

Q4 2011 Earnings Call

Company Participants

- Eduardo Bartolomeo, Executive Officer
- Galib Chaim, Executive Officer
- Jose Carlos Martins, Executive Officer of Ferrous and Strategy
- Murilo Ferreira, President and CEO
- Tito Martins, CFO
- Unidentified Speaker, Unknown
- Vania Somavilla, Executive Officer of HR

Other Participants

- Daniel Rohr, Analyst
- Felipe Hirai, Analyst
- Ivan Westing, Analyst
- John Tumazos, Analyst
- Jonathan Brandt, Analyst
- Leonardo Correa, Analyst
- Marcos Assumpcao, Analyst
- Raphael Biderman, Analyst
- Renato Antunes, Analyst
- Rodolfo de Angele, Analyst
- Rodrigo Barros, Analyst
- Tony Rizzuto, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Vale's conference call to discuss 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. At this time, all participants are in a listen only mode. Later, we will conduct a question and answer session, and instructions will be given at that time. (Operator Instructions).

As a reminder, this conference is being recorded. To access the replay, please dial 55.11.4688.6312, access code 0239997#. 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, www.vale.com, Investors section, or at www.prnewswire.com.br.

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

With us today are Murilo Ferreira, Chief Executive Officer, Tito Martins, CFO, Jose Carlos Martins, Executive Officer of Ferrous & Strategy, Eduardo Bartolomeo, Executive Officer of Fertilizers and Coal, Vania Somavilla, the Executive Officer of Human Resources, Health & Safety, Sustainability and Energy, Galib Chaim, Executive Officer of Capital Projects Execution. First, Mr. Murilo Ferreira will proceed with a net overview of Vale's 2011 annual results, and after that, he will be available for questions and answers.

It is now my pleasure to turn the call over to Mr. Murilo Ferreira. Sir, you may now begin.

Murilo Ferreira {BIO 1921488 <GO>}

Good morning. Good afternoon. We are proud to be able to report excellent operational and financial performance in 2011. We reached record production in iron ore, pellets, and coal. And we would like to highlight especially our record in Carajas, our main sources for capacity expansion.

Base metals, nickel and copper also had their best performance in (2008). Our financial performance was outstanding, better than ever before. We broke records for operating revenues, operating income, operating margin, cash flow generation, and net earnings. Despite the high volatility in Europe, we think that the result was unbelievable. We are fully committed to value creation with efficiency in management of capital, fundamental element in approaching that goal.

Five new projects were completed in 2011 -- Onca Puma, Oman, Moatize, Estreito, and Karebbe, whose potential for growth and value creation will materialize mainly during 2012, 2013.

We have to point out that we have obtained the permits to operate the N5 South area, the first operating license for mining at Carajas since 2002. We have invested \$18 billion in sustaining an organic growth of our operation.

We have returned to our shareholders \$12 billion, being \$9 billion (sic -- see press release) in dividends, and \$3 billion through share buybacks. Our investment in corporate social responsibility amount to \$1.5 billion.

And now it's time to say thank you very much to our shareholders, our employees, customers, suppliers and communities. Thank you very much. We are open for questions.

Questions And Answers

Operator

Thank you, ladies and gentlemen. We will now begin the question and answer session.
(Operator Instructions)

Our first question comes from Mr. Felipe Hirai from Merrill Lynch.

Q - Felipe Hirai {BIO 15071781 <GO>}

Hi. Good morning. Good afternoon, everyone. Thanks for the call. So my first question is related to this environmental permit that you got on the N5 South mine. So I just wanted to understand what is going to be the impact on this, on your prediction, or what could eventually be the (compacts) you opened in the new mine, and if this license in any form relates to the license that you are trying to get in the Serra Sul mine, or if this N5 South pit would have the same issues like the caves or the biodiversity issues that you found in Serra Sul.

And my second question is related to the total CapEx that you're talking about for the next few years. In your presentation, you mentioned that you are currently investing in 20 different projects, that is going to consume something like \$48 billion of CapEx. Should we assume that this is some kind of a guidance that you have for the CapEx in new projects for the next five years, or can this number be much higher, and if or when you include any new projects through this pipeline. Thank you.

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

As far as N5S -- it's Martins speaking, Felipe. As far as N5S, we go up to final in the approval. We already made all the parts moving, and we are preparing for mining, we already started to mine. It's a very good mine, the iron ore is in the surface, high quality, you don't need it to concentrate. So it's very promising.

