Q4 2008 Earnings Call

Company Participants

- Eduardo Bartolomeo, Executive Officer for Logistics, Engineering and Project Management
- Fabio Barbosa, CFO
- Jose Carlos Martins, Executive Officer for Ferrous Minerals
- Roger Agnelli, CEO
- Unidentified Company Representative, Unknown

Other Participants

- Carlos De Alba, Analyst
- Felipe Hirai, Analyst
- Jorge Beristain, Analyst
- Rafael Biderman, Analyst
- Roger Downey, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by and welcome to Vale's conference call to discuss Fourth Quarter 2008 earnings results. If you do not have a copy of the relevant press release it is available at the Company's website at www.vale.com at Investors link.

(Operator Instructions) 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 in Rio de Janeiro are Mr. Roger Agnelli, Vale's CEO, Mr. Fabio Barbosa, Vale's Chief Financial Officer, Mr. Jose Carlos Martins, Executive Officer for Ferrous Minerals. And Mr. Eduardo Bartolomeo, Executive Officer for Logistics, Engineering and Project Management.

First, Mr. Agnelli will make his opening marks and then Mr. Barbosa 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. Agnelli. Sir, you may now begin.

Roger Agnelli {BIO 14016988 <GO>}

Good morning, everybody. A pleasure (inaudible) the year was a very challenging year but we started the year with the temperature of Rio de Janeiro and we finish the year with the Siberia temperature. But in an average I think was a little, was let's say reasonable. But I'd like to give Fabio Barbosa the opportunity to make some comments and then I will join you again to make some comments about the future.

Fabio Barbosa {BIO 1907620 <GO>}

Thank you, very much, Roger. Well, our agenda today encompasses a discussion of our 2008 results, how we see, what we are doing to deal with the current challenges and what we see beyond the current global financial crisis.

First, it's fair to say that we had a very good performance in 2008 despite a major change that was observed in the Fourth Quarter. We achieved eight production records, eight shipment records and we did have an outstanding financial performance as you can see by the several indicators in revenues that we reached an all-time record of $38.5 billion netted almost $16 billion. The cumulative growth rate in the range of 46% and 50% respectively.

The record cash generation and net earnings of EBITDA and net earnings as you can see there, $19 billion and $13 billion respectively and the return to our shareholders that reached a record level also in 2008 with $3.6 billion in total involving also the share buyback that we performed during the year.

At the same time our investments reached a record level of $10.2 billion out of which almost three-fourths was dedicated to growth, clearly stating our perspective about the future of the mining industry as a whole. And finally, it's important to mention that this growth that we managed to achieve over the several years helped us to achieve and consolidate our current position as the second largest mining company in the world with a market cap as of last week of about $81 billion.

So we came a long way, we transformed our Company, we changed it for the better and now we are very well poised to explore the opportunities and also to face the challenges that the current situation presents. In fact, as you can see in the second section of this presentation, the global industrial production declined sharply in the last quarter of '08 and this still is suffering in the early months of 2009.

This is a major change in economic environment and Vale has been extremely responsive to this environment and react in a very quick fashion. In fact, we announced several production cuts to avoid inventory build-ups, undesired inventories because we actually took the opportunity that this environment represented to replenish our inventories at the ports in order to optimize our operation.

At the same time we focused on cost minimization, we managed to enhance operational flexibility in both production and CapEx execution management and of course we have available to Vale the financial flexibility to pursue whatever course of action we feel appropriate considering our perspective about the industry.

And as we put there, our long term growth strategy remains unchanged because our views about the future haven't changed considering that we do believe that the structural transformation that is taking place should continue although of course we'll have some adjustment in the short term. But the long term perspective is extremely positive in our view.

In terms of the cost control, the cost cutting measures that we have done to deal with the current situation, we shut down several higher cost operating units as it would make no sense to keep them operating in this environment. We cut administrative costs.

We are improving our efficiency in our corporate activities by reducing and improving the quality of its services and downsizing its infrastructure. We are seeking flexibility in labor contracts and we managed to negotiate very important initiatives to preserve the employment level in our Company.

We are working to reduce our working capital since July. In terms of materials and parts, we reduced about $300 million in working capital besides other initiatives. We are renegotiating existing contracts with service providers in order to disinflate, in order to make them to reflect the current environment as the situation allows us to do so.

And finally, we are also working on the CapEx side and Eduardo Bartolomeo will comment a little bit later on that, trying to review the costs and the timing of delivery of several equipment associated with our very important CapEx program that we have ahead of us.

Well, as we put in chart 15, the initiatives to reduce costs they didn't show a result yet particularly in this case of the Fourth Quarter associated with the lag of the long production cycle of the nickel business. So we still have some intermediate products that are costing us more today than they will cost in the future.

So this lag in the reaction of the cost structure, that is reflected in this bulk of this $66 million price change that you see there. But otherwise of course we are benefiting from the devaluation of the currency, the Brazilian currency, the Canadian currency, against the real. And of course at DOW on a quarter by quarter basis.

In terms of our long-term growth strategy, as we put there, it is unchanged because Vale is uniquely poised to explore all the growth options it has available. We are in a very good and sound financial position and we can and we should pursue more growth moving forward. And we continue to develop our project pipeline as I would like to ask Eduardo Bartolomeo to comment upon.

Eduardo Bartolomeo {BIO 15365202 <GO>}

Okay. Good morning. I think as Fabio mentioned we are in a good position to (inaudible) again. We are sticking to our product pipeline, that's I think the first key message that I have to deliver. We're not opening up in that. But facing the reality today we see a lot of opportunities ahead of us.

Of course one of those is the currency devaluation but besides that we have the market turning into a buyer's market so equipment is already facing some good news, metallic constructors are sold, engineering is still under pressure but as we can see in the long term or in the medium term, we will be able to deliver the same pipeline with much less pressure, with higher quality, I think that's a very key issue too, with low cost, with much lower costs.

