MANAGEMENT REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2012

Transparency Trophy. ANEFAC, School of Economics, Business Management and Accountancy of São Paulo University and Serasa Experian.

SAMARCO

SUMMARY

PRESENTATION

This publication presents the performance of Samarco Mineração S.A. in the financial year ended December 31, 2012. The financial income is stated on a consolidated basis in accordance with the accounting practices adopted in Brazil (BRGAAP) and has been audited by KPMG Auditores Independentes.

This report also presents our management model and strategy, including governance and risk management practices, in addition to socio-environmental performance headlines.

The financial information about projected investments, Ebit, Ebitda, return on capital employed, which do not derive directly from the financial statements, and operational data about environmental management, health and safety, and human resources has not been examined by our independent auditors. The complete report about our sustainability performance in accordance with the guidelines of the Global Reporting Initiative (GRI) will be available in May 2013 at the address www.samarco.com.

MANAGEMENT REPORT

MESSAGE FROM MANAGEMENT

I had the honor, in 2012, of becoming chairman of Samarco, a solid company, built up over the past 35 years by professionals who cultivate respect for people, integrity and mobilization to achieve lasting, quality results. We are keen to pursue that path of success, and are convinced that it is by putting our values into practice on a daily basis that we have reached where we are today.

New cycles involve new challenges. Excellence, growth and compliance are pillars of our administration that require new ways of thinking and acting, achieving more competitive costs, and improving our products and services. This is a crucial time for the mining sector and it is through innovation that we will make a space for ourselves and become a company in tune with the times. We will innovate in the development of products, processes and services, in our relationship with customers, and in our capacity to influence society, through practices that bring about a positive chain reaction for everyone.

Throughout 2012, we succeeded in grasping those challenges and interpreting them on a new strategic map that will guide our initiatives over the next ten years. We reviewed our organizational identity and adopted a new vision, mission and values. In so doing, we hope to ensure focus, simplicity and the promotion of attitudes and behavior necessary to attaining our greater goal, which is to double the value of the company between now and 2022 and be recognized by employees, customers and society as the best in the sector.

We believe we are on the right track, and our achievements exemplify this. In a context of volatile prices, it is important for us to be prepared to deliver what the market wants, meeting deadlines and guaranteeing the quality that is expected. For that reason, we will be paying particular attention to our production volume, not only in our existing plants, but also in the progress of the Fourth Pellet Plant Project (P4P), which by the end of 2012 had achieved 67.3% completion. The project, worth R$5.4 billion, is strategic for Samarco's growth and sustainability plans. Scheduled to become operational in January 2014, it will expand our production capacity by 37%. Its completion to time and on budget, while protecting people's safety, respecting the environment, and sharing the benefits of that growth with society and the other stakeholders in our value chain, is all the more important to consolidate the company's results and raise our standing in the market and country.

Doing justice to our entrepreneurial vocation and accepting our responsibility for the development and transformation of the communities in which we operate, P4P was devised from a perspective of shared value, with initiatives based on frequent dialogue with the community, the government and industry associations, together with environmental preservation and conservation actions, some of which are pioneering for large-scale projects, such as the carbon-offsetting of greenhouse gas (GHG) emissions throughout the implementation of P4P.

Meanwhile, we sought to monitor and maintain the credibility of our processes, with a newly revised version of the Code of Conduct and staff training on the Corruption and Fraud Prevention Policy and the Antitrust Compliance Policy, both drawn up in 2011. In terms of excellence, never before have we invested so much in improvement projects. 22 Lean Six Sigma (LSS) and 393 Kaizen projects were completed, bringing a better financial return than expected. In addition, we implemented over a thousand ideas suggested by our employees, through the Field of Ideas program.

All these initiatives contributed to improving the quality of our production process, making gains in productivity, reducing costs and, in particular, improving the health and safety conditions of our operations. In 2012, our performance in safety was positive and remained within the annual target. The rate of accidents registered was 0.65, and there was a fall in the number of potentially serious Lost Time Injuries (LTIs), which attained its second best historic mark of 0.14. We attribute these results to our robust safety model and, above all, to the efforts of our managers, who encourage the involvement of staff and contractors on a daily basis. The heightened awareness of all concerned brings a heightened perception of risk, which allows us to focus on preventive measures, showing how, when we take a collaborative, convergent approach to the pillars of leadership, behavior and safety systems, we prioritize life at all times.

We repositioned our human resources management, with the aim of aligning it with our new strategic ambitions, and we continued with important actions, such as the Samarco Knowledge project, a wide-reaching corporate education process to support and guarantee our competitiveness. We invested R$ 283 million in environmental projects and programs, and sought to drive and influence the development of sustainability through technological solutions. As representatives of primary industry, we have a big responsibility to use natural resources wisely, and we believe we are doing that better and better, through the use of eco-efficient technologies. A further R$11 million was invested in socio-institutional initiatives to promote the development of the areas in which we operate, in addition to R$21 million in voluntary actions with the same purpose, as part of the P4P project, which are being carried out between 2011 and 2013.

Development to us means involvement, and we want to be recognized as a company that creates and shares value. To that end, we have drawn up objectives for improving our engagement and dialogue with stakeholders, based on our sustainability model, which recommends leading by example, networking, responsible entrepreneurship, and business-driven technology and innovation as essential conditions for strengthening ties of trust with society. In 2013, we will set out the themes, commitments and targets that will guide us in our sustainable mission between now and 2022, both internally and in our areas of influence.

In the midst of these achievements, the knock-on effects of the world economic crisis continued to be felt in the markets in which Samarco operates. Reduced demand for iron ore coupled with stock reduction led to a 19.4% fall in the average sale price of pellets on the international market. As a result, our gross turnover was R$6,610.7 million, 7.1% lower than in 2011, which saw sales of R$7,117.3 million. The Brazilian balance of trade also suffered the impact of the crisis, with iron ore seeing a reduced share in exports. Even so, Samarco continues to rank among Brazil's top ten exporters.

We recognize that 2013 will be another year of uncertainties. Caution and austerity will be required on our part, in the form of careful planning and precise execution, if we are to deliver the desired financial performance to our shareholders. We are confident that we have both the foundations we need to sustain us today and the potential to innovate, which will ensure our medium- and long-term success. Efficiency will be the keyword, therefore - without abandoning our efforts to preserve life – involving all actors to make Samarco's expansion a reality, with a permanent focus on respect for people and integrity, in all our activities and relationships.

Ricardo Vescovi de Aragão
Chief Executive Officer

MAIN HEADLINES OF 2012

Economic

- The iron ore sector experienced uncertainty and volatility in 2012, with average prices of pellets in the international market, falling by 19.4%.
- Our gross revenue closed 2012 at R$6,610.7 million, a drop of 7.1% over the previous year. We achieved an adjusted EBITDA of R$3,553.9 million and an EBITDA margin of 54.3%. These figures respectively denote a decrease of 13.4% and 4.0 percentage points in comparison with 2011.
- To finance our strategic aspirations and ensure our competitiveness, we secured R$2,010.02 million in an overseas bonds issuance and obtained R$ 506.4 million of loans with coverage of *Nippon Export and Investment Insurance*.
- A key component of our growth plans, the Fourth Pelletizing Project (P4P) achieved 67.3% of accumulated progress, including the engineering, construction and supply areas. We had already invested R$5.3 billion in the venture by December 2012, or 99.1% of the forecast budget.
- We produced 21.305 million tons of iron ore pellets, achieving a historic monthly production record for pellets, reaching the milestone of 1.971 million tons.
- For the second consecutive year we received awards including the Transparency Trophy awarded by ANEFAC (National Association of Finance, Administration and Accountancy Executives) and FIPECAFI (Institute of Accounting, Actuarial and Financial Research).

Social

- The rate of accidents closed the year at 0.65, higher than in 2011, but within our annual target. There was a fall in the number of potentially serious Lost Time Injuries (LTIs), which attained its second best historic mark of 0.14.
- We carried on the socio-institutional development actions of the Fourth Pellet Plant Project (P4P), aimed at mitigating the impact of our operations in areas of direct influence.
- The Citizen of the Future project benefited 280 children and teenagers in 2012, who achieved pass rates at participating schools of 99.6% in the state of Espírito Santo and 100% in Minas Gerais.
- Our customer satisfaction index reached 89%, an increase on 2011, when it was 85%.
- We were ranked one of the 150 Best Companies to Work For by Exame and Você S/A magazines.

Environmental

- We made progress in controlling atmospheric emissions, with the implementation of electrostatic precipitators, and on the installation of wind fences at the Ubu plant.
- We signed carbon-offsetting agreements for the P4P implementation stage, a first in Brazil for an operation of that size.
- With the construction of a new pellet plant in Ubu, we are investing R$ 5.3 million in the construction of a new wastewater treatment facility.
- The Environmental Education Program benefited 3,736 students and 345 teachers of public and private schools, 767 farmers, and 16 neighboring communities around our plants.
- The vegetable-oil recycling project was extended to included Guarapari and Anchieta, both in Espírito Santo state, with the installation of 60 collection points, benefiting local schools and recycling cooperatives.

ABOUT SAMARCO

Founded in 1977, Samarco is a privately held Brazilian mining company, controlled in equal parts by two shareholders: Vale S.A. and BHP Billiton. Our main product is iron ore pellets. We transform minerals with low ore content into a valuable product, with high added value, and sell them to steelmakers worldwide. We are essentially exporters and in 2012 we sold our produce to steelmakers in 25 countries in the Americas, Asia, Africa, Middle East and Europe.

Our current production capacity is 22.250 million tons annually, and we create 2,517 direct and 3,443 indirect jobs. These figures do not include the number of jobs created by the Fourth Pelletizing Project (see more on page 13), which should generate 13,000 temporary jobs at the height of the works and 1,100 in the operational stage, including direct and indirect jobs. We are the second largest exporter on the seaborne iron ore pellet market in the world.

We have two concentrators, installed in the Germano unit, located in the cities of Mariana and Ouro Preto, in Minas Gerais, which beneficiate the ore and increase its iron content, and three pellet plants (which transform the ore into pellets) at the Ubu unit, in the municipality of Anchieta, in Espírito Santo. The two industrial units are connected by two pipelines, measuring almost 400 kilometers in length, which transport the slurry between two states, passing through 25 municipalities. We are pioneers in this type of transportation in Brazil.

We have our own port terminal, located in Ubu, through which we transport all our production, and three sales offices, one in Belo Horizonte (MG) and two international offices, in Amsterdam (Holland) and Hong Kong (China). We also have a hydroelectric plant in Muniz Freire (ES) and we participate in the consortium to build the Guilman-Amorim hydroelectric plant in Antônio Dias and Nova Era (MG). Together, the two plants account for 20.3% of Samarco's electricity consumption.

