

Vale S.A.
Form 6-K
October 25, 2012
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United States
Securities and Exchange Commission

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

of the

Securities Exchange Act of 1934

For the month of

October 2012

Vale S.A.

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Press Release

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FACING THE CHALLENGES

PERFORMANCE OF VALE IN 3Q12

Rio de Janeiro, October 24, 2012 Vale S.A. (Vale) had a financial performance that reflected the challenges stemming from the downward price volatility typically created by a global economic deceleration, which combines the effects of a weaker demand for minerals and metals with negative expectations. Although our main financial indicators softened in comparison with last quarter, they remained solid.

Mining is fundamentally a cyclical industry and is thus exposed to high price volatility. In such environment and in light of prospects of a more moderate expansion of the world economy in the years to come, higher productivity and lower cost levels are of paramount importance to thrive in a very competitive global market.

Vale is increasingly focused on strengthening capital efficiency, as our priority is to maximize shareholder value creation while maintaining a strong balance sheet to preserve our credit rating status(1).

Investments in world-class assets with long life, low cost, expandability and high quality output - such as Carajás S11D and Moatize, are our focus in project execution. In this context, diversification is still a strategic priority, but only if investment in non-iron ore assets proves to be capable of creating significant value.

Divestiture of non-value adding assets will improve capital allocation and unlock funds to help the financing of investment in world-class assets, allowing for only a moderate use of the balance sheet at this stage of the cycle.

Alongside the efforts to optimize capital management, we are developing initiatives to streamline the cost structure of operating and corporate activities.

A significant improvement in our approach to applying for environmental permits is being rewarded, with the granting of licenses critical to run mining and logistics operations in Brazil as well as to the development of projects, such as Serra Sul S11D.

The competitiveness of our iron ore business is being enhanced through initiatives to cut costs, increase productivity, improve quality and expand the global distribution network. The most important ones are the execution of projects based on the high quality reserves of Carajás Additional 40 Mtpy, Serra Sul S11D, the start-up of production of the 67.1% Fe content N5 South mine in Carajás and the use of technology to counteract the effects of ageing in our Southern/Southeastern Systems reserves.

As the global leader in iron ore, by size and quality of production and reserves, we will continue to benefit from a scenario of growth and structural transformation of emerging market economies.

We strongly believe that the execution of a strategy anchored on a rigorous discipline in capital allocation and the exploitation of our rich endowment of mineral resources will enable us to deliver substantial value over the next few years.

(1) Vale is rated A- by Standard & Poors, BBB+ by Fitch, BBB(high) by DBRS and Baa2 by Moody's.

US GAAP

3Q12

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Financial highlights in 3Q12:

- Gross operating revenues totaled US\$ 11.0 billion, 9.8% below the US\$ 12.2 billion in 2Q12. The decline was a consequence of lower sales prices.
- Income from existing operations, as measured by adjusted EBIT(a) (earnings before interest and taxes), decreased to US\$ 2.7 billion, 32.5% below 2Q12. After excluding the effect of the provision related to mining royalties (CFEM), adjusted EBIT reached US\$ 3.2 billion.
- Operating income margin of 29.7%, as measured by adjusted EBIT margin, after excluding the effect of the CFEM provision.
- Net earnings were US\$ 1.7 billion in 3Q12, equal to US\$ 0.32 per share.
- Cash generation, as measured by adjusted EBITDA(b) (earnings before interest, taxes, depreciation and amortization), of US\$ 3.7 billion, 27.0% lower than the previous quarter. After excluding the effects of non-recurring items, cash generation was US\$ 4.3 billion in 3Q12. Over the last 12-month period ended at September 30, 2012, adjusted EBITDA was US\$ 22.1 billion, after excluding non-recurring accounting charges.
- Capex excluding acquisitions in 3Q12 equaled US\$ 4.3 billion, in line with 2Q12. In the first nine months of the year, capital expenditures totaled US\$ 12.3 billion, 8.4% above the US\$ 11.3 billion spent in the same period of 2011.
- Dividend of US\$ 3.0 billion, US\$ 0.5821 per share, to be paid from October 31, 2012 onward, totaling US\$ 6.0 billion for 2012, and equal to US\$ 1.1771 per common or preferred share.
- Maintenance of a strong balance sheet, with low debt leverage, measured by total debt/LTM adjusted EBITDA, equal to 1.4x, long average maturity, 10.3 years, and low average cost, 4.6% per year as of September 30, 2012.

