. As a reminder, this conference is being recorded. The replay will be available until February 26, 2009. To access the replay, please dial (55 11) 4688-6312 (access code: 728). 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; Mr. Fabio Barbosa, Vale's Chief Financial Officer; Mr. José Carlos Martins, Executive Officer for Ferrous Minerals and Mr. Eduardo Bartolomeo, Executive Officer for Logistics, Engineering and Project Management. 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: Good morning everybody. It is a pleasure to be here again with you to comment Vale's 2008 results. The year was a very challenging year, because we started the year with the temperature of Rio de Janeiro and we finished the year with the Siberia temperature. But in average I think it was a little, let us say, reasonable. I would like to give Fabio Barbosa the opportunity to make some comments and then I will join you again to make some comments about the future.

Mr. Fabio Barbosa: Thank you very much Roger. Well, our agenda today encompasses the discussion of our 2008 results; how we see, what we are doing to deal with the current challenges and what we see beyond the global financial crisis.

First it is fair to say that we had a very good performance in 2008, despite the major change that was observed in the fourth quarter. We achieved eight production records, eight shipment records and we did have an outstanding financial performance, as you can see by the several indicators in revenues that we reached an all-time record of US$ 38.5 billion; in Ebit, almost US$ 16 billion; the cumulative growth rate in the range of 46 and 50% respectively; the record cash generation and net earnings; of Ebitda and net earnings as you can see there, 19 and US$ 13 billion respectively; and the return to our shareholders that reached a record level also in 2008 with US$ 3.6 billion in total, involving also the share buyback that we performed during the year.

At the same time our investments reached a record level of US$ 10.2 billion, out of which almost three-fourths was dedicated to growth, clearly stating our perspective about the future of the mining industry as a whole.

And finally it is important to mention that this growth that we managed to achieve over the several years helped us to achieve and consolidate our current position as the second largest mining company in the world with a market cap as of last week of about US$ 81 billion.

So we came a long way, we transformed our company, we changed it for the better and now we are very well poised to explore the opportunities and also to face the challenges that the current situation presents.

In fact, as you can see in the second section of this presentation, the global industrial production declined sharply in the last quarter of 08 and still is suffering in the early months of 2009. This is a major change in economic environment and Vale has been extremely responsive to this environment and reacting in a very quick fashion.

In fact we announced several production cuts to avoid inventories build ups - undesired inventories - because we actually took the opportunity that this environment represented to replenish our inventories at the ports in order to optimize operations.

At the same time we focused on costs minimization; we managed to enhance operational flexibility in both production and Capex execution management and of course, we have available to Vale the financial flexibility to pursue whatever course of action we feel appropriate considering our perspective about the industry.

And, as we put there, our long-term growth strategy remains unchanged because our views about the future have not changed considering that we do believe that the structural transformation that is taking place should continue, although of course we will have some adjustment in the short term, but the long term perspective it extremely positive in our view.

In terms of the cost control, the cost-cutting measures that we adopted to deal with the current situation, we shut down several high-cost operating units as there would make no sense to keep them operating in this environment.

We cut administrative costs; we are improving our efficiency in our corporate activities by reducing and improving the quality of its services and downsizing its structure. We are seeking flexibility in labor contracts and we managed to negotiate several important initiatives to preserve the employment level in our company.

We are working to reduce our working capital. Since July in terms of materials and parts we reduced around US$ 300 million in working capital, besides other initiatives. We are renegotiating existing contracts with service providers in order to disinflate or in order to make them reflect the current environment as the situation allows us to do so.

And finally we are also working on the Capex side - and Eduardo Bartolomeo will comment a little bit later on that - trying to review the costs and the timing of delivery of several equipment associated with our very important Capex program that we have ahead of us.

Well, as we put in chart 15, the initiatives to reduce costs they did not show a result yet. Particularly in this case of the fourth quarter associated with the lag … the long production cycle of the nickel business. So we still have some intermediate products that are costing us more today than they will cost in the future.

So this lag in the reaction of the cost structure that is reflected in the bulk of the US$ 66 million price change that we see there. But otherwise of course we are benefiting from the devaluation of the currency, the Brazilian currency, Canadian currency, against the US dollar and our costs are down on a quarter by quarter basis.

In terms of our long-term growth strategy as we put there it is unchanged, because Vale is uniquely poised to explore all the growth options that are available. We are in a very good and sound financial position and we can and we should pursue more growth moving forward and we continue to develop our project pipeline as I would like to ask Eduardo Bartolomeo to comment upon.

Mr. Eduardo Bartolomeo: Ok. Good morning. I think that, as Fabio mentioned, we are in a good position to ... again, we are not ... we are sticking to our project pipeline. That is, I think, the first key message that we have to deliver. We are not opening up there.

But facing the reality today we see a lot of opportunities ahead of us. Of course one of those is the currency devaluation, but besides that we have the market turning into various markets so, equipment is already facing some good news; metallic structures also; engineering is still under pressure, but as we can see in the long term or in the medium term we will be able to deliver the same pipeline with much less pressure, with higher quality - I think that is a very key issue too - with low costs, with much lower cost.

So I think at the end we are going to be able to benefit from ... besides not the good news about our market, but anyway from the projects side we are going to be able to deliver the pipeline at a lower cost with higher quality, because we are going to have more time to engineer, some open up window to engineer better, because if you remember six months ago we were under pressure, so this lower pressure brings us huge opportunities on revising scope, revising standards. So at the end my personal view is that we are going to be able to deliver the same pipeline much cheaper and with higher quality.

