International Conference Call
Vale
2nd Quarter 2008 Earnings Results
August 7th, 2008 – 11:00 a.m. (RJ Time)

Operator: Good morning ladies and gentlemen, thank you for standing by and welcome to Vale's conference call to discuss second 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 (0). As a reminder, this conference is being recorded. The replay will be available until August 13th, 2008. To access the replay, please dial (55 11) 4688-6312 (access code: 574). 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 Chief Executive Officer; Mr. Fábio Barbosa, Vale's Chief Financial Officer, Mr. José Carlos Martins, Executive Director of Ferrous Minerals and in Toronto is Mr. Murilo Ferreira, Executive Director of Nickel Business, Marketing and Sales of Copper and Aluminum.

First, Mr. Fábio 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. Fábio Barbosa. Sir, you may now begin the conference.

Mr. Fabio Barbosa: Thank you very much, good morning to you and thank you very much for attending this conference. We will have a very brief presentation today and I believe in the benefit of a better understanding of our results and perspectives. We will have Mr. Agnelli's, Mr. Martins' and Mr. Ferreira's comments together with our presentation, so I will try to be brief on the slide presentation itself.

First, our performance in the second quarter. We believe that we again delivered a very outstanding performance amidst a very challenging environment operationally wise. We delivered record in output in nickel, iron ore pellets and coal and record shipments of iron ore pellets ... iron ore and pellets: 78.9 million tons.

Record revenues, almost US$ 11 billion; net earnings, US$ 5 billion and Ebitda US$ 6.2 billion.

And in the case of the Ebitda, as you can see on page 6, the major drivers were, of course, the price variation of US$ 2.1 billion against the first quarter of 08; volumes, despite the operational problems that we faced, that we explained in our release; dividends, 175; but a very important contribution of cost-reduction associated with the increase in production of our own facilities in nickel and other elements in our cost structure.

So it was a very impressive result, I would say, considering the very sharp appreciation of the exchange rate and also the massive effort in terms of research and development. So we are happy with what we could get considering, again, a very challenging environment.

Another important point was the upgrade to BBB+ that we achieved in this quarter associated with the global offering that we implemented in the last month of July. Again, Vale improved the quality of its credit and also the quality of the strategic planning that it has in its pipeline and we were able to attract a very important set of investors to buy our shares and there was a successful transaction achieved, again, in the most challenging financial environment of the last 20 years.

And after this transaction we were able to get the BBB+, it is the only company that has its headquarters in Brazil with this rating, it is the only one with this proximity to the A-League, which we want to get to as soon as possible and this, of course, is related to the very strong cash flow generation, the steady cash flow; the reduced the volatility of our cash flow; the limited leverage of the balance sheet, despite the acquisitions that we made; and, of course, a very comfortable debt profile reflected in the debt maturity above 10 years.

Mr. Agnelli: Regarding to the A-League, you promised me sooner than later.

Mr. Barbosa: That is right. So I have to deliver, that is right. So speaking on delivering, we delivered in the last six months six world-class projects, four of them in Brazil, where we have the bulk of our investments: Fazendão, with 15.8 million tons; Samarco, the third expansion of Samarco, 7.6 million tons; Paragominas now being able to produce, is able to produce almost 10 million tons per year; and the last expansion of Alunorte I, stages 6 and 7 and now Alunorte producing 6.3 million tons per year – is the largest alumina refinery in the world - and two very important investments in China: Zhuhai pelletizing plant with 1.2 million tons capacity and the nickel refinery in Dalian that we inaugurated in the first half of the year, also very important investments.

We invested almost US$ 4 billion in the first half 08, 2.7 billion in projects; 440 million in R&D and stay-in business, 915 million.

Looking forward, our basic view is what is in the beginning of this section: fundamentals remain strong. In our view there is this phenomenon of relative decoupling of emerging market economies, we expected it to continue. We believe that the growth rate of the world GDP would be around 3.8% over the next five years ending 2012, so even above what we observed in the last 37 years ending in 2007.

So this should continue and these drivers will be determined by the emerging market economies, which have been absolutely key to determine the performance of the mining and metals industries over the last several years.

And you can see on chart 11 that out of the seaborne trade growth in eight years ending 2007 China represented 95% and in the other materials: steel, aluminum, copper and nickel a major contribution from the emerging market economies to the global consumption growth.

And this, of course, has to do with the structural changes that are associated with the growth of the emerging market economies. So there is a massive effort in infrastructure building, in industrialization, urbanization and those are very much buyers, those elements are very much bind towards mining and metals and increased naturally and structurally the demand for minerals and metals.

The UN estimates that the emerging markets' population in urban areas will increase by 1.2 billion people until 2025. This is the double of the combined population of the U.S. and Europe in less than 20 years and this is the number of people that will have to get urban infrastructure in place over the next several years.

So this is a massive investment; infrastructure investment is expected to reach almost US$ 5 trillion over the next 10 years and besides, the increase in per capita income and the development of consumer and housing financing in emerging-market economies also contributes to add demand, associated demand for metals. And finally the very response to the energy shortage that we can observe today also leads to a rising consumption of metals, particularly copper and other materials.

Our view about the cycle is that this is, again, a long cycle that is very much comparable to what we observed after the Second World War in the beginning of the 20th century; it is a long cycle and one of the key characteristics of a long metal cycle is above-trend growth in global steel output. Above-trend refers to by the global GDP growth, so during the 50's and 60's, driven by European and Japanese demand, global steel capacity grew by 6.2%, 5.5% respectively, while the global GDP was limited to 4.8.

The same is happening now with the Chinese and other emerging markets cycle with steel capacity growing 6.7% average since 2000 and the global GDP growth again around 4%. So this is a major drive that should continue in our view, because they in our view as well are far from done, as we mentioned before. A lot of infrastructure is still required and they are, in a way, barely beginning.

