

Q2 2012 Earnings Call

Company Participants

- Jose Carlos Martins, Executive Officer
- Murilo Ferreira, President and CEO
- Peter Poppinga, Executive Officer
- Roger Downey, Executive Officer
- Tito Martins, Executive Officer, CFO
- Vania Somavilla, Executive Officer of HR

Other Participants

- Alex Hacking, Analyst
- Carlos de Alba, Analyst
- Felipe Hirai, Analyst
- Ivano Westin, Analyst
- Jon Brandt, Analyst
- Marcos Assumpcao, Analyst
- Rene Kleyweg, Analyst
- Rodrigo Barros, Analyst

Presentation

Operator

Good morning, ladies and gentlemen and welcome to Vale's conference call to discuss second Q 2012 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 investor's 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 1-877-919-4059, access code 86474542 star. 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 presentations are being transmitted via Internet as well. You can access the webcast by logging on the Company's website, 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 differ materially from the 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. Tito Martins, Executive Officer of Finance and Investor Relations CFO; Mr. Luciano Siani, Account Executive Officer of Financing and Investor Relations CFO; Mr. Jose Carlos Martins, Executive Officer of Ferrous & Strategy; Mr. Roger Downey, Executive Officer of Fertilizers and Coal; Mrs. Vania Somavilla, Executive Officer of Human Resources, Health & Safety, Sustainability and Energy, Mr. Galib Chaim, Executive Officer of Capital Projects Execution; Mr. Humberto Freitas, Executive Officer of Logistics and Mineral Exploration and Mr. Peter Poppinga, Executive Officer of Base Metals and Information Technology. First, Mr. Murilo Ferreira will proceed with the presentation and after that we will open for questions 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. Good afternoon. The Second Quarter of this year was marked by challenges posed by the lower price environment for all of our products and operational issues in the base metals and coal business. Our iron ore production recovered and recovered very well, increasing 15% against the First Quarter. And pellets also reached the all-time high at 14.3 million tons.

At the end of the first half of the year, our iron production reached 150 million tons, which is in line with our target for 310 million tons this year. As you note, we proved substantial divergent of our production in the Second Quarter of the year.

Operating revenues, operating income and margin, as well as the cash flow improved in relation to the First Quarter of this year, despite the negative contribution of prices, which produced a negative impact of \$630 million on EBITDA.

Our net earnings suffered a large non-cash balance sheet impact, arising from the devaluation of the Brazilian real against the US dollar. On the other hand, the appreciation of the US dollar against our basket of currency, like 15% Canadian dollar and others, produced a positive impact of more than \$330 million.

But we needed to call your attention for some important milestones, like the granting of the environmental permit to S11D, which is an important step and you are looking forward to getting the final environmental permit this year. You'll note that this is a very important milestone for us in terms to contribute to improve the average quality of our iron ore output. To lower our operating costs and to create a new platform for low CapEx brownfield projects. I think that this is a milestone. It's one of the most important milestones in our history.

We have already signed an agreement with the government of Mozambique for the construction of the greenfield railways and the maritime terminal of Nacala. I think that

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with this logistic system, Moatize will provide us the scale, cost structure and quality to transform the coal business main important source of shareholder value creation in the future.

Last week we signed a memorandum of intention with the government of Argentina, which is supposed to be a step towards the agreement that you provide a roadmap to facilitate the execution of Rio Colorado. And this is a key element in our structure in the future of the fertilizer business.

Asset management is an important tool for our shareholder value creation and you are looking to improve this management and I think that it's for some assets we believe that you are not the best one for that. On the other hand, we bought an additional stake in MBR, a core asset.

As a part of our disciplining (inaudible) location, and this is very important for us. The investment is under continuous review. Given the large volume of researching (copper), the execution of S11D will imply a review of priority for our project portfolio. And as a monitor, we believe that it's very important to establish priorities. And we needed to provide some review in some of them. What we must give efforts is that our intentions to finalize, mainly 2012-2013, a lot of projects, like (inaudible), Itabirito, (inaudible) (plus 40), the logistics system for 150, the Malaysia project, Konkola in Zambia and Salobo, our copper project.