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3Q12

Table 1 - SELECTED FINANCIAL INDICATORS

US\$ million	3Q11 (A)	2Q12 (B)	3Q12 (C)	% (C/A)	% (C/B)
Operating revenues	16,741	12,150	10,963	(34.5)	(9.8)
Adjusted EBIT	8,373	3,923	2,647	(68.4)	(32.5)
Adjusted EBIT excluding non-recurring items	8,373	4,300	3,189	(61.9)	(25.8)
Adjusted EBIT margin excluding non-recurring items(%)	51.2	36.2	29.7		
Adjusted EBITDA	9,631	5,119	3,738	(61.2)	(27.0)
Adjusted EBITDA excluding non-recurring items	9,631	5,496	4,280	(55.6)	(22.1)
Net earnings	4,935	2,662	1,669	(66.2)	(37.3)
Earnings per share on a fully diluted basis (US\$ / share)	0.94	0.52	0.32	(65.5)	(38.0)
Total debt/ adjusted EBITDA (x)	0.6	0.9	1.4	119.0	45.6
ROIC(1) (%)	36.9	33.1	26.2		
Capex (excluding acquisitions)	4,529	4,287	4,289	(5.3)	

(1) ROIC LTM return on invested capital for the last twelve-month period.

US\$ million	9M11 (A)	9M12 (B)	% (B/A)
Operating revenues	45,634	34,452	(24.5)
Adjusted EBIT	24,089	10,420	(56.7)
Adjusted EBIT excluding non-recurring items	22,576	11,339	(49.8)
Adjusted EBIT margin excluding non-recurring items(%)	50.7	33.7	
Adjusted EBITDA	27,876	13,822	(50.4)
Adjusted EBITDA excluding non-recurring items	26,363	14,741	(44.1)
Net earnings	18,213	8,158	(55.2)
Capex (excluding acquisitions)	11,308	12,253	8.4
Acquisitions	299	648	116.6

Except where otherwise indicated the operational and financial information in this release is based on the consolidated figures in accordance with US GAAP and, with the exception of information on investments and behavior of markets, quarterly financial statements are reviewed by the company's independent auditors. The main subsidiaries that are consolidated are the following: Companhia Minera Miski Mayo S.A.C., Ferrovia Centro-Atlântica S.A.(FCA), Ferrovia Norte Sul S.A, Mineração Corumbaense Reunida S.A., PT Vale Indonesia Tbk (formerly International Nickel Indonesia Tbk), Sociedad Contractual Minera Tres Valles, Vale Australia Pty Ltd., Vale International Holdings GMBH, Vale Canada Limited (formely Vale Inco Limited), Vale Fertilizantes S.A., Vale International S.A., Vale Manganês S.A., Vale Mina do Azul S.A., Vale Moçambique S.A., Vale Nouvelle-Calédonie SAS, Vale Oman Pelletizing Company LLC and Vale Shipping Holding PTE Ltd.

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STRATEGY, GROWTH AND VALUE CREATION

Vale is increasingly focused on strengthening capital efficiency, as our priority is to maximize shareholder value creation while maintaining a strong balance sheet to preserve our credit rating status.

We will conclude projects already under execution, while R&D expenditures are being cut to give rise in the future to a smaller and more select portfolio of projects with high expected rates of return and effective potential to foster value creation. Some mineral exploration efforts were terminated in cases where costs were expected to be higher than risk-adjusted benefits.

2012 is very likely to be the peak year for capital expenditures in the foreseeable future.

Investment in world-class assets with long life, low cost, high quality output and expandability - such as Carajás S11D and Moatize are our focus in project execution. In this context, diversification is still a strategic priority, but only if investment in non-iron ore assets proves to be able to create value.

Divestiture of non-value adding assets will improve capital allocation and will unlock funds to help the financing of investment in world-class assets, allowing for only a moderate use of the balance sheet at this stage of the cycle.

Alongside the efforts to optimize capital management, we are developing initiatives to streamline the cost structure of operating and corporate activities.

The competitiveness of our iron ore business is being enhanced through initiatives to cut costs, increase productivity and improve quality. The most important ones are the execution of projects based on the high quality reserves of Carajás and the use of technology to counteract the effects of ageing in our Southern/Southeastern Systems reserves.

The significant improvement in our approach to applying for environmental permits is being rewarded. This year we obtained a total of 52 licenses, which were critical to the running of our mining and logistics operations in Brazil. Moreover, we received the preliminary license for Serra Sul S11D, a very important project for the future supply of iron ore, and the operating license for the N5 South mine, at Carajás.

N5 South has 1.025 billion metric tons of proven and probable reserves and an average Fe content of 67.1%. It is expected to begin production by year-end, providing approximately 25% of the run-of-mine (ROM) ores to be extracted from Carajás in 2013, boosting quality while leading to lower operating costs. N5 South is important for strengthening Vale's position as the leading global producer of high quality iron ore.

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The four Itabirito projects – Conceição, Conceição II, Cauê and Vargem Grande – will replace lost capacity, as well as expand net capacity. The most important implication will be the rise in Fe content to above 65% and a sharp reduction in the silica content through the construction/adaptation of plants with additional phases of crushing and screening.

An estimated fleet of 20 Valemax vessels will be in operation by the end of 2012, leading to stronger global competitiveness by our iron ore business. By the same token, our global distribution network is being expanded with new ports able to receive the Valemax ships, the construction of the Malaysian distribution center and other floating transfer stations in Asia.

