



**Vale S.A.**  
**National Teleconference**  
**2011 Results**  
**February 16, 2012**

**Operator:** Good morning, ladies and gentlemen. Welcome to the Vale teleconference where we'll discuss the 2011 results.

**Doris:** All participants are only connected as listeners and later the question-and-answer session will be opened and instructions will be provided to take part in it. In the event that the help of an operator is required during the teleconference, you only have to press asterisk zero. Please remember that this teleconference is being recorded. The recording will be available on the company Website at [www.vale.com](http://www.vale.com), Investors section. This teleconference can be replayed by dialing phone number (5511) 4688-6312, access code 1143755#. This teleconference is being transmitted simultaneously on the Internet, through the Company's site [www.vale.com](http://www.vale.com), Investors section, and through [www.prnewswire.com.br](http://www.prnewswire.com.br) site. Before going on, I'd like to clarify that any statements made during this teleconference in regard to the Company's business forecasts and outlooks are based on management expectations as to the future of Vale. These expectations are subject to macroeconomic conditions, market risks and other factors.

Today we are accompanied by: Murilo Ferreira – Chairman and Chief Executive Officer; Tito Martins – Chief Financial and Investor Relations Officer; José Carlos Martins – Executive Officer Ferrous Minerals and Strategy; Eduardo Bartolomeo – Executive Officer Fertilizers and Coal; Vânia Somavilla – Executive Officer Human Resources, Safety, Health, Sustainability and Power; and Galib Chaim – Executive Officer Capital Projects Implementation.

First of all, Mr. Murilo Ferreira will refer to Vale's performance in 2011 and after that he will be available to answer any questions that may be asked. Now I'd like to pass the floor to Mr. Murilo Ferreira. Mr. Murilo, you can proceed please.

**Murilo Ferreira:** We are very proud to announce that Vale's team has shown an outstanding operational and financial performance in 2011. We have set records in iron ore and coal pellet production. It's important to mention in particular the production record in Carajás, one of the main sources of ore in the world. Basic metals, nickel and copper, have shown their best performance since 2008. Our financial performance has been extraordinary, one of the best



ever. We have beaten the record in operating income, operating results, cash generation and earnings, in the midst of a highly volatile environment, mainly in the Eurozone. We continue to be determined and will keep our commitment to value generation, with efficient capital management being essential to reach this goal. We developed 5 (five) projects in 2011: Onça Puma, Omã, Moatize, Estreito and Karebbe, which will start generating results in 2012 and 2013, when they become fully operational. Another reason to be happy: we obtained the license to operate the N5-Sul block, the first mining license in Carajás since 2002. Therefore, all this news really makes us feel very excited.

We have also distributed US\$ 12.0 billion to our stockholders – US\$ 9.0 billion by way of dividend and US\$ 3.0 through buyback of shares. We have made considerable investments, almost US\$ 1.5 billion, in the social area and social responsibility programs – specifically US\$ 1 billion in environmental protection and preservation and US\$ 450 million in social programs.

Therefore, we would like to take this opportunity to show our commitment to Brazil by investing US\$ 18.0 in organic maintenance and growth of our operations, not only in Brazil but also in other countries such as Canada, Indonesia and Mozambique. We are very thankful to our stockholders, our employees, our customers and suppliers, and the communities for the support received. This year has been very important to us, and we have beaten these records thanks to the determination of a vibrant team, which is Vale's team. Thank you.

**Doris:** Ladies and gentlemen, we will now start the question and answer section. To ask a question, please press asterisk and then one. To remove a question from the list, press asterisk and then two. Questions will be limited to a maximum of 2 (two) per person.

**Operator:** If you'll allow me, our first question comes from Mr. Felipe Hirai with Merrill Lynch.

**Felipe Hirai:** Hi, good morning everybody and thanks for the opportunity. My first question refers to the company's tax litigation. Could you explain how you see the status of this litigation, mainly because we have noticed an increase of the contingency part of this US\$ 27 billion to US\$ 22.4 billion from the third to the fourth quarter, but I don't know if this increase took place only because of a monetary correction in liabilities. My second question refers to the production estimate for 2012, because in November you spoke about an annual production



of 312 million tons and I'd like to know if this figure will remain the same considering that Vale showed a higher production in the second half of 2011 as well as the negative impact of the rains in the first quarter. Thank you very much.

