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A robust performance - 2Q12

Vale had a robust financial performance in spite of the challenges posed by the lower price environment and operational issues in the base metals and coal businesses.

Iron ore production and sales have recovered from last quarter's weather-related low performance while some important milestones were achieved in the development of our most important projects, including Carajás S11D. Moreover, we took additional effective steps to rationalize the asset portfolio as a value creation tool.

Operating revenues, income and margin, as well as cash flow improved in relation to 1Q12.

Net earnings suffered a large accounting non-cash balance sheet impact arising from the devaluation of the Brazilian real, our functional currency for accounting purposes, against the US dollar.

On the other hand, the appreciation of the US dollar vis-à-vis the Brazilian real, the Canadian dollar and other currencies, which represent about 80% of our operating costs, contributed positively to the cash flow. Given that almost 100% of our debt portfolio is denominated in US dollars or converted into US dollars through swaps there is no material effect on it.

Asset divestiture, which improves the allocation of capital and is a source of shareholder value creation, produced non-recurring accounting losses in the quarter.

We continue to develop a large portfolio of projects aiming to meet the demand stemming from the long-term growth dynamics of emerging economies and with a strong focus on maximizing value creation.

The main highlights of Vale's performance in 2Q12 were:

- Iron ore shipments reached 63.0 Mt, 14.9% higher than 1Q12.

- Record pellet sales for a quarter, 12.3 Mt, 13.1% above the previous record in 4Q11.

- Operating revenues of US$ 12.2 billion, 7.2% above 1Q12.

- Income from existing operations, as measured by adjusted EBIT(a) (earnings before interest and taxes), of US$ 3.9 billion. After excluding the non-recurring effect of accounting losses, adjusted EBIT reached US$ 4.3 billion, 11.7% higher than 1Q12.

- Operating income margin of 36.2%, as measured by adjusted EBIT margin, after excluding non-recurring losses.

- Net earnings of US$ 2.7 billion, equal to US$ 0.52 per share. If we isolate the influence of the non-cash effects, earnings before taxes would be US$ 4.0 billion, 5.7% above the US$ 3.8 billion figure in 1Q12.

- Cash generation, as measured by adjusted EBITDA(b) (earnings before interest, taxes, depreciation and amortization), of US$ 5.1 billion. After excluding non-recurring accounting losses, cash generation reached US$ 5.5 billion, 10.7% over 1Q12. Over the last 12-month period ended on June 30, 2012, adjusted EBITDA was US$ 27.1 billion.

- Capital expenditures, excluding acquisitions, of US$ 4.3 billion in 2Q12, 16.6% above 1Q12. In 1H12, capital expenditures reached US$ 8.0 billion, 17.5% above the US$ 6.8 billion in 1H11.

- The first tranche of the minimum dividend for 2012, US$ 3.0 billion, was paid to shareholders on April 30, 2012.

- Maintenance of a strong balance sheet, with low debt leverage, measured by total debt/LTM adjusted EBITDA, equal to 0.9x, long average maturity, 9.4 years, and low average cost, 4.61% per year as of June 30, 2012.

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