Vale S.A.
Form 6-K
April 26, 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

April 2012

Vale S.A.

Avenida Graça Aranha, No. 26
20030-900 Rio de Janeiro, RJ, Brazil

(Address of principal executive office)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

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(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1))

(Check One) Yes o No x

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(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

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US GAAP

BM&F BOVESPA: VALE3, VALE5

NYSE: VALE, VALE.P

HKEx: 6210, 6230

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DEALING WITH SEASONALITY

Performance of Vale in 1Q12

Rio de Janeiro, April 25, 2012 Vale S.A. (Vale) financial performance reported for the first quarter of 2012 (1Q12) shows an overall decrease in the main indicators of profitability and cash flow relative to the record levels of the last quarter of 2011.

Seasonality usually makes the first quarter the one with the weakest operational and financial performance in the year. This year, the abnormal rainfall in Brazil has magnified the seasonal effect on revenues and costs, which combined with the reduction in iron ore and pellet prices led to narrower operating margins and lower than expected earnings and cash flow.

The rainy season in the Southern Hemisphere is past, iron ore shipments surged in March and we are confident of delivering the volumes planned for this year. Global market for minerals and metals is estimated to remain tight, and we are well prepared to continue to exploit the opportunities for value creation.

A diversified portfolio of assets, by business bulk materials, base metals and fertilizers including Moatize, Oman, Onça Puma, Tres Valles and Bayóvar, is ramping up. These are new platforms of value creation, whose potential will be materialized in the near future.

The test with the integrated operation of VNC was successful, showing that we are able to produce nickel oxide on a sustainable basis.

Salobo, our third greenfield copper project and with a nominal capacity of 100,000 metric tons (t) of copper in concentrates, is coming on stream in the next few weeks(1).

We signed a leasing contract which allows for the continuation of potash mining at Taquari-Vassouras and the development of the Carnalita project, which is estimated to have a nominal capacity of 1.2 million metric tons (Mt) of potash.

The main highlights of Vale s performance in 1Q12 were:

- Record pellet shipments for a first quarter, 10.4 Mt, 0.9% above the previous record in 1Q11.

- Record coal shipments in 1Q12, at 2.8 Mt.

- Operating revenues of US$ 11.3 billion in 1Q12, 16.3% below the US$ 13.5 billion in 1Q11.

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(1) We already delivered two other greenfield copper projects, Sossego, Brazil, in 2004 and Tres Valles, Chile, in 2010.

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- Income from existing operations, as measured by adjusted EBIT (earnings before interest and taxes)(a), of US$ 3.9 billion. In 4Q11, operating income was US$ 6.0 billion.

- Operating income margin, as measured by adjusted EBIT margin, of 34.8%. In 4Q11, operating margin was 41.7%.

- Net earnings of US$ 3.8 billion, equal to US$ 0.74 per share on a fully diluted basis, representing an 18.1% drop against the US$ 4.7 billion in 4Q11.

- Cash generation, as measured by adjusted EBITDA(b) (earnings before interest, taxes, depreciation and amortization), of US$ 5.0 billion against the US$ 7.4 billon in 4Q11. Over the last 12-month period ended at March 31, 2012, adjusted EBITDA was US$ 31.1 billion.

- Capital expenditures, excluding acquisitions, of US$ 3.7 billion in 1Q12, rising 34.0% above 1Q11.

- The first tranche of the minimum dividend for 2012, US$ 3.0 billion, will be paid to shareholders from April 30, 2012 onwards.

- Maintenance of a strong balance sheet, with low debt leverage, measured by total debt/LTM adjusted EBITDA, equal to 0.8x, long average maturity, 9.4 years, and low average cost, 4.69% per year as of March 31, 2012.

Table 1 - SELECTED FINANCIAL INDICATORS

US$ million	1Q11 (A)	4Q11 (B)	1Q12 (C)	% (C/A)	% (C/B)
Operating revenues	13,548	14,755	11,339	(16.3)	(23.2)
Adjusted EBIT	6,456(1)	6,023	3,850	(40.4)	(36.1)
Adjusted EBIT margin (%)	48.9(1)	41.7	34.8		
Adjusted EBITDA	7,663[1]	7,396	4,965	(35.2)	(32.9)
Net earnings	6,826	4,672	3,827	(43.9)	(18.1)
Earnings per share fully diluted basis(US$ / share)	1.29	0.90	0.74	(42.6)	(17.8)
Total debt/ adjusted EBITDA (x)	0.7	0.7	0.8	9.7	22.4
ROIC(2) (%)	32.9	36.1	33.5		
Capex (excluding acquisitions)	2,743	6,686	3,677	34.0	(45.0)

(1) Excluding the non-recurring gain from the transfer of aluminum assets in 1Q11.

