

Q2 2011 Earnings Call

Company Participants

- Guilherme Cavalcanti, CFO
- Jose Carlos Martins, Executive Officer
- Murilo Ferreira, President and CEO
- Tito Martins, Executive Officer
- Unidentified Company Speaker, Unknown

Other Participants

- Carlos de Alba, Analyst
- Felipe Hirai, Analyst
- Gary Lampard, Analyst
- Ivan Fadel, Analyst
- Leonardo Correa, Analyst
- Marcos Assumpcao, Analyst
- Renato Antunes, Analyst
- Rene Klewag, Analyst
- Rodolfo De Angele, Analyst
- Rodrigo Barros, Analyst
- Tony Rizzuto, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by and welcome to Vale's conference call to discuss the Second Quarter 2011 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 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. (Operator Instructions). As a reminder, this conference is being recorded. To access the replay please dial 5511-4688-6312 access code 7550324. The file will also be available at the Company's website at www.vale.com at the investor section.

This conference call and a slide presentation are being transmitted via Internet as well. You can assess the webcast by logging on to the Company's website, www.vale.com, investor section or at www.prnewswire.com.vr.

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 those that are stated in any forward-looking comments as a result as macroeconomic conditions, market risks and other factors.

With us today are Mr. Murilo Ferreira, President and Chief Executive Officer; Mr. Guilherme Cavalcanti, Chief Financial Officer; Mr. Jose Carlos Martins, Executive Officer of Marketing, Sales and Strategy; Mr. Tito Martins, Executive Officer of Base Metal Operations; and Miss Vania Somavilla, Executive Office of Human Resources and Corporate Services.

First Mr. Murilo 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. Murilo. Sir, you may now begin.

Murilo Ferreira {BIO 1921488 <GO>}

Good afternoon, everybody. I think that it's really a pleasure to have some time to share with you and to show our views. Let's start with an iron ore update. We are very positive on the iron ore market. We know that, although Europe and the U.S. faced very challenging recoveries, China continues to have a very strong demand. The inflation in China, which is a key element in having some concern, I think that we can see some improvement in the second half of the year and we are absolutely positive about the future of China. But for sure we have a lot of concerns about the stability mainly in Europe and U.S.

We, Vale, we do not worry about supply overcoming demand in the next five years for sure. We believe that you'll see some delays in the supply sides mainly related to some constraints of equipments and the permits and license. I think that is the scenario that you are working.

The second point of that I would like to share, it's about the investment of Vale in the steel projects. For sure you know that we have lost market share in Brazil and we must regain that. Although these projects, through these projects in fact, we can create a considerable demand for our iron ore, we expect to have around 230 million tons of the iron ore coming from Carajas in the future and right now you are talking about the running I think at 100 million tons.

And for sure it's impossible to build a new Carajas without knowing the community demand. And we must say that you are not alone there. We have the community and the government in (Parai) and everywhere they are just expressing what the community is saying. But in our side it's extremely important to regain the market share that we lost in Brazil. This aspect is very important.

Regarding the CapEx, I think that net '11 investment plan remains the same. We know that we're very far from our target, but we believe that we should be able to have spent the

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\$24 billion U.S. up at the end of First Quarter of next year, but at the same to maintain the discipline in capital allocation.

The third point that is important to address, it's about the Simandou Project in Guinea. What I have to tell you is that it's part of the Brazilian Government's policy to strengthen the relationship with African countries. Going ahead with mining and with shipping, it's very important and we would help to get stability in the Countries in the West Coast, many in the West Coast. We have asked for the Brazilian government support in Simandou project because our agreements they will be much more strong.

And what I can tell you is that our President, Dilma Rousseff, in fact is giving a strong support. It is not a support, it's a strong support. I had a chance to visit Guinea last Monday and I spent some time there, but I was with the Minister of Foreign Affairs, Mr. Patriota. And as you can see, importance of this corporation Brazil and Guinea it's so relevant that the Minister went into debt in order to support Vale.