So I think at the end we're going to be able to benefit from this side of the not the good news about our market but anyway from the product side, we're going to be able to deliver the pipeline at the lower cost, we higher quality because we're going to have more time to engineer.

It's an open up window to engineer better because if we remember six months ago we were under pressure so this lower pressure brings us a huge opportunity on revising scope, revising standards. So at the end my personal view is that we're going to be able to deliver the same pipeline much cheaper and with higher quality.

Fabio Barbosa {BIO 1907620 <GO>}

Okay, thank you very much. So the message is we kept and we keep our focus on growth and then development of our very important project pipeline with all the required caution of course.

We are trying to pursue cost reduction there and we are already successful in some front and we also benefit from the effect of the devaluation of the exchange rate. So this combined should lead keeping the same indicated scope should represent a much lower disbursement at the end of the day of our cash position.

We are of course a global leader in iron ore and a point I would like to make that is leadership was consolidated during the last down cycle at the early 2000, 2001 when we acquired several assets. We always had a very long term perspective and we're always well-poised to explore opportunities that could arise from the financial distress that from time to time occur as we are in a cyclical world and a cyclical economy. And this is precisely the case now.

And we are fortunate enough and we did the right things of course to have a very strong balance sheet and the opportunity to explore these alternatives that are there.

So we just bought an asset in Argentina and an asset in Canada related to the potash business so we are entering, more heavily, in the fertilizers business as we do believe there's a great opportunity in the long term considering that in our view the current global recession does not change as we put there, we underlined, fundamentals of the long term growth of this market.

And with this acquisition Vale is in a privileged position to explore one of the potentially highest growth markets in the future that's precisely South America. So we are very happy that we are able to do that and this transaction was already concluded and implemented last month.

The other important acquisition was Corumba a world-class asset that I would invite Martins to comment upon and this a very important asset strategically in terms of quality as well and Martins, I would like to ask your perspective on that including on the lump price premium that is associated with this.

Jose Carlos Martins {BIO 16318613 <GO>}

Good morning, everybody. It's a pleasure to talk with you again. Related to Corumba assets the main strategic issue behind this acquisition is the production of lump. Lump ore is very important on the [blacks ferrous] charge and lump's production in Vale was going down year-by-year.

And it's very important to have lump to compound the sales basket for main customers, mainly in Europe. So this acquisition will bring a lot of strategic strength in our market position, mainly in Europe. But not limit it to Europe because we can ship it to other markets also.

The product is the highest quality available in the world. We don't have pellets of such quality that can be used not only in blast furnace but also in DRI production. Sure, there is a lot of challenges relating to logistics but this kind of lump command a premium that is able to cover the additional cost of logistics. So this acquisition will bring more strength to our strategic position looking long term for the iron ore market.

Fabio Barbosa {BIO 1907620 <GO>}

So this enhance our position in Europe and also the Middle East but I believe you also have good news about the Chinese market, don't you, Martins?

Jose Carlos Martins {BIO 16318613 <GO>}

Yes, as you noticed by the formation we released, our last quarter in China was very weak. It was very interesting because China was the first market to feel the problems of this downturn in the world of the economy and we lost a lot of sales during the Fourth Quarter of 2008.

But now things are coming back to the normal level and even better and shortly we are going to deliver the highest number ever we extended to China. It will be a number above 30 million tonnes in a quarter which we never did in our history.

Fabio Barbosa {BIO 1907620 <GO>}

But we have a record shipment for 2009, First Quarter of 2009 to China.

Jose Carlos Martins {BIO 16318613 <GO>}

We took advantage of the low freight cost that we have in this period. We are able to hire a lot of vessels at a very convenient price which put us in a very good condition to sell in China again. And also we developed a lot of new customers. And we signed a lot of new agreements, commercial agreements with the new customers and these agreements now is becoming new contracts.

So we think that this crisis will put us in a very strong position in China because in the past we never had an opportunity to assess what would be our market share in China because we never had enough iron ore to fill their needs. But considering the slowdown that we have in Europe and even in Brazil, we have a much more iron ore available so we could be able to test how much we can grab of the China market share. And we are happily surprised with what we are getting. So things are developing very well.

We start selling CNF, without sales, we send ships without customers but now every ship that leaves our port in Brazil is already sold. So this was big I hope to say point in our strategy for iron ore because we are coping with the situation in our natural markets with Europe and Brazil. These markets are very weak so China is helping us to cover a lot of this weakness in our natural markets. So we are very happy to say that sales in China come back not only to the older level but even bigger than the old level.

Fabio Barbosa {BIO 1907620 <GO>}

Okay. Very good news. Now to conclude our initial presentation, some comments on what the CBO and the global financial crisis. So of course we cannot ignore [this less than] iron ore out there and this applies to every single sector in the world economy but also of course to the mining industry so many mining projects have been cancelled and postponed by other companies.

The supplier of capital, it's much more restricted now. It's a given, it's a reality that we have to face. Again, Vale is in a different position considering what it did last year but most other companies they face less open environment to get credit.

Banks are in a less favorable position as you can appreciate and besides that, the risk aversion increased. So cost of debt expected to be much higher and the summary is that there will be less possibilities of funding future expansions in our industry and also other industries across the board.

The result is that as it happened in previous events, the global exploration investment for instance is likely to suffer a major decrease this year. In the Asian crisis, after the peak of $5.2 billion it decreased almost one-third of this level by 2002 when things became more positive again. And this is also a risk that is this reduction in investment would affect new investments in the mining business itself and expansion of capacity.

So as you see we are replicating a Credit Suisse estimate there that there will be a $200 billion shortfall in mining investment over the next five years. So the ones that are willing to pursue or that have the possibility to pursue growth could face in several years, in a few years down the road a much more favorable environment and as it happened in the last several years to be able to capture more value for its shareholders. As we believe it's the case of Vale.

So Vale is in a very good position to explore the growth options. Of course with all the caution that is required as its financial strength is clear in our balance sheet.