(2) ROIC LTM=return on invested capital for last twelve-month period.

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: Compañia Minera Misky Mayo S.A.C., Ferrovia Centro-Atlântica (FCA), Ferrovia Norte Sul S.A, PT Vale Indonesia Tbk (formerly International Nickel Indonesia Tbk), Vale Australia Pty Ltd., Vale Canada Limited (formely Vale Inco Limited), Vale Colômbia Ltd., Mineração Corumbaense Reunida S.A., Vale Fertilizantes S.A., Vale International, Vale Manganês S.A., Vale Manganèse France, Vale Manganese Norway S.A. and Vale Nouvelle Caledonie SAS.

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- **BUSINESS OUTLOOK**

After the softening of economic activity in the last quarter of 2011, the outlook for global growth is gradually improving.

The end of normalization of macroeconomic policies in emerging market economies, with the change in monetary policy stance, reconstruction in Japan and Thailand, accommodative monetary policies by the central banks of major advanced countries and improved financial conditions are contributing to some reacceleration in global economic growth.

Real output in Thailand has rebounded after a collapse caused by severe floods, giving rise to the restoration of the global auto and electronics supply chain, which has had a positive impact on global industrial production.

The long-term refinancing operations (LTROs) implemented by the European Central Bank (ECB) of approximately US$ 1 trillion, the commitment of European countries and the IMF to build a firewall and the decision of some peripheral economies to adopt fiscal austerity and structural reforms were all instrumental in the removal of uncertainties regarding short-term economic growth. These movements led to a mitigation of tail risks associated to the potential for a disorderly debt default of a Euro Zone member and ultimately another global financial shock. However, the credibility of the fiscal consolidation and reform plans of some countries is still being challenged by financial markets, although with less intensity than late last year.

Despite the contraction in Europe, global industrial output accelerated strongly in 1Q12 at 6% per year, driven primarily by the US, Japan and emerging Asia. The expansion underlies a strong demand for minerals and metals, thus sustaining prices at a relatively high level.

As global economic recovery is concluding its third year, the question now is the sustainability of the industrial growth process, which is key to the demand for minerals and metals.

In the US, labor and credit market conditions have improved, and growth prospects are much better than they were a while ago. After negative growth in 2011, mainly caused by natural disasters, the Japanese economy is expected to continue to expand throughout this year. As mentioned, the spillover into the rest of the world of the sovereign and financial crisis in Europe seems to have been contained, but the recession in the Euro area will last for the next quarters, with contraction of economic activity in Italy, Spain, Portugal and Greece, and sluggish growth in the major economies, such as Germany and France.

A hallmark of the recovery from the Great Recession of 2008/2009 has been the sharp contrast between the very weak performance in developed economies and the strength of emerging economies. The latter have been driven largely by buoyant domestic demand, strong capital inflows and countercyclical expansionary policies supported by stronger macroeconomic frameworks. At the same time, a substantial increase over the last fifteen years in trade and capital flows among emerging markets has contributed to weaken the co-movement of international business cycles, helping these economies to decouple from recessions in developed economies.

Expansion of emerging economies, although at slower pace than last year, is estimated to remain solid and to drive the global economy, giving support to the demand for minerals and metals.

China s GDP growth in 1Q12 slowed to 8.1% on a year-on-year basis from 8.9% in 4Q11, with estimated quarter-on-quarter expansion of 6.7%, the slowest since 1Q09, in the aftermath of the global financial shock. Activity in the property sector has weakened, with sales dropping and housing starts stagnating while infrastructure investment remained moderate. There was destocking in some sectors and exports slowed due to the weaker demand from Europe.

However, Chinese growth is expected to bottom out in 1Q12, and a gradual reacceleration of economic activity is taking shape in the short term.

Political risks seem to have diminished, which gives room for increases in public sector investment, including social housing and infrastructure spending, and the implementation of reforms.