Mr. Barbosa: Ok, thank you very much. Well, so the message is we kept and we keep on focusing on growth and development of our very important project pipeline with all the required caution, of course. We are trying to pursue a cost-reduction there and we are already successful in some fronts and we also benefit from the effect of the devaluation of the exchange rate. So this combined should lead - keeping the same indicated scope - should represent a much lower disbursement at the end of the day of our cash position.

We are, of course, a global leader in iron ore and a point I would like to make is that this leadership was consolidated during the last down cycle at the early 2000, 2001, when we acquired several assets. We always had a very long-term perspective and we are always well-poised to explore opportunities that could arise from the financial distress that from time to time occurs, as we are in a cyclical world and a cyclical economy and this is precisely the case now and we are fortunate enough - and we did the right thing, of course - to have a very strong balance sheet and the opportunity to explore these alternatives that are there.

We just bought an asset in Argentina and an asset in Canada related to the potash business, so we are entering more heavily in the fertilizers business as we do believe that is a great opportunity in the long term considering that in our view the current global recession does not change, as we put there, the underlying fundamentals of the long-term growth of this market and with this acquisition Vale is in a privileged position to explore one of the potentially highest growth markets in the future that is precisely South America. So we are very happy that we were able to do that and this transaction was already concluded and implemented last month.

The other important acquisition was Corumbá, a world-class asset that I would invite Martins to comment upon and this is a very important asset strategically in terms of quality as well. Martins, I would like to ask your perspective on that including the lump price premium that is associated with this.

Mr. José Carlos Martins: Good morning everybody. It is a pleasure to talk to you again. Relating to Corumbá asset, the main strategic issue behind this acquisition is the production of lump. Lump ore is very important on the blast furnace charge and lump production in Vale … was going away year by year and it is very important to have lump to compound the sales basket for main customers mainly in Europe. So this acquisition will bring a lot of strategic strength in our market position mainly in Europe - but not limited to Europe, because we can ship it to other markets also.

The product is the highest quality available in the world. We do not have pellets of such quality that can be used not only in blast furnaces but also on DRI production. Sure, there is a lot of challenges relating to logistics, but this kind of lump commands a premium that is able to cover the additional costs of logistics. So this acquisition will bring more strength to our strategic position looking in the long-term iron ore market.

Mr. Barbosa: So this enhances our position in Europe and also in the Middle East, but I believe you also have good news about the Chinese market ...

Mr. Martins: Yes. As you noticed by the information released, our last quarter in China was very weak. It was very interesting, because China was the first market to feel the problems of this downturn in the world economy and we lost a lot of sales during the fourth quarter of 2008.

But now things are coming back to the normal level - and even better - and we surely are going to deliver the highest number ever we sent to China. It will be a number above 30 million tons in a quarter, which we never did in our history.

Mr. Barbosa: So we have a record shipment for 2009, first quarter of 2009 to China.

Mr. Martins: We took advantage of the low freight cost that we have in this period. We were able to hire a lot of vessels at a very convenient price, which put us in a very good condition to sell in China again and also we developed a lot of new customers and signed a lot of new agreements, commercial agreements with the new customers and this agreement now is becoming new contracts.

So we think that this crisis will put us in a very strong position in China, because in the past we never had the opportunity to test what would be our market share in China, because we never had enough iron ore to feed their needs. But considering the slowdown that we have in Europe and even in Brazil - we have a much more iron ore available - so we could be able to test how much we can grab of China's market share and we are happily surprised with what we are getting. Things are developing very well. We start selling at C&F without sales, we sent the ships without the customers, but now every ship that leaves our port in Brazil is already sold.

So this was a big, I would say, point in our strategy for iron ore because we are coping with the situation in our natural markets, Europe and Brazil. These markets are very weak, so China is helping us to cover a lot of this weakness in our natural markets. So we are very happy to say that sales in China came back not only to the old level, but even bigger than the at level.

Mr. Barbosa: Ok, very good news. Now to conclude our initial presentation some comments on what we see beyond the global financial crisis. Of course, we cannot ignore there is a less benign world out there and this applies to every single sector in the world economy, but also of course to the mining industry. So many mining projects have been canceled and postponed by other companies.

The supply of capital is much more restricted now, it is a reality that we have to face. Again, Vale is in a different position considering what it did last year, but most of other companies they face a less open environment to get credit. Banks are in a less favorable position, as you can appreciate, and besides that the risk aversion increased, so cost of capital is expected to be much higher and the summary is that there will be less possibilities of funding future expansions in our industry and also other industries across the board.

And the result is that as it happened in previous events the global exploration investment, for instance, is likely to suffer a major decrease as we put there.

The Asian crisis after the peak of US$ 5.2 billion it decreased to almost one-third of this level by 2002 and things became more positive again. And this is also a risk that … not this reduction in investment would affect new investments in the mining business itself, expansion of capacity, and so as you will see we are replicating Credit-Suisse estimates there that there will be a US$ 200 billion shortfall in mining investments over the next five years.

So the ones that are willing to pursue or have the possibility to pursue growth could face in several years ... in a few years down the road a much more favorable environment and as it happened in the last several years, be able to capture more value to its shareholders, as we believe is the case of Vale.