We have as of December 31, we had $12.6 billion in cash holdings, we have almost $10 billion in long term credit facility, we have very low cost long-lived assets, a very good track record in project delivery, 29 major projects concluded over the last six years, this is a remarkable achievement. And we have 23 major projects in our pipeline besides 134 mineral exploration projects across the globe to support our long-term growth.

So it means that we have the view, we have the strength and we the flexibility to pursue the growth options that we have available to us. And at this point I would like to turn back the floor to Mr. Agnelli for his comments.

Roger Agnelli {BIO 14016988 <GO>}

We talk about (inaudible) last year if we analyze the full year I think was a very good year for Vale. We achieve several records; I think the company's doing well. We continuously work to reduce the costs. We prepared the company for these winter time, of course the winter is much stronger than we had predicted in the beginning of 2008.

But anyhow, the Company is in a very strong financial situation. We have several projects that we can choose which one we will speed up, which one we will slow down. We have the opportunity to deal with our suppliers to reduce the cost, the currency's helping us to reduce costs also.

We are strengthening our position in Africa and South America, in Asia. We are working to reduce the necessity of working capital. We are dealing with all of our suppliers, contractors to change a little bit or to simplify the projects in the operational side.

We had and we have the ability to choose which mine we would like to see working at the maximum capacity and which mines we prefer to shut down. Even though it can be only semi-annual or not but we have already shut down more than seven mines in the iron ore business. We are reducing production in other areas.

We have a lot of work to be done and we are working. We know exactly where we should put our focus on. Example is the nickel business that we needed to really to work hard to change a little bit the structure of the Company. We needed to work to reduce the costs.

But if we compare ourselves with the other competitors I think we are in a very, very good position because we have all the options open. There are some companies that they don't have options and we still have the all the options open for us to choose what is better for the Company, for our shareholders. This is our focus. Long-term our philosophy is to develop all the potential that we have for growth and we are doing that. And we are doing that.

The last quarter I cannot show, everything that you see in the balance sheet is the reality of the Company. The balance sheet is clean. It's really clean. We don't have anything to be accounting, we don't have anything that is not in the balance sheet. This is really very important. No surprises at all.

Let's talk about 2009. We start the year, begin the year with a challenging market and we are working very closely with our clients. We understand what they facing. We are trying to help them or to compromise or to support them to overcome these very difficult situations, mainly there in Europe which the situation is really not really good, is not good.

In China, China seems like they are not getting worse. I think they achieved the bottom last quarter. This First Quarter as Martins mentioned, we are confident that we are reaching or we are beating the records in terms of volumes delivery to China, which is very good.

Europe is not good, Japan is not good, Korea is not good, Brazil is not good. But there's the market and we don't it to precipitate any action that is not necessary. We are working with the unions here in Brazil to get time to adjust the company or to adjust the workforce. We don't want to fire people and then two, three months later we need to hire them again. So we are carefully working or we are carefully navigating in this very tough environment that we are seeing.

But anyhow, we are making money, we are still making money. The Company is in the First Quarter in terms of costs in all areas that we are working, the prices today is a sales price. So the price is really very depressed in the aluminum business, in copper business, in nickel business, in almost everything but iron ore. And this is our strength.

If we compare the price that iron ore achieved in the spot market in China, you'll see that the group had paid the bill, until now. And then they ship the orders. Because the price that we are dealing there in China is a forbid [ph] price. And we feel that we can't keep or can't continuously working in this kind of philosophy.

Long-term view, we like the benchmark, this is the stability for ourselves and this is the stability for our clients and we are sticking to this kind of philosophy. But who has to decide that? Our clients. And we are able to follow; we are able to do whatever is necessary to do. We have all the options to choose. So this is a situation that I can tell you is a freedom. We are free to do what is good for our shareholders. Again, long term. We don't want to precipitate any action that is not necessary or any action that we may, we can regret it.

So for iron ore market we feel that it is improving a little bit. Nickel business, everybody's cutting production, everybody's shut down production. We have already reduced our production. Maybe we needed to go further and we will go further if we feel that is necessary to do that.

And Tito is there in Canada right now, he's talking with our people and he's going to take any other measures that is necessary to take in order to keep cash and to restructure the company if necessary to restructure. And we will act as soon as the market asks us to do.

In aluminum business, we are closing; we are shutting the Vale store here. We are just in the production there in Para state, in Albras, in Alunorte, in Paragominas and MRN. But nobody's making money right now in the aluminum business so this is not sustainable. It's very important to analyze or to realize that the current price in some commodities is not sustainable. Why? Because nobody will reduce if they are not making money. This is a reality.

Aluminum business is the case. There is a problem that the price is so low. So low that nobody in the industry is able to produce at the current price in the market. So of course we can expect that some or more production will be cut in this area. So the price will react. It is a reality.

So the world is still there. We have what about a day, in front of us here, very nice day here in Rio de Janeiro, we are working hard, we know what is necessary to do. We will not disappoint our shareholders. I think we have a very good record in the company that we are able to fulfill all the expectations that our shareholders have.

We are working carefully. This is not the moment or this is not the time to do crazy actions. This is the time to stay wise actions. And we feel that we are planning everything, we are not pressured, we don't have pressure to act or to be in a hurry so I think we are going to see Vale in the end of 2009 much stronger than we are today.

In terms of projects, everybody's concerned about projects. Me too. But there is one point that is in our favor. We have the projects. As Fabio mentioned we have right now 23 projects that we are working on. The point is the currency is helping, is reducing the cost of investment.

The suppliers, they are able and they are willing to reduce price in order to keep order. We are changing a little bit or we are simplifying the projects. So my expectation is that we will be able to develop all the projects that we have already announced with a much less disembursement.

If we said $14 billion we can develop, let's say, let's analyze today, we can develop the same number, the same projects with maybe around $11 billion. We don't change any scope. But you realize $11 billion, which is not easy, it's tough, it's very complicated to manage or to boost the projects ahead. Why? Because we need to have permits. And I can tell you nothing's changing that. It's still very hard to get permits on time.