OUR PRODUCTS

Amongst the raw materials used in the manufacturing of steel, the iron ore pellets are consumables with quality and properties specially developed to meet the requirements of each reduction technology adopted by clients, thereby ensuring high productivity and stability in production processes.

- Blast furnace pellets: our portfolio contains three types of pellets, whose physical, chemical and metallurgical properties allow blast furnace operators to obtain solutions suitable for their operations, in accordance with the possibilities of the raw materials available.
- Direct reduction pellets: there are two types of products with unique chemical, physical and metallurgical properties recognized by the market due to the origin of their minerals, providing high productivity and efficiency for reactors.
- Pellet-feed: a type of concentrated ore with a high iron ore content, which can be sold for use in pelletizing or sintering processes.

OUR ESSENCE

Mission
Produce and supply iron ore pellets, applying technology intensively to optimize the use of natural resources and generating economic and social development, with respect for the environment.

Vision 2022:
Double the value of the company and be recognized as the best in the industry by employees, customers and society.

Values
Respect for people
Integrity
Mobilization for results

STRATEGY AND MANAGEMENT

Samarco is optimistic about the future of its mining business but is aware of the challenges that it must overcome to attain its long term objectives. Therefore, we conducted a new cycle of strategy reviews during 2012, which culminated in the preparation of two business plans, one addressed to the next five years and the other looking at the 2022 Vision, the Strategic Map. Through Health and Performance forums (monthly meetings with directors and general management) introduced in 2012 and the thematic committees' work, we brought together visions from various areas of the Company to analyze the prospects for our business and the path to attain these goals.

We intend to double Company value in 2022 and be recognized by employees, clients and society as the best in the sector. Our strategy is based on three pillars of management in which we will concentrate our efforts in order to arrive at this point.

- **Compliance**: respecting Brazilian and international laws and our own standards and procedures.
- **Excellence**: pursue the best in everything that we do every day, whether in the productive process, operations or promoting a healthy and secure working environment.
- **Growth**: grow not only in wealth but in our capacity to influence society through positive practices, with eco-efficiency investments.

The strategic formulation process produced the need to review our organizational identity. As a consequence, in addition to taking on a new vision, we reviewed our mission and summarized our values into three areas: respect for people, integrity and mobilization for results. Therefore, we want to guarantee the promotion of attitudes and behavior necessary to attain our objectives. This new identity will be unveiled by the leaders to all Company employees during 2013.

Setting off from these premises, operational efficiency becomes fundamental for Samarco's management as a strategic proposal. And, so that we may become more efficient, we should have objectivity, simplicity to identify good ideas, creativity to enhance results and humbleness in order to grow. Organizational alignment is the driving force to promote trust, mobilization and transparency in the Company, through information flows, understanding, belief, practice and disseminating good conduct. Therefore, we expect communication as an ability in our leaders, leadership by example and taking the center stage as a way of transforming oneself, influencing teams and positively contributing to the surrounding environment.

FOURTH PELLETIZING PROJECT (P4P)

Samarco is experiencing rapid expansion, currently developing the largest privately funded project in Brazil's mining industry to date. With investments of R$5.4 billion, we will expand our production capacity by 37%, from 22.25 million metric tons to 30.5 million metric tons of iron ore pellets per year. Initiated in May 2011, the Fourth Pellet Plant Project (P4P) was 67.3% complete overall (including engineering, procurement and construction) at year-end 2012.

The P4P project comprises construction of a third, 9.5 million metric tons per year concentrator at the Germano unit (located between Ouro Preto and Mariana, Minas Gerais state) and a fourth, 8.25 million metric tons per year pellet plant at the Ubu unit (located in Anchieta, Espírito Santo state). The Project further includes a third slurry pipeline running parallel to the two existing pipelines, with a conveying capacity of 20 million metric tons per year. A water pipeline is also being built from Santa Barbara (Minas Gerais) to the Germano unit. The Ponta Ubu Seaport Terminal, with a current outbound shipping capacity of 23 million metric tons per year, is being upgraded to increase its cargo handling capacity to 33 million metric tons per year, accommodating the entire production output.

When the Project comes online in January 2014, the added capacity of 8.25 million metric tons per year will be equally distributed to the direct reduction and blast furnace markets. In line with our strategy of minimizing regional risk, we will continue pursuing balanced sales across Europe, Asia, the Middle East, Africa and the Americas.

All planned initiatives are designed to safeguard life, the health and safety of employees and contractors, the environment, and the transparency of our initiatives in order to encourage civic engagement. P4P is the result of the hard-working efforts of all employees and will enable us to further cement our presence in the international market as one of the major producers of iron ore pellets and fines.

Upon completion, the project will provide approximately 1,100 direct and indirect jobs in Minas Gerais and Espírito Santo. For further information, see www.p4psamarco.com

SUSTAINABILITY MODEL

Our management approach combines process efficiency with consistent technological support and a commitment to sustainable development. Associated with preparing our Strategic Map, we concentrated on designing a system which reflected our socio-environmental concerns and priorities in 2012. This work was carried out with support from various areas of the Company and resulted in the development of our Sustainability Model.

We should be able to develop and innovate in environments of growing complexity and interdependence, with transparency and responsibility. This includes producing shared value through strengthening relationships of trust in a leading society, regulated by Leadership by Example, Responsible Entrepreneurialism, promotion and adhesion to Collaborative Networks and investing in Innovation and Technology.

Incorporating this requirement into our daily tasks seeks to constantly inspire and raise awareness in our employees and contractors when conducting their activities. We know that inserting this premise into our culture is a gradual process. Therefore, we have constantly reinforced the theme in communication, training and capacity-building actions with our leaders.

In 2013, we will define the themes and commitment which will be declared and used in our path from our sustainability model. We will set indicators and goals to be attained every year for each of these, aligned with our 2022 Vision.

OPERATIONAL EXCELLENCE

We follow the path of operational excellence with determination and with results which lead us to continually invest in tools that bring people closer to the processes. Therefore, the Lean Six Sigma (LSS) Program has the objective of obtaining improvements and identifying solutions to problems with unknown causes, based on statistical foundations and quality control tools. This began five years ago, attaining awards for the Best Lean Six Sigma Program in Latin America and 2nd Best Manufacturing Project in Latin America in 2012. The award ceremony took place at the 7th Annual Excellence Awards, held by the International Quality & Productivity Centre (IQPC).

The program completed 22 projects in 2012, in addition to 393 Kaizens, generating a financial return in the order of R$ 101.34 million, which is 13% higher than the goal of R$ 90 million. Such initiatives have effectively contributed to controlling the variability of processes and responding to clients' quality requirements, highlighting the Lean Six Sigma project, which reduced the pellets' sticking potential, with a direct impact on optimization and increased productivity for Direct Reduction clients' reactors. In addition to projects connected to the improved performance of product quality, we focused our efforts on projects to increase productivity at Germano and reducing waste and losses at Ubu.

The Kaizens events were implemented in a structured form, firstly at the Ubu unit in 2011, followed by the Germano unit in 2012. A total of 876 Samarco employees have already taken part in at least one Kaizen project, as well as various members of contract staff, which shows engagement and disseminates the concept of continual improvement with our operations.

2012 also marked the launch of the Community of Operational Excellence Practices, which is a virtual environment for sharing tools, projects and bibliographical references on continual improvement and operational excellence. The objective of this community is producing value for the Company and its participants, by sharing knowledge, news and work and allowing user interaction.

In order to recognize and motivate those involved in these initiatives, we held belt certification events in 2012. We encouraged the presentation of projects at external events and developed a new format for the Annual Recognition Event, which integrated the units and awarded prizes to the best Lean Six Sigma, Kaizen and Field of Ideas projects through evaluation by an external board. Two Capital projects were also recognized on this occasion.

TECHNOLOGY

The objective is to provide and implement technological and process solutions in a structured and systemic manner, for high impact medium and long term strategic demands. The work is done on three main fronts:

- Technological improvements, focused on the development of new technologies for the company, which add value to the business.
- Development of processes, seeking to study and provide new process routes.
- Process engineering applied to strategic processes, for which the guiding themes are sustainable growth, operating excellence and management excellence.

In our activities, we present a high level of automation and of the use of technological resources. Older systems are being gradually substituted by more modern systems. R$ 10 million a year is expected to be invested in 2012/2013, and R$ 11 million from 2014 to 2015.

Other investments are also underway, considering the development and implementation of advanced process control systems throughout the production chain. Examples are the OCS (Optimizing Control System) and MPC (Model Predictive Control), used at Plants 1, 2 and 3. Simply put, these are systems which, using different technologies and approaches, make process control even more optimized and stable, substituting human decision with automated decisions.

RESEARCH AND DEVELOPMENT

We beneficiate ores with low iron content to produce pellets, which are valuable inputs in the steelmaking process. Our biggest challenge is to reduce variability of the product, so that the client receives the pellets without major variations in quality. To reduce this variability, we have indicators of accompaniment of the product throughout all the phases of the production process.

For 13 years Samarco has been running the Field of Ideas Program, which encourages employees, including service providers, to submit suggestions that can be put into practice in the Company's various processes. 2,464 new ideas were submitted in 2012, of which 1,123 were actually implemented and 303 rejected.

Every two years, we hold technical seminars, where we share good practices and present innovations to the customers; we thereby procure suggestions for the ongoing improvement of the quality of our goods and services. Samarco also has an advanced technical team at its sales offices to promptly meet clients' requirements.

To expand and further research and development, we establish technical partnerships with universities, research centers and suppliers in Brazil and abroad. We also foster and participate in several specialist forums, such as the Innovation Reference Centre (coordinated by Fundação Dom Cabral). In 2012 we also created a department which will concentrate our efforts on technological development and innovation, with a view to increasing the eco-efficiency of our operations.

REPUTATION MANAGEMENT

We consider that our commitment to producing shared value is recognized by the public with whom we are connected and it, in turn, grants us a social license to grow and operate. This trust is a cause for great responsibility. Therefore, the relationship with stakeholders is an asset of strategic value for Samarco and is measured by a Reputation Study. Research carried out with seven groups of stakeholders in 2011 identified that our reputation is considered strong, from attributes which we consider essential for our continued development, attaining 72.9 points on the scale. Understanding this helps us plan improvements to our stakeholder engagement practices, aligning them with stakeholders' and society's expectations.

The diagnosis also provided relevant feedback that enabled the Company to outline objectives to handle its reputation in the years ahead, in order to achieve the excellent rating by 2017. Samarco's Reputation Platform, a technical document that will address the opportunities and risks to be managed, will be completed in 2012, with the structuring of existing information and alignment with the Company's strategy.