**Tito Martins:** Good morning everybody, this is Tito speaking. In the first place, as regards to contingencies, Felipe, the figure you mentioned has in fact nothing to do with the issues that have been in the media lately. The increase in numbers is much more related to the exchange rate than to anything else. The financial statements reflect the effects. We are not including as contingencies or as provisions anything that has been discussed in the media lately. In regard to that specifically, I believe that the matter returned to the Taxpayers Council, and I believe that it will be analyzed by the Council, and in fact we are waiting for their opinion in this respect.

**José Carlos Martins:** Well, this is Martins. As regards production, we keep the volume of 312 million tons for this year (2012), the effect of the rains ended up being a little less than we had expected, around one and a half million tons, and we believe that with a good performance, mainly of the logistic area at the port and the railway facilities, we can make up for this volume in the coming months.

**Tito Martins:** Let me just make a last remark about the question of taxes on foreign income. We trust that our position is quite strong based on our understanding of what the law intends to impose on us, it's quite strong, that is, because of this we aren't even promoting any kind of provision or reserve. Besides, it is worth remembering, and Murilo is making a point of it here, that we have had similar cases to this one, cases that have already been decided by CARF, where the taxpayer won, so we expect that the same understanding will prevail and will apply to our case. Thank you.

**Felipe Hirai:** OK, thank you very much.

**Operator:** If you'll allow me, our next question comes from Mr. Rodolfo de Angele, with JP Morgan.

**Rodolfo de Angele:** Good morning, my first question refers to the price of iron ore. We have seen a drop in the quarter as expected. I'd like to know if you could comment a bit on the final price at which Vale is selling on the current spot market, if there is any update on the trend from now on. And my second question is, we have seen an important effort from the Company to work on everything that is a critical path. In the release, you referred briefly to your



expectations as to the environmental licensing of expansions in Carajás, and I'd like to know if you could describe the process in more detail, what new developments we can expect this year in this area, mainly to prevent further delays in your organic growth projects. Thank you.

**José Carlos Martins:** Well, Martins speaking. As regards prices, 80% of our sales refer to the actual price of the quarter, that is, the daily spot, that is, the monthly average, or the quarterly average, depending on the negotiation held with customers, and 20% follows the previous formula. As the price stabilizes at a certain level, both prices tend to converge and there's not much difference between the two. Only at the beginning you have a greater impact, but we believe that as the price becomes less volatile, both benchmark prices will converge.

**Murilo Ferreira:** Well, this is Murilo speaking. As regards the environmental licensing process, the survey that had to be submitted was remade and was submitted to Ibama in the second half of 2011. We've had open and constructive discussions with Ibama, all these discussions have been very important, and we continue to trust that this matter will be solved in the first half of this year. Thank you for asking.

**Operator:** If you'll allow me, our next question comes from Mr. Renato Antunes with Flow Corretora.

**Renato Antunes:** Good morning everybody, thank you for the opportunity to ask. The first question refers to the outlook on the spot price of iron ore for the next months of 2012. Perhaps Martins could comment a bit on your view about the trend of the price throughout the year. We have seen some stakeholders somewhat worried about the short-term scenario. That is the first question. And the second question refers to costs, mainly in the iron ore operation. In this quarter we have seen the cost in dollars relatively controlled, at approximately US\$ 38 per ton, according to our calculations, having increased from US\$ 37 per ton, but if we really look at this cost it has shown a relatively high increase in the quarter. I'd like to know what you expect the cost of iron ore to be throughout 2012, mainly considering that the rate of exchange has already dropped by 1.73 below the average of the fourth quarter. Thank you.

**José Carlos Martins:** Well, Martins speaking, José Carlos Martins, because we have two Martins here. As to the price, it actually stabilized at approximately US\$ 140. This year, the last two months, it has oscillated, sometimes it goes up



a bit, it goes down, but it has been at approximately US\$ 140. We think that this trend will remain and we expect that starting from the second quarter there will be some activity, that is, basically the large influence comes from the construction sector in China. We are now in the winter season, when the pace is a little slower, and it's clear that the liquidity measures of the Chinese economy have not yet reached other sectors.