On the supply side, on the other side of the supply, we face multiple headwinds. So we perceive demand as a very strong one, the supply has not been able to catch up with this growth in demand and so the structural gap between supply and demand would continue, in our view, due to institutional barriers. We saw some of our competitors with difficulties in some African countries in the last few days and this is part of the game today: we have to go to more complex geographies and it is harder to find stable institutional environment everywhere that we dig and everywhere that we operate.

Resource endowment. Overall decline in resource quality, shortages of water is a major issue for several operations; bottlenecks in infrastructure, in logistics, in power and also the shortage of skilled people to work in the expansions that we have and our competitors also have; higher Capex costs, technological challenges. Altogether the environment is not conductive, so our timely response of supply to the strength of the demand that we have been observing in the last several years.

At this point I would like to turn the floor to Martins to comment on the iron ore perspectives, how we see the market and to the iron ore business.

Mr. José Carlos Martins: Good morning everybody, it is a pleasure to talk with you. As Fabio has stressed, we continue to be very bullish about the iron ore market because we really believe that infrastructure is expanding in new developing countries will continue to foster demand mainly for steel, which is the main material for infrastructure, much bigger influence than any other materials is steel for infrastructure and behind the steel you have iron ore, you have the met coal, you have the manganese. So we believe that this infrastructure needs will continue to drive demand for steel and also for iron ore.

The current market condition is very tight, continues to be very tight. We are working very hard to cope with the demand, we continue to lag behind our commitments in terms of delivering what the customers are buying.

So in this first half we face a lot of difficulties: we had a big accident in one of our ports, we had a lot of landless people blocking our railroads for three times. Rain is something that we normally have at this period, but this year it was a little bit stronger. So we were not able to deliver all the iron ore that we produced, so we stockpiled a lot of iron ore that now we are delivering, because now the system is working better.

So only in July we reached our record number in terms of shipments and August is going very well and so we expect a very strong quarter and we hope that we can recover part of the volume that we lost in the first half based on these problems that we faced.

But looking at the market, it continues to be very bullish. When we look at the sourcing of iron ore in China, we see a lot of small miners - I would say hundreds of small miners, local miners - producing at very high cost because the market is demanding and is willing to pay a higher price to get this ore. Even in the seaborne part the number of, I would say, nontraditional suppliers appearing is a lot, which means that they are buying iron ore everywhere. Just in the next year from now they are supplying iron ore from 34 sources; in 2006 and 05 it was around 28 and in the beginning of this decade it was around 10 to 11 suppliers.

So they are looking for iron ore everywhere, not only domestically but also outside, which means a pressure in costs, a pressure in price and you see this going on in the spot market in China, in which the prices are very strong and very high.

Also the situation in the freight market helped push these prices high and we think that we are in a very good position, because our benchmark price is a little below the delivered prices in China nowadays when you consider the spot market. So we see some upside in prices even during this current year, based in the situation now.

So we do not see big changes in volume in this year and for next year, after all of this impact of the Olympic Games, which sure is bringing impact on the steel production in China because the main steel mills were shut down because of the impact on the environment. So we think that after the Olympic Games the situation there will be even much stronger than it used to be.

So when you look forward we see that the possibility of local ore taking market share there is limited because of quality constraints. We do not see more than 45 or 50% usage of local ore because of quality and the more they buy from Australian sources or Indian sources, the more they need corrective ore and the more they need high-quality ore. So we do not see any kind of problem in any market situation because of this quality constraint they have and also they always will need high-quality ore to correct the lower quality ore they are using from all of these different sources.

So that puts us in a very strong position and with the strategy we are developing in the shipping side we can strengthen even more this quality advantage that we have, because for sure the long distance between Brazil and Asia is one of our weaknesses that we are now trying to correct by developing a fleet of vessels that will help us to keep this freight market a little bit less volatile than it has been last two or three years.

So marketwise we do not sell too much iron ore in the United States, we sell less than 3 million tons of iron ore in the United States and we continue to sell even with this different situation in the States and in Europe the market is really stable, there is no big changes in the market and the customers continue to ask for the contracts that they have for the volumes that they have. So far, even in the Western World we do not see big changes.

In Brazil the market is very strong, we sell in Brazil near 50 million tons of iron ore and the market continues to be very good in Brazil and besides that we have the situation with pellets. The current situation with met coal, the demand for high-quality ore and also for pellets is very strong because you can save coke by using a better iron ore, so this is helping us a lot relating to the high-quality ore we have and also for pellets. So we see a very good position not only in the short term but also in the long term for our products. So that is, generally speaking, how we see this situation nowadays.

On the investment side we are speeding up our programs of investment mainly in Carajás area and we expect to reach, increase our capacity for 120 million tons up to … 12 and this is our long-term investment there and building a lot of pellet plants to improve on our asset base in pellets production.

We believe that pellets is becoming more and more the most important ingredient for a pig iron production because of environmental impact, which is lower; second, because you can save energy, you can use less coke; and also because pellets is very much used in DRI production and there is a big increase in DRI production in the Middle East using the natural gas they have.

Also the demand for pellets is really bullish and we have a very strong pipeline of investments in this area. We are finalizing the conclusion of investments in the Irabiritos Project, which is a 7 million tons per year pellet plant in the South system; we are in the middle of investments in Tubarão 8 pelletizing plant in Vitória, which is the Southeast system; and also we approved in our board the investments in a new pelletizing plant in Oman, in the Middle East. Besides that, we are analyzing new investments in pelletizing plants in Brazil and also in Southeast Asia, where we think steel production will grow very fast in that area also.