The study's results were shared at meetings with Samarco's managers and representatives of several company departments, permitting the alignment between the expectations of the public consulted and the activities carried out, focusing on building relationship opportunities. Therefore, it is expected that we are increasingly effective in obtaining adhesion and legitimacy with our public in all of the actions that we undertake, strengthening links of trust between the Company and other segments of society.

CORPORATE GOVERNANCE

Samarco has a modern corporate governance structure, which allows the shareholders to administer the business efficiently, with appropriate tracking for the results produced, to guarantee legal statutory compliance and direct values, objectives and strategies. Our governance seeks to guarantee transparent administration, corporate responsibility, objective and complete accountability, as well as a balance between the information received by the two shareholders who have an equal share in the Company:

- BHP Billiton Brasil Ltda: an Anglo-Australian company, which is the largest diversified mining company in the world, having iron ore, diamonds, mineral coal, oil, bauxite, copper, nickel and uranium as its main products. For more information, access www.bhpbilliton.com

- Vale S.A.: with its head office in Brazil, it is a world leader in producing and exporting iron ore and pellets, and is placed among the main world producers of various minerals, such as copper concentrate, bauxite, alumina, aluminum, potassium, kaolin, manganese, ferro-alloys and nickel. For further information visit www.vale.com.br

The Administrative Council is Samarco's main corporate governance body and comprises four effective members and four alternates, who are representatives from the two shareholders. The council members have three year terms, with the possibility of re-election and alternation between the shareholders' representatives in leadership roles. They meet every four months and have the following main attributes:

- Strategic and general guidance of the business
- Tracking the Company's results
- Guaranteeing the integrity of Samarco management
- Selecting the CEO and evaluating members of the Executive Board
- Selecting independent auditors
- Guiding and approving the Company's business plan and budget, including investment plans, dividend distribution to shareholders and re-investments
- Discussion on alterations to the corporate structure and relevant modifications to the capital structure (acquisition and sale of assets and mergers), which are then approved by the shareholders at a later date
- Maintaining legal and statutory compliance and the shareholders' agreement.

Members of the Board of Directors:

BHP Billiton Brasil Ltda.	Vale S.A
Serving members:	**Serving members:**
Marcus Philip Randolph	José Carlos Martins
James John Wilson	Hélio Moreira Cabral
Substitute members:	**Substitute members:**
Jeffery Mark Zweig	Stephen Potter
Sérgio Consoli Fernandes	Marcelo Botelho

We also have three advisory committees for the Administrative Council, which have their own agenda and the prerogative of establishing sub-committees to deal with specific themes, which could be either permanent or temporary.

- **Governance and Finances Committee**: support for strategic economic and financial matters
- **Operations Committee:** advising on technical and operations-related matters.
- **Remuneration Committee:** advising on remuneration policy for key executives and general human resources policy.

Members of the Executive Board:

Ricardo Vescovi de Aragão	Chief Executive Officer
Maury de Souza Júnior	Project Implementation Officer
Kleber Luiz de Mendonça Terra	Operations and Infrastructure Officer
Roberto Lúcio Nunes de Carvalho	Commercial Director
Eduardo Bahia Martins Costa	CFO and Supplies Officer

CODE OF CONDUCT

Ethical conduct guides Samarco's business management. As a part of the continual process of improving our instruments, we revised the Code of Conduct for the fifth time in 2012. In parallel, efforts to inspect and maintain the suitability of the processes have led to holding training on Corruption and Fraud Prevention Policies and Anti-trust Compliance, created in 2011. We have run face-to-face training course for leaders and employees in areas which have the most exposure to the theme and e-learning course for the others. We attained a percentage of 92% of employees trained in corruption and fraud prevention practices in 2012. All active employees will have received training by February 2013.

The anti-trust policy should be known by all employees but, in fact, very few people have direct contact with the theme. Therefore, we ran a specific training program for the following groups in 2012: Directors, General Managers, Corporate Governance, External Relations, General Management for Sales in America, General Marketing Management and General Supplies Management.

Both documents are available on the Intranet and are open for compulsory and permanent consultation by everyone at the Company.

RISK MANAGEMENT

Risk management is a key process to support the strategy and processes of Samarco's management. All of our operational, strategic and project risks are evaluated in relation to their impact on health and safety and the legal and financial environment, seeking to cover the different aspects of business sustainability. The Risk Management Policy and Corporate Risk Management Manual contain management directives and methodology, making reference to all the other documents used in this process. Our approach is aligned to those adopted by one of our shareholders, in accordance with best market practices.

Samarco's risks are classified as follows:

- Strategic Risks
- Operating Risks
- Project Risks
- Financial and Compliance Risks
- Health and Safety Risks.

We evaluate our corporate risks annually, during the period from January to June. The team responsible carries out a critical analysis and registers the lessons learned in the previous period during the preparation stage, as well as compiling new guidance and directives for top management. The need to review the manual and procedures are identified at this time, as a consequence of any necessary training and capacity-building. Changes to the setting of the mining sector and to Samarco itself may provide new risks, which had not yet been considered, or even significantly alter the evaluation of a specific known and monitored risk.

Therefore, we held 20 operational and strategic risk evaluation workshops, involving 250 professionals, with a multidisciplinary approach during 2012. Used in all the areas involved, they discussed its description, measurement method and mitigation plans. We also identified the controls associated to these risks during this process, evaluated the design and efficiency of those considered critical and defined actions to improve the control environment. The application of methodology using more dynamic tools and approaches brought innovation to the process, contributing to greater involvement by managers and specialists in the areas.

The process to monitor actions for dealing with risks was redesigned and critical actions started to be monitored using a detailed schedule. In addition to this, we prepared the initial versions of six plans for continuing business related to risks of greater impact in the organization. This process was shared with the shareholders during various monitoring meetings held throughout the year.

We created the Risks, Internal Controls and Compliance General Management in October, strengthening the spread of this culture throughout the Company. Various initiatives have been discussed to modernize and strengthen Samarco's risk management and internal control process since this time, as well as implementing important processes to enhance compliance standards.

We have developed compliance verification guides, documents which present a list of critical requirements for processes at Samarco, Brazilian laws, FCPA (Foreign Corrupt Practices Act) Legislation and UK Bribery Act. Guides for supplementary and financial themes were prepared in 2012, while the others (relationship, human resources, health and safety, the environment, commercial and information technology) will be developed during 2013.

BUSINESS PERFORMANCE

FINANCIAL HIGHLIGHTS (in R$ MM)

	2012	2011	2010	2009	2008
Gross Revenue	6,611	7,117	6,324	2,837	4,240
Net Revenue	6,550	7,059	6,240	2,813	4,166
Gross Margin (%)	61.3	63.9	64.8	51.6	62.1
Net Income	2,646	2,914	2,247	1,312	1,263
EBIT	3,357	3,922	3,493	1,002	2,118
EBITDA	3,554	4,113	3,671	1,180	2,247
EBITDA Margin (%)	54.3	58.3	58.8	42.0	53.9
Investments	643	420	294	114	699
Investment (P4P)	2,709	935	24	-	-
Total Assets	11,001	7,095	5,542	4,947	6,878
Shareholders' Equity	3,274	1,807	1,377	1,829	1,555
Gross Debt	2,931	2,340	2,023	1,471	1,583
Net Debt	2,553	2,073	1,758	1,290	1,404
Gross Debt / Ebitda	1.7x	1.1x	0.9x	2.2x	1.6x
ROCE	29.3	55.2	67.2	20.4	30.1

SECTORIAL PANORAMA

The market was still marked by performance uncertainties in the major economies in 2012 the majority of which restricted the recovery of world growth. According to the International Monetary Fund (IMF), the world advance in 2012 was 3.2% and mature economies such as Europe, the United States and Japan showed limited or negative growth, with an average of 1.3%.

In this setting of uncertainties and volatility, the behavior of prices in the iron ore sector presented a decreasing curve. However, if a gradual retraction was observed in the first half of 2012, from the third quarter there was a considerable reduction in the demand for steel in the United States and Europe, therefore affecting emerging markets. This led to a fall in production, allied with a decrease in stocks, especially in China. According to data published by the IMF, Chinese steel production regressed by 2%, while the fall was more emphatic in the rest of the world, reaching 4% in the third quarter of 2012.

Accompanying steel market activity, the price of iron ore in China was considerably reduced from the end of August. The main indexes had already reached values of less than US$ 90 per tonne of iron ore in mid-September, a level similar to that reached during the 2009 economic crisis. The drop in the international price was contained when stock levels attained historic lows and higher cost iron ore producers withdrew from the market. Price levels recovered to those practiced at the start of the year as a result in December. However, according to the IODEX62 (Platts) indicator of US$ 128 /t, the average 2012 price was lower than that reached in 2011, when the average was US$ 167/t.

OPERATING PERFORMANCE

Our production volume of iron ore pellets in 2012 was 21.305 million tonnes. In turn, fines (pellet feed + sinter feed + pond) came to a total of 1.579 million tonnes. Despite a 1.46% reduction compared with the 2011 volume, these sums are once more very close to Samarco's installed production capacity which is 22.250 million tonnes of pellets. We attained a historic record for monthly pellet production, with the marker of 1.971 million tonnes.

We shipped a total of 22.160 million tonnes of products, being 21.300 million tonnes of pellets and 860,000 tonnes of fines.

According to Ministry of Development, Industry and Foreign Trade data, the impact of the international crisis and drop in commodity prices in particular, caused a reduction in the Brazilian balance of trade surplus in 2012. If the iron ore prices practiced during 2012 were stable, just the exports of this commodity would have added US$10.3 billion to the 2012 result. The participation of iron ore on the export agenda fell by US$41 billion to US$30 billion and Samarco fell from 4th to 8th place for the largest exporting companies in Brazil as a result.

Change in Samarco's production (in million metric tons):

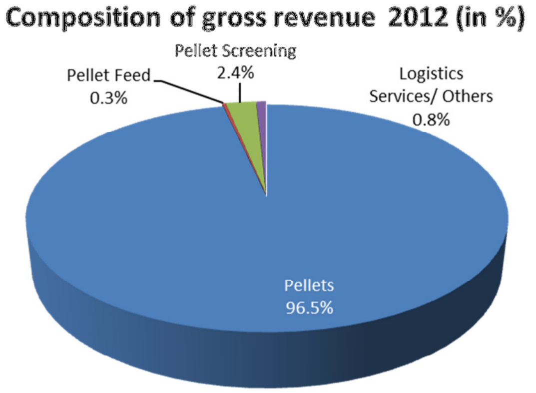
Year	Pellets	Fines	Total
2008	17.145	1.387	18.482
2009	16.051	1.571	17.622
2010	21.508	1.941	23.449
2011	21.452	1.771	23.223
2012	**21.305**	**1.579**	**22.885**

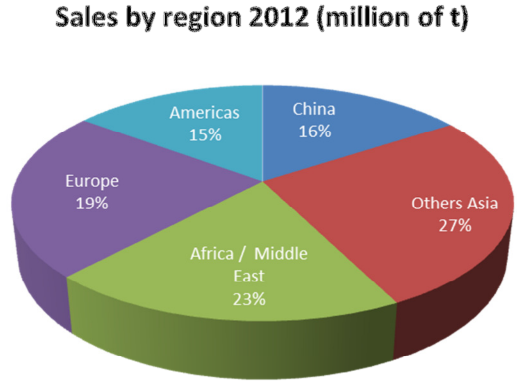
(*) Rounded to the nearest million dry metric tons.