Vale is in a very good position to explore the growth options - of course, with all the caution that is required as its financial strength is clear in our balance sheet. We have, as of December 31st, we have US$ 12.6 billion in cash holdings; we have almost US$ 10 billion in long-term credit facilities and very low cost, long assets. A very good track record in projects deliveries, 29 major projects concluded over the last six years - this is a remarkable achievement - and we have 23 major projects in our pipeline besides 134 mineral exploration projects across the globe to support our long-term growth.

So it means that we have the view, we have the strength and have the flexibility to pursue the growth options that we have available to us. At this point I would like to turn back the floor to Mr. Agnelli for his comments.

Mr. Roger Agnelli: We are talking about … last year we analyzed the full year. I think it was a very good year for Vale. We achieved several records, I think the company is doing well. We continuously work to reduce the costs. We prepared the company for the winter time – of course the winter is much stronger than we predicted in the beginning of 2008.

But anyhow the company is in a very strong, financial situation. We have several projects that we can choose which one we will speed up, which one we will slow down. We have the opportunity to deal with our suppliers to reduce the costs. The currency is helping us to reduce costs also. We are strengthening our position in Africa, South America, in Asia. We are working to reduce the necessity of working capital. We are dealing with all our suppliers, contractors, to change a little bit, to simplify the projects.

In the operational side we had and have the ability to choose which mines we would like to see working at maximum capacity and which mines we prefer to shut down - even though it can be momentarily or not, but we have already shut down more than seven mines in the iron ore business. We are reducing production in other areas. We have a lot of work to be done and we are working, we know exactly where we should put our focus on. An example is the nickel business.

We need really to work hard to change a little bit the structure of the company. We need to work to reduce the costs, but if we compare ourselves with the other competitors I think we are in a very, very good position because we have all the options open. There are some companies that they do not have options - and we have still ... we still have all the options open for us to choose what is better for the company, for our shareholders. This is our focus. Long-term our philosophy is to develop all the potential that we have and we are doing that, and we are doing that.

Last quarter - I can assure you - everything that is in the balance sheets is the reality of the company. The balance sheet is clean, it is really clean. We do not have anything to be accounting, we do not have anything that is not in the balance sheet. This is really very important, no surprises at all.

Let us talk about 2009. We started the year or began the year challenging the market and we are working very closely with our clients. We are understanding what they are facing, we are trying to help them or to compromise or to support them to overcome this very difficult situation mainly there in Europe, where the situation is really not good, it is not good.

In China, China seems like the iron ore getting worse. I think they achieved the bottom last quarter. This first quarter, as Martins mentioned, we are confident that we are reaching or we are beating the record in terms of volumes of delivery to China, which is very good. Europe is not good, Japan is not good, Korea is not good, Brazil is not good, but this is the market and we do not want to precipitate any action that is not necessary.

We are working with the unions here in Brazil to get time to adjust the company or to adjust the workforce. We do not want to fire people and then, two or three months later, we need to hire them again. So we are carefully working, or we are carefully navigating in this very tough environment that we are seeing.

But anyhow, we are making money. We are still making money. The company is in the first quartile in terms of cost in all areas that we are working in. The price today is a sales price, so the price is really very depressed in the aluminum business, in the copper business, in the nickel business, in almost everything, but iron ore - and this is our strength.

If we compare the price that iron ore achieved in the spot market in China, you see that who has paid the bill until now is the ship-owners, because the price we are dealing there in China is FOB price and we feel that we can keep or we can continuously work in this kind of philosophy. Long-term view. We like the benchmark, this is stability for ourselves and this is stability for our clients and we are sticking to this kind of philosophy.

But who has to decide that? Our clients and we are able to follow. We are able to do everything necessary to do. We have all the options to choose, so this is a situation that I can tell you this is freedom. We are free to do what is good for our shareholders. Again, long term - we do not want to precipitate any action that is not necessary or any action that we can regret.

So for the iron ore market we feel that it is improving a little bit. Nickel business everybody is cutting production, everybody is shutting down production. We have already reduced our production, maybe we need to go further and we will go further if we feel that it is necessary to do that and Tito (Martins) is there in Canada right now, he is talking with our people and he is going to take any or all the measures necessary to take in order to keep cash and to restructure the company if it is necessary to restructure and we will act as soon as the market asks us to do.

In the aluminum business we are closing, we are shutting down Valesul here. We are adjusting the production there in Pará State - in Albrás, in Alunorte, in Paragominas and MRN, but nobody is making money right now in the aluminum business, so this is not sustainable. It is very important to analyze or to realize that the current prices in some commodities is not sustainable.

Why? Because nobody will produce if they are not making money, this is a reality. The aluminum business is the case. There is a problem with the prices so low, so low, that nobody in the industry is able to produce at the current price in the market. Of course, we can expect that some or more production will be cut in this area, so the prices will react. This is a reality.

So the world is still there. We have the Guanabara Bay in front of us here, a very nice day here in Rio de Janeiro. We are working hard, we know what is necessary to do. We will not disappoint our shareholders, I think we have a very good track record in the company that we are able to fulfill all the expectations our shareholders have. We are working carefully.

This is not the moment, or this is not the time to do brave actions, it is the time to take wise actions and we feel that we are planning everything, we are not pressured, we do not have pressure to act or to be in a hurry, so I think we are going to see Vale in the end of 2009 much stronger than we are today.

In terms of projects, everybody is concerned about projects, me too, but there is one point that is in our favor: we have the projects. As Fabio mentioned, we have right now 23 projects that we are working on. The point is the currency is helping, is reducing the cost of the vessel; the suppliers, they are able and they are willing to reduce price in order to keep orders.