So we are moving very fast with our investments. We are trying to anticipate some production because the market needs it and mainly in Carajás area we see a lot of opportunities to speed up production.

Logistics wise we solved the problems we faced in the first half of this year and the investments we are doing there are now coming upstream … coming onstream and the perspective is very good, we have a lot of iron ore in our mines available for shipping and as we streamline the logistics system, as we improve our ports operation we have a very good possibility for increase in volumes even above the production level, because we have nowadays a good volume of iron ore in the mines available for shipping. So we see a very good situation operationally speaking and also in terms of long-term perspective for the market.

Cost wise we have been under strong pressure in costs because of a lack of a lot of input: a lack of labor, a lack of suppliers and also the strengthening of Brazilian currency. But as far as we understand, we stopped the movement up and now we are working to bring the costs down.

It is not easy to bring costs down and we are trying to get an additional ton every day, every month; the marginal costs of producing this additional ton always is higher than the previous one, but I am very confident that now we stopped this long-term growth in our cost structure, which really happened from 2002 up to 2006, so it was a big growth in our cost structure.

Because of this way we are producing trying to get additional tons from every mine; going deeper, moving quantities at higher distance, so this puts a lot pressure in our costs and we hope that with the development of new mines with this investment we can even decrease our cost structure sharply. So these are the main aspects of the iron ore business.

I would like to add another point, which is the manganese business, which seems tremendously well pricewise and volume wise and the products that two or three years ago for us ... question mark now is running very well productivity wise and quality wise and also profit wise. It is now one of our main products, generating near US$ 1 billion cash flow per year and we expect to improve this number going forward. As I told in the beginning of our discussions, we really believe that iron ore, met coal and manganese will continue to be very well supported by this long-term investment cycle in the infrastructure all over the world, mainly in the less developed countries. That is it.

Mr. Barbosa: Martins thank you very much. I would like to ask Murilo to take up from there. Could you join, Murilo, please?

Mr. Murilo Ferreira: Fabio, thank you very much, good morning, good afternoon. I think that the global growth deceleration is lower to the recovery of the stainless steel industry output after a contraction in 2007. In this regard I would like to say some comments. After some improvement that we noticed in the first quarter, stainless steel production growth slowed down in the second quarter. We noticed the nickel prices starting to fall as the stainless steel production cuts were announced in May and the inventory destocking continues in 2008 as nickel prices fall as the stainless steel buyers remain concerned to restock in a slow economy.

The nickel inventories are declining, this is very important; stainless steel pricing contributes to increase the volatility of the nickel prices but we can notice easily on the page 20 the LME stocks at 11 days of consumption, they have fallen over 7,000 tons since the highest level in April and going ahead, despite of the sharp price decline nickel outlook is very promising. The price volatility is a characteristic of the nickel business, we know very well; it is mainly following the stainless steel industry, but the current price will force mainly the nickel pig iron producer to shut down operations and I will do some comments.

As you know, this nickel pig iron most of them they are very inefficient due to the high costs and stronger pollution controls and they will struggle to stay into the business. In June and July the estimated cost of the average blast furnace NPI rose above market price - this is very important - mainly this cost was affected by the higher coke price and a strong Chinese currency; then the blast furnace production represents roughly 70% of the capacity of the NPI and it was strongly affected.

About the electric furnace production, I think that we needed to understand the lack of enough power in China is a big constraint and the challenge I think that will continue in the short term for the NPI is mainly associated with the coke price and the risk of the increase of electricity and the Chinese currency appreciation.

The demand for nickel non stainless steel application is much more stable and remains very robust. I am talking about nonferrous alloys, alloy steel, foundry; all continue very strong and driven to the oil, gas, mining, energy, chemicals, and aerospace.

Then the combination of low stainless steel inventories and declining nickel inventories can build an environment to a strong nickel price recovery in the next cycle. I think that, as Martins said and Fabio pointed out, the long run fundamentals linked to the emergent countries we can stay very positive in the long term base to the nickel market.

We know that we have huge reserves around the world mainly in Canada, Indonesia, New Caledonia and Brazil. We are increasing substantially our penetration as a supplier to the stainless steel industry through Goro and Onça Puma; we have good assets, we can meet the demand in Asia and we are doing a big program in terms of restoring the integrity of the assets and optimization looking for higher productivity and to try to maximize our high-end refinery nickel products. Thank you, Fabio.

Mr. Barbosa: Thank you Murilo and I now would like to ask our CEO, Roger Agnelli, to make his comments. Please, Roger.

Mr. Roger Agnelli: Good morning everybody, it is also a pleasure for me to be here with you today talking a little bit about the results and our future, but before say some words. I would like to invite Phil du Toit, he is our new managing executive director that was elected last month to be responsible for the engineering department. Let me tell you a little bit to what we are looking for with this creation of this new area.

As you know, Capex today is a big part of our business, is a big part of our responsibility and to push all the investments ahead we need to have people completely concentrated, fully dedicated to deliver on time, on budget and - the most important thing - bring a new generation of projects using new technologies, automation, using new routes to process and to produce materials. So Phil du Toit's responsibility is going to be to implement the best practices at the company and I think we are sharing a lot of best practices with Inco, with the coal mines that we have in Australia and iron ore mines. I think we are really learning and we are really improving our standards of production.

Another point that Phil is going to be responsible is the automation. We need to upgrade our plants - and we are doing that intensively; we need to reduce costs, production costs; we need to give more reliability, more stability to our plants and of course we have a good standard, but I would like to have excellent standards in terms of reliability.