FINANCIAL INCOME

In 2012 Samarco grossed R$6,610.7 million, 7.1% less than the previous year's figure of R$7,117.3 million. This result was primarily due to the lower average sale price for pellets, which dropped by about 19.4% over 2011 (2012 – USD/dmt 153.9 x 2011 – USD/dmt 190.9).

Due to the lower Chinese demand for iron ore products, like pellets, our sales strategy in 2012, was directed at more attractive markets, like the Middle East and South East Asia. We thereby attempted to recover revenue with a favorable mix of higher added-value products, which led to greater participation of direct reduction pellets (54% DR – *direct reduction*) in relation to blast furnace pellets (46% BF – blast furnace).





The cost of goods sold (CPV) diminished in the year, amounting to R$ 2,536.3 million in 2012 against R$ 2,550.8 in 2011. This was possible due to the reduction in the average price and acquisition volume of iron ore from third parties (R$ 169.4 million), in addition to smaller volumes of pellet sales in relation to the previous year. Nevertheless, the year was marked by strong pressure in outsourced services (R$ 20.1 million) and personnel expenses (R$ 42.3 million), as a result of collective pay rises exceeding inflation in the period and greater disbursements on consumables (R$ 36.6 million), other materials to maintain operations at full capacity (R$ 24.4 million) and increase in energy rates in the states of Minas Gerais and Espírito Santo, generating an additional disbursement of R$ 10.2 million.

Despite the efficiency of costs achieved in 2012, for these reasons, the decrease in net sales revenue resulted in the gross margin dropping by 2.5% in local currency in the year, resulting in 61.3%. In 2011 this was 63.9%.

Our operating expenses generated disbursements of R$656.2 million in 2012, equal to 10.0% of net revenue versus R$585.9 million recorded in the previous year (8.4% of net revenue). The unfavorable performance was due to the higher provision for ICMS credits (R$120.5 million) related to higher investments in 2012, primarily due to the Company's expansion plan (P4P), and suspension of the ICMS deferral in the operations involving Samarco in Minas Gerais from September 2012.

Lastly, attributed net income in 2012 was R$2,646.3 million in 2012, a decrease of 9.2% over the R$ 2,914.3 million in 2011. In addition to the aforesaid effects, the result was intensified by the increase in financial expenses (R$ 11.6 million), due to the higher level of debt in 2012, which is still at healthy levels, especially the covenant gross debt/Ebitda of 1.7x.

EBITDA

As well as our revenue, Adjusted Ebitda (operating income plus net financial income, depreciation and amortization) was down 13.4% year-on-year from R$4,112.6 million in 2011 to R$3,553.9 million in 2012. The Ebitda margin fell 4.0 percentage points year-on-year (2012: 54.3% x 2011: 58.3%).

Adjusted EBITDA (millions of reais):

	Consolidated	
	2012	2011
Operating income	3,387,281	3,717,748
(+) Depreciation and amortization	196,798	190,319
(+) Net exchange variance	(127,536)	122,063
(+) Net financial expense/revenue	97,370	82,487
Adjusted EBITDA	**3,553,913**	**4,112,617**

Notes:

(1) Ebitda is a measure that does not represent the cash flow for the periods presented and, therefore, should not be considered as an alternative measure for net profit (loss) or for cash flow as a source of liquidity.

(2) Our definition of Ebitda may not be comparable to the Ebitda definition of other companies.

(3) Samarco Mineração uses Adjusted Ebitda as a tool to measure operational performance. It is also used by financial analysts when evaluating our business.

INDEBTEDNESS

Our gross debt was R$5,987 million in 2012, up by 36.4% (R$ 1,599 million) from R$4,388 million in 2011. The ratio of total gross debt to EBITDA was 1.7x at year-end, increasing from 0.9x in 2011. Financial transactions during the year consisted largely of debt financing of R$2,010.2 million raised through a bond issue in the capital market and R$506.4 million from Nippon Export and Investment Insurance. Both transactions were entered into during the second half of 2012.

Our debt maturity profile at year-end 2012 was 14% short-term debt, consisting of Advances on Export Contracts of R$404.9 million and the short-term portion of long-term debt obtained to finance working capital and optimization and maintenance projects (R$409.5 million). The remaining 86% (R$5,143.9 million), classified as long-term financing, was essentially for capital expenditure (particularly the Fourth Pellet Plant Project) and consisted of export prepayments, secured loans from Nippon Export and Investment Insurance and an offshore bond issue on competitive terms and conditions and consistent with our strategy. The financing raised in 2012 helped lengthen our debt maturity profile. In 2011, 37% (R$1,636.7 million) of our debt was classified as short term and 63% (R$2,751.7 million) as long term.

Importantly, Samarco has been rated as investment grade (BBB) by two risk rating agencies. Fitch Ratings has rated Samarco as investment grade (BBB) since 2006, and assigned the company a stable outlook in its most recent report, in August 2012. To further strengthen market confidence, in July 2012 we commissioned a second risk rating report from Standard & Poor’s, which also affirmed Samarco's rating at investment grade, BBB.

DIVIDENDS

The dividends paid in 2012 (R$745.4 million) are the residual balance of net income for the year ended December 31, 2011. The reduction in dividends paid, from R$2,768.8 million in 2011 to R$2,023.4 million in 2012, was due to our capital expenditure commitments, particularly expansions (P4P project). This led the Company to establish a cash buffer as a safety reserve, which at year-end 2012 stood at R$772.0 million, up from R$500.5 million in 2011.

INVESTMENTS

Capital expenditure on P4P is budgeted at R$5.4 billion in real terms. The total committed amount of R$5.3 billion at December 2012 accounts for 99.1% of the project budget. Cumulative expenditure was R$3,667.2 million, or 68.6% of the total committed amount (signed commitments and purchase orders) and 68% of the budgeted amount in real terms. The P4P Project is on schedule and at period-end 2012 was 71.5% complete overall and 60.7% complete in terms of construction. The start of operations at the Germano unit is scheduled for 2013.

Other capital expenditure totaled R$642.8 million. Most (65.1% or R$418.5 million) of this expenditure was directed to operating improvement and business continuity projects, plant equipment replacement and investments in sustainable development in compliance with health, safety and environment standards, policies, laws and regulations. The remainder of our capital expenditure (R$224.3 million, or 34.9%) was allocated to projects to increase our production capacity or reduce environmental impacts.

Key projects and investments in 2012 also include:

- **Access to the Germano high-voltage grid:** this project aims to cut energy transportation costs by connecting to the high-voltage grid, thereby facilitating Samarco's plans for growth and improving the reliability of the energy supply. The project began in 2010 and will be completed in 2013. Capital expenditure in 2012 was R$ 134.0 million.

- **Installation of electrostatic precipitators**: project initiated in 2009 and completed in 2012. The electrostatic precipitators will help reduce particulate emissions from our pellet plants in Anchieta (Espírito Santo), improving our environmental performance. Capital expenditure in 2012 was R$ 54.4 million.

- **Construction of wind fences around ore pellet and fines yards**: the project scope entails construction and installation of wind fence structures to reduce fugitive emissions from iron ore pellet and fines handling operations at stockpile yards. The primary benefit from the project is the reduction in total airborne dust emissions, in accordance with environmental requirements. Capital expenditure in 2012 was R$ 50.6 million.

SOCIAL AND ENVIRONMENTAL PERFORMANCE

RELATIONS WITH KEY STAKEHOLDERS

CLIENTS

We seek to maintain a close and transparent relationship with our clients in the complete attendance chain, from product development to post-delivery monitoring. We therefore have committed teams, appropriate systems and process support.

These premises guided our performance in 2012, driven by new challenges from the iron ore market, characterized not only by higher volatility but also for producing specific requirements from each client. Therefore we are reviewing our historic approach to the market, seeking greater understanding of the supply and value chains in which each client is placed. We now have an advanced marketing position in the Hong Kong Office and another in Amsterdam, with the objective of learning about their needs more closely and in greater depth.

We have also set up an intelligence structure in Amsterdam to be more agile when dealing with market information and in our relationship with the different players in the steel and iron ore industry. Further initiatives are foreseen for 2013, such as the redesign of Samarco's marketing plan, which will define the strategy for approaching each market segment.

In addition to supporting the Company's growth strategy, therefore, we intend to guarantee the quality of our long-term relationship with these clients. Our satisfaction level reached 89%, a result which is higher than that of 2011, which was 85%, highlighting improved response to quality specifications for shipped products and high efficiency in port system logistics, reducing ship waiting time.

We had a portfolio of 34 clients from various regions around the world in 2012. In addition to Brazil, Samarco attended clients in Argentina, Belgium, China, Egypt, France, Germany, Great Britain, India, Indonesia, Japan, Libya, Malaysia, Qatar, Saudi Arabia, Taiwan, Trinidad, Turkey and the United Arab Emirates.

SUPPLIERS

Guidance on Samarco's relationship with its suppliers is for increased competitiveness, adopting best practices for supplies aligned with the business strategy. We seek suppliers which are engaged in the ethics of transparency, involved in sustainability and that attribute value to human resources. It is this direction which will allow us to grow together.

We have 16,000 registered suppliers and 4,976 are active. Approximately 40% of our purchases are currently made in Espírito Santo and Minas Gerais, with suppliers based in the communities which are close to our operations. These numbers are reflections of Company policy to prioritize local suppliers that are aligned with our Integrated Management Policy and answer our quality, cost, health requirement, occupational safety and environmental criteria. We have prepared a Local Supplier Catalogue to encourage this practice, which is already in its second edition.

In order to recognize and encourage a good performance from suppliers of raw materials, materials and contracted services, we hold the Samarco Excellence Award annually. We presented awards to 12 companies which stood out in the criteria of quality service provision and product supply, punctuality, socio-environmental responsibility and safety at work in 2012. There was recognition for the company which presented the best safety performance.