Therefore, we believe that at the end of winter, along with the recovery of the construction sector in China, we should experience a more favorable impact on demand. Anyway, the price has a basis, that is, has a cap that results from the local ore production costs and also from the reduction of exports from India. Exports from India have dropped, and that provides a basis for the prices. In the construction area the government in China, they are putting more focus on the construction of working class houses. They plan to build 10 million houses per year, and I think they are at the stage of reallocating resources to the civil construction area, more inclined to working class housing. We expect that the market will remain at that level for some time, and after the second quarter it will show some recovery. Concerning costs, Tito will provide further details.

**Tito Martins:** Well, concerning costs, I don't know what formula you're using, but the point is that we noticed certain cost stability. If you compare the third against the fourth quarter, in fact the substantial impacts are more closely related to external factors such as the rate of exchange of our currency, right? When we look at global company figures, in a more general way, it's not only the iron ore, as the only significant impact that we had in the last quarter corresponded to the personnel, because in that quarter our collective bargaining agreement was signed so you can see an increase of around 8% applicable to Brazil, right? We must consider that there was a non-recurring event, which was the payment of a bonus to retain employees, so all Company employees got this payment, and as a result you can see that there is a higher increase of that specific cost in the quarter, due to this expense that was incurred. Thank you.

**Renato Antunes:** Thank you.

**Operator:** If you'll allow me, our next question comes from Mr. Leonardo Correa with Barclays Capital.

**Leonardo Correa:** Good morning. My first question goes to Martins. As regards pellets, the building [*sic*] of pellets in the quarter, we have seen quite a high figure, close to US\$ 60. I'd only want to have your guidance in regard to the first



quarter, that is to say, expectations for the year, whether you expect that spread to fall to a level close to US\$ 30, US\$ 35. And my second question for Murilo is a bit more general and refers to M&A activities within the industry. We have followed the activities of Glencore and Xstrata and I'd like to have your opinion as to the implications for the industry as well as an update on Vale's M&A strategy. We must still expect some slight activity, mainly focused on copper. Well, these are my two questions, please.

**José Carlos Martins:** Well, this is Martins speaking about the price of pellets and in the case of the spread of pellet premium; in fact, it not only includes the pellet premium [*sic*] but the Value in Use (VIU) of the ore. As a matter of fact, the pellet has around 2% more iron content, so the truth is that when you compare with the benchmark price, you end up referring not only to the premium to make the pellet but also to the premium of higher ore content, so your estimate of a premium at approximately US\$ 30 is quite reasonable considering that you have this VIU spread that varies according to the spot value of iron in each period. Therefore, the explanation for this higher value is that it includes both figures, the VIU and the cost of pellet manufacturing.

**Murilo Ferreira:** Well, Murilo speaking. In reply to the question about M&A, it was in fact a transaction that had already been announced by the press and some analysts, this Glencore and Xstrata transaction, even because Glencore held and holds a substantial interest in Xstrata, in which case it could somehow take place more easily. Here at Vale we continue to be focused on organic growth, even more with our expectations in regard to the Serra Sul, Serra Norte mine, for which we obtained a license in 2012. In the short term we will be producing something, and then we have the Rio Colorado project in Argentina, we have Moatize project, that is, the challenges we have ahead of us, considering the implementation of these projects, are quite big. However, I wouldn't completely discard any transaction, but if there were any, it must be a minor transaction, but at this time there is none under discussion, there is no understanding that means that we are close to any transaction, but just a remark that we are open to any arising opportunities, but in general I think that the industry will have fewer transactions. The opportunities are no longer as intensive as the ones reported in the period from 2004 to 2008, 2009, and now companies are actually consolidating the acquisitions that they made. Thank you for your question.

**Operator:** If you'll allow me, our next question comes from Mr. Ivano Westin with Credit Suisse.



**Ivano Westin:** Gentlemen, thank you very much for your call. I'd like to ask a question to Martins. He said that Vale's income fell in the fourth quarter because of the drop in the price of iron ore, because Vale hedges with nickel, with bunker oil, and I'd like to know if we can expect Vale to enter into the iron ore swap market.