Three pellet plants – Tubarão I & II and São Luís - are being temporarily shutdown in order to accommodate the effect of a cyclical weakening of demand, while the feed is reallocated to enhance the supply of iron ore sinter feed.

The size and performance of our coal business will be significantly improved with the development of the mining and logistics operations in Mozambique, taking advantage of an efficient mine-railway-port system and large-scale production of premium hard coking coal coming on stream by 2015.

The base metals business is finding ways to live within its means, pursuing lower costs and higher productivity, and will benefit from the expansion of capacity in copper - Salobo I & II and Lubambe. Loss-making nickel mines in Canada will be shut down.(2) We do not expect an impact on the production of finished nickel as mine output losses will be offset by higher production in Sorowako.

We are finalizing the assessment of costs to reform the furnaces of Onça Puma. Afterwards, the impairment test will be concluded and the results will be publicly disclosed immediately.

(2) Labor will be redeployed to other operations.

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BUSINESS OUTLOOK

The global economic outlook presents several challenges. Global GDP growth has slowed since the middle of last year and has been hovering around 2-2.5% over the last two quarters, far below its long-term trend and with the weakest pace since the current cyclical recovery began in 2Q09.

Despite the downside risks, we expect global economic activity to strengthen gradually over the next few months, mostly driven by emerging market economies, although expansion is likely to proceed at a moderate pace.

Prices of industrial metals, much more than energy and food commodities, tend to be predominantly influenced by the fluctuations in economic activity - industrial production - and expectations about the future. Therefore, the downward trend in iron ore, nickel and copper prices, among others, came in line with the cyclical deceleration in global industrial production growth and negative expectations about the evolution of the global economy(3).

Industrial production expansion started a down cycle in 2Q11. Over the last few months global IP growth neared zero, but the global manufacturing PMI increased in September for the first time in five months, which may be signaling the beginning of a trend reversal.

The most encouraging indication is given by the rise in the new orders-to-inventories of finished goods ratio. This is consistent with the increase in global retail sales and suggests that the inventory cycle, which has been holding industrial output from expanding, is coming to an end. Thus, we expect industrial production to pick up by year-end, strengthening the global demand for minerals and metals.

Over the last 2 ½ years at least three crises have emerged in the Euro Zone - sending waves of uncertainty throughout the global economy - and each of them was followed by limited policy response thus leaving room for recurrence in the near future.

The resistance to give up national sovereignty creates barriers to governments making a quantum leap towards the adoption of fiscal and banking union in the Euro Zone, a necessary step to consolidate the monetary union. At the same time, entrenched interests pose obstacles to the implementation of structural reforms to improve competitiveness in most of the Euro Zone members.

The political will to preserve the Euro makes the adjustment feasible albeit at a slow pace. As a consequence, over the next few years the European economy is very likely to move forward very slowly.

The current US recovery has been slower than recoveries from earlier recessions due to the problems left by the financial crisis.

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On the one hand, the US private sector has undergone an impressive adjustment, which sets the base for a strong expansion. Corporate profits and cash flow keep growing, banks as well as households have deleveraged, labor costs have lowered relative to European and Asian competitors, the real estate market has stabilized ceasing to be a drag on GDP and the natural gas revolution is reducing the US dependency on oil imports and raising the competitiveness of its manufacturing industry.

On the other hand, the high public debt/GDP ratio, the lack of political resolve on how to deal with it and the impending so-called fiscal cliff, involving more than half a trillion US dollars in 2013, are sources of uncertainty which have been blocking the US economy from growing at a much faster pace in the short-term.

The Japanese economy is recovering from last year's huge natural disaster, and continues to struggle with deflation and persistent weak demand.

The spillover to the rest of the world economy of the lack of confidence in the policies of developed economies, in particular the Euro sovereign debt crisis, is not restricted to the trade channel. It has contributed to create uncertainty which is detrimental to global economic expansion.

Investment demand, consumption of durable goods and hiring plans are negatively affected by macroeconomic uncertainty. Among other things, this leads to a decline in expected returns on projects and to a weakening in investors' and lenders' appetites to provide funding for investment. Liquidity-constrained firms tend to reduce R&D expenditures that will in turn entail slower productivity growth.

The recent announcements by the main central banks, the FED (QE3) and the ECB (OMT), of another

(3) Iron ore, nickel and copper prices reached a post-crisis peak in 1Q11 simultaneously to the cyclical peak of global industrial production growth.

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round of non-conventional monetary policy actions contributed to improve risk perception and in particular to mitigate the tail risk associated to the potential for a disruption of the Euro Zone(4). As a consequence of greater confidence, financial markets rallied as well as commodity prices including base metals - but the potential for these initiatives to restore economic growth on a sustainable basis depends of course on further steps.

Following a strong rebound from the Great Recession of 2008/9, the GDP growth of emerging market economies slowed, declining from 9% per year in 4Q09 to around 5.5% recently.

The slowdown in the pace of expansion of the Chinese economy - the largest emerging market and the world's second largest economy - is caused by both cyclical and structural factors. Part of the growth deceleration is the outcome of macroeconomic policy normalization after the big capital spending stimulus program launched in reaction to the global financial shock of 2008.

