

Q1 2012 Earnings Call

Company Participants

- Eduardo Bartolomeo, Executive Officer
- Galib Chaim, Executive Officer
- Murilo Ferreira, President and CEO
- Tito Martins, CFO

Other Participants

- Alex Hacking, Analyst
- Carlos de Alba, Analyst
- Felipe Hirai, Analyst
- Ivan Westing, Analyst
- Jon Brandt, Analyst
- Leonardo Correa, Analyst
- Marcos Assumpcao, Analyst
- Renato Antunes, Analyst
- Rodolfo de Angele, Analyst
- Rodrigo Barros, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to Vale's conference call to discuss First Quarter '12 results. If you do not have a copy of the relevant press release, it is available at the Company's website at www.vale.com at the Investors link. At this time, all participants are in a listen only mode. Later, we will conduct a question and answer session, and instructions will be given at that time. (Operator Instructions).

As a reminder, this conference is being recorded. To access the replay, please dial 55.11.4688.6312, access code 2672295#. The file will also be available at the Company's website at www.vale.com at the Investors section.

This conference call and the slide presentation are being transmitted via Internet as well. You can access the webcast by logging on the Company's website at the section of Investors Relations, 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, Mr. Jose Carlos Martins, Executive Officer of Ferrous & Strategy, Mr. Eduardo Bartolomeo, 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. First, Mr. Murilo Ferreira will proceed with his 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, everybody. Vale's performance for the First Quarter 2012 shows our big decrease in our profitability and cash flow. For sure, in the First Quarter is the weakest operational and financial performance in the year. But especially 2012 is true was we had strong rainfall season with a big effect in our revenues and costs. And combining with the reduction of iron ore price and pellet price hurts our profitability.

The rainy season is past. We believe that now we can go ahead with our iron ore shipments to increase as we did in March. And March was very interesting if you compare with the first and the second month of the year. We shipped more material in March than the first two months of the year.

And we are very confident of delivery our volumes in accordance with our plans. We believe that the global markets for minerals and metals will continue very tight and we are well prepared to continue looking for opportunities and a value creation for our shareholders.

A look in our portfolio of assets, we note that now we have new projects going ahead, like Moatize, Oman, Onca Puma, Tres Valles, many projects with the value creation. What we have to announce is that we did the first shipment in New Caledonia project, which is very good. We did it regardless of the problems that we had in the past. Now you are working with seven columns and we believe that until the end of August we will be able to work with the whole plant, which means 21 columns.

Salobo, copper project in the north of Brazil with capacity of 100,000 tons of copper in concentrate, is doing well and expect -- we are forecasting to have the ramp up in the next coming weeks and expansion of Salobo for the end of 2013.

We have already signed a leasing contract for the continuation of our potash mining at Taquari-Vassouras in the northeast of Brazil. And looking for the Carnalita project with a capacity of 1.2 million tons per year. It's a very important step in our strategy for potash.

I believe that we continue very positive about the emerging economies, mainly China. As you will know, the First Quarter of the year we note some improvement and in the first two weeks of April, the numbers that you have seen and still are very good.

But the most important is to hear you. And you are here for questions and answers. Thank you very much.

Questions And Answers

Operator

(Operator Instructions) Felipe Hirai, Merrill Lynch.

Q - Felipe Hirai {BIO 15071781 <GO>}

I have two questions. So the first one is related to the execution of your CapEx in 2012. So we saw that you spent close to -- a little bit higher than \$3 billion in the First Quarter. So do you expect to see a significant acceleration of this CapEx throughout the year so that it can still keep the budget of \$21 billion?

The second question is related to the grades that we saw in your 20-F. It did decline a little bit from last year. So could you just comment what could be the (inaudible) impact in costs or what you expect to see in terms of grades over the following years? Thank you.

A - Galib Chaim {BIO 17562473 <GO>}

(inaudible) speaking about our CapEx progress it is going very well. We had some problems with the rainfall in the beginning of this year. But despite everything, we are doing -- we have a good performance in our project here in Brazil. I'm talking about the -- all the iron ore projects, including the logistic capacity, the offshore port in San Luis and all the (inaudible) for iron ore. We expect start our commissioning in the second half of this year. And the offshore port will be ready in December of this year adding something around 60 million tons of capacity in our logistic for exportation.