For the time being, this mine will not impact the volumes, because we have some restrictions, some constraints in the logistics side. So even if you produce more, we are not able to deliver it for the time being. But on the other hand, that mine will help us improve quality, a lot, because it's a very high quality, and as I told you, it is a mine that is iron ore in the surface, so you always have the best ore on the surface. As you go down, the quality starts decreasing.

So this mine will help us a lot. We are waiting for this since 2004. And finally, we got this license, and we are moving very fast in bringing it operation.

The investment to prepare the mine as various models, talking about the \$50 million, all the other investment was already done, the (Plus 40) project and the (Plus 20) project, are already prepared to get this order and process it.

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So it will be very good for the Company, this development. It will help reduce costs, it will help to increase quality. And when you have the streamline in the logistics side, then we are going to have additional production, which means to push Carajas to produce 150 million tonnes per year, since we completed the investments that we are doing in the logistics side.

So we are very, very -- I would say, optimistic about this, and I think it's a breakthrough, because for many, many years, we are not able to get any approval, any license. So we see a much better landscape on this subject.

But talking about these environmental issues, I think Vania could be best positioned to explain what we are doing, how we are moving all over these points.

A - Vania Somavilla {BIO 15867577 <GO>}

Good morning, Felipe. We are doing tough work regarding environmental issues here. We have conducted a review in all our studies, and we are very confident that the new projects that we sent to the environmental agents, they are all in very good condition.

They -- we can assure that these studies are ready, are well done, and well reviewed, so we are very confident that by the beginning of the next year, we are going to have the license, the necessary license and permits to start going forward in our projects, mainly in S11D.

A - Tito Martins {BIO 3374920 <GO>}

Okay. Good morning, everybody, it's Tito speaking. Regarding the question about the CapEx, what we have in our presentation, the \$48.1 billion, refers to the 20 major projects. Of course, this is a number that changes from time to time, based on the projects that we have already approved in our Board, the project will be implemented during the time being.

What happened is, as you know, we have a list in the release of the main projects. Those are the projects that we -- as we have already announced before. The projects that we want to show more transparency about them, and the projects that we are committed to deliver.

So we cannot forecast today what is the number that we'll be showing the one year time, because we will only be showing those projects that will be approved, and it will be with the proper permits to be implemented. Thank you.

Operator

Excuse me, our next question comes from Mr. Daniel Rohr from Morningstar.

Q - Daniel Rohr {BIO 16138004 <GO>}

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Thank you for taking my question, gentlemen. So my question concerns iron ore cash costs. So by my calculations, unit cash costs for iron ore were up about 22% over the prior year at about \$35 a ton, versus \$29 a ton. Looking at the quarterly numbers, unit costs marched higher, pretty much every quarter throughout the year, peaking at about \$38 in the Fourth Quarter.

It looks like the real was only 5% stronger versus the dollar for the year, so translation effects probably weren't a big deal. I'm hoping you guys could discuss the drivers of the unit cost increase, and how we should think about cash costs trending in the First Quarter, from the \$38 a ton in the Fourth Quarter. And given that the new collective bargaining agreement only came into effect in November, do you think we're looking at a sequential unit cost increase in the First Quarter?

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

Okay. I'll try to explain this in a simple way. What happened is, we saw along the year a cost increase, most caused by external factors like exchange rate. Okay? So what happened is, at some point during the year, the exchange rate has a huge impact in our costs.

At the last quarter, what we had was exactly as you mentioned, the new labor contract here in Brazil, which increased the labor costs in Brazil 8%, and additionally to that, we also have an extra bonus that was paid, a retention bonus was paid to all employees based in Brazil. It will not happen again, which means that if you look at what we have, in terms of costs, increasing costs in the operation, directly related to the operations, would be the labor.

Of course, we are trying to compensate it through other measures. So what I can tell you right now is, we are looking deeply in what we can do in order to have costs back at the same level we had in terms of average in the previous year -- I mean, 2011, compensate. But we cannot control on a regular basis external factors which affect those costs.

Q - Daniel Rohr {BIO 16138004 <GO>}

Right, of course.

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

And another point -- Martins speaking -- is another point which is important to consider is the grade of our production is very big. We are producing 300 million tonnes per year. And as I told before, we have been not able to open new mines in the pace that we'd like to. So as you move deeper in the mines, and you go more distance to mine, the costs tended to increase structurally.

So it's very important that we can develop new mines, to open new pits, because that will be very beneficial to cost. So N5S that we just opened, it will help a lot to reduce costs in Carajas Serra, because it's a surface mine, it's so -- you don't need to move the iron ore long distances, high quality, very low ratio of strip, very low strip rates.