In terms of engineering the goal or the main target of Phil is going to be to reduce the Opex. This is important. We are thinking that the new generation of projects or the new production that is going coming into the market we do not know exactly how is going to be the market or the environment at that moment. The only thing that we know - and we need to be sure that we will be able to deliver - is to have a low-cost production. That is what we are looking for. Even the investment in iron ore in Carajás is going to be different from the old one.

We want to hire less people, even though people today is really a constraint for everybody, it is not easy to find out skills or to develop or to train people in our days, mainly in the North of Brazil, in other areas like Africa or even there in Indonesia, etc., we are facing the same problem. So skills is really a bottleneck, so we need to reduce the number of people that will be dedicated to our future operations.

If I may, I would like to invite to Phil - that I think he is on line, connected - to say a few words about his challenges and Phil, you are welcome.

Mr. Phil du Toit: Thank you Roger, good morning and good afternoon everyone. I think, Roger, you have summoned the position very well there. I think in recognizing our very ambitious growth program over the next couple of years, we recognize that in executing that we need to have a very good governance structure, very good risk management to ensure success for the future.

I think Roger has mentioned the areas we want to ensure that in our growth projects we employ global best practices. We might use technology automation to ensure lower production costs for the future and make sure that all the resources required for our ambitious program is managed and coordinated in a responsible way to ensure that we can be on time with these deliveries of these large projects and we also have to make sure that we utilize the best technical competence in our governance of the execution program and that basically sums it up; the key is for us to ensure an absolutely maintainable operation for the future and a very cost-effective operation for the future in a very responsible growth rate.

Mr. Agnelli: Phil, thank you very, very much. Let us give you some ideas about our concerns, what we are really dedicating ourselves to deliver for the company. One point that is of importance of course is the maintenance of the company, a global company. Yesterday we had the rollout of the ER System in Inco and Murilo, if you can make some comments because this is really very important to have a company completely and fully integrated. Today we have Vale Group completely integrated in the same system that gives us a visibility of what is going on on line, on real time, which is very important to gain … please Murilo, could you please make some comments about that?

Mr. Ferreira: Yes Roger, for sure. We are very proud to say that we have already started to work in a common platform in the whole Vale - including Vale Inco. It is based in Oracle System, we spent a lot time, a lot of people, good professionals with a dedication demonstrated by everyone both directly and indirectly and the result at least at this point of time - it is very early to say - but we are very confident that the scope, the complexity was higher than expected, but we stay with the project working very well at this stage in two days of work and it is on budget, one thing that is very important as well. I think that working very well with a unique platform will bring huge merits for us in procurement, in financial processes in the whole Vale Group and I think that it is part of having a governance model which will bring a huge merit for the whole company.

Mr. Agnelli: Very good Murilo, so this was one of our goals and we delivered that yesterday. Of course we need to follow and to fix any problems that certainly are going to appear, but we are working on it and we are on time, we are on budget and this was a very important step for the company.

Let us talk a little bit about our task here. I think of course cost is a very important issue for everybody and we have been working hard to reduce or to keep the costs under control. I think the worst part of the inflation, the cost inflation that we faced I think is part of the past right now; of course we need to pay attention to what is going to happen in the future, but I think today we are much more prepared and a big part of the whole work to reduce costs I think we have already done. Of course, always we have more space, more room to improve and we are working to improve all our operations.

In terms of performance our first quarter was good, but not very good because we had, as Martins mentioned, several issues in our operations and in the second quarter of 08 I think we overcame a big part of those issues, so the second quarter was better than the first one but was not really an excellent performance. I feel that in the third quarter we are going to have our normal, let us say, speed and normal performance in terms of our operations. I am very optimistic that we are going to have a very good, a very strong second part of the year.

In terms of market, the market is still very strong, very good. What we need to do is to deliver our production. Our clients they need that, they are counting on us to deliver everything that we have promised and we have in terms of contracts. I think that we will be able to do that without any problem.

Of course, everybody today is concerned about the slowdown in the economy, in the macro economy in the world etc., etc. I think this is a reasonable concern due to the problems that we saw and are happening right now in the United States, mainly in the financial area that is spreading out of the consequences of this financial crisis or this credit crunch in the United States.

But what I can tell you is that we are not feeling any big movement in the market. Of course, if we analyze today China is on vacation; Europe is on vacation; China is going to be back to business in more 30 days, so we are going to face the economy recovering again in the normal speed. Europe I think the consequences of the crisis there are some consequences, we are feeling that, but I think this is not really dramatic. But here in Latin America, Latin America is growing and we have a big part of our market here in Latin America, so certainly I am not pessimistic about the near future and I am optimistic about the long-term or the medium term market for our sector.

So what we need to do right now is to be concentrated to analyze all the opportunities that we have, opportunities to grow and we are deeply analyzing each possible project that we can develop and I can tell you that we have a huge pipeline of projects that we are right now implementing; but we have new ones that we are finalizing the feasibility studies and I think soon we are going to announce a new project, new organic growth.

As I have been mentioning to you that we have, of course, three areas that we would like to grow or to increase our presence in the market: of course, nickel and iron ore we will always work to strengthen our leader position in the market, but copper and coal - mainly coking coal – are our two mainly focus because we feel that we have room to grow with higher speed and that is what we are looking for.

What I am saying with this higher speed is that we clearly - and you must understand that - we need every day to make an exercise, to balance and to see and try to figure out, which is better for us: organic growth or acquisitions? This is part of our day by day business, our day by day job. So that is what we have been doing and we are continuing to do that: analyze the return that we will be able to get from the organic growth and the return that you will be able to get from any possible acquisitions. To be clear and objective, we are not considering to making any major movement or major acquisition; this is a possibility, but it is not probable. What we are looking for is maybe to analyze some small acquisition to speed up our pipeline of projects and to make more consistent our organic growth. This is our main strategy right now.

