

Feels Brings Closer  
Reflects Transforms  
Grows Engages Wins  
Executes Develops  
Expands Evolves  
Drives Dreams  
Vibrates **S2**

# RAS2011

*Samarco's Annual Sustainability Report*

*Working with focus,  
With determination,  
Putting our heart in it.*

This Annual Sustainability Report refers to the period elapsed between January 1<sup>st</sup> and December 31<sup>st</sup> of 2011.

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# ONE MORE CHAPTER IN OUR HISTORY

Writing an Annual Sustainability Report means reporting on the actions and initiatives of a Company during a given moment of its trajectory. Informing on what has changed, what is still working well, and what needs improvement. And, most of all, reviewing what has happened, and planning what needs to be done.

In this Report, which gives an account of Samarco's activities in 2011 from the standpoint of sustainability, we have decided to focus on the themes which, as a result of our inquiries among our stakeholders, were pointed out as the most relevant and bearing the greatest impact on our development. These formed the outlines of the chapters on Our Attitude and Our Performance. We believe that this form of presentation makes the reading of the Report easier, in addition to granting the consulting process its due weight and importance.

In the first part, we present Our Essence and our context of activity, for, in order to understand a story, it is necessary to know the players, the values and the scenarios in question.

In the second chapter, we describe Our Attitude, how we work, how we honor our commitments and how we seek to attain our goals.

Then comes the section of Our Performance, where we report on the results achieved in 2011, how we attained them, and how we are striving to assure them in the future.

As a reference for the construction of our Annual Sustainability Report, we have been using, since 2003, the guidelines of Global Reporting Initiative (GRI) G3, the international entity which is a worldwide reference for the development of sustainability reports. Since 2010, we have also responded to its Sectoral Supplement - Mines and Metals.

The section on Our Report contains the Materiality Study, which defines, as a result of consultation among various stakeholders, the most relevant themes to be addressed. It also contains the GRI Table which serves as an index to locate within the report the details of Samarco's compliance with the 90 performance indicators, as well as with the other commitments of the Company, among them the Global Pact and the Millennium Development Goals.

The Annual Sustainability Report was verified by BSD Consulting, an international consulting firm specialized in sustainable development and corporate social responsibility and fair trade, with regard to the declared GRI level. The overall contents of the Report were audited by KPMG Auditores Independentes, as informed in the Assurance Report (page 8).

*All that is life and feeling, joins, reflects, transforms, grows, engages, does, achieves, develops, changes, expands, evolves, drives, dreams and pulsates (S2).*

Driven by challenges which prove a constant evolution, Samarco made 2011 a special year. Our vitality reinforced the worth and importance of our brand, image and reputation, allied with our capability to adjust to change, anticipating the future and reinventing ourselves every day.

The graphic design of this Report has the objective of reflecting the Company's activities and its relations with each of its stakeholders. This is why we chose the verb **pulsate**. Pulsating conveys movement and the energy driving the development that marks our daily efforts.

## MESSAGE FROM THE CEO

In January 2012, I took over as Samarco CEO, succeeding José Tadeu de Moraes, who had led the Company for eight years. During his term of office, José Tadeu consolidated our growth strategy, which allowed us to become Brazil's fourth largest exporter in 2011. His outstanding performance paved the way for me to be now at the head of a solid organization, in which I believe and whose values I share.

Having worked at Samarco for almost 20 years, I have been able to follow every step of its evolution, in its quest to expand in a responsible manner while creating value for society. We know that, in order to reach the level of a world class company, recognized as one of the best in the industry, we need to build relationships of trust with all our stakeholders through a close and open dialogue.

It is by fomenting a chain reaction that we consider it possible to grow and help make Brazil and the whole world better places to live in. We believe in responsible mining, in progress that brings benefits and improvements to the quality of human life, in being rather than having, and in the value of the basic principles of humanity. This leads to a healthy and harmonic meeting of economic aspects with environmental and social ones, always underpinned by high ethical standards.

Therefore, it is not by chance that sustainability is at the core of our actions, as a prerequisite for excellence in management, to be practiced by all of us at Samarco. Maximizing the use of resources and the efficiency of our processes, in parallel with the development of our people and the communities that neighbor our operational units – these are some of the examples of how our business strategy aims to make us an end-to-end sustainable organization.

In addition, for over ten years we have taken on the commitment to issue an annual report on the results of our sustainable management. Samarco's Sustainability Report improves in tandem with our management practices, and today is a robust and accurate document

which transparently conveys the efforts undertaken by the Company along its path of continuous advancement.

Many lessons have been learned, as you will perceive. But we are sure of one thing: no Company stands on its own. No company can form and grow without involving society and without compensating it for the right to operate. Fortunately, Samarco is well aware of this and is certain that it is going in the right direction.

As such, I am very proud of the fact that Samarco's Annual Sustainability Report has received the GRI "A+" seal for the fourth year in a row. This means that this document has complied with 100% of the mandatory socioenvironmental indicators, and that the information in the report was developed according to the guidelines for sustainability reports issued by *Global Reporting Initiative* (GRI), the international entity that is recognized as a reference in this matter.

Some numbers deserve to be highlighted. In 2011, we voluntarily invested R\$ 6.9 million in social projects focused on education, culture and income generation, and R\$ 126.7 million in environmental projects, thus benefiting, directly or indirectly, some 840 thousand people from 81 communities, distributed throughout the 29 municipalities which are crossed by our pipelines or located close to our industrial sites.

In 2011, we consolidated our Clean Development Mechanism project, with the use, since 2010, of natural gas instead of fuel oil in the furnaces of our current three pellet plants in Espírito Santo. In addition to providing more efficient production and improving the quality of our product, we failed to emit 207 thousand tons per year of CO<sub>2</sub>eq, even more than our initial expectation of 158 thousand tons. This number represents a reduction of 9.8% in the total amount of greenhouse gas emissions by the Company.

In alignment with our ongoing concern and historical commitment to society and the environment, the Fourth

Pellet Plant Project, on which work began in May 2011 and which will increase our production capacity by 37% starting 2014, will be the first plant of its size in Brazil with full neutralization of all carbon emissions during construction. This is a pioneering initiative of which we are very proud.

Regarding 2011, we also wish to underline our excellent financial and sales result, having achieved the highest gross sales revenue - R\$ 7,117.3 million - in Samarco's history, as well as an increase of 42.3% in net profit compared to 2010.

Ongoing investment in the safety of our own and outsourced workers, and the results achieved through our commitment to this, have turned Samarco into a benchmark in the industry. It is with great satisfaction that we announce that last year we reached the lowest accident frequency rate ever, dropping from 0.93 in 2010 to 0.49 in 2011. This indicator takes into account accidents with lost time as well as accidents without lost time, which involve outpatient care or restricted activity. In addition, we have been operating for the past four years without any fatal accidents.

These data are further evidence of our quest for excellence, and become more consolidated as we reach higher and higher levels, always reinforced by the valuation of our greatest asset – Life.

I believe that these actions strongly contributed to our being considered by business magazine Exame as the Best Mining Company in Brazil, under the Best and Biggest awards of 2011. These and other recognitions further support the positive results of the Reputation Survey held in 2011, which identified society's perception of our Company, based on attributes which we deem essential to our development.

Knowing that we have a reputation that is viewed as strong undoubtedly increases our responsibility to society, but at the same time gives us the confidence required to forge ahead, improving every day, ready to take on the challenges that await us in 2012.



Ricardo Vescovi de Aragão  
CEO of Samarco

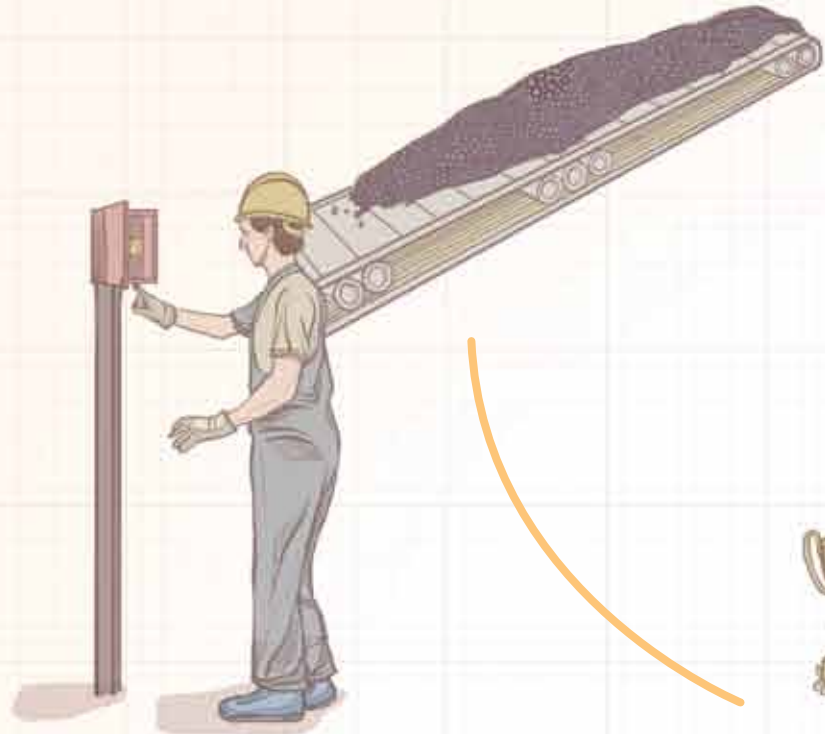
Looking toward the future, we cannot ignore the fact that we face a global scenario which is still economically unstable, with crises occurring in several countries, impacting all markets. However, I believe in our country and in the strength of our people. Brazil is already the world's sixth largest economy, thanks to its economic stability and the strength of its currency, and projections show that we can reach fourth place by 2050\*, driven by the strong growth of the domestic market and by the exportation of natural resources.

Samarco expects to be a top player in this movement, and, to this end, must invest in its capacity to see far ahead, to go far ahead, and to seek new ways of operating, applying technology in an intensive manner to optimize the use of natural resources. At the same time, respecting the environment, generating economic and social development, assuring competitive costs and yielding ever better results, incorporating the daily lessons learned with the support of increasingly more qualified personnel. But first of all, it is necessary to bring all the right elements to play, to bring on board the necessary partners for this construction, and to positively influence and be influenced by all those who share the same goal: making the world a better place to live in.

\*Source: *World in 2050*, study developed by PricewaterhouseCoopers (PwC).

  
Ricardo Vescovi de Aragão  
CEO of Samarco

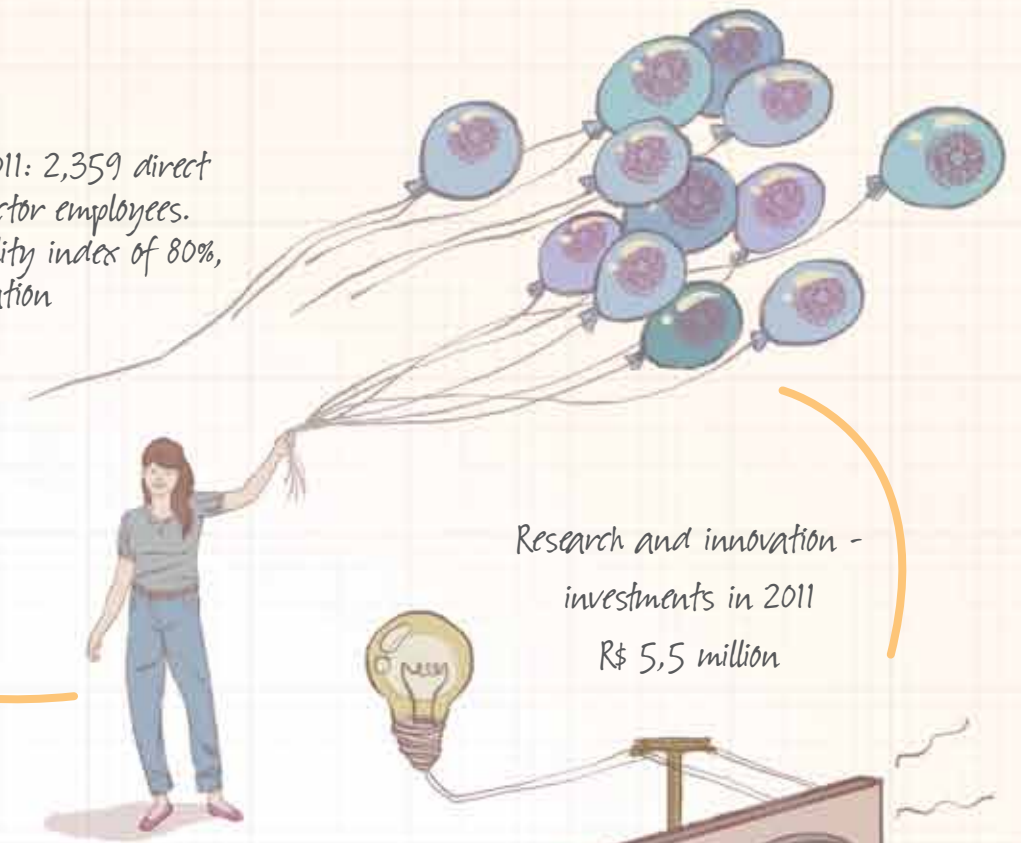
Safety results - lowest rate of frequency of reported accidents, considering both Samarco and contractor employees - 0.49 (accidents with and without lost time, the latter with outpatient care or restricted activity).



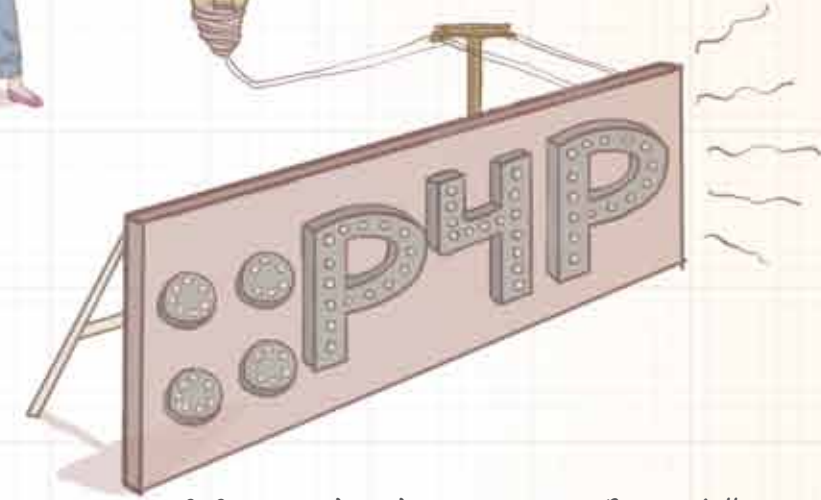
New record of volume shipment in 2011: 22.506 million tons, of which 21.655 million tons of pellets and 851 thousand tons of pellet feed.



Job opportunities created in 2011: 2,359 direct employees and 3,370 contractor employees. Climate Survey 2011 - favorability index of 80%, with 78% participation



Research and innovation - investments in 2011 R\$ 5,5 million



Environmental investments in 2011 R\$ 126.7 million

Social investments in 2011 R\$ 6.9 million



Result of Reputation Survey - Samarco has a Strong reputation (70-79 score), pursuant to Reputation Institute.

P4P - investments in expansion R\$ 5.4 billion First project of this size in Brazil to have its carbon emissions neutralized during construction, with investments of some R\$ 1.7 million.

- Brazil's fourth largest exporter (pursuant to data from the Ministry of Development, Industry and Foreign Trade).
- Best Mining Company in Brazil in 2011, Exame business magazine.
- Transparency Trophy 2011 (Anefac).



Gross sales revenue, highest in Samarco's history R\$ 7.117.3 million (in R\$ MM) and US\$ 4.268.6 million (in US\$ MM).



# 2011 Positive Agenda

Developing to continue transforming.

# INDEPENDENT AUDITORS' LIMITED ASSURANCE REPORT

The  
Board of Directors and Shareholders  
Samarco Mineração S.A.  
Belo Horizonte – MG

## Introduction

We have been engaged for the purpose of applying Limited Assurance Procedures on the sustainability information contained in the Annual Sustainability Report of Samarco Mineração S.A. ("the Company"), as of and for the year ended December 31, 2011, which was prepared under the responsibility of the Company's management. Our responsibility is to issue a Limited Assurance report on this sustainability information.

## Procedures of Limited Assurance

The limited assurance procedures were performed in accordance with NBC TO 3000 – Assurance Engagement Other than Audit and Review, issued by CFC – Accounting Federal Board and with ISAE 3000 - International Standard on Assurance Engagements, issued by International Auditing and Assurance Standards Board., both related to Assurance Engagements other than Audits or Reviews of Historical Financial Information.

The procedures comprised: (a) the planning of the work, considering the importance, coherence, volume of quantitative and qualitative information and operational and internal control systems that served as a basis for the preparation of the sustainability information contained in the Company's Annual Sustainability Report; (b) the understanding of the calculation methodology and the consolidation of the performance indicators through interviews with the personnel responsible for the preparation of information; (c) the comparison, on a sample basis, of the quantitative and qualitative information with the sustainability information disclosed at the Annual Sustainability Report; and (d) the comparison of the financial indicators with the financial statements and/or accounting records.

## Reporting criteria

The sustainability information contained in the Company's Annual Sustainability Report was prepared according to the Global Reporting Initiative guidelines (GRI-G3) for sustainability reporting and the financial services sector supplement - "Mining and Metals Sector Supplement – RG Version 3.0/MMSS Final Version".

### Scope and Limitations

The objective of our work was to apply limited assurance procedures on the sustainability information contained in the Company's Annual Sustainability Report, on profile items (disclosures that set the overall context for understanding organizational performance such as its strategy, profile, and governance), on management approach and on the sustainability performance indicators and it does not include any evaluation of their policies, practices and sustainability performance.

The applied procedures do not represent an examination in accordance with the Brazilian and international standards on auditing for financial statements. In addition, we do not provide any assurance on the achievability of future information (such as targets, expectations and ambitions) nor on qualitative information that is under subjective evaluation.

## Conclusion

Based on our work, as described in this report, we have not identified any fact that leads us to believe that the sustainability information contained in the Annual Sustainability Report of Samarco Mineração S.A., as of and for the year ended December 31, 2011, is not presented, in all materials aspects, in compliance with the Global Reporting Initiative guidelines (GRI-G3) for sustainability reporting, the financial services sector supplement - "Mining and Metals Sector Supplement – RG Version 3.0/MMSS Final Version", and with the records and files that served as a basis for its preparation.

Belo Horizonte, 11 May, 2012.



**KPMG Auditores Independentes**  
**CRC 2SP-014428/O-6- F-MG**

**Ulysses M. Duarte Magalhães**  
**Accountant CRC 1RJ092095/O-8-S-MG**

## *Our essence*

*Is to bring together, expand, propel.  
To go forward, together, marching to the same drum.*



# SAMARCO

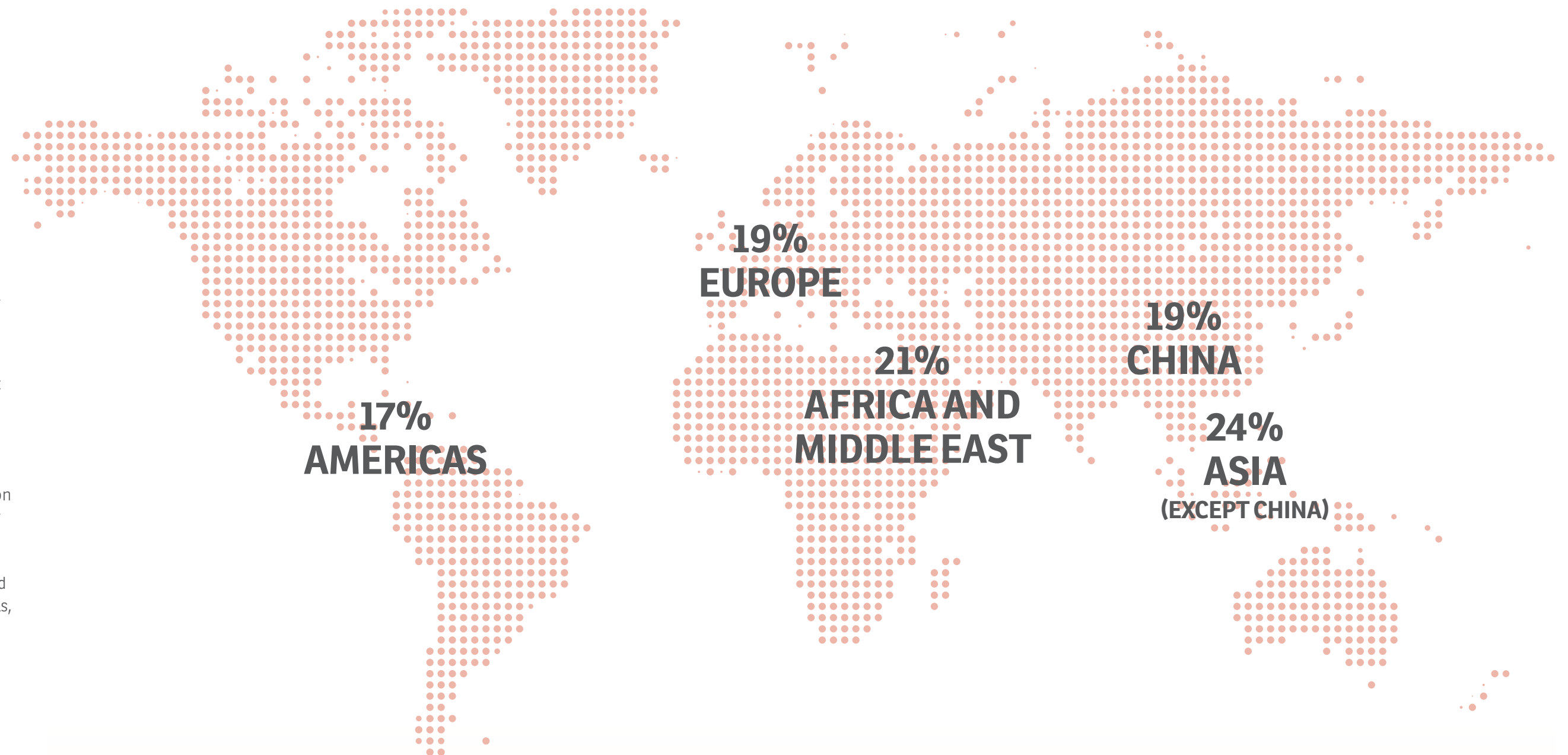
Samarco Mineração S.A. is a company with the technology and facilities necessary to mine, beneficiate, pelletize and ship ore. Thanks to its ongoing technical evolution, it extracts ore with a low iron content and converts it into a high quality product for steelmaking, in a profitable and competitive manner. The Company is privately held, and has two shareholders: BHP Billiton Brasil Ltda and Vale S.A., each holding half of the capital stock.

Our management blends efficient processes with consistent technological support and the commitment to sustainability. We continually focus our attention on respect for and valuation of the lives of our employees, contractors, suppliers and neighboring communities, on the safety of our operations, customer satisfaction, respect for the environment and profitability of our shareholders.

We produce two types of iron ore pellets: Direct Reduction pellets (DR) and Blast Furnace pellets (BF). We also sell pellet feed and sinter feed, left over from production of iron ore concentrate. Our installed annual production capacity is 22.250 million tons.

We are essentially an exporting company, and in 2011 we sold our production to steelmakers in 19 countries in the Americas, Asia, Africa and Europe. Although the Chinese market still accounts for a good part of Samarco's sales, the trend is to increase the presence of our products in the Americas, the Middle East and in North Africa.

## Customers map







In 2011, Samarco earned the spot of fourth largest exporter in Brazil, according to the Ministry of Development, Industry and Foreign Trade, positively contributing to the country's trade balance with more than US\$ 4 billion FOB\*.

With headquarters in Belo Horizonte (MG), Samarco's industrial plants are located in the states of Minas Gerais and Espírito Santo. They are:

- Germano and Alegria Mines, located in the municipalities of Mariana and Ouro Preto, in Minas Gerais.
- Two concentrators, located in the same municipalities, which beneficiate the ore mined, increasing its iron content.
- Three pellet plants, located in the municipality of Anchieta (ES), transform the ore received from Minas Gerais into pellets.
- Two pipelines, each almost 400 kilometers long, which transport the iron ore slurry from Minas Gerais to Espírito Santo, passing through 25 municipalities. Samarco is a pioneer in the use of this modality of transportation in Brazil.

- Our own seaport terminal located at the Ubu plant, in Anchieta (ES), from where all our production is shipped. We have a pier with two mooring berths at a depth of up to 18.7 meters.

Samarco also has:

- Three sales offices: one in Belo Horizonte (MG) and two international offices, in Amsterdam (Netherlands) and Hong Kong (China).
- The hydroelectric plant in Muniz Freire (ES) and the Guilman-Amorim hydroelectric plant, managed in consortium with in ArcelorMittal, in Antônio Dias and Nova Era (MG). These two plants account for 20% of our electricity consumption.

In May 2011, we began work on the Fourth Pellet Project (P4P), an integrated expansion that will increase our operating capacity by 37% beginning in January 2014.

We created 2,359 direct jobs and 3,370 indirect jobs. These numbers do not include the jobs created by the Fourth Pellet Project, which is expected to reach 13 thousand positions at the peak of work, and 1,100 during the operations phase.



Germano Mine-MG

## PRODUCTION PROCESS

At the Germano unit, located in the municipalities of Mariana and Ouro Preto (MG), we mine and beneficiate the iron ore. Conveyor systems are used to mine 70% of this ore and transport it from the mines to the concentrators, without the use of trucks, which reduces fuel consumption and carbon gas emissions, and helps to reduce impacts like noise and dust.

Beneficiation of the iron ore is done at the two concentrators, by crushing, grinding, desliming and flotation, which results in concentrate with iron content of 67.5%, produced from ore with content of 46%. At this stage, the ore obtains the granulometric specifications to meet the requirements of the following phases.

The concentrate is transported as slurry by two pipelines, each approximately 400 kilometers long, from the Germano unit (MG) to the pellet plants, at the Ubu unit (ES), where the ore slurry is transformed into pellets, ranging in size from eight to 16 millimeters. The iron ore pellets undergo a heating process optimizing them for use in the steelmaking industry, whether for the blast furnace process or for direct reduction.

The pellets produced are stored in a yard with capacity of up to 1.8 million tons, and sent by ship to the Port of Ubu, in Anchieta (ES), which belongs to Samarco.

Samarco uses conveyor belts in the mines (MG) and pellet plants, yard and port (ES) and pipelines to transport the iron ore slurry from the Germano unit to the Ubu unit (ES). These transportation systems create less environmental impact and a lower risk of accidents.