There are indications that some financial reforms are being carried out, initially on a very limited extent - in accordance with the Chinese style of

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testing reforms with pilot projects - aiming at bolstering financial support for small and medium enterprises and greater private sector investment in the financial system. The announcement of a wider band for fluctuation of the renminbi and the raising although very timidly of limits to international portfolio capital flows are also indicative of the intentions to change the macroeconomic policy framework.

Exports picked up in March from the weaker movement in January-February, and are estimated to expand moderately in 2012, mainly driven by demand from Asia and the US.

Monetary and credit policy easing is taking place, with credit growth rising in March and short-term money market interest rates kept at a low level. With policy easing, fixed investment is expected to increase at a faster pace, led by social housing and infrastructure building, including urban equipment, energy, water work, irrigation and environmental protection. Private sector housing is expected to remain weak in the first half of the year, with potential for some improvement in 2H12.

The medium-term prospects for Chinese demand for minerals and metals depend on the pace and composition of its growth.

China´s GDP growth is estimated to run at a slower pace but it will not imply weaker demand. A very simple exercise illustrates this. Over the last decade real GDP reached an annual average rate of 10%, generating an accumulated increase of US$ 11.2 trillion. If in this decade real GDP expansion occurs at 7% per year, the accumulated increase will reach US$ 16.2 trillion(2). Even with a 30% drop in the pace of growth, real output would increase by 45%.

The government of China has committed to rebalancing aggregate demand away from investment and towards consumption, which may gradually moderate the demand for commodities which are investment-based. Artificially low cost of capital and energy prices incentivize investment in the manufacturing industry, which is too large by international standards, and is one of the factors underlying the strong commodities demand. However, the transition to a less commodity-intense growth is not expected to take place in the near term as it will require some deep structural changes in the macroeconomic policy framework which will be difficult to implement.

China still needs to invest significantly in infrastructure building and housing to meet pressures stemming from urbanization, a significant housing deficit, and the development of the Central and Western regions of the country. In addition, to accommodate the high population density of Chinese cities, much bigger than in large cities of the Western Hemisphere, the construction of high-rise buildings is widely adopted. This type of building uses a substantial volume of steel per square meter, sometimes more than double that consumed by 10-12 floor buildings.

Global steel production increased by 1.1% in 1Q12, with China´s output expanding by 2.4%. Japanese production in March reached the highest level since the Tohoku earthquake a year ago. On a seasonally adjusted basis, Chinese crude steel production is running above 700 Mtpy, about 47% of world output, which is reaching approximately 1.5 billion Mtpy. There are indications of a good performance for Chinese steel production in April driven by the recovery in the demand for construction and infrastructure.

The iron ore market remained tight. Prices are gradually recovering from the lows of 4Q11, rising by 27% compared to the end of October 2011. The demand from Europe remained weak but stable, while demand from China continued to be strong, with iron ore imports reaching an all-time high figure in 1Q12, at 187.2 Mt, 5.6% higher than 1Q11.

After a soft patch in the first two months of the year, due to production and logistics challenges related to the severe rains in Brazil, Vale´s iron ore shipments recovered sharply in March 2012, totaling 31.7 Mt, with 53.4% destined to China.

Global iron ore market tightness is expected to remain, with demand growth driven by China coupled with supply reaction constraints, as no major projects are coming on stream in the near term and Indian exports are trending downward. Percentagewise, Chinese growth is likely to slow, but in absolute terms, meaning additional tonnage of iron ore, which really is the relevant figure for the prospects of our cash flow and profitability, the expansion will continue to be significant as it departs from a very large base.

(2) Real GDP figures at purchasing power parity (PPP) exchange rate.

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Seasonally adjusted global stainless steel output decreased 1.2% quarter-on-quarter in 1Q12, and was 2.0% lower than the all-time high production level of 1Q11 as consumers and intermediaries continued to run down levels of inventory into 2012. Given that the stainless steel industry is the main consumer of nickel in the world, with about 60-65% of the sales of the metal, a downward price pressure followed, leading by mid-February to the end of a price rally that had started in early December 2011.

A gradual resumption of stainless steel production increase is expected as a consequence of the reacceleration of global economic activity, chiefly in China, the largest global consumer.

