

# Iron Ore Market Outlook



**HBIA - IPIA Conference**

**September 17th, 2009, Milan, Italy**

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# Disclaimer

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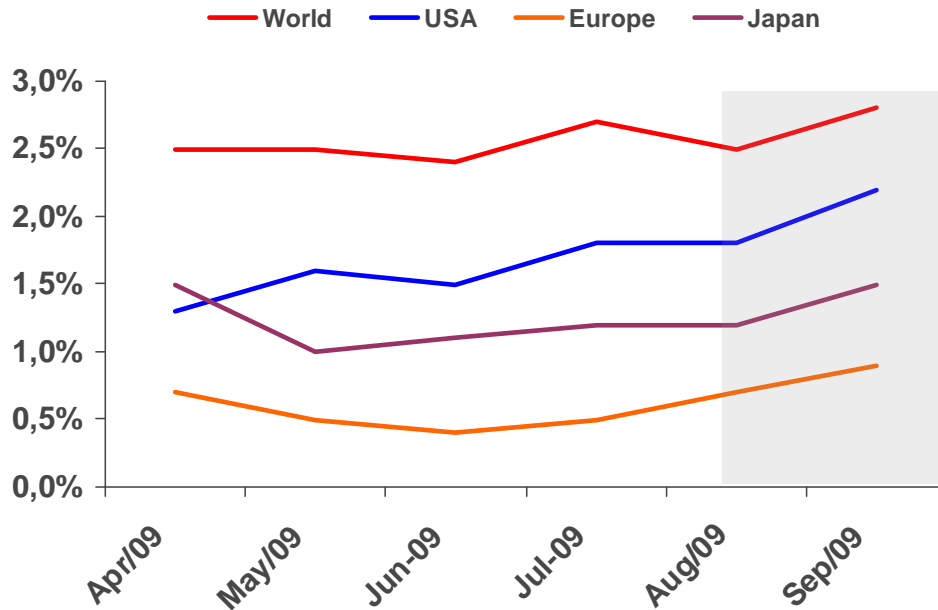
# Agenda

- ✓ **Global Macroeconomic Overview**
- ✓ **Outlook for steel and iron ore markets**
- ✓ **Managing projects during the downturn and preparing for the recovery**
- ✓ **Oman Industrial Complex**
- ✓ **Conclusion**

# Global Macroeconomic Overview

During 2009, economic indicators are gradually improving around the globe, mainly driven by emerging markets. For 2010, expectations are more optimistic for all regions, mostly due to the huge global stimulus packages and the end of inventory depletion.

### 2010 forecast of GDP growth (%YoY)\*

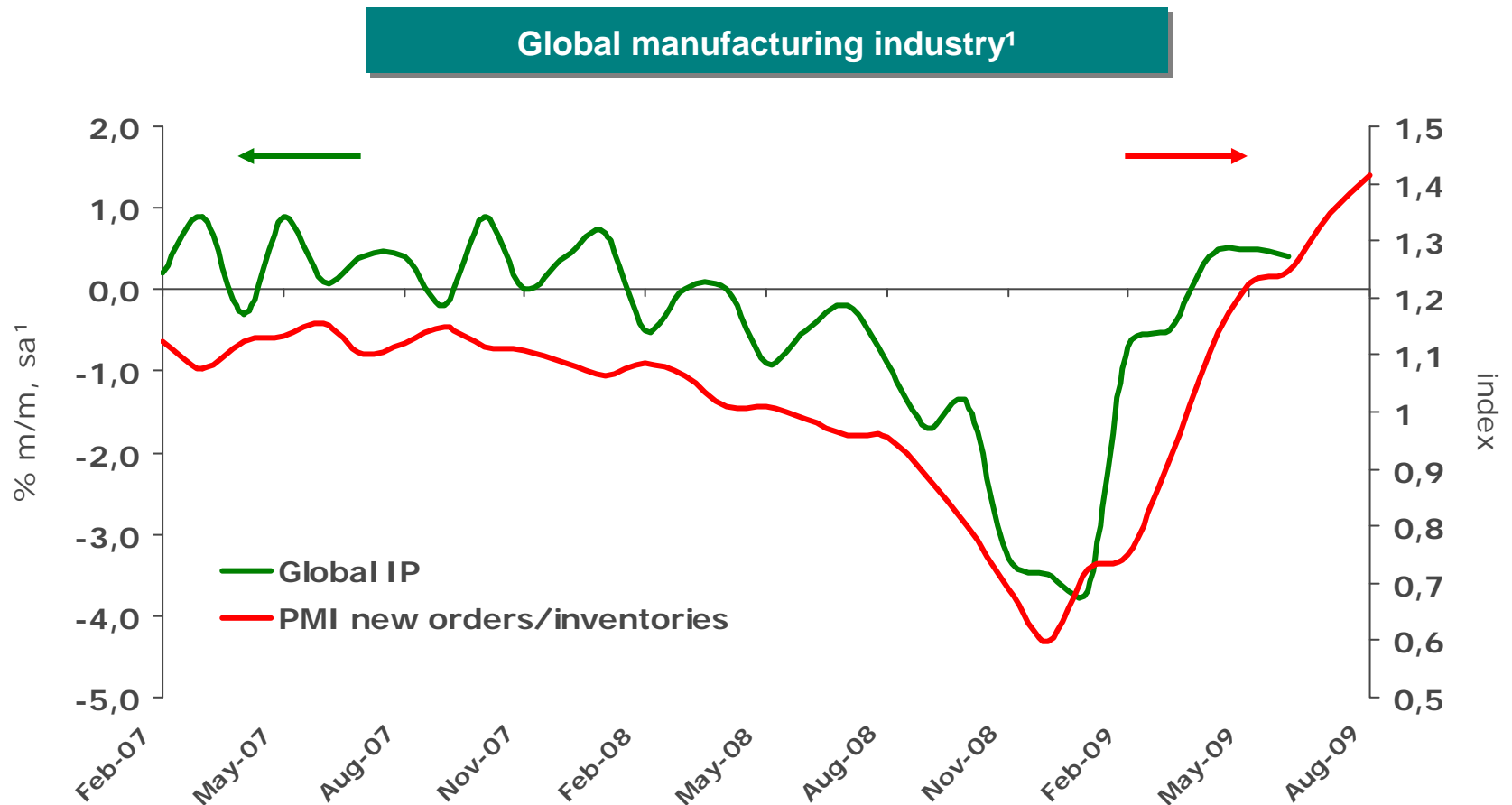


The more optimistic expectation for 2010 is based on:

- ✓ *Fiscal stimulus programs, huge in some cases*
- ✓ *Financial markets' stabilization*
- ✓ *Global inventory correction's winding down and rebuilding*
- ✓ *Industrial production has begun to bounce back in several regions*

\* Average forecast of IMF, World Bank, Citigroup, Morgan Stanley, JP Morgan, Deutsche Bank, Bank of America-ML, CE Research, Nomura

**Global IP has started to recover. New order/inventory ratio is indicating further expansion in the upcoming months, giving support to steel demand**



<sup>1</sup> Seasonally adjusted  
Source: Vale and JP Morgan

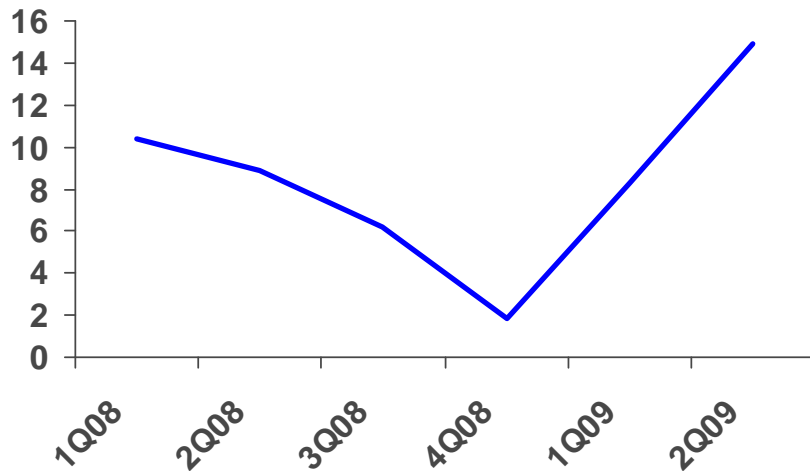
# Chinese economy is leading global recovery

Chinese economy recovery has been strong, driven by massive government stimulus, both fiscal and credit expansion.