Ceremony of laying of cornerstone of P4P at the Germano Unit-MG

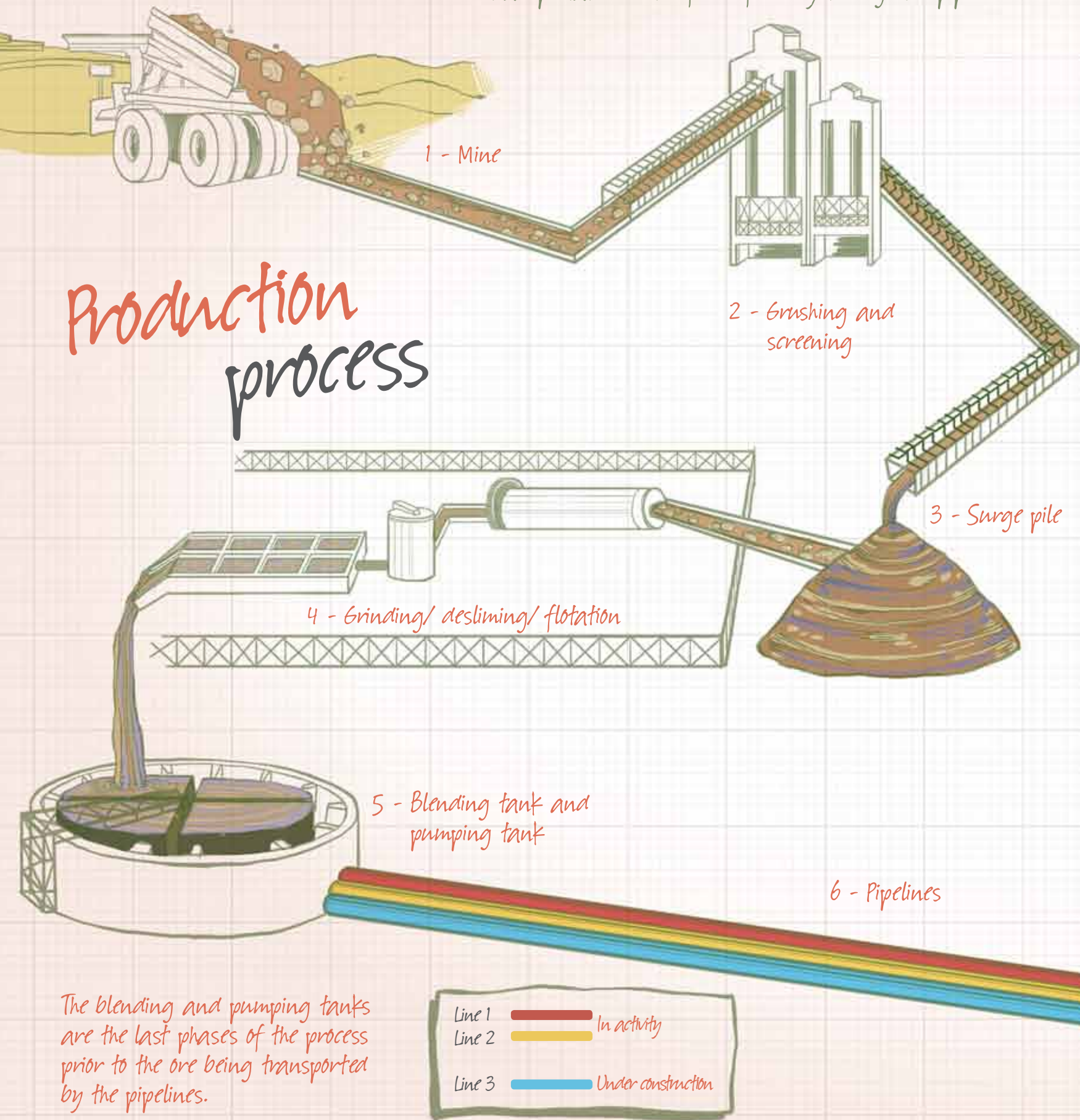


\*FOB (Free on Board) represents the price negotiated for the merchandise, free of import costs.

# Germano/MG

The raw ore is extracted in Germano-MG. It is concentrated prior to its transportation in the form of slurry through the pipelines.

## Production process

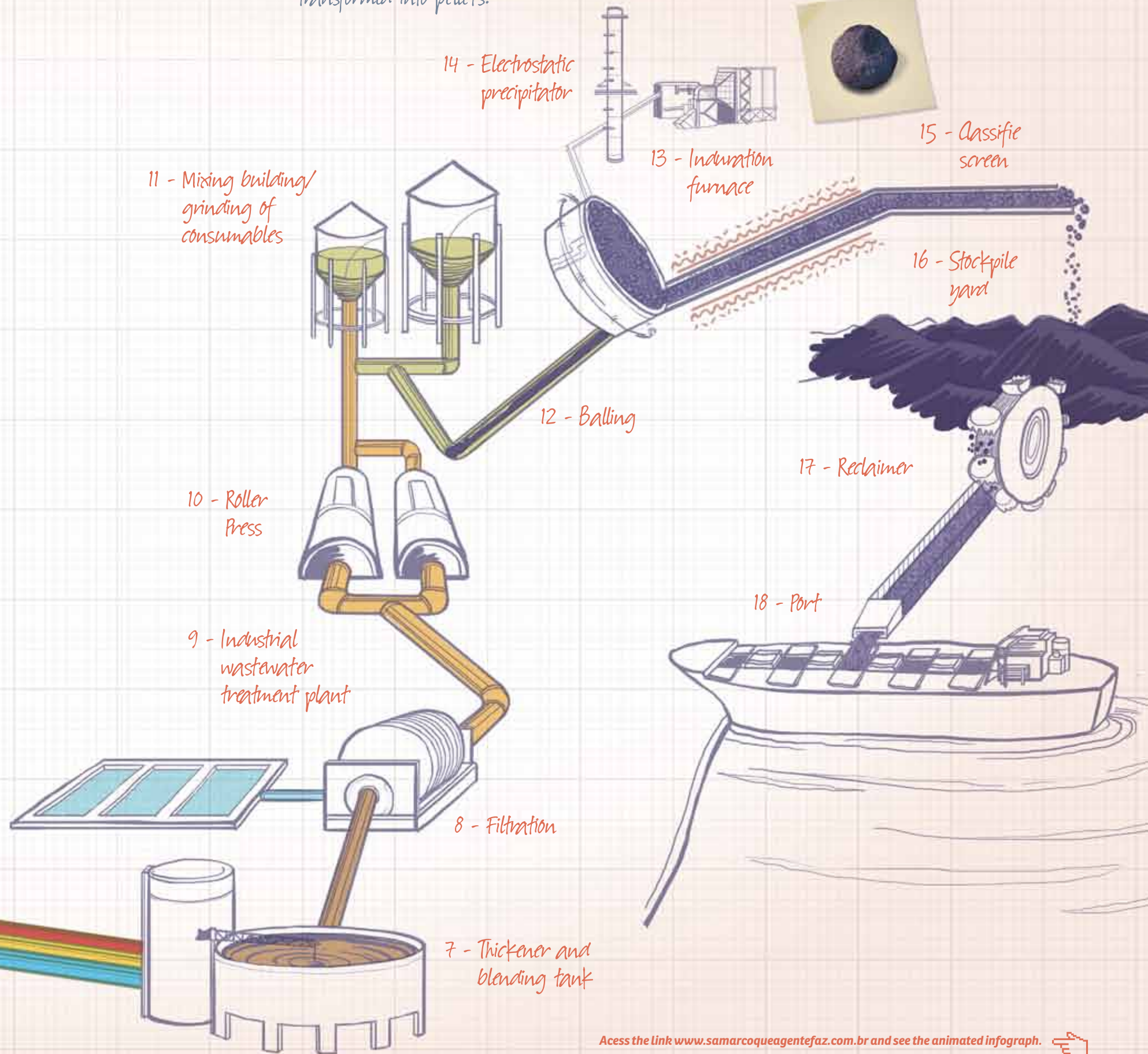


The blending and pumping tanks are the last phases of the process prior to the ore being transported by the pipelines.

# Ubw/ES

After traveling some 400 km, the iron ore slurry is transformed into pellets.

Pellet in natural size, between 8 and 16 mm. The pellets are stockpiled in the yard for subsequent shipment abroad.



# MISSION, VISION AND VALUES

Samarco's Mission, Vision and Values synthesize the Company's commitments and guide its activities.

## Mission

We are a Brazilian company which produces high quality iron ore for the global steel industry. We strive to improve people's living conditions and well-being and to promote social, economic and environmental development through the responsible utilization of natural resources and the construction of lasting relationships based on value generation.

## Vision

To be the leading pellet mining company, recognized as a world-class organization.

## Values

We value life: our greatest treasure.

Respect and fairness guide our relations.

We act with responsible autonomy.

Results are premises for growth.

Corporate excellence is the cornerstone of our success.

Ethics preserve and strengthen our relations.

Sustainability assures continuity.

# CORPORATE GOVERNANCE

Samarco has a modern governance structure, and its Board of Directors is composed of four permanent and four alternate representatives appointed by the shareholders— BHP Billiton Brasil Ltda. and Vale S.A., which own the Company's capital stock in equal amounts. These board members, who do not hold executive positions at Samarco, have three year terms, and re-appointment is allowed.

One of the attributions of the Board of Directors is to choose the Company's CEO. In October 2011, then director of Operations and Sustainability, Ricardo Vescovi de Aragão, was appointed to replace José Tadeu de Moraes, who had led Samarco for the past eight years. The transition period, between October and December 2011, went as planned and was presented to the Company's stakeholders. The choice of the new CEO from among Samarco's own executives, and the choice of the new directors who began their positions in January 2012, demonstrated the trust that the shareholders place in the quality of our management.

Among the many attributions of the Board are the following: definition of general business guidelines and Company strategy; orientation/approval of the business plan and budget, including investment plans; approval of dividend distribution to shareholders and re-investment; accompaniment of results; guarantee of integrity for Samarco management; choice of independent auditor; and resolutions on alterations to the Company's capital structure.

The Board of Directors is supported by three committees, which previously analyze and evaluate the main questions related to Samarco management.

They are:

- **Finance and Strategy Committee**, which has three subcommittees related to the main areas of its competence: Taxes and Contingencies, Treasury and Audit;
- **Operations Committee**, which deals with technical aspects related to operations. It also has three subcommittees: Technical, Performance Management and Capital Projects;
- **Remuneration Committee**, responsible for assisting in the definition of remuneration policies for Samarco's chief executives and for general human resources policies.

These Committees hold structured meetings at least three times a year.

The relationship with our shareholders is guided by transparency, mutual respect and by trust, and allows us to enjoy valuable exchanges of experiences with two of the largest companies in the mining industry in the world, which have in-depth knowledge of our market.

## STRATEGY AND MANAGEMENT

In 2011, we revised our strategy management model to improve the process, adapting it to our needs and to the new challenges we face.

The basis for this work was established in February 2011, at a meeting to critically analyze and monitor the strategy, with the participation of Company executives. At that time, we defined the main points for improvement of the process, and the guidelines to be followed.

The new process defines and details five main stages, with specific products that serve as pre-requisites for the following phases. They are: formulation; translation; unfolding; monitoring and communication.

For the process review, a variety of management practices at Samarco were considered and integrated, which has contributed to accelerate implementation of the proposal.

As central elements of the new model, seven specific purpose committees were formed. Composed of leaders of different processes at Samarco, the committees have specific scopes and agendas, and meet at least once a quarter to evaluate and discuss cross-cutting concerns from a long term viewpoint, obtaining and consolidating synergies and integrating the processes guided by the strategy.

The special committees are: clients and the market; sustainability; operations; profitability; operations; personnel management; compliance, risks and legal; growth and Samarco management system.

Another improvement was integration with risk management. This process analyzes alternative actions and indicates risks and opportunities, influencing from the beginning the process of defining the strategy in the stages of formulation, translation and unfolding, and guides the analyses and decisions in the monitoring stage.

By improving the strategy management process, the Company's management basis is also strengthened. At the same time, rituals and procedures were established that together structure the Samarco Management System and are used to present the discussions and decisions made to the different levels of the Company.

The board meets every month to monitor the organization's health and performance, based on a structured set of key indicators. Next, the other leaders present the information to their teams, thus ensuring alignment and execution of the necessary actions at the different levels of the organization, as well as routine and strategic management.

One of the challenges we face in 2012 is to extend the strategic level management to the tactical and operational level, which can thus design and implement their own processes and procedures. Another challenge is to execute the new strategy process with excellence, after concluding the revision cycle, ensuring that the entire organization will be mobilized for its implementation.



Samarco  
Pellets.  
Ubu-ES



More information on the Ibram analyses is available at [www.ibram.org.br](http://www.ibram.org.br)

## BUSINESS SCENARIO

Samarco's performance in 2011 reflected not only our competitiveness and technical capacity, but also the favorable climate for mining in Brazil and the rest of the world. According to the Brazilian Mining Institute (Ibram), iron ore production in Brazil grew 28% last year; together with the high price of iron ore, this guaranteed excellent results for the industry.

International demand for iron ore remained strong, as a result of the good performance of the Chinese economy, which saved it from the instability of the global economy, especially in Europe.

The Chinese steelmaking industry continued to grow, and Chinese iron ore and concentrate imports increased by 11%. The diversification of Chinese imports, favoring South Africa, did not alter the country's dependency on its main suppliers, Australia and Brazil. In 2011, China imported 64% of its iron ore needs from these countries, and this did not significantly vary in relation to the previous year.

Iron ore and concentrates occupied first place in the list of Brazilian exports, with a total of US\$ 41.817 million F.O.B., accounting for 16.33% of the total in 2011, according to data from the Ministry of Development, Industry and Foreign Trade. Samarco accounted for 10% of this amount. Total growth in iron ore and concentrate exports was 6.4%, with a 35.9% increase in price, which meant growth of 44.6% in the share of these products in the Brazil's total exports.

Collection of Financial Compensation for Exploration of Mineral Resources (CFEM), the mining royalty, reached R\$ 1.544 billion last year, which is growth of 42% over the 2010 volume, which was R\$ 1.083 billion, according to data from the National Mineral Production Department (DNPM).

According to Ibram, the perspectives for the mineral industry in 2012 are quite positive, which should lead to new real production growth.

Changes in governance of this industry are expected in Brazil, with the creation of a regulatory agency and rapidity to processes related to this activity.

Also awaited is the 2030 National Mining Plan, announced by the Federal Government in 2010, which will present general guidelines for geology, mineral resources, mining, mineral transformation and metallurgy.

Ibram identified the changes in rates and in the procedure for calculating CFEM to be a more significant risk, as they may affect the competitiveness of Brazilian products, as a result of the new prices.

## SUSTAINABILITY CONTEXT

Meeting the growing global demand for mineral products in a scenario of diminishing natural reserves presents the mining industry with a great challenge to incorporate sustainability into its management.

The impact of mining activities in the companies' areas of influence should be continuously monitored to obtain and increase the best economic, environmental and social results for the community, while reducing possible harm. These are the essential conditions to obtain and maintain the social license to operate.

In 2003, this scenario led the International Council on Mining and Metals, or ICMM, a forum headquartered in London, composed of 21 of the largest mining companies in the world to propose the 10 Principles for performance in the field of sustainable development. The following document covers the greatest challenges for the mining companies in this context, in order to encourage and accelerate the processes of integration of sustainable policies and practices to the industry.

The 10 Principles are:

1. Implement and maintain ethical business practices and sound systems of corporate governance;
2. Integrate sustainable development considerations within the corporate decision-making process;
3. Uphold fundamental human rights and respect cultures, customs and values in dealings with employees and others who are affected by our activities;
4. Implement risk management strategies based on valid data and sound science;

5. Seek continual improvement of our health and safety performance;
6. Seek continual improvement of our environmental performance;
7. Contribute to conservation of biodiversity and integrated approaches to land use planning;
8. Facilitate and encourage responsible product design, use, re-use, recycling and disposal of our products;
9. Contribute to the social, economic and institutional development of the communities in which we operate;
10. Implement effective and transparent engagement, communication and independently verified reporting arrangements with our stakeholders.

In addition, in the international study "Trends for the mining industry 2012," the consulting and auditing company Deloitte, indicates the main topics of attention for mining companies, as well as remuneration of capital and the guarantee of supplying the markets. They are: questions related to the use of natural resources, with emphasis on the use of water and iron ore; environmental performance throughout the life cycle of the activity, including recovery of mined areas; and the sharing of land with communities, with appropriate treatment of the questions related to the use of the land and to fostering local development.

The topics identified in the Samarco Materiality Matrix (more information is provided on page 91), that guide the preparation of this report are aligned with the ICMM Principles and the challenges indicated in the Deloitte study.



# SUSTAINABILITY AT SAMARCO

In light of the challenges we face, we seek to act in a manner that is coherent with our values, since we understand that mining in the future should be more and more integrated into society, which grants us the right to develop the iron ore and operate on its territory.

We believe that sustainability is a management requirement, and therefore, it must be a part of all of our processes and actions. And the base for sustainable activity is the guarantee of compliance; of full compliance with legislation in effect and other applicable requirements, including those defined by the Company itself.

Samarco's convictions and proposals were consolidated in the Sustainability Statement and shared with all publics and partners:

## Samarco Sustainability Statement

Aligned with the Mission, Vision, Values and Integrated Management Policy, guided by ethics, with the objective of remaining competitive and performing with management excellence, considering in its decision-making processes the balance between the economic, environmental and social aspects on the one hand, and the current needs of society and of future generations on the other, Samarco has defined a series of principles and guidelines for its corporate conduct, with the commitment to:

- Conduct its business in conformity with the current laws of the country, adopting precepts of social responsibility in line with the publicly assumed national and international commitments.
- Act responsibly with regards to the use of natural resources, considering the limits and the regeneration capabilities of the natural environment, mitigating impacts and contributing towards the preservation of biodiversity, water and energy resources, and continuously seeking creative alternatives for its operations.

- Promote the diversity and ongoing development of the human and intellectual capital of its employees, in a fair, clear and merit-based approach.
- Foster and construct a process of internal and external corporate communication open to permanent social dialogue.
- Engage stakeholders in the Sustainability model, structure decisions and choices based on the principles governed in this model and lead efforts to prepare agreements and projects between private initiative, society and government.
- Encourage and support initiatives by employees, suppliers, customers, local partners, governments and society that share our commitments to Sustainability and to social responsibility, to bring on change in a responsible, ethical and fair way, seeking environmental balance and collective well-being.
- Create and maintain a business logic with the commitment to create wealth for shareholders, employees, third parties, society, government, suppliers and customers.

In order to increasingly consolidate the concept of sustainability within the Company, in 2011 we launched the Project "Sustainability as Value Leverage". The main objective is to align the sustainability strategy with the business, assuring creation of value for stakeholders. The first cycle of the Project concludes in 2012 and will allow an assessment of the first results already achieved.

To learn about Samarco's performance in compliance with the Global Pact, access the link <http://unglobalcompact.org/participant/8168-Samarco-Mineracao-S-A>



# COMMITMENTS

Samarco is a signatory to various national and international initiatives focused on sustainability, such as the Global Compact, the Millennium Goals, the Open Letter to Brazil on Climate Change, and the Business Pact for Integrity and against Corruption.

## Global Compact

Samarco has been a signatory to the Global Compact since 2002. The Compact is an initiative of the United Nations, which invited companies from all over the world to voluntarily align their operations and strategies with 10 principles in the fields of human rights, labor, environment and anti-corruption, based on the Universal Declaration of Human Rights, the Declaration of the International Labor Organization on Fundamental Labor Principles and Rights, on the Rio Declaration on Environment and Development, and on the UN Convention against Corruption.

## Millennium Development Goals

The companies which have adhered to the Global Compact have also been invited to develop actions aligned with the Millennium Development Goals, proposed in 2000 by the United Nations, based upon an analysis of the main global development challenges. Samarco supports this initiative and contributes with actions both in its management, promoting activities with the participation of its employees and contractors, and in projects carried out in the communities neighboring its operational units.





See the complete document in the Annual Sustainability Report or on the link [http://www1.ethos.org.br/EthosWeb/pt/3644/servicos\\_do\\_portal/noticias/itens/carta\\_aberta\\_ao\\_brasil\\_sobre\\_mudancas\\_climaticas\\_.aspx](http://www1.ethos.org.br/EthosWeb/pt/3644/servicos_do_portal/noticias/itens/carta_aberta_ao_brasil_sobre_mudancas_climaticas_.aspx)

### Open Letter to Brazil on Climate Changes

On August 25<sup>th</sup>, 2009, during the Seminar on Brazil and Climate Change: Opportunities for a Low Carbon Economy, in São Paulo, organized by the newspaper Valor Economico and by the TV program Globonews, with the support of the Ethos Institute, an Open Letter to Brazil was proposed, with the objective of mobilizing companies to assume commitments in terms of climate change. This letter was signed by 21 of the country's largest corporations, from various sectors. Samarco, as a signatory to this document, has agreed to comply with the proposed commitments.

These commitments require the Company to:

1. Publish, on an annual basis, an inventory of greenhouse gas emissions (GHGs) produced, as well as actions to mitigate emissions and adaptation to climate changes.
2. Include, as a strategic guideline for the decision-making process required for investments, the selection of options that promote the reduction of GHG emissions in processes, products and services.
3. Pursue a continuous reduction of specific GHG emissions and of the net balance of CO<sub>2</sub> emissions, by means of actions that would directly reduce emissions of the production processes, investments in carbon capture and sequestration and/or support to actions required to reduce emissions from land clearing and degradation.
4. Act with the supply chain, aiming at the reduction of emissions from suppliers and clients.
5. Engage with government, civil society and other relevant sectors to try to understand the impacts of climate changes on the areas where they operate and the respective adequate response.

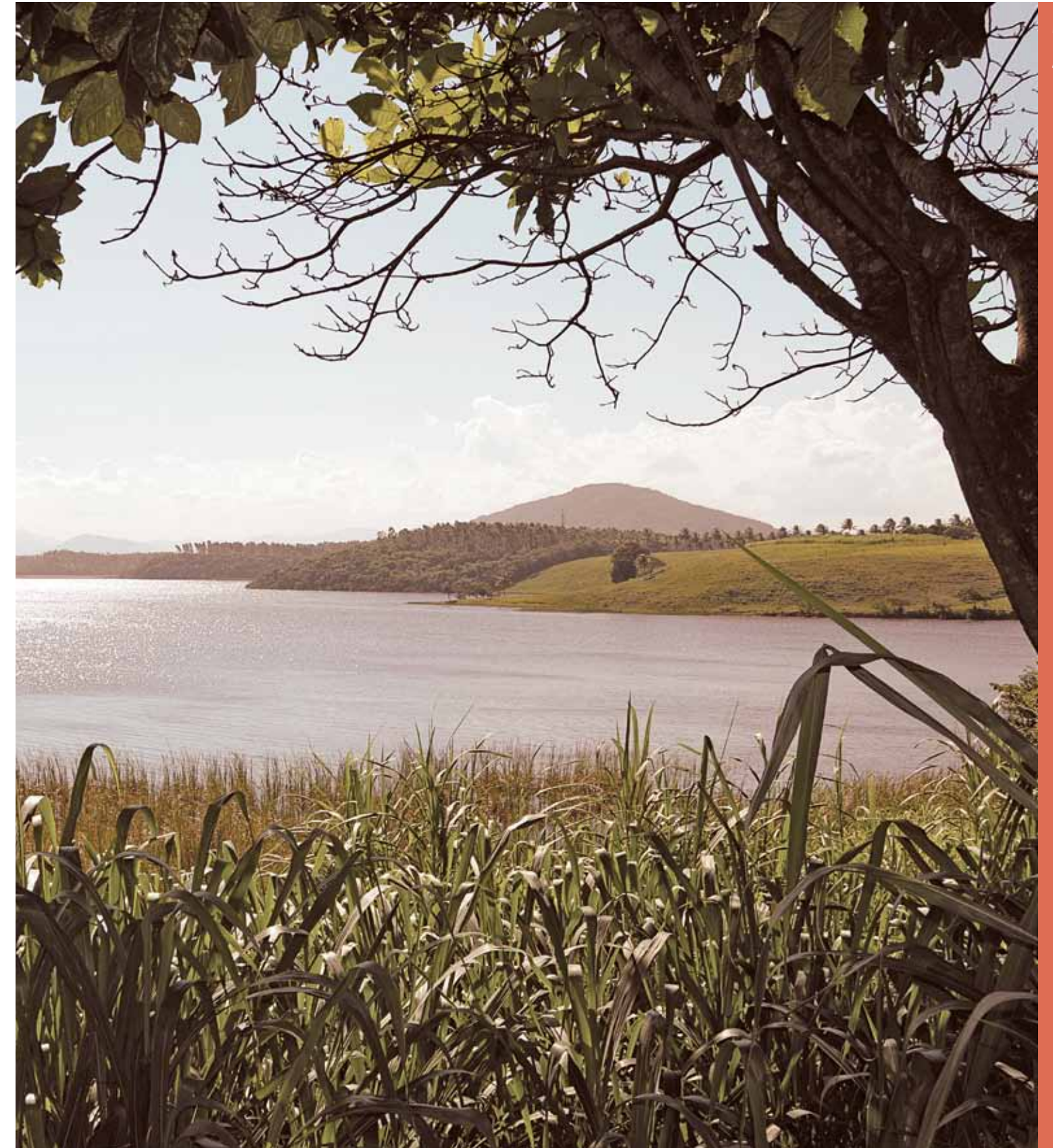
### Business Pact for Integrity and Against Corruption

The Business Pact for Integrity and against Corruption was launched on the 22nd of June 2006, in São Paulo, during the International Conference of Ethos Institute on Business and Social Responsibility. Samarco adhered to the Pact the same year it was rolled out.

The contents of this pact are based on the business guidelines for transnational companies of the Organization for Economic Cooperation and Development (OECD), on the 10th anticorruption principle of the Global Compact, on the procedures and behaviors recommended by the NGO International Transparency, and on the Ethos Institute's own Letter of Principles of Social Responsibility.

According to the Ethos Institute, the main commitments of the signatory companies may be summed up as follows:

1. Information on legislation: laws should be known internally to allow full compliance.
2. Dissemination, orientation and answers about the legal principles applicable to the business activities.
3. Prohibition of bribery.
4. Transparent and lawful contribution to political campaigns.
5. Dissemination of the principles of the Pact among stakeholders.
6. Open and transparent investigations.
7. Participation along production chain.



Mãe-Bá Lagoon. Anchieta-ES

A photograph of three young girls holding hands and walking through a field of tall, golden grass at sunset. The girls are in profile, facing right. The girl on the left is wearing a patterned sleeveless top and dark pants. The girl in the middle is wearing a plaid sleeveless top and dark pants. The girl on the right is wearing a yellow sleeveless top and light-colored shorts. The background is a vast, open field under a bright, hazy sky with a warm, golden light. The overall mood is peaceful and hopeful.