Non-stainless steel sources of demand for nickel continue to show growth, largely due to the strong demand by the aerospace industry for high nickel alloys, while the auto industry is adding strength to the consumption of alloy steels, plating and powder.

On the supply side, HPAL projects continue to struggle, with high capex costs and technical challenges to overcome.

However, Vale´s VNC test on integrated refinery operations was successful, with the production of 1,100 t of nickel oxide which was shipped to our nickel refinery in Dalian, China. VNC has been producing and selling an intermediate product, nickel hydroxide cake, since last year.

While some ferronickel projects have been delivered, including Vale´s Onça Puma, the main source of supply expansion has been the Chinese production of nickel in nickel pig iron (NPI), highly dependent on the supply of lateritic nickel ores mostly from Indonesia, the main supplier and responsible for 53% of China´s imports, and the Philippines.

The producers of NPI are high-cost swing producers, who have managed to increase output to levels above 200,000 t, amounting to almost 15% of the world s estimated nickel metal production. In the role of swing producers, they set a floor for nickel prices, contributing to lessen downward and upward price volatility. For instance, nickel prices were less volatile than copper prices over the last six months, breaking a historical pattern.

The Chinese NPI industry is facing the risk posed by the Indonesian ban on exports of nickel ores. The Indonesian government enacted a law to ban these exports and more recently took steps to bring forward enforcement of the law to May 2012. So far, it remains unclear when and how the law will be enforced. At the same time, the government of the Philippines suggested they may raise dramatically export taxes on ores.

Depending on how these restrictions are executed, they may lead to a major constraint to nickel supply, contributing to higher nickel prices.

Copper prices have been range bound, around US$ 8,000/8,500 per metric ton, a relatively high level, in face of strong demand from China and supply constraints. The US demand is surprising on the upside and European demand is showing some improvement compared to the low level of 4Q11.

The copper industry has been prone to supply disruptions stemming from labor strikes and operational challenges, which is one of the reasons for underlying market tightness. Alongside resource impoverishment of large existing mines, mine expansions seem to be slipping away from schedule and the lack of a group of sizeable projects to come on stream in the near future compounds the scenario for the persistence of high prices.

Salobo, our second greenfield copper project at Carajás with a nominal capacity of 100,000 t per year, will start the ramp-up process in 2Q12. Salobo II, with another 100,000 t, will follow, and is expected to come on stream in 2H13.

Given this scenario, we will continue to invest in a sizeable portfolio of projects, diversified by product, geography and demand driver.

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- **REVENUES**

Operating revenues totaled US$ 11.339 billion in 1Q12, dropping 23.2% against the previous quarter. The decrease was a consequence of lower sales volumes of iron ore and base metals US$ 2.586 billion and lower sales prices of iron ore and pellets US$ 800 million.

In addition to the regular effects of seasonality caused by adverse weather conditions due to the summer season in the Southern Hemisphere, particularly in Brazil and Australia, and the winter in Canada, this year the abnormal rainfall in the Brazilian iron ore mining sites created challenges to production and logistics constraining shipments.

In 1Q12, revenues generated from the sales of bulk materials iron ore, pellets, manganese ore, ferroalloys, metallurgical and thermal coal represented 72.7% of operating revenues, below the 74.4% in 4Q11. The share of base metals was slightly reduced to 15.7% from 16.0% in 4Q11, while fertilizers contribution rose to 7.3% from 5.8% in 4Q11. Logistics services were responsible for 3.6% of total revenues and other products 0.8%.

The composition of sales by geography was slightly modified, with Asia falling to 51.4% from 55.2% in 4Q11 and the Americas gaining weight, climbing to 28.7% in 1Q12 from 23.7%. Europe continued to trend downward, declining to 16.7% from 19.5% in 1Q11, reflecting the recessionary environment there. Revenues from shipments to the Middle East had another uptick, with 2.4% in 1Q12 against 2.0% in 4Q11 and 1.8% in 1Q11.

On a country basis, sales to China accounted for 31.3% of total revenues in 1Q12, Brazil for 20.7%, Japan 11.8%, Germany 5.9%, South Korea 4.7% and the United States 3.6%.

