Q1 2013 Earnings Call

Company Participants

- Galib Chaim, Executive Director
- Jose Carlos Martins, Executive Director
- Luciano Siani, CFO
- Murilo Ferreira, President & CEO
- Roger Downey, Executive Director
- Unidentified Speaker, Unknown

Other Participants

- Carlos de Alba, Analyst
- Felipe Hirai, Analyst
- Ivano Westin, Analyst
- MarcosÂ Assumpcao, Analyst
- Paul Massoud, Analyst
- Renato Antunes, Analyst
- Rodolfo De Angele, Analyst
- Steve Bristol, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Vale's conference call to discuss First Quarter 2013 results. If you do not have a copy of the relevant press release, it's available at the Company's Website at www.vale.com at the investors' link.

(Operator Instructions). As a reminder, this conference is being recorded. Operator Instructions). The file will also be available at the Company's Website at www.vale.com at the investor 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 at www.Vale.com, investor 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 different materially from that anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors.

With us today are Mr. Murilo Ferreira, Chief Executive Officer; Mr. Luciano Siani, Executive Officer of Finance and Investor Relations; Mr. Jose Carlos Martins, Executive Officer of Ferrous and Strategy; Mr. Roger Downey, Executive Officer of Fertilizers and Coal Operations and Marketing; Ms. Vania Somavilla, Executive Officer of Human Resources, Health and Safety, Sustainability, and Energy; Mr. Galib Chaim, Executive Officer of Capital Projects Implementation; Mr. Humberto Freitas, Executive Officer of Logistics and Mineral Research; and Mr. Peter Poppinga, Executive Officer of Base Metals and Information Technology.

First, Mr. Murilo Ferreira will proceed to the presentation. And after that, we will open for question and answers. It's now my pleasure to turn the call over to Mr. Murilo Ferreira. Sir, you may now begin.

Murilo Ferreira {BIO 1921488 <GO>}

Good morning, ladies and gentlemen. I'm very happy to present our results for the First Quarter of 2013 with increase in operating income margins and cash generation.

Operating income was $4.2 billion, 41% and 68% higher than Fourth Quarter 2012 and First Quarter 2012. Adjusted EBITDA reached $5.2 billion, 18% and 4.8% regarding Fourth Quarter 2012 and First Quarter 2012. It was the second highest figure for the First Quarter, lower only than the First Quarter 2011 when iron ore, nickel and copper (has figured).

Underlying earnings. Net earnings, excluding the impact of non-recurring events of $3.2 billion were 65% above last quarter, but 10% below Third Quarter 2012. The lower earnings are explained by higher tax payments and no cash accounting charges through the exchange valuations in the mark-to-market derivatives.

Above all, the most important thing to highlight is about the quality of our financial performance. For the first time in more than 40 quarters costs and expenses were the main drivers of improvement. There was an across-the-board falling cost and expenses and this has contributed with $1.5 (million) to increase in adjusted EBITDA, more than offsetting the effect decline of the shipments. Definitely this is not a one-off event. The progress so far arises from several initiatives underway.

Our first group of cost cuts is made possible by the optimization of the scope of our activities. As a consequence of the decision to deploy capital, only to high return business.

A second group comes from the forecast on value and quality. These include changes in procurement, expected to deliver material OpEx and CapEx reductions. And this reassessment of contracts with service suppliers, development of new suppliers, changes in process and the idling of loss making operations.

The opening of new iron ore mining pits replacing old ones jointly with the Carajas expansions will be important to lower operating costs. This is yet to come over the next two years.

The performance of base metal assets, which has been poor over the last few years, is gaining speed. In addition to the gold stream transaction, we've had unlocked substantial hidden value in these assets. Vale New Caledonia, Salobo and Lubambe, the three projects ramping up are running according to the plan.

As a pioneer investment to make use of the technology, VNC faces several problems, but it is very likely to become the first successful large scale (inaudible) corporation.