PUBLIC AUTHORITIES

Samarco maintains ethical and transparent relations with public authorities, focused on mutual respect, adherence to legislation and the sharing of development goals in the company's areas of influence. In addition to the initiatives under way, within the scope of the Fourth Pellet Project (find out more in the Communities section), we work in a systematic way in Espírito Santo, through the Management and Monitoring Commission for the Term of Socio-environmental Commitment (TCSA), signed between the State Government, State Institute for the Environment and Hydric Resources, Public Prosecution Service, municipalities of Anchieta, Guarapari and Piúma and Samarco. This group meets monthly to discuss actions to strengthen regional governance and focuses on developing the region in our area of direct influence.

We supported holding the 1st National Conference on Regional Development (Espírito Santo stage) in 2012, promoted by the Ministry of National Integration and Institute of Applied Economic Research (Ipea) as a preparatory event for the national stage. Also through the TCSA, we gave our support to the intelligence and Image Centre, based in the Public Consortium for Developing the South of Espírito Santo's (Condesul) offices, with technicians from the municipalities from our area of influence and the State Government. The municipalities started to have access to information related to land use and occupation through this, encouraging the review of plans and programs, as well as preparing public policies concerned with controlling and monitoring occupation of the region.

We took part in the Espírito Santo Business Movement (Espírito Santo in Action), devised to offer orientation on State public policies for the second consecutive year.

COMMUNITIES

Respectful, close and constructive dialogue is the base for Samarco's relationship with the 81 communities which are close to our operations. We carry out activities to contribute to local development and producing shared value, investing in education, income production, entrepreneurialism and environmental preservation (find out more about the Environmental Education Program on page 33) throughout the 29 municipalities which form part of our area of influence.

Within our initiatives, we highlight the Conscious Living Program which has the aim of mitigating possible social impact produced by work in the towns and communities which are close to the Basic Network Access Project in Germano (MG) and the Fourth Pellet Project (P4P). The education actions which were carried out in 2012 comprised 130 talks, workshops and training courses on citizenship, human rights and quality of life with contract staff and the communities. We have involved a total of 1,049 education, health and social work professionals, 2,013 students from the public network and 9,202 contract staff. Among the themes covered, sexuality and teenage pregnancy, improper use of alcohol and other drugs and combating child sexual abuse are highlighted.

In addition to this, we are voluntarily investing R$8.6 million in a Socio-institutional Investment Program in municipalities involved in P4P. These investments were defined following an earlier consultation with the city halls on the main local needs in areas such as health, education and infrastructure in the municipalities. In the social sphere, the decision-making process involved participation by nearly 4,000 residents in 57 communities. 115 initiatives were prepared in a participative manner and 72 selected, focusing on income production or education, which will continue to be made viable during 2013. We have also structured a similar program to assist the communities involved in the Basic Network Access Project. Nine initiatives were selected in this area. We added a contribution of R$1.7 million to these investments for 44 social projects which were selected through the 2011/2012 Public Announcement.

The P4P Socio-economic and Environmental Indicators Project continued in 2012, with the presentation of the first results from the evaluation and monitoring process for the impact of the Project's implementation phase in the areas of direct influence. Forty-seven people took part in the meetings, including community representatives and municipal secretaries from the communities of Ouro Preto, Mariana, Catas Altas and Santa Bárbara (MG). The State Institute for the Environment and Hydric Resources (Iema) also had access to data in Espírito Santo, in a workshop to discuss the advances obtained and to align expectations with the Institute's reference technique. This work seeks to prevent negative developments, as well as reinforcing the positive aspects in themes such as health, education, public safety, mobility, tourism, work and local economy (income, tax generation and local purchases).

In turn, the Social Dialogue process promoted by Samarco takes place constantly, seeking to maintain a close relationship with residents in neighboring communities. We organized 49 meetings with leaders, 239 meetings with communities and 55 visits to the Germano, Ubu and Muniz Freire units during 2012. We also have a Relationship Centre which receives and manages protests originating from the communities. 5,334 contacts were received in 2012, with a treatment rate of 96%. 875 of these were complaints, 34 reports and 995 protests about P4P (859 were dealt with), among other themes.

Internally, we encourage citizenship from our employees through a volunteer program. The initiatives include a Supportive Tax, which involves the allocation of up to 6% of income tax due to Childhood and Adolescent Funds in the municipalities of Ouro Preto and Mariana (MG) and Guarapari (ES). 330 members of staff joined the campaign in 2012, with the collection of R$204,058.07, which is a 20.5% increase in relation to the previous year. A further possibility for engagement is working as a volunteer at Junior Achievement, a non-governmental association which has programs to support entrepreneurialism and education. Our employees can share their knowledge and present the world of business to young students in this way, teaching the concepts of economy, ethical conduct, sustainable development and the importance of schooling. In the 2012 version 39 volunteers worked alongside 595 students of six public schools in Minas Gerais. In

Espírito Santo, 23 employees shared their expertise with 330 students.

Once again we held Volunteer Day (V Day) in 2012. More than 2,700 volunteers, including employees, contract staff, friends and families, were organized into 149 committees and joined forces to put in practice the values which guide our work. They took happiness and solidarity to approximately 47,000 people on August 24, via recreation, health, education, awareness-raising and renovation activities in 10 municipalities in Minas Gerais and 13 in Espírito Santo.

CITIZEN OF THE FUTURE

The Citizen of the Future Project benefited 280 children and teenagers aged between 8 and 16 in 2012. Launched in 2009, it seeks to combat social risk, school drop-outs and to transform the young people's relationships at school, in their families and society. The project is conducted in the communities of Condados, Ubu and Mãe-Bá, located in the municipalities of Guarapari and Anchieta (ES), where it seeks to complement formal education through dance, music, theatre and sports. The initiatives take place in the community of Antônio Pereira and in Ouro Preto, Minas Gerais, with circus activities that work on cognitive aspects, balance and concentration. The school pass rate for participating students was 99.6% in Espírito Santo and 100% in Minas Gerais in 2012.

NURSERY IN MEAÍPE

We inaugurated the Municipal Maria José Loureiro Vicente Child Education Centre in Meaípe, in the town of Guarapari (ES) in December, 2012. This social project is the result of fulfilling one of the environmental conditions for Ubu, which are monitored by society through the Samarco Environmental License Monitoring Forum (Falas). The unit has the capacity to receive 100 children and has solar heating, an ecological roof and re-uses water. The work was carried out by 25 professionals from the community.

EMPLOYEES

We reviewed the scope and challenges in human resources, which led to a new positioning in the area because of strategic changes to Samarco in 2012. Therefore, attracting, retaining and training professionals to improve their performance and create more efficient management and development programs were topics which received major attention throughout the year.

Recruitment and selection

The start of 2012 marked the planning of employment for the Fourth Pellet Project (P4P) related to the construction phase, giving priority to internal recruitment and highlighting the use of employees for technical level vacancies and trainee programs.

Market recognition of our trainee programs, particularly in the States of Minas Gerais and Espírito

Santo, attracted professionals from these regions. We received 3,800 applications at graduate level and approximately 2,500 at the technical level. The quality of the candidates allowed an assertive selection process, forming strong groups for the two programs. We also had 312 young people in the work experience (curricular and holidays) and apprentice programs. These programs also allowed us to fill vacancies without the need to open selective processes, especially for technical-operational level positions.

People development

Following the launch of Samarco Knowledge in 2011, our first initiatives were concentrated on implementing the Leadership School and on actions concerned with responding to legal and prescriptive requirements and standards. Although we have not formally launched the other schools, we offered learning solutions in all the four other spheres during 2012: Samarco Identity, Excellence, Technology and Sustainability, producing a total of 152,539.92 hours of training (H/H 56.70). We invested approximately R$ 6.3 million in corporate education and R$ 1.2 million in training courses at Germano and Ubu, with participation by 386 employees.

P4P TRAINING

Training the local labor force and contributing to the socio-economic development of the towns in the P4P direct area of influence (AID) is one of Samarco's commitments. In 2012, 186 people completed courses in electro-mechanics offered by the Professional Training Program in the State of Espírito Santo. A further 200 are still taking part in courses, which started during the second half of 2012, in partnership with the Department of Science, Technology, Innovation, Professional Education and Work (SECTTI). In Minas Gerais, 250 candidates, among more than 2,000 who applied, were selected to take part in the program in seven different areas, such as assembly mechanic, industrial electrician and boiler maker.

Performance Management

Our performance evaluation process, which takes place in annual cycles, is a very important time, in which managers and employees evaluate the performance attained the previous year together. New challenges are defined for the following period and development actions structured at this time.

We consolidated the 5th performance cycle in 2012, which had 94.5% endorsement by employees. The news for this cycle was related to preparing people for the process through e-learning Performance Management training. As it is an electronic format, employees can choose the best time to study in the workplace and receive updates on the theme. Additionally, this is a way of encouraging constant learning at the organization.

HEALTH AND SAFETY

Our safety performance was positive, with the registered accident rate closing the year at 0.65. Despite this level being higher than that obtained in 2011, when we had the best historic result of our operations, it remained within the goal throughout the year. In turn, the accident rate with a loss of time (CPT), once again attained its second best historic mark of 0.14, reflecting a fall in the number of accidents with higher serious potential.

Occupational safety indicators:

	2008	2009	2010	2011	2012
CPT accident rate	0.26	0.10	0.22	0.22	0.14
Total rate of registered accidents (CPT + SPT)	2.27	1.17	0.93	0.49	0.65

In addition to maintaining the accident rate at less or equal to 1, the challenge for 2013 is to continue developing contracting companies which provide services to Samarco, through the Spreading the Value of Health and Safety Program, which assists them to implement a management system in this area. This program was one of the winning cases at the first Best Practices in Health and Safety at Work Awards in 2012, promoted by the Brazilian Institute of Mining (Ibram).

In relation to the Fourth Pellet Project, we have already accumulated approximately 31,000 man-hours worked. We reached 2.3% of trained man-hours in 2012 (the goal was 2%) and more than 101,000 safety inspections were carried out, providing a total of 118% for the goal established.

ENVIRONMENTAL INITIATIVES

In addition to the license for the Fourth Pelletizing Project, in 2011 we completed 150 requirements for Samarco's Ubu (ES) unit relating to Operation Licenses, Change of Practice Agreements and Environmental Commitments. In Germano (MG), we hold 25 environmental licenses, 10 operation permits and other grants that together include 217 conditions. The steps required to secure these licenses have progressed normally.

However, we intend to go well beyond mere compliance and take a technological quantum leap at our plants by upgrading control systems, incorporating best practice and bringing the operating indicators of all plants up to par. We operate in touristic and protected areas and must therefore maintain optimum environmental performance at our industrial operations.

To us, environmental management and operating efficiency are intertwined. Our operating efficiency has allowed us to utilize increasingly lower cutoff grades. When we commenced operations, the concentrator cutoff grade was 55%. Cut-off grades then dropped to 48% for the second plant, 45% for the third and as low as 43% for P4P.