So all those factors, they will help us to reduce costs.

I think to tackle the challenge to reduce costs is structurally, we really needed to open new mines, and that's our main task, is that we are putting all our efforts, because we have labor, we have energy here and there, this is -- affect everybody. But you needed to be aware about your structure on costs, because those -- that will really impact your competitiveness, because the other issues affect your competitors also.

So the structural cost is very important, and it is very important that we are able to open new mines, new pits to get these costs going down.

Q - Daniel Rohr {BIO 16138004 <GO>}

Thank you.

Operator

Excuse me, our next question comes from Mr. Rodolfo de Angele from JPMorgan.

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

Hi, thank you. I just wanted to follow up on something we've discussed in the previous call in Portuguese, where Murilo mentioned that, in regarding the new regulatory framework, they would probably see it coming in two stages, and the initial stage would address mainly how concessions work.

I was wondering if Murilo could comment a bit more, if possible, on that, what aspects could change for good or for worse in this sense, and if you can already comment on any consequences for Vale or for the industry as a whole.

And my second question is, I just wanted to hear from you, if you could have -- give us a update on Vale New Caledonia. How is it moving on the ramp up? That's all. Thanks.

A - Murilo Ferreira {BIO 1921488 <GO>}

Hi. Rodolfo. Thank you very much for your question. I think that in New Caledonia, you are doing very well, and an integrated basis, is going smoothly. I think that we can see in three different phase, the first one of 20,000 tonnes per year, and the second, the same size, and the third, equally.

We are working with the first phase. I think that the productiveness is going to reach our level, the level that we wanted to see. And as far -- so far, so good. I think that finally, you are seeing this project go ahead, and I hope to continue with the same way.

Regarding our discussion, I think that we needed to -- got in our discussion mining, and the new mining law, and the royalties. What we can say that we have, two discussion.

And the first one is about the new mining code that they want us to address, mainly about the license process, the new exploration, and all the permits that we needed to receive from the Brazilian authorities in this regard.

The second one is about the royalties. I think that it's in a different stage, as far as I know. I think that the idea of the government in the First Quarter of this year, to send to the Congress the new mining code, and later on, we start the discussion about the royalty.

Operator

Excuse me, our next question comes from Mr. Marcos Assumpcao from Itau Bank.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Hi. Good afternoon, everybody. Our first question is regarding the difference between production levels, which were quite strong in 2011, and also in sales volumes, if you could explain a little bit the main reasons for the difference, nearly 24 million tonnes. And on the inventory buildup at Oman, how much do you think it's going to be the sustainable inventory level, at that level -- at that place. Thank you.

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

Well -- Martins is speaking. As far as production is concerned, in the production numbers, we are considering this our share on Samarco production, okay? So we have around 12 million tonnes there, that is our part on the Samarco production. So our real production is around the (310). So we have increased in our inventories, yes, because we have some constraints in logistics, as I said before.

So the situation is that as long as we can free our logistic capacity, all (of this ore) will be sold.

As far as Oman is concerned, we expect to have Oman no more than 1 million tonnes, considering raw material for the operation, considering pellets already produced, and some material that we sent there for blending, because it works not only as a pellet plant, but also as a distribution center.

We sent ore from Carajas Serra, with ore from (south) Serra, and we blend that in order to improve quality and to become more marketable. But we don't believe that we needed to have there a big amount of inventories.

Another point is that we are moving ore from Brazil to Oman, based on big ships, 400,000 ton ships, which reduced the cost a lot. So at the end of this, all of this additional operation could be self-financed, self-paid.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay, if I can make a second question, regarding volumes on base metals, how much do you expect on the ramp up of volumes for copper from Tres Valles in Salobo? And also,

from nickel on Onca Puma.

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

Okay. Tres Valles, we will be producing 18,000 tonnes. We're almost there, actually. We're still struggling a little bit with costs over there, but it's -- should be addressed along the year. And Salobo, the startup is in April, the first phase, right? So we should be reaching the full capacity, the first phase, by the end of next year, probably?

A - Unidentified Speaker

Yes.

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

And the second phase would be starting in the beginning of next year, so it should be in full capacity at the second half of 2014.

A - Unidentified Speaker

Right. That's it.

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

And Onca Puma, second line is start operation at the beginning of the year. First ferronickel was produced at the end of January, and we should have the first line in full capacity at the end of this year, and the second line for capacity at the end of next year. So the full plant will be operating at full capacity at the end of next year, the 53,000 tonnes.