The main challenge of the Chinese economy is to avoid the so-called middle-income trap, which means that fast growing emerging economies may stall after reaching a middle level of per capita income. More specifically, it means maintaining the high rate of productivity growth recorded by China over the last thirty years, which was relatively easy to reach in face of the pre-existing low level of efficiency and the reallocation of abundant labor from subsistence agriculture to manufacturing. Once these conditions start to fade, large capital spending tends to find diminishing returns.

China's growth model has to be changed towards more capital efficiency, which, among other implications, will entail a more balanced composition of aggregate demand expansion, with a less important role for investment and more for consumption.

In line with the need for change in the macroeconomic policy framework, the Chinese authorities did not launch another big stimulus program and the incoming leadership is not expected to do it either, unless they see the economy on the verge of a recession, which is not the case now. It is likely that a transition towards a new growth model will continue, gradually and cautiously. Initial movements have been observed: some limited interest rate liberalization, more exchange rate flexibility and use of the renminbi for international trade and investment, while a few local experiments on financial liberalization are being conducted.

This does not mean that the China growth story is over. On the contrary, it is expected to expand by 6% to 7% per year on average until the end of this decade - a very high pace of expansion for an already large-sized economy - and substantial investment spending will continue to flow primarily to meet housing and infrastructure needs. As a consequence, China is expected to continue to exert significant pressure on the demand for minerals and metals, including iron ore. As the global leader in iron ore, by size and quality of production and reserves, we will continue to benefit from this scenario.

The long-term potential for iron ore demand growth comes primarily from the requirements to accommodate some 300 million additional people in the cities over the next 20 years and to alleviate the existing large housing shortage. Like other Asian cities, those in China tend to be densely populated, which is solved by constructing high-rise buildings, which are far more steel-intensive than the usual 10-12 floor structures in the western world.

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Urbanization demands not only housing investment, but also spending on non-residential buildings, urban infrastructure, cars and home appliances, which will help to drive the demand for iron ore and base metals.

Moreover, the rise of consumption expenditures to a more prominent role in Chinese economic growth will mean an increasing demand for cars the number of passenger vehicles in China is still a lot lower than in other emerging economies - home appliances and proteins, which will imply more demand for iron ore, coal, base metals and fertilizers.

In the short-term, the latest data suggests that China's economy has bottomed in the first half of the year, as pointed out in our 2Q12 report. On a year-on-year basis, GDP expanded 7.4%, lower than the 7.6% y/y in 2Q12, but on a sequential basis (which is actually the relevant move to observe), seasonally adjusted q/q annualized real GDP is estimated to have reached 7.5%, moving up from under 7% as an average in 1H12.

In September, industrial production grew 9.2% y/y, while on the domestic demand side, retail sales expanded by 14.2% y/y and fixed asset investment by 22.2%, the strongest increase since November 2011.

(4) QE3 the US Federal Reserve Bank (Fed) will buy US\$ 40 billion per month of mortgage assets for an unlimited period of time. Jointly with other asset buying programs, the Fed will increase its stock of long-term financial assets by some US\$ 85 billion per month.

OMT Outright Monetary Transactions On September 6, the European Central Bank (ECB) announced it will buy sovereign bonds in the secondary market under certain conditions including the effective conditionality attached to a macroeconomic adjustment program.

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Despite the absence of major changes in housing credit conditions, the quarterly data show a rebound in property sales, increasing to +6.0% y/y from -7.7% y/y in 2Q12, contributing to reduce the stock of unsold homes and to stimulate developers to push new projects to the market. Data on house prices released by the National Bureau of Statistics and Soufun continue to indicate price stabilization. Clearly, we do not expect a new housing boom, but a moderate expansion, that will be better from a risk point of view than the policy-driven booms and busts of the last ten years.

Investment in infrastructure – another major source of demand for minerals and metals – has accelerated in 3Q12, with funding increasingly provided by bond issuance by local governments. Newly started investment projects, a forward-looking indicator of fixed investment, have been recovering and climbed to 25.7% y/y for the first nine months of the year and to 29.8% q/q.

Cement, which can be kept in storage only for a very limited period of time, had a rebound in production. Output growth rate accelerated to 12.0% y/y in September from 7.0% in June, reflecting the stronger demand from the pickup in railway and highway investment.

The fall in iron ore prices has been misidentified as an outcome of demand weakness from China. As a matter of fact, Chinese imports did rise by 8.7% in the first nine months of 2012 when compared to the same period of last year. At 552 million metric tons (Mt), it is an all-time high figure, with an increase of 48 Mt, far from showing any weakness. Lower prices are mostly explained by a combination of demand weakness in the rest of the world – which entailed a reallocation of supply from other countries to the Asian market – and the negative global economic outlook, including pessimism about China's economic performance.