## *Our attitude*

*Hand in hand, eye to eye.*

*Respect, trust, transparency.*

*That is what drives us. It is our commitment to life.*





# HOW WE WORK: CORPORATE CONDUCT

Our corporate governance is based upon four pillars: corporate responsibility, accountability, transparency and fairness.

In 2011, as part of an ongoing improvement of our instruments, two initiatives were discussed, developed and approved: the Corruption and Fraud Prevention Policy and the Antitrust Compliance Policy, which are complementary to the Company's Code of Conduct as well as to the strict adherence to national laws.

The Corruption and Fraud Prevention Policy, developed with the support of a specialized law firm, is based upon the analysis of related risks and aimed at:

- Aligning our ethics and transparency practices to the current corporate standards;
- Promoting the dissemination of a culture encompassing ethical corporate practices among employees;
- Provide guidance in recognizing and preventing conducts that may be understood as acts of corruption or fraud in our relationship with stakeholders.

Such Policy is intended to all employees, commercial partners, suppliers and any third parties while acting on behalf of the Company. They are invited to sign the Terms of Commitment and Compliance Policy, under which they declare that they are aware of the requirements as well as the possible disciplinary and legal penalties in case of noncompliance.

In 2011 no cases of corruption were reported at any of Samarco's sites or in connection with its operations.

The Antitrust Compliance Policy sets out the fundamental principles that must govern antitrust behavior and helps recognize areas and situations with potential competition risks.

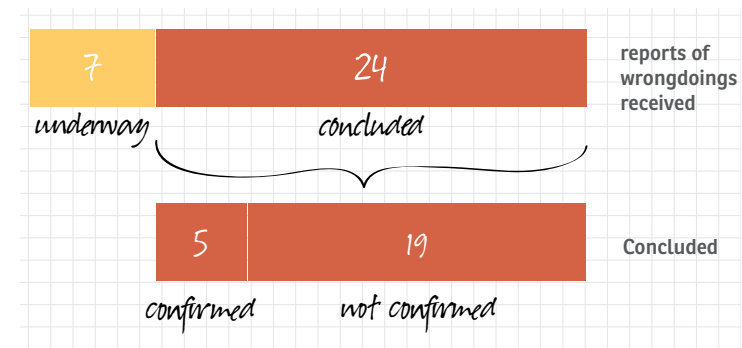
The Senior Management (board of directors and general managers) and commercial staff received training related to the two new policies in 2011. The remaining staff will be trained in 2012.

Samarco's Code of Conduct is the primary means of guidance regarding the relationship between the Company and its different stakeholders. The document sets out recommendations and regulatory principles, including directives on employee attitudes, commercial relations with clients and suppliers, relationship with different agencies and the community; anti-corruption stance, fraud, receiving of gifts and presents, conflicts of interests, among other issues.

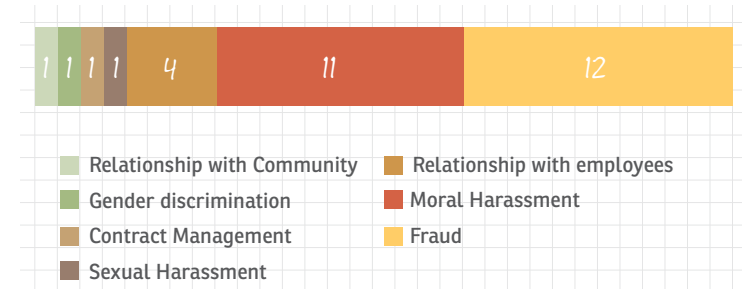
In addition to the Code of Conduct, Samarco also relies on support structures such as the Ombudsman and the Code of Conduct Board. The Ombudsman receives information, complaints and suggestions to update the Code of Conduct. The Board analyzes the complaints and information received and then propose revisions as appropriate. In 2011, as a continuation of the efforts begun in 2010 to disseminate the application of these structures and our corporate conduct tools, a total of approximately 7,000 employees from both Samarco and its contractors received training on the Code of Conduct.

Thirty-one complaints of violations of the Code were reported to the Ombudsman in 2011, of which five were confirmed and entailed the necessary action. Review of such complaints took an average of 54 days to be completed.

### Status of complaints received in 2011:



### Matters reported to the Ombudsman in 2011:



# HOW WE ARE PERCEIVED: REPUTATION

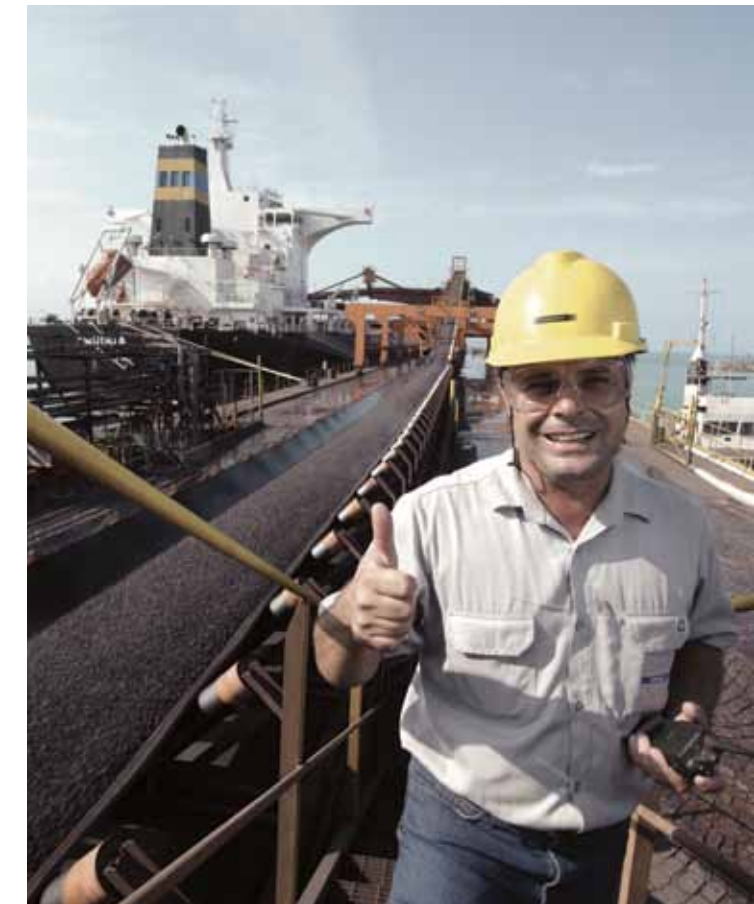
One of Samarco's strategic goals is to make sure that the Company maintains a positive reputation, which involves creating a proper perception of our business, investments and operations among audiences and stakeholders that, directly or otherwise, affect or are affected by our activities.

We understand that Corporate Reputation is a set of expectations and perceptions that the different groups with whom we deal build upon the Company over the years, as a result of their experiences in dealing directly with us, our attitudes, our stances reflected in corporate messages, and the influence from third parties, such as the media and other opinion leaders. It is a major, intangible asset, a token of trust which represents an important competitive differentiator.

In 2011, we conducted a Study on Samarco's Reputation, using the RepTrak™ Deep Dive methodology, from the Reputation Institute, an international organization for research and consultancy on corporate reputation themes. The objective of this study was to assess Samarco's reputation amongst its main audiences and identify opportunities for improving reputation management through actions, policies and practices of dialogue and commitment to the stakeholders.

As part of this survey, we conducted 2,666 interviews with representatives of seven different stakeholder groups (staff, contractors, clients, suppliers, opinion-making institutions, governmental agencies and local communities). The rate of response was 35%, above the average recorded (between 20% and 25%) on studies that use the same methodology.

The methodology has a normative scale from 0-100, which interprets the results and classifies company reputation as: Excellent (greater than 80), Strong (between 70 and 79), Average (between 60 and 69), Weak (between 40 and 59) and Poor (less than 39). The research has shown that Samarco possesses a "strong" reputation among its stakeholders.



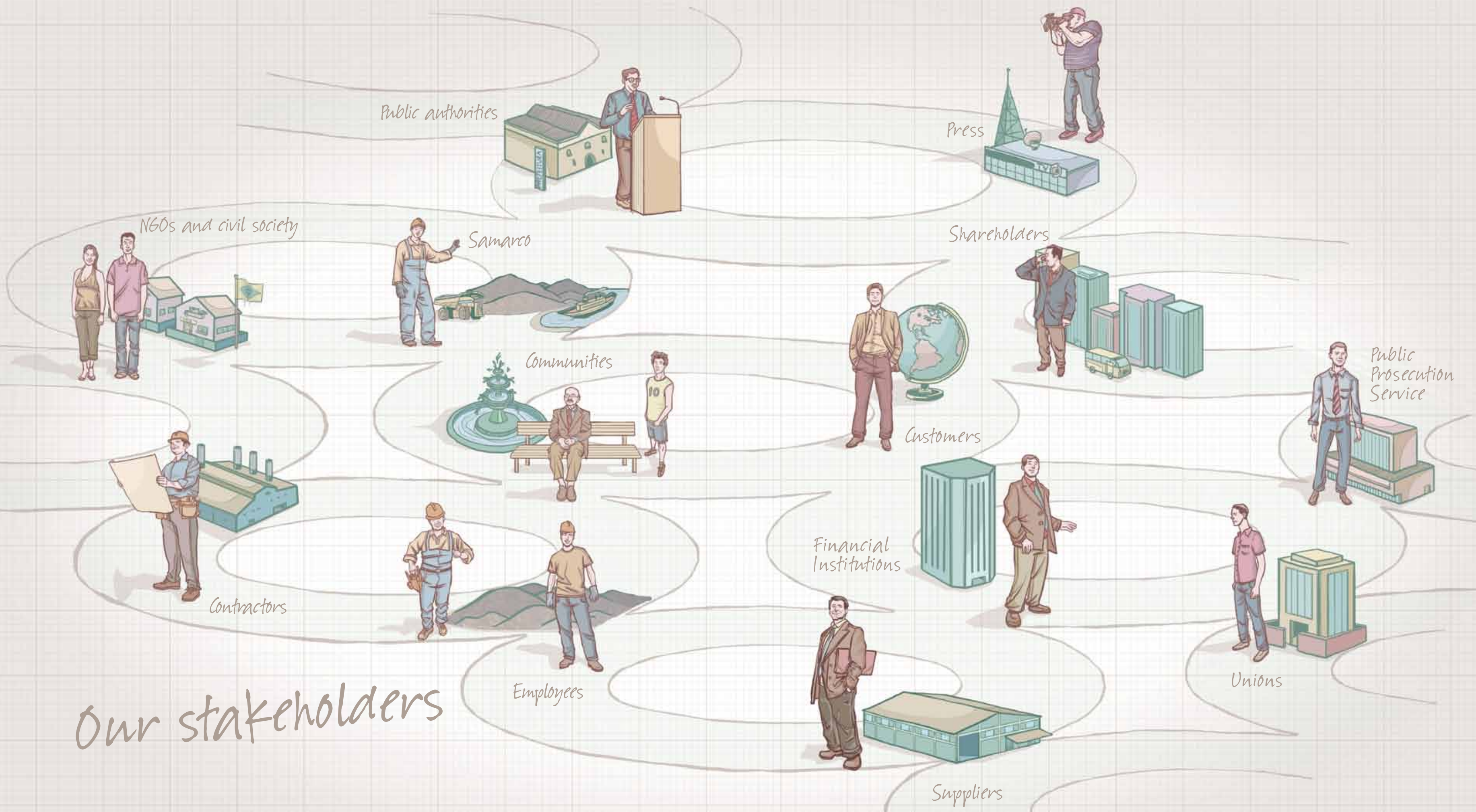
Ernesto de Almeida. Loading, Port Ubu-ES

These results also provide important insights that permit us to set out reputation management goals for the coming years with a view to achieving the level of excellence by 2015.

The findings of this survey have been shared during meetings with managers and representatives of several corporate departments, allowing us to align both the interviewed stakeholders' expectations and ongoing activities focused on building relationship opportunities.

Samarco's Reputation Platform, a technical document that will address the opportunities to achieve a positive impact on reputation, as well as the risks that must be managed, will be completed in 2012. This document will be focused on information gathered and processed during the survey and its alignment with the strategies of the Company.

# Our stakeholders





Businesses should support and respect the protection of internationally proclaimed human rights



Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining



3 PROMOTE GENDER EQUALITY AND EMPOWER WOMEN



5 IMPROVE MATERNAL HEALTH



6 CLEAN WATER AND SANITATION

## HOW WE CARE FOR LIFE: WORKPLACE HEALTH AND SAFETY

Adding value to life is Samarco's premier value, which underlies all our operations. For this reason, in our everyday routine, we pursue actions and develop procedures to ensure the safety, health and quality of life of employees and contractors.

Our continuous efforts to improve our health and safety management has yielded progressively more satisfactory results over the years. That has caused Samarco to be recognized as an industry benchmark.

Thanks to the fundamental involvement of its leadership, encouraging employee and contractor commitment and engagement, the Company reported its lowest ever total recordable injury rate (Lost time injury (LTI) + No lost time injury (NLT)) of 0.49 in 2011. In addition, it has operated for the past four years with no fatal accidents.

The increased number of Near Miss and Safe Condition reports is due to efforts to build safety awareness through training and shop floor inspections. We encourage people

to increasingly report such conditions in the workplace, as a means of helping them perceive existing risks. Such behavior allows us to take preventative measures.

### Workplace Health and Safety Management

Samarco has its Health and Safety management focused on compliance with the requirements of the international OHSAS 18001 standard, and such commitment is spelled out in its Integrated Management Policy. The entire system is audited every year. In addition, we follow the same protocols and requirements followed by our shareholder in their business activities, with emphasis on critical risk control.

Our approach to management rests on three pillars: Systems, Leadership and Behavior. We believe that, with a robust system, superior management and leadership and employee commitment, our efforts to build a healthy work environment free of unsafe conditions and where people act preventively are likely to be more successful.

Workplace Health and Safety Indicators		2009	2010	2011
Number of events	Lost time injury (LTI)	1	3	4
	No lost time injury (NLT) resulting in restricted work activity	4	4	4
	No lost time injury (NLT) requiring medical treatment	7	6	1
	Injury requiring outpatient treatment	56	37	42
	Near miss	8,088	7,892	10,479
Rate	Unsafe conditions	17,105	20,411	29,909
	LTI rate	0.10	0.22	0.22
	Total recordable injury rate (LTI + NLT)	1.17	0.93	0.49

a) 2011 targets: LTI rate <= 0.10 and total recordable injury rate <= 1.10. 2012 target: total recordable injury rate <= 1.00.

b) There have been no fatal accidents reported since 2008.



Safety event.  
Germano-MG

Management initiatives and their outcomes are monitored by specific Committees made up by representatives of different levels and areas of the organization. They are:

- **Central Safety and Health Committee.** It is composed of the CEO and other chief officers who meet every six months with general managers to decide on medium- and long-term actions.
- **Workplace Health and Safety Operational Committees.** These are led by the general managers and the General Workplace Health and Safety Manager, with the participation of department managers and leaders. They meet every month to discuss in more detail questions raised during the Daily Health and Safety Talks, share experience, review indicators and establish general orientation guidelines.
- **Meetings with contractors.** These meetings are held quarterly between the General Health and Safety

Management and contractor representatives in order to review the progress made in implementing proposed actions and plan new steps to improve contractors' safety management.

In addition, the Workplace Health and Safety management staff plays a consultative role in developing programs and actions to be implemented jointly with operational departments, which in turn suggest improvements and provide feedback.

This entire effort is supported by the Internal Accident Prevention Committee (Cipa) at Ubu Site, and the Internal Mine Accident Prevention Committee (Cipamin) at Germano Site. Representing 100% of Samarco's employees and permanent contractors, these committees also contribute by providing hazard evaluations and proposing control measures and techniques to prevent and eliminate occupational injuries and diseases.

Employees, family members and contractors participate in the hike. Germano-MG



**"The Company will keep in place its policy aimed at providing orientation and training to build employee awareness on injury prevention and the required compliance with PPE and CPE requirements as well as safety procedures while performing their tasks."**

**Clause 41, Samarco's Collective Bargaining Agreement.**

### Health and Safety Management Pillars

Samarco's employee and contractor health and safety management rests on three pillars:

#### System

The health and Safety Management System sets out guidelines, roles and responsibilities, processes, programs, procedures and protocols to ensure that the value of life principle is disseminated to and put into practice by everyone.

In 2011, the Company proceeded with the Critical Risk Control Project, started in 2009. With a budget of R\$ 24 million, 98.6% of all planned actions have been finished, with a focus on 18 identified risks. The Project, which involves the participation of employees from different areas of the Company, will have its first cycle completed in 2012, when controls for the first nine risks identified will be finally in place.

It is expected that the Company will be in an appropriate position to handle these risks within three years and that, after all these controls are finally in place, the Risk Factor\* will be reduced by 10% every year. In 2011, a greater-than-expected 15.8% reduction was achieved.

As well as continuously encouraging the prevention of health and safety risks, Samarco opened its Emergency Response Center last year. With a view to helping preserve the physical integrity of all its employees and contractors, specialized teams have been hired to provide first-aid, rescue and fire-fighting services. Properly-outfitted vehicles and equipment have been purchased by the Company.



Ceremony of new members of CIPA taking Office. Ubu - ES

#### Behavior

Samarco encourages employee and contractor engagement through in-house work safety training campaigns. An example is the involvement effort to train volunteer brigade members.

In addition, different topics were discussed during the Daily Health and Safety Talks – a brief moment taken at beginning of the day to allow Samarco's leaders, employees and operations contractors to engage in face-to-face communication.

#### Leadership

Leadership plays a crucial role in ensuring that steps envisaged by the System are taken and that internal engagement will result in safe behavior. For these reasons, Samarco's senior management has focused particular attention to this pillar.

One example is the Safety Leadership Development Program (PDLS), which was launched in 2010 and since then has been expanded to include actions geared to contractor leaders who, after binding themselves to apply Samarco's Safety Management System to their operations, meet from time to time to share experiences and discuss metrics and outcomes.

Such partnership has resulted in the lowest injury rate ever recorded among our contractors, which dropped from 1.21 to 0.33 (LTI+NLTl). The total injury rate, covering both Samarco and its contractors, declined from 0.93 to 0.49 (LTI+NLTl).

#### Quality of Life

Good health, satisfaction and well-being are crucial to maintaining a healthy and safe work environment. For this reason, while proceeding with the process of reformulating the General Health and Safety Management, began in 2010, the Occupational Health Management has been restructured. Its processes were reviewed and new metrics set out to improve management efficiency and expand associated controls within Samarco.

Actions taken include:

- **Physical Health.** Enduro Foot Races, Influenza Vaccination Campaign, Guidance on Sexually Transmitted Diseases, and Shiatsu massage.
- **Mental Health.** Computer-Aided Attention Span Tests, as part of our Fatigue Management Program, and inclusion of psychological assessments as part of our periodical examinations.
- **Social Health.** Alcohol and Other Drug Abuse Prevention Program, Retirement Preparations Program, Women's Meetings.

The Enduro Foot Race and the Women's Meeting are initiatives geared to the families of employees and contractors.

In 2012, as well as continuing with the initiatives above, health risk factor targets will be pursued, processes and metrics will be consolidated and activities expanded to include contractors.

\*Note: The Risk Factor is a management metric applied to all operating activities, with emphasis placed on reducing risks that are classified as critical and intolerable.



Businesses should support and respect the protection of internationally proclaimed human rights



The elimination of discrimination in respect of employment and occupation



Undertake initiatives to promote greater environmental responsibility



## HOW WE RELATE WITH THOSE WHO TODAY BUILD THE FUTURE SAMARCO

Samarco's relationship with its employees is governed by our Values, with due respect being given to each individuality and efforts made to create the best conditions for professional and personal development.

Samarco ended 2011 with 2,359 direct employees and 3,370 contractor employees. The number of contractor

employees increased by 514 compared to December 2010 as a result of 459 new hires in Espírito Santo and 55 in Minas Gerais. The higher demand for workers in Espírito Santo is due to special projects intended to support operating activities.

	MEN	WOMEN
<b>Total workers by type of position</b>		
Executive Board and Management	149	9
Coordination, supervisory, technical and administrative positions	895	219
Operations	1,009	78
<b>TOTAL</b>	<b>2,053</b>	<b>306</b>
Samarco TOTAL		2,359
Contractors' Total		3,370
<b>Total workers by type of contract</b>		
Interns	64	38
<b>Total workers by region</b>		
Espírito Santo	920	135
Minas Gerais	1,133	171

Total workers by age group and group composition (%)	Under 30	Between 31 and 50	Over 50	Black Men	Black Women
Men (total)	547	1,298	208	53.4%	40.5%
Women (total)	92	207	7		
Men holding executive board positions	-	2	2	-	-
Women holding executive board positions	-	-	-	0	0

### Turnover Analysis

Samarco's turnover rate was calculated by dividing the number of employees who left the Company by the monthly average workforce.

Turnover rate by gender (%)	2009	2010	2011
Man	0.03	0.34	0.27
Woman	0.07	0.07	0.06
<b>Total</b>	<b>0.10</b>	<b>0.41</b>	<b>0.33</b>

Total employee departures and hires, by gender	2011	
	Departures	Hires
Men	73	335
Women	16	45
<b>Total</b>	<b>89</b>	<b>380</b>

2011	Turnover rate by age group (%)	Total departures and hires by age group	
		Departures	Hires
Under 30	0.08	23	190
Between 30 and 50	0.18	48	189
Over 50	0.07	18*	1
<b>Total</b>	<b>0.33</b>	<b>89</b>	<b>380</b>

\*This figure includes eight employees who retired in 2011 under the Retirement Preparations Program.

2011	Turnover rate by region (%)	Total departures and hires by region	
		Departures	Hires
Espírito Santo	0.16	44	153
Minas Gerais	0.17	45	227
<b>Total</b>	<b>0.33</b>	<b>89</b>	<b>380</b>



Ivi Segrini Martins – Maintenance Management, Ubu-ES

## Development – challenges and opportunities

One of our challenges has been hiring qualified labor in a context of economic growth and vast job opportunities. This also holds true for the communities where we operate, making it more difficult to hire local workers to fill our job openings.

With a view to overcoming such obstacles, Samarco has invested in training local workers, thereby upskilling those living near its industrial facilities. By doing so, Samarco contributes to creating new job and income opportunities and boosting local development efforts, while strengthening the economy and benefiting indirectly other community members.

For Samarco's employees, its current efforts to expand operations have resulted in new skill building and career growth opportunities. An example is the designation of Samarco's staff members to fill Senior Management positions, thereby offering career progression opportunities across the Company.

Average hours of training per year, by employee category			
	2009	2010	2011
Management	6,393	13,272.4	5,789.79
Technical (High School + College-Level Training)	16,895	22,538.2	44,894.75
Operational	79,571	66,539	51,735.46
Others (interns and trainees)	-	1,530	3,864.99
<b>Total</b>	<b>102,859</b>	<b>103,879.6</b>	<b>106,284.99</b>
Average Man/Hour	51.77	50.4	45.05
<b>Total Investment (R\$)</b>	<b>5,223,526</b>	<b>7,440,352</b>	<b>10,450,735</b>

## Training and education expenditures as a percentage of net operating expenses

2009	1.61%
2010	1.80%
2011	2.48%

In 2001 Samarco launched Saber Samarco, a comprehensive Corporate Education program. This program is aimed at developing and applying educational solutions to help implement and execute the Company's strategy, with its business challenges in mind. Three major events geared to internal audiences were held, attended by senior management members and approximately 1,000 employees.

Educational solutions offered by Saber Samarco are available from three Learning Portals: The Employee's Portal, accessible to all employees; the Manager's Portal, accessible to formal leaders and focused on team development management; and the Administrator's Portal, used by Saber Samarco's team members and facilitators.

Saber Samarco will focus on the fields of strategy, competency and value, and its activities will be carried out through five schools: Leadership, Samarco's Identity, Excellence, Technology, and Sustainability schools.

In 2011, the Leadership School formally commenced its activities, while work got under way to develop learning solutions to meet legal and regulatory requirements.

During the transition from the previous training model to Saber Samarco, some programs that were aligned with the new concept were maintained and offered in 2011. They are:

- Project Management, in partnership with Fundação Getúlio Vargas (FGV);

- Business Value Program, in partnership with Fundação Dom Cabral (FDC);
- The Language Teaching Program underwent a restructuring process managed by Paradigm's expert consultants;
- Health and Safety Programs, in partnership with Senai (National Industrial Training Service);
- Samarco's Contract Management.

These programs are included in Samarco's portfolio of employee development solutions and will be offered as part of Saber Samarco in 2012.

## Qualification

Samarco has a policy in place to assist employees wishing to further their Professional development, which includes offering scholarships covering 80% of tuition and fees for technical, undergraduate and graduate programs, and 100% for masters and doctorate degree programs.

Scholarships – 2011			
Description	Belo Horizonte	Germano	Ubu
Graduate	5	30	22
Undergraduate	0	92	53
Technical level	0	48	36
Technological level	0	6	0
<b>Total per site</b>	<b>5</b>	<b>176</b>	<b>111</b>
<b>Total</b>		<b>292</b>	

Oscar Motomura in event launching Saber Samarco. Ubu-ES



## Performance management and assessment

Employee performance assessments are based on previously-defined competencies, according to existing career axes and technical capabilities. The assessment cycle is divided into different stages, including employee performance review by managers; employee self-assessments; leader meetings to equalize and validate interim assessment results; manager feedback to employees; and the determination of development actions. Performance assessments influence the Company's training activities, promotion and transfer procedures and career system.

The fifth Performance Assessment Cycle, covering the year of 2011, began on 12 December 2011 and ended on 30 March 2012. In all, 92% of all performance assessments were completed within schedule and employees received feedback from their managers within the same period. Identified gaps will be addressed by *Saber Samarco* and their remediation will be managed by the affected employee, followed up by their manager.

In 2011, there was no need for reviewing the Competency-Based People Management Model, since revisions proposed during the fourth Performance Assessment Cycle were deemed sufficient for the moment.

Only one adjustment was made in connection with the Procurement area, where employees used to be assessed for performance based on the competencies described on the Model's axis related to support areas. Effective in 2011, assessment is now based on marketing axis competencies, which are more closely aligned with their current challenges. Such change is an example of how the competency model articulates with the Company's business strategy.

In 2011, training on the Performance Management Process and the Competency-Based People Management Model was offered online to all employees and, since February 2012, has been available from *Saber Samarco's* Leadership School (Exercising Self-Leadership, with approximately 400 openings; and Connecting People and Results, with approximately 50 openings).

In 2012, the Performance Management process aims to:

- Enhance employee performance follow-up and guidance, by means of awareness building and monitoring efforts geared toward managers;
- Emphasize the employee's role in each stage of the process, assuming that they are responsible for managing their careers;
- Gain a better understanding of the concept of skills and build it into the competency-based model, which will include investigating and designing improvements to the model and the process.