Operator

Excuse me, our next question comes from Mr. Jon Brandt, from HSBC.

Q - Jonathan Brandt {BIO 5506998 <GO>}

Hi. Good morning. Good afternoon. Thank you for taking my call. Just a couple quick questions. First, on the iron ore side, I noticed you shipped a lot more to China and Asia, as a result of the European crisis. And I guess I'm wondering if you expect that trend to continue, if we should see more iron ore volumes being shipped to China at the expense of Europe, or if you see that sort of normalizing at some point this year. And how concerned you are with the buildup of iron ore at the Chinese ports.

My second question is -- regards to coal. I noticed in the Coal division, there was another operating loss. I guess I'm wondering when you expect that to become profitable. Is it the operations at Mozambique, or is it more due to the Australian coal operations? Any clarity on that would be much appreciated. Thank you.

A - Murilo Ferreira {BIO 1921488 <GO>}

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Well as far as our sales, the trend to Asia is unavoidable, okay? We have some (inaudible) of factors in Europe today that reduced a little bit the demand in Europe. But -- and in spite of it, as time goes by, more and more volumes is going to Asia, and is going to China. And that's the reason we developed our shipping strategy, to cope with this reality. We have a huge cost difference from shipping from Brazil to Asia, than shipping from our competitors to Asia. So we did it to address this issue, and we are addressing it. I don't believe that this trend will change. In my view, it will be bigger and bigger. And this is reality that you have to live with, okay?

So it's unavoidable, and we needed to prepare for it. We don't have any other strategy. As you know, we have some initiatives to produce still in Brazil, in order to keep some market share in the Brazilian market, but it's not something that could change the whole trend.

If you look how much we sell in Asia, and how much we sell in Brazil, you can see that today, Vale's sales, near 75% of our volume is in Asia and in Brazil. Europe and western world has not big impact on our sales, and I think this trend continues to move in that way.

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Okay, Jon, regarding to coal -- this is Eduardo Bartolomeo speaking -- we have a position here, as you already mentioned, because we had three different scenarios. One, in Colombia, it was a very good year, the ramp up to operations there, and we did very well. Australia, we had a very bad beginning of the year, due to the rain in Queensland, and at the end of the year, we had a non-recurring effect of around the contingency, but again, it is an operation that is improving.

But the best news, and I think the biggest one, is Moatize. We finally ramped up the operations -- we are ramping up. We delivered the first coal in the last quarter. Of course, there is no results on that, it is pre-ops. But as we're looking now, the operations is improving very well. The mine is doing fine, the CHVP -- the plant (initiation) is doing fine. The logistics is responding adequately to the (processing) now. Of course, there's a challenge of logistics. Everybody that follows coal knows that, but we're doing fine.

I think it was a transition year, and 2012 is going to be a very good year, and we are on budget so far.

Operator

Excuse me, our next question comes from Mr. Renato Antunes, from Flow Corretora.

Q - Renato Antunes {BIO 17439917 <GO>}

Hello. Good afternoon, everybody. Thanks for taking my question. First question, related to the Simandou project, if you could provide us one update on how conversations are going with local authorities, it would be great. And also, an update on the time out of the project, is the first question.

And the second question, thinking about your assets in Corumba, we have recently seen some players aiming to develop a more efficient logistics solution to the region. I understand you have many growth options right now at other regions. I just wanted to hear your strategic views on the assets you have in Corumba, thinking on a more long-term perspective. Those are the two questions. Thank you.

A - Murilo Ferreira {BIO 1921488 <GO>}

Murilo speaking. Thank you for your questions. In Guinea, our right in Zogota is coming onstream this year. I am not saying that it will be a big number, but it's coming onstream this year.

But the other side, you are still evaluating the effects of the new mining code, in order to see the numbers and the economics of the projects regarding the Simandou. I think that you are doing a big analysis and having some discussion with the government, and we intended to pursue a solution and to having a decision until the end of this year. Thank you very much.

A - Unidentified Speaker

Corumba?

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

Ah, Corumba. As far as Corumba -- Martins is speaking -- it's one of the best lump ore available mine in the world, and can produce around a 10 million to 15 million tonnes per year. If you can found a feasible logistics solution, I think everybody that's on this mine before, we are trying to create this efficient logistics, which is not easy, because the best option is through the river, and the river only works for six months per year. So then you have to invest a lot in barges and systems to cope with this seasonality.