What I can tell you is that up to now we have been analyzing several projects, several resources, several reserves, several new possibilities of investment and I feel that the organic growth seems to be more adequate for us to push ahead our investments. So I think the main question that everybody has in mind is: what we are going to do with the money that we raised recently?

First of all, I would like to say thank you very much for the shareholders' support and today we finalized the transaction from last week, Fabio Barbosa has a very strong cash right now and he needs to be responsible, he needs to take care of it and he is doing a very good job to hold the money in cash.

But the point is today we have all the options open for Vale, all the options. If there is some opportunity or something that we want to take advantage of the momentum we can jump. Immediately. Immediately to speed up the organic growth or maybe to acquire some small, medium-sized operation that can strengthen our position in the market.

So again - and we have been saying that and we are very disciplined and we are continuing to go very disciplined on it - the name of the game for us is return, profitability and good assets. That is what we are looking for, this is our obligation, this is our duty: to be sure that everything that we are going to develop, or everything that we are going to do respects the value creation, respects profitability, respects very good assets. We are not going to make any movement just to be big. We want to be big, but we want to be a great company. We want to have excellence in terms of operational standards and asset quality.

So very soon, maybe in one or two months, we are going to finalize our studies, internal studies, and we are conveying our clear strategy to you all. I am very optimistic that we are in the right track; we have a lot of work to do internally and we are doing that, we need to be very focused in the investments because it is a huge investment and we are, of course, developing a very strong and very open and transparent relationship with our suppliers and with our construction company that is working with us. We need to extract from that the best synergies among other projects that we are developing here Brazil and outside of Brazil and Phil, I think, is going to give us a very good answer, is going to give us a very good delivery in those projects.

Another point that today is for me, as a CEO, a point of concern is the relationship with the stakeholders. Of course, environmental discipline and concerns about how to develop new projects respecting the environment and doing everything to minimize the interference, or affecting the environment is part of our concern as very, very disciplined this is one of my priorities.

Another thing that is very important in the current environment that we are going through is the relationship with communities, with governments that is becoming every day much more sensitive worldwide. This is an issue for all the big natural resources companies in the world and I can tell you Vale is very well-positioned in this kind of environment, first because we understand very well complex environments. You know that Brazil, to survive, to survive in the past was not really an easy task; today is much better, even though we learned a lot and we can view, we can manage tough or complex situations very well.

I think an example of that is New Caledonia, the Goro Project. I think right now it is smooth the relationship with the community, with the government, with the workers there. The relationship in Indonesia is going very well, in Africa all the countries that we are present we are developing a very strong relationship with the community, with the government, etc. and here in Brazil you know that we are a very important company, this is our home and we understand very well the environment here and we are doing well.

So now I would like to be open for questions so as any of our executive directors is at your disposal to answer any questions. 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.

Our first question comes from Mr. Felipe Hirai from Merrill Lynch.

Mr. Felipe Hirai: Hi, good morning everyone, I have two questions. The first one is regarding potential acquisitions. We have seen that there is a major sell-off in the stock market currently and some of your competitors are using this sell-off as an opportunity to make acquisitions. How do you see this sell-off? Is this one of these opportunities, Roger, that you mentioned that could arise and eventually you could go out and make some acquisitions?

And also if you could comment also now after your upgrade to BBB+ how is the current situation of the credit market for you and what is the potential impact on costs?

And just my second question is regarding iron ore prices. We saw some kind of softness in the iron ore spot prices over the last few weeks, so if you could comment a little bit on the main reasons why you think that happened and if you see if there is any possibility that the iron ore prices could go down in 2009 rather than going up? Thank you.

Mr. Agnelli: Hello, Felipe, how are you?

Mr. Hirai: Very well, thank you.

Mr. Agnelli: In terms of iron ore prices, we do not see any room for prices decreasing; if there is a room is for prices increasing. Due to the current situation of the market we do not need to see the market to be stronger to give us the ability to deal and to discuss with our clients a price increase, so for me this trend is upwards, it is not downwards at least, let us say, a small price increase - but the trend is upwards.

The first question that you made about M&A or acquisitions, etc., Felipe, we will be very disciplined. We do not want to acquire, to invest, just to invest. As you know, we have been negotiating some very important assets that we believe that could be very good for us and fit very well to our strategy. All those discussions are part of the past.

So, as you know Alcan for us could be a very nice movement but Rio Tinto bought it - great, good for them. We analyzed Xstrata; Xstrata right now is just announcing they want to buy or to acquire Platinum Company, which is not in our strategic floor.

Of course, there are other opportunities in the market that we are analyzing; as you know, maybe and probably the number of M&As or the number of acquisitions maybe is going to rise to a little bit, I think the market is very excited, the market is very strong. But with the capital increase that we just finished I think one objective, one goal I think we achieved: the upgrading. That is going to help us to reduce our cost of capital for our investments or for any possible ... not possible, probable movement towards an acquisition.

The second one is to gain flexibility to be ready for very possible number of opportunities that they appear in the market. So I think we are right now in position that, again, is a very strong and very good position to be, with money in cash, projects to be developed and, of course, the market right now is going in our favor. Why is that? Because the number of buyers are reduced, are reduced by the current, present crunch. So again, this strengthens our position to be a very important player in any market, in any market.

Mr. Hirai: Thank you. Ok Roger, if I can just clarify one point here. I saw that during your speech, during the call you mentioned that acquisitions were possible but not probable; but I had the impression that now you said that acquisitions are probable. Could you just clarify to me that point, please?

Mr. Agnelli: Ok. The acquisitions are possible, not probable.

Mr. Hirai: Ok, thank you.

Mr. Agnelli: Just if appears any opportunity this is our job, to analyze all of them. But it is possible, not probable.