Expectations for 2010 are gradually improving in recent months

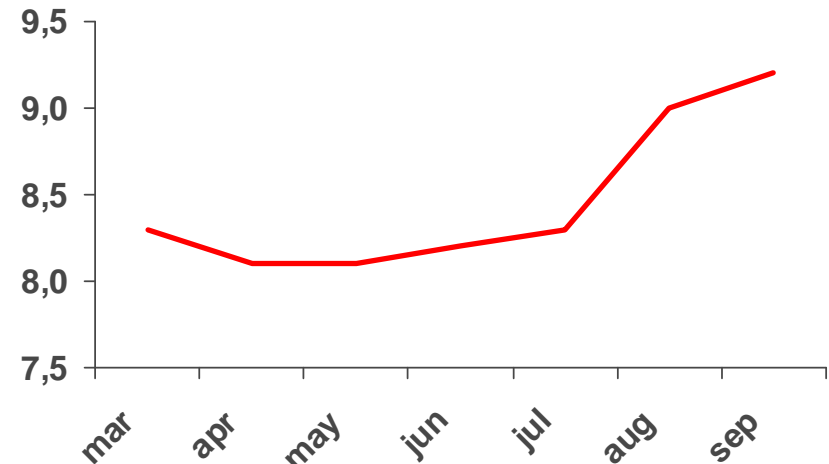
## Quarterly GDP growth

Growth rate (% qoq, saar)



## 2010 forecast of GDP growth\*

Growth rate (% YoY)



Source: JPMorgan

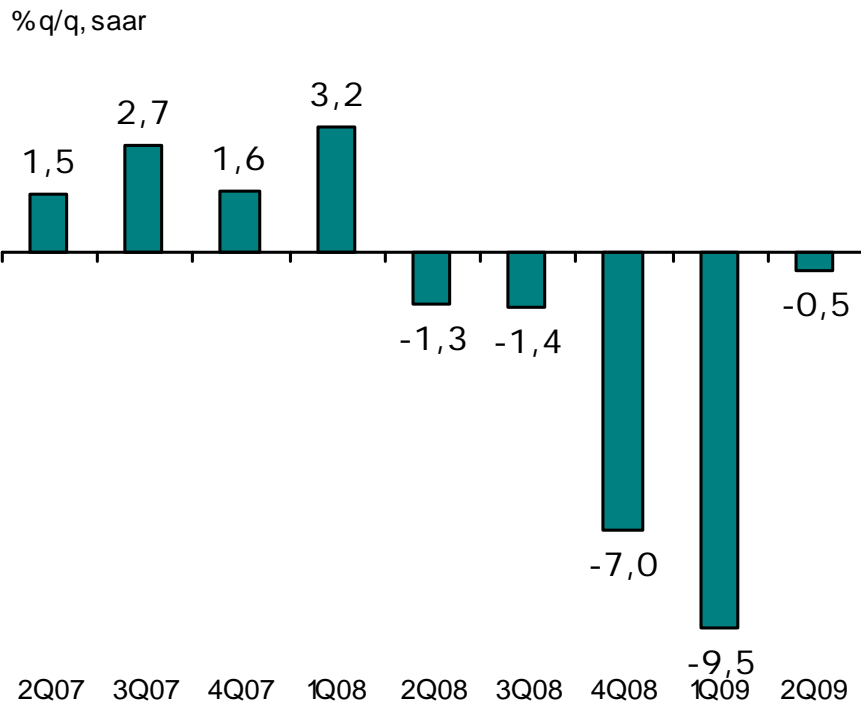
\* Average forecast of: MF, World Bank, Citigroup, Morgan Stanley, JP Morgan, Deutsche Bank, Bank of America-ML, CE Research, Nomura



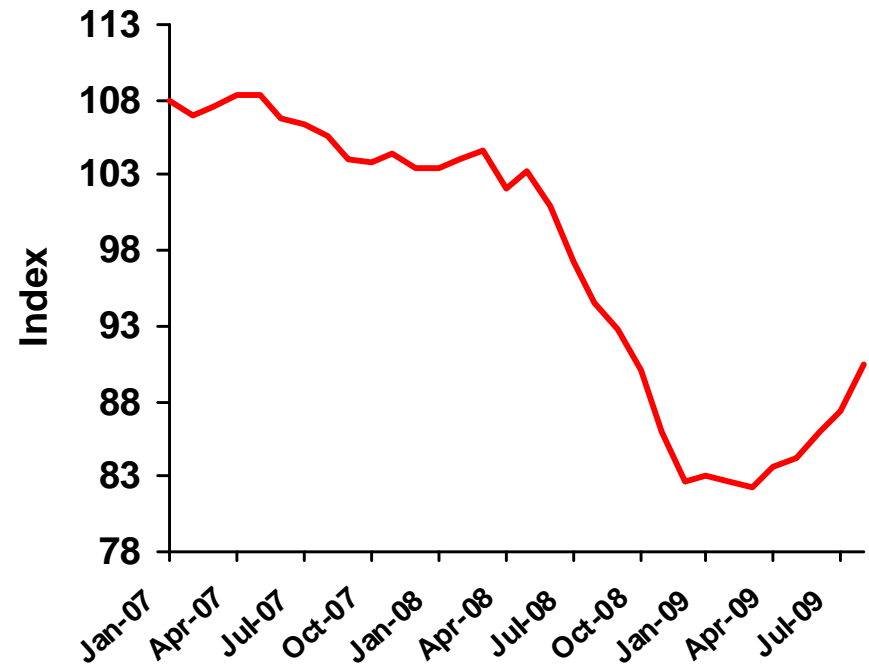
# Euro area economy – soft signs of improvement

The contraction of the euro economy softened in 2Q09. The Ifo index, which measures the confidence in the German economy, reached its highest level since October 2008

