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Vale adjusts to the new global economic scenario

Vale informs that it is taking steps to change its production plans in accordance to the new global economic outlook that emerged from the recent intensification of financial market stress and the adverse feedback loops between the financial system and the real economy.

One of its implications is a strong negative impact on the global steel industry, given the importance of steel for industrial production and construction. Hence, steel companies around the globe have been announcing significant production cuts, estimated at approximately 20% of the 2007 world's production level, to be implemented immediately.

Since iron ore only application is in steelmaking, its demand was suddenly impacted by the steel output contraction. As a bulk product, with large-scale operations, iron ore demands mine-railroad-port-maritime shipping integration and does not allow significant inventory building in expectation of demand recovery, due to physical limitations.

The slowdown of global industrial production has also negatively impacted the demand for base metals, such as nickel and aluminum, already reflected in declining prices and rising inventories.

Thus, the new global environment demands adjustment in our production program for several products, with an ensuing deceleration in our operational activities. We strongly believe this decision, made at this point of time, will contribute to minimize risks of much larger future costs to our shareholders, employees and the communities where we operate.

In this context, Vale has decided to reduce its iron ore production by a volume equivalent to 30 million metric tons annually. This will be enforced through the shutdown of some mines, in the Southern and Southeastern Systems, in the state of Minas Gerais, Brazil, from Saturday, November 1, 2008, onwards. These are higher-cost iron ore mines with lower-quality output relatively to the average quality of Vale's iron ores.

This aims to adapting our supply to global demand, avoiding unnecessary and costly inventory building. As a consequence of the stoppage, our employees will have collective vacations.

Two pellet plants, representing approximately 20% of our total nominal capacity, will be shutdown for maintenance for maintenance also from November 2008 onwards.

Our manganese ore and ferroalloy operations in Brazil will be paralyzed from December 2008 to January 2009. Our Dunkerque ferroalloy plant in France will be kept idled until April 2009, while the plant in Mo I Rana, Norway, will have its furnace maintenance extended until June 2009. These changes will imply into a production cut of 600,000 metric tons of manganese ore and 90,000 metric tons of ferroalloy.

In Indonesia, we are discontinuing the usage of higher-cost thermal power generation, which will lead to a reduction of nickel-in-matte output by 20%, amounting to approximately 17,000 metric tons. In addition, our utility nickel refinery in Dalian, China, will keep running at 35% of its nominal capacity.

Vale has decided to shutdown the activities of one of its aluminum smelters, belonging to its wholly owned subsidiary, Valesul Alumínio S.A. (Valesul), in the state of Rio de Janeiro, Brazil. Valesul operates at relatively high costs, mainly due to the high prices of electricity, a key input for aluminum smelting. Valesul production will be limited to 40% of its nominal annual capacity of 95,000 metric tons, to comply with contractual obligations.

The slowdown of kaolin demand for paper coating leads us to cut production. Therefore, production of our subsidiary CADAM S.A., in the state of Amapá, Brazil, will be reduced by 30% of their nominal production capacity.

Given the confidence on the long-term fundamentals of the markets for minerals and metals, Vale will implement the capex budget for 2009 as announced on Thursday, October 16, 2008, that will imply into significant job creation in the future.

More information



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