Mr. Hirai: Ok, thank you.

Mr. Agnelli: Thank you.

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

Mr. Roger Downey: Good morning everyone, good afternoon to those in the other side of the world. I would like to focus on the market issues that have been discussed, but I think it is one of the most important, I think, misunderstandings today and perhaps Martins maybe could you elaborate a little bit more on the qualitative aspects of the market today, in other words, there may be even some slack in low-grade material, but certainly not in high grade material, just some more views on that.

And maybe even if you could elaborate more on the value in use, what sort of value in use does the high-grade product that you guys have, what sort of advantage do you get from that?

And if that would be a starting point in the forthcoming negotiations, in other words, would you be starting from a point where your value in use is the threshold to sustain higher prices in Asia?

And secondly on a more quantitative aspect to define demand of iron ore going forward, you guys pointed out some difficulties in bringing on new projects, projects in West Africa and your own as well; I think in the press release there was a comment that Carajás brownfield expansion - I am not even talking about Serra Sul here yet, but I am talking about the brownfield expansion to 130 - could be delayed, so that is necessarily less tons in 2009; is that correct?

Mr. Martins: Well, you made a lot of questions, Roger. The first one is about these qualitative aspects of the iron ore market. So if you look this rally in the spot market in China, it is clear that this high price in the spot market in China attracted a lot of iron ore; a lot of - I would say not iron ore, but a lot of iron units - so a lot of iron ore was brought to the market, sure, but many parts of them are not ... can be called real good iron ore for iron making. So the only way to use this iron ore is to mix it with high-quality iron ore, otherwise you have a very low productivity, you have very high consumption of coke, of energy, and the result at the end of the day the cost of pig iron can be higher.

So it is very interesting to notice nowadays that the highest price possible, the highest price for iron ore in the spot market in China is for Carajás ore, so they are paying almost US$ 40 above the normal iron ore for Carajás in the spot market in China and we have some of our customers that we take the ore ourselves to them - because we do not operate in the spot market - and they take our ore and they resell in the spot.

So this is a big demonstration of the value in use of Carajás and when you look going forward, the quality of the projects that are being developed - not only in Australia, but even in Brazil, everywhere - all of them are not high quality ore, which means the hidden value of Carajás is increasing.

Our tactics going forward - now talking in a little bit about the next prices negotiations - is to bring this hidden value to our company, to our shareholders. Historically Australian ore was sold with a discount because of the logistics - they are closer to Asia - and the Brazilian ore was sold with a discount because of the high-quality that was not charged.

So it seems that now the Australians are looking for this freight advantage and we are looking for quality advantage of our ore. So that will probably, in the next round of price negotiations, will drive the players in that direction and we are very confident that not only Carajás ore, even Southern system ore - we will have a very high-quality ore in the Southern system - that we can better price in such a market. So, as far as the quality of the market and also the trends for price negotiations, I think it is clear that things will go that way.

As far as the Carajás 130, is sure that we have some difficulty in developing, in getting the permits and the approval, but on the other hand we speed up all of the things that we had to speed up, so we procure all the equipment that we will need for this project and we made a lot of changes in our project in order to get these additional 130 million tons available by the end of 2009, so we are sure we have some difficulties in the permits, but we are doing all the measures to offset any delays that we got relating to that.

Quantity wise, what we see is no big impact of this subprime situation in the market. For sure there will be some adjustments and if you look at China now, for two or three months they will reduce a lot of blast furnaces were shut down during this period, so in this period there will not be a so high consumption of iron ore.

But all the basic information that we get, all the economical information that to get from China are very positive and their projects are going on, their investment in infrastructure is going on; a lot of projects being developed all over the country. We have now 130 million tons of new steel production being constructed in China that will enter into operation in the next two or three years and many other projects are on stream to be announced very soon.

So we do not see any big problem in China besides this adjustment, because everybody has to convey last year we sold iron ore almost 40% below the spot price in China on a delivered basis, so this market was really very strong and now such accommodation is coming, but our price today is even below what the price will be.

We have some movement in this spot market in China, but only today freight rates to China went down US$ 10, so I think any kind of decline in the spot prices in China will be followed by the freight rates also, and in the end of the day we will continue to have space for further price increases on a FOB basis. I am talking about normal ore, not talking about the high quality ore that we have that surely will price better in the next price negotiations.

So we are not concerned about the market and we are not concerned about the volumes that we are going to deliver, although we are facing a lot of difficulties these days - I think Roger stressed this point - a lot of bottlenecks in equipment, in suppliers, in engineering and everybody is struggling; all the big mining companies are struggling in this aspect and are facing difficulties. You can imagine the newcomers, because we have a long tradition with suppliers and we have a kind of preference when we negotiate with them. So all these new projects are facing a lot of difficulties and, I would say, much bigger than ours.

We can talk a little bit about one project in Brazil that everything is there and it is not delivering, ok? If you look to the figures they are not delivering and they have the railway, they have the ports, they have the mines, everything and they are not delivering the volumes. So that means the difficulties that a newcomer can face when goes to the market for equipment, for engineering and for suppliers. So this is also affecting everybody in the industry, but much more, in a more extensive way, the newcomers. So we are continuing to be on the bullish side in the iron ore market, in the met coal market and in the manganese market because we believe that the steel industry will continue to grow.

In the Western world today, still looking at the Americas only, we have nearly 40 million tons of steel that is being imported from Asia, so we are sending nearly 200 million tons of iron ore to Asia and part of it comes back to the Americas to supply local steel consumption. So there is a lot of opportunity also for increase in steel production in the

Americas, not only talking about Brazil, but also about the States. We, nowadays, see some movement in States to develop the steel production on a blast furnace BOF basis.