We are changing a little bit or we are simplifying the projects, so my expectation is that we will be able to develop all the projects that we have already announced with much less disbursement. If we said US$ 14 billion we can develop - let us say, let us analyze today - we can develop the same number, the same projects with maybe around US$ 11 billion without changing any scope.

But to realize US$ 11 billion, which is not easy stuff, it is very complicated to manage or to push the project ahead. Why? Because we need to have permits and I can tell you nothing changed in that. It is still very hard to get permits on time. So to disburse, to spend US$ 11 billion in 2009 in other projects that we are talking is going to be a real challenge, but we have the options and we still have the projects and the market, sooner or later, is going to recover.

Another point that is very important again, some prices are not sustainable. This is the reality. And another point that is very important is that some competitors will realize soon: the matter today, the problem today is not price - it is demand. The demand is still very weak and if you or if we decline, reduce the price it will not be enough to rebound demand. The problem is demand, it is not price. So, soon everybody will realize that it is very important to reduce production and we are able to do that when it is necessary. That is it.

Mr. Barbosa: Thank you Roger, we now can go to the Q&A session. Thank you very much.

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. If at any time you would like to remove yourself from the questioning queue, press star (*) two (2). Please restrict your questions to two at a time.

Excuse me. Our first question comes from Mr. Felipe Hirai from Bank of America.

Mr. Felipe Hirai: Hello, good morning everyone. I have two questions, the first one is regarding the iron ore sales that Martins has mentioned to China. I just wonder, Martins, if you could comment a little bit what kind of pricing are these sales? You said that you are doing on a C&F basis, if you are having to give any discount to the prevailing contract prices or if you are basing those sales on the spot market, on what kind of freight rates are you also assuming?

And also if Roger could mention a little bit on the M&A side. We saw Vale buying the assets of Rio Tinto in Corumbá and now we are also seeing that you now could be doing some negotiations to buy some other Rio Tinto's assets - and apparently the market believes that some of these assets are better in terms of quality than Corumbá, since, for example the iron ore assets in Australia could be a good opportunity for Vale to make an acquisition there. Thank you.

Mr. Agnelli: Felipe, let me tell you the following: I think the best market behavior was very important to buy volumes, to buy size to be in the market. So we have made several acquisitions, big ones, small ones, but right now the time is to analyze quality. So what we are looking for right now is some assets that imply very good quality.

The example is the project that we bought in Argentina. It is a very good one, I can tell you, it is a very good one and besides our project there in Neuquem in Argentina, the two projects together we can really develop a very, very impressive potash mine. I am saying that maybe we will be able to supply 70% of the Brazilian needs - which is very good. This is a captive market, the price is good, there is a lack of good assets in potash in the world today, it was an opportunity.

Rio Tinto is another example, another one, Corumbá. Corumbá is a very nice asset, the qualities very good. Maybe the size of the mine has a limit; but we will be able to produce there more 6 million tons per year, maybe 9 million tons of iron ore per year together with our mine there in Corumbá.

The movements that we made toward Africa we strengthened our position there a lot: the assets in Zambia, the assets in DRC, Namibia; another area of uranium there in Mozambique. In Mozambique you know that we are developing several projects there and I think Mozambique is a country that will give a lot of opportunities to Vale.

The assets that we bought there in Colombia, very high-quality coal, thermal coal and this is going to be very good to supply our needs here in Brazil. So this kind of movement or this kind of strategy is what we are following. We would like to strengthen our position in copper, we would like to strengthen our position in coal, we would like to be more present in the fertilizers business there - I feel that the future is going to be very good.

That is what we have been doing, nothing different to that and, of course, iron ore is our, major business and if it is possible we are continuing to see, analyze opportunities. So we are not looking for big acquisitions, we are not looking to change our strategy. I think we have today, I should say, a huge, asset base to be developed. The best-quality asset base in the mining business, so we are very proud and we are very happy with what we have today.

Rio Tinto, Xstrata, all the other companies that everybody is talking about - we have already talked with them, so nothing else, nothing less, so what we are looking for is to strengthen our position in some specific businesses as I mentioned to you.

You made another question about the iron ore price. I do not know; do you know, do you understand this discount concept? I think we do not work with this kind of product here, do we Martins?

Mr. Martins: I do not like this word, but, Felipe, we are setting benchmark prices and I will explain why. During this period that China was growing very fast, a lot of customers were willing to buy Vale's ore, but they were not able because we had no availability.

Now we have the availability, so we are coming back to these customers and there is a lot, China has more than 100 steelmakers and we are glad to say that everybody wants to fix a long-term contract with Vale, so we are developing a completely new customer base in China based in long-term contracts and benchmark prices and also we are developing more and more the option to sell C&F basis, so all of these new contracts give to us an opportunity to sell C&F based on a Baltic freight prices.

So I think that after ... it was not easy what we faced in the last quarter. We took a lot of difficult decisions related to production and not only to production, but decisions to send hundreds of vessels to China without orders and we did and now we have a much more stronger position in China then we had before this crisis started.

So we are selling benchmark and we intend to keep the benchmark. I think if someone has some doubt that benchmark was the best situation it is very easy to notice, it is only to look at the price of all commodities and compare what is going on with iron ore. None of the commodities - being oil, copper, nickel - wherever you look, even agricultural commodities, all the commodities went down; but the iron ore prices are kept in a very good level, even if you look at the spot, even the spot is kept in a very good level.