## Eurozone GDP Growth



## Ifo

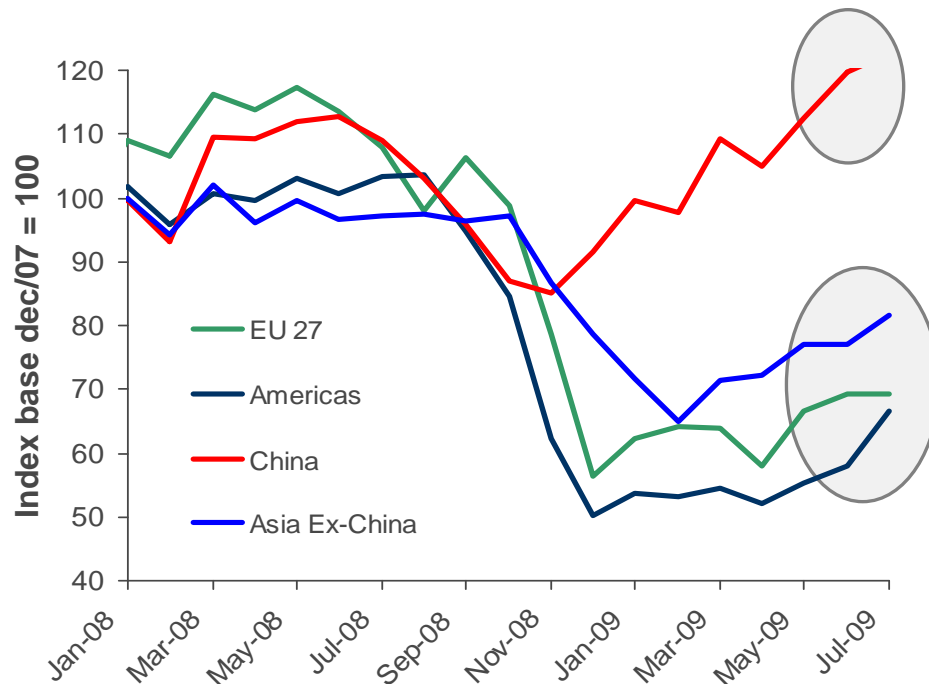


Source: Eurostat, IFO

# Outlook for steel and iron ore markets

# Crude steel production has significantly recovered in recent months

## Crude steel production by region



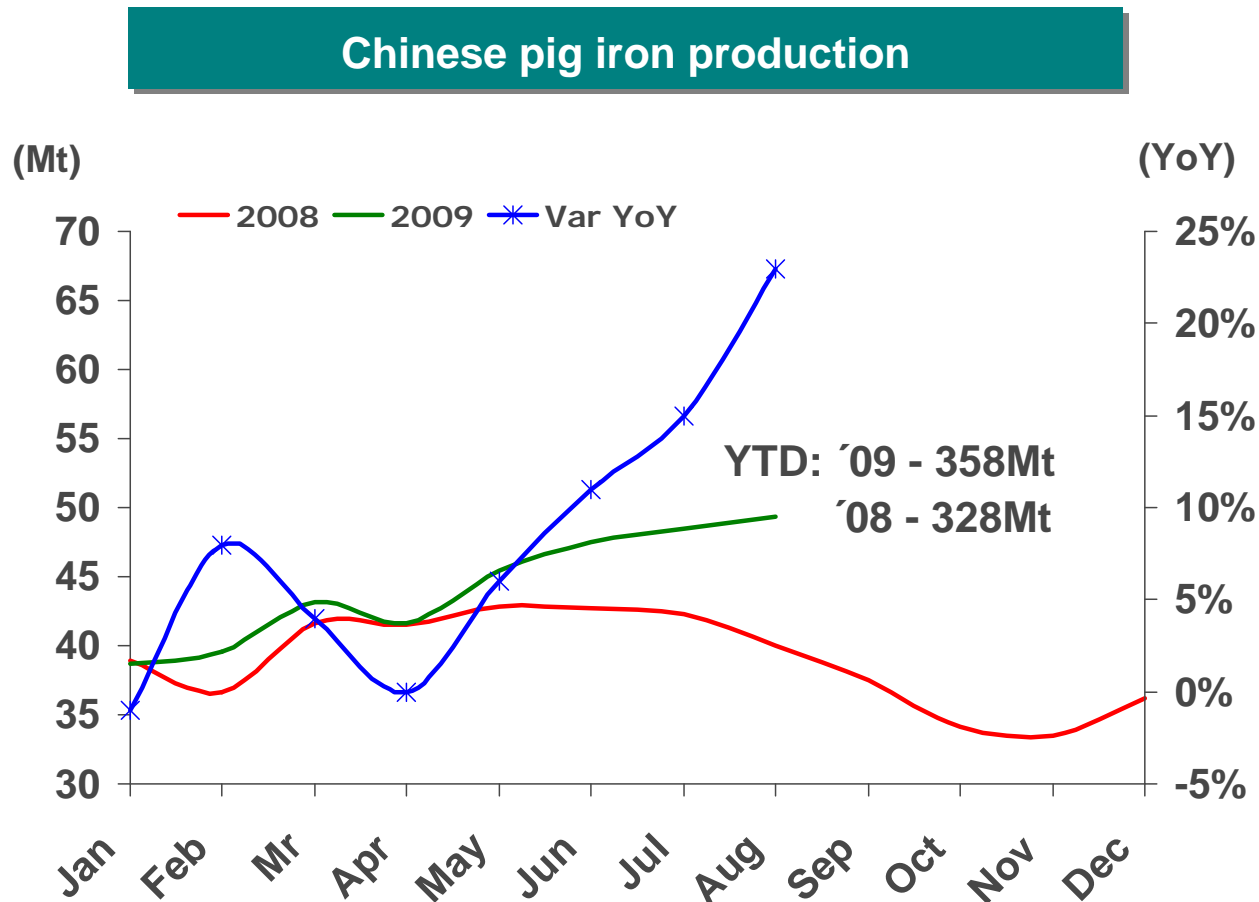
## Reasons for steel production improvement:



- ✓ **Better than expected economic indicators**
- ✓ **Government incentives:**
  - In the US the program “cash for clunkers” are boosting the auto sector;
  - European countries adopted some programs to stimulate auto sector;
  - Chinese stimulus package for infrastructure and construction sectors;
  - Brazil: IPI (Tax on industrialized products) reduction and improvement of credit conditions
- ✓ **End of de-stocking process in several markets**