We are completely focused to go and to end these projects. On the other side, we needed to focus mainly in our project, in the iron ore project that -- in our -- in the north of Brazil.

We needed to give effort in Moatize. We needed to see the project, the Rio Colorado project as a key element for us. We know that we have several challenges today and in the next -- but we are very confident that in the next 20 years you will see a lot of people, millions of people moving to the middle class, requiring housing, infrastructure, consuming (products) and we needed to provide a lot of fertilizer and raw materials to them. And Vale's investing and we are investing in good projects, big and good projects. And we are very focused and to bring return to our shareholders.

As I said in my first discussion with you in May 2011, it's our focus to bring return to you and we believe that in this regard we needed to have a focused, very focused discipline in capital allocation, to be very concerned about the leverage of the Company and to provide dividends in accordance with our cash flow.

In the end, I would like to state our gratitude to our friend for his traditional devotion to Vale, dear Tito. Thank you very much in my name, the name of the executive board, the name of our friends at Vale, I would like to express again our gratitude. And to say very welcome Luciano Siani as the new CFO.

And now, you are completely open for new questions and I call my friends at the executive board in order to help us with the answers. Thank you very much.

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Questions And Answers

Operator

(Operator Instructions) Felipe Hirai, Merrill Lynch.

Q - Felipe Hirai {BIO 15071781 <GO>}

So my first question is related to any potential changes that you could do to your CapEx. So when do you think you could give us some more specific details on how you're going to do that? So can we just expect to see that on a quarterly basis whenever you report your earnings? Or are you planning to make any kind of announcement of an updated CapEx version sometime towards the end or in the beginning of the Fourth Quarter?

And my second question is related to the recent news on the dispute on the (inaudible). So just if you could give us an update on how is the current situation and what do you think of these BRL4 billion to BRL4.5 billion value that was expected to be paid to the government? Thank you.

A - Murilo Ferreira {BIO 1921488 <GO>}

Very good question, Felipe. I think that's a very big misunderstanding regarding the discussion and our negotiation with -- on the certain liability with DNPM. The working group, composed by representatives of Vale and DNPM completed the analysis of the documentation related to the base of calculation of the assessment, that question of the payment of mining royals. And what I can tell you, that at this point of time we have already completed and regard a very important reduction regarding this number.

Vale wanted to say that you are not talking about the agreement with them because the first step is to want to provide a complete assessment in (inaudible) recommendation regarding these royalties. With this as the analysis, since 1991 up to now, and in this regard what I have to tell you that we have completed the assessment and the number that we got, it's very important. But now we have the second step.

The second step is to have a discussion with our board to discuss with the board members about all the (inaudible) that we have with us. And they're to go to DNPM and to address all the points with them. Then we have two elements. The first one, it was an assessment to the numbers and the second is we will be the discussion with the DNPM.

And about the CapEx. I think that we must provide a review based in the cash flow. I think that it's very important to say that we intended to finalize all the projects. We don't want to review the cap (inaudible). The number that you are investing (inaudible) in all of these projects. But we must be ready to review and sustaining (inaudible). I think that it's very important to provide this with you. We don't want it to go to the market and to provide some announcement, because as you know, with the (difficult) activity that you are facing can be very premature to take a decision for the remaining of the year. But you would be falling very closely in a weekly base what's happened with our investment, mainly in sustain. Thank you very much, Felipe.

Operator

Ivano Westin, Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

My first question refers to the completion. The board of directors approved the (inaudible) project, which is based on a CapEx of \$1.5 billion and 24 million tons of iron ore capacity. However, this volume will be used to replace depletion of volumes resulting in no additional volume to the market. And I believe it is the same case of Carajas North, 40 million tons capacity.