## Remuneration

Samarco's remuneration policy is consistent with its size, location and market. Under the current Labor Bargaining Agreement, the lowest monthly wage is R\$ 1,150.00 for a 8-hour work day, or 2.11 times Brazil's minimum wage of R\$ 545.00 in 2011. The minimum wage level is the same for employees in both Minas Gerais and Espírito Santo, since a single Labor Bargaining Agreement is negotiated for employees in both States. The Company's lowest wage is paid to just 1% of its workforce.

Men and women receive equal pay for equal work, which is based on the position held rather than the position holder.

In 2011, our employees receive profit-sharing bonuses amounting to 5.2 times their regular wages.

## Benefits

Our benefits are extended to all Samarco's permanent employees. Temporary employees (on a fixed-term contract) are entitled to all but those benefits that require a minimum amount of time in service (supplementary pension plan, credit cooperative, scholarships, and post-retirement health care plan).

In addition to the benefits commonly offered today, Samarco offers its employees a supplementary pension plan (*Valiaprev*) to bring pension benefits closer to the compensation actually earned by the employees while working.



Samarco employees participate in the PPA Seminar. Domingos Martins-ES.

This plan, which employees may join on a voluntary basis, is available in the defined contribution form for current employees, which means that future benefit payments will be based on the funds actually accumulated and capitalized over the years. With this method both beneficiaries and the Company are assured that the plan will have no sustainability problems in the long run.

Employees earning up to 10 URs (R\$ 2,827.01) can contribute in an amount equal to 1% of their pay, and Samarco makes a matching contribution. Employees earning more than that may contribute at the percentage rates they wish, and the Company will make a matching contribution up to the limit of 9%.

By the end of 2011, 98% of all employees had joined the supplementary pension plan.

Samarco discloses Private Pension Plan information in its Financial Statements, as required under the Technical

Accounting Pronouncement no. 33, issued by the Accounting Pronouncement Committee and the Securities and Exchange Commission.

In addition to the supplementary pension plan, *Valiaprev* offers regular and mortgage loans. The plan is covered by its own funding, and is self-managed. However, administrative and risk fees are paid by Samarco.

Through its Retirement Preparations Plan (PPA), Samarco also provides support for its employees who are nearing retirement. In 2011, 32 employees attended lectures or received professional advice on retirement and 19 attended the PPA Seminar. On that occasion, a tribute was paid to eight departing employees that became 60 years of age.



### Relationship with Labor Unions

Samarco maintains a mature and trusting relationship with the four labor unions that represent its employees, which is further strengthened by its posture of transparency and involvement.

Labor Union	Area
Metallurgical, Mechanical, Electrical and Electronic Industry Workers in the State of Espírito Santo	Ubu-ES
Ocean and River Transport Workers' Union in the State of Espírito Santo	Ubu-ES
Iron Ore and Base Metal Mining Industry Workers' Union in the Municipalities of Mariana, Santa Bárbara, Barão de Cocais, São Gonçalo do Rio Abaixo, and Rio Piracicaba	Mariana-MG
Iron Ore and Base Metal Mining Industry Workers' Union in the Municipalities of Belo Horizonte, Nova Lima, Itabirito, Sabará, and Santa Luzia	Belo Horizonte-MG

The Collective Bargaining Agreement is the principal instrument produced by collective bargaining, and it governs the legal rights and duties of the parties, including 100% of the employees. In 2011, a new 2-year term Collective Bargaining Agreement was executed for the second time.

Samarco guarantees the right of free association and collective bargaining, always abiding by a policy of respect and ethical conduct with stakeholders, in accordance with our Code of Conduct. Samarco allows Labor Union representatives to enter and use its premises to recruit new members.

In addition, all operating changes are reported to employees and concerned labor unions. Samarco has an employee transfer policy in place, whereby the Company must notify the employee with sufficient time in advance and provide free temporary housing when relocating them along with their families. Other procedures required under the current labor laws, such as timely notifying employees of any company-wide vacations - are also included in such policy.

## HOW WE PROTECT NATURAL RESOURCES: ECO-EFFICIENCY

The effective use of natural resources is an important principle underlying the business activities of Samarco, a company established 35 years ago (will complete 35 years of operation in August 2012) with the aim of mining what was then deemed to be low-grade iron ore if compared to ores mined by other mining companies at that time.

The efficiency of our operations and the introduction of new technologies have enabled use to exploit increasingly lower-grade iron ores, formerly considered to be tailings. When Samarco commenced operations, ores containing less than 55% Fe were deemed to have no commercial value. Today, ores containing as little as 45% are commercially exploited and with P4P, such concentration may drop even further to 43%.

### Natural Resources

Resources consumed by Samarco in 2011 include chiefly:

Consumption of main raw materials and consumables	2009	2010	2011
Coal (t)	161,734	217,836	248,316
Fuel oil (t)	184,048	169,380	3,475
Diesel oil (x 1,000 l)	15,215	18,215	15,728
Limestone (t)	360,396	473,126	466,839
Starch (t)	22,410	31,498	33,272
Amine (t)	1,961	2,742	2,727
Natural gas (m3/dmt)	--	13.43	12.81

Consumption of coal and starch rose in 2011 due to an increase in production. The replacement of fuel oil with natural gas for firing pellets at Ubu plants has resulted in a considerable reduction in fuel oil consumption in Ubu.

Even though natural gas was not used at the pellet plants until the second half of 2010, consumption was higher than in 2011, because of extensive use during preparatory testing.

Recycled materials (t)	2009	2010	2011	%* 2011
Lubricant oil	78,13	23,28	56,56	22
Grinding media	339,14	462,43	378,82	2
Grizzly bar	- **	416,13	95,98	100
Mill liner	- **	- **	132	44

\* Amount of recycled material as a percentage of the total amount of material used.

\*\* Information on grizzly bars was first reported in 2010 and on mill liners in 2011.

### Water

In 2001 the main deliverables of our Water Resources Master Plan were the Seasonal Water Permit Support Studies and the Water Use Plan. To this end, a multidisciplinary coordination team composed of in-house staff members was organized. The seasonal water use plan provides that water abstraction should take into consideration the time of the year and local availability under natural conditions.

Water abstraction permits are issued following review of data compiled every year. The studies conducted by Samarco to support its seasonal water abstraction permit applications indicate that more water can be abstracted from Gualaxo do Norte river in Mariana and Piracicaba river in Ouro Preto, during the rainy season, when streamflow volumes are above average.

The results of the studies also show that the volume of water to be abstracted from the Gualaxo do Norte river can be increased by 700m<sup>3</sup>/h under continuous pumping. These results will be reviewed before being presented by Samarco when applying to the local permitting agency (Minas Gerais Water Management Institute).



Samarco's Water Use Plan, a document that is submitted to the appropriate environmental agencies in the States of Minas Gerais and Espírito Santo, provides an overall and integrated view of how water is used by the Company and allows reviewing future water permit applications.

The Master Plan for Coastal Lagoons and the Plan for the Revitalization of Ubu Lagoon in Anchieta were finished in 2011, when work began on drawing up the Plan for the Revitalization of Mãe-Bá, also in Anchieta, which will be completed in 2012.

Total water abstraction by source (x 1,000m <sup>3</sup> )	2009	2010	2011
Piracicaba River	3,923,704	4,293,092	4,394,607
Matipó River	550,612	644,235	721,184
Gualaxo River	8,181,607	9,257,000	9,158,516
Alegria Wells	1,096,551	2,155,671	2,083,664
<b>Total water consumption (m<sup>3</sup>)</b>	<b>13,752,474</b>	<b>16,349,998</b>	<b>16,357,971</b>



Alessandra Santos de Jesus accompanies release of fish in Mãe-Bá Lagoon, Anchieta-ES



In 2011, the total consumption of water from Piracicaba and Gualaxo Rivers did not change significantly in comparison to 2010. More water was drawn from Matipó river as a result of changes made to the process water system at Pump Station II during the first four months of the year.

The water recirculation rate differed slightly between 2011 and 2010, remaining at the 90% level.

Recycled and reused water (m <sup>3</sup> )(%)	2009	2010	2011
Total recycled/reused water (in thousands of m <sup>3</sup> )	133,920	158,456	153,968
Total recycled/reused water as a percentage of total water consumption	90.68	90.65	90.40

The procedure for reusing water in the production process is discussed in the wastewater section (page 52).

### Energy

Energy is a key resource to any mining company and its management requires continuous attention.

Samarco is the owner of Muniz Freire Hydroelectric Power Plant in the State of Espírito Santo and has a stake in Guilman-Amorim Hydroelectric Power Plant, in the State of Minas Gerais, both supplying around 20% of all electricity consumed by the Company. The remaining electricity is purchased under long-term contracts with electric utilities, backed by hydroelectric power projects. As a result, all electricity consumed by Samarco is supplied from renewable sources.

In 2011, the Company began negotiations on contracts slated to expiry in 2014. These contracts were extended through 2022, which assures a steady supply of electricity over a longer period.

In addition, Samarco began work on the project to connect Germano Site (MG) to the national power grid, which will assure a more reliable supply of electricity by addressing the limitations resulting from the overburdening of the transmission lines serving the area. Two 345kV substations and a 35km long transmission line will be erected. The project will require investments of approximately R\$ 210 million and is slated for completion by the end of 2012.

At Ubu, transmission line conditions are not critical, but in anticipation for any changes in this scenario and in consideration of plans by Samarco and other companies to expand or install new operations in the area, the Company is already considering the hook-up with the 345kV power grid.

We are continuously working on studies into other energy sources and seeking opportunities to generate power while ensuring environmental efficiency. These include building a thermal power plant at Ubu, in partnership with other companies operating in the area.

Some initiatives aimed at saving energy are also under way, comprising administrative areas of the Company. For 2012, expert consultants will examine a project that will include conducting a detailed assessment of the energy sector and proposing new initiatives and a better monitoring structure.

The consumption of electricity was 1.946 GWh in 2011, of which 423,546 MWh (21%) came from two of its own hydroelectric plants: Muniz Freire, which had its second-best annual output ever, and Guilman-Amorim. The rest of the energy was purchased from hydroelectric power plant operators.

Total direct energy consumption = Primary direct energy purchased + Primary direct energy generated – Primary direct energy sold (GWh)			
	2009	2010	2011
Annual consumption	1,537,616	1,957,295	1,946,590
Purchased from third parties	1,288,032	1,649,226	1,573,410
Generated by the company	402,830	392,482	423,546
Energy sold	152,522	45,145	3,348

Electricity purchased (MWh)	2009	2010	2011
Electricity consumed	1,537,616	1,957,295	1,946,590
Electricity generated	402,830	392,482	423,546
% of total consumption	26.20%	20.05%	21.76%



Muniz Freire  
Hydropower Plant-ES

## HOW WE PRESERVE THE PLANET

Mining operations do have impacts on the natural environment. Continuous monitoring is required to implement effective and appropriate measures to reduce and offset such impacts. Samarco is committed to guaranteeing the continuous maintenance of biodiversity and preserved sites, rehabilitating disturbed areas and managing solid and liquid wastes in an efficient manner.



Bird from Minas  
Gerais fauna.

In 2011, several steps were taken to reduce the amount of energy indirectly consumed in travel (air travel and accommodations) and executive transportation. One of them was to expand the number of videoconference rooms at Ubu (ES) and Germano (MG) and at the offices in Belo Horizonte (MG), thereby reducing the need for staff to travel between Samarco's locations.

Flight and hotel reservations are now handled by a single travel agency and scheduling of staff transportation vehicles have been improved. By doing so, we have increased vehicle occupancy, while reducing vehicle trips and emissions.

### Biodiversity

Samarco's operations require biodiversity monitoring of its industrial sites, with exception of administrative and commercial premises. Because of our field of activity, permanent care is dedicated to the environment in order to prevent plant diversity losses as well as extinction risks from physically disturbing wildlife habitats.

To support impact management, the areas that are directly affected by our operations are continuously monitored and investigated. Programs carried out in 2011 include:



Specimen of fauna from Espírito Santo.



**In Minas Gerais:**

- Fauna monitoring program: systematic studies into aquatic and terrestrial non-flying vertebrates (fish, amphibians, reptiles, birds, and mammals);
- Wildlife rescue program: inspection of mining areas to help vertebrate animals (mammals, birds, reptiles and fish) to move away or, where necessary, capture and rescue them;
- Plant rescue program: collection and rescue of propagules from areas where land clearing will be done.

**In Espírito Santo:**

- Wildlife rescue program: inspection of mining areas to help vertebrate animals (mammals, birds, reptiles and fish) to move away or, where necessary, capture and rescue them;
- Fish Stock Enhancement Program;
- Program for monitoring heavy metals in fish species and limnologic monitoring of Mãe-Bá and Ubu lagoons;
- Ship ballast water management program, aimed particularly at preventing invasion of exotic species;
- Monitoring of sea areas and coastal lagoons near our operations;

- Plant rescue program: collection and rescue of propagules from areas where land clearing will be done as part of P4P;
- Fauna monitoring program: systematic studies into aquatic and terrestrial non-flying vertebrates (fish, amphibians, reptiles, birds, and mammals);
- Program for Restoration of Springs and Riparian Woods;
- Taboa (southern cattail) Management Program at Mãe-Bá Lagoon aimed at controlling vegetation growth and promoting income-raising opportunities in partnership with Naboa (Association of Taboa Fiber Artisans of Mãe-Bá Lagoon);
- Environmental Management of Legal Reserve and Environmental Preservation Sites, including environment zoning and environmental conservation measures.

Limnologic and fish fauna studies and monitoring activities at Mãe-Bá and Ubu lagoons in Anchieta (ES) were finished in 2011. These activities, developed by Universidade Estadual do Norte Fluminense (RJ), a university that is known in Brazil and abroad for its programs in Biogeochemistry and Limnology, have shown that local fish are not contaminated with heavy metals and therefore are safe for consumption.

Samarco maintains 2,228.90 hectares of preserved Legal Reserve areas, of which 1,133.83 ha are in Minas Gerais and 1,095.07 ha in Espírito Santo. In 2011, we proceeded on mapping Legal Reserve areas in our properties in order to formally record them with the appropriate Register of Deeds in 2012.

A total of 2,699 species of animals and plants have been identified at Samarco's sites in Germano (MG) and Ubu (ES) and also in areas crossed by ore pipelines. The number of plant species is 1,186, of which 408 in pipeline areas, 188 at Ubu and the rest at Germano. Based on data from the ecologic and economic zoning study carried out at Germano, 22 plants species threatened with extinction have been identified. A total 1,513 animal species have been identified, including birds, mammals, fish, reptiles and bees.

List of identified fauna species				
Group	Site			
	Germano	Mineroduto	Ubu	
Fauna	Birds	252	148	123
	Mammals	39	35	56
	Reptiles	64	136	458
	Fish	6	18	105
	Bees	73	-	-
Flora	590	408	188	
<b>Total</b>	<b>1.024</b>	<b>745</b>	<b>930</b>	

Tabulated data attest to the biodiversity of animals and plants in the areas where the Company is present. Monitoring allows Samarco to observe actual impacts on these areas and propose measures to mitigate them. It should be noted that all environmental impact studies highlight the threatened species and the classes of extinction risk to which they are assigned. In 2011, monitoring activities allowed two new reptile species to be identified at Germano.

We also conducted a study to classify successional stages of rock meadow areas at Germano and finished the ecologic and economic zoning project. Such study used the internationally-recognized High Conservation Value Forest (HCVF) method, whereby every forest is considered to have an environmental and social value, while serving as wildlife habitat, protecting water catchments and/or harboring archaeological sites. Forests considered to be of exceptional or critical value are designated as High Conservation Value Forests and should be investigated and managed according to specified criteria and parameters. The purpose of this study was to identify and select potential areas that can be managed to serve as a source of knowledge on local species to support efforts to rehabilitate other areas in the future.

**Site Preservation and Rehabilitation**

Samarco's Site Rehabilitation Plan activities proceeded with the scheduled re-vegetation of mine and dam sites in 2011.

In Minas Gerais, enrichment and recovery planting was done on 28 hectares (ha) of land at Itacolomi State Park, a conservation unit located in the municipalities of Mariana and Ouro Preto (MG). Such planting is part of the measures intended to offset land clearing in native vegetation areas of the Rainforest Biome. Other activities included recovery planting on 3 hectares of land at Recanto Verde Park and preservation of an area at the district of Santo Antônio, both located in the municipality of Santa Bárbara (MG).

In 2012, rehabilitation work will begin on other areas, including areas in the municipality of João Monlevade (MG), where Samarco will recover 62.75 hectares of land, in partnership with Instituto Terra.

We also proceeded with the rehabilitation of Germano pit including the planting of grass and leguminous species on newly-formed slopes as a result of sandy tailings disposal. We plan to continue this planting in 2012 and expand it to include other areas envisaged in the Site Rehabilitation Plan.

The rehabilitation work involves not only recovering vegetation, but also creating mechanisms to attract and monitor birds and mammals in rehabilitation areas and introducing native bees. Attention is also focused on water and drainage services where required. In 2011, we purchased 24.49 ha of new areas in the State of Minas Gerais, totaling now 10,674.73 ha in both States where we operate.

Disturbed/Restored Summary – in hectares			
	Total Area	Restored Areas (or being restored)	Disturbed Areas
Minas Gerais	5,309.61	32.47	214.18
Espírito Santo	5,365.12	59.78	1
<b>Total</b>	<b>10,674.73</b>	<b>92.25</b>	<b>215.18</b>



Learn more about the pact for the ecological rehabilitation of the Atlantic Forest on [www.pactomataatlantica.org.br](http://www.pactomataatlantica.org.br)

In 2012 work will proceed on re-vegetation, maintenance of preserved areas and monitoring of the rehabilitation process in restored areas as proposed in the Site Rehabilitation Plan.

As a result of an iron ore slurry leak from pipeline II, which occurred in 2010, in Espera Feliz (State of Minas Gerais), Samarco has been monitoring São João River and restocking with fish. In 2011, we released 700,000 fry of native species.

In the State of Espírito Santo, work under the Permanent Protection Area Restoration Program for the Pardo River, in Muniz Freire, was focused on two areas: one of them lies along the banks of the dam (29.54 ha) and the second one is located around the industrial area (30.24 ha) of the Muniz Freire Hydroelectric Plant. This program is carried out in partnership with local farmers and seeks to restore riparian woods. Assessments are based on the indexes established by "Pacto pela Restauração Ecológica da Mata Atlântica" (The Atlantic Rain Forest Restoration Pact). (<http://www.pactomataatlantica.org.br>)

In 2011, we started developing the Plan for Preservation and Rehabilitation of Mãe-Bá and Ubu Lagoons (Anchieta, State of Espírito Santo). At Mãe-Bá Lagoon, we proceeded with two other programs involving specific environmental issues: the Headwaters Restoration Program, comprising the planting and maintenance of vegetation, and the Fish Stock Enhancement Program, which has been in place since 2008 and includes breeding and then releasing fry of native species into the lagoon. During the months of April and October of 2011, 65,000 fry of wolf fish (*Hoplias malabaricus*), pearl cichlid (*Geophagus brasilienses*) and catfish (*Rhandia* spp.) were released.

This initiative has contributed to enhancing and protecting the biodiversity of the second largest coastal lagoon in Espírito Santo, by ensuring the reproduction of species and a significant increase in fish stocks. This fish restocking effort is done in partnership with the Instituto de Tecnologia do Estado do Espírito Santo (IFES-Alegre/ES) and the Universidade Federal do Espírito Santo (UFES), through its Fundação SADTEC. The local community and the fishermen have had a major part in this initiative, and environmental education activities have been carried out to enhance their interactions.

## Solid and Liquid Waste Management

Our processes follow the 3R approach: Reduce, Reuse, and Recycle. Priority is given to reducing waste production, reusing materials and recycling as much waste as practicable. Internal campaigns are periodically carried out focusing on disseminating information and building awareness on conscious consumption among both Samarco and contractor employees.

In 2011, Samarco received the 13th Award for Excellence in the Brazilian Mining-Metallurgical Industry, Process category, promoted by the magazine Revista Minérios & Minerale, in recognition of its project to Reduce Grinding Media Losses at Secondary Grinding. The aim of this project, which was put in place at Germano (MG), is to sort grinding media purged from the process and reuse those of a specific grain size, thereby reducing the amount of waste produced in this process.

We also launched the Cooking Oil Reuse Project in Mariana and Ouro Preto (MG). This pioneering initiative aimed at reducing environmental pollution through proper waste disposal and providing income-raising opportunities for participating waste pickers associations. We delivered to these associations in both municipalities a total of 35 vegetable oil collection containers – referred to as eco-points – which were installed in strategic locations. Waste vegetable oil so collected is sold by these associations to companies that benefit it to produce biodiesel. Information material and storage containers were also delivered. A similar project will be launched in Espírito Santo in 2012.

## Waste

The increase in oil and grease consumption due to growing production also caused class I waste volumes to increase. Rising volumes of class II waste, although also related to growing production, are primarily due to the storage of large amounts of refractory waste at Ubu (ES), which awaits a disposal solution that is environmentally sound and economically feasible. The increase in household waste volumes is due to the expansion of both Samarco's and its contractors' workforce.

Waste Production (t)	2009	2010	2011	% of total waste 2009	% of total waste 2010	% of total waste 2011
Class I industrial waste	414.47	506.01	1,031.19	4.32	5.18	5.39
Class II industrial waste	8,527.32	8,381.89	16,771.12	88.86	85.76	87.63
Household waste	654.88	885.49	1,335.81	6.82	9.06	6.98
<b>Total household and industrial waste production</b>	<b>9,596.66</b>	<b>9,773.39</b>	<b>19,138.12</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Waste Disposal (t)	2009	2010	2011	% of total waste 2009	% of total waste 2010	% of total waste 2011	Disposal
Class II reusable industrial waste - (metal, belt, wood, etc.).	5,548.78	5,412.71	7,143.03	57.82	55.38	37.32	Recycling/ reuse
Class II non-reusable industrial waste (stone wool, glass wool, refractories, etc.).	1,135.23	1,841.34	7,427.55	11.83	18.84	38.81	Industrial landfill
Non-reusable household waste	377.44	588.61	930.12	3.93	6.02	4.86	Sanitary landfill
Recyclable household waste (cup, paper, etc.).	130.87	122.76	156.02	1.36	1.26	0.82	Recycling
Organic waste	117.73	192.25	377.05	1.23	1.97	1.97	Composting
Used oil	326.75	284.55	303.91	3.40	2.91	1.59	Re-refining
Waste contaminated with oil and grease	263.86	231.24	437.78	2.75	2.37	2.29	Co-processing
Fluorescent lamps	0.43	0.97	3.20	0.0045	0.0100	0.02	De-contamination
Medical waste	0.30	0.20	0.27	0.0031	0.0021	0.00	Incineration
Other hazardous wastes (chemicals, cells, batteries, etc.).	33.77	45.33	60.02	0.35	0.46	0.31	Class 1 landfill / incineration / recovery
<b>Total disposed waste</b>	<b>7.935,16</b>	<b>8.719,97</b>	<b>16.838,95</b>	<b>82,69</b>	<b>89,22</b>	<b>87,99</b>	

	2009	2010	2011	% of total waste 2009	% of total waste 2010	% of total waste 2011
<b>Reusable industrial and household wastes</b>	<b>6,124.13</b>	<b>6,012.27</b>	<b>8,417.79</b>	<b>63.82</b>	<b>61.52</b>	<b>43.98</b>
<b>Wastes disposed of to landfills (household and industrial wastes)</b>	<b>1,512.67</b>	<b>2,473.88</b>	<b>8,417.79</b>	<b>15.76</b>	<b>25.31</b>	<b>43.98</b>

## Tailings

In 2011, the two iron ore concentration plants produced 15.66 million tons of tailings, including sandy tailings and slimes. Tailings were carried and disposed of, separately, to Germano Dam, Fundão Dam, and Germano Pit, in Minas Gerais. These facilities are regularly monitored and inspected in compliance with dam safety standards.

Description (in DMT*)	2009	2010	2011
Samarco Tailings – Sandy	10.353.929	12.411.142	11.133.575
Samarco Tailings – Slimes	3.359.241	3.947.447	4.522.911
<b>TOTAL</b>	<b>13.713.170</b>	<b>16.358.589</b>	<b>15.656.486</b>

\*Dry metric tons.

Production of sandy tailings and slimes had a decline compared to 2010, due to lower volumes from Concentration Plants. The Tailings Disposal Plan, which was launched by Samarco in July 2010 and finished in 2011, includes measures intended to guide the Company's efforts until depletion of its ore reserves. Studies are under way to reuse tailings and ensure long-term business sustainability.

## Wastewater

The use of water by Samarco in its production process is structured in an integrated manner that covers its entire operations in Minas Gerais and Espírito Santo. Ore slurry arriving at Ubu (ES) through pipelines undergoes a process to separate solids from water. The solid fraction is routed to the production process, while water is piped to the Industrial Wastewater Treatment and then to the North Dam, which receives all water used in the operations. Such reuse makes it unnecessary to draw water from natural sources near the pellet plant.

Although water is reused in the production process, the pellet plants do not use the entire volume and excess water, after being treated, is routed to Mãe-Bá lagoon, under controlled and monitored conditions and inspection by Espírito Santo State's environmental authorities (IEMA).

To ensure water quality, Samarco continuously monitors local streams, dams and lagoons.

Site	Amount	Treatment	Quality	Disposal Location
Germano MG	21,798,631.00	Physical-chemical	Within regulatory limits, according to class of water	Rivers and Streams
Ubu ES	2,876,197.64	Physical-chemical	Within regulatory limits, according to class of water	Mãe-Bá Lagoon

## Environmental Investments and Expenditures

In 2011, expenditures on environmental projects and measures totaled R\$ 126,673,749.89, of which R\$ 113,884,503.92 were on ongoing activities and the remaining R\$ 12,789,245.97 on measures related to the Fourth Pellet Plant Project.

A complete list, with a breakdown of all environmental initiatives and associated allocations, can be found in the online version of this Report: [www.samarcoqueagentefaz.com.br](http://www.samarcoqueagentefaz.com.br).

## Environmental Compliance

Twelve violations were reported in 2011, of which three were related to Germano (MG) and nine to Ubu (ES). Fines were paid in the amount of R\$ 148,000.00 due to violations at Germano Site, as assessed by the appropriate environmental authority (Brazilian Institute of the Environment and Natural Renewable Resources – IBAMA). With respect to other violations, Samarco has lodged its defense or applied for review, and a final decision is awaited.

# HOW WE CARE FOR THE AIR WE BREATHE: CLIMATE CHANGE

Operating risks associated with climate change pervade, in particular, matters concerning the shortage of water resources, since water is used in different stages of our production process, especially on pipelines.