The growth in Chinese iron ore imports is partly due to substitution of high-cost local producers as crude steel output increased only 1.2% in January/September 2012, running at around 700 Mt on a yearly basis. The high cost marginal suppliers tend to set a floor to prices, which after reaching a low point in the first week of September recovered to a US\$ 110-115 range.

Given the liquidity and the large and growing size of the Chinese iron ore market, rising prices have attracted many high-cost marginal suppliers from other countries. In 2000, exporters from traditional sources – Australia, Brazil, India and South Africa – were responsible for 95% of China's imports. Over time, the share supplied by non-traditional sources – 16 countries in 2000, 56 countries in 2011 – expanded, reaching 22% in 2011. In a low price environment many of these non-Chinese suppliers will have to retrench as well.

The sharp fall in iron ore prices in the early days of September was caused by destocking and so far there are no indications of a replenishing of inventories. In the downstream of the supply chain, steel traders, who hold the majority of steel stocks in China, have liquidated part of their inventories over the last couple of months, eliminating the excess.

The performance of leading indicators of the property market, the recovery of infrastructure spending and the iron ore and steel destocking create the potential for future strengthening of iron ore demand and for moderate price increases. In addition, we expect non-Chinese demand for iron ore to improve, as a result of better growth performance of some emerging economies, such as Brazil, India and Southeast Asia in 2013.

Nickel and copper prices reacted positively to the announcements of monetary policy actions from major central banks.

The rise in nickel prices was supported by some increase in stainless steel production after the end of the summer season in the Northern Hemisphere. However, the reaction of nickel-in-pig-iron producers most are likely to at least break even at US\$ 17,000 per metric ton - and the rising stocks caused prices to soften.

The case of copper prices is somewhat different as LME stocks are low and supply was negatively impacted by strikes in Chile. Therefore, prices have been supported at US\$ 8,000 per metric ton.

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REVENUES

Gross operating revenues totaled US\$ 10.963 billion in 3Q12, 9.8% below the US\$ 12.150 billion in 2Q12. The decline was a consequence of lower prices of iron ore and pellets, US\$ 1.513 billion, partially offset by greater sales volumes of iron ore, which added US\$ 333 million to revenues.

Revenues generated from the shipments of bulk materials – iron ore, pellets, manganese ore, ferroalloys, metallurgical and thermal coal – were 69.0% of operating revenues in 3Q12, decreasing from 73.5% in 2Q12. The share of base metals increased to 16.1% from 14.7% in the previous quarter, while fertilizers also expanded its share, rising to 10.0% from 7.6% in 2Q12. Logistics services contributed with 4.1% of total revenues and other products 0.8%.

Shipments to Asia represented 52.3% of total revenues, slightly above the 51.3% figure for the last quarter, while the Americas gained weight, climbing to 27.2% in 3Q12 from 26.4%, due to increased sales to Brazil. Europe lost some ground with 18.0% against 19.1% in the previous quarter. Revenues from sales to the Middle East were 1.3% in 3Q12 compared to 2.2% in 2Q12, while the rest of the world contributed with 1.1%.

On a country basis, the share of sales to China of total revenues amounted to 32.0% in 3Q12, Brazil 21.4%, Japan 11.2%, Germany 6.0%, South Korea 4.7% and Italy 2.6%.

Table 2 - OPERATING REVENUE BY BUSINESS AREAS

US\$ million	3Q11	%	2Q12	%	3Q12	%
Bulk materials	12,764	76.2	8,934	73.5	7,565	69.0
Ferrous minerals	12,479	74.5	8,658	71.3	7,340	67.0
Iron ore	10,136	60.5	6,505	53.5	5,541	50.5
Pellets	2,149	12.8	1,952	16.1	1,687	15.4
Manganese ore	46	0.3	63	0.5	57	0.5
Ferroalloys	139	0.8	129	1.1	55	0.5
Pellet plant operation services	9	0.1	9	0.1		
Coal	285	1.7	276	2.3	225	2.1
Thermal coal	124	0.7	79	0.6	21	0.2
Metallurgical coal	161	1.0	197	1.6	204	1.9
Base metals	2,292	13.7	1,781	14.7	1,766	16.1
Nickel	1,437	8.6	1,119	9.2	908	8.3
Copper	646	3.9	458	3.8	650	5.9
PGMs	81	0.5	115	0.9	90	0.8
Gold	78	0.5	58	0.5	83	0.8
Silver	20	0.1	15	0.1	13	0.1
Cobalt	29	0.2	16	0.1	11	0.1
Others					11	0.1
Fertilizer nutrients	1,037	6.2	923	7.6	1,095	10.0
Potash	80	0.5	81	0.7	78	0.7

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Phosphates	713	4.3	630	5.2	783	7.1
Nitrogen	216	1.3	193	1.6	208	1.9
Others	28	0.2	19	0.2	26	0.2
Logistics services	502	3.0	408	3.4	449	4.1
Railroads	358	2.1	294	2.4	308	2.8
Ports	144	0.9	114	0.9	141	1.3
Others	146	0.9	104	0.9	88	0.8
Total	16,741	100.0	12,150	100.0	10,963	100.0