But we are improving the situation. We are developing a better system. But we don't believe that there will be any other alternative better than the river. We have analyzed the railway system many times. You can do, but the cost is skyrocketing, okay, because (technical difficulty) around it, 2,500 kilometers distance.

So if you go one side, it is very distance, the other side, you have to cross the Andes. So the way you look, it's the best mine in the world, but not in the best place. So we are working hard to have efficient logistics, considering trans-shipment, and the end of the river is the beginning of the ocean, in order to improve the economical of the system.

For the time being, we are prepared to ramp up there up to 6 million tonnes, but we believe that the final capacity, once we get this solution, logistic solution, and depending also up on the iron ore price, 50 million tonnes will be the most that we can produce there.

About the other projects we see around, okay, we are following up, but we have analyzed the same alternatives many times before, and we never found it feasible.

Operator

Excuse me, our next question comes from Mr. Leonardo Correa from Barclays.

Q - Leonardo Correa {BIO 16441222 <GO>}

Hi. Good afternoon, everyone. Thank you. My first question for you, Murilo, regarding tax liability, still on the same theme of the previous quarter, the previous call. I mean, you talked about the very low likelihood of any unfavorable decision regarding taxation of foreign subsidiaries.

Can you just please provide us an update regarding also the (Stefan) dispute? And how likely a lawsuit could be, and the potential timing of this dispute on the (sustained) royalties, please? That's my first question.

The second question is for Tito Martins. Just regarding -- it's more of a specific question, but just regarding SG&A expenses in the quarter, I mean, we saw an increase by around 26%, quarter over quarter. In the release, you mentioned higher administrative expenses, mainly services and personnel. Just wanting to add a little bit of clarity on that line, exactly what's driving it. Is it basically the projects that are coming in and still not contributing in terms of revenues, or is there something else that has been driving this increase in SG&A? Those are my two questions, please. Thank you.

A - Murilo Ferreira {BIO 1921488 <GO>}

Okay, Leonardo, thank you. As you know, there is a committee composed by Vale and DNPM, in charge of the discussions, in terms of various issues related to these discussions. And but for sure, it's not easy. You are talking about almost 20 years involved, in terms of documentation, and we needed to finalize out of this discussion regarding documentation.

But you are doing in a good will. I think both sides are in a very good will, and I hope that you will finalize in the First Quarter, in the first half of this year.

A - Tito Martins {BIO 3374920 <GO>}

Okay. In terms of your question about the SG&A, you are right. Part of these actual increases not only given today, increase in the personnel and the labor contracts, but also the operating expenses and some depreciation related to the operating expenses.

So what happened is, we have Salobo, we already have more than 1,000 employees. (Pre-starting) the project we have, we have Moatize happening. In part of the year, we had Onca Puma.

So a lot of new projects coming up, and that's why we saw some increase in costs without the related revenues happening.

Q - Leonardo Correa {BIO 16441222 <GO>}

Thank you very much, Murilo and Tito.

Operator

Excuse me, our next question comes from Mr. Rodrigo Barros from Deutsche Bank.

Q - Rodrigo Barros {BIO 5851294 <GO>}

Thank you very much for the call. I have a couple of questions. The first one on the Nacala corridor. And last year, you spent \$38 million only on the project, and it's supposed to be ready by 2014. I just want to check if the provided guidance, in terms of timing, it's going to be completed, if that is still valid?

And my second question is in Moatize itself, if you could give us guidance on the production for 2012 and beyond, and the blend between thermal and coking coal. Thank you very much.

A - Galib Chaim {BIO 17562473 <GO>}

Galib Chaim speaking. About Nacala corridor, it's going very well. We have signed in the last month an agreement, a concession agreement with the Malawian government, and we already started the construction, we have hired the company to do it, and they are in mobilization stage. And for the Nacala port and the greenfield of railway in Mozambique, it is also doing very well. We are in final negotiation with the CFEM -- CFEM is the state (inaudible) company Mozambique. And I believe that's everything on track. We don't expect any delay on this question.

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Regarding the second question, Rodrigo, I already mentioned, Moatize project is doing very well, both on the mine and the (inaudible) part. In fact, on the budget, our guidance is 4.8 million tonnes, and it's, again, as I mentioned before, aligned with our expectations of ramping up as the first year. The main challenge is logistics. And again, I think we achieved 11 million tonnes, as we planned.

Operator

Excuse me, our next question comes from Mr. John Tumazos, from John Tumazos Very Independent Research.

