## Company Participants

- Eduardo Bartolomeo, Executive Officer
- Guilherme Cavalcanti, CFO
- Jose Carlos Martins, Executive Officer

## Other Participants

- Carlos de Alba, Analyst
- Felipe Hirai, Analyst
- John Tumazos, Analyst
- Marcos Assumpcao, Analyst
- Mike Elzahr, Analyst
- Paul Massoud, Analyst
- Renato Antunes, Analyst
- Terence Ortslan, Analyst
- Vincent Lepine, Analyst

## Presentation

### Operator

Ladies and gentlemen, thank you for standing by and welcome to Vale's conference call to discuss First 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 the Investors link.

(Operator Instructions). As a reminder, this conference is being recorded. To access a replay, please dial 55-11-4688-6312, access code 7415706. The file will also be available at the Company's website at www.vale.com at the Investors section.

This conference call and the slide presentation are being transmitted via Internet, as well. You can access the webcast by logging on to the Company's website at www.vale.com, Investors section, or at www.brnewswire.com.br.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments, as a result of macroeconomic conditions, market risks and other factors.

With us today are Mr. Guilherme Cavalcanti, Chief Financial Officer; Mr. Eduardo Bartolomeo, Executive Officer of Integrated Operations; and Mr. Jose Carlos Martins, Executive Officer of Marketing, Sales and Strategy.

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

### Guilherme Cavalcanti {BIO 2181205 <GO>}

Good morning, everyone, and thank you very much for attending this conference. The agenda today will talk about another outstanding quarter and the continued growth ahead. Beginning on page 5, we see that despite very adverse weather conditions we had a good operational performance.

Comparing the First Quarter 2011 with the First Quarter 2010, we see an increase in production of iron ore of 3.9%, an increase in pellet production of 26.5%, increase of manganese of 25.5%, increase in ferroalloys of 3.5%, 79.7% in nickel, 107.9% in copper and 0.2% increase in coal, despite the heavy rains in Australia.

This led to an outstanding financial performance and the best First Quarter ever with an operating income of $13.5 billion and adjusted earnings before interest and taxes of $6.5 billion and adjusted EBIT margin of 48.9%, even higher than last quarter, an adjusted EBITDA of $7.7 billion and a record net earnings of $6.8 billion.

We have been dealing with seasonal and cyclical cost pressures. The main cost pressures, when you compared First Quarter 2011 with the last quarter of 2010 we see $93 million increase in maintenance materials, which is seasonal, when generally we take advantage of the stoppage because of the rains to increase the maintenance activities.

We have a $79 million increase in fuel and gases due to the oil prices.

We have a $78 million in purchases of products, which are purchases of nickel and iron ore from third parties.

However, in addition to the price increases, cost reduction was important to adjusted EBITDA performance. Building up the EBITDA from the last quarter, we had $1.5 billion to gain on the sale of the aluminum assets. We had a $600 million gain due to the price increase and we have a $300 million savings in SG&A, costs of products sold and in other operating expenses. We had a negative impact on research and development of $41 million. We have an impact of exchange rate appreciation of $65 million, an impact, negative impact in dividends and, as explained before due to weather conditions, a lower volume impacting in $1.6 billion of EBITDA and (technical difficulty) $9.2 billion of the EBITDA of First Quarter 2011.

Our cash generation is already well above the pre-crisis peak. The rolling 12 months EBITDA reached $32 billion in the First Quarter 2011. This powerful cash flows keep a healthy balance sheet with a low-risk debt portfolio.

On page 10, we can see that we increased our average debt maturity to 10 years and decreased the cost of debt to 4.7%. Our cash balances ended the First Quarter with $11.8 billion and a gross debt of $23.7 billion. Our gross debt to last 12 months EBITDA decreased to 0.7 times.

Now talking about the perspectives, we see on page 12 that the global IP, industrial production, boomed since the end of 2010, adding strength to the global demand for metals and minerals.

Looking at the leading indicators on page 13, given the change in the inventory cycle, global industrial production is expected to moderate the growth looking ahead. However, the global manufacturing purchase index it's already -- it's still above 50 and new orders over inventory ratios still above 1 time. We think the decrease that happened in the beginning of the year is due to the natural disasters and we think that these numbers will improve going forward.