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Table 2 - OPERATING REVENUE BREAKDOWN

US$ million	1Q11	%	4Q11	%	1Q12	%
Bulk materials	**9,519**	**70.3**	**10,983**	**74.4**	**8,240**	**72.7**
Ferrous minerals	**9,365**	**69.1**	**10,620**	**72.0**	**7,851**	**69.2**
Iron ore	**7,287**	53.8	**8,483**	57.5	**5,987**	52.8
Pellets	**1,869**	13.8	**1,980**	13.4	**1,688**	14.9
Manganese ore	**43**	0.3	**32**	0.2	**42**	0.4
Ferroalloys	**153**	1.1	**115**	0.8	**124**	1.1
Pellet plant operation services	**9**	0.1	**10**	0.1	**10**	0.1
Others	**4**					
Coal	**154**	**1.1**	**363**	**2.5**	**389**	**3.4**
Thermal coal	**67**	0.5	**181**	1.2	**137**	1.2
Metallurgical coal	**87**	0.6	**182**	1.2	**251**	2.2
Base metals	**2,749**	**20.3**	**2,363**	**16.0**	**1,775**	**15.7**
Nickel	**1,557**	11.5	**1,265**	8.6	**1,103**	9.7
Copper	**536**	4.0	**874**	5.9	**467**	4.1
PGMs	**165**	1.2	**87**	0.6	**105**	0.9
Precious metals	**88**	0.7	**114**	0.8	**83**	0.7
Cobalt	**19**	0.1	**23**	0.2	**17**	0.1
Aluminum	**141**	1.0				
Alumina	**236**	1.7				
Bauxite	**6**					
Fertilizer nutrients	**787**	**5.8**	**856**	**5.8**	**829**	**7.3**
Potash	**62**	0.5	**77**	0.5	**70**	0.6
Phosphates	**536**	4.0	**563**	3.8	**548**	4.8
Nitrogen	**172**	1.3	**199**	1.3	**192**	1.7
Others	**17**	0.1	**17**	0.1	**19**	0.2
Logistics services	**328**	**2.4**	**420**	**2.8**	**403**	**3.6**
Railroads	**250**	1.8	**300**	2.0	**265**	2.3
Ports	**78**	0.6	**120**	0.8	**138**	1.2
Others	**165**	**1.2**	**133**	**0.9**	**92**	**0.8**
Total	**13,548**	**100.0**	**14,755**	**100.0**	**11,339**	**100.0**

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Table 3 - OPERATING REVENUE BY DESTINATION

US$ million	1Q11	%	4Q11	%	1Q12	%
North America	**962**	**7.1**	**751**	**5.1**	**678**	**6.0**
USA	475	3.5	341	2.3	408	3.6
Canada	463	3.4	382	2.6	265	2.3
Mexico	24	0.2	27	0.2	5	
South America	**2,778**	**20.5**	**2,749**	**18.6**	**2,578**	**22.7**
Brazil	2,538	18.7	2,487	16.9	2,351	20.7
Others	240	1.8	262	1.8	227	2.0
Asia	**6,716**	**49.6**	**8,151**	**55.2**	**5,828**	**51.4**
China	4,024	29.7	4,614	31.3	3,551	31.3
Japan	1,509	11.1	2,002	13.6	1,335	11.8
South Korea	428	3.2	888	6.0	532	4.7
Taiwan	323	2.4	422	2.9	170	1.5
Others	433	3.2	224	1.5	240	2.1
Europe	**2,636**	**19.5**	**2,567**	**17.4**	**1,889**	**16.7**
Germany	918	6.8	774	5.2	672	5.9
France	147	1.1	191	1.3	105	0.9
Netherlands	136	1.0	113	0.8	115	1.0
UK	357	2.6	363	2.5	237	2.1
Italy	468	3.5	415	2.8	315	2.8
Turkey	125	0.9	65	0.4	66	0.6
Spain	109	0.8	93	0.6	106	0.9
Others	377	2.8	552	3.7	272	2.4
Middle East	**244**	**1.8**	**299**	**2.0**	**274**	**2.4**
Rest of the World	**212**	**1.6**	**238**	**1.6**	**93**	**0.8**
Total	**13,548**	**100.0**	**14,755**	**100.0**	**11,339**	**100.0**

- **COSTS**

In 1Q12, cost of goods sold (COGS) was down by US$ 335 million on a quarter-on-quarter basis, amounting to US$ 5.690 billion. Adjusting for the effects of exchange rate variation(3) (+US$ 98 million) and lower volumes (US$ 456 million), COGS was roughly in line with 4Q11.