So too risky, to -- this (inaudible), to spend $11 billion in 2009 in all the processes that we are talking is going to be really a real challenge. It's going to be a real challenge. But we have the options and we still have the projects. And the market sooner or later is going to recover. On another point that is very important, again, some prices is not sustainable, is not sustainable. This is the reality.

And another point that is very important that some competitors will realize soon the matter today, the problem today is not price. It's demand. The demand is still very weak. And if you or if we decline to reduce the price, it's not good; it will not be enough to rebound the demand. The problem is demand, it's not price. So soon everybody will realize that is very important to reduce production. And we are able to do that when it's necessary. That's it.

Fabio Barbosa {BIO 1907620 <GO>}

Thank you, Roger. We now can go to the Q&A session, please. Thank you, very much.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Please restrict your questions to two at a time. Excuse me; our first question comes from Mr. Felipe Hirai from Bank of America.

Q - Felipe Hirai {BIO 15071781 <GO>}

Hello. Good morning, everyone. So I have two questions. The first one is regarding the iron ore sales that Martins just mentioned to China. I just wondered, Martins, if you could comment a little bit on what kind of pricing are you doing these sales? You said that you're doing on a CNF basis. Or if you are having to give any discount to the prevailing contract prices or if you're basing those sales on the spot market? And what kind of freight rates are you also assuming?

And also, if Roger could mention a little bit on the M&A side, we saw Vale buying the assets off Rio Tinto in Corumba and now we are also seeing Chinalco doing some negotiations to buy some other Rio Tinto's assets and apparently the market believes that some of these assets are better in terms of quality than Corumba for example, the iron ore assets in Australia could be a good opportunity for Vale to make an acquisition there. Thank you.

A - Roger Agnelli {BIO 14016988 <GO>}

Felipe let me tell you the following. I think the best market deliver was very important to buy volumes, to buy size and to be in the market. So we made several acquisitions, big ones, small ones. But right now the time is to analyze quality. So what we are looking for right now is some assets that implies a very good quality.

The example is the project that we bought in Argentina is a very good one, I can tell you, it's a very good one and is besides our project there in Neuquen in Argentina. So the two projects together we can really develop a very, very impressive potash mine. I'm saying that maybe we'll be able to supply 70% of the Brazilian needs which is very good. This is a captive market, the price is good, there is a lack of good assets in potash in the world today, was an opportunity.

Rio Tinto is another example, another one, Corumba. Corumba is a very nice asset, the quality is very good. Maybe the size of the mine has a limit but we will be able to produce there more than six million tons per year, maybe nine million tons of iron ore per year together with our mine there in Corumba.

The movements that we made toward Africa, we strengthen our position there a lot, a lot. The assets in Zambia, the asset in GRC, in Namibia. And other areas of uranium there in Mozambique, in Mozambique you know that we have developed several projects there and I think that Mozambique is a country that builds it a lot of opportunities to Vale.

The assets that we bought there in Columbia are very high quality, coal, thermal coal. And this is going to be very good to supply our needs here in Brazil. So this kind of movement or this kind of strategy, that's what we are following. We would like to strengthen our position in copper, we would like to strengthen our position in coal, we would like to be more present in the fertilizer business. There I feel that the future is going to be very good. That's what we have been doing. Nothing different to that.

And of course iron ore is our major, major business. And if it's possible, we are continuing to see, analyze opportunities. So we are not in looking for big acquisitions, we are not looking to change our strategy. I think we have today I should say huge, huge asset base to be developed. The best quality asset base in the mining business so we are very proud and we are very happy with what we have today.

Rio Tinto, Xstrata. And all the other companies that everybody's talking about, we have already talked with them. So nothing else, nothing less. So what we are looking for is to strengthen our position in some specific business as I mentioned to you.

You made another question about the iron ore price. I don't know. Do you know, do you understand this discount concept? I think we don't work with this kind of product here. Do we, Martins?

A - Jose Carlos Martins {BIO 16318613 <GO>}

We don't like this word. But, Felipe, we are selling at benchmark price, okay? And I will explain why. During this period that China was growing very fast, a lot of customers were willing to buy Vale's ore. But they are not able because we have no availability. Now we have the availability. So we are coming back to these customers and there is a lot, China has more than 100 steel makers.

And we are glad to say that everybody wants to fix long-term contracts with Vale. So we are developing a completely new customer base in China, based on long-term contracts and benchmark prices. And also we are developing more and more the options to sell CNS bases. So all of these new contracts give us to opportunities to sell CNS based on bulk freight prices.

So I think that after -- it's not easy to -- what we faced in the last quarter, we have took a lot of difficult decisions related to production and not only to production. But the decision the hundreds of assets to China without orders. And with this -- and I will have a much more stronger position in China than we had below the described start.

So we are selling benchmarks and we tended to keep benchmarks. I think if someone has some doubts that the benchmark was the best situation, it's very easy to notice. It's only to look at the price of all commodities and compare what's going on with iron ore. None of the commodities, being oil, copper, nickel, whatever you look at, even agricultural commodities, all the commodities went down.

But iron ore prices are kept in a very good level. Even if you look at the spot, even the spot is kept in a very good level. So I think this resilience in iron ore prices is one of our main strengths.

And also, I think it's a kind of asset that the iron ore industry needs to keep. And we are doing our job to keep the benchmark system. We rely on our superior quality of our ore and I think what's going on in China, the numbers we are going to deliver for China this quarter, we show clearly that benchmark is an asset and the system is an asset for the industry.

And it's also, not only for the producers. But all -- for the consumers, because the ones that have large investments in blast furnaces, they needed to have a stable source of supply. And prices have to be good to keep it. Otherwise, there will be lack of investment and in the future we are going to have a lack of production.

And so I think the system is very good and we are working to keep it. And what's going on in this quarter shows how important is the benchmark system.