Q - John Tumazos {BIO 1504406 <GO>}

Thank you for taking my call. It's hard for me to understand in China, when your Valemax boats try to go there, they don't offer the Capitano a cup of coffee, and the crew some hospitality, and -- after the long journey. And you invest so diligently, and try to so hard to serve China, that they should be very courteous to you, I believe.

I have two questions. Can the boats ship corn or wheat or some other cargo? And second, why not take a big fraction of your iron ore CapEx budget and move it to agriculture,

where the customers are more likely to give your emissary a cup of coffee if he wants to visit?

A - Murilo Ferreira {BIO 1921488 <GO>}

Well thank you very much for your question.

Q - John Tumazos {BIO 1504406 <GO>}

Excuse my humor.

A - Murilo Ferreira {BIO 1921488 <GO>}

I got it. Well look, this is a game changer strategy, okay? And you do not expect, when you go for a game changer strategy, to have an easy way for you. I think the strategy is very good for China, because you reduce the cost of ore. It's very good for Vale. But you take time for people to understand it and to accept it.

For the time being, the restrictions are mainly technical restrictions that we needed to cope with. They have concerns about the safety, they have concerns about -- not only the safety of the ship, but also the safety of the port. And you needed to solve these issues in order to (berth).

We have been working with them before, and to tell the truth, at the port level, the understanding was very good. But you know that you have other interests that are not too happy, and they clearly state it in the press, the Chinese ship owners.

But long-term, a big ship is an alternative for them. So it's part of their business. And I believe that as time goes by, all of these issues will be solved.

For the time being, I can assure you that we don't need to move corn, or wheat on it.

A - Unidentified Speaker

Yes, or fertilizer.

A - Murilo Ferreira {BIO 1921488 <GO>}

Even fertilizer, okay? But because we have options, we are prepared for alternative solutions, and as you know, China needs ore, and they need the ore, and I think as time goes by, all of these things will be solved in a good manner.

We needed to understand, the present situation is a transitory situation, and we needed to cope with the Chinese regulations, when you go -- even if someone asks you to drink a cup of coffee, you have to follow the rules.

So we are waiting the cup of coffee under the Chinese rules, and we believe that we are going to get there. So this is not -- it's a matter of concern for us, but it's not a matter of

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high concern. We are addressing the situation, and we are not intending to move to agriculture, unless to sell fertilizers, okay? But that is so far we can go. Sell fertilizers.

A - Unidentified Speaker

A lot.

Operator

Excuse me, our next question comes from Mr. Tony Rizzuto from Dahlman Rose.

Q - Tony Rizzuto {BIO 1490590 <GO>}

Thank you very much. Listen, I just wanted to pursue China a little bit, because I think certainly the Chinese economy has started out a little bit -- perhaps more sluggishly than many people expected at this point. I was wondering, what kinds of things are you looking at to signal that that economy is indeed accelerating, and what gives you the confidence that that economy is going to accelerate here over the near term? Thank you.

A - Murilo Ferreira {BIO 1921488 <GO>}

Well I just came from China. I spent ten days in China last week, beginning of the last week, until Monday. And I had a very good feel what's going on in China. And they are really slowing down on the construction side, but all the other segments continues to work very well. And we are in the winter now. Normally, in the winter, construction side is not so strong.

But you can see that there is some liquidity issues for -- the flow of money for the construction sector was not that -- that was used to be. So -- and the numbers, about their GDP, shows that there is a kind of deceleration of their economy. But nothing that you can be too much concerned.

We believe at the end of the winter period, which is very strong in China, some recovery will happen. I think the government is easing the monetary policy very cautiously, but they are doing it. And we really hope that the second half will be much better. China continues to have huge structural needs, mainly on housing, and they needed to cope with -- they have to build at least 10 million houses per year, in order to cope with their (deficit) they have now.

So we are not so much concerned about China, although we believe that the growth will not be that big that it was used to be. And also, some impact will happen in the steel industry, and the iron ore business. So steel industry will not grow so fast, and iron ore consumption also.

But on the other hand, they have a high cost to produce their ore, and also, some supply from India are being reduced. In 2009, India exported almost 120 million tonnes of iron ore. Last year, they export something like 75 million tonnes of iron ore. And they continue to reduce their exports in order to cope with domestic market.

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So we are low cost producer. We are well prepared to keep production full capacity, and delivering at the market price. And we believe that the market price has some resilience, based on the cost of local ore. So we are not so much concerned with this trend. We believe that we can continue to ship the ore we produce, very reasonable price, considering our low cost to position.