And in southeast is also the mining projects, iron ore mining projects is going very well. And as Murilo said about the corporate project Salobo, we were just starting the startup and the ramp up will be finished at the end of this month, starting the production -- normal production next month.

About Mozambique project, it's -- we already started the construction. We have many companies already placed on that country working very well, even in Malau as well we have a big company starting the right of way construction. And also in Malaysia we have our distribution center. It's progressing very well. So we don't have any problem up to now and we expect at the end of this year have all the projects in good performance. And we expect to deliver everything according to our plan. Thank you.

A - Tito Martins {BIO 3374920 <GO>}

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If I may add, this is Tito speaking. Actually when you compare with execution of the CapEx in the First Quarter of 2012 with the First Quarter of 2011, actually we had a performance of 40% above on what was performed last year. Which means that based on the approach that we assumed last year, actually we've been much better in terms of performance.

And another additional information is based on what we've seen so far, we may actually go a little bit above what has been planned so far for the execution for CapEx in 2012. We are not -- we cannot give the assurance now about that, but clearly seems that we will be able to perform what was originally planned.

In terms of the question on the grade, I'm assuming that you are mentioning the difference that we've seen in the 20-F in between what we had in 2010 and 2011. Because we have some additional reserves in our 20-F, clearly there was a slight reduction in the grades. But in the long run, we are not foreseeing any possibility at all to see a drop, a major drop in the quality of our production.

Actually, if everything goes as we expect, I mean with the new project in Carajas area we will see actual improvement in the quality of the production and the reserves that we'll be exploring. Thank you.

Operator

Carlos de Alba, Morgan Stanley.

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

The first one is related to the volumes of iron ore. It was mentioned in the press release that the accumulation of inventories was part of the explanation for the lower shipments in Q1 versus Q1 of last year, which was also affected by rain. Can you comment on or can you make sure the amount of tonnage that went into inventory that going forward might be available for sale so that we can fine tune our expectations?

And the second aspect, the steel and iron ore, is related to prices. The part one of this question is related to the Vale premium that was very strong in the quarter despite the fact that the premium on finds or the amount of dollars per each percentage of iron ore content in iron ore finds declined. This seems to be a little bit of a discrepancy, so any comments would be appreciated.

And also, on prices, part B of this question is why you didn't mention humidity in the iron ore in Carajas and the southern system as an impact for the lower realized prices? I mean I believe that it rained more this year (technical difficulty) last year and last year that was one of the factors explained for the weak prices in Q1 but we didn't see that comment in this press release.

And also, I went back and looked at the bunker fuel prices and it seems that we had also a spike in Q1 of last year similar to what we did -- we saw in the First Quarter of 2012. And

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yet, last year it was not used as an explanation for the weaker realized prices. So if you can help me understand a little bit better all these factors, I would appreciate it. Thank you.

A - Murilo Ferreira {BIO 1921488 <GO>}

It's a lot of questions. Let's start with the first one. We are changing our business model, okay? Vale was used to sell iron ore on an FOB basis. So all the ore was sold from the port. Now we are moving to have our distribution centers, we have ships. So we are changing a little bit.

So this quarter, we have around 2 million tons of ore outside our ports already on their way to the market, okay? And probably this number will increase as time goes by.

But we don't expect to increase our total volume of inventories. Our idea is to move parts of the inventories and having our inbound systems from mine into the port and move them outbound to our distribution centers and to our ships that will be sailing to Asia.

So and we are kind of postponing sales and we are standing more close to the market because as you know, we are far from the market and this brings some penalties for us when you sell directly from Brazil. We expect to get better price realization as we move our inventories closer to the customers.

So we are in this process of moving it, but I wouldn't consider it as impacting our sales because any kind of inventories that we can have may be operational inventories. It will be part of our sales. But for the time being, we don't have clearly how much inventories will be needed.

Today we have around 2 million tons and if you compare against last quarter it increased by 1 million tons. Okay? But actually our idea is not to increase the total inventories of the Company's, only moving from inbound to outbound.

Another question you raised was about price. We have many factors impacting our average price, including the change in the prices. We have some carryover effects. I think Fourth Quarter of last year and First Quarter of this year was a transition period. We have many adjustments that we have to make in order to accommodate to the new situation.