It's produced in the First Quarter 5,100 metric tons of nickel plus 372 metric tons of cobalt. We expect a big improvement in its cash flow this year and to move in a positive cash flow in 2014.

Salobo operated at 65% of its nominal capacity last month and as a consequence copper and gold output reached all-time high levels. Base metal contributed with 35% of the drop in costs and expenses the First Quarter 2013 against First Quarter 2012.

Adjusted EBITDA of these metals, even concluding the pre-operating idle capacity and stoppage expenses reached $757 million with a margin of 41%, a large improvement over the numbers of the last quarter, and it was 9.8%.

We invested $3.97 billion in the First Quarter, seeing a strict discipline in management capital without the financial (radius) are (consequent) with investment grade. Our main projects are on a schedule and budget and we have made progress, good progress simplifying the portfolio with the short-term is reflected in the behavior of R&D expenditures.

Gradually uncertainties are being mitigated. The rulings of the Supreme Court early this month on the foreign companies' case eliminated the (hereto) activity of taxation and the obligation to (cross) guarantee to continue the tax dispute. We remain confident on a favorable outcome.

We strongly believe that the new mining regulation in Brazil is not going to create any constraint to the investment. We believe that we are in the right direction and proud to have delivered on the commitment we have made so far. But it's still the beginning of a long journey. Together with our team, a motivated team, and our world-class access we look forward to achieve our goals.

Now I pass to Martins to provide some clarification regarding pricing.

Jose Carlos Martins {BIO 1715332 <GO>}

Thank you very much. I would like to take this opportunity to stress the very fact that the quality of our results improved a lot in this quarter. As we can see, not only iron ore prices improved, but we are able to reduce our costs across all the lines, all products substantially, mainly in base metals. Although we have a cost reduction in all areas, base metals are very good in delivering such results.

So as far as iron ore price is concerned, I would like to go directly to the chart number 9 where we can see how our pricing system happened in this quarter. As you can see, our prices are moving more and more, not only to daily pricing, but also is moving more and more to future prices. There is always that as we deliver the iron ore near 45 days after we ship, we are adjusting our price system to reflect the situation. So our price is 34% of our sales. It's based in the future price, which will be the price where the ore is delivered to mainly in China.

The second point is to show that we have around 13% of our price based in the past, which means the quarter lagged price system performer Vale reference price, which means that 13% of our sales were based on prices on the quarter starting September and finishing in November. So these two facts, future price and past price, have an impact on our (inaudible) price realizations.

Last quarter this fact improved our price realization because future prices were growing, but in this quarter they pushed down a little bit our price realizations.

On a bigger period, all those impacts will be eliminated because as it took six months or nine months average, the price will not be so different from the IODEX average that we are used to compare.

As far as market, we have in the First Quarter of this year 4% growth in pig iron ore and (VRI) production, which are the mainly users of iron ore. So 4% means additional 70 million tons of market in the First Quarter of 2013 against the First Quarter of 2012. We believe that the growth in this year will be around 3% as far as the numbers that were presented by WSA, World Steel Association.

So as far as market, we believe that the markets for iron ore will continue to grow in a sound basis, mainly in China, which is in this quarter grew almost 8%. But going forward, we see some pressure from the supply side, mainly additional production in second half of this year, mainly in Australia, which we believe will bring around 30 million to 40 million additional tons to the market in the second half with some pressure on prices.

So taking everything together, we do not believe that the price of iron ore can suffer too much. I don't believe that the price can go below $110 per ton in a sustainable basis. And we believe that the long-term prospects continue to be positive for our product. Thank you.

Questions And Answers

Operator

(Operator Instructions) Felipe Hirai, Merrill Lynch. Rodolfo De Angele, JPMorgan.

Q - Rodolfo De Angele {BIO 1541593 <GO>}

I have two questions. The first one, I just want to repeat a question that was discussed in previous call because I think it's really important. Which is the one on costs. I just wanted you to comment about how sustainable is the cost reductions that were very impressive that we saw results in the First Quarter.