Conscious of our responsibility to preserve natural resources, we created the General Technology and Eco-efficiency Management in 2012, which is a new area at Samarco concerned with technological development and innovation. The work in this area is divided into six thematic areas, with each of them being related to our main environmental aspects. Mineral resources, sterile and mineral rejects, hydric resources, renewable or alternative energy, energy efficiency, atmospheric emissions and cost reduction are included here. These themes are managed by co-efficiency indicators, which accompany the evolution of our productive process, so that is it increasingly cleaner throughout the whole chain. We have already prepared evaluation studies to evaluate the product's life cycle, and the next challenge will be to construct a management system from the mine to the client's yard.

Our investments in environmental programs and projects during 2012, reached approximately R$ 204 million, as well as more than R$ 79 million allocated to initiatives related to the Fourth Pellet Project, adding to a total of R$ 283 million.

Investment in environmental programs and projects (in R$):

Year	Espírito Santo	Minas Gerais	Total investment	% of gross sales
2009	R$ 7,568	R$ 8,620	R$ 16,188	0.57%
2010	R$ 48,569	R$ 35,362	R$ 83,932	1.33%
2011	R$ 87,296	R$ 39,378	R$ 126,674	1.78%
2012	R$ 165,240	R$ 38,427	R$ 203,667	3.08%

Observation: the difference between the investments made in Minas Gerais and Espírito Santo is due to the commitments taken on by the Atmospheric TCAs (electrostatic precipitators, wind fence and air quality monitoring network, among others) and Hydric TCAs (draining the iron ore stockyards and improving the effluent treatment system), in addition to replacing fans at plants 1 and 2.

Atmospheric emissions

The largest part of our environmental investments today is directed towards controlling atmospheric emissions. We inaugurated new electrostatic precipitators in Ubu in 2012, which reduce particulate emission during the pellet process. With these, the efficiency in the plant's discharge reduced emissions from approximately 85% to 99%. In parallel to this, we started to install a wind fence to control and impede the emissions produced by moving the pellets in the storage yard from being released into the air. We also run the technological improvement of the environmental monitoring network in Anchieta and Guarapari in Espírito Santo, increasing air quality monitoring efficiency in these municipalities.

We have been using natural gas to replace fuel oil in the oven burning process at the three power plants at the Ubu industrial plant since mid-2010. The conversion project reduced greenhouse gas emissions and qualified for registration as part of the Clean Development Mechanism (MDL) under the United Nations Framework Convention on Climate Change. We stopped emitting approximately 57 thousand tons of CO_2eq in the same year. In 2011, emissions were reduced by

207 thousand tons of CO_2eq, exceeding the project's reduction estimate of 158 thousand tons of CO_2eq. We hope to attain a result for 2012 which is similar to that of 2011 (the emissions report, with reduction data will be published at the end of March 2013).

A further two reduction projects are in Samarco’s initiative portfolio. The first refers to sterile transportation using electrically powered belts, replacing off-road trucks run on diesel. The reductions expected are in the order of 10,000 tonnes of CO_2eq per year in this project, made viable through innovative engineering and technology projects for which Samarco is a pioneer in Brazil. The second foresees the exchange of fuel oil for natural gas at the new plant which is being installed in Espírito Santo as a part of the Fourth Pellet Project (P4P). Since its conception, this unit has already adopted cleaner technologies which are currently used. This will be the first mining mega-project in the world which will have the greenhouse gas emissions which result from its installation completely compensated. It is an initiative in which we will invest R$1.7 million.

Water

Another area of consideration for Samarco is the hydric question, as the use of slurry pipelines has contributed so that our water consumption is higher than is conventional in the mining sector. On seeking to reduce this impact, we carried out a wide-ranging study to evaluate water usage in our operations in 2010. The result of this analysis served as a base for preparing the Hydric Resources Master Plan, which guides a series of actions that are being put into practice to improve the management of this theme in the Company.

Today more than 90% of all the new water which is collected at the Germano unit (MG) is re-used in our productive process. The remainder is processed in our effluent treatment system, according to the conditions established by the relevant environment institutions and is directed to the Santarém, João Manoel and Macacos streams and Matipó River.

However, in Espírito Santo, where there is practically no water collection, the excess produced after separating the water from the iron ore, which arrives via the slurry pipelines, is treated and sent to the North Dam. It is then forwarded to the Mãe-Bá Lake in Anchieta in controlled monitoring conditions and duly inspected by the environmental institution in Espírito Santo (Iema). With the installation of the fourth pellet plant in Ubu, we are investing in the construction of a new effluent treatment station (ETEI).

Electricity

Samarco owns the Muniz Freire Hydroelectric Power Plant in Espírito Santo and has a stake in the Guilman-Amorim Hydroelectric Power Plant in Minas Gerais. In 2012, they accounted for 20.3% of our electricity consumption. The remainder is purchased under long-term contracts from renewable source power producers, largely consisting of hydroelectric developments. In 2012 we concluded a new power supply contract with Cemig - Geração/Transmissão, securing the power supply required for operations through 2022.

Other key ongoing projects include the Germano (Minas Gerais) high-voltage grid connection, a project worth approximately R$ 288 million and scheduled to be completed in 2013. Two 345 kV substations and a 35 km transmission line will be built. With these we intend to provide greater power supply security and solve the constraints caused by the saturated lines servicing the region.

We continually develop studies on alternative sources of electricity and seek opportunities in the market for environmentally efficient generation.

Waste Material

In 2012, around 66% of all waste produced by Samarco was reused or recycled. All our operations and offices have an appropriate structure to separate waste and for its correct disposal. The waste produced at the industrial units is temporarily stored at the Disposable Material Centre (CMD) before being sent for recycling or disposal. Organic waste is stored in cold chambers in Germano and Ubu and then forwarded to the CMD, where a composting process is carried out. The compost is ready for use as fertilizer in the internal planted areas at Samarco at a later date. Unrecyclable domestic waste, such as toilet paper, serviettes and some types of plastic are disposed of at a licensed landfill site.

We carry out the co-processing of oily waste, refine used oil and decontaminate mercury and sodium vapor light bulbs, among other procedures to re-use industrial waste. We extended the project to collecting and re-using vegetable oil to manufacture bio-diesel to the municipalities of Guarapari and Anchieta (ES) in 2012. Sixty voluntary delivery posts were installed, with the majority of the collectors being made available at public schools in the two municipalities, as a way of developing the practice of environmental education in the students' daily lives. A total of 30,000 students and 3,000 teachers from the public teaching network in these municipalities will be involved. Since its launch in the municipalities of Mariana and Ouro Preto (MG) in 2011, the project has attained important results. 15,440 liters were collected by four waste picking associations in Minas Gerais in 2012, generating extra income of R$6,948 mil with the sale of oil.

Biodiversity

The Samarco Biodiversity Management Plan defines strategies and programs to conserve biodiversity and mitigate possible impact related to our operations. We completed mapping for all the legal reserve areas (ZEE) and zoning the Vegetation Phytofisionomies of our properties in Espírito Santo in 2012. The survey of the properties and landowners along the entire easement of the slurry pipelines and the Ubu Plant (ES) was concluded in the previous year. The next stage is to finalize Economic Ecological Zoning in 2013, including socio-environmental issues. In Minas Gerais similar initiatives are being implemented, due to the size of the areas.

The Altered Areas Recovery Plan (PRAA) followed its implementation schedule for 2012 with reforestation starting in the mine and dam areas. In Minas Gerais Samarco recovered 28ha of area in the state park of Itacolom, began the plantation of 3ha in the Recanto Verde Park and municipal preservation of an area of the Santo Antônio district in the municipality of Santa Bárbara. These actions will continue through 2013.

Positive results were returned in Espírito Santo by the project to recover the riparian forest of the river Pardo, where the Muniz Freire hydroelectric power plant is located, in an area of 59.78ha. As an indicator, we used the Atlantic Rainforest Restoration Pact rates for the number of individuals per hectare (1.671), mortality (3.13%), exotic species, nutritional deficiency system, infestation by invasive exotic gramineous plants, attacks by leaf-cutting ants and area coverage after two years (51.94%).

The same rates also showed positive advances in six fountainhead areas for the Mãe-Bá Lake in Anchieta, after four years of recovery and maintenance, along with rural producers. However, there is still a need for corrections in these areas, particularly because of an infestation of exotic species and cattle. In parallel, the Fishing Stock Reinforcement Program, which has been developed since 2008, has already re-introduced approximately 200,000 fry and native fish from the jundiá, acará and traíra species. This initiative has contributed to improving and protecting the biodiversity of the second largest coastal lake in Espírito Santo and, at the same time, guarantees fishing activities in neighboring communities. We started to mark fish with specific tags in 2012, so as to improve monitoring the fish fauna and evaluating program efficiency. In addition to technical and municipal partnerships, the local community also took part in the initiative, by forming the Fishermen’s Network (Environmental Education Meetings).

We fulfilled our commitment with regards to the federal law on environmental compensation in 2012, which specifies support for implementing and maintaining conservation units through resources corresponding to major developments, which is a minimum of 0.5% of the total costs foreseen to implement the project.

P4P environmental compensation projects:

Initiative	Investment
Paulo Cézar Vinha State Park in Guarapari (ES)	R$ 500,000
Concha D’Ostra Sustainable Development Reserve in Guarapari (ES)	R$ 2 million
Papagaio Sustainable Development Reserve in Anchieta (ES)	R$ 1 million
Environmental Protection Area for Marine Turtles in Anchieta (ES)	R$ 500,000
Creation of new Conservation Units in Anchieta (ES)	R$ 1.6 million*

***** Rounded-off figure

ENVIRONMENTAL EDUCATION

The Samarco Environmental Education Program (PEA) performs a decisive role in the process of forming a culture of showing concern with care for the environment. The program closed activities in 2012 with a positive balance, promoting actions to encourage autonomy for its participants. See below:

- PEA Community: 110 people from six communities in Minas Gerais, took part in actions to guarantee the quantity and quality of water, with workshops on manufacturing economical septic tanks, low cost solar heaters and water collection and storage. 189 participants from 10 communities in Espírito Santo also participated in workshops on manufacturing low cost solar heaters and for initiatives to re-use waste, as well as talks, plays and guidance on associativism.
- PEA School: More than 3,736 students and 345 teachers from 27 public and private schools benefited in Minas Gerais and Espírito Santo through Baú ECOnhecimento (ECO-knowledge) actions, with actions that encouraged environmental awareness. The ECOmúsica (ECO-Music) Project ran for the fourth time in 2012, with participation by more than 650 students from 14 public and private schools. Compensation was received for all the carbon emissions from the Environmental Education Program in schools, by planting 75 native trees, using recyclable materials and with priority awarded to local suppliers.
- PEA Belt: the initiative, which was launched in 2009, trains and offers technical assistance to rural producers who live in Samarco's area of influence in Espírito Santo. The PEA Belt highlighted the search for sustainable alternatives, such as not using pesticides, together with 767 producers in 12 Espírito Santo communities from the municipalities of Dores do Rio Preto, Guaçuí, Alegre, Jerônimo Monteiro and Muniz Freire during 2012.
- PEA Internal: so that environmental initiatives are incorporated and shared by employees, contractors and suppliers, we held specific activities to promote institutionalization of the theme within the Company in 2012. 3,532 people had taken part in face-to-face training sessions promoted at the Company's operational units and offices and the Muniz Freire Hydroelectric Plant by the end of the year. The courses comply with ISO 14001 requirements from our environmental management system and are compulsory for all Samarco employees.