**Tito Martins:** We don't hedge nickel, we hedge bunker for cost protection. From the point of view of company exposure, we understand that when investing in Vale the stockholder is running the risk of the minerals themselves, and in fact the policy is not to protect our products. Unless there is a change of this policy in the long term, I don't see any chances that this may happen in the short term, but in the long term, for reasons I can't manage to foresee, chances are zero, there are no such chances. Just an observation in regards to nickel specifically: We made some small transactions much more related to supporting our customers in fact, more as a protection for the customer's position, not ours, considering that some markets in which we operate are markets where customers are very small, so they are not capable of assuming that. Therefore, it's a protection tailored to those customers. Thank you.

**Ivan Westin:** Thank you very much.

**Operator:** If you'll allow me, our next question comes from Mr. João Mendonça with Opus.

**João Mendonça:** Good morning, I'd like to ask a question. I'm looking at the operating income per region. What comes from China fell by 22.15% in this quarter compared against the previous quarter, and comparing the volume of ore sold to China it fell by 28%.

**Tito Martins:** What's your question?

**João Mendonça:** Go ahead, sorry.

**Operator:** If you'll allow me, our next question comes from Mr. Felipe Hirai with Merrill Lynch.

**Felipe Hirai:** Hi. Thank you again for the opportunity. I just wanted to confirm something. In regard to the taxes that the governments of Minas Gerais and Pará are charging, are you paying these taxes? Or are you making any kind of reserve or provision? What steps has the company been taking in this regard?



**Tito Martins:** Well, in the first place these taxes will only start to be charged from April 1; in the second place, we know that the associations, IBRAN as the main mining association in Brazil, and other regional associations, are making a general assessment of the imposition of these taxes. In truth, we are following up on that, waiting for a position to be established. There were similar cases in the past, of other states seeking to impose differential taxes, and they proved to be unconstitutional. Therefore, we're now waiting for that, but no reserves or provisions have been made and nothing else has been done.

**Murilo Ferreira:** Just some supplementary information – this attempt took place in the state of Bahia in 2007 and it didn't go through. Thank you for your question.

**Felipe Hirai:** Thank you. One more question, please, in regard to the cash return to stockholders. You said that last year you paid US\$ 9 billion worth of dividends and US\$ 3 billion in buyback. For this year, 2012, you've already announced a minimum dividend of US\$ 6 billion. What I'd like to understand is what you commented on during the presentation, that you'd pay any cash surplus back to stockholders. I just wanted to understand how you see the leverage part because your CAPEX program is quite large, but in 2011 we saw that Vale's leverage measured by the net debt went from US\$ 15 billion to US\$ 19.5 billion. Can we expect that the company will increase its indebtedness a little bit and perhaps even pay a somewhat larger dividend or make a somewhat larger buyback, can we assume that the company can contract some more debt?

**Tito Martins:** Felipe, I'll give you a general answer about this because in fact it's difficult to foresee what may happen, even considering the availability of liquidity for the company. We have four priorities in terms of cash flow utilization. The first is our investments, we seek to invest in high level assets in terms of return. We want to keep our balance sheet really strong, in spite of the fact that indebtedness has increased in liquid terms. Over the last year you'll see that, in fact, indicators went down, so performance, the balance sheet, is stronger than it used to be a year ago. We also have the priority of dividend distribution, and that's the reason for our record announcement of a minimum dividend of US\$ 6 billion that we have already made, and we want to prioritize the cash return to our investors/stockholders.

What will end up happening is that we'll have to check the cash flow performance during the year even as a function of price variation, obviously



keeping a close eye on our costs. We expect that our investments will be made effective, even because of what was said in the last months in terms of our commitment to keep firm discipline in implementing these investments. And as this cash flow becomes stronger, we can speak about something else. According to our current plans, I'd say that there are no chances whatsoever that our balance sheet position may change. Quite on the contrary, we seek to keep the strong balance sheet that we have.