And my second question is on the Valemaxes. We've started to see in the press that now those ships are starting to dock in China. So I just wanted to confirm if that is a fact. And if so, if we can expect some reduction on the freight costs in the coming quarters? Thank you. And congrats on a great result.

A - Luciano Siani {BIO 15951848 <GO>}

Rodolfo, Luciano. Thank you for your question. On a short-term basis, cost reductions they come either from reevaluating the scope of your activities or gaining -- doing the same activities at lower prices. When it comes to scope, we have already made some decisions regarding loss-making operations, so I would say that these First Quarter results, they already reflect some decisions that we made in the recent past.

The consumption of materials and the scope of activities in the operations have already been reviewed with results also coming on in this quarter. There's always a question about maintenance. One way of achieving cost reductions is to postpone maintenance, but these are short lived. So we're not doing that and one of the evidences of that is that the materials account has actually posted an increase when you deduct the volumes. So we are not sacrificing the future in order to achieve short-term gains. Much to the contrary, we took advantage of lower volumes to anticipate some maintenance and repairs.

When it comes to the prices that we achieve on contracting services, we're still in the early stages of the revamping of our procurement function. So we believe that through consolidation of contracts and better planning of our needs and we can get better conditions with suppliers.

When it comes to now outside of costs, when it comes to sales, general and administrative expenses, they are sustainable for two reasons. The first because now we have a much simpler organizational structure because we now have a simpler Company with less projects, less initiatives, more focused. So this is permanent. And we also have cut discretionary expenses in an effort to make a culture of thrift and austerity to pervade the Company.

R&D expenditures are also now in a different level because of the trimming of our exploration activities. So we have removed ourselves from less promising areas and countries and so we have reduced the scope of our exploration activities. And also because having a smaller project portfolio means that you have less to invest in doing engineering studies, which usually are more than half of the R&D expenditures. So another reason why this is sustainable.

Pre-operating expenses have gone down because of the successful ramp-ups, especially of New Caledonia and Salobo. They should continue to go down as we ramp-up New Caledonia. However, you should expect on the second half some expenses, pre-operation expense of the new projects, the Plus 40, the (Itabiritos) projects, the CLN, Long Harbor. Also we had already recorded $50 million of pre-operational expenses for Long Harbor, so this was individually the most significant increase. It's already on the quarter number and to continue going forward.

And finally, other expenses. These were impacted by non-recurring items in the Fourth Quarter, which simply didn't happen in the First Quarter and shouldn't happen again. So we believe also that other expenses are at a much lower level.

A - Unidentified Speaker

Thank you, Luciano. Martins, regarding the Valemax.

A - Jose Carlos Martins {BIO 1715332 <GO>}

Well our strategy to improve our logistic system continuous to develop very well our Malaysia. They see other constructions are evolving very fast and we believe that we'll be in operation beginning of next year. As you can see in the pictures that we're presenting in the material that we distribute to you.

Also we put in operation this month another floating station that we're operating in Philippines. And also we opened new ports for receiving Valemax mainly in Japan and also in Philippines, in (inaudible) Philippines. We are discussing in Korea to open new ports for Valemax in Korea also.

As far as Valemax in China, we berthed a Valemax in China in middle of this month. This was Valemax with lower cargo and lower draught to accommodate with the Chinese regulations, so it's not a fully loaded Valemax, but was another important step in this regard.

As we are talking about China, I would like to remember Chairman Mao when he said that throughout the long march, you have only to give the first step. So I think to berth Valemax in China will be a long march for us, but we are giving our steps according to the possibilities.

But anyway, taking our strategy, as a whole is developing very well. More and more ports are receiving our Valemax and more and more alternatives are developing to berth those marvelous vessels.

As we thought that we had put the second operation in -- floating station in Philippines and Murillo asked me to stress this, so now we have two floating stations. And those floating stations work like a port. They are able to trans ship 70,000 tons per day from the big Valemax to smaller vessels. So as time goes by, we are becoming more and more flexible in our strategy and we believe when the time arrives that we are able to berth those ships in China, we believe that the cost reduction will be even better.