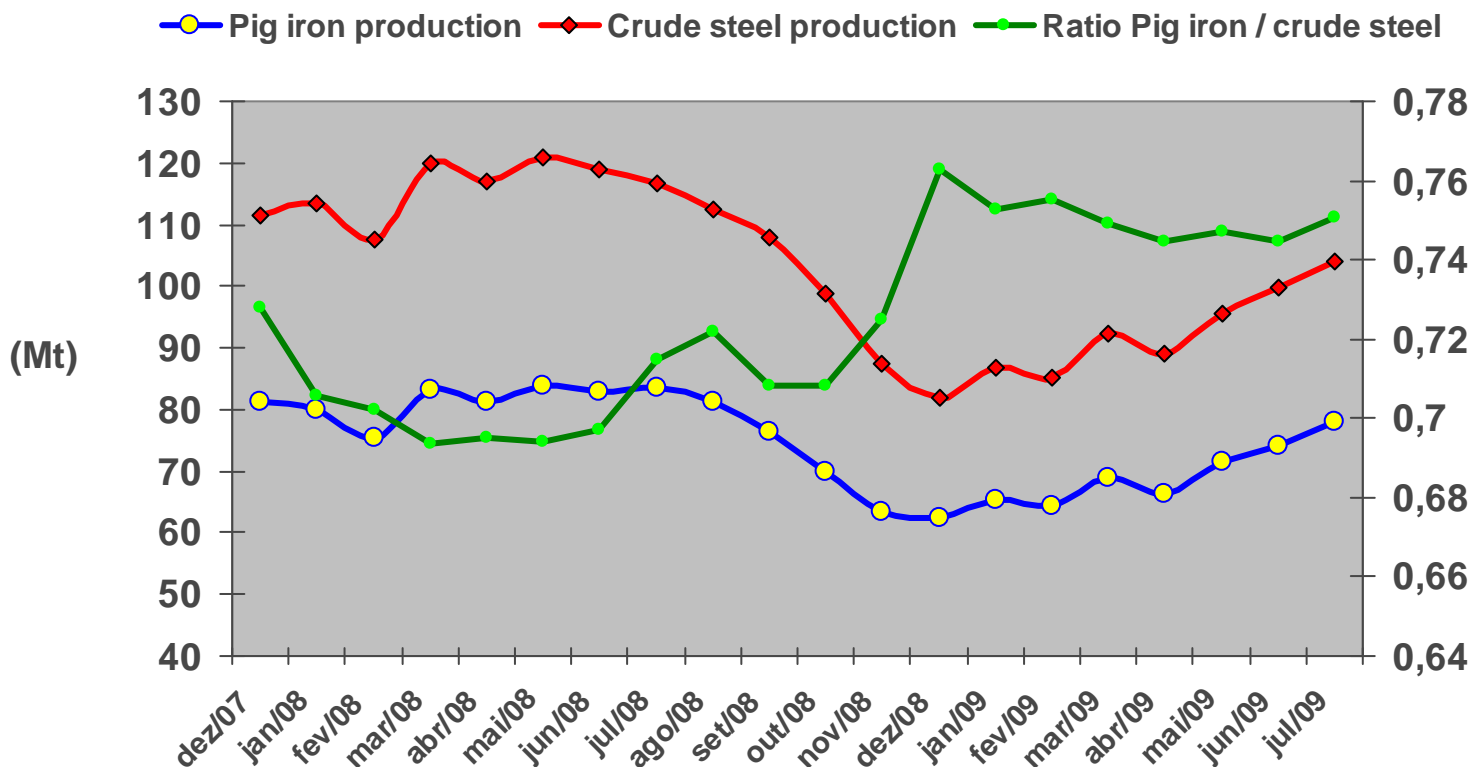
# Chinese pig iron production

Pig iron production is running at record levels, driven by domestic consumption in the absence of large steel export volumes in 2009



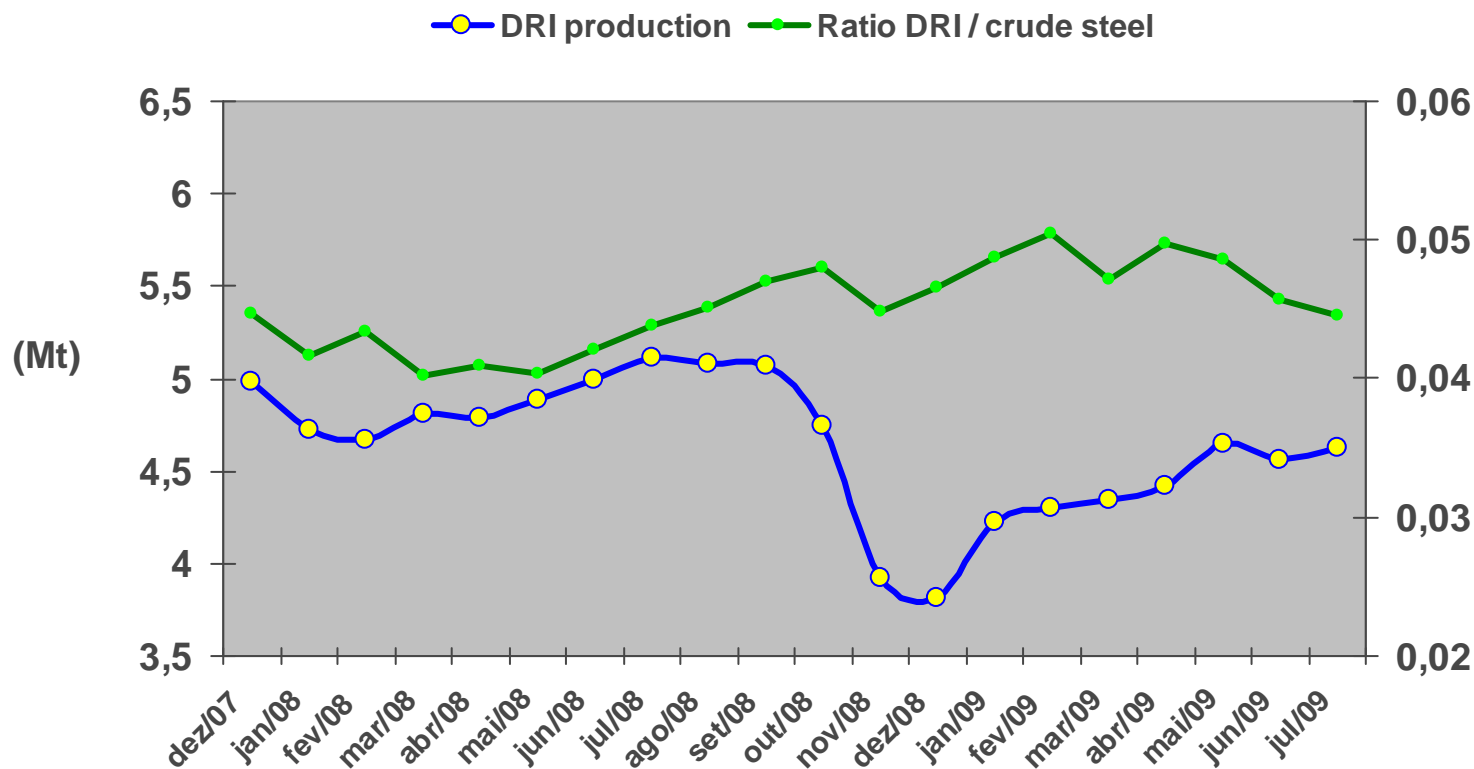
# Pig iron production was apparently less affected than crude steel production during the crisis...

Pig iron x crude steel production



## ...similar behavior was observed in DRI production

### DRI x crude steel production

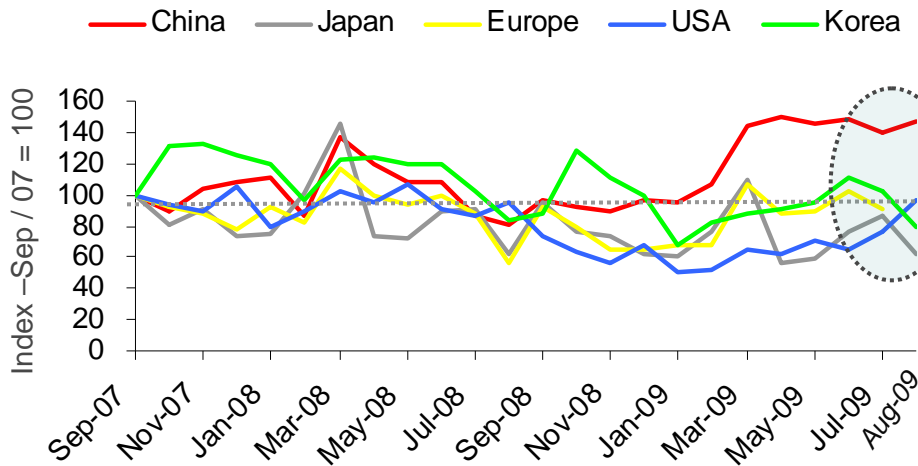


# Stimulated by government incentives, end-users are showing signs of recovery

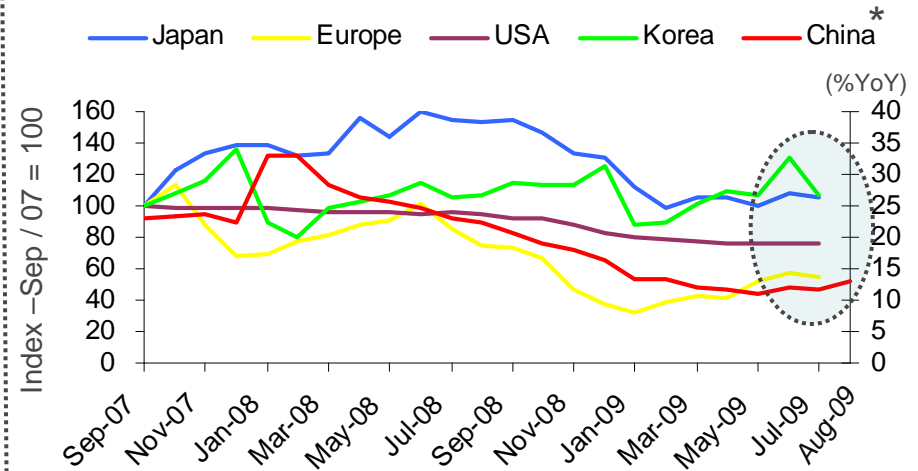
## Steel consumption

### Auto Sales

### Construction



Sources: NBS, JAMA, ACEA, FED



Sources: CEIC, METI, EUROSTAT, FED

\* Construction in China as a percentage of last period (YoY)