China remains on the fast growth path driven by domestic demand and Chinese GDP growth on a 10% range. Both fixed asset investment and industrial production are showing signs of re-acceleration in China, as we can see on page 15.

China has recently released the 12th Five-Year Plan and the priorities are supportive of the demand for Vale's iron ore. Target average annual GDP growth of 7%, construction of 36 million units of social housing, reduction of 16% in energy consumption per unit of GDP and 17% less carbon emissions per unit of GDP, which leads to a higher consumption of better-quality iron ore. Proportion of urban residents to reach 51.5% and the creation of 45 million urban jobs. The low-income housing starts for 2011 is targeted to 10 million houses.

Now on page 18 we see global carbon steel output is running at 1.5 billion metric tons per year, expanding by 7.6% over the last quarter, and China is the main growth driver, with 50%. This leads to an iron ore price continuing to hover around high levels in face of the strong global demand and supply constraints.

On page 20 we see global stainless steel production reached an all-time high at 8.6 million tonnes in the First Quarter. This fast expansion in consumption expenditures in emerging market countries will drive the long-term demand growth. This reflects on the nickel price and the nickel market remains tight due to the broad-based global demand growth, despite the expansion of the nickel pig iron production.

On page 22, we see that according to analysts' estimates, Vale has the highest growth potential among the large mining companies regarding copper equivalent volume growth.

And on page 23 we have our exciting pipeline of projects that from 2011 to 2015, 34 additional major projects will be delivering, contributing to shareholder value creation.

It's worth mentioning our discipline in capital allocation. In this First Quarter, the return on invested capital has returned to the pre-crisis level and it's far above our cost of capital.

In the strengthening infrastructure we delivered the Estreito hydropower plant. We just delivered Vale Brazil, the first Valemax 400,000 ton, the largest ship of the world. And it's -- we can see here by our window in Guanabara Bay.

It's in ramping up the production of Tres Valles copper mine in Chile, the nickel Onca Puma in Brazil and our pelletizing plant in Oman.

On page 27 shows our global leadership in iron ore pellets, a capacity to reach 80 million metric tons by 2014.

Finally, the acquisition of 9% of the Belo Monte hydropower plant project will add an average of 400 megawatts to Vale's own generation capacity, will narrow the expected increase in disequilibrium between Vale's power consumption and generation, will reduce the cost of energy as the cost of self generation is well below market prices, will mitigate the risk exposure to price and supply risks and the expected rate of return is higher than our cost of capital.

With that, I'd like to go to the question-and-answer session.

## Questions And Answers

### Operator

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

### Q - Felipe Hirai {BIO 15071781 <GO>}

Hi. Good morning, everyone. So I have two questions. The first one is related to your iron ore volumes. We saw a steep decline in your volumes of iron ore from the fourth to the First Quarter. I understand that it was because of the rains, but I just would like, if it is possible, for you to comment on what's the outlook for the iron ore volumes going forward, if you're already going to see a recovery in the Second Quarter and if we still should work with your target to sell about 310 million tonnes in 2011?

And my second question is related to your cash flow generation. As we could see from the numbers, your leverage keeps coming down. Your net debt is coming down very fast and we do expect to see a significant increase in your cash flow because of higher iron ore prices. And at the same time, your CapEx is coming below what you were -- below your budget. So what should we expect in terms of cash flow going forward? Is your CapEx going to increase and what do you intend to do with this excess cash flow? Should we expect to see a much higher dividend for Vale going forward? Thank you.



## A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Felipe, here is Eduardo Bartolomeo. I will answer your first question about the iron ore volumes. I think seasonality is part of our business, as you know very well. We were a little bit below our budget for this quarter, but very, very close to it.

It has to be noticed on the iron ore side that this year was much worse than last year. So I think we have really improved in our operations from this standpoint.

If we look forward, our guidance is still kept. We don't see any reasons for moving from that, because as I mentioned before, we were in line with our expectations for this First Quarter and weather is improving. Mainly in the south still some (inaudible) pointed out there is still a lot of issues with the rain, but nothing out of our targets. So I think the prospects for this year is very good.

And I'll leave one question to Guilherme.

## A - Guilherme Cavalcanti {BIO 2181205 <GO>}

Okay. Hi, Felipe. In fact, we don't expect to reach the $24 billion target for our capital expenditures. We'll be lower than this and our cash generation will be higher than expected, as well.