A - Roger Agnelli {BIO 14016988 <GO>}

Felipe, I would like to add one point to that -- that's very important. We saw in the last quarter, this is stocking process, a very strong one. When the crisis really blew up, everybody becomes really scared about the size of the reduction in demand. The steel industry almost stopped to acquire iron ore. I'm not saying that this process is finished. It is if almost in the end.

Because we are finished. Even nearing zero. Some big clients are back to order for the Second Quarter. Even there in Asia, as Martins mentioned, the -- our traditional clients that we always will have a good support of them, in China they stopped to buy iron ore in the last quarter. But we developed new ones. So the market is there. The market will be there.

The point is, let's be patient. We don't need to be in a hurry. We need to manage the market. We need to manage our position in the market. So we are very responsible. People that say that is market price taker or is a price taker, we will feel that they will lose opportunities to be more disciplined and to be more realistic that price is not helping the events.

This is a reality. We needed to take our time, analyze these very close to our clients, these are very strong relationships, in order to help them to overcome the situation and they will help us to overcome this current situation.

Q - Unidentified Participant

Thanks a lot for your answers.

Operator

Excuse me. Our next question comes from Mr. Roger Downey from Credit Suisse.

Q - Roger Downey {BIO 7419641 <GO>}

Good morning, everyone. And I think you're quite right, long term -- I think long term is certainly one of the biggest winners in the whole industry. All the assets you're endowed with make that pretty certain. But I think the focus today really is on the short term, when that's navigating pretty rough seas right now and, as you mentioned yourself there, Roger. So I apologize if I focus on the near term.

The gain on the markets. And I think, Martin, this one's for you, as you said, the First Quarter you should post a lot bigger sales to China. I think in January, Brazilian shipments to China were about 60% or 70% of the total. In the past, shipments to China were about 30%, 35%. So first question, is that sustainable? I think you've got a new client base, which is good. But is it sustainable at these levels?

And if so, is it enough to weather at least another quarter? Because I think if you read through the results presented by the European steel makers, they're fearing a worse Second Quarter than people had anticipated. So you guys probably need China again in the Second Quarter as well.

And then the second question would be, again, with respect to China. There's a whole bunch of news in the past couple of days regarding China putting a cap on steel production. For 2009, they're saying 460 million tons of steel production and by 2011, 500 million tons of production. It's a worrying number, I think. And I would like to hear your comments, please.

A - Jose Carlos Martins {BIO 16318613 <GO>}

Roger, the first thing I have already to see it. If the customer is buying, I don't question why the customer is buying. Normally I question when the customer's not buying.

So China is buying. I'm glad to sell and I continue to sell. To new customers or to older customers. So China now, the old customers are coming back to buy from us and to benchmark price. Every day I get new orders from the older customers that stopped buying from us in the last quarter.

So now the situation is such that it could increase our sales to China. But we also are concerned about freight costs. So we needed to keep an equilibrium. Because it -- if you send too much iron ore from Brazil to China, this will increase the freight demand. Because it takes two or three times to send ore to Brazil to China than to bring from India and also Australia.

So we needed to take care of how much ore we sent to China. But we are working with our logistical people and we are high investors. We are signing new costs. We are buying vessels. We are ordering new vessels. So as time goes by, we are going to get rid of this freight differential forever. So this assumes that we are going to get out of our strategic agenda and nobody will talk about the freight difference in the future. We are working very hard in this way.

Nowadays the freight -- our prices to China, FOB price, benchmark is $16 below Australia benchmark prices. And you know that we have a valued that is higher. So if you put both together, even considering this very weak market, we think that we have today $20 more cost -- price advantages than the Australians. So I think many customers that buy long-term from Australia should probably come to us because it is much more convenient for them.

So I cannot say -- I cannot assure to you if it's sustainable or not. But as long as they want to buy, we have ore and we'll send to them. So that's related to China, it's what we have to say.

Related to Europe, everybody knows what's going on in Europe. The steel industry is down more than 40% in Europe. And iron ore, they are buying, probably, less than 70% of the iron ore they need because they are using their stock. But the stock is coming to an end. We follow-up this week by week and also European are coming back to buy more ore. Because they need it.

Even if their production is lower, now they are reaching to a point that they needed to buy ore. Our largest customer, Arcelor Metal stopped buying from us since October. We didn't sell a ton for iron ore -- ton of iron ore to Arcelor Metal from October to March.

A - Roger Agnelli {BIO 14016988 <GO>}

Even having a long-term contract.

A - Jose Carlos Martins {BIO 16318613 <GO>}

Even based on having a long-term contract. But for April, they are coming back and asking for iron ore. And all I can tell you, it's a reasonable level.

So I think that in Brazil and Europe, even if the steel production is much lower, there we'll start buying more than are used to buying in the last three or four months. Because they needed to cope with their needs.

China is doing well and considering what is going on in this market, I think that for the next quarter, we can deliver better figures for iron ore.

You asked about what's going on in China this cap production. I think we needed to look at China, the whole economy of China, what will be the impact of the export decrease on their economy. But they are keeping all of their infrastructure investments and they need ore to -- they need steel to keep this project.

The last of that will remain -- it's very difficult to say. China is used to deliver a lot of rules related to the steel industry. In the last three or four years, they delivered a lot of rules, a lot of controls. But in the reality, their production kept growing.

A - Unidentified Company Representative

And there is another point, Martin, if I may. It's the fact that the current consumption of steel, the capital consumption of steel in China, is well below what you could consider development -- developed country level. So they are far from that, from achieving that level.

So it's using this reference, it's hard to understand why a growing economy, this is something that you should keep in mind, China may grow less. But it will continue to grow at a very fast pace. So it's -- to imagine that all the effort required in investment, infrastructure and development of urban areas will be suddenly frozen at that current state, which is not a reasonable assumption, to say the least.