So I think this resilience in iron ore prices is one of our main strengths and also I think it is a kind of asset that the iron ore industry needs to keep and we are doing our job to keep the benchmark system. We rely on our superior quality of iron ore.

And I think what is going on in China, the numbers that we are going to deliver for China this quarter we show clearly that benchmark is an asset and the system is an asset for the industry and it is also not only for the producers but for the consumers, because the ones that had large investments in blast furnaces they needed to have a stable source of supply and prices have to be good to keep, otherwise there would be lack of investment and in the future you are going to have a lack of production. So I think the system is very good and we are working to keep it and what is going on in this quarter shows how important is the benchmark system.

Mr. Agnelli: Felipe, I would like to add one point that is very important. We saw in the last quarter a destocking process, a very strong one. When the credit really blew up, everybody became really scared about the size of the reduction in demand. The steel industry almost stopped to acquire iron ore. I am not saying that this process is finished but this is almost in the end, because we are seeing even there in Europe some big clients are back to order for the second quarter.

Even there in Asia, as Martins mentioned, our traditional clients that we always have been supporting them in China they stopped to buy iron ore in the last quarter. But we developed new ones, so the market is there, the market will be there. The point is let us be patient, we do not need to be in a hurry. We need to manage the market, we need to manage our position in the market.

So we are very responsible, people that say that is market price taker, is a price taker, will feel that they will lose opportunity to be more disciplined and to be more realistic; that price is not helping demand. This is a reality. We need to take our time, analyze, be very close to our clients - we have a very strong relationship - in order to help them to overcome the situation and they will help us to overcome this current situation.

Mr. Hirai: Thanks a lot for your answers.

Operator: Excuse me. Our next question comes from Mr. Roger Downey from Credit Suisse.

Mr. Roger Downey: Good morning everyone and I think you were quite right, I think long term is certainly one of the biggest winners in the whole industry, all the assets you are endowed with make that pretty certain. But I think the focus today really is on the short term, we are navigating pretty rough seas right now and as you mentioned yourself there, Roger, so I apologize - I will focus on the near-term.

Again on the market – and I think Martins this one is for you - as you said, in the first quarter you should post a lot of sales to China. I think in January Brazilian shipments to China were about 60 or 70% of the total. In the past, shipments to China were about 30, 35%.

So the first question is that sustainable? I think you got a new client base, which is good, but is it sustainable at these levels and if so, is it good enough to weather at least another quarter? Because I think if you read through the results presented by the Europeans steelmakers they are fearing a worse second quarter than people had anticipated, so you guys will probably need China again in the second quarter as well.

And then the second question would be again in respect to China. There was a whole bunch of news in the past couple of days regarding China putting a cap on steel production. For 2009 they are saying 450 million tons of steel production and by 2011 500 million tons of steel production. It is a worrying number I think, I would like to hear your comments, please.

Mr. Martins: Roger, the first thing I have waited to see it, if the customer is buying I do not question why the customer is buying, I normally question why the customer is not buying. So China is buying, I am glad to sell and I continue to sell to new customers or to old customers. So China now, the old customers are coming back to buy from us at the benchmark prices. Every day I get new orders from the old customers that stopped buying from us in the last quarter. So now the situation is such that we could increase our sales to China.

But we also are concerned about freight costs, so we need to keep an equilibrium because if you send too much iron ore from Brazil to China this will increase freight demand, because it takes two or three times to send ore from Brazil to China than to bring from India and also Australia. So we need to take care of how much ore we send to China, but we are working with our logistics people and we are hiring vessels, we are signing new COAs, we are buying vessels, we are ordering new vessels. So as time goes by we are going to get rid of this freight differential forever.

This is something that when I get out of our strategic agenda and nobody will talk about freight differences in the future, we are working very hard in this way. Nowadays our prices to China - FOB price, benchmark - is US$ 16 below Australian benchmark prices and you know that you have a value in use higher, so if you put both together - even considering this very weak market - we think that we have today US$ 20 more price advantage than the Australian. So I think many customers that buy long term from Australia will probably come to us because it is much more convenient for them.

So I cannot say, I cannot assure to you if it is sustainable or not, but as long as they want to buy we have ore and we will send to them. So that related to China is what we have to say.

Relating to Europe, everybody knows what is going on in Europe. The steel industry is down more than 40% in Europe and iron ore they are buying probably less than 70% of the iron ore they need because they are using their stock. But the stock is coming to an end. We followed up this week by week and also Europeans are coming back to buy more ore because they need it. Even if their production is lower, now they are reaching to a point that they need to buy ore.

You know, our largest customer, Arcelor Mittal, stopped buying from us since October. We did not sell a ton of iron ore for Arcelor Mittal from October to March.

Mr. Agnelli: Even having a long-term contract.

Mr. Martins: Even based on a long-term contract. But for April they are coming back asking for iron ore and I can tell you, it is a reasonable level.

So I think that Brazil and Europe - even if the steel production is much lower - they will start buying more than they are used to buy in the last three or four months, because they need to cope with their needs.

China is doing well and considering what is going on in this market I think that for the next quarter we can deliver better figures for iron ore.

You asked about what is going on in China with this cap production. I think we need to look China, the whole economy of China, what will be the impact of the export decrease in their economy, but you know they are keeping all their infrastructure of investments and they need ore, they need steel to keep these projects.