As we do every year, once we have the budget for 2012, which happens around October, we analyze our surplus of cash and decided what to do with it.

For -- but one thing that you can start making accounts is that remember that by Brazilian corporate law, we need -- we have to pay at least 25% of the net income of the previous year's. So for 2012, you can start to make this kind of calculation.



## Q - Felipe Hirai {BIO 15071781 <GO>}

Okay. Thank you, Guilherme. Thank you, Eduardo.

## Operator

Excuse me. Our next question comes from Mr. Marcos Assumpcao from Itau BBA.

## Q - Marcos Assumpcao {BIO 7474402 <GO>}

Hi. Good morning, everybody. My first question is regarding if you could comment a little bit on the drivers behind the iron ore prices in the short term, mainly on the -- if you could point on the Chinese steel production, how you see the evolution in the short term? And also, considering the potential increase in supply coming from Vale and Australians, given the better seasonality now for volumes in the Second Quarter and maybe India coming back with a little bit higher exports, given the Karnataka ban that expired in April?

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

Good morning, everybody, Martins speaking. As far as price is concerned, we believe the Third Quarter will keep the same price as Second Quarter. We have already two months gone in the price formula formation and the price is under the same level as the Second Quarter. So I really believe that for the Third Quarter, the price is staying the same level.

For the Fourth Quarter, as you mentioned, we have, first, a better performance from the iron ore producers, not only in Brazil but also in Australia. We have this issue of Karnataka, but on the other hand, the monsoon is starting in India, so you have one thing which is positive and the other one is negative. So but anyway, Fourth Quarter always we have a bigger supply of iron ore.

And as far as Chinese steel production is concerned, we believe that it'll continue to grow slightly below the last year pace, but it continues to grow. And on top of it, we have a better performance in Europe for steel makers. It's not clear why, but they are performing better and the whole word is performing better in steel making, in Brazil also. So I don't see too many problems as far as the demand side is concerned.

For sure, there will be a little bit more supply in the Fourth Quarter, mainly, but I don't believe that you have a big impact. Iron ore price fundamentals continue to be very good. We saw some movement in those more liquid commodity prices as copper and nickel, but iron ore continues to be stable and demand continues to be strong. So even with these additional volumes I don't see too big changes in the fundamentals. Fundamentals continues to be very good the price perspective, at least I would say, I see it stable -- at least.

## Q - Marcos Assumpcao {BIO 7474402 <GO>}

Perfect. If I could make just a second question, if you could just give us a sense of how do you see the Chinese iron ore production cost right now, the level of the cost of the marginal producer?

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

It's very difficult to make an appraisal because you have a big range of cost producers in China. It's more than 1,000 producers and I think the largest iron ore producer in China produces something like 15 million tonnes, so it's very -- I would say it's spread. The range is very big.

But on average we believe that this cost is now moving up, because we have inflation so wages are growing. Also their currency is becoming stronger. So all of this is adding additional cost to the iron ore cost structure in China and probably today they are around $100. It's moving from $80 -- that's what it used to be -- to something like $100.

So I think as far as this point is concerned, we have a very, I would say, floor price for iron ore. So I think the price of iron ore will be sustained above $100 per tonne, at least, if you look really long term. But I do not see it happening in the short term. I think that for more than four or five years, the price continues to be very strong in China and the world.

I don't lose my sleep because of iron ore prices, to say the least.

## Operator

Excuse me. Our next question comes from Mr. Renato Antunes from Barclays Capital.

## Q - Renato Antunes {BIO 17439917 <GO>}

Hello and good afternoon, everyone. Thanks for taking my question. Two questions, actually.

First one related to pellets. I just wanted to get your views on how you're seeing the dynamics of the pellet market over the next years. I mean, the current spread in your realized prices for pellets was at close to $55 per tonne. And also in that context, if you could comment a bit on how do you see, also, the pellet feed material price relative to (inaudible)? That would be great. That's the first question.

The second question related to your CNF shipments. You mentioned that you shipped close to 25% of your volumes in the quarter on a CNF basis. This is slightly down from almost 40% in the Fourth Quarter. I just wanted to better understand these dynamics and know -- and if you could comment on what you expect going forward, if you have been able to capture some margin freight on your CNF shipments? That would be also great. Thank you.