So my first question refers to your depletion. I appreciate if you comment on the depletion ratios of all your mines as an overview. And the second question refers to your average iron ore price, which reached \$103 a ton this quarter, which represented a discount to support price. So I wonder whether Vale has the intention to revisit the overall pricing strategy and start (inaudible) to iron ore derivatives as an alternative to hedge your price. Thank you very much.

A - Murilo Ferreira {BIO 1921488 <GO>}

Martins, please go ahead.

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

Talking first about the depletion. In the southern system, we have a situation where many mines are (inaudible), the ending of their life. But at the same time we are developing new operations based on concentrations. So the Caue project, together with (inaudible) and also --

Operator

Please continue to hold. We are reconnecting the main speaker line now. Please continue to hold.

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

Well coming back to the issue. So we have many projects in southern system, mainly devoted to improve quality and give continually to the volumes. Extending life mines. So we have four projects underway today. One is Conceicao Itabiritos, that we will start to operate in 2013. To have a (inaudible) version of this Conceicao Itabiritos, at that station, 2014. Also, Caue and (inaudible). So those projects to be entering operation between 2013 and 2014 are mainly the main objective is to increase mining life and also improving quality by concentration.

So only to give you an idea, those -- the quality we went too for something around 65% today to 68% today. And also (inaudible) will be reduced sharply from the level of 4% or 5% today to the level of 2%. So all those projects in the southern system are based on extending mining life and including quality in the southern system.

As far as (Carajas Serra), all the projects that we have in Carajas Serra now is for increasing capacity and also including quality because we are being -- developing new ore bodies.

So we have in Carajas Serra today the plus 40 project. We have also Serra Leste project, besides S111D. So all those projects will be aiming to increase the volumes and also improve quality.

We also have to open new mines and existing (inaudible) fields based on new areas that can be developed in the north system. So in this case, as we are working to get the approval and the license to also open these new bodies in the existing mining area. Those bodies will bring more volumes and also more quality. So hopefully speaking, the projects in the southern system are mainly designed to improve the quality and extending mine lives. And the projects in the north system are mainly to improve the volumes and also improving quality by opening new mines.

A - Murilo Ferreira {BIO 1921488 <GO>}

Just to complete your questions, we don't -- we think that we don't have enough liquidity in the market in order to go ahead with an extensive hedging program. But I would like to hear -- Martins has much more about this issue.

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

Yes, I think better to people to explain because it's really a financial issue. Commercially speaking, we are not very much interested in doing it, in going for this kind of finalization of the iron ore price. We believe that we are the lowest cost producers, even with this level of price, profitability in the iron ore is very good. So we don't see any reasons to develop this kind of operation. We believe that would be more mutual for customers that want to protect their margins.

So that's our position so far. What I also would like to hear is Tito's opinion about it.

A - Tito Martins {BIO 3374920 <GO>}

Well I think what happened is not just a matter of liquidity. In order to develop liquidity you're probably going to have to (inaudible) for the future markets. And given the variety of ore available in the world today, I think it's going to be very complicated to do that. When you compare with the (inaudible), for example, you have some standardization on the product that are used. And also the storage capacity, which is a big issue as well. But the (inaudible) of iron ore we're talking about, the volumes are much higher than the ones we've seen out of (inaudible) in other commodities and other minerals.

So I think it's going to be very difficult to see actually a huge or significant market -- future market for the iron ore. That's it.

A - Murilo Ferreira {BIO 1921488 <GO>}

Another point is about the price. This quarter our average price was around \$103 and last quarter it was around \$109. If you look, the (yield X) went down around \$2.50 and also the

1% iron ore contents value went down also \$0.50 per each 1%. So only the yield X and also the 1% content can explain \$4 off the (inaudible). The remaining \$2 are spread in a lot of different items. But I would like, as I did in the previous conference, in (inaudible) I would like to address the issue with a little bit more detail.

So the (inaudible) finance price the market can see is the yield X average, which was \$141 in the Third Quarter of this year. This price is dry and CNS (inaudible). So to bring it to FOB conditions and also wet basis to our average price is and collect basis, you have to reduce the long-term freight that we use in our negotiations with our customers, which is \$25 per ton.