Our priority today with respect to climate change is to act preventatively, as proposed in the Open Letter to Brazil on Climate Change, of which Samarco is a signatory. With a view to meeting our commitments, we organize our initiatives along three lines: inventorying, reducing and offsetting greenhouse emissions.

## Inventory of Greenhouse Gas Emissions

Starting in 2007, an Inventory of Greenhouse Gas Emissions has been compiled by Samarco, based on the five principles of the GHG Protocol Corporate Standard(\*) and ISO 14064-1 Standard: relevance, completeness, consistency, transparency, and accuracy.

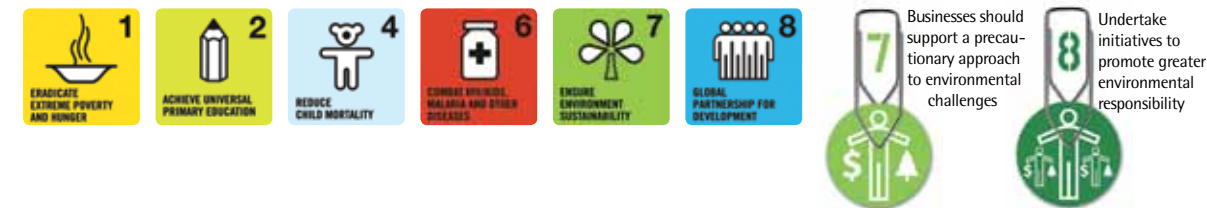


Third Pellet Plant. Ubu-ES

Types of Emissions - Direct	(in tons of CO <sub>2</sub> eq)		
	2009	2010	2011
Fuel	1,467,178	1,653,235	1,550,267
Thermal degradation	148,117	195,007	188,815
Reagents	4,615	5,538	6,410
Explosives	391	474	1,398
Sanitary wastewater	204	227	434
Solid waste	42	390	574
Vegetation removal	7,053	3,415	91,924
Cow manure fermentation	1,677	1,459	1,342
<b>Total direct emissions in CO<sub>2</sub>eq tons</b>	<b>1,629,277</b>	<b>1,859,744</b>	<b>1,841,164</b>
Types of Emissions – Indirect			
Electricity	25,596	78,788	45,629
<b>Total indirect emissions in CO<sub>2</sub>eq tons</b>	<b>26,960</b>	<b>80,433</b>	<b>45,720</b>

CO<sub>2</sub>eq: carbon dioxide equivalent or simply CO<sub>2</sub> equivalent. Many are the gases causing global warming, which are referred to as Greenhouse Gases (GHG). Examples include carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), and nitrous oxide (N<sub>2</sub>O) whose emissions, among others, come from the burning of fuels, the degradation of waste in landfills and the use of nitrogen fertilizers, respectively.

(\*) **GHG Protocol Corporate Standard:** a tool used to understand, quantify and manage GHG emissions. Originally developed (1998) in the US by the *World Resources Institute* (WRI), the GHG Protocol is today the methodology that is most widely used by companies and governments to develop GHG inventories. The Brazilian GHG Protocol, which has adapted the International Program to suit our specific characteristics, is aimed at encouraging organizations to develop and report GHG emissions inventories and providing participants with access to world quality instruments and standards. The Brazilian GHG Protocol Programs stands out amongst other national programs around the world.



### NOx, Sox and other major emissions, by type and weight

	(tons)		
	2009	2010	2011
NOx	8,403.0	5,158.6	13,680.4
SOx	7,310.0	2,673.8	3,081.9
Persistent organic pollutants (POP)	NA	NA	NA
Volatile organic compounds (VOC)	NA	NA	NA
Stack and fugitive emissions	NA	NA	NA
Hazardous air pollutants (HAP)	NA	NA	NA
Particulate matter (PM)	1,128.9	1,194.9	1,815.4

The levels of particulate and gas emissions at Ubu Site, in the State of Espírito Santo, are in compliance with federal regulations and the conditions set out in the Operation Permits for the pellet plants. In 2011 measurements of gas emissions showed an upward trend, particularly for NOx emissions, but still below regulatory limits.

In 2001, as part of a program to be developed in partnership with an expert consulting firm, we will calculate the ecologic footprint of pellets, from the mine all the way through to each client's yard.

This effort will be supported by our suppliers with whom we will share knowledge and experiences. Through capacity-building measures, it is expected that those responsible for significant emissions will develop their inventories and use their information to support their initiatives and decisions, focusing on reduction and mitigation.

### Reducing Emissions

Learning more about emissions is key to guiding reduction efforts, which is the second commitment spelled out in the Open Letter to Brazil on Climate Change: information, reduction and offset.

Samarco's project for reducing greenhouse gas emissions by replacing BPF oil with natural gas for firing pellets has significantly cut down emissions. For this reason, the project had its activities validated under the Clean Development Mechanism (CDM) of the United Nations Framework Convention on Climate Change. Following fuel replacement in the second half of 2010, Samarco's emissions dropped by approximately 57,000 tons of CO<sub>2</sub>eq in 2010 and 207,000 tons of CO<sub>2</sub>eq in 2011. Such reductions exceeded the expected cut-down of 158,000 tons of CO<sub>2</sub>eq and corresponded to a 9.8% decrease in Samarco's total emissions.

Another two projects are in the process of being registered with CDM Executive Board. The first project includes replacing fuel oil with natural gas for the new plant being built in the State of Espírito Santo as part of the P4P. This facility is designed to incorporate cleaner technologies than those currently in use. The second one involves replacing diesel haul trucks with belt conveyors to transport waste. This project expects to reduce emissions by around 10,000 tons of CO<sub>2</sub>eq/year, relying on innovative engineering and technology pioneered by Samarco in Brazil.

### Offsetting Emissions

We are developing an innovative initiative to offset our greenhouse gas (GHG) emissions: rendering the Four Pellet Plant Project carbon neutral, the first expansion project of this magnitude in the world's mining industry that will be totally carbon neutral. The P4P's inventory for GHG emissions takes into consideration all project activities, from personnel transportation to construction. This effort includes a detailed measurement, offset and verification process and will mobilize all project construction contractors. It will cost approximately R\$ 1.7 million and will offset an estimated 170,000 tons of CO<sub>2</sub>eq.

Samarco, together with other mining companies, took part in discussions to prepare the Mining Industry's Emissions Mitigation Plan, as required under the National Policy on Climate Change, in 2010. Such discussions were held by task groups at the premises of Minas Gerais Industry Federation (FIEMG), Espírito Santo Industry Federation (FINDES), and Instituto Ethos' Climate Forum.

## HOW WE CARE FOR OUR COMMUNITIES

Samarco is present in 81 communities, located in 29 different municipalities in the States of Minas Gerais and Espírito Santo, which comprises a population of approximately 841 thousand.

Our relationship with all the communities near our operations and along the pipelines is a remarkable part of the Company's activities. The gains that this relationship yields for both sides allowed Samarco, in 2011, to strengthen even more its social role, with the characteristics and particular needs of each community serving as the foundation upon which our actions are developed.

One aspect that has contributed to this result was the re-structuring of our former Community Relationship Management, now called Social Development Management. In this effort, the Management had its scope revised to incorporate the Risk and Impact Management process, which allowed for a greater alignment of its guidelines with

both the business strategy and the Dialogue and Social Investment processes.

Along with these changes, this Management was tasked with "developing solutions, from a sustainability perspective, that can create value for the business and contribute to a positive social change in the area of influence."

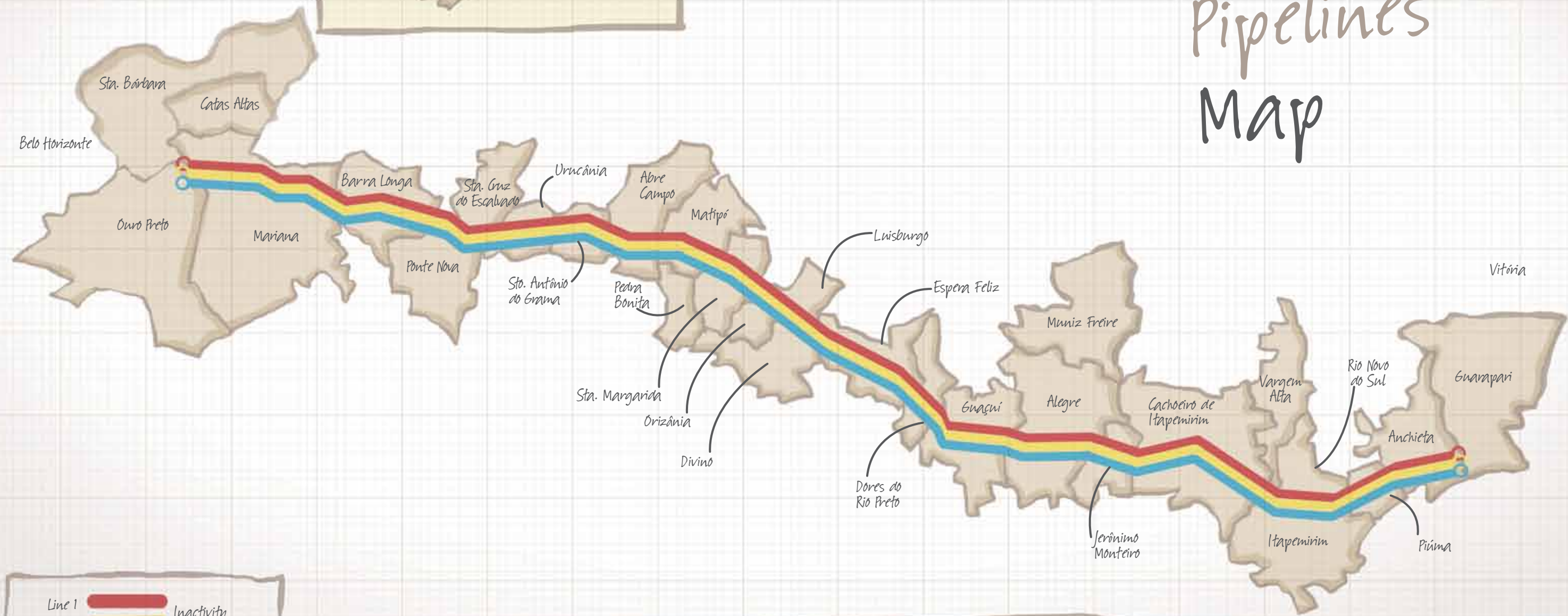
Within this new context, the Management, which was already responsible for, among other activities, mobilizing communities as part of Samarco's efforts to secure social and environmental permits for its operations and projects, began to play a more strategic role in addressing social and economic matters involving these stakeholders. This endeavor has allowed Samarco to build closer ties with local communities and achieve better results with its actions, which became broader, more measurable and more lasting, while placing a continuous focus on transparency and ethics.



Ceremony of inauguration of Sports Center at Mãe-Bá, Anchieta-ES



# Pipelines Map



Line 1		Inactivity
Line 2		Inactivity
Line 3		Under construction

## Impact and risk management Risks

In order to continuously manage the socioeconomic and environmental impacts and risks of our operations and projects, we have developed studies and assessments in areas near our operations and along the pipelines. Samarco measures such impacts using metrics as well as internal and external tools which attempt to, as truly as possible, reflect the reality of these communities.

From these assessments, we have formulated projections and permanent monitoring measures that set bounds for the initiatives to minimize and mitigate the negative impacts, boosting the positive aspects and improving our actions, with the active participation of the communities.

In order to monitor Samarco's performance in developing community development actions, the Local Development Contribution Index is used which allows us to evaluate the Company's response to the community, in relation to opportunities created by our operations and their impacts on the development of the municipalities. We evaluate Items such as growth in tax revenue, changes in crime rates, the level of interference with the provision of public services and creation of job opportunities, among others.

All of this contributes to developing significant actions and also creating a shared planning culture locally.

As part of risk management, an assessment is made to measure the impacts produced specifically by P4P construction and operation. The Socioeconomic and Environmental metrics for the Fourth Pellet Project have been developed in conjunction with the communities, after local studies were carried out, taking into consideration both the pre-existing reality and the potentially-affected areas, the type of impact and the relevant mitigation and compensation strategies. These metrics cover the following areas:

- Local Economy;
- Education;
- Sanitation;
- Safety;
- Employment;
- Mobility;
- Health; and
- Tourism.

One meaningful contribution regarding this methodology is that such metrics have been developed with the involvement of community leaders, the private and public sectors, and the organized civil society. Such line of action enables these metrics to be consolidated, making noticeable the gains to be reaped by Samarco and, most of all, by local communities. It also contributes to developing proactive policies intended to mitigate adverse impacts and risks, which will ensure the sustainability of actions as well as an even more efficient management model.

The following municipalities have been assessed and covered: Ouro Preto, Mariana, Catas Altas and Santa Bárbara, in the State of Minas Gerais; and Anchieta, Guarapari and Piúma, in the State of Espírito Santo.

## Social Dialogue

A respectful, close and constructive dialogue is the foundation upon which Samarco maintains its relationship with local communities. This permanently ongoing exchange takes place in a structured manner, involving leaders and representatives of the civil society and both private and governmental sectors, and seeks to legitimize solutions to promote local development and continuously improve people's quality of life.

The Social Dialogue initiatives aim to enable the community to truly understand our business and, as a result, to strengthen our relationships and minimize risks.

The main actions taken by Samarco as part of its Social Dialogue initiatives in 2011 were:

## Community Meetings

This action took place in 2011, focusing specially on the Fourth Pellet Plant Project and the Germano Power Grid Connection project, which have had a stronger impact on Samarco's areas of influence.

As part of the efforts to put in place these projects, meetings were held in the municipalities more closely involved to provide information on opportunities and impacts created by the construction of these projects and conduct a qualified analysis of community expectations.

Project	Location	Meetings	Participants
P4P	Minas Gerais	19	938
	Espírito Santo	11	739
Power Grid Connection (Transmission Lines)	Minas Gerais	9	335
	Espírito Santo	2	29

## Site Visit Program

The presence of Samarco in the States of Minas Gerais and Espírito Santo awakens the interest of many people and institutions who want to get to know our sites and our activities. As we consider this to be an additional and important opportunity to strengthen ties with the community, we keep a Site Visit Program, in an effort to make this a more complete and interesting experience.

In 2011, we received 2,440 visitors, including students, community leaders and local dwellers, totaling 89 organized visits.

Site	Number of Visits	Number of Guests
Germano (Minas Gerais)	41	1,093
Ubu (Espírito Santo)	38	1,066
Muniz Freire (Hydroelectric Power Plant/Espírito Santo)	10	281
<b>Total</b>	<b>89</b>	<b>2,440</b>

## Samarco Environmental Permit Compliance Monitoring Forum (FALAS)

The meetings held by Samarco's Environmental Licenses Monitoring Forum (FALAS) allow participants to follow up and monitor compliance with environmental permit requirements at Ubu, in the State of Espírito Santo. The Forum, coordinated by the State Institute for Environment and Water Resources (IEMA) and Samarco, is composed of representatives of the municipal administrations of Anchieta, Guarapari and Piúma, as well as representatives from communities and non-governmental organizations who are members of the Benevente River Basin (Anchieta, State of Espírito Santo). During 2011, five meetings were held with an attendance of 130.

## Other Forums for Social Dialogue

There have been other meetings with communities, both in the state of Minas Gerais and in Espírito Santo, in order to discuss specific matters. Please see below:

Forum	Attendance	Municipalities Involved
Forum of Entities	15	Anchieta, Guarapari, and Piúma ES
Meeting with Local Suppliers	55	Anchieta, Guarapari, and Piúma ES
Meeting with Network for Promotion of Safe Environment (REPAS) in Guarapari	60	Guarapari ES
Meeting to discuss the hiring of local labor	40	Anchieta (Ubu) ES
Meeting with Social Leaderships	51	Anchieta (Ubu) ES
Meetings relating to Permit Requirement 53 (Corporate Welfare)	43	Anchieta ES
Meeting to discuss living quarters matters	12	Ouro Preto (Antônio Pereira) MG
2011 Balance	37	Ouro Preto (Antônio Pereira) MG
	66	Catas Altas (Morro d'Água Quente) MG

### Lado a Lado (Newsletter)

Also as part of our outreach efforts, we have developed the “Lado a Lado” Newsletter, which provides information of interest to the communities regarding Samarco’s activities, in addition to issues concerning health, safety, environment, culture and services. In 2011, the newsletter underwent graphic design and editorial concept review. It has separate editions for the States of Minas Gerais and Espírito Santo. Each separate edition had a print run of 6,000 copies in 2011, handed out in schools, community associations, and public agencies and entities serving local communities.

### Mobile Unit

Samarco’s mobile unit visited around 16 communities in the municipalities of Anchieta, Piuma and Guarapari, providing information on several of the Company’s activities and initiatives. Qualified socio-environmental agents dealt with several questions, suggestions and complaints and interacted with approximately 400 visitors.

### Call Center

Samarco has a Call Center in place that serves as a means of communication between the Company and its stakeholders, allowing for a closer contact with the public at large and with our communities in particular. Apart from other outreach initiatives, Samarco’s Corporate Call Center contributes to maintaining an open means of relationship and interaction. Contacts are made possible through “Contact Us,” an open field for submittal of written electronic messages to the Company, which is available from Samarco’s webpage, and also by means of a toll-free call to number 0800 031 23 03.

Through the Call Center, we receive suggestions, complaints, questions and compliments. These, in turn, are forwarded to the internal teams which are responsible for handling and responding to them in a transparent and efficient manner. In 2011, the Call Center received 6,628 new inquiries, of which 6,581 were finalized. Concerning the Fourth Pellet Project (P4P), in particular, 504 inquiries were received, of which 455 were dealt with.

In order to meet the demands of P4P, we have made improvements and adjustments to the service, as well as data

mapping and expansion of the Call Center structure, which has allowed for faster and more precise service deliveries, taking into consideration the possible increase in its demand by the community during project construction.

### Social Investment

Through Social Investment Samarco intends to create shared value between the company and society by mutual provision of resources, processes and technologies. Focusing on education, income generation and entrepreneurship, the initiatives contribute to society’s local, integrated and sustainable development.

In order to make the main aspects that guide our investments in the institutional and social fields more systematic, Samarco complies with the requirements of its Social and Institutional Investment Policy (SIIP). This Policy provides enhanced transparency and clarity, closer alignment with our strategies and increased control and quality of management of resources intended to projects, sponsorships, donations and contributions.

Those resources represent 0.1% of the Company’s gross revenue, and given the exceptional economic performance of the Company in 2011, the value invested in projects, sponsorships, donations and contributions was 40% higher than Samarco’s historical average. The returns of the P4P implementation process also have a significant impact on company results. In all, social investments in 2011 amounted to R\$ 6.9 million.

Our operation is organized in Direct Intervention Projects, developed by Samarco itself, and Indirect Intervention Projects, developed by NGOs or other organizations, with Company support.

### Our Initiatives – Direct Intervention

To develop our social projects, we conduct an analysis of public policies and existing initiatives and identify the needs and opportunities in neighboring communities. We seek partnerships with institutions and other organizations, which help us ensure the quality and contemporaneity of what is to be developed and offered.

In 2011, we developed: Volunteering Program, Environmental Education Program (School, Community and Rural

Producer), Citizen of the Future Project, Engagement of Suppliers Project, Inclusive Local Development Program (ILDP), II External Local Development Exhibit and the Samarco is More Community Program.

Know more about each initiative:

### Volunteering Program

#### • V Day

Through our Volunteering Program, which has a long history of engagement of Company and contractor workers, we develop actions on an annual basis on the “V Day”, held by the Federation of Industries of the State of Minas Gerais (Fiemg). In 2011, activities were conducted in 11 municipalities of Minas Gerais (Ouro Preto, Mariana, Catas Altas, Matipó, Espera Feliz, Alvinópolis, Abre Campo, Barra Longa, Ponte Nova, Santa Bárbara and Belo Horizonte) and 10 municipalities of Espírito Santo (Anchieta, Guarapari, Jerônimo Monteiro, Cachoeiro de Itapemirim, Piúma, Vitória, Serra, Cariacica, Vila Velha and Muniz Freire).

Approximately 3,500 volunteers developed actions that benefitted around 60 thousand people.

#### • Junior Achievement

Samarco is a sponsor of Junior Achievement, a non-governmental association that uses educational programs to awaken the spirit of entrepreneurship, encourage personal development and facilitate access to the labor market for students in public schools. In 2011, educational programs were conducted in 10 partner schools in the municipalities of Ouro Preto, Mariana, Catas Altas, Santa Bárbara and Matipó (MG) and Anchieta and Guarapari (ES). Approximately 80 Samarco and contractor volunteers participated in the programs As Vantagens de Permanecer na Escola; Introdução ao Mundo dos Negócios; Economia Pessoal; Vamos Falar de Ética; Nosso Planeta, Nossa Casa; Nosso Mundo; and Empresa em Ação, benefitting 1,211 students.

#### • Solidary Tax

The purpose of the Solidary Tax Program is to encourage Samarco employees to annually direct up to 6% of their Income Tax due to the Municipal Councils for the Rights of Children and Adolescents. In 2011, the project achieved, with the participation of 268 employees, a new record. The program allocated to the Children and Adolescents Funds (Fias) – entities associated to the Municipal Councils of Mariana and Ouro Preto (MG) and Guarapari (ES) – the amount of R\$ 167,778.35, 13% more than 2010.



Ana Paula Gomes, Environment Anylist, Samarco’s volunteer applying the Junior Achievement Program at a school in Mariana-MG





### Environmental Education Program

Another highlight is Samarco's Environmental Education Program (PEA). This program is developed with schools, communities and rural producers located close to our operations, seeking to raise awareness and change attitudes about environmental preservation.

Twenty-six (26) schools were benefitted, 10 in Minas Gerais and 16 in Espírito Santo, through the following activities: the ECOknowledge Trunk, a travelling library with children's books, documentaries and digital video movies that deal with environmental themes and the ECOMusic Festival, an event focused on adolescents, which includes students in a practical way in activities focused on preserving the environment. The program had the participation of 327 teachers and more than 4 thousand students in the municipalities of Mariana, Ouro Preto, Catas Altas, Santa Bárbara, Abre Campo and Matipó (MG), and Anchieta, Guarapari and Muniz Freire (ES).

The program developed specific activities for each community according to their local reality, through an Environmental Perception Study conducted with its target audience. Through this intervention, Samarco seeks to incentive cooperativism

and entrepreneurship with emphasis on environmental education, providing to the communities and their inhabitants social inclusion, identification of leaderships, economic opportunities, corporate planning and business management. In both states, 17 communities participated through 93 meetings with the involvement of more than 1,000 people.

The activities dedicated to rural producers located close to our pipelines were conducted in partnership with the municipalities of Alegre, Dores do Rio Preto, Guaçuí, Jerônimo Monteiro and Muniz Freire, in Espírito Santo. Approximately 360 producers participated in qualification activities and received technical assistance, which contributed to increase farming productivity and quality, with financial returns and gains from the purchase of inputs.

### Citizen of the Future Project

The Project is a partnership among Samarco, the Public Attorney's Office of the state of Espírito Santo, the Municipal Government of Anchieta and the Community Association of the Mãe-Bá District and its actions are oriented to the students of the Municipal School Maria Luiza Flores. The activities are divided into four main areas: arts, with

theatre and refresher activities; dance, offering jazz, hip hop and street ball classes; sports, with focus on futsal; and music, with guitar and electric guitar classes. In 2011, the project benefitted 167 students with ages ranging from 08 to 16 years old and the high index of above average grades among such students, 99%, is living proof of the project success. In November, an addendum was signed to extend the project for an additional period of three years in the community. In 2012, the initiative will be implemented in the community of Condados, in Guarapari (ES).

### Supplier Engagement Project with focus on local development

The purpose of this project is to encourage and help Samarco suppliers to create and develop local sustainable businesses, fully capable of providing the required products and services to Samarco and the region, and also to obtain supplier engagement in the socio-environmental actions developed by the Company.

In 2011, a diagnosis was conducted with the communities in the municipalities of Anchieta, Guarapari and Piúma, in Espírito Santo; and Mariana, Ouro Preto, Santa Bárbara and Catas Altas, in Minas Gerais. The study enabled us to identify all the possibilities for buying locally, so as to boost entrepreneurship and the economy of the region.

### Inclusive Local Development Program

One of Samarco's main highlights in terms of social investments is the Inclusive Local Development Program. The Program seeks to promote autonomy, citizenship and action in communities, by valuing local culture, business training, vocational orientation and environmental education actions, such as English and computer courses, workshops on photography, filming and circus. Two activities contribute to make the participants the protagonists of their own development: the project development course and the local leader formation course. The program is conducted in Antônio Pereira (Ouro Preto-MG) and Parati and Ubu (Anchieta-ES).

In 2011, 60 youngsters and 28 adults were benefitted in Espírito Santo and 80 youngsters and 30 adults in Minas Gerais.

### II External Local Development Exhibit

For the second consecutive year, Samarco conducted the External Local Development Exhibit in the municipalities of Mariana (MG) and Anchieta (ES) and in the industrial units of Germano and Ubu. The objective of the event was to present the results of the social projects developed by Samarco in partnership with communities neighboring its industrial plants and pipeline. The event included the participation of 17 exhibitors in Minas Gerais and 17 in Espírito Santo, with the participation of approximately 2,300 visitors.

### Samarco is More Community Program

The purpose of this program is to value and maintain culture and local development. In 2011, R\$ 85,990.00 were invested in seven initiatives in Minas Gerais and 16 in Espírito Santo.

In Minas Gerais, the Program conducted a number of events such as the Christmas Cantatas, concerts by the Ouro Preto Orchestra held in November in the cities of Santa Cruz do Escalvado, Ponte Nova, Santo Antônio do Gramma, Abre Campo, Barra Longa, Pedra Bonita, Luisburgo, Orizânia, Divino, Santa Margarida and Espera Feliz.

In Espírito Santo, Samarco supported 16 local events in Guarapari, Anchieta, Rio Novo do Sul, Vargem Alta, Cachoeiro de Itapemirim and Alegre.

### Our Partnerships – Invitation to Submit Projects

In conformity with the criteria of our Social and Institutional Investment Policy (SIIP), invitations to submit projects are issued on an annual basis for selection of proposals to be supported by the Company. Samarco supports initiatives with focus on education, income generation and entrepreneurship, developed by legally existing, nonprofit civil society organizations and public entities in proper compliance with the requirements of the Invitation to Submit Projects.