## A - Guilherme Cavalcanti {BIO 2181205 <GO>}

Well our strategy is to sell more and more CNF, okay, but it will take time for us to reach this target. Because many parts of our customers have long-term contracts for their freight, so it's not an easy negotiation to buy back these contracts and then to supply them on a CNF basis. And also you need to look the moments are better for doing it.

So we are building our fleet of own vessels and chartered vessels and for the time being, being a part of our CNF sales are based on the customers that were used to buy freight on a spot basis. So -- and this mix changes quarter by quarter.

But anyway, we have a very competitive fleet cost in our fleet and we can sell our iron ore CNF or we can even sell FOB and the freight separately. So we have a kind of flexibility for doing it one way or another, depending upon the circumstances.

What we think it's more important is Vale's shipments are not sold based on spot freight any more, which means that being Vale or being the customers, we don't need to go to the market to buy freight on a spot basis. And that will bring much more stability for freight. We don't want the freight to be too low, below the replacement cost, but we want to keep it stable, long term, around the $20. That is our target. Our strategy is to keep the long-term freight around $20, which is the replacement cost for the fleet, okay?

If you have this price too low, people stop building vessels and we're going to have a problem in the future, because we don't have the idea to have 100% of our sales based on our fleet. So that's our strategy and long term, more and more, our sales will move to a CNF basis, but we don't believe that is really an issue. The issue for us is to sell our ore and to sell the freight that we are able to supply. So then we can sell CNF or we can sell FOB and also you can sell the freight to the market.

So but as I told you, long term you have to look that more and more our sales will be based on CNF basis.

## Operator

Excuse me. Our next question comes from Carlos de Alba from Morgan Stanley.

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

Thank you very much. My first question is just if we can elaborate a little bit more on the decline that we could suspect in the long-term for iron ore prices from $180 to $100, what are the main factors behind this and why do you think it will only happen around 2014, 2015? Clearly, by the equity valuations, the investors do not believe that that will be the case, so your thoughts and comments would be appreciated.

Then second question would be, can you give us an update on the Moatize Project? Where are you at the moment? Are you on schedule, on time? Any comments on the railway there, as well as in the Guinea project, particularly after the agreement that Rio Tinto achieved with the Guinean government? Thank you very much.

## A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Okay, I'll do the loudest talking and speaking, I will talk a little about Mozambique. The Mozambique project on the mine side is almost commissioned. It's running from July. We are finalizing -- so it's up and running from the budget date, so it's the good news.

On the logistics side, we're still discussing the infrastructure with the government. The railway line is ready, but it needs some -- not upgrades, not repairs to make it feasible for the trains to run it over. So it's a threat, I would say, on the project, but it's under control still, because we are in constant discussions with the government there. And we have all the locomotives, the train or the engineers and the wagons already ready for that.

And on the shipping side, we are doing some adjustments on the Vale port, on the general cargo port that will be, also, ready by August.

So my expectation is that we start shipping around August to September on Moatize.

I would rather ask Martins to go over Guinea, because he's more updated on that, then go back to the other issues.

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

Well as far as Guinea is concerned, we are now under negotiation with the local government, because we have an agreement before the election and that agreement was based on the situation before the election. So now with the new government having new ideas and we are trying to adapt our agreement to the new situation.

For the time being, we have nothing to say beside what we already told you, but we are very, I would say, optimistic that we can found a good agreement and we can move ahead with the project.

We are working on the engineering side, preparing everything to start, but we need, first, to redefine our agreement with the local government, which is now under negotiation.

For the points raised about the long-term price for iron ore, to talk about the future is kind of a difficult thing, but what I can say to you is our view about the iron ore and commodities in general is very positive and the reason is we have a huge urbanization process going on in the world.

So steel consumption is growing in not only China. Normally we look to China, because it's the most, I would say, visible example of it, but steel consumption is growing in the Middle East. Steel consumption is growing Southeast Asia. Steel consumption is growing in India. Steel consumption is growing in Brazil. It's growing in Latin America.

So steel consumption is growing everywhere besides the States and Europe. Also, the States and Europe, they are recovering a little bit. But in this moment, steel consumption in Europe and the

States is kind of 15% below the pre-crisis level. So Western Europe and, I would say, northwestern countries' consumption continues to be 15% below pre-crisis levels.