AWARDS AND ACKNOWLEDGMENTS

- Company of the Year Award in the Large-Scale Mining category from Brasil Mineral magazine.
- Samarco was classified in second place among the best and largest companies in the country in Exame magazine's directory.
- Ricardo Vescovi was elected Sustainable Leader in the 12th Espírito Santo Business Leader Awards.
- We received the Transparency Trophy for the second time in the Closed Capital category from the National Association of Finance Executives (Anefac).
- Taboa Lagoa Project received the Benchmarking Brazil seal and Recognition of Excellence award from Unesco.
- Samarco was recognized once more as one of the 150 Best Companies to Work At from Exame and Você S/A magazines.
- Ricardo Vescovi received the Equilibrist Award given by the Brazilian Institute of Finance Executives (IBEF-ES).
- Ricardo Vescovi received the Executive in the Spotlight Award 2012, promoted by the Federation of Industries in Espírito Santo.
- Samarco attained the Best Practices in Health and Safety at Work Award, offered by the Brazilian Institute of Mining (Ibram).
- The Instituto Chico Mendes awarded Samarco with a sustainable management prize.
- Samarco received the Excellence in Finances award from the Brazilian Institute of Finance Executives (IBEF-MG).

INDEPENDENT AUDITORS' REPORT

Independent auditors' report on the financial statements
(A translation of the original report in Portuguese containing financial statements prepared in accordance with accounting practices adopted in Brazil)

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

We have audited the individual and consolidated financial statements of Samarco Mineração S.A. ("the Company"), identified as Parent company and Consolidated, respectively, which comprise the balance sheet as of December 31, 2012, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, as well as the summary of significant accounting practices and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these individual and consolidated financial statements in accordance with accounting practices adopted in Brazil as well as for the internal controls that it deemed necessary to enable the preparation of these financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit, which was conducted in accordance with the Brazilian and international standards on auditing. Those standards require the fulfillment of ethical requirements by the auditors and that the audit be planned and performed for the purpose of obtaining reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing selected procedures to obtain audit evidence about the amounts and disclosures presented in the financial statements. The procedures selected depend on the auditors' judgment, including an assessment of the risks of material misstatement in the financial statements, regardless of whether due to fraud or error. In those risk assessments, the auditor considers relevant internal control for the preparation and fair presentation of the financial statements of the Company, to plan audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements taken as whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Samarco Mineração S.A. as of December 31, 2012, the performance of its operations and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

Other subjects

Statements of added value

We also audited, the individual and consolidated statements of value added (DVA) for the year ended December 31, 2012, as supplementary information to the accounting practices adopted in Brazil that do not require the presentation of DVA for privately held companies. These statements were submitted to the same auditing procedures previously described and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

Belo Horizonte, March 25, 2013

KPMG Auditores Independentes
CRC 2SP014428/O-6-F-MG

Original report in Portuguese signed by
Ulysses M. Duarte Magalhães
Accountant CRC RJ-092095/O-8

FINANCIAL STATEMENTS

December 31, 2012

SAMARCO

BALANCE SHEETS

As of December 31, 2012 and 2011 in the reporting currency (In thousands of reais - R$)

Assets	Note	Parent Company		Consolidated	
		2012	2011 (Reclassified)	2012	2011 (Reclassified)
Current					
Cash and cash equivalents	3	507,204	256,858	523,032	270,005
Restricted short-term investments	4	-	-	249,028	230,539
Accounts receivable	5	993,381	979,682	744,422	750,037
Inventory	6	349,939	266,886	349,939	266,886
Recoverable taxes	7	234,880	82,043	234,949	82,086
Prepaid expenses		474	1,392	776	1,553
Other assets	8	27,035	7,959	27,198	7,805
Total current assets		**2,112,913**	**1,594,820**	**2,129,344**	**1,608,911**
Noncurrent					
Judicial deposits	19	148,746	94,146	148,746	94,146
Recoverable taxes	7	47	4,268	47	4,268
Deferred income tax	28	-	177,495	-	177,527
Other assets	8	22,209	36,771	22,413	36,932
		171,002	**312,680**	**171,206**	**312,873**
Investments	9	27,496	23,701	-	-
Property, plant and equipment	11	8,668,983	5,148,489	8,669,080	5,148,567
Intangible	12	31,425	24,988	31,427	24,990
Total noncurrent assets		**8,898,906**	**5,509,858**	**8,871,713**	**5,486,430**
Total assets		**11,011,819**	**7,104,678**	**11,001,057**	**7,095,341**

** See the accompanying notes to the financial statements.*

BALANCE SHEETS

As of December 31, 2012 and 2011 in the reporting currency (In thousands of reais – R$)

Liabilities	Note	Parent Company		Consolidated	
		2012	2011 (Reclassified)	2012	2011 (Reclassified)
Current					
Trade payables	13	337,934	301,417	337,961	301,419
Advances on exchange contracts	14	404,908	1,243,879	404,908	1,243,879
Loans and financing	15	409,497	379,772	409,497	379,772
Financial charges payable	14 and 15	27,314	13,019	27,314	13,019
Payroll, provisions and social contributions	17	74,108	66,181	76,142	67,399
Taxes payable	18	28,985	20,795	29,093	20,858
Provision for income tax	28	81,949	77,164	81,917	77,306
Dividends	22	661,578	-	661,578	-
Other provisions	20	62,995	32,233	62,995	32,233
Other liabilities	21	42,231	34,801	29,340	24,039
Total current liabilities		**2,131,499**	**2,169,261**	**2,120,745**	**2,159,924**
Noncurrent					
Loans and financing	15	5,143,893	2,750,919	5,143,893	2,750,919
Financial charges payable	14 and 15	1,353	859	1,353	859
Provisions for contingencies	19	309,398	288,283	309,398	288,283
Deferred income tax	28	22,119	-	22,097	-
Other provisions	20	128,913	87,770	128,913	87,770
Other liabilities	21	516	495	530	495
Total noncurrent liabilities		**5,606,192**	**3,128,326**	**5,606,184**	**3,128,326**
Equity					
Capital	22	297,025	297,025	297,025	297,025
Capital reserve	22	2,476	2,476	2,476	2,476
Profit reserves	22	294,549	294,549	294,549	294,549
Accumulated translation adjustments	22	695,345	467,675	695,345	467,675
Additional dividends proposed	22	1,984,733	745,366	1,984,733	745,366
Total shareholders’ equity		**3,274,128**	**1,807,091**	**3,274,128**	**1,807,091**
Total liabilities and shareholders’ equity		**11,011,819**	**7,104,678**	**11,001,057**	**7,095,341**

** See the accompanying notes to the financial statements.*

STATEMENTS OF INCOME

For the years ended December 31, 2012 and 2011 in the reporting currency (In thousands of reais – R$)

	Note	Parent Company		Consolidated	
		2012	2011	2012	2011
Revenue	23	6,549,679	7,059,432	6,549,679	7,058,930
Cost of goods sold	24	(2,536,090)	(2,551,273)	(2,536,323)	(2,550,752)
Gross profit		4,013,589	4,508,159	4,013,356	4,508,178
Operating expenses					
Sales	25	(118,606)	(120,976)	(115,203)	(118,018)
General and administrative	25	(56,685)	(46,645)	(56,685)	(46,645)
Other operating expenses, net	26	(482,247)	(420,010)	(484,353)	(421,217)
Equity in net income of subsidiaries	9	810	2,376	-	-
Operating income before financial income/loss		3,356,861	3,922,904	3,357,115	3,922,298
Financial result					
Financial income	27	5,913	9,177	6,061	9,329
Financial expenses	27	(103,396)	(91,785)	(103,431)	(91,816)
Net exchange variance	27	127,571	(123,036)	127,536	(122,063)
Operating income		3,386,949	3,717,260	3,387,281	3,717,748
Income tax	28	(740,638)	(802,928)	(740,970)	(803,416)
Net income for the year		2,646,311	2,914,332	2,646,311	2,914,332

** See the accompanying notes to the financial statements.*

STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31, 2012 and 2011 in the reporting currency (In thousands of reais – R$)

	Parent Company and Consolidated	
	2012	2011
Net income for the year	**2,646,311**	**2,914,332**
Other comprehensive income		
Translation adjustments in the year	227,670	284,663
Other comprehensive income for the year	**227,670**	**284,663**
Total comprehensive income	**2,873,981**	**3,198,995**

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2012 and 2011 in the reporting currency (In thousands of reais – R$)

	Note	Capital	Capital reserves			Profit reserves			Accumulated translation adjustments	Retained earnings (losses)	Additional Proposed Dividends	Total
			Special monetary restatement of PP&E	Goodwill on share subscription	Tax incentive reserves	Incentivized depletion reserve	Legal reserve	Reserve of profit retention				
Balance at Jan 1, 2011		**297,025**	**785**	**1,681**	**10**	**1,517**	**59,404**	**233,628**	**183,012**	**-**	**599,861**	**1,376,923**
Net income for the year		-	-	-	-	-	-	-	-	2,914,332	-	2,914,332
Other comprehensive income												
Translation adjustment for the year, net of tax	22	-	-	-	-	-	-	-	284,663	-	-	284,663
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**284,663**	**-**	**-**	**284,663**
Net income allocation:												
Dividends (R$ 528.07 per common share and R$ 580.88 per preferred share	22.b	-	-	-	-	-	-	-	-	(2,168,966)	(599,861)	(2,768,827)
Transfer to additional proposed dividends	22.b	-	-	-	-	-	-	-	-	(745,366)	745,366	-
Balance at Dec 31, 2011		**297,025**	**785**	**1,681**	**10**	**1,517**	**59,404**	**233,628**	**467,675**	**-**	**745,366**	**1,807,091**
Net income for the year		-	-	-	-	-	-	-	-	2,646,311	-	2,646,311
Other comprehensive income												
Translation adjustment for the year, net of tax	22	-	-	-	-	-	-	-	227,670	-	-	227,670
Total comprehensive income		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**227,670**	**-**	**-**	**227,670**
Net income allocation:												
Dividends (R$ 142.16 per common share and R$ 156.37 per preferred share	22.b	-	-	-	-	-	-	-	-	-	(745,366)	(745,366)
Transfer to additional proposed dividends	22.b	-	-	-	-	-	-	-	-	(2,646,311)	2,646,311	-
Minimum mandatory dividends	_	-	-	-	-	-	-	-	-	-	(661,578)	(661,578)
Balance at Dec 31, 2012		**297,025**	**785**	**1,681**	**10**	**1,517**	**59,404**	**233,628**	**695,345**	**-**	**1,984,733**	**3,274,128**