Social Projects	Investments	Number of Projects	Number of Municipalities
ES	R\$ 689,531.00	22	9
MG	R\$ 621,319.00	25	13
<b>Total</b>	<b>R\$ 1,310,850.00</b>	<b>47</b>	<b>22</b>

Social Sponsorship	Investments	Number of Projects	Number of Municipalities
ES	R\$ 218,000.00	10	6
MG	R\$ 300,132.00	8	3
<b>Total</b>	<b>R\$ 518,132.00</b>	<b>18</b>	<b>9</b>

#### Other initiatives

In addition to all the initiatives described above, we also have social works which are being developed and delivered in the communities neighboring Samarco's operations, in Espírito Santo. The social works are defined and approved together with the community and local governments, and they are also part of the environmental licensing process of the Third Pellet Project, in compliance with Requirement no. 53 or Conduct Adjustment Agreements, which cover the execution of projects designed to improve the infrastructure and social equipment in the communities.

In 2011, the following works were delivered:

#### Mepes Hospital, in Anchieta (ES)

Last year, Samarco invested in improving the public health of the population of Anchieta (ES). The work of renovation and expansion of the Mepes Hospital, the only local hospital, has already been completed. The project received an investment of R\$ 8 million to guarantee the remodeling and expansion works, in conformity with the determinations of the National Sanitary Agency (Anvisa). The hospital was officially delivered to the population in April 2011. The work was carried out in compliance with the Conduct Adjustment Agreement (TAC) signed with the Public Prosecution Service of the State of Espírito Santo.

Value of Samarco investment: R\$ 8 million  
The work was concluded in April 2011.

#### Renovation of the Goembê Community Center, in Anchieta (ES)

The Community Center has a built area of approximately 200m<sup>2</sup>, consisting of meeting room, library, multiuse room, restrooms and kitchen. For its construction, 10 workers from the community were hired.

The Center benefits the 110 families that reside in Goembê, community of Anchieta (ES), for a number of activities, such as courses and lectures, in addition to serving as support to the local school.

Value of Samarco investment: R\$ 386,655.91  
The work was concluded in August 2011.



Expansion and renovation of Hospital in Mepes, Anchieta-ES

#### Renovation and enlargement of the Community Center of Ubu, in Anchieta (ES)

The work consists in the construction of another floor with two spacious rooms, and also full renovation of first-floor rooms, pantry, kitchen and restrooms, with casing changes, roof work, flooring, electrical network, and hydrosanitary facilities. The Center is also equipped with a community gym with *capoeira* and karate classes.

Twenty (20) workers from Ubu were hired as master masons, carpenters and assistants.

Currently, the center houses the Community Association of Ubu where community meetings and other activities take place.

Value of Samarco investment: R\$ 743,201.76  
The work was concluded in August 2011.

#### Construction of the Mãe-Bá Sports Center (CEMBA), in Anchieta (ES)

The construction is on a lot measuring 12,100m<sup>2</sup> and includes a fenced-in soccer field with bleachers, a track, two sand courts, a locker room, bathrooms, office area, a snack bar and children's recreation area. Forty (40) workers from the Mãe-Bá community have been hired for the construction work as master masons, carpenters and assistants.

This work is part of a Conduct Adjustment Agreement (TAC) and benefits approximately 2 thousand people from the community. The Sports Center was built with Samarco resources in partnership with the Public Prosecution Service of the State of Espírito Santo, the Municipal Government of Anchieta and the Mãe-Bá Community Association.

Value of Samarco Investment: R\$ 2,270,852.34  
The work was concluded in October 2011.



Comunidade Mais Arte Project carried out by FAOP, Ouro Preto-MG

## Planning the Future

In 2011, we developed a new operation strategy with the implementation of processes to bring us even closer to the communities, in the common search for solutions focused on positive social transformation.

In 2012, with the consolidation of the new model of operation, we expect to continue the work we currently develop in the communities neighboring our operations and meet the new demands derived from the implementation of the P4P.

For this reason, we expanded our scope and put together a team to handle and implement all the Project integrated actions. Among them, the Social Incident Standard, created in the second semester of 2011, which made the fulfillment of demands arising from the communities affected by our operations more systematic. Moreover, the document organizes and guides our operation, ensuring the flow of information and engagement of different Company areas.

We are committed to proactively building a relationship of trust with all publics with which we come into contact, and contributing to socioeconomic and environmental development.

## Supporting Local Economy

Samarco has been actively working to support the local economy of the communities where it operates. Our efforts take the shape of articulations between Company actions and opportunities to intervene in local reality, with positive impacts on the population and the economy.

A good example is an action in progress, which consists in hiring local workers and locally buying material and services, thus generating income and employment for the community and business opportunities for entrepreneurs.

In 2011, the local purchase of goods and services contributed to an increase in tax revenues for municipal governments. The municipal tax mainly affected was Tax on Services of Any Nature (ISSQN), which is paid by the buying company, in this case Samarco, and passed on to the municipal governments.

ISSQN paid by Samarco in 2011	Thousand R\$
Belo Horizonte/MG	1,175
Mariana/MG	6,567
Ouro Preto/MG	5,171
Matipó/MG	660
Anchieta/ES	13,872
<b>Total</b>	<b>27,445</b>

## Generating Employment

When hiring, we give priority to people who reside in locations close to our units. This orientation is also mentioned in our Recruiting and Selection Policy; however, it has been taken to a new level. Of all hiring in 2011, 70% refers to people from the communities neighboring company operations, such as Mariana, Ouro Preto, Catas Altas, Santa Bárbara, Matipó (MG), Guarapari, Anchieta and Piúma (ES), even though none of them for management level positions. Out of the 380 workers hired, only two of them were directed to P4P, an operational level worker and a technical career worker.

Hiring in 2011			
By level/ type of function	By unit		
Technical Level	24	Ubu (ES)	153
Operational Level	283	Germano (MG)	205
Technical career	68	BH (MG)	20
Management career	5	Matipó (MG)	2
<b>Total</b>	<b>380</b>	<b>Total</b>	<b>380</b>

With regards to the Internship Program in 2011, the available positions were distributed as follows: (i) Belo Horizonte (MG), 12 college level interns; (ii) Germano (MG), 51 college level and technical level interns who, in addition to the 93 in Ubu, totaled 156 new interns at Samarco hired in our area of direct influence.

Specifically, for the P4P works Samarco had on December 31, 2011 a total of 5,785 temporary employees. In the Concentrator works, in Minas Gerais, we registered an index of 67% of hiring in the project's area of direct influence. For the construction works of the Fourth Pellet Plant, in Espírito Santo, the same index was 74%.

The first step to achieve those indexes was a qualification survey conducted with the communities neighboring our operations to evaluate local potentialities against the opportunities generated by Samarco. We realized that capacities and demands were not always aligned.

Based on the survey mentioned above to evaluate workforce demand versus local professional profiles, allied to people's interest, a qualification effort was made through the

Professional Development Program. Approximately 820 people from the municipalities where Samarco operates in Minas Gerais and Espírito Santo received qualification focused at first on the varied positions in the civil construction segment, such as rebar worker, carpenter and master mason, which are required for the P4P construction works. With proper professional qualification, the employability of the participants increased, thus enabling them to operate not only in Samarco projects, but also in other development projects in the region.

The initiative will continue in 2012, with the application of new courses covering both States – Minas Gerais and Espírito Santo.



Participant in Skills Development Program in Espírito Santo.



### Buying locally

In 2011, Samarco continued the actions to strengthen its relationship with suppliers from neighboring communities for the purpose of increasing local procurement and boosting the development of those municipalities. In addition to directly benefitting each supplier, local procurement creates employment opportunities, tax revenues and operates as a driver to local economy.

In 2001, entrepreneurs from the municipalities of Vitória were included in the supplier oriented programs. This expansion of the area of operation also served the aspirations of professional associations, businessmen and public authorities in that region.

As some of the initiatives implemented by Samarco to increase the share of local suppliers, we mention the following: Company promotion of and participation in business rounds and other business events; service provision contracts containing clauses for mandatory opening of branch offices in the region where the companies will work for Samarco; acquisition and invoicing of natural gas in Espírito Santo; replacement of bauxite purchased in Rio Pomba (MG) with the coating (limestone/bentonite) agent produced in Cachoeiro de Itapemirim (ES); and acquisition of low-cost and low-complexity material (i.e., electrical, mechanical and IT materials) with the use of corporate card exclusively in neighboring cities.

In 2011, from our total purchases with suppliers, 40.1% were made from local companies.

Out of the R\$ 1.8 billion estimated for the 3<sup>rd</sup> Concentrator works at the Germano (MG) site, as part of the P4P, R\$ 528 million have already been used in the acquisition of products and services. Out of this amount, 80% were spent in the actual State, a major boost for the industry and mining service sectors. Out of the R\$ 1.9 billion estimated for the 4<sup>th</sup> pellet plant works in Ubu (ES), R\$ 1.2 billion already represent consolidated acquisitions, with a percentage of 54% directly invested in the State.

Also, we have developed actions covering the municipalities of Anchieta, Guarapari and Piúma (ES) and Mariana, Ouro Preto, Catas Altas and Santa Bárbara (MG). They are the following:

### • Development of local clusters

Cluster is an articulation of companies that, due to their similar or complementary characteristics and their close location, collaborate among themselves and, as a result, become more efficient. This axis of action is directed to local companies which require certain adjustments in terms of qualification to be able to provide products and services to Samarco and other companies in the region. Initiatives are developed to contribute to their development, with qualification and credit opportunities.

### • Fomentation of the business chain in the region

Business rounds are conducted, with a view to promoting the interaction among Samarco, local companies and other suppliers. With local companies that are not Samarco suppliers yet the meetings address the required conditions for hiring and how to meet them. Companies that are Samarco suppliers, but are not located close to our operations are encouraged to open branch offices in the region, for the purpose of generating tax revenues and local job positions.

### Developing our suppliers

Every year, Samarco conducts an appraisal of around 26 raw-material suppliers, 63 product suppliers and 58 service suppliers, as a way to encourage their ongoing development. The main criteria used in the appraisal are the following: Delivery, Risk Management and Business Management. Among those, 21 service suppliers are audited on an annual basis by a specialized company according to Corporate Social Responsibility criteria, which include the following aspects: Values, Transparency, Governance, Relations with suppliers, internal public, customers, community, government and society, with a highlight for values associated with ethical and moral principles and human rights. Such appraisals also help us identify a number of opportunities for improvement, which are then incorporated into the suppliers' scope of development actions.

Based on their appraisals, suppliers are recognized with the Samarco Excellence Award purpose of which is to encourage and recognize good performance. The 11<sup>th</sup> Samarco Excellence Award was held in Belo Horizonte on August 25, 2011. Twelve companies that achieved the best results in the last two years were awarded. Special recognition was given to the company with the best performance in safety. Suppliers



Companies receiving prizes at the 11<sup>th</sup> Samarco Excellence Award Ceremony, Belo Horizonte-MG

that operate in the projects also participated in the event, and two of them were recognized and awarded. The 12<sup>th</sup> edition of the Samarco Excellence Award will be held in August 2012, the month in which Samarco celebrates 35 years.

In 2011, we consolidated the Contract Management Project, launched at the end of 2010, with the training and development of Samarco managers and professionals responsible for this process, so as to mitigate risks and assure improved coordination of these efforts and operational practices. We also advanced on the issue of subcontracting by Samarco contractors, putting in place procedures and performing audits on these companies, resulting in the termination of three contracts.

A strict condition imposed by Samarco on the acquisition of services and products is the prohibition of the use of child labor and forced labor or labor analogous to slavery, making sure such requirement is included in all contracts. Moreover, we permanently monitor this type of occurrence in our value chain, in Brazil and abroad. To this end, Samarco makes use of audits, analysis of eventual complaints and technical visits, and also includes termination clauses

in its contracts and purchase orders, in case any such occurrences are observed.

### COMPANIES AWARDED IN 2011

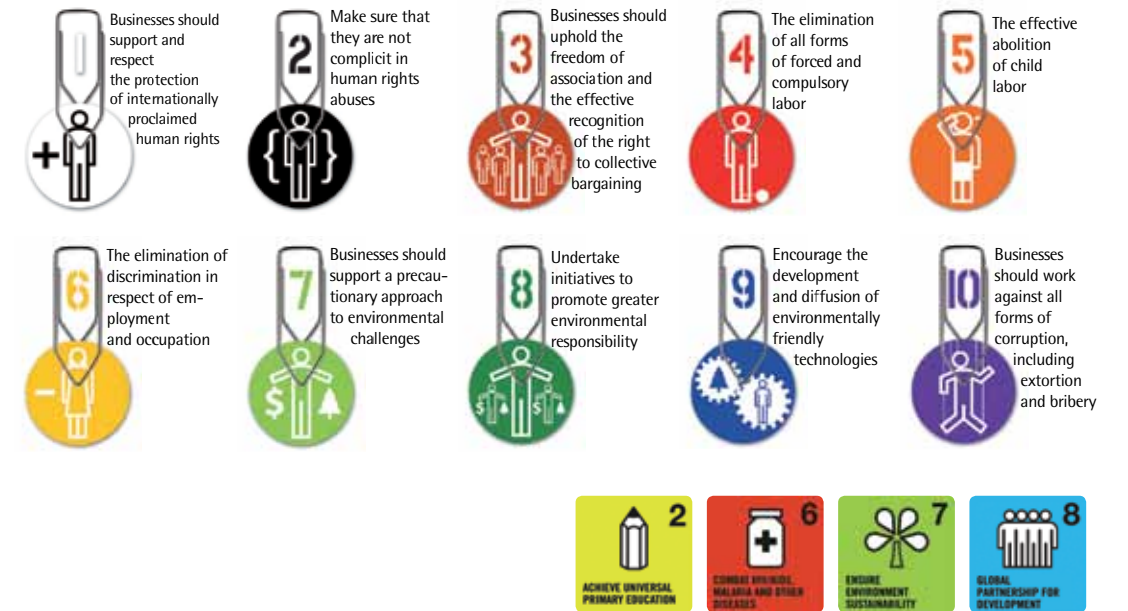
ABB Ltda.  
 Accenture do Brasil Ltda.  
 Companhia Energética de Minas Gerais  
 Diaço Distribuidora de Aço S.A.  
 Elba Equipamentos e Serviços S.A.  
 Energisa Soluções S.A.  
 Geosol - Geologia e Sondagens S.A.  
 Gevisa S.A.  
 Metso Fabrics Brasil Tecidos Técnicos Ltda.  
 Petrobras Distribuidora S.A.  
 Serra Branca Mineração Ltda. ME  
 Viferro Ferramentas e Ferragens Ltda.

### SAFETY HIGHLIGHT

Geosol - Geologia e Sondagens S.A.

### PROJECT COMPANIES

ECM S.A. Projetos Industriais  
 Matricial Engenharia e Construções Ltda.



### Government entities and Federal Prosecutor's Office: partnering for local development

#### Government – Public Authorities

Samarco maintains an ethical and transparent relationship with the government, based on mutual respect, compliance with laws, and sharing of development objectives in the Company's areas of influence.

In addition to the role it plays as regulatory, inspection and granting authority, the government interacts and debates with Samarco with a view to finding joint solutions, which result in improvements for society.

An important forum for Samarco-Government interaction is the Agenda 21 of the municipality of Anchieta (ES), which addresses themes associated to the future of the city and presents varied proposals to overcome challenges. The Company participates in special committees to discuss and implement state public policies, such as the *Movimento Empresarial Espírito Santo em Ação* (MEES).

#### Federal Prosecutor's Office

In our relations with society, the Federal Prosecutor's Office has become an ever more present party, focused on proper development of, and compliance with, agreements between the parties before the Justice. We try to maintain a close relationship, which allows us to find solutions in advance for possible impacts of our operations. The institution interacts with and integrates, through

multisector commitments, projects and actions designed to society development.

As an example of this relationship, in 2011, a Socio-environmental Commitment Statement (TCSA) was signed among Samarco, the Government of the State of Espírito Santo, the Public Attorney's Office of Espírito Santo, and the municipal governments of Anchieta, Guarapari and Piúma, with the State Environmental and Water Resources Institute (IEMA) as technical intervener. With an investment of R\$ 12.22 million, the TCSA will bring benefits and improvements to the region in the education, health and infrastructure areas. Drainage and pavement works will be conducted in the municipalities of Anchieta and Guarapari, and the Piúma hospital will undergo renovation and expansion works. Those actions take place according to the Investment Plan submitted by the municipalities and approved by the TCSA Management and Monitoring Committee.

These funds will also be invested in the cartographic production and survey of municipalities located in the area of direct influence of the Fourth Pellet Project, for purposes of control and inspection of land use and occupation. Moreover, equipment was delivered at the Intelligence and Image Center of the Public Consortium for Sustainable Development of the Southern Region (Condesul) in Espírito Santo, which contributed to the strengthening and development of the workforce through geoprocessing courses.

The Public Attorney's Office played an important role in the development and monitoring of the Socio-environmental Commitment Statement.

A flock of geese is flying across a bright, cloudy sky. Below them is a vast field of yellow wildflowers and tall grasses. The scene is captured in a soft, natural light, suggesting a peaceful, open landscape.

## *Our performance*

*Always guided by new challenges.*

*Going higher, seeing farther, believing, evolving and transforming.*

*Sharing experiences and achievements.*



Businesses should support a precautionary approach to environmental challenges



ENVIRONMENTAL SUSTAINABILITY



GLOBAL PARTNERSHIP FOR DEVELOPMENT

## HOW WE CREATE VALUE

Total Samarco output for 2011 was 23.223 million tons, of which 21.452 million tons of iron ore pellets and 1.771 million tons of fines (pellet feed + sinter feed). In relation to 2010, no significant change was observed because we were very close to our full capacity. The volume of pellets produced was only 3.6% below the annual installed capacity, which is 22.250 million tons.

Evolution of the amount produced			
Year	Pellets (*)	Fines (*)	Total (*)
2009	16.051	1.571	17.622
2010	21.508	1.941	23.449
<b>2011</b>	<b>21.452</b>	<b>1.771</b>	<b>23.223</b>

(\*) Figures were rounded off; dry metric tons x 10<sup>6</sup>.

In 2011, the shipped volume was also a record. The previous figures of 2010 were 21.397 million tons. Last year, a total of 22.506 million tons were shipped, of which 21.655 million tons of pellets and 851 thousand tons of fines.

### Operational Excellence

With operational excellence constantly in our minds, we have applied two programs focused on ongoing improvement of processes: Lean Six Sigma (LSS) and Kaizen.

The purpose of the LSS is to obtain improvements, increase the efficiency of processes and identify solutions for problems, based on statistical fundamentals and quality tools.

In 2011, the use of iron ore slurry, stored in a slurry basin (\*), was the main project resulting from the application of ongoing improvement. Through the LSS methodology, we found a solution which enabled us to recover and incorporate iron ore slurry to the production process at pellet plants in

(\*) slurry basin: place for storage of the surplus of iron ore slurry delivered to the Ubu (ES) unit via pipelines.

Ubu (ES). The volume recovered (approximately 580 thousand dry metric tons) was essential for fulfillment of production and shipment goals.

Other LSS projects also have a positive impact from an environmental point of view, such as the project for better management of water resources which reduces the volume of water abstracted from the North Dam, project to decrease the volume of effluents generated by pellet plants, and projects to reduce electrical energy consumption and CO<sub>2</sub> emissions, all of those in Ubu (ES). Projects developed at the Germano (MG) unit focused mainly on increasing production volume, crushing and concentration.

The total amount obtained as financial return, R\$ 101.8 million, exceeded the goal proposed for 2011, which was R\$ 80 million.

Lean Six Sigma – 2011		
	Number of Projects	Financial Return (in million Reais)
Minas Gerais	23	55.954
Espírito Santo	16	45.890
<b>Total</b>	<b>39</b>	<b>101.844</b>

The Kaizen is characterized by rapid improvements and reduction in waste based on the organization of common sense and creativity of multidisciplinary groups.

The 92 Kaizen events resulted in a financial return which exceeded the goal proposed for 2011, which was R\$ 10 million.

Kaizen – 2011			
	Events	Participants	Financial Return (in million Reais)
Minas Gerais	21	210	3.0
Espírito Santo	71	227	7.7
<b>Total</b>	<b>92</b>	<b>437</b>	<b>10.7</b>

### Economic and financial results

In 2011, Samarco total sales remained 0.2% below the volume sold last year (22.506 million dry metric tons in 2011 against 22.654 million dry metric tons in 2010). This performance can be explained if we consider the reduction in the sales of fines.

The record sales of pellets and the increase in their average price, on the order of 18.7% in 2011 (using the quarterly dynamics of prices), were the main factors contributing to the highest gross revenue of our history, R\$ 7,117.3 million (US\$ 4,268.6 million), an 18.1% increase as compared to 2010, R\$ 6,324.3 million (US\$ 3,614.0 million).

Following an opposite path, in 2011, a decrease of 0.8% was registered in gross margin, in North American Dollars (63.9% in 2011 versus 64.7% in 2010). This behavior results mainly from an increase in production costs due to the following factors: increase in the average price of iron ore, which affects the amount spent on the acquisition of ore from third parties (R\$ 173.5 million / US\$ 121.7 million); highest amount spent on services contracted (R\$ 49 million / US\$ 36 million) and material to maintain operations at full capacity (R\$ 23.4 million / US\$ 19.1 million); and also price adjustments in Cemig (MG) and Escelsa (ES) tariffs, resulting in higher expenditure with electrical energy (R\$ 23.2 million / US\$ 20.4 million).

As with gross revenue, the result of our EBITDA in foreign currency was an all-time record: R\$ 4,242.9 million (US\$ 2,601.1 million), above 22.6% when compared with 2010 figures. Net profit, R\$ 2,914.3 million (US\$ 1,814.1 million), was also the highest of all times.

In 2011, our gross indebtedness was R\$ 4,388.4 million (US\$ 2,340.3 million), equivalent to an increase in US\$ terms of 15.7% (R\$ 1,019.8 million / US\$ 317.3 million) compared to the level of debt at the close of the previous year, which stood at R\$ 3,369.0 million (US\$ 2,023 million). Notwithstanding, the gross indebtedness index (Total Gross Debt / EBITDA) wound up the year at 0.9x, a percentage below that of 2010, which was 1.0x.

Measured in Dollar terms, the return on capital employed (ROCE) was 65.8% in 2011, above the performance posted in 2010, which was 64.7%. However, the domestic currency indicator registered a negative variation as compared to 2010, due to Real devaluation in 2011.

	2009	2010	2011
Net Revenue	2,813	6,240	7,059
Net Profit	62.1	64.8	63.9
Gross Debt/ EBITDA	2.0 x	0.9 x	1.0 x



Surge Pile  
– stacking.  
Germano-MG

## Investments

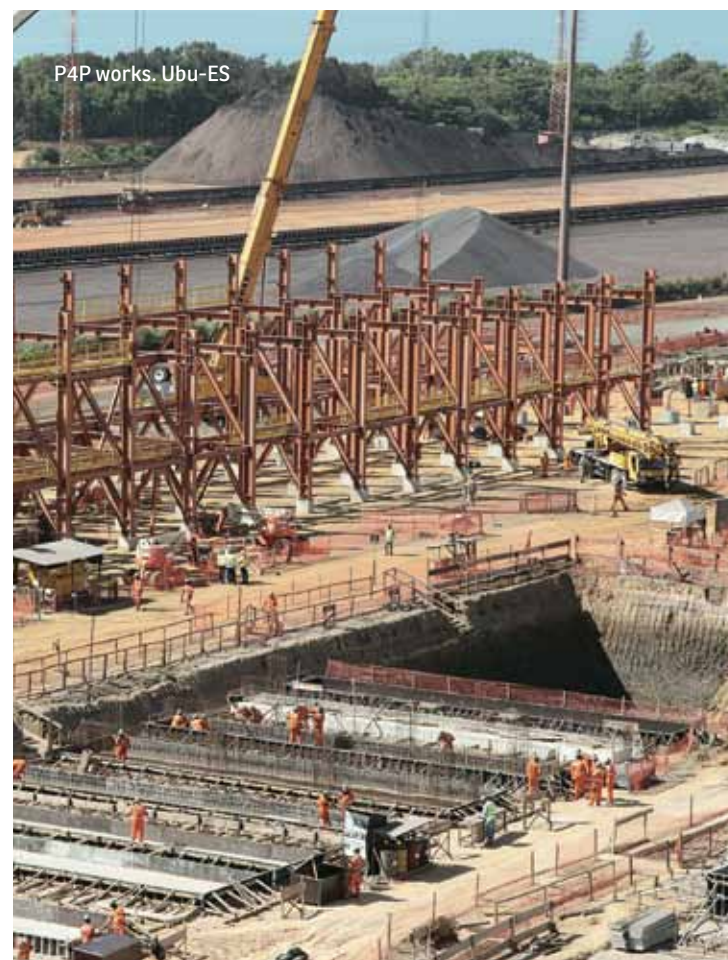
Capital investments in the Fourth Pellet Project totaled R\$ 5.4 billion (US\$ 3 billion). Total committed capital, until December 2011, in the amount of R\$ 3.9 billion, represents 72.9% of the budget. Accumulated disbursement was R\$ 958.4 million, which represents 24.4% of total commitments and purchase requisitions, and 17.8% of the budgeted funds.

Other capital investments made by Samarco totaled R\$ 420.1 million (US\$ 245.5 million). Most of these funds, or 62% (R\$ 259.9 million / US\$ 150.7 million), were spent on projects aimed at improving processes and ensuring continuity of operations, as well as replacing industrial equipment and making investments geared towards sustainable development, in compliance with HSE standards, policies and laws. The remaining 38% (R\$ 160.2 million / US\$ 94.3 million) were spent on projects designed to improve the Company's production capacity and productivity or reduce environmental impacts.

The following are some of the main projects and investments of 2011:

- Installation of Electrostatic Precipitators (R\$ 56.9 million / US\$ 34.2 million). A project started in 2009 to reduce particle emissions from pelletizing plants 1 and 2, in Anchieta (ES), so they reach a performance appropriate to environmental requirements;
- Access to the Electrical Grid of Germano/MG (R\$ 51.9 million / US\$ 30.2 million). The purpose of the project is to reduce energy distribution costs with the connection to the Electrical Grid, ensure the feasibility and success rate of Samarco's growth plans, and improve energy supply reliability;
- Expansion of the Production Capacity of Concentrator 2 by 1M dry metric tons (R\$ 32.0 million / US\$ 19.4 million). Installation of new equipment and upgrade of existing equipment to increase annual production capacity by one million tons;

- Mobile Equipment Workshop (R\$ 13.8 million / US\$ 7.9 million). Construction of a new mobile equipment workshop at the Germano (MG) unit to allow mining of the workshop area of Alegria 6 and, as a result, increase the use of conveyor belts and reduce operating costs;
- Upgrade of Cooling Fan 85VT03 at Plant 2 (R\$ 12.3 million / US\$ 6.7 million). Project aimed at regulating the supply of cooling air of furnace 2 of the second pelletizing plant, seeking to increase furnace productivity;
- Replacement of Cooling Fan 55VT03 at Plant 1 (R\$ 12.0 million / US\$ 6.6 million). Equipment with cutting-edge technology, of high operational reliability, availability and maintenance capacity. It seeks to ensure the supply of spare parts for the cooling fan and reduce noise.