But all over the world, the steel consumption is growing. So -- and we don't see this change. Unless you see some stop in the urbanization process, which I don't believe will happen, people will continue to move from the countryside to the cities and they will need infrastructure and the steel is the most important material with (inaudible).

So -- and this will not change. We've had a lot of movement in the economy here and there, inflation and so and so, but the urbanization will continue. I think the only point that you look that could reduce the pace of urbanization is inflation, okay? If inflation grows, countries will start cooling down their economies to avoid inflation.

But the movement to urbanization will continue. So I really believe that we have a long-term good perspective for iron ore, because on the other hand, when you look at the supply side, we believe that the consumption of steel and iron ore continues to grow, but on the other side, supply is facing more and more difficulties to increased, based on the environmental concerns, based on the executional difficulties that you have here and there.

So urbanization makes consumption grow faster than you can increase the production. So -- and then I see for long term this scenario of kind of scarcity to remain, at least five years ahead. So until these new big projects start producing. Even after that, you can have one or two years of a more stable environment and then it will pick up again.

So when you look historically, it took more than 250 years from the industrial revolution until today for the Western world to reach the level of life we have now. And this is very material-intensive, it's very steel intensive and also energy intensive. And it's 1 billion people living in the Western world.

But when you go to Asia, it's 5 billion people living there. Only China is 1.4 billion and China is doing in 20 years what the Western world did in 250 years.

So this is putting a huge pressure over natural resources, commodities, being iron ore, being coking coal, being energy, being food. Look what's going on with food. People are eating more.

So I got some information from Chinese officials two weeks ago that they calculate that a guy, when the guy moves from the countryside to the city, the guy is consuming 8 to 10 times more. And that's done immediately. And the next day when the guy really starts consuming more and changes the way they live and needing different things, so -- and this is going on, okay?

I don't believe we are going to have changes on this, because we have the sovereign debt in Europe or because of personal debt in the United States too big or because the exchange rate is going this way or that way. I think when you look all those movements, you are looking at the foam, you're not looking at the waves.

So it's a big wave coming. If you look carefully, it's not a wave, it's a tsunami. And (inaudible) it's coming, because the earthquake started maybe 10, 15 years ago and China starts moving huge quantities of people from the countryside to the cities and now India is doing the same. Everybody will have the same things going on. And this is material-intensive, people. And the pressure over commodities, the pressure over raw materials, the pressure over natural resources will continue to be very strong.

For sure, we are going to have movements here and there because of inflation, because of cooling down of the economy, because of some problems here and there, but the movement has one direction, in my view. People need more things for their lives and as long as we don't change the way we live, people will need more iron ore, more food, more raw materials, more energy and the producers are having trouble to get the supply at the same that people need more things.

So -- and then we have now, (technical difficulty) if you look, this inflation (inaudible) movement is partly because of it and there is a scarcity in natural resources. So iron ore is part of it, probably a little bit more benefit than the others, because of the huge quantities that you need. But it's the same movement. I don't see different things when I look at iron ore or I look at corn or I look at wheat or soybeans, it's the same movement.

People are consuming more and need things and the producers are having difficulties in getting production in place when they need. So that's the reason I'm not concerned about the price of iron ore, long term.

The same way, I'm not concerned about the copper or nickel or whatever price you pick. I don't believe producers will have capacity to cope with this huge movement, which means urbanization. Okay?

I'm not talking about the population growth, I'm talking about urbanization and that is the movement that you have to look if you want to see where the consumption of things will go. If the urbanization process continues to move in Asia, mainly, or in Africa or even in Latin America, people will need more materials and that will put pressure prices anyway.

## Operator

Excuse me. Our next question comes from Mr. Mike Elzahr from Dahlman Rose.

## Q - Mike Elzahr {BIO 20090559 <GO>}

Hello. Good afternoon, everyone. Can you comment on some of the project delays that were mentioned in the earnings press release? And do these delays affect your five-year commodity growth production timeline? Thank you.

## A - Guilherme Cavalcanti {BIO 2181205 <GO>}

In face we already showed some project delays and we already put on the release the postponement of the dates of the ramp up. This happens around the world (inaudible), the difficulty of the producers to keep in place. We have constraints on equipment. We have workforce constraints and we're trying to deal with that.