**Operator:** If you'll allow me, our next question comes from Mrs. Juliana Chu with Votorantim Corretora.

**Juliana Chu:** Good morning. I have two questions. As regards the 80/20 price system migration that you spoke about, I'd like to know if this migration must go on in the first quarter and if in 80/20, 20 would refer to Japan or to Europe, also in that proportion?

The second question refers to Valemax, to Valemax vessels. I'd like to know if you could comment a bit on how negotiations with the Chinese government are going on and whether you have an opinion as to the technical issue that they say there is, that the port may be damaged because of the size. These are the two questions. Thank you.

**José Carlos Martins:** Well, in reply to the first question concerning prices, this 80/20 ratio is basically defined by our volumes for Japan and Korea. This 20% remains from the previous system. The remainder was more for spot pricing, but we believe that the trend of these prices will converge as the price keeps stable. The difference between the retroactive average and the spot price period tends to disappear. This will become less significant as the price levels off.

As to the second question, regarding Valemax, our position is to respect, to follow Chinese regulations, so we have concentrated all our efforts in obtaining port authorizations insofar as these ports adapt to these vessels. This is essentially a technical issue; it has to do with the depth of the port, the capacity of the pier to support the vessel, and the area for vessel maneuvering during mooring. This is a fully technical issue and is obviously related to operating safety, both port and vessel safety.

I draw your attention to the following – there aren't many ports capable of mooring 400,000-ton vessels in the world. In the past they didn't moor because there were no 400,000-ton vessels. For example, we have moored at Taranto,



Italy. This port was not built for 400,000-ton vessels but it is deep enough, the pier is capable of supporting it, and the maneuvering area is large enough, so the vessel was able to moor. The same applies to Rotterdam, in the Netherlands. The vessel has already moored in Rotterdam; it has moored at Ponta da Madeira, at a port that had been built many years before, without requiring any modification. We are already mooring at the port of Tubarão, here in the South. The port of Sohar in the Middle East was made for 400,000 tons, that is to say, when the port was designed, it was designed for 400,000 tons, and vessels can moor there. In Malaysia the port is being built for 400,000 tons and will not have any problems to receive the vessels either. There are other ports in Asia, excluding China that will also be able to receive these vessels by means of these adjustments that must be made, as regards depth and the possibility of vessel mooring at the pier.

So this is essentially a technical question. You have been obviously listening to a rather negative position from Chinese shipbuilders, but we believe that this is the trend in the industry, with larger vessels occurring at all vessel industry segments, and the question of bulk vessels will not be different. We believe that, as time goes by, these issues will be adjusted. Most Chinese ports were built for 300,000 tons, they are quite robust ports, deep-water ports, and many of them are able to receive the vessels. It's just a question of adjusting, so to say, the technical issue, the licensing issue, and the question of meeting Chinese regulations. We are very confident that in the mid or long terms these issues will be sorted out and the vessel will be able to moor not only in China but in other Asian ports. Besides, we have our ore transfer facilities, which are already working at Subic Bay. They're working very well, started operations yesterday, and it will be possible to arrive on a 400,000-ton vessel and transfer the load to smaller vessels, which can even get into ports that Vale has never been able to serve, because serving certain ports with very small vessels can be uneconomical. So thanks to the transfer station we'll be able to reach many Asian ports that Vale cannot reach today due to vessel cost-efficiency questions. Therefore, our strategy is well structured, it has full back position for all conditions, and as we manage to get to more ports in Asia and also with the start of operations in the port of Malaysia all these questions will be fully addressed.

**Operator:** If you'll allow me, our next question comes from Mr. Leonardo Correa with Barclays Capital.



**Leonardo Correa:** Thank you for the opportunity. Just one question regarding the regulatory framework that we expected would be delivered to Congress at the end of last year. It didn't happen. Murilo, I just wanted to have your update as to any possible schedule and new measures and if you could kindly refer to the special participation.

**Murilo Ferreira:** I think that the new regulatory framework is being discussed, as far as we know, at different government levels, and we also know that dialog with associations involved in mining has been quite positive. I believe that in the first quarter of 2012 it will be delivered to Congress to start the usual legislative process. But referring exclusively to the process of giving exploration licenses and then mining rights, for example, all that legal structure is being checked. I think that the question of royalties will be dealt with in a second instance and will remain for the future.