And it's fair to say, (inaudible) speaking, but we can see some numbers regarding the consumption, it's increasing. We note that in the First Quarter of this year, that the investment is maybe -- it's not so good as could be expected, but I believe that the Second Quarter, mainly with this housing that the government will provide to the people, it is 10 million houses, I think, the 10 million house program. I think that will be in place with good results for the remainder of the year.

Operator

Excuse me, our next question comes from Mr. Rodrigo Barros from Deutsche Bank.

Q - Rodrigo Barros {BIO 5851294 <GO>}

Yes, just a follow up question for Murilo. Murilo, what -- I note in the results, and also recent Latin news articles from Vale, is that it seems that the government is much more friendly to the Company. You reiterated in the call that you do expect the license for Carajas Serra Sul, the premier license, to be exact, in the first half of the year. And the remaining news in recent days that government would be supporting Vale in the Valemax issue with China. There were public statements by the government.

So I just wanted to get your qualitative view on how this relationship improved in recent months, or in the last year. Thank you very much.

A - Murilo Ferreira {BIO 1921488 <GO>}

We are doing our best to solve all the issues, in order to have the environment permits in our hands, and to have the government knowing precisely what kind of data they needed to receive. I think that what -- the scenario that I am working today is a huge corporation, we are doing all the information and are receiving, having meetings, in a very open and constructive way. The relationship is very good, and I have to say, just thank you for the cooperation and support that they are giving us.

Operator

Excuse me, our next question comes from Mr. (Ivan Westing) from Credit Suisse.

Q - Ivan Westing

Good day, everyone. Thank you very much for the call. I have two questions. I would prefer if you could elaborate on your strategy regarding (inaudible) in Asia. In the long term, what is the percentage of total sales expected (inaudible) to the ground through such (inaudible), and what is expected impact on OpEx?

And the other point, where first Vale has been (inaudible), and Vale's results remain highly dependent on its ferrous division, and iron ore price may go down in the future. Can we expect some M&A activity in (inaudible)iron ore business in order to reduce Vale's exposure to this market? Thank you very much.

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

Can you repeat your first question, please?

Q - Ivan Westing

You -- I believe you start taking the ore to the ground in some trans-shipment facility in Asia, there's the ones in Philippines, and Malaysia. So this is just a start. In the long term, what is your plan in terms of volume? How -- what is the percentage of the total sales you expect to take to the ground (multiple speakers)(how do you expect) OpEx?

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

Well as far as the first question, our -- we are building our logistic complex in Asia based on distribution centers, one in (Oman), Middle East, another one in Malaysia. Middle East is already there. Malaysia is being built, to be ready end of 2013, beginning of 2014. And also, we have a trans-shipment station.

The trans-shipment station is a way for us to reach a smaller port that's in Asia. Even today, we don't supply many customers in Asia, because they buy based on Panamax vessels, because they have a small port. And you cannot send a small vessel from Brazil to Asia. The freight cost is too high.

So we used our ideas with the trans-shipment stations to complement the alternatives we have with the distribution center, but also to move ore from the big vessels. You made 85% of the trip very efficiently. And when you arrive nearby the ports, you can move ore to the small vessels, even to barge. The small vessels, even to go through the rivers, directly through the rivers, okay? So then we are open, a very big logistic option for our ore.

As far as Malaysia and Oman, we only will put ore on the ground when we can blend it, in order to improve the quality and to add some value by improving quality. It's not our idea only (to store this) ore in a distribution center like that. The idea is just, have the opportunity for blending ore from the Carajas area, which is much richer, with ore from the south area, which is less richer. So it's a comprehensive strategy that looks not only costs, but look also quality.

Another point, it's important to look, is during the last financial crisis, as we don't have logistic options, we needed to stop mining, okay? So during 2008 and 2009, we lost 65 million tonnes of production, because we have no place where to put the ore. We did -- all the ports were completely full of ore. We don't have an area with storage in the mine, so we have no place to move the ore.

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So our comprehensive strategy looks quality, looks at cost, and also looks -- have a very smooth production all the time. As we have some constraints in logistics, it's very important when the market is not so strong, very important for us to keep moving the ore. So we can -- even we can make the revenues later.

So that is the whole picture that we are work on it. It's not only about China. China is important, because it's the main market we are looking for, but you have the whole Asia and all other alternatives that we have, in order to reduce costs, improve quality, and to increase our presence in Asia. Asia is the future markets for iron ore. It doesn't matter what you do. It's in Asia that the markets overall, be in China, India, or any other countries in Asia, the markets will grow there. So we are preparing ourselves for it.