One further point that I would like to address, it's about copper and (Meterax). Strategically it's important to be in copper and my first conference with you I expressed strongly my view regarding the future of the copper. But first of all we must have discipline in capital allocation. But again we continue very positive. We have a good portfolio to grow in copper. In case of having some acquisition we will be very interested but there is the deception that you have the same discipline in capital allocation.

I'd like to talk a little bit about the Vale new (Aledonia), the former Goro. I had spent a few days there and what I can tell you that the technology is challenging, but in my view most of the problems of the Goro project were related to engineering and not to the technology. We are replacing the twenty-first columns that in our view they were not well designed. These columns were responsible for separating nickel from cobalt and again I am positive we needed to be patient but I hope to see good results at the end of the year. And the investment involved in New Caledonia in fact is very important to make feasible the production come from (eliminated) reserves and we cannot just to leave the project as a failure. We are for sure very far from this point.

I know that you are anxious to hear my colleague is from the Executive Board and I'll finalize just giving some emphasis and some aspects. As you know, we have three main goals, which are returning capital to the shareholders, focus in sustainability and having the right people working with us under a good internal corporate climate and it's very important, these three points. We will continue to work with the same strategic plan. We have a clear growth platform; maintain our leadership in iron ore and nickel and to increase our exposure in copper, coal and fertilizer. And we'll continue with our policy to return capital to our shareholders in case of having some cash surplus.

Thank you very much.

Questions And Answers

Operator

(Operator Instructions) Our first questions comes from Mr. Felipe Hirai from Merrill Lynch.

Q - Felipe Hirai {BIO 15071781 <GO>}

I have two questions. The first one is related to the CapEx increase and the CapEx related we're seeing in some of your projects. We saw that you revised the CapEx number for some of your projects. So the question is what are you doing to prevent this issue and then if there is anything you are going to be able to tell us in the future about some of your other big projects like Simandou and the (Sarasou) expansion at Carajas.

My second question is related to the de-taxation if you could just comment on what you're seeing on this potential issue of the other liabilities that Vale currently has with the government on this (Stefane) and the taxation of incoming foreign subsidiaries and also on the potential increase in royalties. Thank you.

A - Unidentified Company Speaker

Thank you, Felipe. In terms of the projects, our strategic projects are going well and, as Murilo mentioned, we expect to in the First Quarter of (inaudible) to complete our program and I guess that's it.

In terms of the liabilities, we already have provisioned the social contribution and we were expecting that. There will be no effect on results since it was already provisioned.

Q - Felipe Hirai {BIO 15071781 <GO>}

Thank you, Larry, but could you comment a little bit on what you expect on the other liabilities, the pending liabilities that you have with the Brazilian government and also the potential increase in royalties?

A - Guilherme Cavalcanti {BIO 2181205 <GO>}

That's all under discussion and also it's in terms of the royalty increase it will depend on the new mine in (Kudu) that is about to be released but so far we have no news about it.

Q - Felipe Hirai {BIO 15071781 <GO>}

Okay thank you.

Operator

Ivan Fadel, Credit Suisse.

Q - Ivan Fadel {BIO 4827533 <GO>}

My first question would be related to the base metal side, why you still reported copper and nickel volumes much below what I believe is its full potential due to anticipated maintenance for a few units and also cliffs stoppage. Can we assume that Vale's copper

and nickel volumes should accelerate to more normalized levels already in the Third Quarter and, along with that, should we expect also more dilution of cash costs due to more volumes and due to the absence of the effects of the maintenance costs? That would be my first question.

And the second question just as a follow up on the taxation issue, so I understood that Vale is already paying that BRL5.8 billion of tax liability. It's all provisioned. Was the final decision from the judgment so no appealing was actually possible? Was it something that Vale came into terms with the other party so you would just settle the dispute? Thank you.

A - Tito Martins {BIO 3374920 <GO>}

This is Tito speaking. Regarding the first question, basically we have finished the build of the second furnace in Sudbury, which means that we are back to the full production. As you asked of course you can assume that on the second half of the year we will be producing 100% in the ore operations and of course we have some of the impact that we saw in the Second Quarter are related to pre-operating costs of (Osapoma) in New Caledonia so of course production in Osapoma is also growing as Murilo said when he spoke. New Caledonia is still under the rebuild of the columns but in general the regular production will be in full capacity. We finished with the shutdowns, the summertime shutdowns, and we are also expecting to see more production now strong from Osapoma.