So I think that is a lot of news in the market and not talking about China, that in our most pessimistic case will continue to grow around 6 or 7% per year, fostering investments in infrastructure and steel consumption. So we continue to work very hard and our main problem nowadays is to deliver the projects that have and to deliver the iron ore that the customers are buying and to control the costs that are our main task nowadays and we struggle every day in this aspect: how to deliver our projects sooner, how to deliver more to our customers and how to control our costs in such environment.

Mr. Agnelli: And, Roger, I would like to add that in terms of investment, new investment, opening new mines, I think Vale was in the very beginning of the cycle, so before a lot of people and we have been facing a lot of problems and headaches to deliver all those projects and there are, today, a lot of new projects in the market - everybody is saying they are going to deliver X million tons by 2010, 2011, 2012 etc., etc. I should say that this is possible, that all the projects will deliver everything that they are promising; but I can tell you it is not probable that they are going to deliver everything that they are promising.

Mr. Downey: Ok, thank you very much. I am glad I am not alone on this side of the fence.

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

Mr. Jorge Beristain: Good morning gentlemen, congratulations on solid results. My question is just maybe taking things out to the micro level within the company itself. Quoting that on figure 8 of your presentation that you just delivered two major iron projects: Samarco III and Fazendão, topline that should contribute about 22 million tons of iron ore to your second half results.

I just wanted to understand when are we going to start seeing the contribution of those volumes and based on first half trends or through the second quarter it does look like your annualized is closer right now 313 million tons versus your 325 guidance. So I just wanted to understand if you really believe that these projects will tick in the second half and allow you to meet your guidance. That is my first question.

Mr. Martins: The first one is talking about the Samarco pelletizing plant expansion. It is now in operation, but there was a delay in the project - not only in the pelletizing plant, but mainly in the concentration plan - and to some extent this project is linked with the Fazendão Project, because Fazendão Project was developed to supply one mine for the Samarco concentration plant, so they are both linked.

So if we are not getting the impact of it in our results at this point in time, it is because the project had this delay. Now the pelletizing plant is operating almost full capacity, but we continue to have some difficulties to operate the concentration plant full capacity - we need both operating full capacity to have the real results - but it is sure that in the second half we are going to get the impact of the Fazendão and Samarco projects in our results.

Referring to this year's production, what is going on? As we faced some problems in the logistics system, as I told you in my speech, we reduced our production because it does not make sense to mine and to keep big inventories in the mines if you are not able to ship.

So the shipments we lost in the first half we are going also to lose in production, because we did not mine these volumes, we kept there and we only mine what we can ship. That is idea, the kind of pipeline from the mines to the ports so you dig, you ship from the railway and you ship from the port and we always avoid to produce more in the mine if we are not able to ship in the railway or to ship in the port. So the situation brings down almost 5 million tons production because of it.

But on the good side I can tell you that if we can get a better performance in the logistics system, we can ship even more because we have a big inventory in the mines, near 20 million tons that are there. If you can get a better performance and it is really going on very well, the performance in the logistics is improving.

So we have a good space to deliver more and I think at the end of the day what is more important is how much you deliver than how much to produce. Long term things have to be the same, but in the short term is more important to deliver than to produce. The best place to ... we have a saying in the mining industry, which means: the best place to keep inventories is "in sito", which is in the mine itself. So if you mine and you cannot ship, you do not mine.

Mr. Agnelli: Martins, I think we are running today at 330 million tons per year, July and August.

Mr. Martins: July and August because the third quarter is the best quarter normally, because it is dry and you have one day more. But considering the July number, we were above 28 million tons of shipments - domestic market and export - so we are running now above our target; on a monthly basis we are running more than our target, but we need to keep it.

We cannot take only one month as a reference; July was very good, August is going very well and probably will be very good also. So we are now operating ... the logistics system is prepared to ship now more than 350 million tons; so if you do not have any kind of disturbance in the system with the landless and things that normally happen, some equipment that ... this is normal in the business, ok? We are in a very good position to increase our shipments. We have the iron ore and we have the logistics system in place.

Mr. Beristain: Ok thank you and sorry, my second question - and you answered that actually - was partially on the inventory situation, so it does sound like you have what said I wanted you to open up the logistics bottlenecks, the ability to sell more.

My other question was how is this new production going to affect your unit cost per ton profile? This has been a trend we have now seen for several years every quarter, year on year, quarter of quarter this increase in unit cost; at what point do you see this new production coming in at lower costs and helping turn the tide and stabilizing your unit production costs?

Can you quantify what Samarco ... sorry, Fazendão would be contributing in terms of unit cost versus your US$ 25 average, so that we can get an idea as you believe more of in your new production into your overall mix what we can expect to see in costs for 2009?

Mr. Martins: Fazendão is ... because Fazendão is a ROM project, we do not sell processed ore; we sell what we get from the mine. It is a very low-cost operation, but cannot be considered as a reference for the whole thing. For instance, roughly speaking Brucutu production, for instance, is running near 40% below the average cost of the Southern system ... Southeastern system and Brucutu is a new mine.

And in Carajás area this new project that we are developing that are expected to enter into operation by the end of 2009, the cost of this project will be near 50% below the average cost. The very question is in mining; when you produce more in the same mine normally the marginal cost is higher, so in order to curb this cost structure we really need to bring in operation huge amounts of new mines that will drive the average cost down.

So I think Serra Sul will be a very important project in this regard; Serra Leste, which is another project in the Carajás area - a new greenfield project - will be very important in this aspect because new mines can really drive costs down. If you take more from those mines you do not have such an impact, normally when you take more from old mines your cost goes up, not down. So that is the situation.