As time goes by, the cost of energy is increasing for shipping industry, so the bigger the ship, the lower will be the energy cost. So it's a trend that we believe is the future of the shipping industry. Big vessels and lower energy consumption, lower cargo (emissions) and much more efficient.

Operator

Felipe Hirai, Merrill Lynch.

Q - Felipe Hirai {BIO 15071781 <GO>}

Good afternoon, everyone. I'm sorry for the technical issues I had here earlier. I have two questions. The first one is kind of a follow-up on the cost reduction side. So is it possible for you to try to quantify how much of the total costs you think you have done? So in your view, even if it's just like a best guess, (inaudible) half of the total cost savings that you could do here, like 70% or 80% or 20%? If you could just try to guess how much of this cost savings you have done.

And the second question is to Martins. I just wanted to clarify a few things on the iron ore selling strategy. As far as what is -- if there's going to be a (inaudible) significant change in this (mix) of around 30% of sales based on future contracts. And the second part is just to clarify. So these provisional pricing will basically mean that this iron ore (inaudible) whenever it lands in let's say China. So we should use like the average of the first half of the following quarter.

A - Luciano Siani {BIO 15951848 <GO>}

Felipe, Luciano. I will not give you percentages, but I'll give you some color on the various stages. I would say that our reductions are more advanced in R&D and SG&A. Still room to do more on those two, but they are more advanced. On another level, I would say that cost of goods sold, we still have, I would say, more homework to do. And also we have looking longer-term, more opportunities with the new more efficient operations coming on stream.

And when it comes to pre-operating expenses, this is going to happen in different steps. So as I mentioned this first year, as we conclude successfully the ramp-ups of the base metals projects, there will be a first step of reduction. Then a second step of reduction will require the completion of the major projects in 2014 with the iron ore projects. So and then it should stabilize at the lower level for '15 and '16 until then we have another wave of bigger projects coming on stream.

A - Jose Carlos Martins {BIO 1715332 <GO>}

Felipe, as far as iron ore price, I was not able to hear completely your question. So I'm going to address what I understood from them.

As far as price is concerned, we believe that the trends for increasing these sales based on the future price is very strong because in this case we are bearing the risk price and we are selling almost in line with our competitors. So by doing that, we don't need to sell too much on a spot basis. And at the same time, we can keep a more, a stronger price negotiation with our customers, because the formula does not have any kind of discount as we normally have to give when we go to spot basis areas.

So going forward there we believe that this situation will continue as far as price realization. But I would like to stress that if you consider two or three quarters together, I will not see a big difference between the price realizations and the average price of you can see in IODEX.

Operator

Carlos de Alba, Morgan Stanley.

Q - Carlos de Alba {BIO 15072819 <GO>}

Congratulations on the strong numbers because of the cost reductions. Just on the iron ore prices, could you please, Martins, tell us how much of these future prices that you have now, the 34% in Q1, is the provisional pricing on a one-month basis, two-month basis, three-month basis? Any color will be helpful as we try to refine our model.

And second, could you, Murilo, please comment on any potential asset sales in terms of maybe the logistics business? I don't know if selling some core assets in Australia would also be on the table, but anything that you can comment on that will be appreciated. Thank you.

A - Jose Carlos Martins {BIO 1715332 <GO>}

As far as the future price, if you look in our presentation on price on page 10, you can see that these future prices are based normally on the last price available in the quarter. As you can see, future price in the First Quarter, the valuation in our books are $137, which is the last price available in the quarter.

A - Murilo Ferreira {BIO 1921488 <GO>}

I think that we are considering, and I think that we will be able to finalize the process regarding VLI until the end of May, which is very positive for us, but for the (inaudible) as well. We strongly believe in this strategy regarding the future of VLI.