Also, you have to reduce the average moisture that you have in iron ore, so this will bring down another \$12. So the FOB price, wet basis, is \$104. On top of it we needed to add the quality differential that we deserve because our ore has 2% or 3% more content related to the other (inaudible), so we're adding today \$7 additionally to our price. So we come back to FOB wet basis, 64.5% around \$111.

From this we needed to deduct all the different sales that you have. For instance, when you sell domestically in Brazil, we deduct all the logistics involved there. Not only ports, but also railway.

We have a special contract with our subsidiary San Marcos. We sell them 10 million tons per year of run of mine, which is not ore, it's not processed ore and also has no logistics involved. It's door-to-door operation. Our mine is just around -- just nearby San Marcos concentration plant. So we deliver this ore to them and this ore is based on a long-term contract and has a lower price because it's not, I don't know, 68%, 67%. So this ore implies a reduction in our average price of \$3.50. Only this aspect.

We also have some carryover that we have a different price system in our portfolio. The average price we see is the quarter price. You are looking for the quarter price we are presenting. But in the Second Quarter price. But we have a different system. Part of these are based on former quarter average, part of it is based on the real actual quarter price and part of it is based on monthly average price.

On top of it, we have some sales on a spot basis, which is not based on yield X, but it's basically what you get in the market. The (inaudible) of this point that I raise here to you, we have an \$8 deduction from the \$111. Then we reach \$103. So this is hopefully the explanation why with our price went down \$6 and how we come from the \$141 to \$103. I hope that explanation was useful for you.

Operator

Carlos de Alba, Morgan Stanley.

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

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My first question is regarding to the call and the base method of operations. The performance of these businesses have been far from stellar. So I would like to understand if there are any action plans that the management team has talking about to address what is going on in these two business segments. And when can we expect to see some results of these actions, if any?

And my second question has to do with what are the plans in terms of the financing of the CapEx and dividends for this year given the fact that the cash from operations based on what has been reported so far and based on consensus expectations doesn't seem to be enough in the free cash flow are enough to pay the dividends.

A - Murilo Ferreira {BIO 1921488 <GO>}

Regarding the base metals, we have already started our discussion about the strategic plan. And we intended to finalize in November in order to present to our shareholders in the New York day, the London day as well

We believe that for sure the performance, it's below our forecast. When it is to address carefully everything, the assets that we have in copper and nickel and the results that we can see today.

For sure we have some interest of the -- regarding the price of nickel and copper, but the main problems that we had, it was regarding Onca Puma and New Caledonia projects. We hoped to provide additional analysis, but before this I think that I would like to hear from Peter what's happened with our projects in New Caledonia and Onca Puma in Brazil?

A - Peter Poppinga {BIO 17245689 <GO>}

There is no doubt that these metals is having a challenging moment in the short term, although in the long term we have a good strategy plan. But this is not only because of the no (inaudible) prices today, but as we just talked about, the main reasons are the two ramp-up operations in Onca Puma and in VNC New Caledonia.

If we go to VNC New Caledonia, there was this incident in the acid plant and it was diluted acid. A leak in the heat exchanger. The minimum water mixed with acid and corroded some part of the equipment.

Now, very important to state that this has nothing to do with high technology (HR) and SX column issues. So this is a completely different issue and the HR and SX technology was proven in the beginning of the year where we produced and integrated over 1,000 tons of nickel final product. And the acid plant only supplies an input to those downstream acids.

So we are going to repair the acid plant and we are going to restart the operations in New Caledonia at the end of Q3 and start to produce nickel in Q4.

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Regarding Onca Puma, we had to stop the furnaces also in May and two furnaces due to furnace run offs. For safety reasons we stopped them and we are still assessing the extent of the repairs and the period of time required to perform them. But we think they will be out for some months in operations.