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US\$ million	3Q11	%	2Q12	%	3Q12	%
North America	786	4.7	686	5.6	468	4.3
USA	449	2.7	410	3.4	238	2.2
Canada	304	1.8	265	2.2	229	2.1
Mexico	33	0.2	11	0.1	0	0.0
South America	3,305	19.7	2,521	20.7	2,518	23.0
Brazil	2,985	17.8	2,312	19.0	2,350	21.4
Others	320	1.9	209	1.7	168	1.5
Asia	8,998	53.7	6,230	51.3	5,738	52.3
China	5,927	35.4	3,802	31.3	3,504	32.0
Japan	1,937	11.6	1,273	10.5	1,223	11.2
South Korea	701	4.2	591	4.9	518	4.7
Taiwan	236	1.4	356	2.9	196	1.8
Others	197	1.2	208	1.7	297	2.7
Europe	3,166	18.9	2,321	19.1	1,973	18.0
Germany	1,114	6.7	738	6.1	654	6.0
France	205	1.2	149	1.2	201	1.8
Netherlands	186	1.1	73	0.6	73	0.7
UK	236	1.4	214	1.8	222	2.0
Italy	479	2.9	498	4.1	280	2.6
Turkey	138	0.8	124	1.0	125	1.1
Spain	136	0.8	108	0.9	100	0.9
Others	672	4.0	418	3.4	317	2.9
Middle East	277	1.7	268	2.2	141	1.3
Rest of the World	209	1.2	125	1.0	125	1.1
Total	16,741	100.0	12,150	100.0	10,963	100.0

COSTS AND EXPENSES

In 3Q12, cost of goods sold (COGS) was US\$ 6.128 billion versus US\$ 6.015 billion in 2Q12.(5) Adjusting for the effects of higher volumes (US\$ 38 million) and favorable exchange rate variation(6) (-US\$ 108 million), COGS was up US\$ 183 million when compared to 2Q12.

Our costs and expenses in 3Q12 were impacted by provisions for mining taxes: (a) mining royalties in Brazil (CFEM), US\$ 542 million, accounted for in other operational expenses, given the change in assessment of the loss associated to the deduction of transportation costs from the revenue base subject to the CFEM; (b) Brazilian state mining taxes (TFRM), US\$ 145 million, accounted for in other operational costs.

In addition to the provision for mining taxes, some extraordinary events produced changes in COGS in 3Q12 relative to the last quarter. The divestiture of the Colombian coal assets led to a reduction of US\$ 33 million in outsourced services and of US\$ 35 million in the purchase of products from third parties. The sale of ferroalloy plants in Europe caused a reduction of US\$ 10 million with costs of electricity services while the leasing of the Hispanobras assets cut US\$ 90 million in expenses with the purchase of pellets. On the other hand, we paid a leasing fee of US\$ 9.3 million.

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Finally, in 3Q12 there was no provision for a bonus to employees working in remote areas, versus US\$ 34 million in the previous quarter, given that this part of compensation is paid on a semi-annual basis. Hence, there will be a bonus charge in 4Q12.

(5) If we exclude the costs incurred by the Colombian thermal coal and European ferroalloy operations sold in 2Q12, COGS goes down to US\$ 5.878 billion.

(6) COGS currency exposure in 3Q12 was made up as follows: 67% Brazilian reais, 15% Canadian dollars, 14% US dollars, 3% Australian dollars, 1% Indonesian rupiah and other currencies.

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The analysis of individual cost and expenses items are net of the effects of volumes and exchange rate as well as those of extraordinary events.

Costs with outsourced services totaled US\$ 1.236 billion 20.2% of COGS against US\$ 1.285 billion in 2Q12, showing a net decrease of US\$ 14 million.

Cost of materials 19.0% of COGS was US\$ 1.163 billion, up 6.6% against 2Q12. There was a net increase of US\$ 61 million, as a result of a rise of US\$ 30 million in materials dedicated to the iron ore operations and US\$ 33 million to fertilizer operations, mostly to purchase ammonia and urea to fulfill contracts with customers as a consequence of the maintenance stoppages at plants.

Costs with personnel amounted to US\$ 885 million, representing 14.4% of COGS, declining 2.6% against the US\$ 909 million in 2Q12. The lower operating levels of Sudbury and Thompson under planned maintenance stoppages caused a decrease of US\$ 29 million in costs, while the personnel dedicated to our increasing Brazilian copper operations offset the impact.

Expenses with energy consumption accounted for 12.2% of COGS, reaching US\$ 747 million, roughly equal to 2Q12.

Costs with electricity were US\$ 217 million, slightly higher than 2Q12. The net change (US\$ 14 million) was mostly due to higher average prices, which resulted from an additional use of more expensive externally-sourced power in the fertilizers business.

There was a US\$ 3 million rise in expenses with fuel and gas to US\$ 530 million from US\$ 527 million in 2Q12.