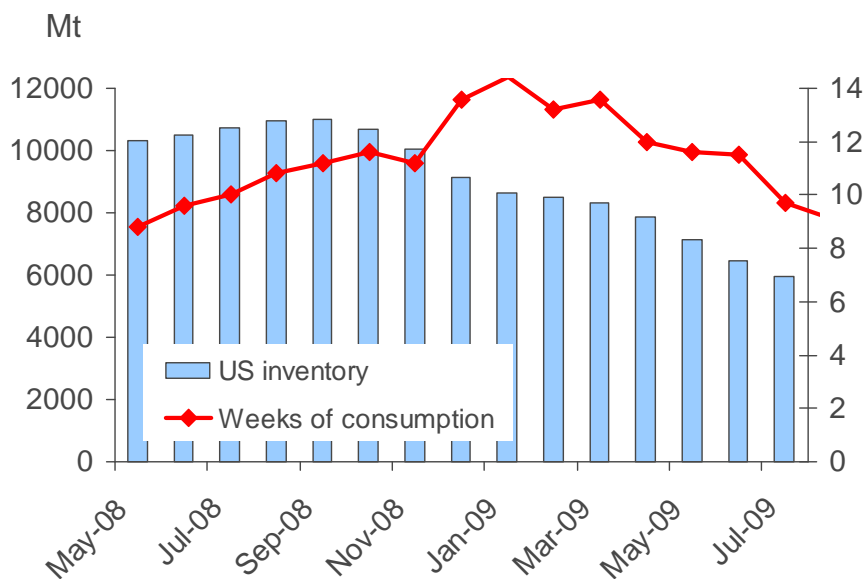


# Steel Inventory

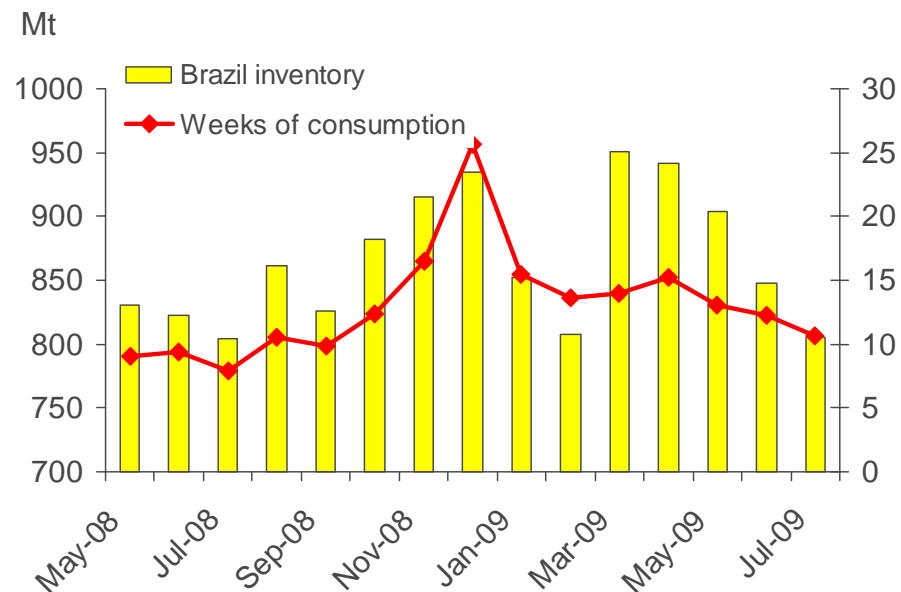
- ✓ After reaching high levels at the end of 2008, steel inventories have been deeply consumed in 2009