As mentioned before, severe rain in Brazil contributed not only to lower shipments but also to cost increases.

Additional dredging and corrective maintenance services were needed in order to address the effects of the heavy rain on our open pit mines. Preventive maintenance is usually scheduled for the first quarter in order to take advantage of the seasonally driven slower operational activity at this time of the year, which adds pressures to costs with materials and outsourced services. Moreover, the rainy season contributes to larger demurrage charges, due to the damages caused to railroad transportation, and to a more intense consumption of tires for off-road trucks.

Therefore, in 1Q12 expenses with materials (equipment, parts and inputs) and outsourced services adjusted by the effects of exchange rate variation and lower volumes - rose by US$ 223 million and US$ 139 million, respectively, compared to 4Q11. Demurrage charges increased by

US$ 55 million, caused not only by the effects of the rainy season but due to the accident with one bridge structure of the Carajás railroad.

Our nickel mining operations in Sudbury suffered a temporary suspension in February for the reassessment of safety conditions and resumption of production was slower than expected. The stoppage caused a direct

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(3) COGS currency exposure in 1Q12 was made up as follows: 60% Brazilian reais, 16% US dollars, 15% Canadian dollars, 3% Australian dollars, 1% Indonesian rupiah and 5% other currencies.

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impact on COGS, specifically on materials, outsourced services and labor costs amounting to US$ 54 million.

As we are developing a large portfolio of projects US$ 48 billion is being invested in the largest twenty projects and there is a global scarcity of skilled workers for the mining industry, in addition to the employees hired for project execution, we have been recruiting workers to provide them with the proper training to operate the assets, once they come on stream. This movement raises fixed costs without the counterpart in the short term of revenues generation.

Our headcount increased to 82,892 employees in March 2012 from 79,646 in December 2011 and 71,975 in March 2011, raising costs by US$ 48 million on a quarter-on-quarter basis.

Expenses with outsourced services totaled US$ 1.096 billion 19.3% of COGS against US$ 1.044 billion in 4Q11. Adjusting for lower volumes (US$ 104 million) and currency price changes (+US$ 17 million), costs of outsourced services increased by US$ 139 million vis-à-vis 4Q11, mainly reflecting higher expenses in the iron ore (US$ 97 million) and pellet businesses (US$ 25 million).

The bigger costs are explained by the increases in operational (US$ 84 million) and maintenance services (US$ 23 million) and higher railroad freight prices charged by MRS (US$ 10 million), which is a 45.84%-owned affiliated company transporting our iron ore production from the mines in the Southern System to the maritime terminals of Guaíba Island and Itaguaí.

Cost of materials 17.8% of COGS was US$ 1.014 billion, up 14.3% against 4Q11, due to the regular scheduled maintenance. Adjusting for the effects of smaller volumes (US$ 112 million) and currency price changes (+US$ 16 million), costs of materials increased by US$ 223 million vis-à-vis 4Q11, mainly reflecting the effect of the maintenance works in iron ore (US$ 112 million) and pellets (US$ 36 million). Tubarão plants I&II underwent cold maintenance stoppage in January and February. There was also a 3% increase in the waste removal services, which affects costs with inputs, tires and conveyor belts.

In 1Q12, personnel costs amounted to US$ 828 million, representing 14.6% of COGS, against US$ 891 million in 4Q11. The two-year collective labor agreement in Brazil added US$ 26 million to costs, reflecting a full quarter effect of the 8.6% pay rise. The retention bonus paid to employees as part of the agreement is being accounted linearly over a 24-month period commencing in September 2011. In 1Q12, it contributed with US$ 65 million in labor costs versus US$ 62 million in 4Q11, due to the appreciation of the BRL against the USD. As previously described, 3,246 new employees were hired during the first three months of 2012, raising costs by US$ 48 million.

In 1Q12, expenses with energy consumption accounted for 12.3% of COGS, amounting to US$ 701 million, showing a decrease of 7.3% when compared to 4Q11.

Costs of electricity consumption were US$ 217 million, slightly lower than 4Q11, caused by smaller volumes (US$ 23 million), exchange rate variation (+US$ 4 million) and higher energy prices (US$ 17 million).

The reduction of expenses with fuel and gas was more pronounced, down to US$ 483 million from US$ 536 million in 4Q11, mainly reflecting the effect of a contraction in sales volumes of US$ 52 million.