So that's the situation about two (inaudible), which are very challenging and I'd be happy to take further questions if necessary. Thank you.

A - Murilo Ferreira {BIO 1921488 <GO>}

Carlos, is just to say that we had problems in some operations, not just the (inaudible), but in the coal business as well as you likely to hear from Roger Downey regarding the coal business as well.

A - Roger Downey {BIO 7419641 <GO>}

We've had a very good performance at the Moatize mine. The ramp-up is progressing very smoothly and very strong. However, of course, in Mozambique we have been slightly hindered by the performance of the railway down to Beira. So much so that we've had to slow down operation a bit in order not to accumulate stocks because some of our coal do have a short shelf life before it oxidizes.

So I think in terms of production we're okay. We need to focus and we are working on initiatives to increase output from Beira. We have today significant initiatives and investments in order to speed that up, but I think Murilo has mentioned, a very significant outcome of our negotiations with the government at Moatize -- I'm sorry, with the government of Mozambique to explore in the Nacala Corridor will be a significant tryout in terms of bringing Moatize up and beyond its current ramp-up.

(inaudible) is Australia. We've had several different issues with the operations there. And Carlos, yes, far from stellar there, but at Carborough Downs we had a problem with oxidation on the underground mine there. We've had to stop that and it's been stopped since the end of May basically. We have -- the good news is we have not lost the equipment. There was oxidation, we basically had to flood the mine with ash and (floxal) and that's basically dampened and it's kind of what gets the equipment wet. So we lost a little bit of the electronic part of the equipment, but the equipment is in general in a good state.

We should resume operations shortly. We have been cleared with the local authorities in terms of re-entering the mine and we're now working on getting that started.

The rest of Australia I think well, we have been -- there are issues here and there, but very small impact on the Isaac Plains and Integra operations. So we are operating there quite smoothly. And in general we are expecting a recovery in terms of the Australian operations by the end of the year.

A - Murilo Ferreira {BIO 1921488 <GO>}

Then please Tito. Thank you. All right, Roger. Then Tito please, some words about our cash flow.

A - Tito Martins {BIO 3374920 <GO>}

Yes, clearly what we were forecasting for price for 2012 we are not seeing that happening. And we will have some benefits from the exchange rate, mostly in Brazil and in the valuation of the real against the US dollar in some ways will help us with some reduction in the investments in sustaining in the capital growth. And so expecting to benefit from this reduction and improve -- increase a little in our leverage. We will actually match the needed cash flow for the whole year.

We are not expecting to see our balance sheet ratio changing dramatically. The long-term debt on EBITDA has been below 1, 1.5 and as we have promised since last year, we expect to have this number around 1, 1 time, no more than that.

I think that we are confident that even with this drop in prices, we've been maybe actually financed with full cash flow and then keep the investments at the level they are today. And paying the minimum dividends that was announced at the beginning of the year. Thank you.

Operator

Alex Hacking, Citibank.

Q - Alex Hacking {BIO 6599419 <GO>}

I have two questions, I guess probably for Roger. The first one is Moatize. At current coal prices and using the current logistical setup, do you believe that that project is going to be EBITDA positive? Or do we need the new logistics and high coal prices to generate positive EBITDA there?

Then secondly, Rio Colorado. I noticed there was no increase in the CapEx budget. It's a little bit surprising, given the inflation that we're seeing, Barrick announcing a big increase at Pascua-Lama today in Argentina. Is the financial review of that project complete or are you still working on the budget there? Thanks.

A - Roger Downey {BIO 7419641 <GO>}

Yes, Alex. Murilo, do you want to make any comments before me?

A - Murilo Ferreira {BIO 1921488 <GO>}

No, just to give some notes regarding the last weeks -- two weeks ago with Vale's side with the government of Argentina, memorandum of understanding, which is posted in a key aspect towards the agreements that you provide the roadmap and the full assessment to (inaudible). But please, go ahead.