One of the points that impacted was bunker because for the customers that buy FOB, we give them a freight discount based on CNF price less freight to get the FOB price because they have their own ships. And we are giving this freight rebate based on long-term contracts. And the long-term contracts are adjusted by whatever the bunker oil is the price. So every time the bunker moves, the freight that we discount from CNF price is bigger.

Another impact, a little bit of moisture because of the reference price is dry. But the average price you see in our report is wet, so you have to adjust these prices and in this quarter was a little bit higher. The moisture around the 0.5% increase in the moisture. So

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that has to be adjusted also. So it's a much all over effect that have been impacting the average price.

Another point is that we are selling more ore based on tender. It's not a big quantity, but as time goes by tends to increase. And tender are the market price. We are not talking about the platts or any reference price. It's the price you get from the tender. And all the points are included. CNF is -- so this tender is based on CNF. It's based on the quality of the ore, so this (VRU) price is not a factor individually. It is the price already. So this is a part of our sales based on this also.

So it's very difficult to give all the explanation about the price. If you look at the reference price today, you'll get something around \$118 based on if you factor back the reference price of this First Quarter down to FOB price to get some -- see equivalence, \$118, taking out the moisture, taking out all the impacts on quality.

But we also have part of the price is so that market price. So we have some carryover effects that impact also this quarter. So it's a bunch of other issues and what I believe is that from now on after this transition we're going to have a much stable reference. And also, getting out of the rainy season, moisture you decrease and even the ore quality it will increase a little bit. So those are the points that affected the price in this first half.

As far as pellets premium, pellets is suffering, well slightly because the lump or premium was reduced a lot and pellets sometimes compete with lump. So this was impacted negatively. On the other hand, we have big volumes of (deerite) pellets selling to a different market, which competes more with scrap, where we are able to get a better price.

Pellets is produced, okay? So you get -- even in case of deerite pellets, you have around a 2% or 3% better iron ore content. So then part of the premium is in reality higher iron ore content. But on (inaudible) I would give you an average of pellets premium around \$30 per ton. We intended to have a more stable premium policy as far as ferris is concerned in order to have more stable sales, because we are used to moving the pellets price according to the market and that could impact the volume. So from now on our idea is to keep the pellets premium more stable. And only charge above \$30, the iron ore content, that could be in the pellets.

So that's the situation as far as pellets are concerned. But on the other hand, there is stronger competition for lump and lump is now selling almost at the same price as (cinder). So it's a big change going on in the market.

Operator

Alex Hacking, Citibank.

Q - Alex Hacking {BIO 6599419 <GO>}

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My question relates to Vale's cash flow and capital structure. You mentioned in an earlier response that you're committed to spend the full \$21 billion on CapEx this year. In fact even it could be higher. And you have \$6 billion of dividends to pay. If we look at the First Quarter, Vale generated only \$3 billion of operating cash flow. Obviously the operating cash flow is going to improve in future quarters, but it still seems like there's going to be a mismatch here in the amount of cash coming in and out. So I guess I have a couple of questions.

Firstly, how much extra net debt does Vale expect to have this year to pay for the projects? Then secondly, what amount of leverage is Vale comfortable with at this point in the iron ore cycle? Thank you.

A - Murilo Ferreira {BIO 1921488 <GO>}

In terms of cash flow, based on the budget we have for the 2012, usually what we've got is when we make the announcement of the minimum dividends we will be paying, (inaudible) will follow a position where we assume that the full CapEx will be executed and in a very conservative basis how much we will be generating. As was said before, the First Quarter was very unusual, let's say. But according to the numbers we have today, it should not be affecting the performance of the full cash flow.

In terms of the levels of debt we are planning to have, I cannot provide with the final number, but what I can tell you, we do have very strict rules about the way we want to see the ratios and our balance sheet.

So we want to keep at least the same levels we have, the rating levels we have today and actually we are looking for actually improve them a little bit. So what I can tell you is we are in a very comfortable position to say that the leverage should not be much higher than what we saw last year. And based on what we are forecasting for performance, we feel comfortable that not only the -- if there is an execution to CapEx, it should be well covered by the cash flow that is being generated and the leverage that will be raised along the year.