The cost of purchasing products from third parties amounted to US$ 398 million 7.0% of COGS against US$ 563 million in 4Q11.

The purchase of iron ore and pellets amounted to US$ 228 million, against US$ 425 million in the previous quarter. The volume of iron ore bought from smaller miners was 1.8 Mt in 1Q12 compared to 2.2 Mt in 4Q11. The acquisition of pellets from Hispanobrás amounted to 703,000 t in 1Q12.

Expenses with the purchase of base metals products came to US$ 93 million, which was in line with the US$ 90 million in 4Q11. On the one hand, volumes of nickel and copper ores were lower, but on the other hand their prices were higher. We bought 1,700 t of nickel intermediates, against 1,800 t in 4Q11, and copper ore purchases totaled 7,900 t, down from 8,300 t in 4Q11.

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Costs with shared services were down US$ 21 million to US$ 76 million in 1Q12, which is explained by the reallocation of some services previously performed by the shared services center to the business units.

Depreciation and amortization 16.0% of COGS amounted to US$ 913 million, against US$ 1.057 billion in 4Q11.

Other operational costs reached US$ 664 million against US$ 731 million in 4Q11. Demurrage charges rose by US$ 55 million, but there were lower expenses with royalties (US$ 105 million), due to the decrease in sales, and leasing fees (US$ 37 million) related to the Tubarão joint venture-owned pelletizing assets.

Sales, general and administrative expenses (SG&A) totaled US$ 529 million in 1Q12, US$ 298 million below 4Q11. Lower SG&A expenses were primarily caused by a decrease in administrative (US$ 264 million) and sale expenses (US$ 34 million). The reduction in administrative expenses was determined by lower services (US$ 129 million), personnel (US$ 26 million) and advertising expenses (US$ 20 million).

In 1Q12, research and development (R&D) expenditures(4), which reflects our investment in creating long-term growth opportunities, were US$ 299 million, compared to US$ 529 million invested in 4Q11.

Other operational expenses reached US$ 686 million, against US$ 1.023 billion in 4Q11, mainly due to the decrease of pre-operating and start-up expenses, which were US$ 319 million in 1Q12 against US$ 488 million.

Pre-operating and start-up costs related to VNC, Onça Puma, Simandou and Moatize were US$ 135 million, US$ 37 million, US$ 10 million and US$ 7 million, respectively. Additionally, there were US$ 77 million of inventory adjustments at VNC, against US$ 68 million in 4Q11.

Expenses with non-scheduled maintenance of phosphate rock mines Araxá and Tapira and phosphates plants Cubatão and Catalão led to charges to idle capacity of US$ 25 million. The stoppage of the phosphate rock mines in the Brazilian state of Minas Gerais was forced by the damages caused by severe rain.

Provision for contingencies was US$ 58 million, declining by US$ 114 million against 4Q11.

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(4) This is an accounting figure. In the Investment section of this press release we disclose the amount of US$ 296 million for research and development, computed in accordance with the financial disbursement in 1Q12.

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Table 4 - COGS BREAKDOWN

US$ million	1Q11	%	4Q11	%	1Q12	%
Outsourced services	**909**	**16.3**	**1,044**	**17.3**	**1,096**	**19.3**
Cargo freight	246	4.4	293	4.9	278	4.9
Maintenance of equipments and facilities	180	3.2	214	3.6	196	3.4
Operational Services	178	3.2	194	3.2	215	3.8
Others	305	5.5	343	5.7	407	7.2
Material	**937**	**16.8**	**887**	**14.7**	**1,014**	**17.8**
Spare parts and maintenance equipment	342	6.1	299	5.0	365	6.4
Inputs	396	7.1	421	7.0	442	7.8
Tires and conveyor belts	39	0.7	49	0.8	60	1.1
Others	160	2.9	118	2.0	147	2.6
Energy	**863**	**15.5**	**756**	**12.5**	**701**	**12.3**
Fuel and gases	557	10.0	536	8.9	483	8.5
Electric energy	306	5.5	220	3.6	217	3.8
Acquisition of products	**549**	**9.8**	**563**	**9.3**	**398**	**7.0**
Iron ore and pellets	336	6.0	425	7.1	228	4.0
Aluminum products	18	0.3				