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A - Roger Downey {BIO 7419641 <GO>}

Alex, starting with Moatize. Well Moatize is a world-class mine. We've got large resources - vast resources of no-cost open cut coal mining there. Most of it is 70% hard coking coal, so I think even with prices we've seen today, we're seeing a positive contribution from Moatize. I have no fears that this will become a very high return project. Obviously we're suffering the pains of growth. That's applicable to every single project around the world I think. And we're no exception.

We are building a world-class operation. Our challenges today have more to do with the rail of course and like I mentioned earlier on, we've just made a very important development, a very important master in the development of this project, which is the signing of the agreement to develop the Nacala Corridor. That will be a world-class railway operated by Vale. And I think once we're there we can certainly start looking at Moatize II with much brighter eyes.

In terms of the PRC, as Murilo just mentioned, also we made a very significant move in Argentina. The signing of the Acta Acuerdo, which basically establishes the footprint for us to develop the infrastructure that we need to go ahead with that project. That project, your questions were more related to scenarios I think. And right now as we're maintaining our CapEx for that project, we are looking at all the different scenarios. One of the scenarios that I think you must look at as well is a scenario where we could see some favorable exchange rate fluctuations, favoring the dollar in relation to the peso, which would actually have a very positive effect on CapEx, bringing our CapEx below our target.

So far we've got about around 35% of execution up at the mine. We're on track there. So I think it's -- any CapEx update at this stage would be a bit premature.

A - Murilo Ferreira {BIO 1921488 <GO>}

And about the risk of the project, what we have to tell you that you are analyzing many alternatives. One of the alternatives could be to have a partner in the project. But it's just one alternative. You have many alternatives that must be analyzed carefully to be presented too in our strategic plan to the board. Thank you very much.

Operator

Jon Brandt, HSBC.

Q - Jon Brandt {BIO 5506998 <GO>}

Two questions. First, on the unit costs, we noticed that the unit iron ore costs fell 5% to 6% in the Second Quarter. My understanding is when the real depreciates it typically takes a few quarters to see the full benefit of that. What should we expect in the Third Quarter? I mean should we expect an even bigger fall in unit costs?

Then secondly, just on iron ore, what are your expectations? I mean we're right above what we saw the lows of last year. What are your expectations for the rest of the year and

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have you given any thought to production cuts to help support the price? Or is this more of a seasonal issue at the moment? Thank you.

A - Murilo Ferreira {BIO 1921488 <GO>}

Tito, please go ahead about the costs, please.

A - Tito Martins {BIO 3374920 <GO>}

Yes, usually we don't give any guidance on unit costs. What I can tell you some of the effects of the exchange rate were already accrued during this last quarter and we should expect some additional effects along the rest of the year for sure. But I can't tell you more than that. The second question.

A - Murilo Ferreira {BIO 1921488 <GO>}

Martins, about price and the scenario that you are building.

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

Well we believe that we are reaching the bottom of the market as far as price is concerned. If our assumptions are correct, the price is reaching a point to where many players will be put out of the market. Then we believe that there will be some stabilization or even a rebound of the price. We do not see a strong recovery, but we see some stabilization and even a slight recovery in the next weeks.

We'll want to see it very soon because we believe that that price was reached before the Second Quarter of 2010 and also end of Fourth Quarter 2011. And it didn't stay in this level for long. It recovered in this level for long. It recovered very fast. So I think we are going to see in the next two or three weeks the behavior of the market.

My view is that I don't know a price range. We range between \$120 and maybe \$180 in long-term. We consider this too as the range because \$180 managed to make us cannot compete so the demand will decrease. And also 120 million miners will not be able to compete in the market. Many local miners in China. So we see this range as where the, I don't know, price will stay in the next two or three years.

But what could change it is a lot of supply from outside that could change the economics of the pricing system because today the economics of the price is supported by local miners in China. As local miners in China is displaced by foreign, more competitive players, these economics will change. But you'll not be in the short range. It will take a long time for us to see the point where the economics of pricing are, I don't know, it'll be based on fewer (inaudible) players. I think the local players and the less competitive players continues to play a big hole on the price as far as the floor price is concerned.