In terms of level of leverage, usually what we do is we do know we look -- we pay attention to two main ratios. The first is our capacity to pay the debt in accordance with the EBITDA generation, EBITDA. And also the level of debt in terms of the debt service with the cash generation. We've been running around one by one in this level. Thank you.

Operator

Jon Brandt, HSBC.

Q - Jon Brandt {BIO 5506998 <GO>}

Two questions. First, one of the things that struck me in your P&L was the low effective tax rate. I'm just wondering if that's something that we should expect to continue, the effective tax rate at such low levels or if we should see those increasing throughout the year?

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The second question was related to the Rio Colorado project in Argentina. Given the issues that YPF is having, are you taking another look at that project? Have there been any changes or potential changes coming, given the environment in Argentina? Thank you.

A - Galib Chaim {BIO 17562473 <GO>}

In terms of tax rate, effective tax rate, I should tell you we have had along the years effective tax rate around 20%. If you ask me today do we expect to see this going up? Probably will be. Why is that? Because clearly we see a -- from everywhere where we are operating today a position from the tax authorities in action trying to collect more taxes from mining companies. So I could assume that in the medium long run we will see effective tax rates in most of the mining companies going up.

Can I forecast that? No. I don't foresee anything today. We know that it's going to be higher than that, but we don't have a number that we should be working with.

In the short term, what I say is we've been very conservative in assuming that all the numbers we are collecting providing are in accordance with the rules where we are operating. Don't you want to add something, Murilo?

A - Murilo Ferreira {BIO 1921488 <GO>}

About the portage, Rio Colorado in Argentina. For sure we are very concerned about the political situation and the whole environment in Argentina. And we are doing a big analysis about the institutional side of the project. And considering the economics as well, the inflation, the exchange rate, the profitability of the project and the merit of the project as itself. I believe that we will do this analysis in April and the next two weeks of May. And we are assessing all the (inaudible) of the project to present to the Board. It's very early to say what could be in the end our recommendations. But for sure, we are very concerned.

Operator

Rodrigo Barros, Deutsche Bank.

Q - Rodrigo Barros {BIO 5851294 <GO>}

My two questions are first in terms of reserves. We saw that Vale's reserves showed a decrease in the iron ore content from 58.9% to 57.4%. So I wonder if you could open what is basic content in other types of products that sell? I mean the southern systems, (inaudible) system, Carajas and pellets to help us for cash in case maybe this is now, let's say 1% less than last year. Just want to double-check these.

And my second question is regarding iron ore prices. With what calculation a year where we compare iron ore and coal to scrap prices? And in our calculations this is very close to the historical level. I wonder if you do the same calculation and in case you do, if you get the same conclusion? Thank you very much.

A - Murilo Ferreira {BIO 1921488 <GO>}

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As far as the iron ore reserves is concerned, we have a stable situation as far as our reserves is concerned. But as we produce more and as long as we don't open new mines, we have some deteriorations in the ore we sell. So every year we are going down around 0.5% in iron ore content, based on the present mines that we are operating.

We expect when we open new mines in the north system to increase our average content and it's part of our whole logistic strategy. We are preparing ourselves to blend more Carajas ore with the southern system ore. Southern system ore is becoming less and less iron ore content. But logistically speaking, we don't have the conditions to blend both today. So our logistic strategy is based on the increasing this possibility of blending more from Carajas with the southern system. This is the base of our strategy looking long term to keep our average quality by producing more and more ore in the north and blending with existing capacity we have in the south.

We don't believe long term Vale will decrease its average quality. But of the country we believe that as soon as we start to operate in the north system with the south range project, we are going to increase our average. But at this point in time, we are facing I think one of the top (inaudible) in our history as far as iron ore content is concerned because we are operating mainly in mines that were opened, some of them 20 years ago, 30 years ago. So the new mines we will increase and the possibility to blend we will increase our average content. So we are not concerned about the iron ore content quality looking forward.

Also, the quantity of our resources, also we are not concerned because what we do, we drill according to our need. So you don't drill all the time. If you have 30, 40 years reserves, you don't continue drilling. So if we needed to drill, we are going to get more. So it's our policy to have (inaudible) 20, 30 years of present production as total reserves.