The level that will remain is very difficult to say, China is used to deliver a lot of rules relating to the steel industry. You know, in the last three or four years they delivered a lot of rules, a lot of controls, but in the reality their production kept growing.

Mr. Barbosa: And there is another point Martins, if I may; it is the fact that the current consumption of steel - per-capita consumption of steel in China - is well below what you could consider a developed country level. So they are far from that, from achieving that level.

So using this rationale, it is hard to understand why a growing economy - this is something that we should keep in mind - China may grow less, but it will continue to grow at very fast pace. So to imagine that all the efforts required - investment, infrastructure and development of urban areas - would be suddenly frozen at the current stage. This is not a reasonable assumption, to say the least.

Mr. Martins: And concluding my remarks, it is very difficult to talk about the future. Who is able to predict what will happen? Nobody was able, with all of this knowledge, nobody was able predict that from September to October we were going to have what we had.

So from now on what will be the outcome? What will be the relationship of all of these economies? How China will be impacted by the slowdown in the western world? This is not clear.

So in my view this is a fight that we need to fight every day, that is what we are doing. So I do not question why the customer is buying; my main question is why the customer is not buying. So that is what I am addressing more frequently today.

So, so far so good, Roger. That is what I would like to tell you about what is going on.

Mr. Agnelli: Roger, if I may I would like to ask Eduardo Bartolomeo to give you a view about the freight market in the next months. I think this is very important, because the offer of freight is going to increase a lot.

Mr. Bartolomeo: Yes. What we have seen, as Martins said from the beginning through the deep of the ain that when the freights got to 9 it was an unreasonable cheap. As Martins said, we took a lot of opportunities on that sense, we built a portfolio of freight very low in that sense and what we saw in the last two, three months was a higher increase already due to this development of everybody going to China.

But when we see near-term or medium term what is going to the water, to float, we have more a less 150 million tons of dead weight tons going to sea so we do not see any pressure that should be sustained. So again, as Martins said, we are managing very carefully our portfolio of freight. We see a pipeline increasing, we are looking for old ... not old, but used vessels that can be ... we actually did some very good contracts on 14-year old ... 14 year (inaudible 57:07).

So when we see the medium term to the long-term, I think the great differential is we will be able to have a portfolio that will bring us to a very nice competitive position. I think it is time to position ourselves and we are doing that in three levels: one is buying lower than the Baltic COAs that are reasonably cheap, when they appear we are doing that; and the used ships, as Martins has already mentioned; and of course there are Vlocs that are longer term strategy to have like a higher percentage of our freights covered or secured in a very, very competitive position. That is what we can say about freight now.

Mr. Agnelli: Another point is that this crisis, I can tell you, is ok for us, it is really ok for us. All the rivers head to the ocean. The reality is that we have the best assets; we have the lowest cost and a lot of big guys - that used to be big some months ago - are disappearing. A lot of junior companies, a lot of new projects, a lot of dreams is not there anymore and we are not talking about dreams; we have the ability to supply iron ore, copper, aluminum, manganese, coal, nickel, to our clients. All the rivers go to the ocean.

Mr. Downey: Thank you very much, that was very clear. Thank you Roger, Martins, Fabio and Eduardo.

Operator: Excuse me. Our next question comes from Mr. Jorge Beristain from Deutsche Bank.

Mr. Jorge Beristain: Hi, good morning gentlemen. Just again following up on this China trend question yes, I guess it is very material news that you are seeing this pick up back to 30 million tons for the first quarter in China, but I just wanted to understand if there are other regions that perhaps over-purchased iron ore in the fourth quarter - such as Japan, Italy and Korea - which we would also be expecting to slow down. So in a nutshell can you give this concrete guidance for your total volume sold for the first quarter versus the 55 that you sold in the fourth?

Mr. Martins: On average, Jorge, we intend to reach around 50 million tons for this quarter and almost 70% will be to China because, as you probably know and I told you, the situation in Europe and Brazil - which are our natural markets - is very depressed; with signs of recovery, but in this quarter is very depressed. Another ...

Mr. Beristain: Ok. Secondly, to clarify that you are selling cash and freight and I am aware that you did purchase some contracts for freighters back in the fourth quarter when prices were very depressed. Are you throwing in the freight for free? In other words, are you selling to the clients in China at 2008 contract price, but including free delivery?

Mr. Martins: No, we are charging the freight based on the Baltic freight price.

Mr. Beristain: Ok and then just lastly in terms of unit cost, could you quantifying in terms of the operation of the iron ore mines that are offline right now; are they generating a fixed overhead charge that would be more diluted as you start to ramp up your output back to 75 or 80 million tons by the second half of 09 or would you say that your unit costs have more or less stabilized and already reflect the benefits of the lower currency impact?

Mr. Martins: I would say that the lower currency impact will only add to the margin, because in a constant basis we kept our costs in the same level even with the reduction in production because we shutdown mines which had higher costs, we shut down mines that we had higher logistics cost. So at the end of the day we reduced deeply our production, but we kept our unit cost on a constant basis. So the currency devaluation will add to the results on this aspect.

Mr. Agnelli: And Eduardo, maybe it is good to mention about logistics.

Mr. Bartolomeo: I think it happened the same as Martins mentioned. We were able to bring the costs ... I think at the limit we were spending something; when we readapt to the new level of production we stop locos, we stop wagons in the ports deciding the best way to ship. Actually we have lower-cost than we had before, so I think that is a good new besides the devaluation, that is another good new.