Operator

Rene Kleyweg, Renaissance.

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Q - Rene Kleyweg {BIO 16569285 <GO>}

One, in terms of the internal review of the Simandou project, if you could give us an update on when we can expect, or when you expect to complete that internally. Is that also tied into Vale? Then a couple of things on Salobo, just comparing Sossego with Salobo. Is Salobo obviously -- is Solsago obviously not delivering the results that you'd hoped for? If you could just provide some clarification in terms of why the (inaudible) Salobo is significantly better?

Then, if I may, just opening up the potential for you to talk a little bit about the blue sky in terms of further expansion in the northern system that Martins was suggesting. Presumably that takes place around (inaudible). And are we back to sort of low capital intensity projects because the infrastructure builds out has taken place? And I know that's beyond the current planning, but if we're looking beyond on a 5, 10 year view, what does that longer term CapEx profile look like? Thank you.

A - Murilo Ferreira {BIO 1921488 <GO>}

Please, Peter, could you spend some few words about Salobo?

A - Peter Poppinga {BIO 17245689 <GO>}

So Salobo is in the beginning of the startup. We are now since June ramping up with (inaudible). We have so far produced some small (inaudible) of concentrate. This is not unusual. It is just the transition now from the commissioning and the ramp-up.

Both projects, Sossego and Salobo are very similar in terms of construct, in terms of flotation stages and in terms of there is some small difference in (inaudible). But comparing almost Salobo is a copy/paste of Sossego.

So what we have is that there is a -- rather was a CapEx adjustment in Salobo. And Salobo I was adjusted to 2.5 billion and Salobo II, which is also 100,000 tons concentrate capacity, was adjusted to 1.4 billion. But in the next months we will see a robust ramp-up from these operations because there is really no -- there is a very similar situation like we had in Sossego. Thank you.

A - Murilo Ferreira {BIO 1921488 <GO>}

But for sure the new projects in the north of Brazil, we have contributes to improve the average of our quality in iron ore output. I think that we reduced too the operational costs and mainly to create a new platform for low CapEx in our future brownfields. I think that it's very fortunate for us these projects in this regard. It can be the milestone regarding the logistics system as well. Tito, any further comment?

A - Tito Martins {BIO 3374920 <GO>}

No. The first question was about Simandou. You want to make any comment about that?

A - Murilo Ferreira {BIO 1921488 <GO>}

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Simandou? I think that we did not receive any new message from the government of Guinea regarding the new legislation, the new mine code. We believe that we needed to reserve the -- everything regarding the shareholders is key. The (inaudible), the (inaudible), the ownership of the (inaudible) before going to the board of Vale and receiving some sign regarding the future of the project. Unfortunately we stay as it was in the end of the First Quarter of the year. We know that it's a very important issue in the political contest there. It must be addressed carefully by the government but in the end we don't have any answer in this regard. Thank you very much, Rene.

Operator

At this time we are reconnecting the speakers' line. Marcos Assumpcao, Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

First question is to Murilo regarding CapEx inflation risk for new projects. We are starting to see some lower pressure on the (inaudible) prices as some projects are actually being cancelled or even postponed. So do you already see this happening for Vale as well? Some reduction on CapEx risk? And if this could reduce the risk of revising CapEx upwards for a new project like (inaudible)?

And the second question is for Martins. If he could comment a little bit about the iron ore market in Brazil in the domestic market. If he believes that there could be a small catch up in terms of prices in the domestic market for the coming years, mainly just for 2013 and probably 2014, when there could be a little bit of excess capacity in terms of port with the start up of new competitors. Thank you.

A - Murilo Ferreira {BIO 1921488 <GO>}

Marcos, in fact right up there some years I think CapEx inflation and depreciation of the Brazilian real against the US dollars. I think now because of the weakness of the market that you are seeing for sure we have our feeling that you see some benefit in terms of the CapEx. But we needed to see the next coming months if this feeling is right or wrong.