And regard of notes, we note that they did very good homework. It was good results regarding the First Quarter of the year. But we note as well that the market is betting against (inaudible). The volume of (inaudible) is very high and you don't go to the market to sell our shares in (inaudible) for any price. It's for sure we needed to see some movement to establish the average that you have seen the last few years.

Operator

Ivano Westin, Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

Hi, everyone. Thanks again for the question. Congratulations once more for the results. My first question refers to a pricing strategy, not on the physical sale of the cargoes, as Martins has already addressed, but mainly on the financial side. In Q1 you reported nickel derivatives provide a positive cash flow impact of $10 million. You already hedged copper and (inaudible). So my question is whether you intend to hedge your iron ore sales as well, as the consensus of the market price will move long view. So how do you see this hedge on iron ore is the first question.

And the second question refers to a coal division. If you could provide an updated ramp-up guidance of (inaudible) and the development on (inaudible), that would be much appreciated.

A - Luciano Siani {BIO 15951848 <GO>}

Luciano answering the first question on hedging. The types of hedge that we do for nickel, for instance, they relate to the timing difference between acquisitions of some inputs ore and the sale of those transformed products. We avoid to hedge the final price of nickel, copper or iron ore because we understand that investors who buy shares of Vale want to have exposure to those metals.

But if one wanted to do hedge because, let's suppose I wake up one morning and say look, I believe prices of iron ore are going to fall on the second half and I want to hedge those to secure those $135 per ton. I wouldn't be able to do that because the forward curve is already reflecting that the expectation of a fall for the second half. So therefore, we don't see profitable opportunities, nor reasons to do iron ore hedging at this moment.

A - Jose Carlos Martins {BIO 1715332 <GO>}

Even just talking -- going through the expansion in Mozambique. The Nacala railway is due to start moving dirt from September 14th and we will basically ramp-up that until December with the first shipments sailing from the port in January 15th. And we will basically move the capacity of that railway at 20 million tons per annum and we -- it basically is a function of the speed of the trains debottlenecking and we'll be using it according to our demand.

Operator

(Steve Bristol), RBC Capital Market.

Q - Steve Bristol

I'm just inquiring more about the future pricing on iron ore and wondering like in the following quarters will there be different provisional pricing adjustment that will flow through the income statement? And secondly, if you could provide some kind of a similar breakdown as you have on slide nine for iron ore or pellets instead so we can try and figure out what kind of realized pellet price we should be forecasting.

A - Murilo Ferreira {BIO 1921488 <GO>}

As far as the iron ore price, adjustments will be done in the next quarter according to the prices that were really -- that we really see when the ore arrives in China. But I would like to say that if you don't do this way any trend in price will be anticipated because if you don't deliver that iron ore based on this mechanism, we have it to go to the spot themselves.

So then it puts a lot of pressure in the spot. So that mechanism, it's kind of compensated. So that's the reason also that we do not think that we needed to hatch. But any difference between the provisional price and the realized price would be adjusted in the next quarter.

In case of pellets, there is one important difference to say because we don't have too much pellets sold on this future price. China is not a big market for pellets. Pellets we sell mainly in Europe, Japan, Korea, Brazil. So they're not affected by the future price. And what I can tell you is that pellets has a very tough negotiation based on premium, so the iron ore price you can look at the IODEX. But for the premium you can consider something around the $30 to $35 as a normal practice in the market depending upon the situation.

Operator

Paul Massoud, Stifel Nicolaus and Company.

Q - Paul Massoud {BIO 15062046 <GO>}

Thanks for taking my question. Congrats on the results of the quarter. I guess my first question is more of a conceptual one. If we look at Chinese steel producers in the last three to four quarters, the ones that actually report their margins, they've been reporting negative margins. And so I guess I was hoping you could spend some time discussing what it is that drives them to pay up for input like iron ore given that steel pricing really hasn't -- in China hasn't moved to the same degree. And all else being equal, if you could sort of provide a number that you think puts them in much more -- or a lot closer to profitable territory.