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

Yes. That's one point I told you before, the difficulties that we are having to cope with this demand growth. Vale has a very, I would say, bold investment project, okay? We are investing a lot of money, because we believe in the picture that I just talked here.

We believe that the world will live a long period of scarcity. So we are putting a lot of money, because we believe that the demand will be there.

But at the same time, we see that it's very difficult to keep the projects on time. All of our projects have some kind of delay for different reasons, okay?

In Brazil, if you look now, we have a World Cup, a lot of investment's being done. We look at what's going on at the next Olympics and also the pre-salt projects from Petrobras. There is a huge pressure over engineering people, over raw materials, over materials that you need for these works and equipment. So -- and that's the situation. If you go to other countries, the situation is not that different.

So and that's the reason we believe this scarcity scenario will remain for long term.

### A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Okay. And it's worth mentioning, also, environmental licensing. That's one of the reasons of the delays of our projects.

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

It's an additional measure. But even the projects that we already brought the licenses, we are not able to keep the same schedule because of other different constraints that are appearing every day.

### Q - Mike Elzahr {BIO 20090559 <GO>}

Okay. Thank you. And are you still maintaining your commodity production growth timeline over the next five years? Or how has that changed?

### A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Actually, it will change a little and we will show it later on this year when we show the next year's plans, later on. But some things will probably be postponed for what we showed last year.

### Q - Mike Elzahr {BIO 20090559 <GO>}

Okay. Thank you very much.

### Operator

Excuse me. Our next question comes from Mr. Vincent Lepine from Exane.

### Q - Vincent Lepine {BIO 3623991 <GO>}

Good morning, gentlemen. I had a quick question on CapEx. You mentioned that you would probably not reach the $24 billion that you had released at the end of last year. I was wondering if you could give us a bit more of a guidance in terms of the actual budget or revised budget that you were working on right now and also what sort of projects might be affected? Is it the other that wasn't allocated or is it some of the CapEx that you had allocated to particular projects which are being, possibly, delayed? Thank you.

### A - Guilherme Cavalcanti {BIO 2181205 <GO>}

Okay. So far, our expectation is a little than the $24 billion, more on the range of $20 billion. And it's spread through all our projects.

### Q - Vincent Lepine {BIO 3623991 <GO>}

Okay. Thank you.

### Operator

Excuse me. Our next question comes from Mr. John Tumazos from John Tumazos Very Independent.

### Q - John Tumazos {BIO 1504406 <GO>}

Good morning. Thank you for taking my call. I'm a Vale shareholder and admire everything you're doing.

I have a concern that the $24 billion capital spending program is conspicuous and may attract attention among the illiterate Brazilian voters such as the masses that live in the shanty towns and poor neighborhoods and that some politicians might think of Vale as a deep pocket target. Please talk about you manage these perceptions in order to protect everyone's interests.

## A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Okay. Thank you very much. First of all, it's worth mentioning that so far we've been delivering a return on invested capital far above our cost of capital, as we showed in the presentation.

And also, it's worth mentioning how we rank our CapEx and how we reach this number. Every year on the budgeting process we collect from the business units the desire and the projects -- and the growth projects. Then we rank them by rate of return.

So for example, this year the main CapEx is on iron ore and logistics related to iron ore. Why? Because the iron ore projects have the highest returns. So we rank, then, the projects by return and then make a cut where we have enough capacity in terms of money to spend.

So I think this gives the comfort that -- and also, it's worth mentioning that all our projects have a hurdle rate of 12% to equity basis. So all the projects must attain this hurdle rate. So I think this process gives comfort to the shareholders that the money will be well spent.

## Q - John Tumazos {BIO 1504406 <GO>}

Thank you.

## Operator

Excuse me. Our next question comes from Mr. Paul Massoud from Stifel Nicolaus.

## Q - Paul Massoud {BIO 15062046 <GO>}

Hi. Good morning. I was hoping you could comment a little bit about any appetite you might have for additional acquisitions. I know you've said you're pretty happy with the organic pipeline that you have, but in the past you've talked a little bit about possibly adding copper assets and I know that you did an acquisition earlier this year.

Could you talk a little bit about any further appetite and whether or not you're still looking and whether or not there are properties that are available?

## A - Guilherme Cavalcanti {BIO 2181205 <GO>}

Okay. First, I'd like to remember that our exciting pipeline of projects that I showed, Vale's the only mining company that can double the production only with our organic growth. So organic growth is our main target because we have this capacity. We have the reserves and we can expand the Company that way.