A - Roger Agnelli {BIO 14016988 <GO>}

And the, concluding my remarks, it's very difficult to talk about the future. Who has been able, now, to predict what will happen? Nobody was able, with all of this knowledge, nobody was able to predict that from September to October we were going to have what we had.

So from now, what we will -- what will be that? What will be the relationship of all of these economies? How China will be impacted by the slowdown in the Western world? This is not clear. So in my view, this is a fight that we needed to fight every day. So that's what we are doing.

So I don't question why the customer is buying. My main question is why the customer is not buying. So that's what we are addressing more frequently today.

So. So far. So good, Roger. That's what I would like to tell you about what's going on.

Q - Roger Downey {BIO 7419641 <GO>}

Thank you. That's very clear.

A - Unidentified Company Representative

Roger, if I may utilize to ask about (inaudible) mill? To talk to you about the average [ph] market and the next few months. I think this is very important. Because the offer of freight is going to increase a lot.

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Yes, what we've seen as much is from the beginning, through the dip of the pen, that when the freight's got to nine was unreasonable cheap. As much, instead, we took a lot of opportunities on that sense to build a portfolio of freight, very low in that sense. And what we saw in the last two or three months are a higher increase already due to this develop of everybody going to China.

But when we see a near term or medium, what's going to the water, to float, we have more or less 160 million tons of dead weight ton going to sea. So we don't see any pressures that should be sustained in this freight. So, again, as Martin said, we are managing very carefully our portfolio of freight. We see a pipeline increasing. We are looking for old -- not old.

But used vessels that can be -- we actually did some very good contracts on 14-year-old -- 14-year forwards. So as -- when we see the medium term to the long term, I think this freight differential. And we will be able to have a portfolio that will bring us to a very nice competitive position and give us the time to position ourselves. And we're doing that in three levels.

One is buy lower in the Baltic, covers that are reasonably cheap when they appear, we are doing that. And the used ships, as Martin has already mentioned. And of course our VELOCs [ph], that's the longer-term strategy to have like a higher percentage of our freights covered or secured in a very, very competitive position. That's the -- what we can say about freight now.

A - Roger Agnelli {BIO 14016988 <GO>}

Another point is that these prices, I can't tell you, it's okay for us. It's really okay for us. Rivers head to the ocean. The reality is that we have the best assets. We have the lowest costs. And a lot of big guys that used to be big some months ago, they are disappearing.

A lot of junior companies, a lot of new prospects, a lot of dreams is not there anymore. And we are not talking about dreams. We have the ability to supply iron ore, copper, aluminum, manganese, coal, nickel, for our clients. That's it. All the rivers goes to the ocean.

A - Unidentified Company Representative

Thank you.

Q - Roger Downey {BIO 7419641 <GO>}

Yes. Thank you, very much, everyone. That was very clear. Thank you, Roger and Martin, Fabio as well.

Operator

Excuse me. Our next question comes from Mr. Jorge Beristain from Deutsche Bank.

Q - Jorge Beristain {BIO 17554499 <GO>}

Hi. Good morning, gentlemen. Just, again, following up on this China trend question. Yes, I guess it's a very material news that you're seeing this pick up back to 30 million tons for the First Quarter in China.

But I just wanted to understand that there are other regions that perhaps over purchased iron ore in the Fourth Quarter, such as Japan, Italy and Korea, which we would also be expecting to slow down. So in a nutshell, can you give us concrete guidance for your total volumes sold for the First Quarter versus the 55 you sold in the fourth?

A - Roger Agnelli {BIO 14016988 <GO>}

On average, Jorge, we intend to reach around 50 million tons for this quarter and almost 70% will be to China. Because as you probably know. And I told you, the situation in Europe and Brazil, which are our natural markets, very depressed with signs of recovery. But in this quarter, very depressed.

Q - Jorge Beristain {BIO 17554499 <GO>}

Okay. And secondly --?

A - Roger Agnelli {BIO 14016988 <GO>}

And another --.

Q - Jorge Beristain {BIO 17554499 <GO>}

And secondly, to clarify that you're selling cash and freight. And I'm aware that you did purchase some contracts for freighters back in the Fourth Quarter when prices were very depressed.

A - Roger Agnelli {BIO 14016988 <GO>}

Yes.

Q - Jorge Beristain {BIO 17554499 <GO>}

Are you throwing in the freight for free? In other words, you're selling to the clients in China at 2008's contract price. But including free delivery?

A - Roger Agnelli {BIO 14016988 <GO>}

No. We are charging the freight based on the bulk freight price.

Q - Jorge Beristain {BIO 17554499 <GO>}

Okay. And then, sorry, just lastly, in terms of unit costs, could you quantify, in terms of the operation of the iron ore mines that are offline right now, are they generating a fixed overhead charge that would be more diluted as you start to ramp up your output, say, back to 75 or 80 million tons by the second half of '09? Or would you say that your unit costs have more or less stabilized and already reflect the benefits of the lower currency impact?

A - Roger Agnelli {BIO 14016988 <GO>}

I would say that the lower currency impact will only add to the margin. Because in a constant-basis, we kept our costs in the same level. Even with the production -- with the reduction reproduction. Because we shut down mines which have a higher cost. We shut down mines that we have a higher logistics cost. So at the end of the day, we reduced deeply our production. But we kept our unit costs on a constant-basis. So the current devaluation will add to the results on this aspect.

A - Unidentified Company Representative

And Eduardo, maybe it's good, you could mention about logistics.

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

I think that the -- it happened as [Roger mentioned]. We were able to bring the costs -- I think that we will -- that the limit, we will be spending, something, when we readapt to the new level of production, we stop local, we stop wagons [ph] in the ports and decided that the best way to ship. Actually we have lower costs than we had before. So I think that's the good news. Besides the devaluation, that's not a good news.

So it -- we're looking at the numbers for Carajas [ph] yesterday. They were much better than last year. So I think that has a good impact on this modelizing, or box, that we're more optimized now.