## Weekly Consumption of Steel Stocks

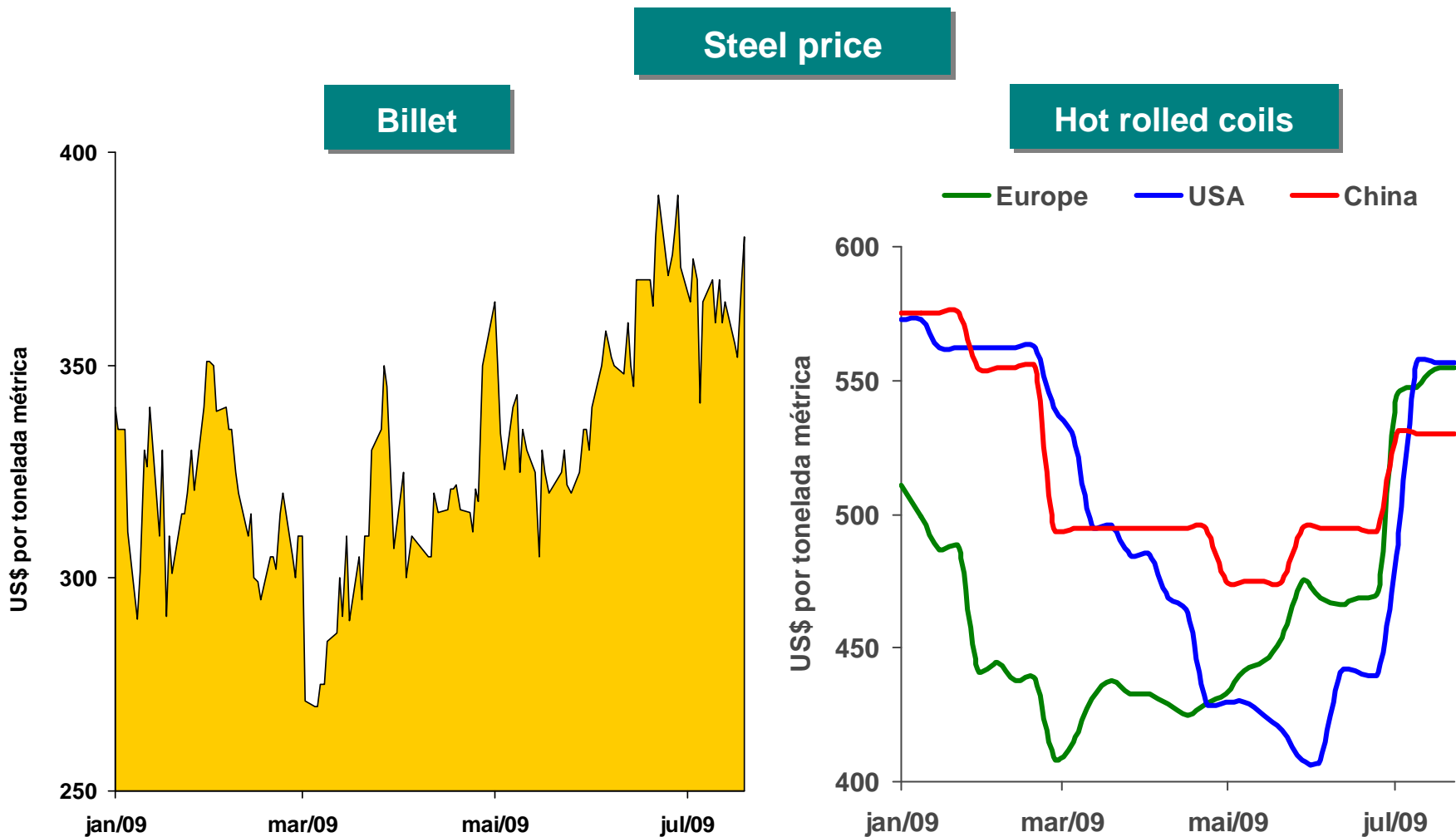
### USA



### Brazil

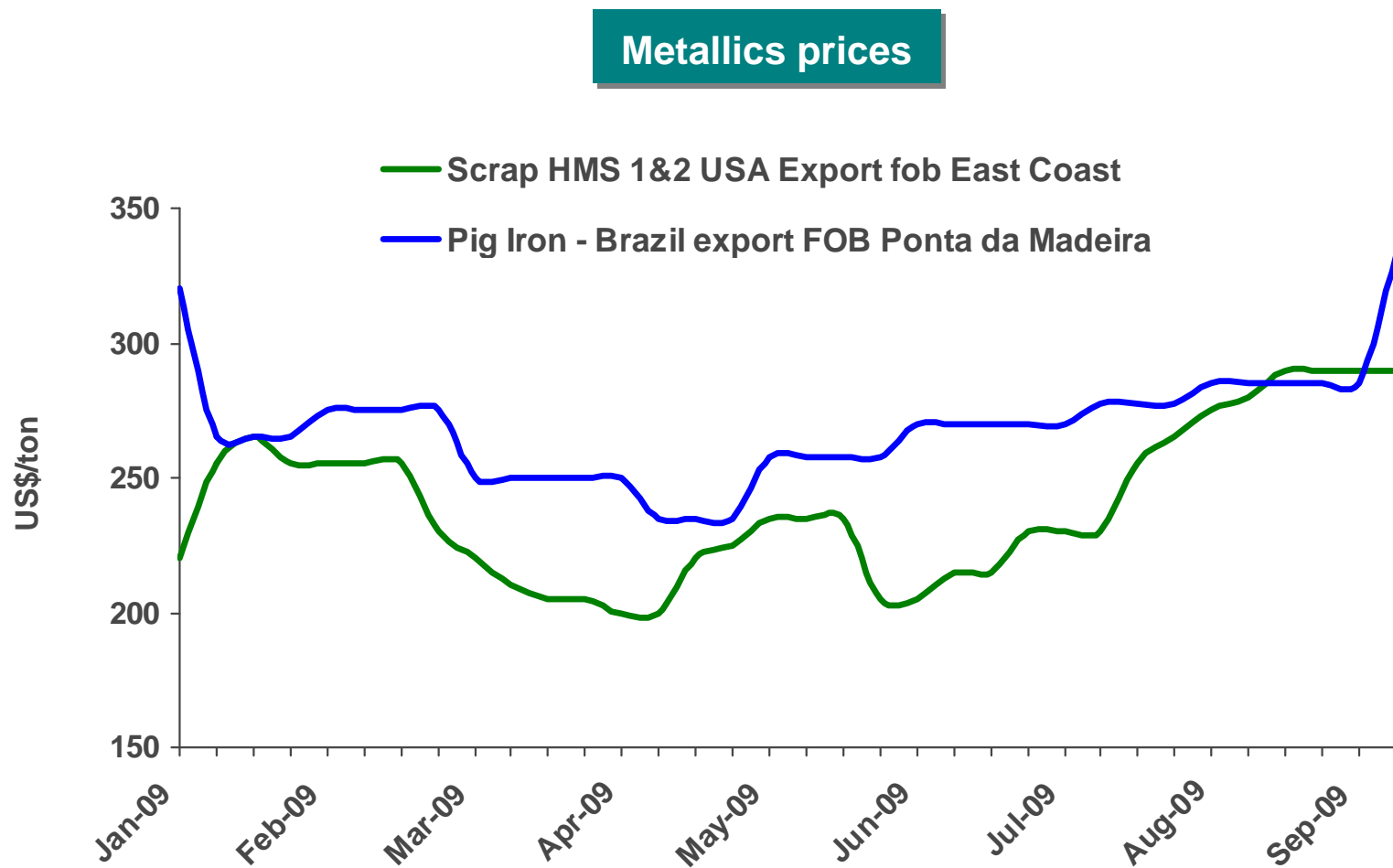


# Steel prices have recovered in recent months



Billet – European  
Source: Vale, SBB and Bloomberg

# Metallics prices also recovered from recent lows

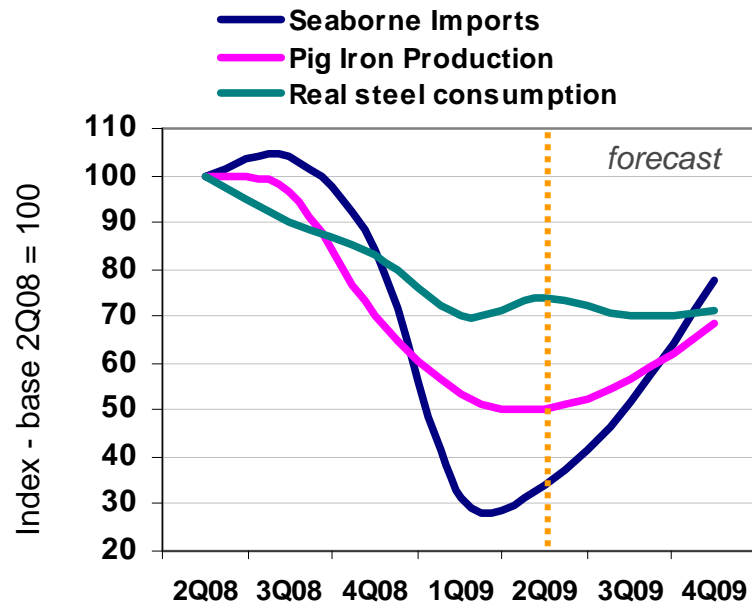


# Seaborne imports expected to rebound in 2H09

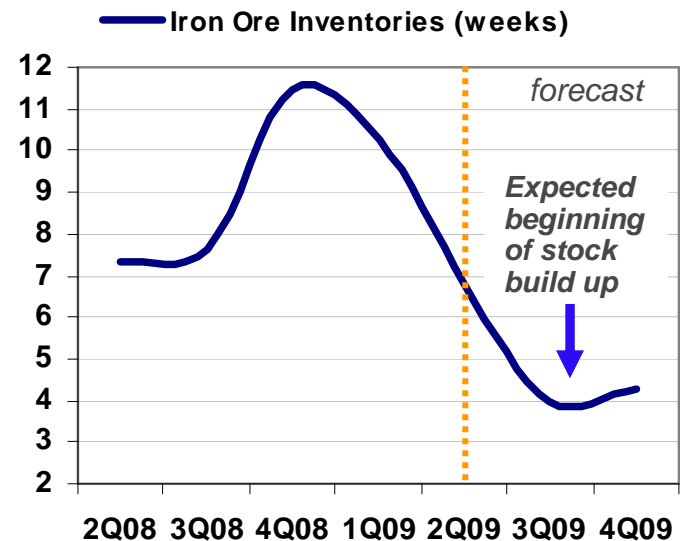
## European steel & iron ore de-stocking development in 2009

- ✓ Positioned in the upstream of the supply chain, iron ore performs as a late cycle. In order to promote stock adjustments to new steel production levels, the swings of iron ore imports are much stronger than the variation of both steel consumption and pig iron production.
- ✓ As a result, the severe importing contraction of 1H09 should be followed by relatively strong reaction in the 2H09, when some stock formation is expected.