A - Unidentified Company Speaker

Okay in terms of the tax, this is something that we're still going through discussions and it involves all the exporters, not only Vale, but we just lost the ability of not paying anymore so we have to pay but will continue with the discussions.

Operator

Marcos Assumpcao, Itau BBA. Excuse me, Mr. Marcos Assumpcao's line has just dropped. Our next question comes from Mr. Rodolfo De Angele from JP Morgan.

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

I have two questions. First of them is on one-off items. On the operating side it seems both volumes and pricing were lower than what they could potentially be so my question to you is what was really the effect of this one-off of steel, the range in this quarter and if you could shed some light on what to expect in the next quarters?

In the same lines on the one-offs, I would also like if you could comment on the operating expenses. There were some pre-operating expenses from the (Vale de Caledonia), from also Puma so are we going to see more of those and what do they refer to? If you could also give us some guidance guidelines there, that would be great.

A - Tito Martins {BIO 3374920 <GO>}

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Good morning, everybody, Martins speaking. Talking about prices I don't know exactly what's your assumption about price but your comment that there is -- the only factor that is a little bit different that you can see from past numbers was the carry over because we have a very low performance in the First Quarter, so many shipments were only loaded in the Second Quarter and our practice is to keep the same price. So we lost some average price based on this point. We also have a little bit more moisture and a little bit slightly lower iron ore content so when you look at our volume numbers you are not able to see the moisture inside or also how is the iron ore units' content so these three factors drag a little bit on our average price.

For the second or for the Third Quarter we are not going to have this impact based on the carry over and we are not going to have the impact of the carry over because the price will be the same from the Second Quarter to the Third Quarter so even if some carry over exists there is no price impact. Moisture will be lower because we are now getting out of the rainy season so we expect improvement, lower moisture, and nowadays is a huge impact because as you can see by the numbers that show during this quarter rain.

The first half of this year the rain was almost twice as last year so then the all of the part of this moisture go in the iron ore shipped together with iron ore. And the iron ore units we expect some improvement also because of we have some mines that with the higher iron ore content that were below water so we cannot mine there so then there is a small loss in iron ore units.

So putting everything together I think from our perspective the prices were in line with our management expectations but for the market as you cannot see these factors in the volume we introduce probably you have some difference in your calculations.

A - Unidentified Company Speaker

Rodolfo, about the pre-operation expenses we had about \$200 million as pre-operating expenses regarding New Caledonia and Osapuma. Going forward once this project starts to produce revenues, these expenses are transferred to the costs of goods sold but other projects will come on stream. For example, (Marchisi) and other projects and then these new projects will tend to have pre-operational expenses as well so this is probably becoming a recurring effect because of our top line of projects okay.

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

Okay perfect and then in my second question on the cost side was off in my opinion one of the best aspects of the results and I just wanted to ask you what are the main initiatives to -- that you have in place to make, to deliver such a good performance on the cost side and also if there's anything there that's not sustainable in the medium to long term? Thank you.

A - Unidentified Company Speaker

Actually our procurement side area they tracked into closed contracts on a long-term basis so a lot of the costs that are incurring is due to contracts that closed some time ago so this pro-activeness of our procurement side is one of the reasons that we can keep our

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costs under control. And also in terms of FX rate we know we have a great currency mismatch and we've tried to do some hedges in the future market as you can see in our financial results and you put a part of our cash position in reals being our assets being a part of hedge of our costs.

Operator

Rodrigo Barros, Deutsche Bank.

Q - Rodrigo Barros {BIO 5851294 <GO>}

I have two questions. The first one is on resource nationalism, which of course you've done major change for the factor and not only terms of exploring mines abroad but also in terms of companies. There are some news in recent days about the shipping industry in China asking for some protection regarding Vale's own fleet. So my question is possibly for Murilo. Is this very how can I say competitive and with the government's trying to protect the national channels what will be the strategy for Vale to nationalization strategy? I mean, should Vale get more closer to the government or should then viewed more locally? How to be able to expand in first internationally in the environment of protectionism?