A - Roger Agnelli {BIO 14016988 <GO>}

And Jorge, if you remember the former business, the former conference we had, I always told that we are -- we're creating a very high marginal costs. Because we are trying to extract the less tons from the mines.

So now we are operating in a different model. So we are letting the high cost ore in the mines, we are taking only the lowest cost ore that we have. So as far as cost is concerned, we are now in a much better situation, unit base, if you're talking about unit costs. And the currency devaluation is -- will be a bonus in the results.

A - Unidentified Company Representative

This is a very important point. Because since 2004, we have been working in a stressed situation. All the systems were stressed. Right now, we have some room to choose or to really consolidate the costs. Because until September, we were working to supply our clients' needs. Now we are working to have the lowest cost possible.

Q - Jorge Beristain {BIO 17554499 <GO>}

Great. Thanks very much.

Operator

Excuse me. Our next question comes from Mr. Rafael Biderman from Bradesco Bank.

Q - Rafael Biderman

Good morning, everyone. My first question is regarding nickel costs. Do you believe production costs for nickel could go down? If you look at long-term price and prices of nickel, they have ranged in different trading ranges of $7,000 per ton and even reaching lows of $3,000 per ton.

Right now, nickel prices are at 11 because the cost of the industry is around 10,000. Do you think it's possible that nickel prices goes down, nickel costs -- nickel production costs go down in the future? And therefore, prices could follow suit as well?

And another thing is regarding -- going back to these sales to China, to new clients. Just to see if I got it right, basically you are obtaining these clients that used to buy on the spot market, if I understood correct -- if I understood what's in between the clients that was buying from Chinese and Indian mines, I would like to check if that's correct.

And what prices are you selling? Because we monitored the statistics from the Brazilian trade ministry, the SISX [ph] and the average realized price of iron ore exports in January fell for the first time. There was a big increase on volumes. But it fell for the first time, it was around $70 per ton, very flat, around $70 per ton in January. It was around 50. So I wonder if you guys are -- what are the price conditions to these kind of clients you are winning?

A - Roger Agnelli {BIO 14016988 <GO>}

Very good, Rafael. First of all, the statistic that you get from the official agents, we like these statistics. Why not?

And consider one month to calculate the average price that (inaudible). And there are some mines here, in Brazil is not valid. But some items here in Brazil, there they are selling at 70% of the benchmark price. To adjust the new price later. So there are some contracts that is starting on January the first. And the fiscal year, we don't have the benchmark price. Yet. So what is usual to do? Not for Vale. But other mines, they established 70 or 60 or 80.

A - Unidentified Company Representative

It's a provisional price.

A - Roger Agnelli {BIO 14016988 <GO>}

It's a provisional price. So you have evolution in the data that you get from the ministry; that you can take it as a source of information. Because there are a lot of distortions in this kind of information.

The second one though, the first question that you made about nickel, the nickel price, I can tell you, for the costs did go down sharply or we'll not be able -- nobody will be able to sell at this price. Because this is the reality.

Today, only two companies in the world is able to produce big volumes to supply the market. It is Vadiyusky [ph] or Vale Inc., period. We are relishing the situation.

Of course we have some mines that is high cost and we are going to adjust those mines. We are constant rate productions in the mines that the cost is very low. So certainly, for example, [for this day], we'll stay working at maximum capacity.

But Sudbury, I doubt if it's possible to sustain the current level of production. But, okay, this is part of the game we needed to act as -- with you that this is the time to ask a lot of other competitors are cutting production and shutting down mines and we have come. I can tell you. We are come. Because the market, what is currently priced, is not sustainable.

A - Fabio Barbosa {BIO 1907620 <GO>}

And we are in a very good position, Rafael, on the cost covers for the industry. We are in the first quartile in operations. So I would like to remind you that in this quarter, the last quarter was several one-off events associated with nickel that affected nickel cost base.

But other than that, if you look at our cost structure, we are very well poised in the cash cost curve of the industry and besides, Tito [ph], as Roger mentioned, this is doing a very good job there in bringing down costs and this will certainly be seen in the -- over the next few quarters.

A - Unidentified Company Representative

(Inaudible).

A - Jose Carlos Martins {BIO 16318613 <GO>}

And only to add an additional point about the average price. First, we are selling much more in Asia than are used to be. And benchmark in Asia is slower than in Europe. So there is a more, I would say, a statistical difference because the volumes are lower in Europe than we have now in Asia.

Another point, I don't know how you are counting it. But sales of pellets almost disappeared. Many of our pellets plants are idle and not only ours. But some Arco [ph] also. So this could have an impact on average price that we are counting in our statistics.

A - Roger Agnelli {BIO 14016988 <GO>}

The point is this, the statistics in the ministry or in the -- that you get in the official, is not reliable. That is -- if you are doing that, you are doing it wrong.

A - Fabio Barbosa {BIO 1907620 <GO>}

So we are going, probably next quarter, we are going to deliver our results and you can check what happened with the price. What I can tell to you is that we are selling benchmark prices and we are signing new contracts. We didn't sign all of them. But we had already agreements for additional 50 million tons in China. But they are only for new customers.

So it's completely new contracts based on benchmark prices for customers that never bought from us. Probably they are not buying in spot or not buying from India's [ph] or from -- I don't know. But those are customers that want to buy from us. And I can tell you, I don't ask why they want to buy from us. As long as they buy.

A - Unidentified Company Representative

Thank you. Thank you, Martin.

Q - Rafael Biderman

Thank you. On nickel, is there any cost items that have increased a lot in the past year that you believe could go down, any imports? Like for instance, in the steel industry, for instance, we know that coal prices, for instance, was an important one to pilot [ph] and could go down. In nickel, in the specific, it's a primary industry. But is there any specific input that has pushed the cost curve up? Or it's just suppliers, third-parties, that kind of thing?

A - Fabio Barbosa {BIO 1907620 <GO>}

There are two elements there, Rafael. Or three elements. First, by-products prices came down and affected costs. The other element is energy. And finally we have the valuation of the currency that also represents an impact on the final cash costs of the business. Okay? Thank you.