Then secondly, just on the fertilizer side, given what we've seen and what you're experienced over the last few months with Rio Colorado, I assume you've done a lot more now on where value potentially is in the market today. I was just wondering if you're seeing more value in existing operations versus possibly spending money on new projects?

A - Roger Downey {BIO 7419641 <GO>}

This is Roger Downey. Just kick off with the fertilizers -- question on fertilizers. Yes. We had to basically re-jig our business plan with the development in Rio Colorado. We have options that we are looking at. Obviously we didn't have a plan B as such because we were focused on Rio Colorado, but we do have options in our pipeline, which we are now working hard on. These options are very good. We do have options like Carnalita to produce potash here in Brazil with very encouraging returns.

The other project that I think is something that should be on everyone's radar is what we're doing in Peru in Bayovar. That is one of the highest margin segments in the fertilizer business and one that we should be working hard to expand.

Operator

Renato Antunes --

A - Murilo Ferreira {BIO 1921488 <GO>}

Miss, I need to answer the first question about iron ore price and steel makers in China. So if you look at the situation (inaudible) all over the world, I don't think it's only a Chinese phenomenon. You have the same situation all over the world. Margins of steel makers these times are below two digits. If they are able to pay for the present price of iron ore I think the market has the way to adjust it. So the way I see it is the high cost producers of steel, if they cannot pay the market price for iron ore, then you have it to cut production -- reduce production. Then less demand will be in the market and then you have adjustment.

On the other hand, if the price of iron ore goes below such a -- some level, I say $110, many high cost iron ore producers will be out of the market. So I believe that the high cost iron ore producers and the high cost steel producers will establish the limit for the price to fluctuate. And that's the situation.

And what's happened, as we can see, is the high volatility of iron ore price because depending (inaudible) situation for steel price, iron ore price will have a big impact on demand. And also you have a big impact on pricing. So that is the reality that we needed to relieve. It's high volatility and that will stay as long as we have this situation in the market.

But I do not see that, as you said, a big problem. I think the market will adjust it and we are (lucky) that's happened. Last year when the price of iron ore went below $90 we have a big reduction in supply and then the price moved up. And when the price of iron ore goes up to a level $160 to $170, we also can see a lot of blast furnaces being stopped in order to adjust the (inaudible). So that's the problem, but I think the market has its way to fix it.

Operator

Renato Antunes, Brasil Plural.

Q - Renato Antunes {BIO 17439917 <GO>}

Hi. Good afternoon, everyone. Thanks for taking the follow up (inaudible) call. The first question on the Plus 40 project. (inaudible) give us an update and potentially give us a ballpark of what is the volumes of shipments that we could expect from this project going into 2014? And also from the Minas Gerais projects, the (inaudible) projects? That would be great.

And the second question, just going back to the whole discussion on foreign subsidy areas tax issues, you guys already commented about that on the Portuguese call, but I was basically trying to get a sense if you could provide us an estimate of Vale's exposure on a country-by-country basis? Or basically if and what, if so, is Vale's exposure to the so-called (spoken in foreign language) tax havens? Those are the two questions, thank you very much.

A - Murilo Ferreira {BIO 1921488 <GO>}

And Renato, first of all Galib will spend some few words regarding of the status of the Plus 40 and on the Itabiritos project.

A - Galib Chaim {BIO 17562473 <GO>}

About the additional 40 million tons, the project is almost done. We are starting already the commissioning phase. We hope that in July we are starting the operation and that will take few -- two or three months to achieve the capacity. I believe that at the end of this year we will produce something around 5 million tons coming from the additional 40.

The Conceicao Itabiritos will start the commissioning also in July or August. We hope that at the end of this year we have everything done for this project.