And my second question is possibly for Martins. It's regarding the iron ore markets in China. We heard some of our contacts are saying that the Chinese because of lower profitability they are aiming at using lower grades because it's cheaper and also that they were questioning the lump and the pellets premium, so if you can comment on these too. Thank you very much.

A - Murilo Ferreira {BIO 1921488 <GO>}

Regarding the relationship with the government, what I can tell you is that we must have a good relationship everywhere. I think that it's very important. You know that while building a big plant in Canada because the people from Newfoundland and Labrador requested strongly regardless of having some surplus in terms of capacity there in Manitoba and Ontario, we must understand that we -- and we must have a good dialogue with everybody, the governments, with the communities and everywhere. These for mining industry in case of not following these procedures, will bring risk for our future.

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

As far as the issue of China is concerned, I would like to say that it's true. The Chinese steel industry they move very fast from one practice to the other. They look at the market signals so they see the price of lower quality ore going down so they move it rapidly to this kind of ore but as they do that things change again, so I think it's the market movement that always happens in the Chinese steel industry. As a matter of fact, if you look at the price of iron units in the First Quarter was \$5.71 and it dropped to \$5.23 in the Second Quarter so I think that's movement was there for a period of time. Nowadays the price of iron units is around \$5.00 so some additional adjustments in iron units.

That means that really the customers are looking for cheaper ore but at this point we are very comfortable because if you have the high quality iron ore it's easier to downgrade if you need so we are in a very good position because if the market moves to lower grade ore we can move to lower grade ore if it was needed. But for the time being we're shipping everything we need and everything we produce and we are not facing any problems in shipping our high quality iron ore or lower quality iron ore. The market is very favorable.

Operator

Carlos de Alba, Morgan Stanley.

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

Two questions, first one is just if we could go back into the iron ore price that Martins was mentioning, if we looked at the Platts Index it should be flat the Third Quarter price versus the Second Quarter prices and, given that you had those three issues with moisture iron ore content and the carryover in Q2, would you -- would Vale have or is Vale higher prices into the Third Quarter than your versus the Second Quarter because you won't have these issues and because of the index prices were flat? That was the first one.

And the second question maybe for Murilo, I would like to stray a little bit here of why Vale must regain shares of their iron ore sales in Brazil by investing in steel. If the iron ore market is truly tight for the next three to five years and with the freight rates having come down as much as they have and with Vale increasing their fleet of vessels, I don't think Vale is any meaningfully less competitive nation than Australia so why? If you could explain to me why investing in steel is so important, do you make more money selling iron ore in Brazil than you do when you sell to Asia so that it really improves your returns? I really appreciate that. Thank you.

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

So as far as price is concerned, we are working with the possibility of the price to be same in the Third Quarter. We have the new favorable price with several components in it; one is the IODEX price, the iron ore price in the spot market in China 62% content. The second component is the price of the VIU or the iron ore units content that is going down slightly from \$5.20 to \$5.00. And the other component is the freight that we deduct from the IODEX plus VIU. So today looking at the situation how the -- we have already two months in this quarter. The indication is for the price to stay in the range of the 5% (band) so there will not be probably change in the price, not up or down.

For the point you raised about why to make steel in Brazil, in order to keep iron ore we needed to look at very long-term. We are not talking about the next two or three years but to build a steel mill takes five years to build and also there is, as everybody knows, and the (stakes remain). People want to have more than only a mining company there so -- and in some extent if you are not able to do something somebody can do so in the same movement that can be done for miners can be done by steel makers. Iron ore steel makers come to Brazil to (paradise) states or minerals raising states says look if you'll give

me a mine I'll give a steel mill so the steel makers are also investing heavily in mining so we needed to look at all of those factors to take our decision.