Operator

(Operator Instructions) Our next question comes from Mr. Carlos De Alba from Morgan Stanley.

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

Good morning, gentlemen. Thank you, very much for taking the question. The first one is just if you can give us some guidance on production or sales? I know that it is difficult. But in the past you have been able to do so. Maybe rough numbers for the (inaudible) business segments? That would be highly appreciated.

And then the second one is regarding the copper business. Or actually your -- if you looked at the non-ferrous business, you have a -- you had a negative EBITDA, even after subtracting the impact of preliminary pricing adjustments in copper. I tend to believe, based on your comments, that nickel continue to be profitable.

So it has be aluminum is profitable. So it has to be copper. Are there any plans for you to reduce your output of copper even more? Or shutting that down completely for a period of time until prices recover? Thank you, very much.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you, Carlos. As for your question, I think, on the volumes, I think Martin's already indicated what we see for the First Quarter. And this is a reference number, of course. But based on what we achieve so far, we are almost at the end of the second month of the quarter. So it's a very accurate figure of what -- reliable figure of what we believe will be the First Quarter. Other than that, I would refrain from making additional comments.

As we are discussing with our clients, we are discussing in several -- in our several lines of business. But the feeling that we have, as Roger pointed out, is that there is -- there are very -- several signs of improvement across the board and this should be reflected in our future shipments in iron ore and also in our ferrous businesses.

If you look at the PMI, as we indicated in our report, the PMIs that lie, that increased a little bit, we have some signs of life in industrial production in the US, India and China. So industrial production's a key variable in our business. And it's showing signs of early -- very preliminary recovery. But those are good signs.

So the volatility around the world has been sharply reduced. But it's still -- we are in uncharted waters in a way and I would like to advance a little bit more in the year before making any additional comments.

The good news is that China is back and we are reaching record levels of shipments as we never reached those levels before. And this is extremely good news. And more important than that, we are reaching or widening, broadening, our client base in China. So reducing the risk associated with a single client or something of -- like that.

As for the copper, please keep in mind that we have a large adjustment, price adjustment due to the provisional prices -- the system of the so-called MAMA, Month after the month of arrival pricing. And then this produced an adjustment of $300 million on the copper price. So if you take this out, if you take the one-off effect that we had in our business, as we indicated, we are in a very sound position in every single line of business that we have in our portfolio.

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

Including copper concentrate?

A - Jose Carlos Martins {BIO 16318613 <GO>}

Including copper. Including copper. Okay?

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

Thank you.

Operator

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

A - Fabio Barbosa {BIO 1907620 <GO>}

Okay. I would just like to give the floor to Martin and Roger, they have additional comments that they would like to make at this stage and I would thank you all for attending. Martin, please.

A - Jose Carlos Martins {BIO 16318613 <GO>}

Yes, I -- it's fairly strange that we don't get any question about the price negotiations.

A - Roger Agnelli {BIO 14016988 <GO>}

You'd like to talk about that, Martin?

Yes. I look to address this issue because we are now in the period of price negotiations and a lot of -- we see a lot of news in the press and I would like to put how things are going as far as Vale is concerned. We are in a wait-and-see position. We are used to visit price center. But this year we decided to wait and see what you will seek to between Australians and Chinese, because I think China is now the main seaborne market and the Australians are the biggest suppliers and they are closer.

So we tend to let them to fix the price. Let-- last year, we did and we know what happened. They didn't follow the benchmark, customers accepted higher prices and we had all the problems that everybody knows.

So this year, our position is wait-and-see. There is no proposal from Vale on the table and we are only waiting for what will come. And if it's good, we'll follow. If it's not good, we'll do like they did last year. So we want to have our hands free to follow the price or not according to our strategy, according to our needs.

So on the other hand, being 5 0 [ph] is a prime sector. It seems that we saw for a little bit more. Because tactically speaking, many customers reduced their iron ore inventories in order to have some kind of organic power, to increase their organic power.

So we faced, with many customers, big customers, traditional customers, much lower orders than they are used to putting. Even considering the production they are doing. It's easy to notice what's happening with our traditional customers in China that stopped buying during all of this period. Even Arcelor Metal, which is our highest -- biggest -- largest customer, also stopped buying.

So I think we suffered a little bit more than the others because we are used to being a price setter. But this year we decided to wait and see what is going on and to take on the decision later. So that's the message I would like to convey to you.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you. Roger, you have final comments?

A - Roger Agnelli {BIO 14016988 <GO>}

Yes. Adding to what Martin said, I think that maybe there are some companies that are working at maximum capacity. So they can't go further. We are not working at maximum capacity. We closed some very high cost mines. And it's good for us. But we can go further. This is very important.

So we decided to, as Martin said, to have our hands free and to do whatever we view that is good to do. Because we are the leader in this market and it is our major business and we care about the behavior in these specific -- in iron ore.

To finalize this conference, I think what I would like to convey to you is that we are not depressed. At all. We are full of energy. We are having fun. The company is very, very well positioned in the marketplace. Our footprint right now is a global footprint and there are things that are going in our favor. And any other opportunities that may appear in the future, we are able to take advantage of.

We are conservative guys. Our approach, in terms of debt, our approach in terms of investment, our approach in terms of acquisitions, you can always consider that we are conservative. This is not the right time to be aggressive, this is the time to be humble, to do our homework, change what is necessary to change, face all the problems and solve the problems as soon as possible and try to simplify things.

To make or to consider or to have all the very sophisticated strategies, for me, in this specific moment, it's not a good idea. The best thing to have right now is to have the most simple or the most sophisticated thing. And for the most sophisticated thing is work. That's what we are doing. Working hard. Thank you, very much.

Operator

Thank you. That does conclude our Vale Fourth Quarter 2008 Earnings Conference Call for today. Thank you, very much for your participation and have a good day.