I think the special participation issue is a very important one, because we need to draw a very clear line between what happens in oil and gas and in the mining business. They have quite different characteristics. You know, for example, that the oil and gas industry here in Brazil has a captive market, while mining competes with the whole world. We have very strong competitors everywhere. You must also bear in mind the entire infrastructure that is being allocated. Imagine Vitória-Minas, the port of Tubarão, Carajás railway, the port of São Luis, all these assets were built to provide the advantage of a logistical organization for iron ore. But what we can see day after day is that it's being used for grain, steel, the same is being used.

Then, unlike a platform, the depletion will be eliminated and operations will be performed elsewhere, and the entire infrastructure will remain for the benefit of the entire region, for Brazil as a whole. Therefore, we must take this into close consideration. There are also different tax procedures. In mining, taxes are levied on each product stage. Contrary to oil, there is tax substitution. Therefore, I think that if oil and gas and mining were put into the same basket, as if they were the same thing, this view, in our opinion, should be revised. Personally, I think that the differences are so sharp that there will be no special participation, but, once again, a deeper discussion is being held with associations in regard to the regulatory framework as it is. Thank you very much for your question, Leonardo.

**Operator:** If you'll allow me, our next question comes from Mr. Rodrigo Barros with Deutsche Bank.



**Rodrigo Barros:** Thank you for the opportunity. Congratulations to all the team on the results. Two short questions: First, as regards fertilizers, I'd like to have an update on the Carnalita and Rio Colorado projects concerning their position in the cost curve, expected return, and timing for entry into full operation.

The second question is, I'd like to understand a little bit about the tax question. Some companies, at least a big one, has already mentioned that it could expect from the government some kind of "refis" (fiscal recovery programs) for these taxes, these contingencies. Have you heard anything about it, do you think it can be possible? Thank you.

**Eduardo Bartolomeo:** Rodrigo, this is Eduardo Bartolomeo, good morning. In regard to the two projects you mentioned, Colorado is within schedule, we are developing the project, drilling wells are already in place, and we are going ahead with negotiations for infrastructure. You must know the project is quite complex, just as you said it, and ranks in the first quartile of the market. It is an extremely attractive project and all the expectations described in our conference in New York continue to be the same, both in terms of return cost and schedule.

As regards Carnalita, recently we made significant progress with Petrobras as to the possibility of a joint exploitation of oil and Carnalita. This has made it possible to carry out our project. In the second half of the year we will also submit to the consideration of our board a project that, from our point of view, is quite attractive and also remains within its competitive cost quartile curves. As to schedule, nothing has changed, because among other things we have managed to unblock this question that was essential for project continuity. Thank you for asking.

**Murilo Ferreira:** In reply to the question on taxes, I'd like to say that we are highly confident that our stand is very strong. There is a quite significant point that refers to higher values that has not even started to be discussed. I refer to the operations performed through a dual taxation agreement between Brazil and Austria. This issue has not yet been submitted to analysis for us to be able to state our grounds. Therefore, we know that there have been similar cases, even like the one of Austria itself, and the three cases that have already been enabled by CARF. There is one, exactly in the same country, which was in favor of the taxpayer, in which the decision was in favor of the taxpayer. This reinforces our belief that we have a very strong stand and we aren't following any discussion procedure in Congress about potential "refis." We are convinced



that we have good chances regarding the lawfulness of our transaction. Thank you for asking, Leonardo.

**Doris:** If you'll allow me, as there are no further questions, I'd like to pass the floor to Mr. Murilo Ferreira so that he can make the final remarks.

**Murilo Ferreira:** Once again I'd like to thank all Vale personnel who have worked so hard in 2011, to deeply thank our stockholders who have given full support to us to pursue our objectives and obtain our results, and to thank you analysts who always make remarks addressing the matters quite appropriately and many times raising questions for us to answer. So we'd like to thank everybody and to send you our best wishes. See you soon.

**Doris:** Vale's teleconference is closed. We thank you all for your participation. Have a good day. Thank you.