### Quarterly rhythm



### IO inventory trend



# Managing projects during the downturn and preparing for the recovery

## 2Q09 results reflect a transition

<i>(US\$ million)</i>	1H08	2H08	1H09
✓ Operating revenues	18,945	19,564	10,505
✓ Adjusted EBIT	8,150	7,548	2,661
✓ Adjusted EBIT margin	44.2%	39.7%	25.9%
✓ Adjusted EBITDA	9,947	9,071	4,006

Source: Vale – 2Q09 results US GAAP

## Demand for pellets is rebounding

- ✓ Smaller premia and growth resumption in steel output are stimulating higher pellet consumption.
- ✓ By the end of 2Q09 we had only five pellet plants in operation out of ten.
- ✓ To meet the additional demand, two Tubarão plants have already resumed operation in July and August and another one will resume in October.
- ✓ Continuous demand strength is expected in the coming months while steel production increases around the globe.

## In addition to capacity relight, Vale continues to invest in the iron ore expansion pipeline

✓ Project name	Total Budget (US\$ million)	Capacity increase	Expected Start-up
✓ Carajás 130Mtpy	2,478	30Mtpy	1H 2012 <sup>1</sup>
✓ Carajás Additional 10Mtpy	290	10Mtpy	1H 2010
✓ Serra Sul (mine S11D) <sup>2</sup>	11,297	90Mtpy	1H 2013
✓ Apolo <sup>2</sup>	2,509	24Mtpy	1H 2013

✓ In addition to the above mentioned projects, Vale is investing US\$ 553 million in the expansion Vitoria a Minas Railroad and Tubarão Port. Expected start up is 2H09.

1) Start up still depending on concession of environmental licenses

2) Subject to board approval

## Vale continues to invest in Pelletizing plants in Brazil and abroad

Project name	Total Budget (US\$ million)	Capacity increase	Expected Start-up
✓ Tubarão VIII	636	7.5Mtpy	1H 2011 <sup>1</sup>
✓ Oman *	1,356	9Mtpy	2H 2010

\* Oman project is located in the Sohar industrial district, Oman, in the Middle East, and includes a distribution center with capacity to handle 40 Mtpy.

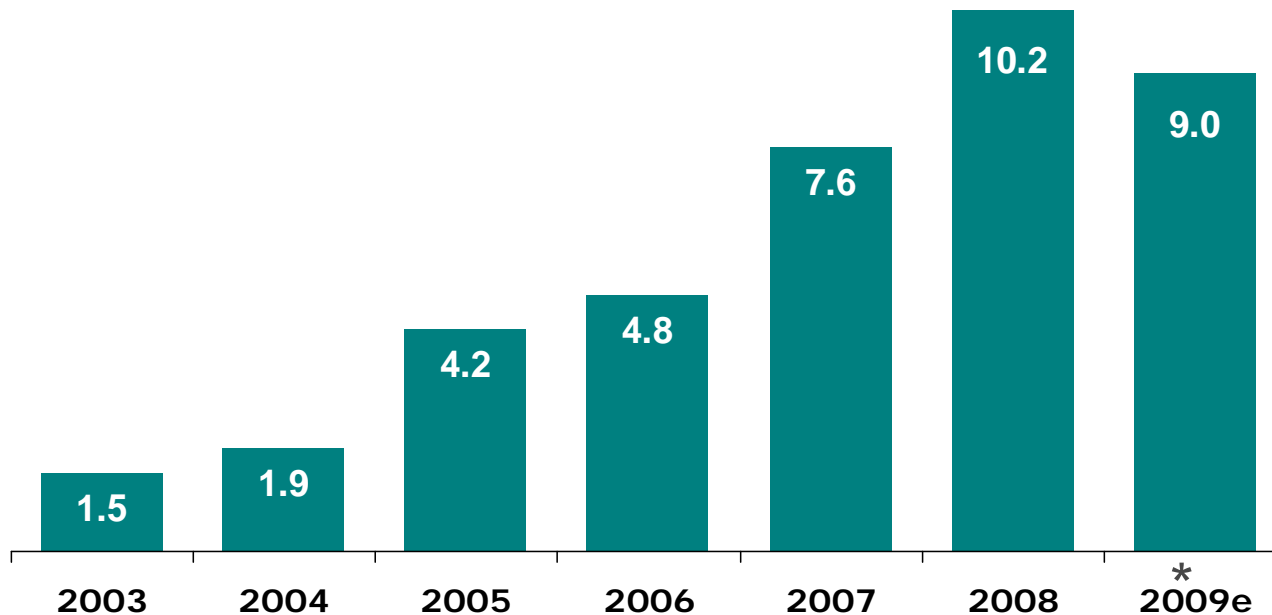
1) Start up subject to market conditions

Source: Vale – 2Q09 results US GAAP



2009 Capex is the second largest of the Company's history, in spite of the global financial crisis...

Vale's CAPEX (US\$ billion)