The cost of purchasing products from third parties amounted to US\$ 259 million 4.2% of COGS against US\$ 377 million in 2Q12.

The purchase of iron ore and pellets amounted to US\$ 136 million, against US\$ 221 million in the previous quarter. The volume of iron ore bought from smaller miners was 2.5 Mt in 3Q12 compared to 2.6 Mt in 2Q12. The effect of smaller volumes was more than offset by a 6.2% rise in price due to lagged pricing, producing a net increase in cost of US\$ 5 million. In the first nine months of 2012 we purchased 6.9 Mt of iron ore against 6.7 Mt in the same period of last year.

The purchase of base metals products increased to US\$ 91 million from US\$ 85 million in 2Q12 impacted by higher nickel purchases. We bought 3,000 t of finished and intermediary nickel against 1,700 t in 2Q12, which was partially offset by lower copper purchases amounting to 6,500 t from 7,500 t in 2Q12.

Costs with shared services increased slightly to US\$ 77 million in 3Q12.

Other operational costs reached US\$ 829 million against US\$ 559 million in 2Q12. This was mainly due to: (i) higher expenses with royalty taxes, US\$ 119 million, which includes the provision for the TFRM; (ii) increased maritime freight costs to transport iron ore, US\$ 81 million, as volumes increased, (iii) higher leasing costs of the Nibrasco plants, US\$ 41 million, (iv) higher provision for profit sharing, US\$ 21 million, and (v) expenses related to safety measures at Carborough Downs, US\$ 15 million. On the other hand, lower demurrage charges, reflecting better operational and weather conditions in 3Q12, reduced costs by US\$ 20 million.

Depreciation and amortization 15.2% of COGS amounted to US\$ 932 million, against US\$ 977 million in 2Q12.

Sales, general and administrative expenses (SG&A) totaled US\$ 519 million in 3Q12, US\$ 96 million below 2Q12. Lower SG&A expenses were driven by a decrease in selling expenses (US\$ 85 million), mainly due to the positive adjustments in provisional pricing for copper sales (US\$ 88 million) and a reduction in administrative expenses (US\$ 11 million) resulting from lower advertising and travel expenses.

In 3Q12, research and development (R&D) expenditures⁽⁷⁾, which reflect our investment in creating long-term growth opportunities, of US\$ 360 million were in line with the US\$ 359 million invested in 2Q12.

(7) This is an accounting figure. In the Investment section of this press release we disclose the amount of US\$ 364 million for research and development, computed in accordance with the financial disbursement in 3Q12.

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Other operational expenses increased by US\$ 467 million to US\$ 1.071 billion, from US\$ 604 million in 2Q12. In addition to the provision for the payment of CFEM (US\$ 542 million), there were higher pre-operating, stoppage and start-up expenses (US\$ 40 million). The cessation of damage costs (US\$ 65 million in 2Q12) helped to lower the expenses.

Pre-operating, idle capacity and start-up expenses were US\$ 364 million, including the start-up of VNC (US\$ 144 million), Onça Puma pre-operating expenses (US\$ 87 million) and charges to idle capacity of US\$ 32 million caused by a non-scheduled maintenance of an ammonia plant in the fertilizers business. Additionally, inventory adjustments accounted for US\$ 52 million at VNC, against US\$ 49 million in 2Q12.

Table 4 - COGS AND EXPENSES**COGS**

US\$ million	3Q11	%	2Q12	%	3Q12	%
Outsourced services	1,202	19.2	1,285	21.4	1,236	20.2
Cargo freight	368	5.9	323	5.4	295	4.8
Maintenance of equipment and facilities	203	3.3	215	3.6	203	3.3
Operational Services	295	4.7	281	4.7	339	5.5
Others	336	5.4	466	7.7	398	6.5
Material	1,025	16.4	1,091	18.1	1,163	19.0
Spare parts and maintenance equipment	374	6.0	357	5.9	394	6.4
Inputs	456	7.3	524	8.7	538	8.8
Tires and conveyor belts	57	0.9	55	0.9	59	1.0
Others	138	2.2	154	2.6	173	2.8
Energy	811	13.0	741	12.3	747	12.2
Fuel and gases	578	9.2	527	8.8	530	8.6
Electric energy	233	3.7	213	3.5	217	3.5
Acquisition of products	608	9.7	377	6.3	259	4.2
Iron ore and pellets	331	5.3	221	3.7	136	2.2
Nickel products	194	3.1	85	1.4	91	1.5
Other products	83	1.3	72	1.2	32	0.5
Personnel	819	13.1	909	15.1	885	14.4
Depreciation and exhaustion	923	14.8	977	16.2	932	15.2
Shared services	105	1.7	76	1.3	77	1.3
Others	759	12.1	559	9.3	829	13.5
Total	6,252	100.0	6,015	100.0	6,128	100.0

SG&A, R&D and other expenses

US\$ million	3Q11	%	2Q12	%	3Q12	%
Total administrative	499	28.7	483	30.6	472	24.2
Personnel	184	10.6	193	12.2	195	10.0
Services	126	7.3	118	7.5	118	6.1
Depreciation	50	2.9	52	3.3	64	3.3
Others	139	8.0	120	7.6	95	4.9
Selling	155	8.9	132	8.4	47	2.4

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Research and development	440	25.3	359	22.8	360	18.5
Others	643	37.0	604	38.3	1,071	54.9
Total(1)	1,737	100.0	1,578	100.0	1,950	100.0

(1) Does not include gain/loss on sale of assets

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OPERATING INCOME

Operating income, as measured by adjusted EBIT, decreased to US\$ 2.647 billion from US\$ 3.923 billion in the previous quarter. Excluding the effect of the provision related to the CFEM, adjusted EBIT was US\$ 3.189 billion in 3Q12.