But we do not rule out opportunistic acquisitions. So far we are always analyzing but things like Metorex and other acquisitions on that range is likely to come if we have -- if we see the opportunity in terms of value creation for the shareholder.

## Q - Paul Massoud {BIO 15062046 <GO>}

Thanks.

## Operator

Excuse me. Our next question comes from Mr. Terence Ortslan from TSO & Associates.

## Q - Terence Ortslan {BIO 1785453 <GO>}

Thanks. I just thought I'd come back to the nickel operations in Canada and elsewhere. I know you review the operations all the time in terms of their -- just like you did in the case if iron ore, as discussed in the case of the previous question on the capital spending and also the costs and the industry opportunities and all.

Could we talk about the developments in the market with respect to where you are with the cost curves and how do you see the operations in Brazil and Canada shaping up to be? I've got a lot of competitive new operations coming into production, some very high capital costs, as well.

So how would you review and put your operations in perspective right now on a global scale? Thank you.

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

Well as far as nickel is concerned, Canada is a very stable operation for Vale. Last year we had that long strike. We come back from the strikes very well, but we faced some operational problems and we had an accident in one of the furnaces that is now being repaired and we start producing again next month. So operationally speaking, Canada is doing very well.

Also Indonesia and our operation in Asia is going very well. The core of our operation is doing very well as far as production and sales is concerned.

Then we move to Goro, which everybody knows in New Caledonia is a completely new project and new technology and it's facing difficulties to get the production in place, but we are expecting in the next two months to restart producing there and it's a very problematic startup, but we are trying to fix it and to bring it to production.

Onca Puma is the new project in Brazil. It's now operating near 50% of its first line, because we put the first line in operation, it's now 50% of the capacity. And in the Second Quarter we expect to get 100% of the first line and to start the second line.

So we believe that it's a very (inaudible) technology. It's a problem that could be solved normally and we don't expect the same difficulties that we are facing in New Caledonia.

So we expect, at least for next year, to have Onca Puma operating near full capacity, adding 50,000 tonnes of nickel to the market. And Canada also operating regularly and Indonesia and Asia operating regularly. So this gives you a good perspective for nickel next year, the production to be above 300,000 tonnes per year.

Goro continues to be a matter of concern. As I told you, this technological challenge for us was bigger than we first imagined and this hydrometallurgy. So I cannot assure that we can have this Goro capacity in place, but for sure Onca Puma will be in place and Canada will be operating regularly.

As far as price, nickel is one of the most volatile metals in the LME and moves very fast up and down, but we believe that the replacement cost of nickel, considering operational costs plus capital costs, is between $15 and $20 per kilo. So the price -- I don't believe the price will move below this level, because this is the level that could bring in more production.

As we discussed before, with the urbanization process, nickel is a material on demand. It's needed, not only for stainless steel, but for other applications. And as the society becomes more sophisticated, more nickel material is needed. So the perspective for demand is good and the replacement cost of capacity is very high, so I really believe that this situation will sustain the nickel price around $20, $20 per kilo, something like that, and also with some spikes, depending on the supply and demand moment and also how much money will come from the financial investor for the nickel business.

The recent movement in nickel is clearly financially driven. It was not driven by fundamentals but was driven by financial movements. The price reached almost $30 per kilo and now is adjusting below $25. So the fundamentals are very stable. Demand for nickel is increasing, not as fast as iron ore, but it's increasing.

So in general, we believe that nickel continues this more stable situation as far as price is concerned and the new capacities that are coming on stream, all of them are facing difficulties in starting up.

So we are not, I would say, pessimists about the nickel market and about the nickel prices. We do not see big gains, but we don't -- on the other hand, we do not see the price going down sharply or something like that.

## Operator

Thank you. Ladies and gentlemen. this concludes our question-and-answer session. At this time, I would like to invite Mr. Guilherme Cavalcanti to proceed with his closing statements. Please go ahead, sir.

## A - Guilherme Cavalcanti {BIO 2181205 <GO>}

Okay. Thank you very much for attending this conference and see you next quarter. Thank you.

## Operator

Thank you. That does conclude our Vale First Quarter 2011 Results Conference Call for today. Thank you very much for your participation and have a good afternoon.