So we were looking at the numbers for Carajás yesterday. They were much better than last year, so I think there is a good impact on this modelizing or … blocks that were more optimized now.

Mr. Martins: And Jorge, if you remember the former meeting, the former conference we had I always told that we are operating at very high marginal costs because we are trying to extract the last ton from the mine.

Now we are operating in a different model, so we are letting the high cost ore in the mine, so we are taking only the lowest cost ore that we have. So as far as cost is concerned, we are now in a much better situation if you talk about unit cost and the currency devaluation will be a bonus in the results.

Mr. Agnelli: This is a very important point, because since 2004 we had been working at a stress situation. All the systems were stressed. Right now we have some room to choose or to really control the costs, because until September we were working to supply our clients' needs. Now we are working to have the lowest cost possible.

Mr. Beristain: Great, thanks very much.

Operator: Excuse me. Our next question comes from Mr. Rafael Biderman from Bradesco Bank.

Mr. Rafael Biderman: Good morning everyone. My first question is regarding nickel costs. Do you believe production costs for nickel could go down? If you look at long-term prices of nickel, they have ranged in different trading ranges of US$ 7,000 per ton, even reaching lows of US$ 3,000 per ton. Right now nickel prices are at that level because the cost of the industry is around 10,000. Do you think it is possible, if nickel prices go down ... nickel production costs will down in the future and therefore prices could follow suit as well?

And another thing is regarding, going back to these sales to China to new clients. Just to see if I got it right, basically you are obtaining these clients that used to buy in the spot market - if I understood what is in between the client that was buying from Chinese and Indian mines - I would like to check if that is correct and what prices are you selling?

Because we monitor the statistics from the Brazilian Trade Ministry, the SECEX, and the average realized price for iron ore in exports in January fell for the first time. It was a big increase in volumes, but it fell for the first time around US$ 70 per ton, very flat around US$ 70 per ton and in general it was around 50. So I wonder if you guys are ... what are the price conditions to this kind of clients you are winning?

Mr. Agnelli: Very good Rafael. First of all, the statistics that you get from the official agent is not a reliable (for your analysis); why not? You cannot consider one month to calculate the average price for everybody. There are some mines here in Brazil – not Vale - but there are some mines here in Brazil that they are selling at 70% of the benchmark price to adjust the new price later.

So there are some contracts starting on January 1st, the fiscal year. You do not have the benchmark price yet, so what is usual to do? - not for Vale, but in other mines - they established 70 or 60 or 80 as a provision of price.

So you have a pollution in the data that you get from the Ministry that you cannot take it as a source of information (for Vale), because there are a lot of distortions in this kind of information.

The second one, or the first question that you made about nickel. The nickel price I can tell you or the costs will go down sharply or will not be able, nobody will be able to sell at this price. This is the reality. Today only two companies in the world is able to produce big volumes to supply the market: is Norilsk and Vale Inco, period. We are managing the situation.

Of course we have some mines that is high cost and we are going to adjust those mines. We are concentrating production in the mines that the cost is very low, so certainly for example Voisey's Bay we will stay working at maximum capacity, but Sudbury I doubt if it is possible to sustain the current level of production. But ok, this is part of the game. We need to act as we feel it is the time to act. A lot of other competitors are cutting production, are shutting down mines and we are calm, I can tell you, we are calm because the market at this current price is not sustainable.

Mr. Barbosa: And we are in a very good position, Rafael, in the cost curve of the industry. We are in the first quartile in our operation, so I would like to remind you that in this quarter, the last quarter, there were several one-off events associated with nickel that affected nickel cost base, but other than that if you look at our cost structure we are very well poised in the cash cost curve of the industry and besides, Tito Martins, as Roger mentioned, is doing a very good job there in bringing down costs and this will certainly be seen over the next few quarters.

Mr. Martins: Only to add an additional point about the average price. First, we are selling much more in Asia than it used to be and the benchmark in Asia is lower than in Europe, so there is a more, I would say, statistical difference because the volumes are lower in Europe than we have now in Asia.

Another point - I do not know how you are counting it - but sales of pellets almost disappeared. Many of our pellet plants are idle and not only ours, but Samarco also. So this could have an impact on average prices that you are counting your statistics.

Mr. Martins: So we are going probably next quarter we are going to deliver our results and you can check what happened with the price. What I can tell to you is that we are selling benchmark prices and we are signing new contracts. We did not sign all of them, but we have already agreements for additional 50 million tons in China per year only for new customers.

So it is a completely new contract, based on benchmark prices for customers that never bought from Vale. Probably they are not buying in the spot, or not buying from Indians or from Australia. I do not know, but those are customers that want to buy from Vale and I can tell you I do not ask why they want to buy from Vale as long as they buy.

Mr. Barbosa: Thank you.

Mr. Biderman: On nickel is there any cost item that has increased a lot in the past years that you believe could go down? Any input like for instance in the steel industry, for instance, we know that coal prices, for instance, was an input that went up a lot and could go down; in nickel in specific, a primary industry, but is there any specific input that has pushed the cost curve up or is it just suppliers, third parties, that kind of things?

Mr. Barbosa: There are two elements, Rafael, or three elements. First the byproducts prices came down and this affected costs; the other element is energy and finally we have the devaluation of the currency that also represents an impact on the final cash cost of the business, ok? Thank you.

Operator: Ladies and gentlemen, please restrict your questions to two at a time. Our next question comes from Mr. Carlos De Alba from Morgan Stanley.