The point of price, I think it's creating a lot of questions and I understand because as I explained before, we made a lot of changes during this period, okay? We had a very stable system until Third Quarter of 2011 and suddenly we have to change because of the market's conditions. And we are not -- we don't have yet a stable situation as far as price is concerned.

We are used to having only one price system, and probably now we have more than 10, all of them based on market prices, all of them based in reference price from the market, but using different average. Some customers monthly, other customers quarterly, other customers by daily price. We have tenders that the price is established by the market by offers. So there is a lot of different systems now in price.

And this makes it very difficult to establish exactly what any kind of -- what was impact of moisture, what in impact of iron ore content, what is impact of silica alumina and other components of the iron ore price? So we really believe that in the Second Quarter of this year we are going to have a more stable situation and reference will be, I would say, much more close to what you see in the market.

If you look back and use the same criteria, and you exclude all of those effects that I told you, our price would have been something around \$118 against \$109 that we really have. But as I told you before, you have a lot of impacts of adjustments, carryovers effect, that create this distortion. I think from the Second Quarter on we are going to have a more clear picture about it.

Operator

Marcos Assumpcao, Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

My first question is also regarding prices to explore a little bit with more (sense). You mentioned in the previous conference call that some volumes are sold on the price of the day, which is actually different than the (plus) reference. I'd like to understand what percentage of your volumes are sold under this mechanism? And what level of price are you selling those volumes?

And the second question regarding if Murilo has an update on the discussions regarding the new mining hold in Brazil, mainly on mining (rights) is as your participation. And if you believe that this proposal will be taken to the congress this year?

A - Murilo Ferreira {BIO 1921488 <GO>}

As far as price is concerned, we are selling today around 10% to 15% of our sales on tenders, okay? As you know, platts reference is the 62 iron ore, which is not our policy. So this reference is mainly used for Australian ore, not for Brazilian ore.

So the tender we make is a specific price for our ore. We offer our 64%, 65% ex-silica, ex-alumina and we get a final price. That's what market offers to us. So sometimes this price is higher than the reference when you factor all the parts of the price system being based on 62% plus the VIU and all of the stuff.

But sometimes you are not able to see how the market is paying for this different companies. It's really market price and we are selling these tenders based on ships that you understand the ships are closer to the customers. Probably in the same moment that Australians are selling so we don't have this count based on time. And it's completely a different system that probably in the future will create a new index because these tenders will be captured for the market and will be a part of an index that probably will be created.

You know that today there will be two price platforms being developed. One by China, another in Singapore. And those platforms will also make a better price reference in the future. So we are, as I told you before, in a transition period and we have not clearly yet seen any kind of a stable situation to give you better information about it.

I think that as I already told in the Second Quarter we are going to have a much better point in time to give you a more clear picture about what's going on. But for sure, there is

a lot of things going on in this moment.

Your second question, I think that you are considering to see the new mining law going to the congress in the next 60 days. For sure it's not the easiest to see the whole process completed this year because we have the election process in Brazil. And for sure some of the people working, the congress will move to the cities in order to help the process.

Regarding the rights or the special participation, we don't have any forecast or any news. Thank you very much.

Operator

Leonardo Correa, Barclays.

Q - Leonardo Correa {BIO 16441222 <GO>}

I have a couple of questions, which have still not been addressed in both of the calls. The first one is related to the potential tax liability regarding ICMS charges in Minas Gerais. I mean this appeared in your recent 20-F and if I'm not mistaken, it relates to pellet feed transfers from Minas Gerais to other regions. So I just wanted to understand this issue a bit more if you can clarify exactly what is being contested here and potentially the magnitude of what is at stake? That's my first question.

The second one is for Tito Martins regarding the nickel market. I mean I just wanted to get your view of the potential implications on the bans of laterite exports from Indonesia and how this can impact the nickel pig iron market in China? Those are the two questions. Thank you very much.

A - Murilo Ferreira {BIO 1921488 <GO>}

First question, tax liability ICMS in Minas state. This is an issue that has been discussed with the tax authority in Minas for almost a decade already. It's not news for us. The basis for the discussion is that the transfer of the pellet feeds we perform from Minas to the (inaudible) state. Usually what they want to see us to do is to calculate the ICMS based on the price of the iron ore. Since we are transferring the pellet feeds to our operations in the (inaudible) state, we transfer based on the cost of the iron ore.