So I think it's a very strategic issue. You cannot look only on our opportunistic base. Nowadays we don't need it if we can stay here another buyer will come to buy our iron ore so that's the situation today but you never know long-term what will happen. Vale always has some kind of participation in the steel industry and we are involved in (CSD) and we are involved with Minas. We have a lot of initiatives in the steel making in the past so it's part of our long-term strategy to have some kind of involvement. Sometimes we needed to be stronger on these; sometimes we don't need to be so strong but we need to look at all the situations and all the facts and we hope that we are taking the best decision for our shareholders looking long-term. So this is a very long-term business. Mining is not a business that you go into and get out (inaudible) so you have it to have a portfolio of business that can give you sustainability in the long term. I don't know if Murilo is willing to add something on it but that's the way I see it.

A - Murilo Ferreira {BIO 1921488 <GO>}

Martins, for sure you are right. I think that we can add just two elements. The first one is that we can start the largest shareholders as we will do in share offer interest but there is a provision to reduce from 50% to 20%. Then it's you want us to have a stake in order to preserve the captive market for our iron ore. Then in the long run we'll stay as minority in these steel plants.

And the second point that just to say that the authorities, the communities, they are not happy with the big picture that you are seeing in Brazil. Now you don't have -- the steel producers in Brazil they are doing any investment in steel. We are trying to be a mining company and I think that we have where you will see some growth in Brazil and the perspective of Brazil is gorgeous and I think that just in (inaudible) business we think that, as Martins said, in the past we did good money with our stake CSD for instance or (inaudible). It was a good deal and having the investment and later on to sell.

But again, we wanted to have the minority stake and we believe that with the lack of investment in the steel we can see good opportunities in the future but we are a mining company. Again, we are focused in iron ore, nickel, copper, coal and fertilizer but we need to understand we will not be able to increase from 100 million tons in Carajas to 230 in case of not understanding what the community is demanding.

Operator

Leonardo Correa, Barclays Bank.

Q - Leonardo Correa {BIO 16441222 <GO>}

My first question is for you, Martins, as well regarding the iron ore supply/demand balance in China and also the possibility of imports in the second semester arising. If we look at the levels of crude steel production in China they've been very strong and if we look at the level of imports in the first semester, they've been to a certain extent a bit more subdued, right.

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So my question is we've been hearing many observers talk about the very aggressive destocking cycle happening at the Chinese steel mills so I just wanted to see if you have also observed the same thing, if you think there will be are very significant restocking effect in the second semester front or that would be important for us and also if you see iron ore imports rising in the second semester and that's the first part of the question. The second one is regarding China's now drive to create their own domestic iron ore pricing index, if you see the system changing or this initiative from China changing any type of the way the quarterly prices system is working.

The second one is regarding the mining regulatory framework in Brazil, maybe rephrasing everything that we have heard so far from the call and the questions, how has Vale's role been in the negotiations? I mean, has Vale been involved in any type of consultation regarding the taxation? I mean, is Vale in discussions currently with the government regarding better outcomes? Do you prefer a royalty or would you prefer a special participation tax? So this is my second question regarding the mining regulatory framework in Brazil. Thank you.

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

Martins is speaking. I will address the first question and I will ask probably Murilo to answer the second one so as far as the first question I do not see big changes in China markets going forward. The beauty of new price system and because when you look at the spot price you don't see big changes, so this is a good meaning about the balance between supply and demand okay because the price is stable. So we do not see the same volatility we used to seeing formerly so that means that the either supply or demand is not changing too much.

I see a stable situation in the Third Quarter and there is a possibility for a sudden increase in the last quarter. This is normally what happens in the Chinese market because people try to get a little bit more ore to face the winter, the winter season, mainly because of the domestic production is lower in the winter season in China. So but we do not see big changes in the market in this second half. I believe that we are going to be almost in the same level as it was in the first half.

Second point I want Murilo, you want to talk about the--?

A - Murilo Ferreira {BIO 1921488 <GO>}

Yes for sure. We believe that we could see a proposal going to the Congress, the Brazilian Congress, at the last quarter of the year. We didn't reserve a first draft of the proposal yet and it's very important to have a clear legislation in order to avoid misunderstanding. One thing I can tell you I have opportunity to share some spiels with our president, Dilma Rousseff, and she understood that we must have the same competitiveness, to have the competitiveness in Brazil regarding other countries.