## Distribution of Added Value

The Statement of Added Value (SAV) shows in a concise manner how much value is created by the Company during its production process, distribution of added value among the stakeholders which contributed to its creation, such as employees, investors, shareholders, government and others, and also the portion not distributed.

The wealth created by the Company is calculated on the basis of the difference between the value of Samarco production and that of goods and services produced by third parties used in production.

In 2011, Samarco generated and distributed R\$ 4.14 billion.

The SAV allows us to evaluate three aspects of companies' performance:

- Company performance in the creation of wealth and its efficiency in the use of production factors;
- Social performance to the extent it shows in the distribution of wealth the participation of employees, government, investors and shareholders;
- Company's contribution to the creation of wealth in the economy where it operates.

CREATION OF WEALTH (in Thousand Reais)		
Revenues	2010	2011
Sales of goods, products and services	6,324,347	7,117,316
Other revenues	3,296	4,331
Revenue associated to construction of own assets	319,010	1,379,059
Bad debt reserve	1,822	(21)
	<b>6,648,475</b>	<b>8,500,686</b>
<b>Inputs acquired from third parties</b>	<b>(2,381,132)</b>	<b>(3,787,109)</b>
Costs of products, goods and services sold	(361,704)	(445,301)
Third-party services, material, energy and others	(695)	1,084
Loss/recovery of asset values	<b>(2,743,531)</b>	<b>(4,231,327)</b>
<b>Gross added value</b>	<b>3,904,944</b>	<b>4,269,359</b>
Depreciation and amortization	(178,264)	(190,319)
<b>Net added value</b>	<b>3,726,680</b>	<b>4,079,040</b>
<b>Financial revenue</b>	<b>169,930</b>	<b>65,427</b>
<b>Total added value to distribute</b>	<b>3,896,610</b>	<b>4,144,467</b>





DISTRIBUTION OF ADDED VALUE (in Thousand Reais)		
Employees	2010	2011
Direct compensation	181,233	218,935
Benefits	43,928	56,773
FGTS (Government Mandatory Severance Pay Fund)	10,062	12,168
<b>Government (Taxes, fees and contributions)</b>		
Federal	414,561	633,220
State	97,084	(11)
Municipal	13,355	15,681
<b>Financing agents</b>		
Interest (loans, financing and others)	889,002	293,369
<b>Shareholders</b>		
Proposed/ intermediary dividends	1,639,877	2,168,966
<b>Others</b>	607,508	745,366
	<b>3,896,610</b>	<b>4,144,467</b>

### Customer Relations

We strive to maintain a close, transparent and lasting relationship with our customers. Above all, we seek excellence in the quality of our products and services.

In 2011, we sold our products to 35 customers from all continents except Oceania. In addition to Brazil, Samarco has customers in China, Taiwan, Malaysia, Indonesia, Japan, Argentina, USA, Germany, France, United Kingdom, Turkey, Saudi Arabia, Egypt, Qatar, Trinidad & Tobago, and the United Arab Emirates.

In our dealings in the market, Samarco has a unique quality: complete focus on the entire customer service chain to better understand the needs of our clients and willingness to structure ourselves to adapt if required in order to meet them.

In 2011, to anticipate such needs we worked towards the development of a closer relationship with our clients. Usually, our clients' demands require little changes to products and more advances in terms of services. Some clients work directly with Samarco to develop the required innovations. In 2011, we implemented the Business Intelligence area. The primary objective of this area is to structure the process

of collecting and analyzing information, covering different disciplines as necessary for supporting the Company's decision-making processes. The main areas of expertise/ areas of interest are: market, pricing and sales processes; competitive analysis; technological aspects of processes and products; regulatory and political aspects; logistic aspects and business models.

The Business Intelligence area has proven to be highly important throughout the year, when the Company had to face the volatility of market prices.

As part of the new strategy management system, the Customer and Market Committee was created - coordinated by the Commercial Director's Office - with the participation of Marketing and Sales management, as well as operations and finance representatives. The main objective of the Committee is to make strategic decisions on company positioning, review a number of market scenarios, define Samarco sales strategies, and review logistic solution proposals.

During the year, Marketing and Sales General Management visited all of our active customers, addressing commercial or technical issues, seeking to maintain a close relationship with the companies, update information, discuss new technologies, assess performance and look at opportunities for improvement.

Moreover, Samarco conducts every two years a technical seminar with our clients for technical discussions on the sector and the use of our products. In 2011, in Barcelona, Samarco held the IV Technical Seminar for Direct Reduction clients.

To allow our clients to access information on their purchases or relationship with the Company, we maintain a communication channel called 'Inside Samarco'. It is an online communication channel connected to our CRM base, through which the client is able to check invoices, contracts, production data, shipment schedule and reports, technical and commercial visit reports, information on product quality, comments and requests, in addition to sending directly from the system emails to Samarco. The

system enables the development of charts or spreadsheets based on comparative shipping and offloading results. The whole interaction occurs in a safe environment, protected by individual passwords.

With respect to client satisfaction, we use the internally-developed Customers Satisfaction Index (CSI). The assessment is conducted on a monthly basis, following the guidelines of the Brazil's National Quality Program (PNQ) and ISO 9001 certification standards. The system is based on different inputs, such as: technical/commercial visits, shipping efficiency indicators, shipped product quality, delivery quality, benchmark quality, penalties, complaints, and flexibility, among others. A score is assigned to each item. Different items have different weights, depending on the importance of the role they play in the production chain and their market-perceived value.

In 2011, the CSI achieved the score of 85% and the main highlights were: compliance with the quality specifications of shipped products, high flexibility in negotiating product delivery, and fulfillment of the technical and commercial visit schedule. This result shows our commitment to working in an integrated manner, consolidating our good relationship with the clients, and creating value for all stakeholders.

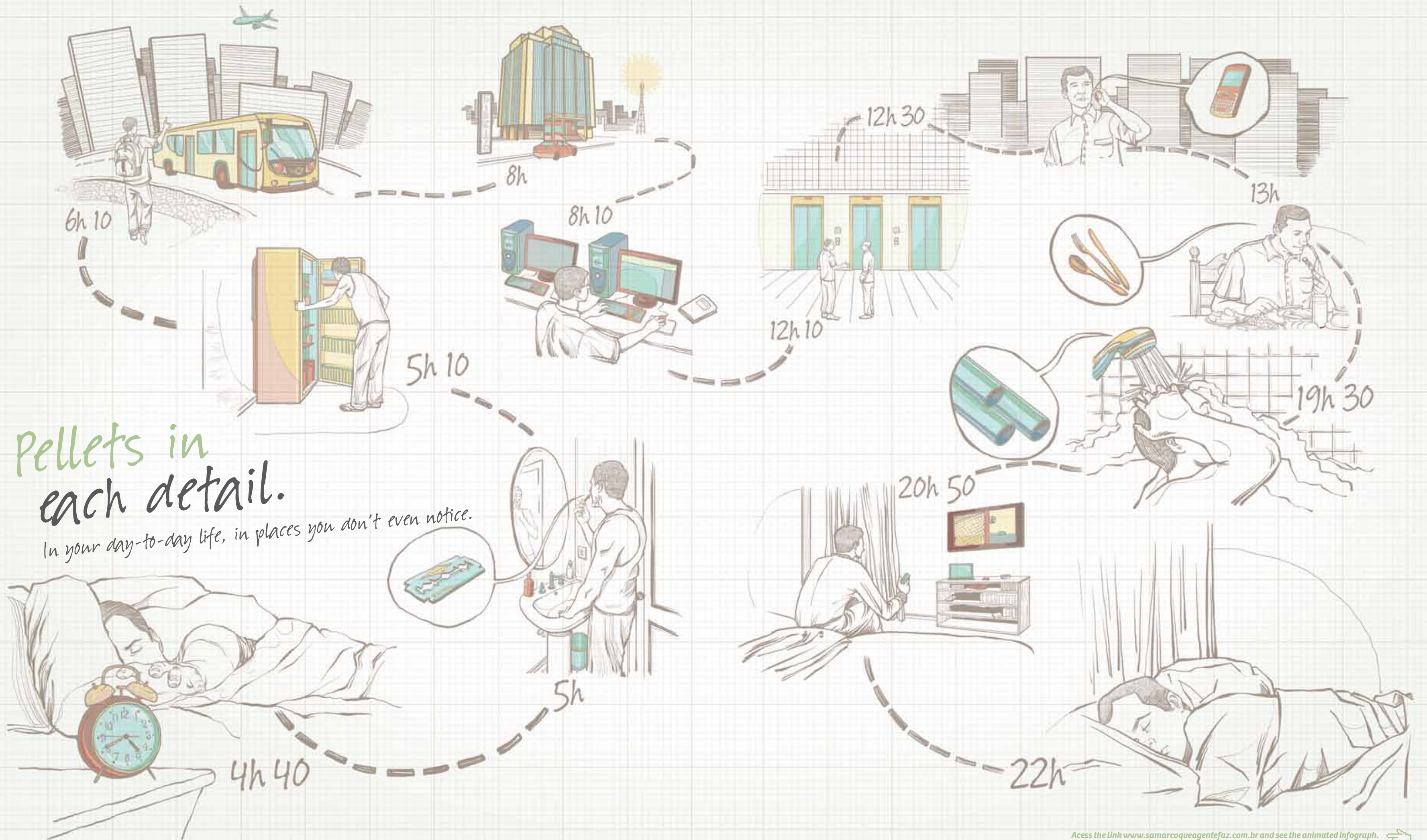
### Closure Plan

The Closure Plan is of great significance for our business, as it considers the useful life of the project, the required resources, closing strategy and the solution to be adopted for rehabilitation of the affected area. It also indicates the premises to be followed, considering economic, social and environmental dimensions, to close the activities of a mining company. Moreover, it guides us in preparing the communities neighboring our operations to such possibility.

We have an internal procedure which provides for the update of our Closure Plan every three years. In anticipation to this requirement, in 2011, the plan was updated considering 100% of our operations, including the Fourth Pellet Project.

# Pellets in each detail.

*In your day-to-day life, in places you don't even notice.*





## HOW WE ARE GOING TO GROW: FOURTH PELLET PLANT PROJECT (P4P)

The Fourth Pellet Project (P4P) is aligned to our strategy of growth and consolidation in the world market of iron ore pellets. With planned investments on the order of R\$ 5.4 billion, Samarco will increase by 37% its installed capacity, achieving the level of 30.5 million tons of iron ore pellets per year.

The P4P environmental licensing process, started in 2008, was concluded in April 2011, with approval of the Installation License of the fourth pelletizing plant in Ubu (ES). The Installation Licenses of the third pipeline, which connects both operational units, and of the third concentrator, at the Germano (MG) unit, were granted by the competent agencies in July and November 2010, respectively.

An innovation in the Fourth Pellet Project licensing process was an integrated assessment of all impacts, conducted by the State Environmental and Water Resources Institute (Iema) – environmental entity of the State of Espírito Santo–, which also takes into account the changes caused by other projects executed by other companies in the same region. Given the number of projects in progress in the area, Iema decided to consider all the impacts in each individual assessment, allowing a more realistic analysis of the transformations that will occur in the area.

During the feasibility study phase, the Project underwent two important assessments: IPA (Independent Project Analysis) e IPR (BHPB\_IPR\_Vale Assessment). IPA is a respected international institution that evaluates the maturity of major projects. During its analysis, IPA considers four aspects: costs, schedule, safety and operability. The P4P was considered “Best Practical”, which means it adopted the best global practices. Based on this assessment, the shareholders also reviewed the P4P through the IPR (Interim Peer Review), which has three levels of classification: Healthy, Under Observation or Critical. The P4P was classified as “Healthy”, in compliance with the standards required by the shareholders, and then it proceeded to the following phase, execution. After the start of the construction works, for the purpose of checking that the progress of the Project is according to the

approved plan, the IPR BHPB\_Vale Assessment is conducted every four months. To date, all assessments indicate that the Project remains “Healthy”.

The result of these assessments and the conclusion of the environmental licensing process had a decisive influence on the approval by Samarco Board of Directors of the investments for the Fourth Pellet Project, on April 29 2011.

### Environment

With investments achieving approximately R\$ 250 million, waste, liquid effluents and air emissions will be treated in such a way as to ensure compliance with regulatory standards and other requirements and, primarily, preservation of the environment and people’s welfare.

The environmental investments made in 2011 totaled R\$ 12,789,245.97. See the full list of investments in the online version of this Report on [www.samarcoqueagentefaz.com.br](http://www.samarcoqueagentefaz.com.br)

As a pioneering initiative, the Fourth Pellet Project will be totally carbon neutral. All the GHG emissions generated during the implementation phase in project related activities will be neutralized through investment in projects focused on generation of clean and renewable energy, energy efficiency, improvement of waste and sewerage systems, prevention of deforestation and forest rehabilitation. The investment for carbon neutralization will be R\$ 1.7 million.

### Socio-environmental Commitment Statement (TCSA)

Nowadays, in addition to environmental aspects, licensing processes consider socioeconomic issues and encourage the participation of civil society in discussions on project sustainability. In the P4P licensing process, in the State of Espírito Santo, a Socio-environmental Commitment Statement (TCSA) was signed among Samarco, the Government of the State of Espírito Santo, the Public Attorney’s Office of Espírito Santo, and the municipal governments of Anchieta, Guarapari

and Piúma, with the State Environmental and Water Resources Institute (Iema) as technical intervener

The signatories were responsible for fulfilling the attributions and the responsibilities contained in the Statement. Samarco will allocate the amount of R\$ 12.22 million, which will be invested in common-interest initiatives, mainly health, education and infrastructure, according to the action plans defined by the municipality. One of the premises of the Statement is shared and co-responsible operation among public sector, civil society organizations and private enterprise. The objective is to have a clear understanding of the role played by all parties towards local development, and reinforce our involvement with the areas of direct influence.

Since the signature of the TCSA, in March 2011, a committee composed by representatives of the signatory parties, including members of civil society (one representative for each municipality), monitors all process phases, verifying proper compliance with each item agreed.

### Start of construction

After the environmental licensing procedure and approval by Samarco’s Board of Directors, we started in May 2011 the construction of the P4P. To ensure compliance with the schedule and financial planning, as well as efficiency in the application of funds, always focused on health and safety issues, Samarco used management tools widely recognized in the market. On a monthly basis, the shareholders receive all

P4P Safety Performance Indicators in 2011			
Performance Indicator	Unit	Goal	Accumulated
Lost Time Accident Frequency Rate (CPT)	CPT /106	0.25	0
Classified Accident Frequency Rate (CPT & SPT-AR)	CPT and SPT-AR/106	0.55	0
Recorded Accident Frequency Rate (CPT & SPT (AR+TM))	CPT and SPT (AR+TM) /106	3.85	0.38

See the list of environmental investments made as part of the Fourth Pellet Plant Project. Access <http://www.samarcoqueagentefaz.com.br/relatorio2011/en/como-cuidamos-do-planeta/>



the information required for monitoring and assessment of Project development.

During the execution of the P4P, R\$ 55 million will be directed to occupational health and safety management related actions. The Project registered 5,785 workers until December 2011, with the following accident frequency rates.

It is estimated that at the peak of the work, some 13 thousand temporary jobs will be created, with many opportunities of employment and income for local communities. In addition, tax revenues will be created in the amount of R\$ 590 million in federal, state and municipal taxes, expanding the possibilities of development for the affected regions.

We believe that the Fourth Pellet Project is an example of how the Company can create value for all publics with which we come into contact, boosting the growth of cities and states where we operate and, consequently, of the country. This is the best return on the investments we make.

### Challenges 2012

The peak of the works in Germano (MG) and the Pipeline will occur in 2012, when also a significant advance will take place in the Ubu (ES) works. Such scenario will bring some challenges to the Project, ranging from maintenance of good health and safety results to good interaction of workers of the construction works with Samarco employees and neighboring communities, covering the 28 municipalities involved in the P4P. To this end, it is essential to ensure the quality and frequency of our permanent channels of communication with all stakeholders.

The main future milestones in the implementation of the P4P are the following:

Milestone 1 – Start of production of the 3<sup>rd</sup> Concentrator – November 2013.

Milestone 2 – Start of pumping of Concentrate – November 2013.

Milestone 3 – Start of production of pellets by the Fourth Pelletizing Plant – January 2014.

## HOW WE CONTROL OUR RISKS: RISK MANAGEMENT

In 2011, we raised awareness of risk management across the Company. The main purpose of the initiative was to provide managers with a better understanding of concepts, thus enabling them to lead the process of identification, review and assessment, and consequently propose solutions and management mechanisms for each risk. This work had the support of Company's top management, which allowed a comprehensive dissemination of risk management concepts and consolidation of the annual cycle of assessment of these risks.

Twenty-four seminars were held in three months, with the participation of over 200 professionals. All areas were involved, which expanded the scope and extent of contributions. To structure the process of discussions, a multidisciplinary approach was taken. Representatives from all areas associated to the risks under analysis participated in discussions on the description, measurement and treatment to be given to each risk. Particularly within the scope of operating risks, this change brought significant quality gains to the results achieved.

Control was also increased, through monthly monitoring of required actions for prevention of causes and minimization of consequences for each risk.

Another highlight in 2011 was higher integration of risk management with Samarco strategy. From the beginning of the strategy definition process, with proposals for Company positioning, the risk methodology was applied to identify and assess what could impact Company objectives, contributing

to the decision-making process and identification of new business opportunities.

To support all those activities, we redefined our Risk Policy and drew up a Corporate Risk Management Manual. Policy redefinition contents were discussed at the Compliance, Risk and Legal committee and approved by top management.

Due to its Risk Management process and the absence of expressive accidents in its history, Samarco is considered by the insurance sector a low-risk company, which reduces the premiums paid by the Company, among the best in the market.

The risks currently managed in a systematic manner with different methodologies and by the different areas of the Company are the following:

- **Strategic risks;**
- **Operating risks;**
- **Project risks;**
- **Internal control risks;**
- **Health and safety risks.**

In 2012, the installation of the Internal Control and Compliance area will contribute to consolidate the achievements obtained in risk management in 2011.



## HOW WE PREPARE FOR THE FUTURE: RESEARCH AND INNOVATION

We continuously encourage research efforts and the pursuit of innovation and technological advancement, since they allow us to look with optimism to our future in the mining business. In a structured and simultaneous fashion, we are engaged in short-, medium- and long-term initiatives with a view to becoming more competitive, increasing the life of our ore reserves and growing in a sustainable manner.

Our short-term focus is the internal environment. In order to encourage our employees to come up with innovative ideas and suggestions, we maintain for 12 years the Field of Ideas Program, whereby employees, including subcontractor employees, are given the chance of bringing forward suggestions that can be put into practice in different processes across the Company. In 2011, 1,859 new ideas were presented, 1,295 of which were effectively implemented, with monetary rewards in the total amount of R\$ 377,300.00.

In the medium- and long-run, we place great emphasis on three main axes while seeking to achieve greater competitiveness and add value to our business:

- Development of new technologies.
- Development of new process routes.
- Application of process engineering to strategic capital projects.

The Company's strategic themes are the main drivers of our development efforts, as follows:

- Research to maximize utilization of Samarco's mineral resources.
- Studies to reduce costs and increase operational efficiency.
- Projects to reduce and reuse slime and sandy waste.
- Improve automation levels.
- Optimize rational use of water.

In 2011, we consolidated the use of a mixture of limestone and bentonite as a coating agent for direct reduction (DR) pellets, which minimizes the chance of pellets sticking to each other while being processed by clients. In 2010, this new mixture replaced the bauxite being used as input since 1994 in DR pellet coating. New alternatives for pellet coating material are being tested at our laboratories.

We introduced, in the ship loader and one of the forklifts at the stockyard in Ubu (ES), an infrared camera system that improves visibility and safety of ship loading and pellet and fine stacking operations, mainly at night.

Port operations, particularly loading of large ships, require permanent control and safety measures during cargo loading. To improve this procedure, Samarco in conjunction with a technology company has been developing a unique, safer, cost-effective and efficient system for ship draft reading, using specific software and cameras, which is already being implemented at the Port of Ubu (Anchieta- ES). In Brazil, there is no record of application of this type of technology.

Currently, draft reading at the ports is visually conducted by inspectors, from stem to stern, and vice-versa, with boats or other vessels, checking the draft markings on the side. This procedure requires expenditures with fuel, demands time to check the markings and is subject to weather conditions, which might impair the analysis.

Cameras were installed on the breakwater and the lower part of the pier, so that draft markings on vessels loading

cargo be recorded and processed by the automated system. The images are then transferred to the software, which outputs reliable statistics on the cargo shipping operation. Thus, the professional responsible for monitoring the operation is able to observe the distribution of cargo on the vessel, preventing hull wearing and, mainly, increasing safety during loading operations.

The investment in technological development projects was R\$ 5.5 million in 2011, 22% above the amount invested in 2010 (R\$ 4.5 million). For the 2012/2013 biennial, the projection is an investment of R\$ 10 million per year, and from 2014 to 2015, the forecast is an annual investment of R\$ 11 million.

To expand and deepen the scope of discussion on innovation, we entered into technical partnerships with universities, research centers and suppliers, in Brazil and abroad. Also, we sponsor and participate in different forums of experts, such as the Center of Reference in Innovation, coordinated by Dom Cabral Foundation.

The major challenge for 2012 is to continue the studies and the presentation of solutions for Samarco's strategic projects of sustainable growth, including the adjustment of processes aiming at better use of mineral resources.

## HOW OUR EFFORTS AND RESULTS HAVE BEEN RECOGNIZED

The figures show that 2011 was a year of good results for Samarco. Society and the market have given our business activities their stamp of approval, recognizing our achievements and our efforts with a series of awards granted by different institutions.

Samarco was elected the **Best Mining Company** in the Melhores e Maiores Award 2011, of Exame Magazine, which is based on an integrated analysis of the following assessment criteria: performance, profit, equity, sales growth, profitability, liquidity, indebtedness, wealth created and social responsibility.

We were also granted the **Troféu Transparência 2011**, in the category "Closely Held Companies", granted by the National Association of Executives in Finance (ANEFAC), Department of Economics, Administration and Accounting of the University of São Paulo (USP) and Serasa Experian.

In the innovation field, we were awarded in the main categories of the Lean Six Sigma (LSS) Excellence Award 2011, organized by the IQPC (Internacional Quality Productivity Center). We were **1<sup>st</sup> Place** in the category **Better LSS Project of the Year**, with the work of development of a new organic agglomerating agent and 4<sup>th</sup> place in the category Best LSS Program of Latin America.

The integration of socio-environmental issues to Company operations was one of the initiatives which gave us the **Hugo Werneck Award of Sustainable Partner 2011**. Samarco was also a highlight as a result of our Climate Change Management Project. Since 2007, we have been developing inventories of GHG emissions. In 2010, we did not discharge approximately 57 thousand tons of CO<sub>2</sub>eq and, in 2011, approximately 207 thousand tons of CO<sub>2</sub>eq by replacing fuel oil with natural gas.

Also, five other projects were enrolled for the Hugo Werneck Award: "*Expedição Científica e Educativa da Bacia Hidrográfica do Rio Benevente*" (Scientific and Educational Expedition along the Water Basin of Benevente River); "*Implantação da Rede Automática de Monitoramento da Qualidade do Ar na Região de Anchieta*" (Implementation of the Automatic Air Quality Monitoring System in the Region of Anchieta); "*Estratégia de Gestão de Gases de Efeito Estufa do Projeto Quarta Pelotização*" (Greenhouse Gas Management Strategy of the Fourth Pellet Project); "*Alternativas para Reaproveitamento de Resíduos nas Áreas de Influência da Samarco*" (Alternatives for Reuse of Waste in Samarco's Area of Influence); "*Projeto Taboa Lagoa*" (Taboa Lagoa Project), which also had an influence on the jury decision to grant us the title.

In October 2011, Samarco was the winner in the Industry category of the **José Costa Award**, offered by the Diário do Comércio newspaper, of Belo Horizonte, in partnership with Dom Cabral Foundation (FDC), to companies which stood out in responsible management and sustainable actions and practices.

Our ongoing socio-environmental concern was also recognized with the **7<sup>th</sup> Brazil Environmental Award**, from the American Chamber of Commerce (AMCHAM) of Rio de Janeiro. We were awarded in the category Socio-Environmental responsibility with the Taboa Lagoa Project, directly associated to the theme: "The Importance of Water in Sustainable Development".

Another project recognized with an award was the project to reduce the generation of waste from grinding agents in secondary grinding, which resulted in a reduction of almost 50% in waste generation and the first place in the Process category of the **13<sup>th</sup> Excellence Award of the Brazilian Mineral-Metallurgical Industry** by the Minérios & Minerale magazine.

The then chief executive officer of Samarco, José Tadeu de Moraes, also received two awards in his last year in the Company: the **Business Leader Award of Espírito Santo**, granted by Rede Tribuna de Comunicação, and **Executive in Finance**, by the Brazilian Institute of Executives in Finance (IBEF/MG).



Samarco executive management and employees participate in ceremony of Best and Biggest Awards of magazine Exame in São Paulo-SP

## *Our Report*

*Working with focus, determination, responsibility.*

*Headed towards a future  
we have already started to build.*



# THE REPORT

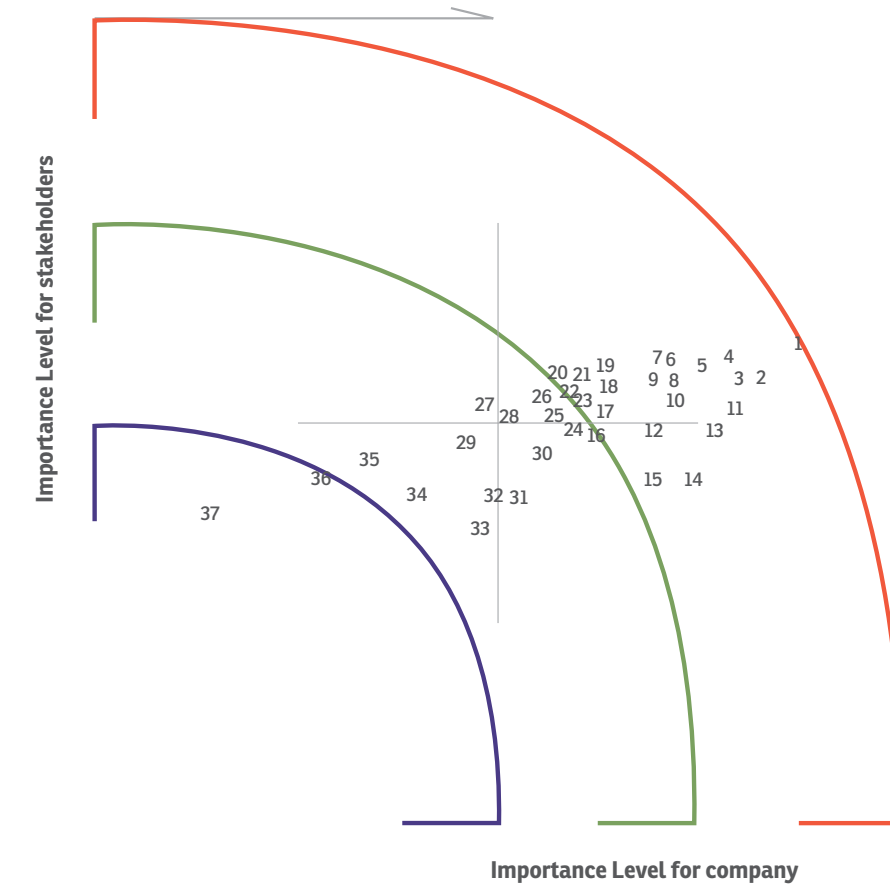
In 2011, for the first time, we consulted our stakeholders through the Internet. The choice of online consultation was made to enable the largest possible number of people to be involved. The objective was to identify the most relevant topics, to orient the study of materiality, conducted by the company BSD Consulting, in accordance with the Global Reporting Initiative (GRI).