So I believe that it can be good news in terms of the implementation of the S11D, but we needed to wait a little bit in order to give you some level of certainty in this regard.

Then Martins.

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

As far as Brazilian and domestic markets, well I don't know, is concerned. Our view is this market is becoming not, I don't know, market anymore but it's still market. So if you want to sell iron ore in the next market, you have to produce a few because all this (inaudible) in Brazil are vertical integrating their operations. And what you sell in the (inaudible) market today if you look carefully is indirect exports. So (inaudible) totally export (inaudible). The iron ore resale to CFA and also to CSD. We get part of it exported also.

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So Brazilian market for iron ore is (inaudible) disappearing and becoming a steel market. For we do not see any change on it and that's the reason we are supporting some ventures to produce still in Brazil because that way we think that we can keep some market share in this market. I think Brazil has a lot of iron ore. The availability of iron ore is big, although not high quality anymore in some areas. But for vertical integrated concept, it's rather good.

So I think the challenge to compete in the few markets for local steel makers will drive them more and more to vertical integration. And so I think that is my view about it.

Operator

Rodrigo Barros, Deutsche Bank.

Q - Rodrigo Barros {BIO 5851294 <GO>}

My first question is regarding the strategy to acquire EBN, which runs 51% of the southern system and the raising of (inaudible). If you can comment a little bit on this strategy and if there would be any interest in acquiring more participation in iron ore assets.

And my second question is regarding the (Carajas Serra Sul) project. One question that some clients ask of us is whether the existence of caves could increase costs or oppose any sort of implementation challenge to the project. So (inaudible) tell you a bit on how the caves impact, let's say, the Carajas Serra Sul products or if it does impact at all, that would be great. Thank you very much.

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

As far as the acquisition of a small share of (inaudible) and also the living mechanism for (inaudible), it's part of our long-term strategy of consolidating our assets. With every (inaudible) is more participation from Japanese players and former NDBR. And every time that we have opportunities to buy back, we are buying these shares. So this is not the biggest -- it's not the biggest problem for us to keep the participation, but we believe in long-term makes sense for us to do it.

And as far as the (inaudible), is better to operate under this system because it gives us much more flexibility to use different plants to reduce operational costs. So until recently all these (inaudible) were independent company and each one had his own storage, his own manners meant that he's on infrastructure.

Now under this system, we have much more flexibility to operate in the (inaudible) plants to shoot them down or to keep it working full capacity. And things that in the past was difficult to agree to, we're always ready to negotiate with the partners (inaudible). I think most movement are on our way to consolidate our assets in iron ore and also include the operation, reduce costs and make it more flexible.

As far as the Carajas, I'll have Vania will explain a little bit.

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A - Vania Somavilla {BIO 15867577 <GO>}

The existing (inaudible) allow us to compensate the tables. And so it is we -- I cannot say it (inaudible). But for the next (inaudible) relevant case, we cannot compensate. But there are just a few.

For the higher and medium relevance case, we can compensate. So all our business under an association just to negotiate with all the environmental organizations how we can compensate this. But it's just a matter of how because the legislation already allows us the compensation. So it's not a big issue and we cannot (inaudible) for sure.

A - Murilo Ferreira {BIO 1921488 <GO>}

Thank you.

Operator

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

A - Murilo Ferreira {BIO 1921488 <GO>}

Thank you very much for your time. The most important to leave a message that we have to be continue completely focused and the discipline in capital allocation, looking to increase the volume, to be more efficient use of our reserves and knowing very well that it's an important new platform for the low CapEx costs that was (inaudible) today we are building in S11D in a more (inaudible) ending (inaudible). I think that that's very important to see these three projects as a new platform for low cost and the future for excellent brownfield projects. Thank you very much and again to express our gratitude to Tito and welcome to Luciano Siani. Thank you.

Operator

That does conclude Vale's Second Quarter 2012 results conference call for today. Thank you very much for your participation. You may now disconnect.

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