They've tried before. They tried to (fine) us before. It has been a challenge by us along the land some years ago. And they are doing this again. Clearly it's a -- we've seen these in other places, states, some countries are -- they've been very eager to increase incomes from mining operations. And we do not consider this a big challenge for us at all because we have faced this before. In terms of the Vale, as I mentioned, it's BRL1.2 billion they are charging us right now.

Nickel, banned in Indonesia. I should say that we are very confident that actually the ban itself can help us a lot. Why is that? We produce nickel max from Indonesia, which is considered an intermediary product. Why are the Indonesian authorities are actually

creating this ban? Because they want to see some verticalization to production in Indonesia in all kinds of minerals.

So what happened is if the action may enforce this ban, the volumes that will be exported or the volumes that will be exported from Indonesia to China in order to have -- for the Chinese to produce more nickel to the island should drop a lot.

The big question is if they will be actually able to enforce it because of the number of islands Indonesia has. Indonesia is a country with 20,000 islands. It's a huge country, very difficult to control. So you do have a lot of illegal trading happening everywhere and illegal mining due to this illegal trading. But the ban itself, it's positive for the benefit of the market. I mean for those actually who pay taxes and have to produce legally.

So if it's enforceable, we should see in the next few years actually a drop in the nickel pig iron production. And on the other hand, we should see benefits for the nickel producers.

A - Tito Martins {BIO 3374920 <GO>}

And just to add one element, in terms of the ban, we forecasted the ban and mid of 2014. And regarding our tax, 25% of tax is to start in the beginning of May. Thank you very much.

Operator

Rodolfo de Angele, JPMorgan.

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

Just two questions. The first a follow-up on the CapEx. You mentioned on this call and the other one as well that you may -- you expect to perform 100% and may even go above the budget. My question is what would be the driver there? Is it your increasing the scope of the CapEx? Or is this related to any cost inflation on the CapEx?

And my second question is on the supply side of the industry, we've been discussing specifically on Vale for quite a while how challenging it is and had been to increase capacity and also the issue of impoverishment of reserves. Could you comment on these two aspects and for the industry as a whole, what are you seeing? Are we seeing more juniors becoming a reality or just an overall picture on the supply side please? Thank you.

A - Murilo Ferreira {BIO 1921488 <GO>}

About the CapEx performance and implementation, we are working in, let's say in a better organization. We are planning according to our resource we have here in Brazil, in many other countries. And that's the reason we believe that we are performing much better than we performed last year. And of course we have good companies supporting our strategy, long-term agreements. We have (technical difficulty).

Operator

Ladies and gentlemen. please hold. We are waiting for the reconnection of the moderator.

A - Murilo Ferreira {BIO 1921488 <GO>}

So just concluding about our CapEx, we hope that we can perform according to our plan. And about the budget, of course we are following what was gathered for this year. And perhaps we can add more budget according to more projects that we are just starting to implement.

I don't see that any big problem for having more budget because it's going in a better situation that we had last year.

A - Galib Chaim {BIO 17562473 <GO>}

Just to clarify your question, we may see some change in scope, but it's related to the additional investments related to the projects that were planned before. So this is one thing. And we may see some small amounts related to inflation. Most of it actually will be additions to the project that have been planned. Or I mean the performance is really being well, performing well, so we may see the plan being enhanced instead of what it was planned before because of the performance.

A - Murilo Ferreira {BIO 1921488 <GO>}

Yes, for sure what we are doing right now is to work just with projects that we have in hand, the permits, the environment permits and all the authorizations. Then we are very confident about these efficiencies of the Company, the efficiency of our suppliers as (Carlos) said, our long-term agreements is giving us much more flexibility in our discussion with contractors. And we are very confident that this process is flying well. Thank you very much.

A - Tito Martins {BIO 3374920 <GO>}

And the last question about the quality of our ore. Actually we don't have any problems in the resources we have. What we are facing today is because we are depleting the existing mines. So and as you go forward, the quality decreases. But as we are starting opening up new mines, the quality will come back to the same level.