BSD is an international consulting company, specialized in sustainable development, corporate social responsibility and fair trade, which began operations in 1998. It has offices in Switzerland, Brazil, Columbia and Chile.

**Internal Public:** in addition to online consultations, we held a workshop to discuss GRI indicators and materiality. Twenty-four people participated in this meeting, including employee representatives (22) and content and design suppliers.

**External Stakeholders:** we consulted shareholders clients, suppliers, communities, unions, government, and the press.

# MATERIALITY MATRIX



The chapters of this Report were structured according to the topics considered to be the most material by the publics consulted and by the Company, and thus, we believe they serve those who honored us with their contributions. In addition, the response to the GRI indicators provides a broader selection of demands for information.

This Report also shows how we have met the commitments we took on as signatories of the Global Compact and our contribution in support of the Millennium Development Objectives. The symbol that represents them was included on the pages containing relevant information about them, showing our initiatives or actions.

1 ERADICATE EXTREME POVERTY AND HUNGER	2 ACHIEVE UNIVERSAL PRIMARY EDUCATION	3 PROMOTE GENDER EQUALITY AND EMPOWER WOMAN	4 REDUCE CHILD MORTALITY	5 IMPROVE MATERNAL HEALTH	6 COMBAT HIV/AIDS, MALARIA AND OTHER DISEASES	7 ENSURE ENVIRONMENT SUSTAINABILITY	8 GLOBAL PARTNERSHIP FOR DEVELOPMENT
Businesses should support and respect the protection of internationally proclaimed human rights	Make sure that they are not complicit in human rights abuses	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	The elimination of all forms of forced and compulsory labor	The effective abolition of child labor	The elimination of discrimination in respect of employment and occupation	Businesses should support a precautionary approach to environmental challenges	Undertake initiatives to promote greater environmental responsibility
						Encourage the development and diffusion of environmentally friendly technologies	Businesses should work against all forms of corruption, including extortion and bribery

Samarco employees participate in GRI workshop and Materiality test. Ubu-ES




The following table presents the topics considered to be most relevant, and the chapter of the Report where they are covered.

Topics	Covered in which chapter of Part 2
Conduct management	How we act: Business Conduct
Transparency in rendering of accounts	
Management and monitoring of the Code of Conduct	
Maintenance of image and reputation	How we are seen: Reputation
Financial Results	How we will create wealth: Financial Results
Fourth Pellet Project(P4P)	How we will grow: Fourth Pellet Project
Occupational health and safety	How we care for life: Occupational Health and Safety
Greater efficiency in mining	How we care for natural resources: Ecoefficiency
Water resources management	
Energy efficiency	
Ongoing reduction in the use of natural resources	
Preservation of biodiversity	How we care for the planet
Recovery of altered areas	
Waste management	
Management of particulate emissions	How we care for the air we breathe: Climate Change
GHG emissions management	
Contribution to local and regional development	How we care for our communities: Local Development

## GRI APPLICATION LEVEL

We understand that the 2011 Annual Sustainability Report has achieved a GRI application level of A+. The external assurance process was conducted by the consulting firm KPMG Auditores Independentes.

		GRI Application Level					
		C	C+	B	B+	A	A+
Mandatory	Self-declared						
	Examined by third parties		With external verification		With external verification		
Optional	Examined by the GRI						



## Statement GRI Application Level Check

GRI hereby states that **Samarco Mineração S.A** has presented its report “Sustainability Report 2011” to GRI’s Report Services which have concluded that the report fulfills the requirement of Application Level A+.

GRI Application Levels communicate the extent to which the content of the G3 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3 Guidelines.

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 1 June 2012

Nelmara Arbex  
Deputy Chief Executive  
Global Reporting Initiative



The “+” has been added to this Application Level because Samarco Mineração S.A has submitted (part of) this report for external assurance. GRI accepts the reporter’s own criteria for choosing the relevant assurance provider.

*The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world’s most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. [www.globalreporting.org](http://www.globalreporting.org)*

**Disclaimer:** Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 22 May 2012. GRI explicitly excludes the statement being applied to any later changes to such material.



# GRI INDEX

GRI	Page	Global Compact	ODMs	ICMM	Status	Notes	
<b>PROFILE</b>							
<b>Strategy and analysis</b>							
1.1	Statement from the most senior decision-maker of the Organization.	4 and 5		2 and 10	In full	No significant events occurred in sustainability management in the period covered by the Report	
1.2	Description of main impacts, risks and opportunities.	22 to 26	ALL	ALL	4	In full	
<b>Organizational Profile</b>							
2.1	Name of the Organization	12 to 14		10	In full		
2.2	Primary brands, products and/or services.	12		10	In full		
2.3	Operational structure of organization, including the main divisions, units in operation, subsidiaries and joint ventures	12 to 15	8	7	10	In full	
2.4	Location of organization headquarters.	12 to 15		10	In full		
2.5	Number of countries where organization operates and name of countries where the main operations or those that are relevant to sustainability for questions covered by this Report are located.	12 to 14		10	In full		
2.6	Nature of ownership and legal form.	12		10	In full		
2.7	Markets served	12, 13 and 78		10	In full		
2.8	Scale of organization.	12, 13, 14, 74 to 78		10	In full		
2.9	Principal changes during reporting period with regards to size, structure or ownership.	4, 5, 82 and 83	7, 8, 9	7, 8	2 and 10	In full	In the report, we are highlighting the information relating to our expansion project, the P4P.
2.10	Awards received during reporting period.	86 and 87		10	In full		

GRI	Page	Global Compact	ODMs	ICMM	Status	Notes
<b>REPORT PARAMETERS</b>						
<b>Report Profile</b>						
3.1	Period covered by report (like fiscal/calendar year) for information presented.	2 and 3			In full	
3.2	Date of most recent previous report (if any).	3			In full	2010.
3.3	Reporting cycle (annual, every two years, etc.).	3			In full	Annual.
3.4	Information for contact in the event of questions on the report or its content.	106			In full	Staff: <a href="mailto:relacionamento@samarco.com">relacionamento@samarco.com</a>
<b>Scope and boundaries of report</b>						
3.5	Process for defining report content. Determination of materiality, priority of topics, identification of stakeholders that the organization expects to sue the report.	10, 90 to 92			Partially	Stakeholders identified to use this Report. See details in item 4.15.
3.6	Boundary of the Report (ex.: countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers).	2, 3, 12, 14, 15, 82 and 83			In full	In addition to the information about units and operations, data on the P4P were included.
3.7	Statement of any specific limitations on report scope or boundaries.	2 and 3			In full	This Report covers all Samarco activities and operations.
3.8	Base for Reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that could significantly affect the comparability of one period to another and/or among organizations.	2 and 3			In full	There are no such limitations.
3.9	Data measurement techniques and basis for calculation, including premises and support techniques for estimates applied to the compilation of indicators and other information in the Report.	90 to 92			In full	We use the GRI Indicator Protocol.
3.10	Explanation of effects of any restatement of information from previous reports and reasons therefore.	-			In full	There were none.
3.11	Significant changes compared to previous years in terms of scope, boundaries or measurement methods applied in the Report.	-		2	In full	There were none.
<b>Index</b>						
3.12	GRI table which identifies the location of the information in the report.	94 to 105			In full	
<b>Assurance</b>						
3.13	Policy and current practice for outside auditing and assurance.	3, 8 and 9			In full	Samarco uses an external/independent verification process and content of the sustainability report.

GRI	Page	Global Compact	ODMs	ICMM	Status	Notes
<b>GOVERNANCE, COMMITMENTS AND ENGAGEMENT</b>						
<b>Governance</b>						
4.1	19			1	In full	Governance structure of organization, including committees linked to the highest governance body responsible for specific tasks, like establishment of strategies or organizational supervision. Include diversity indicators at the highest level of governance (boards and committees): gender, age and other minorities.
4.2	19			1	In full	Identification if president of highest governance body is also an executive officer (and, if this is the case, his functions within the organization's management and the reasons for this structure).
4.3	19			1	In full	For organizations with a unitary management structure, the number of independent or non-executive members of the highest governance body.
4.4	19			1	Partially	Mechanisms for shareholders and employees to provide recommendations to highest governance body. There is no formal mechanism for employee participation in the Company's governance.
4.5	-			1	No	Linkage between compensation of members of the highest governance body, executive board and other executives, (including severance agreements) and organization's performance (including social and environmental performance). Information of strategic nature to Company.
4.6	19			1	In full	Processes in place in highest governance body to assure avoidance of conflicts of interest.
4.7	-			1	No	Process of determining composition, qualification and knowledge of members of highest governance body and its committees, including considerations of gender and other indicators of diversity. Information of strategic nature to Company.
4.8	18 to 26			1	In full	Declarations of missions and values, codes of conduct and relevant internal principles for the organization relevant for economic, environmental and social performance and the status of their implementation.
4.9	19 and 20			1 and 4	In full	Procedures for the highest governance body to oversee economic, environmental and social performance by the Organization, including relevant risks and opportunities and adherence to or compliance with rules, code of conduct and internationally recognized principles.
4.10	-			1	In full	Processes for the self-evaluation of the highest governance body especially in terms of economic, social and environmental performance. There has been no formal assessment by members of the board.
<b>Commitments to external initiatives</b>						
4.11	84	7			In full	Explain if organization applies an approach or to precautionary principle.
4.12	24 to 26	All	All		In full	Charters, principles, and other voluntary initiatives developed externally of to social, environmental and economic nature which the organization adheres to or endorses.

GRI	Page	Global Compact	ODMs	ICMM	Status	Notes
4.13	-		8		In full	Membership in domestic / international associations (like federations of industry) and/or advocacy institutions to which organization: has a seat on groups responsible for corporate governance; is a member of projects or committees; contributes with significant resources beyond routine membership fees and/or deems strategic its performance as to member.
<b>Stakeholder Engagement</b>						
4.14	31 to 33		8		In full	List of stakeholder groups engaged by Organization.
4.15	33				Partially	Basis for identification and selection of stakeholders for engagement. A system is being constructed which will serve as a basis for the definition of the engagement of stakeholders. It will be reported in the 2013 Report.
4.16	19 34 to 43 44 55 to 67 71 68 to 69 78 to 79 60	1, 3, 6, 8 3 7, 8 All 1,2,3,4,5,6 8,9	3, 5, 6, 8 2, 6, 7, 8 8		Partially	Approaches to stakeholder engagement, including frequency of engagement, by type and by group of stakeholders. - Shareholders - Employees - Unions - Communities - Government / Public Attorney's Office - Suppliers - Customers - Relationship Center System in construction. Therefore, there are no systematic data yet about frequency and type. See item 4.15
4.17	90 to 92				In full	Principal topics and concerns raised through stakeholder engagement and measures that the Organization has adopted to deal with them, including specific reports.
<b>ECONOMIC PERFORMANCE</b>						
<b>Economic Performance</b>						
EC1	77 and 78		8	9	In full	Direct economic value created and distributed, including revenues, operating costs, compensation to employees, donations and other investments in the community, retained earnings and payments to financial and government institutions.
EC2	75 to 78	7	7	9	Partially	Financial implications, risks and opportunities for organization activities related to climate change. This will be reported in the 2013 Report.
EC3	42 and 43				Partially	Coverage of organization's benefit/ pension plan offered by the Organization. Proprietary information of the pension fund institutions and not extracted to this Report. Will be reported in the next edition.
EC4	-				In full	Significant financial assistance from government. Samarco does not receive any financial assistance from the government.
<b>Market presence</b>						
EC5	42	1		9	In full	Variation in proportion of lowest salary (standard starting salary) compared to local minimum salary, in important operating units.
EC6	68		8	9	In full	Policies, practices and ratio of spending on locally-based suppliers for major operational units.

GRI	Page	Global Compact	ODMs	ICMM	Status	Notes	
EC7	Procedures for local hiring and proportion of members of upper management recruited in the local community, at important operating units.	40	6	8	9	Partially	Samarco prioritizes local hires and develops professional skills development for the residents of the communities next to its operations/units.
<b>Indirect Economic Impacts</b>							
EC8	Development and impact of investments in infrastructure and services offered principally for the public benefit, by commercial engagement, in cash or in "pro bono" activities.	55 to 67	7, 8	1, 2, 4, 6, 7 and 8	9	In full	
EC9	Identification and description of significant, indirect economic impacts and their extension. ç	55 to 67				In full	
<b>ENVIRONMENTAL PERFORMANCE</b>							
<b>Materials</b>							
EN1	Materials used, by weight or volume.	44 to 47	8	7, 8	6	In full	
EN2	Percentage of recycled input materials.	44 to 47	8, 9	7, 8	6	In full	
<b>Energy</b>							
EN3	Direct energy consumption broken down by source of primary energy.	46 and 47	8, 9	7, 8	6	In full	Samarco's main source of energy is electrical. Other sources are considered in the purchase of materials.
EN4	Indirect energy consumption broken down by source of primary energy.	46 and 47	8	7	6	In full	The energy purchased is generated by the national electrical network, mainly from hydropower sources.
EN5	Energy saved due to improvements in conservation and efficiency.	46 and 47	8, 9	7, 8	6	Partially	To be reported in the 2013 Report.
EN6	Initiatives to supply products and services with low energy consumption or that use energy generated from renewable sources, and the reduction in energy resulting from these initiatives.	46 and 47	8, 9	7	6	Partially	There were no new actions in 2011. The project of changing over to gas was launched in 2010. New initiatives will be reported in 2013.
EN7	Initiatives to reduce indirect energy consumed and the reductions obtained.	47		7, 8	6	Partially	In 2011, no measurement was carried out of the reductions generated by trips. New initiatives will be reported in 2013.
<b>Water</b>							
EN8	Total water withdrawal by source.	45 and 46	8	7, 8	6	In full	
EN9	Water sources significantly affected by water withdrawal.	45 and 46		7, 8		In full	
EN10	Percentage and total volume of recycled and reused water.	45 and 46	8, 9	7		In full	

GRI	Page	Global Compact	ODMs	ICMM	Status	Notes	
<b>Biodiversity</b>							
EN11	Location and size of area owned, leased or managed within protected areas or next to them, and areas with high rates of biodiversity outside them.	49 and 50	8	7	7	In full	
EN12	Description of significant impacts on biodiversity caused by activities, products and services in protected areas and in areas with high rates of biodiversity outside them.	47 to 49	8	7, 8	7	In full	
EN13	Habitats protected or restored.	47 to 49	8	7		In full	
EN14	Strategies, measures in effect and future plans for management of impacts on biodiversity.	47 to 49	8	7, 8		In full	
EN15	Number of species included on IUCN's Red List and other lists of endangered species that appear on the national conservation list with habitats in area affected by operations, by level of extinction risk.	48 and 49	8	7		Partially	To be reported in the 2013 Report.
<b>Emissions, Effluents and Waste</b>							
EN16	Total direct and indirect greenhouse gas emissions, by weight.	53 and 54	8	7	6	In full	
EN17	Other relevant indirect greenhouse gas emissions, by weight.	53 and 54	8	7	6	In full	
EN18	Initiatives to reduce emission of greenhouse gases and reductions achieved.	53 and 54	7, 8 and 9	7, 8		In full	
EN19	Emissions of ozone-depleting substances by weight.	-	8	7	6	In full	Samarco does not issue any substances which damage the ozone layer. The Company only acquires products which comply with the standards of Brazilian Conama Resolution 267/00.
EN20	NOx, SOx and other significant atmospheric emissions, by weight.	54	8	7	6	In full	
EN21	Total disposal of water, by quality and destination.	45 and 46	8	7	6	In full	
EN22	Total waste discharge, by type and method of disposal.	50 and 51	8	7	6	In full	
EN23	Number and total volume of significant spills.	-	8	7	6	In full	In 2011, there were no significant spills at Samarco operations.
EN24	Weight of waste transported, imported, exported or treated, deemed hazardous in accordance with the Basel Convention, and percentage of seaborne waste.	-	8	7		In full	Samarco does not import or export wastes. All waste is treated at the domestic level.
EN25	Identification, size, protection status and biodiversity index of bodies of water and associated habitats that are significantly affected by disposal of water and surface drainage done by the Organization.	52	8	7		Partially	

GRI	Page	Global Compact	ODMs	ICMM	Status	Notes
<b>Products and services</b>						
EN26	Initiatives to mitigate environmental impacts of products and services and the extent of impact mitigation.	44 to 54 and 85	7, 8 and 9	7	5	In full
EN27	Percentage of products and packaging material reclaimed, per product category.	-	8, 9	7	5	No Samarco products do not generate materials which could be reused in the Company's process.
<b>Compliance</b>						
EN28	Monetary value of significant fines and number of non-monetary sanctions resulting from non-compliance with environmental laws and regulations.	52	8	6 and 8		In full
<b>Transportation</b>						
EN29	Significant environmental impact associated with transportation of products and other goods and materials used in the Organization's operations and transport of workers.	15	8	7		In full
<b>General</b>						
EN30	Total investments and outlays related to environmental protection, by type.	52	7, 8 and 9	7	5	In full The spreadsheet with the detailing of the environmental investments of 2011 is found in the online version of this Report (www.samarcoqueasgentefaz.com.br)
<b>SOCIAL PERFORMANCE</b>						
<b>Labor Practices and Decent Working Conditions</b>						
<b>Employment</b>						
LA1	Total workforce by employment type, contract type, region and gender.	38		3	3	In full
LA2	Total number and turnover rate, by age bracket, gender and region.	39	6	3	9	In full
LA3	Benefits offered to full time employees that are not offered to part time or temporary employees, broken down by principal operations.	42 and 43		3		In full
<b>Relations between workers and Governance</b>						
LA4	Percentage of employees covered by collective bargaining agreements.	44	1, 3	3	3	In full

GRI	Page	Global Compact	ODMs	ICMM	Status	Notes
LA5	Minimum period for notice on operating changes and whether this procedure is specified in collective bargaining agreements.	44	3		3	In full
<b>Occupational Health and Safety</b>						
LA6	Percentage of employees represented on formal health and safety committees, with participation of management and workers that help to monitor and guide occupational health and safety programs.	35	1, 3	3	3, 5	Partially Percentage of employees represented will be reported in the next edition.
LA7	Rates of work-related injuries, diseases, lost days, absenteeism and work-related deaths, by region.	34	1	6	5	Partially Data per region – ES and MG – will be provided in next report.
LA8	Education, training, counseling, prevention and risk control programs to assist employees, their families or community members in regards to serious diseases.	36 and 37	1	5, 6	5	In full
LA9	Health and safety topics covered by formal agreements with labor unions.	36	1	6	3	In full
<b>Training and Education</b>						
LA10	Average of hours of training, by year and by employees, broken down by category.	40	6		2	In full
LA11	Programs for competency management and continuous learning that contribute to continuing employability of employees and to assist them in conducting the end of their careers.	41 and 42	2, 8		3	In full
LA12	Percentage of employees who regularly undergo performance analysis and career development.	42				In full
<b>Diversity and Equality of Opportunities</b>						
LA13	Composition of groups responsible for corporate governance and proportion of employees by category and gender, age bracket, minorities and other indicators of diversity.	19, 38 and 39	1, 6		3	In full
LA14	Ratio of basic salary of men to women, by professional category.	42	1, 6	3		In full The Company does not perform this type of calculation. The salaries are defined for the positions, regardless of who fills them. There is no difference between men and women. A policy is being developed with regard to this subject.
<b>HUMAN RIGHTS</b>						
<b>Investment and Procurement Practices</b>						
HR1	Percentage and total number of significant investment contracts that include clauses referring to human rights or that were submitted to evaluations referring to human rights.	-	1, 2		2, 3	In full There were no acquisitions or joint ventures. In supply contracts for goods and services, there are clauses referring to the fight against child and forced labor.

GRI	Page	Global Compact	ODMs	ICMM	Status	Notes
HR2	68 and 69	1, 2, 3, 4, 5, 6	8	3	Partially	Data will be reported in the next edition, after evaluation of human rights.
HR3	30	1, 2			In full	These matters are covered in the Samarco Code of Conduct. In 2011, no specific training sessions were conducted on these matters.
<b>No Discrimination</b>						
HR4	-	1, 2, 6		3	In full	In 2011, no cases of discrimination were recorded. Our Code of Conduct emphasizes the questions of equal treatment and equal opportunities.
<b>Freedom of Collective Bargaining and Association</b>						
HR5	69	1, 2	8	3	Partially	Samarco does not yet have a systematized evaluation of these risks, which will become possible after the mapping of the supplier chain, planned for 2012. However, we do monitor this type of occurrence constantly, throughout the value chain, within Brazil and abroad, through audits, analysis of complaints, and technical visits. Our contracts include termination clauses if anything of the sort occurs.
<b>Child Labor</b>						
HR6	69	1, 2, 5	8	3	In full	Samarco does not yet have a systematized evaluation of these risks, which will become possible after the mapping of the supplier chain, planned for 2012. However, we do monitor this type of occurrence constantly, throughout the value chain, within Brazil and abroad, through audits, analysis of complaints, and technical visits. Our contracts include termination clauses if anything of the sort occurs.
<b>Forced Labor or Labor in Conditions Analogous to Slavery</b>						
HR7	69	1, 2, 4	8	3	In full	Samarco does not yet have a systematized evaluation of these risks, which will become possible after the mapping of the supplier chain, planned for 2012. However, we do monitor this type of occurrence constantly, throughout the value chain, within Brazil and abroad, through audits, analysis of complaints, and technical visits. Our contracts include termination clauses if anything of the sort occurs.

GRI	Page	Global Compact	ODMs	ICMM	Status	Notes
<b>Safety Practices</b>						
HR8	-	1, 2		3	In full	There were no specific actions in 2011.
<b>Indigenous Rights</b>						
HR9	-	1, 2			In full	There were no cases involving indigenous peoples.
<b>SOCIETY</b>						
<b>Community</b>						
SO1	55 to 67	7, 8	1, 2, 4, 6, 7, 8	4	In full	
<b>Corruption</b>						
SO2	30	10		1	In full	
SO3	30	10		1	In full	
SO4	30	10		1	In full	
<b>Public Policies</b>						
SO5	71	All	2, 6, 7, 8		In full	
SO6	-	10			In full	In compliance with the Samarco Code of Conduct the Company makes no financial contributions, of any kind, to political parties, related institutions or to candidates to any public office in any country.
<b>Unfair Competition</b>						
SO7	-				In full	No lawsuits were registered in 2011.
<b>Compliance</b>						
SO8	-				In full	In terms of fines and non-monetary sanctions, in December 2011, Samarco was involved in a total of 715 proceedings, of which 530 were judicial, 184 administrative and 1 arbitration, mostly resulting from a divergence in interpretation or application of legislation, which are accompanied by our Legal and Financial areas, individually audited and reflected in the financial statement, which are periodically published.

GRI	Page	Global Compact	ODMs	ICMM	Status	Notes
<b>PRODUCT LIABILITY</b>						
<b>Customer Health and Safety</b>						
PR1	-	1	7	8	In full	In all phases, from mining to shipment of the pellets, safety is controlled. There is no identified risk for customer safety in handling Samarco pellets. Dust emissions (particulates) is not a major impact, and customers receive orientation on how to correctly handle our product.
PR2	-	1			In full	There were no cases in 2011.
<b>Labeling of Products and Services</b>						
PR3	-	8		8	In full	Iron ore pellets are not transported in packaging, they do not have labels and are shipped in bulk. The technical information referring to physical, chemical and metallurgical quality of the product is described in the contract. With each shipment, a certificate is issued containing the results of this analysis.
PR4	-					There were no cases in 2011.
PR5	78 and 79	8, 9	8		In full	
<b>Marketing Communications</b>						
PR6	-				In full	Samarco does not adhere to voluntary codes and regulations related to communication and marketing. In Brazil, we comply with the rules of the Economic Defense Administrative Council (Cade).
PR7	-				In full	There were no cases in 2011.
<b>Compliance</b>						
PR8	-				In full	There were no cases in 2011.

GRI	Page	Global Compact	ODMs	ICMM	Status	Notes
<b>Compliance</b>						
PR9	-				In full	In 2011, we did not receive any fine or external sanction as a result of problems related to the supply and use of products and services.
<b>SECTORIAL INDICATORS</b>						
<b>Mine and Metals Supplement</b>						
MM1	49 and 50			9	In full	
MM2	47 to 50				In full	
MM3	52			7, 9	In full	
MM4	-				In full	No strikes were recorded in 2011.
MM5	-	8, 9		8	In full	There is no record of indigenous population in the regions where Samarco operates.
MM6	-			6, 8	In full	There are no demands involving indigenous peoples. The Company has ongoing dialogue with landowners in the "right of way." There are claims that are accompanied by Samarco's legal and financial areas, individually audited and reflected in the Financial Statements, which are periodically published.
MM7	60			9	In full	There were no disputes/conflicts relative to the use of land, common law rights of local communities and indigenous peoples.
MM8	-			9	In full	There is no community in the direct surrounding areas which engages in artisanal extraction.
MM9	-			3	In full	There was no resettlement in 2011.
MM10	79			2	Partially	No financial data for this purpose have been disclosed yet.
MM11	85	7, 8, 9		3	In full	

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## Printing and distribution

Printed by Tamoios (MG) with a print run of 600  
copies for distribution to Company stakeholders.

The number of printed copies of the Report was reduced  
by 40% compared to the 2010 version, thus contributing to  
the sustainable use of resources such as paper and ink, in  
addition to reducing costs with transportation, distribution  
and storage.

## The complete version of Samarco's 2011 Sustainability Report is also available at

[www.samarcoqueagentefaz.com.br/relatorio2011](http://www.samarcoqueagentefaz.com.br/relatorio2011)  
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