Mr. Barbosa: Again Jorge, just to complement, it is important to bear in mind that margins are high - despite the recent cost pressure - and we managed to keep them controlled. The reality is that we managed to increase margins even in this very challenging environment.

Mr. Beristain: Thank you very much.

Mr. Barbosa: Thank you.

Operator: Excuse me. Our next question comes from Mr. Guy Rodwell from Rothschild. Excuse me Mr. Rodwell, your line is open.

Mr. Guy Rodwell: My question has been answered. Thank you.

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

Mr. Carlos de Alba: Good morning gentlemen. I have two questions, the first one regarding the organic growth projects. Is there any update on your 59 billion budget, given what has happened with currency and with the sharp increases in steel prices? And is there any way that you can accelerate your growth rate? That would be my first question.

Mr. Barbosa: Ok Carlos, thank you very much. Well, we have not reviewed this, the figures for the 59 billion, as Roger mentioned. We are reviewing this element, but also the scope of the pipeline of projects with the idea of increasing the scope of what is presented to the market. So what you should expect is our next announcement, as indicated, in the next one or two months. It is a reviewed Capex figure that will encompass an update on the currency effect, but also a major adjustment of the scope and production targets.

Mr. de Alba: Ok, thank you and my second question, Fabio, is related to the prices for iron ore and coal; iron ore what was the reason that you could not implement all the price increase as per the latest negotiations in the second quarter?

And then on coking coal we realized price came a little bit below what we were expecting; maybe that is in relation to the product mix that you have; if you can you give us some information I would really appreciate it.

Mr. Barbosa: Carlos, this is a normal delay in discussing with our clients the terms of our contracts. This is an important point that you made, we have the adjustment already in our screen, I would say, but it was not accounted for as we did not sign the formal adjustments with our clients. But this is a matter of time and we hope to see them reflected sooner rather than later, considering that it is US$ 553 million for iron ore and some US$ 80 million for coal. It is a bureaucratic matter.

Mr. de Alba: So about US$ 630 million will flow directly to the bottom line in the next few months?

Mr. Barbosa: If we conclude the bureaucratic procedures, yes.

Mr. Agnelli: … we are going to have everything in cash.

Mr. Martins: The question, Roger, is that because of the Sarbox you can only account it when you have a formal agreement from the customer, so sometimes it takes time.

Mr. Barbosa: That is right. Thank you, Carlos.

Mr. Dealba: Thank you.

Operator: Excuse me. Our next question comes from Mr. Berhalal Beroa from Fidelity Investments.

Mr. Berhalal Beroa: Hi, I have two quick questions. One is like the available liquidity could it be June 08 and second, are there any funding to make the deal this year?

Mr. Barbosa: Well, we have concluded the operation of the offering and we had a very strong position by the end of June 2008, so we are very comfortable liquidity wise - if I understood correctly what you asked. So we have no intention to go to the market at this stage.

Mr. Beroa: And how much of your 59 billion Capex program you intend to fund like what is that debt/equity you are looking for?

Mr. Barbosa: We have … the bulk of our Capex program will be financed through our cash flow and as we commented before, we are reviewing the scope and volume of Capex that we are going to present very soon to the market and considering what we are studying, we believe that the bulk of the funding will come from cash flow plus the recent operation that we concluded and as a reference, we would like always to work with a low leverage in our balance sheet, this is a concept that we will adjust according to specific market circumstances.

Mr. Beroa: All right, thank you.

Operator: Excuse me. Our next question comes from Mr. Marcelo Brisac from Itaú Securities.

Mr. Marcelo Brisac: Hi, good afternoon. Just a quick clarification on nickel. I believe your guidance was for a 8% growth in the nickel production; however, if I look at the nickel sales in the first half of the year they are actually down 4%. I understand there is a difference between production and sales because you extra cell third-party nickel, so that may account for the difference, so I guess there is two questions here: first one, why are you reducing third party sales - ok, you have production - but, why are you still not selling third parties? If it is not worth doing that anymore, why are you stopping that?

At second if you could give a guidance for your total nickel sales for 2008 I would really appreciate it. Thank you.

Mr. Barbosa: Murilo, would you take that?

Mr. Ferreira: I think that the main reason about the number that you are mentioning because we have already started in Dalian, it is an important utility nickel; but we needed to build the inventories and we are working related to the full production for the year we are working absolutely in line with the budget.

Mr. Brisac: Ok and why are you reducing the third party nickel sales?

Mr. Ferreira: I think that it is one specific issue, mainly in Canada, that we are working in Sudbury. We did this to be well aligned with the demand of our customer.

Mr. Brisac: Ok, so we can expect in the full year you will still sell 325 thousand tons of nickel, which was your original guidance?

Mr. Ferreira: Again, we are working absolutely in line with the budget.

Mr. Brisac: Great, thank you very much.

Mr. Agnelli: But Marcelo - this is Roger – of course we are looking at the market right now and we are not going to force sales, for example, in the steel area. So we are going to be very disciplined, because there are some rationales there, there are some levels that we need to respect. So we are not really going after to beat all the records in terms of nickel sales, what we want to have is profitability.

Mr. Brisac: Ok and in that case, as you said, the best inventory is kept underground; so in that case you could eventually miss your production target, that would be a delivery missing, just slowing down production not to oversupply the market, right?

Mr. Agnelli: Yes sir.

Mr. Brisac: Perfect, thank you very much.

Operator: Excuse me. 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: I would like to thank you all for attending this conference and our colleagues of the executive board and we will be, of course, available for any other issues that you want to raise and discuss with us. Thank you very much for the attendance.

Operator: That does conclude our Vale's second quarter 2008 earnings conference call for today. Thank you very much for your participation and have a good day.