Operator

Tony Rizzuto, Dahlman Rose.

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Q - Tony Rizzuto {BIO 1490590 <GO>}

My question pertains to your iron ore price realization. I want to make sure I understand clearly. I thought, Guilherme, you may have mentioned and you're saying the Third Quarter price realization will be plus or minus 5% versus Second Quarter and I want to make sure I heard you clearly.

A - Guilherme Cavalcanti {BIO 2181205 <GO>}

Okay let's -- we have the band is if the price, the average prices, stays between more or less 5% the prices stay as it is okay, so that's what I said. Looking at this system, most probably is that the prices stay the same as it was in the Second Quarter so our probability is not to have any change in the price according to the average up to now.

Q - Tony Rizzuto {BIO 1490590 <GO>}

Okay and I have another question if I may, you had nearly a 5% increase in the employee headcount since the previous quarter and I was wondering if you could provide some color as to where the major increases took place.

A - Unidentified Company Speaker

Tony, we -- it's basically on our new mines on our projects and new projects.

Q - Tony Rizzuto {BIO 1490590 <GO>}

Okay on the nickel side primarily? Oman, (Wachisi), (Sa Lobo) in (Caraza), on (Sopuma) so now our projects.

All right so a combination. Thank you very much.

Operator

Mr. Rene Klewag, UBS.

Q - Rene Klewag

Just following returning on a couple of points; one, could you just quantify the change in the moisture content and the volumes that were carried over and just a rough indication of the change in average grade? Then secondly, in terms of the raw material purchases from third parties, we actually saw a 10% increase in the volumes purchased on fines and a 50% increase in the purchase of pellets but the total cost of third-party purchases coming down. Could you just explain the pricing dynamics for those local purchases and why they're so different from the international pricing environment? Thank you.

A - Tito Martins {BIO 3374920 <GO>}

Well as far as moisture and the iron ore units content, as I told you before, there was a slight reduction in the iron ore units content near 0.2% lower and in the moisture an average was 1.5% higher so that is a drag on the -- because we only voice the dry ore, not wet ore so it in the information we delivered the numbers of production. And sales is

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based on the wet basis okay, not the dry basis but the big part of the drag in price was caused by the carry over because we in the First Quarter of last year -- of this year we lost near eight million tons production and all of those ships that would be carrying this volume had already arrived in Brazil so then they were loading only during April and then we had the (inaudible) for the former price so the carry over was the main drag on our price. The moisture in the iron ore units have a much minor impact on price valuation.

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Operator

Renato Antunes, (Flow).

Q - Renato Antunes {BIO 17439917 <GO>}

I just wanted to get back on the tax issue on the payment that you made of \$3.8 billion. I just wanted to know does this mean that your realized tax rate going forward will increase? And if so, could you please quantify that to us? I mean, where should we expect your tax rate to be over the next quarter? Should we assume that your current level is the sustainable level for the future? That's the first question.

And my second question is related to Indian iron ore supply. I mean we continue to hear your supply constraints out of India. I just wanted to hear your views on the potential impacts derived from Indian supply in the short-term, I mean over the second half. I mean (Karnataka) remains relatively limited and I just wanted to hear your views on that matter. Thank you.

A - Unidentified Company Speaker

Okay no there the payment that we made will not change our tax rate. We adjust the payment of social contribution so going forward this is the 9% that it's regularly paid and we should look not on the tax effective tax rate, not on a quarterly basis. You should look at the semester so you see more stable effective tax rate if you look at this semester income tax.

And as far as Indian ore is concerned, it's clear that India is reducing their exports of iron ore because their steel production is growing and they are using more and more locally so I believe that the impact of India in the iron ore market will reduce as time goes by and probably this year against last year they are going to be down something around the 20%, 25% and now it's time of monsoon in India so now it's time that production always reduces.