A - Jose Carlos Martins {BIO 1715332 <GO>}

And the (inaudible), our legal counsel regarding the problems that we are facing the Supreme Court. We don't have a breakdown country-by-country but we announce most because we consolidate in our holding company in Austria and it mostly also the marketing activities, they are carried out in Switzerland. And as such, we have income from our projects in Mozambique, for example, Australia, Oman, all of the income from those projects are consolidated in Austria.

So in this sense, I'll pass to your second question. Today all our transactions are done through Austria, which is not a tax haven, and has a double tax treaty with Brazil. Our marketing activities are carried out in Switzerland in (inaudible) and also is not a tax haven.

So in this sense, we currently do not carry on transactions, physical transactions in tax havens. We used to do that in the past in countries that are not really, say primarily tax havens, but are considered by the Brazilian authorities as countries with privileged tax rate. And we're talking about Denmark specifically. But even Denmark, it has double tax treaties with Brazil, so we are very confident that the outcome of the courts will take into consideration the superiority of a double tax treaty over the domestic laws, which is a constitutional matter and will certainly be ruled by the Supreme Court.

Operator

(Operator Instructions) MarcosÂ Assumpcao, Itau BBA.

Q - MarcosÂ Assumpcao

Congratulations on the strong results and the cost performance again. I have two questions. First one on iron ore, if Martins could comment a little bit about the European demand? Volumes increased close to 15% on a year-on-year basis and it represented nearly 20% of Vale's total volumes again. I would like to see if these are the first signs of improving demand in the region.

Second question to Roger Downey. On the performance of the coal assets in Australia, specifically Carborough Downs had a very strong performance in this quarter. If you could comment a little bit about that and the perspectives as well. And how does Vale consider this asset on their asset optimization strategy?

A - Roger Downey {BIO 7419641 <GO>}

It's Roger here. The whole Australian team thanks you for your questions. We had a very good First Quarter in Australia. It's already a reflection of what's happening there and the turnaround of the business there. As you mentioned, Carborough Downs had a fantastic First Quarter. We were above budget and above our plan and certainly above -- production was much higher than we've ever seen.

So we had a fantastic First Quarter. It could have been better if we hadn't had the longwall move at Integra, but nevertheless, it was a very encouraging result, which indicates where we're going.

The Australian business is breaking even already and we expect to see better results, and hopefully better prices as well should help. But even with the sort of prices that we've had recently, the business has been tested and the -- all the work that we have been putting in there has paid off.

As you will have seen, production in Australia was 1.7 million tons and that's almost 17% up on the First Quarter last year despite the rainy season in that part of the world as well.

So very encouraging and it did offset some of the disappointments we had in Mozambique, so the core business is coming together. Thanks very much for your question.

Operator

This concludes today's question-and-answer session.

A - Unidentified Speaker

(inaudible) The second question.

A - Murilo Ferreira {BIO 1921488 <GO>}

Related to markets in Europe, we see European markets are very stable. Although we delivered a little bit more in this quarter, I cannot consider it a trend. As the sales are more stable in Europe and we have a drop in total volumes this quarter, and then since that Europe is increasing the share, but I think it's only statistical effect.

I just came from Europe where I had opportunity to visit all our customers in Europe. And the forecast for Europe is a stable market, not better, not worse. If you look at Europe today, they are running around 20% below pre-crisis level. Pig iron ore production in Europe is running 20% below pre-crisis level. And that has been the last two years. So there is no big change on this scenario.

But I believe that not going down is already a good sign. We see the market stable, customers are performing what they expect to perform. And we don't see any kind of downside in Europe. And we expect that some point in the second half we are going to have a small improvement in their performance.

Operator

This concludes today's question and answer session. Mr. Murilo Ferreira, at this time you may proceed with your closing statements.

A - Murilo Ferreira {BIO 1921488 <GO>}

Thank you very much again. We are very happy to deliver the quality in our financial performance. And we strongly believe that it's not a one-off event. It's something that came to stay and we are looking forward in order to produce the next coming months. Thank you very much.

Operator

This concludes Vale's First Quarter 2013 results conference call for today. Thank you very much for your participation and have a good day.