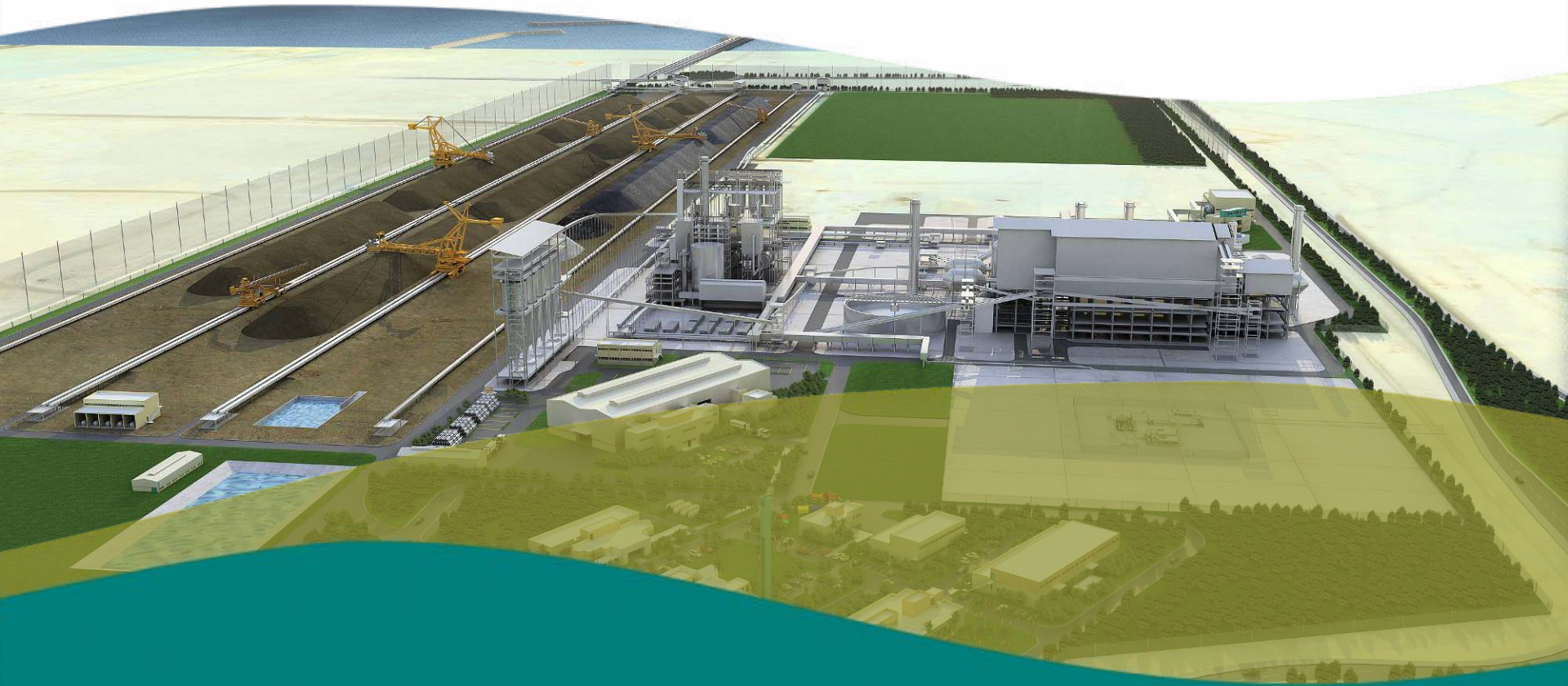


...Our long term strategy remains unchanged

\* Approved budget for 2009

## Our long term strategy remains unchanged

- ✓ We continue strongly committed to long term relationship with our clients;
- ✓ We continue developing our projects;
- ✓ We are implementing several logistic initiatives to reduce landed costs and increase its competitiveness in Asia :
  - *Investments in shipbuilding – creating a shuttle service to Asia.*
  - *Investment in distribution center*



# Oman Industrial Complex

# A Pathway to Middle East



## Muscat

- Establishment of a Vale local branch in Muscat, Oman
  - Dedicated team to Middle East, North Africa & India
  - Sales support and business development

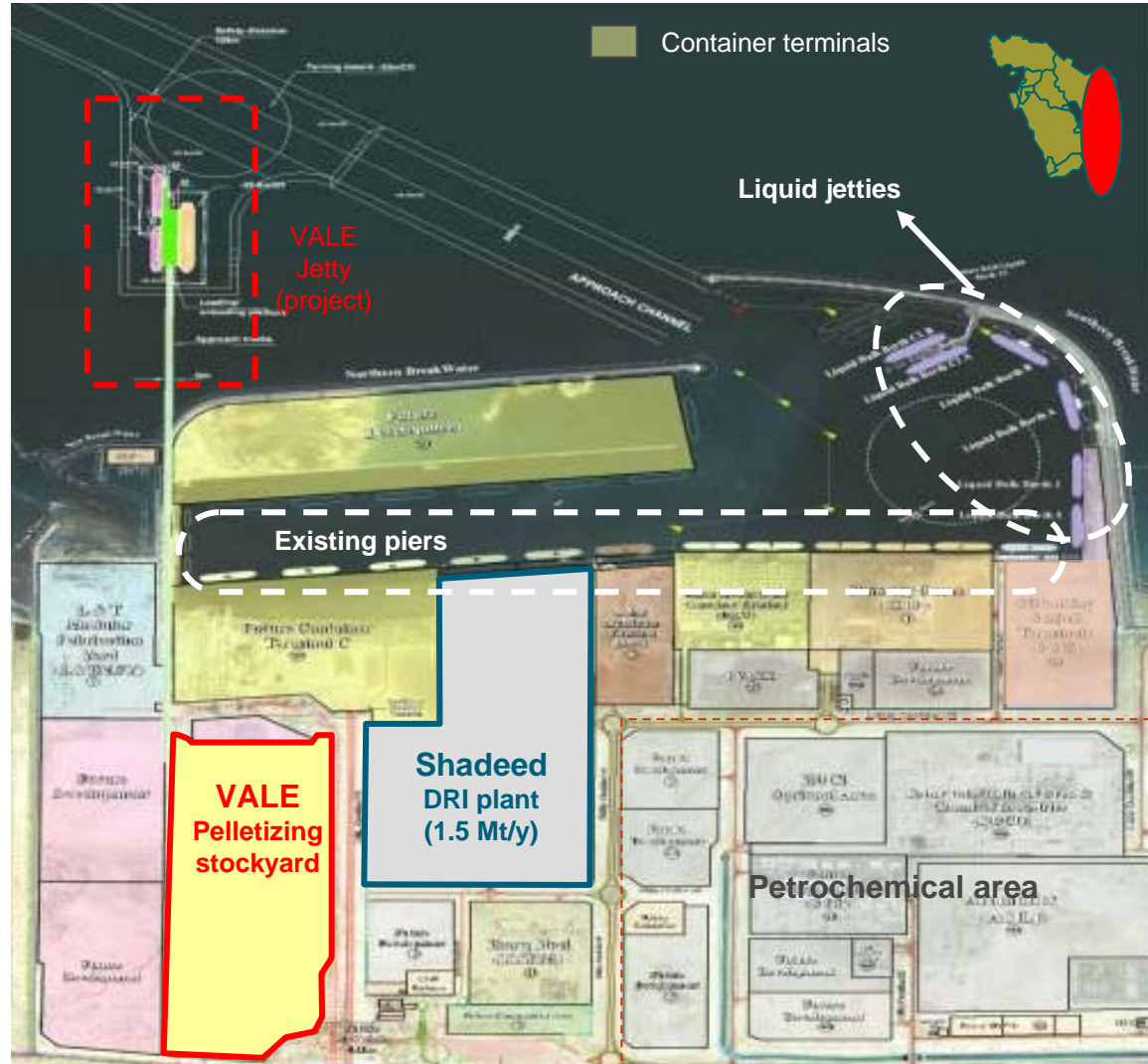
## Sohar

- Implementation of an Industrial Complex in Sohar
  - Deep water port
  - Iron ore stockyards and blending facilities
  - Pelletizing complex

# Vale's Industrial Project in Sohar is composed by an integrated pelletizing complex, deep water port and iron ore blending facilities

## Scope of the project

- Pelletizing plant & stockyard to blending iron ore
- Total investment: US\$ 1.36 billion
- Start-up: December 2010
- **Direct reduction pellet plant**
  - Capacity:
    - Phase 1: 9 Mtpy
    - Phase 2: potential expansion up to 18 Mtpy
- **Port & stockyards** (iron ore handling facilities) - deep water port
  - Throughput capacity: 40 Mt/y
  - Capacity for bulk vessels up to 400k dwt



# Oman Industrial Complex

## CIVIL WORKS

### BALLING BUILDING



# Oman Industrial Complex

## CIVIL WORKS

### ROTARY KILN - LINE B



# Oman Industrial Complex

## CIVIL WORKS

### MAIN SUBSTATION



# Oman Industrial Complex

## ELECTROMECHANICAL ERECTION

- Pipe Rack padding work



# Oman Industrial Complex

## ELECTROMECHANICAL ERECTION

- Pre-assembly





# Oman Industrial Complex

# Conclusion

## Conclusion

- ✓ **Global economy is performing better than previously expected and steel production is accelerating in several regions, also helped by government stimulus packages.**
- ✓ **Chinese steel consumption is on a sustainable growth path, and production should follow the trend accordingly.**
- ✓ **The recovery in global demand for iron ore is broadening due to gradual acceleration of steel consumption combined with restocking requirements in several regions.**
- ✓ **As a result, seaborne market is more balanced among the different demanding regions, leading to a tight situation in 2H09.**
- ✓ **After the adjustments during worst part of the downturn, Vale is currently reaccelerating production to meet increasing seaborne demand in 2H09.**
- ✓ **Vale's strategy of long term commitment to its clients remains unchanged.**

Thank you!



VALE