Mr. Carlos De Alba: Good morning everyone, thank you very much for taking the question. First one is can you give us some guidance on production or sales? I know that is difficult, but in the past you have been able to do so, maybe rough numbers for the different business segments, that would be highly appreciated.

And then second one is regarding the copper business. Actually if you look at the nonferrous business you had a negative EBITDA even after subtracting the impact of preliminary pricing adjustment in copper. I tend to believe based on your comments that nickel continues to be profitable, so it has to be - and aluminum is profitable - so it has to be copper. Are there any plans for you to reduce your output of copper even more or shut it down completely for a period of time until prices recover? Thank you very much.

Mr. Barbosa: Thank you Carlos. As for your question I think on the volumes I think Martins already indicated what we see for the first quarter and this is a reference number, of course, but based on what we achieved so far we are almost in the end of the second month of the quarter, so it is a very accurate figure, a reliable figure of what we believe would be the first quarter.

Other than that I would make additional comments. We are discussing with our clients, we are discussing in our several lines of business, but the feeling that we have, as Roger pointed out, is that there are very, several signs of improvement across the board and this should be reflected in our future shipments in iron ore and also in nonferrous businesses.

If you look at the PMI, as we indicated in our report the PMI stabilized increased the little bit. We have some signs of life in industrial production in the U.S., India and China. So industrial production is a key variable in our business and is showing signs of early, very preliminary recovery, but those are good signs.

So the volatility around the world has been sharply reduced, but still we are in uncharted waters in a way and I would like to advance a little bit more in the year before making any additional comments. The good news is that China is back and we are reaching record levels of shipments as we never reached those levels before and this extremely good news.

And more important than that, we are reaching or widening, broadening our client base in China, so reducing the risk associated with a single client or something like that.

As for the copper, please keep in mind that we have a large adjustment, price adjustment due to the provisional prices the system of the so-called MAMA, month after the month of arrival pricing and then this produced an adjustment over US$ 300 million on the copper price.

So if you take this out, if you take the one-off effect that we had in our business as we indicated, we are in a very sound position in every single line of business that we have in our portfolio.

Mr. De Alba: Including copper concentrate?

Mr. Barbosa: including copper.

Mr. De Alba: Thank you.

Operator: Ladies and gentlemen, this concludes today's question and answer session. Mr. Fabio Barbosa, at this time you may proceed with your closing statements, sir.

Mr. Barbosa: Ok. I would just like to give the floor to Martins and Roger, they have additional comments that they would like to make at this stage and I would like to thank for your attendance. Martins, please.

Mr. Martins: Yes, it is very strange that we do not get any question about the price negotiations.

Mr. Agnelli: I would like to talk about that, Martins.

Mr. Martins: I like to address this issue because we are now in the period of price negotiations and we see a lot of news on the press and I would like to put how things are going as far as Vale is concerned.

We are in a wait and see position. We are used to be the price setter, but this year we decided to wait and see what will be fixed between Australians and Chinese, because I think China is now the main seaborne market and the Australians are the biggest suppliers and they are closer, so we intend to let to them to fix the price.

Last year we did and we know what happened. They did not follow the benchmark, customer accepted higher prices and we had all the problems that everybody knows. So this year our position is wait and see. There is no proposal from Vale on the table and we are only waiting what will come and if it is good we will follow, if it is not good we will do like they did last year. So we want to have our hands free to follow the price or not according to our strategy, according to our needs.

On the other hand, being Vale always a price setter it seems that we suffer a little bit more, because tactically speaking many customers reduce their iron ore inventories in order to have some kind of bargaining power, to increase their bargaining power. So we faced, with many customers - big customers, traditional customers - much lower orders than they are used to put even considering the production they are doing. It is easy to notice what happened with our traditional customer in China that stopped buying during all over this period, even Arcelor Mittal, which is our largest customer, also stopped buying.

So I think we suffered a little bit more than the others because we are used to be a price setter. But this year we decided to wait and see what is going on and to take our decision later. That is the message I would like to convey to you.

Mr. Barbosa: Thank you. Roger, your final comments.

Mr. Agnelli: Hearing to what Martins said, I think that maybe there are some companies that are working at maximum capacity, so they cannot go further. We are not working at maximum capacity. We closed some very high-cost mines and good for us, but we can go further. This is very important. So we decided to, as Martins said, to have our hands free and to do whatever we feel that is good to do because we are the leaders in this market, this is our major business and we care about the behavior in this specific (industry) … in iron ore.

To finalize this conference, what I would like to convey to you is that we are not depressed at all. We are full of energy, we are having fun. The company is very well positioned in the marketplace. Our footprint right now is a global footprint and there are things that are going in our favor and any other opportunity that may appear in the future we are able to take advantage on it.

We are conservative guys, our approach in terms of tactics, our approach in terms of investment, our approach in terms of acquisitions you can always consider that we are conservative. This is not the right time to be aggressive, this is the time to be humble, to do our homework changing what is necessary to change, facing all the problems and solving the problems as soon as possible and trying to simplify things.

To make, or to consider or to have all this very sophisticated strategy for me, in this specific moment, is not a good idea. The best thing to have right now is to have the most simple, or the most non-sophisticated thing and for me the most non-sophisticated thing is work. That is what we are doing, working hard. Thank you very much.

Operator: That does conclude our Vale's Fourth Quarter 2008 Earnings conference for today. Thank you very much for your participation. You may now disconnect.