A - Tito Martins {BIO 3374920 <GO>}

And in terms of your second question, I'm going to give you a broad answer, because actually, if I had to enter into details, we'd spend a lot of time here.

What happened is, we've been saying and stating everywhere that we want to actually grow in different fields, right? So that's why we are spending a yearly CapEx in fertilizers. That's why we are booting up new copper projects. That's why we are booting up coal, new coal projects in Mozambique and Australia.

So the Company intends, and has as a target, to be a diversified company. So what happened is, of course, iron ore will remain as the most important product for us.

I would say that in the short term, our priority is to deliver the projects that we have in our pipeline today. We want to actually be able to deliver, as soon as possible, the greenfield projects, the brownfield projects.

M&A is a possibility for the future -- it is. It is not a priority. We are always open to opportunities. But we, of course, we want to preserve the value of our assets and the value of our balance sheet. We don't want to go for a, let's see, (adventures). We don't want to pay more than what we believe that the assets should have as a value. I'll give you an example.

Last year, the Metorex was a very good example. When we had competition that was up to pay a price for the asset that we didn't believe that was the proper one, we gave up the competition. We were not in the tender anymore.

So it's a possibility, but the priority today is our projects, and to deliver what we have in our pipeline.

A - Murilo Ferreira {BIO 1921488 <GO>}

Murilo speaking. Just to remember, we have good projects for organic growth. I can -- just to remember, have Serra Sul, it's a big investment. The project in Argentina, Rio Colorado, and our project, the expansion of Mozambique. I think that our priority at this point of

time is to go ahead with this project, to have the right implementation, a good management, and to pay dividends, just in case of some good opportunities, we will look for M&A. Thank you.

Operator

Excuse me, our next question comes from Mr. Raphael Biderman from Bradesco.

Q - Raphael Biderman {BIO 1529743 <GO>}

Good morning. Good afternoon, Murilo, Tito and Martins. My first question is regarding Europe, how you guys perceived the drop in sales. There was a drop in sales in the Fourth Quarter, due to the crisis, but how are you guys perceiving demand in Europe in January and February of this year, and if you have a guidance for 2012.

The second question is related to M&A, just more of very vague idea. We were just like updating our models on the general mining companies in Australia, and again, we saw that they are developing their projects, and they have sizable (inaudible), some of them, sizable reserves. Some of them lack a big group behind them to help them. Some of them already found a big group to help them.

Would it make sense for Vale eventually to partnership with some of these companies, like (BHP and Rio Tinto) in the past was helped by the good iron ore of Vale, blending their iron ore, making them more feasible to market it? Wouldn't it be good for Vale to do it themselves, and have some big mine project in Australia?

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

Well as far as Europe was concerned, it was not really a big drop in Europe in the last quarter, okay? It was a high stabilization, but not a big drop. But in reality we had a very strong production in that quarter. So we have sent more ore to Asia. But it's not because Europe was not taking.

It's what's very interesting, because if you look Europe, before 2008's crisis and today, they are around 15% below. So they already have this low level of production. They never recovered. So I don't believe, even with this crisis now, that the European market will go down so sharply. I think only a minor adjustment will happen, we will have in Europe.

So I do not see such a bearish scenario for iron ore and still in Europe. It will be tougher. It will be not so dynamic, that probably there will be no growth, but I think that the markets in Europe will go (sidelines). And we have to send more to Asia, if we produce more, so that's the consequence.

A - Murilo Ferreira {BIO 1921488 <GO>}

And Raphael, it is in fact our duty to analyze all the opportunities through general companies. We know just in Toronto, we have roughly 1,200 (joint list) companies. It's not that hard to analyze most of them, and to see if you have some opportunity. But again,

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you are fully committed to the projects that you have in hand. I think that to have a bright scenario for the future. Thank you very much for your question.

Operator

Excuse me, our last question comes from Mr. Rene Klewag from UBS. Excuse me, Mr. Klewag, your line is open, sir. Excuse me, we lost connection with Mr. Klewag.

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

A - Murilo Ferreira {BIO 1921488 <GO>}

I'd like to express again our gratitude for your cooperation, your reports, regarding Vale. I think that it's an opportunity to say thank you very much for all the comments that we have received from you. And we really appreciate it, and we hope that you have a great year as well. Thank you very much.

Operator

That does conclude our Vale's Fourth Quarter 2011 results conference for today. Thank you very much for your participation. You may now disconnect.

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