The reduction of US\$ 1.276 billion in adjusted EBIT was primarily caused by lower prices, US\$ 1.497 billion and the provision for mining royalties, US\$ 542 million. On the other hand, higher sales volumes added US\$ 272 million to operating income.

The adjusted EBIT margin in 3Q12 was 24.7%, or 29.7% after excluding the non-recurring items, down from 33.0% in the previous quarter.

NET EARNINGS

Net earnings were US\$ 1.669 billion in 3Q12, equal to US\$ 0.32 per share, decreasing from the US\$ 2.662 billion in 2Q12.

Net financial expenses totaled US\$ 834 million, against US\$ 2.548 billion in 2Q12, when there was a strong appreciation of the US dollar (USD) against the Brazilian real (BRL). Foreign exchange and monetary variations reduced earnings by US\$ 228 million, due to the USD appreciation of 0.5% against the BRL in 3Q12.

Financial revenues were US\$ 88 million, below the US\$ 120 million figure for the previous quarter. Financial expenses increased to US\$ 682 million from US\$ 559 million in 2Q12. The mark-to-market of shareholders' debentures caused a non-cash charge of US\$ 332 million, compared to US\$ 67 million in 2Q12.

The net effect of the mark-to-market of the transactions with derivatives was a non-cash charge on earnings of US\$ 12 million, against US\$ 416 million in 2Q12. There was a net positive cash flow impact of US\$ 85 million.

Breakdown of the effect of derivatives:

- Currency and interest rate swaps resulted in a negative non-cash effect of US\$ 51 million. There was a positive impact on cash flow of US\$ 35 million.

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- Nickel derivatives produced a positive non-cash charge of US\$ 38 million and a positive cash flow impact of US\$ 47 million.
- Derivative transactions related to bunker oil caused a positive cash flow impact of US\$ 1 million.

Equity income from affiliated companies was US\$ 154 million, a slight decrease relative to the US\$ 158 million in 2Q12. It was generated essentially by the non-consolidated affiliates in the bulk materials business with US\$ 196 million Samarco US\$ 169 million and logistics with US\$ 42 million MRS US\$ 36 million. Investments in the base metals business and others caused negative effects on net earnings of US\$ 56 million and US\$ 28 million, respectively.

CASH GENERATION

Cash generation, as measured by adjusted EBITDA, totaled US\$ 3.738 billion in 3Q12, 27.0% lower than the previous quarter. If we exclude the effects of non-recurring items in 3Q12, cash generation would be US\$ 4.280 billion in 3Q12.

The main factors underlying the decrease of US\$ 1.381 billion were lower realized prices of iron ore and the provision for CFEM, which were partly offset by higher volumes sold. Over the last 12-month period ended September 30, 2012, adjusted EBITDA was US\$ 22.137 billion, excluding non-recurring items.

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In 3Q12, dividends received from non-consolidated affiliates totaled US\$ 25 million, against US\$ 112 million in 2Q12. The only non-consolidated affiliate to pay dividends during 3Q12 was Hispanobras.

Excluding R&D expenditures and miscellaneous items which reduced adjusted EBITDA and the non-recurring items, the share of bulk materials in cash generation decreased to 91.4% in 3Q12 from 92.4% in 2Q12, and base metals continued to trend downward to 3.6% from 4.3%. The share of fertilizers increased to 4.3%, and logistics contributed with 0.7%.

Table 5 - ADJUSTED EBITDA

US\$ million	3Q11	2Q12	3Q12
Net operating revenues	16,361	11,893	10,725
COGS	(6,252)	(6,015)	(6,128)
SG&A	(654)	(615)	(519)
Research and development	(440)	(359)	(360)
Other operational expenses	(643)	(604)	(529)
Adjustment for non-recurring items		(377)	(542)
Adjusted EBIT	8,373	3,923	2,647
Depreciation, amortization & exhaustion	1,018	1,084	1,066
Dividends received	240	112	25
Adjusted EBITDA	9,631	5,119	3,738

Table 6 - ADJUSTED EBITDA BY BUSINESS AREA

US\$ million	3Q11	2Q12	3Q12
Bulk materials	9,159	5,490	4,309
Ferrous minerals	9,173	5,597	4,375
Coal	(14)	(107)	(66)
Base metals			