But on top of it you have a lot of restrictions that are being adopted by the Indian government in order to keep the ore internally so I think -- and that's very important because India makes a lot of this low grade iron ore that are mainly used in China. So what is going on with that lower the Indian ore goes to China, the more is the local production so Indian ore mainly competes with the local ore and I think for the time being we'll have a balance what is being reduced by the Indian ore to China it's being increased by local production and some newcomers that are coming to the market so at the end when you sum up everything and the impact is almost neutral. And so I think this situation

will continue next year with more newcomers, probably a little bit more of local ore but lower Indian ore also going to China.

Q - Renato Antunes {BIO 17439917 <GO>}

Thank you.

Operator

Gary Lampard, Canaccord Genuity.

Q - Gary Lampard {BIO 2019395 <GO>}

I want to go back to the realized prices for iron ore again and I'm -- and just collecting the answers from a few of the other questions that have been asked. If your moisture content does recover at 1.5% in the current quarter there's maybe \$2 a ton there and if your average iron grade goes up say 0.2% is say another \$1 a ton, so that's about \$3 and because that carry over tonnage issue won't be there for the current Q3, there's maybe another \$4 a ton compared to average realized prices in Q2. So should we reasonably be looking for an improvement of something like about \$7 a ton for a realized price in Q3 versus Q2?

A - Unidentified Company Speaker

It's a reasonable calculation I would say so.

Q - Gary Lampard {BIO 2019395 <GO>}

Okay thank you. And just a final question, can you tell us in Q2 what percentage of your sales were lump ore compared to fines?

A - Unidentified Company Speaker

We are not a big producer of lumps, okay our volumes of lumps is between 5% and 10% so it is not a big volume. We produce more pellets and I think that was a question that was asked before and I forgot to address. The lump market is a little bit more. There is a good supply of lump ore and competitors are really reducing their premiums on lump ore and this really does not affect us because we are not big producer of lump. But on the other hand it creates a market that can compete with us on the high end, which is pellets. For some of our pellet customers can use a little bit more of lumps and that could put the pressure on the pellets premium and sure that in today there is some pressure on the pellets premium because of this high and better availability of lump ore. But we are not a big lump ore producer.

Operator

Our last question comes from Mr. Marcos Assumpcao from Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

First question is regarding iron ore volumes, if you could comment a little bit on the performance in July, given the end of the production constraints, and also if you maintained 2011 target volumes of nearly 310 million tons.

And my second question is to Murilo if you can comment a little bit on copper, your views on copper prices given the potential supply constraints that we're seeing in the market right now and also if you're going to continue to pursue a mix of organic and M&A growth to increase the exposure to this metal. And if you can comment where would be the best location and where do you see the biggest opportunities to develop new Greenfield projects on the metal, thank you.

A - Unidentified Company Speaker

Okay on our first question really July it's been a very good month. We have the end of the rainy season. It's over so we probably have one of the best months of our history and so it's with that we would continue to maintain our forecast for the year of 310.

A - Murilo Ferreira {BIO 1921488 <GO>}

Marcos, thank you for your question. You are right and we're very positive about the copper price but unfortunately my crystal ball is broken but I think that next year the price can be above \$10,000. Regarding the organic M&A, I think M&A it's opportunistic issue but you are always looking for some opportunity but anyway we have a good portfolio, good projects to be implemented in the next coming years. Regarding the location, I think that Latin America and Africa, Indonesia, I think that we can see good opportunities in terms of copper coming from there.

Operator

Thank you. Ladies and gentlemen, this concludes today's question and answer session. Mr. Murilo, at this time you may proceed with your closing statement, sir.

A - Murilo Ferreira {BIO 1921488 <GO>}

Thank you very much for your time. I think that my last message is regarding the projects. We are performing a risk analysis of our major projects to double check the status and the budget of each project and as soon as possible we will go to the market in order to present the results of this analysis. And I again it's our -- it's very important for us to maintain the discipline in capital allocation and we are extremely happy to pay more dividends to our shareholders. Thank you very much.

Operator

Thank you. That does conclude our Vale's Second Quarter 2011 results conference call. Thank you very much for your participation and have a good day.

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