If you look at our resources and you see our reserves, you see this 49% and 50-some percent. Those are (inaudible). You don't sell (inaudible) in the way they are. You needed to concentrate them. And after concentration, their quality goes to 65%, 67%, in some cases even higher. So you add additional costs when you concentrate it, \$3, \$4 per ton additionally, but the quality is comparable with the former Vale quality. So for us today, the big issue is to open up new mines and to start producing from those reserves the same quality of ore we always had.

Operator

Renato Antunes, Flow.

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Q - Renato Antunes {BIO 17439917 <GO>}

My question is related to the domestic iron ore market in Brazil. I mean you guys purchased some material from (inaudible), mainly at the south and (southeastern this season). I just wanted to hear what are those views on how this should behave over the next years. I mean we hear a lot of other miners talking about potentially increased purchase from (inaudible) over the next year, so I just want to see how Vale should behave over the next two or three years. That's the first question.

And the second question is on fertilizers. I mean you just recently renewed the leasing in Taquari-Vassouras I just wanted to get a more broad comment, I mean on what are the main growth alternatives here this business unit from a long-term perspective? And I mean what should we expect as the main steps, the main landmarks over the next years?

A - Murilo Ferreira {BIO 1921488 <GO>}

So as far as the -- I don't know that we buy domestically. Our long-term plan is not to buy iron ore, because we believe as new logistic solutions are offered to the market, these people you prefer sell this ore directly. So we are not considering this source of ore in the long term. Our long-term plan is based on our own capacity.

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Eduardo Bartolomeo speaking about fertilizers. The main -- as Murilo mentioned in the beginning, we are very happy to sign the agreement with Petrobras this week that allowed us to implement the project Carnalita. So the three main milestones we would separate phosphate from potash, but from potash I would say it's (inaudible) as we already to talked during the meeting, Carnalita and (inaudible). So those are the three main projects that we can foresee in the future. Of course, bringing our production from 600,000 tons to 7 million tons, so it's bullish.

And we do believe that because as already mentioned here, Brazil is a huge consumer of fertilizers and our participation here in Brazil is only 10%. So those three projects are sound, they are strong, they are cost wise very well positioned, so we believe that they are coming on line with the pace that we forecast for the three of them, mainly Carnalita and (inaudible). For (inaudible) too.

For phosphate, the growth is more limited due to Brazilian conditions. And (inaudible) is the next, how can I say, milestone that we're going to implement as soon as we get the approval from the Board.

Operator

Ivan Westing, Credit Suisse.

Q - Ivan Westing

I have two questions related to increase in volumes of iron ore. The first one refers to (spoken in foreign language). You say that you expect no one (inaudible) buy of \$15

million. I would like to ask when you expect to achieve that amount and what are your plans after that?

And the second question refers to a Apollo, which used to be one of your main projects in the pipeline, \$24 million of current projects. And if you expect to develop it. Thank you very much.

A - Murilo Ferreira {BIO 1921488 <GO>}

About the Apollo project, we continue our discussion with the government of Minas Gerais. It's a challenging project. The project is near by Bella (inaudible). We noticed that the government, they are very concerned about the impact of the environment and as Vale is, but we needed to reach a consensus. So what we are trying to do is to reach a consensus regarding this project.

It's a bit expensive because we must interfere in some (larger) issues as well. And but we are not in a point to present to the Board. I consider that it will take some time. The best forecast that we can have in our hands before the second half of the year to have all the discussions with the government of Minas Gerais finalized.

Regarding the (inaudible), I think that it's very important to point out that we -- now we have a new mining law in (inaudible). We know that the government, they have a committee in order to analyze all the permits, all the concessions and to open discussion with each Company. We know as well that we have new election to the congress in July. And I believe that the president (inaudible) will discuss companies just in the end of this process.

Then it will be very premature in our side to comment about the budget, about the speed of the project, about volumes. I think that we must consider it, because as you know, the royalty issue as they have already decided with the linkage with the fuel, it will be a big burden over the (inaudible). Then it's what we're having. Okay?

We have already finalized our session. I would like to say thank you very much for your attention. And to repeat that we continue very confident about the economy, mainly emerging economies. And we think that we have, and we are doing our best in order to have our projects doing well with the implementation in accordance with our agenda. And looking to bring more transparency for all the investors. Thank you very much.

Operator

Thank you. That does conclude Vale's First Quarter 2012 results conference call for today. Thank you very much for your participation and have a good afternoon.

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