** See the accompanying notes to the financial statements.*

STATEMENTS OF CASH FLOW

For the years ended December 31, 2012 and 2011 in the reporting currency (In thousands of reais – R$)

	Note	Parent Company		Consolidated	
		2012	2011	2012	2011
Cash flows from operating activities					
Net income before income tax		3,386,949	3,717,260	3,387,281	3,717,748
Adjustments to reconcile net income to cash provided by operations:					
Depreciation and amortization	11 and 12	196,775	190,306	196,798	190,319
Allowance (reversal of allowance) for doubtful accounts		2,656	(57)	2,653	20
Allowance (reversal of allowance) for price review	5	(84,868)	169,736	(84,868)	169,736
Provision for obsolete inventory	6	4,050	1,160	4,050	1,160
Provision for realization of recoverable taxes	7	243,705	123,204	243,705	123,204
Reversal of the provision for realization of other assets		555	(186)	555	(585)
Recognition of provision for contingencies	19	21,316	13,161	21,316	13,161
Reversal (recognition) of the provision for other liabilities		35,715	(7,425)	35,715	(7,425)
Loss of property, plant and equipment and intangible assets	11 and 12	2,353	4,801	2,352	4,801
Equity in net income of subsidiaries	9	(810)	(2,376)	-	-
Financial charges		104,892	64,783	104,892	64,783
Asset and liability exchange variance		41,578	323,745	41,480	324,170
		3,954,866	**4,598,112**	**3,955,929**	**4,601,092**
(Increase) decrease in operating assets:					
Restricted short-term investments		-	-	(18,489)	(22,627)
Trade accounts receivable		68,513	(196,506)	87,829	(193,257)
Inventory		(69,238)	8,967	(69,238)	17,266
Recoverable taxes		(414,438)	(228,575)	(414,434)	(227,009)
Judicial deposits		(54,600)	(21,388)	(54,600)	(21,388)
Prepaid expenses		832	(841)	777	(974)
Other assets		(8,070)	(17,807)	(5,437)	(15,355)
Increase (decrease) in operating liabilities:					
Trade payables		36,517	65,831	36,542	65,690
Taxes payable		30,309	111,881	30,332	111,898

** See the accompanying notes to the financial statements.*

STATEMENTS OF CASH FLOW

For the years ended December 31, 2012 and 2011 in the reporting currency (In thousands of reais - R$)

	Note	Parent Company		Consolidated	
		2012	2011	2012	2011
Increase (decrease) in operating liabilities:					
Payroll, provisions and social contributions		3,487	10,807	4,303	11,202
Income tax paid/offset	28	(460,612)	(730,493)	(461,118)	(730,906)
Other liabilities		47,880	9,128	45,767	15,936
Net cash provided by operations		**3,135,446**	**3,609,116**	**3,138,163**	**3,611,568**
Cash flows from investment activities					
Acquisition of PPE and intangible assets	11 and 12	(3,231,669)	(1,292,926)	(3,231,705)	(1,292,962)
Receipt on sale of property, plant and equipment and intangible assets		6	139	6	139
Net cash used in investment activities		**(3,231,663)**	**(1,292,787)**	**(3,231,699)**	**(1,292,823)**
Cash flows from financing activities					
Financing obtained from third parties		5,270,919	4,081,313	5,270,919	4,081,313
Financing repayments		(4,092,181)	(3,532,128)	(4,092,181)	(3,532,128)
Interest payment		(90,103)	(62,033)	(90,103)	(62,034)
Dividend payments	22	(745,366)	(2,768,828)	(745,366)	(2,768,827)
Net cash provided by (used in) financing activities		**343,269**	**(2,281,676)**	**343,269**	**(2,281,676)**
Exchange variance on cash and cash equivalents		3,294	116	3,294	116
Net increase in cash and cash equivalents	3	**250,346**	**34,769**	**253,027**	**37,185**
Cash and cash equivalents at beginning of year		256,858	222,089	270,005	232,820
Cash and cash equivalents at end of year		507,204	256,858	523,032	270,005
		250,346	**34,769**	**253,027**	**37,185**

** See the accompanying notes to the financial statements.*

STATEMENTS OF ADDED VALUE

For the years ended December 31, 2012 and 2011 in the reporting currency (In thousands of reais - R$)

	Note	Parent Company		Consolidated	
		2012	2011	2012	2011
Revenue					
Sales of goods, products and services		6,610,740	7,117,818	6,610,740	7,117,316
Other revenue		9,075	4,331	9,075	4,331
Revenue relating to construction of company assets		3,403,438	1,379,059	3,403,443	1,379,059
Allowance (reversal of allowance) for doubtful accounts		(2,656)	57	(2,653)	(21)
		10,020,597	**8,501,265**	**10,020,605**	**8,500,685**
Consumables acquired from third parties					
Cost of goods sold and services rendered		(5,903,569)	(3,790,297)	(5,899,274)	(3,787,109)
Material, electricity, outsourced services and other		(372,015)	(448,388)	(368,526)	(445,301)
Loss/recovery of asset values		(4,605)	1,084	(4,605)	1,084
		(6,280,189)	**(4,237,601)**	**(6,272,405)**	**(4,231,326)**
Gross added value		**3,740,408**	**4,263,664**	**3,748,200**	**4,269,359**
Depreciation and amortization	11 and 12	(196,775)	(190,306)	(196,798)	(190,319)
Added value produced by the Company		**3,543,633**	**4,073,358**	**3,551,402**	**4,079,040**
Transferred added value					
Equity in net income of subsidiaries	9	810	2,376	-	-
Financial income		261,024	64,315	261,127	65,427
		261,834	**66,691**	**261,127**	**65,427**
Total added value to be distributed		**3,805,467**	**4,140,049**	**3,812,529**	**4,144,467**
Distribution of added value		**3,805,467**	**4,140,049**	**3,812,529**	**4,144,467**
Personnel					
Direct remuneration		252,863	215,776	257,700	218,935
Benefits		69,259	56,014	71,173	56,773
FGTS		14,098	12,168	14,098	12,168
Taxes, charges and contributions					
Federal		479,483	632,658	479,918	633,220
State	32	51,441	70	51,293	(11)
Municipal		17,180	15,681	17,181	15,681
Interest expenses					
Interest on loans, financing and other debt items		274,832	293,350	274,855	293,369
Interest earnings					
Minimum mandatory dividends	22	661,578	-	661,578	-
Interim dividends		-	2,168,966	-	2,168,966
Additional dividends proposed	32	1,984,733	745,366	1,984,733	745,366

** See the accompanying notes to the financial statements.*

Samarco Mineração S.A.

Notes to the financial statements

(In thousands of Reais - R$, unless stated otherwise)

1. OPERATIONS

SAMARCO MINERAÇÃO S.A ("Samarco" and/or "Company"), a privately held corporation, is a joint venture between Vale S.A. ("Vale") and BHP Billiton Brasil Ltda. ("BHP Billiton"). Its registered office is at the address Rua Paraíba, nº 1122, Bairro Funcionários, Belo Horizonte – Minas Gerais state. Samarco operates an integrated enterprise consisting of the mining, benefication and concentration of low-grade iron ore (Germano/Alegria and Mariana, in the State of Minas Gerais -MG), as well as the hauling of such concentrated ore through ore pipelines, connecting the Company's two operating plants located in Minas Gerais and Espírito Santo. The pelletizing - transformation of iron ore concentrated into pellets, our core product, takes place at the Ubu plant, in addition to the outbound shipments of the produce through the company's own marine terminal (Anchieta, Espírito Santo). Production is chiefly sold on the international market.

Samarco's reserves are located in the municipalities of Mariana and Ouro Preto (MG), and comprise geological resources of around 8.0 billion tons[1] of iron ore.

The technical and economic context of the mineral resource and its specifics suggest recoverable or mineable reserves of around 3.0 billion tons[1]. The production of concentrated iron ore in the 2012 was 22.425 million dry metric tons[1] (2011 – 22.602 million dry metric tons[1]).

Equity interests were held in the following companies with the following core activities:

» <u>Samarco Iron Ore Europe B.V. *("Samarco Europe") - direct interest of 100%*</u> - headquartered in the Netherlands, this company was incorporated on October 13, 2000 with the core activity of providing services consisting of marketing and selling the iron ore produced by Samarco. It also provides support to clients through technical seminars and market studies.

» <u>Samarco Asia Ltd. *("Samarco Asia") - direct interest of 100%*</u> - headquartered in Hong Kong, this company was acquired on July 10, 2001 by Samarco Europe to provide marketing and selling services through commercial representation in the Asia-Pacific region.

» <u>Samarco Finance Ltd. ("Samarco Finance") - direct interest of 100%</u> - headquartered in the Cayman Islands, this company was incorporated on February 21, 2000 with the core activity of optimizing the capital company's foreign-trade business, in order to facilitate exports (resale) of iron ore acquired from the Company to designated clients and to borrow funds on the international market and subsequently pass them through to the Company.

1 Information not examined by the independent auditors.

2. PRESENTATION OF THE FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Presentation of the financial statements

The individual and consolidated financial statements have been prepared in accordance with accounting practices adapted in Brazil, which consist of the provisions contained in Brazilian Corporation Law (Law 6404/76, as amended by Laws 11638/07 and 11941/09 (corporate legislation), in the Pronouncements, Guidelines and Interpretations issued by the Accounting Pronouncements Committee (CPC), ratified by the appropriate regulatory agencies.

The individual and consolidated financial statements have been prepared based on historic cost, except for financial instruments which have been measured at fair value through profit and loss.

(a) Functional currency

After analyzing Samarco's operations and businesses with respect to the applicability of Technical Pronouncement CPC 02 (R2), chiefly regarding the factors used to determine the Company's functional currency, Management has concluded that it is the United States Dollar (USD). This conclusion is based on the combined analysis of the following indicators stipulated in CPC 02 (R2).

(b) Currency in which the financial statements are presented

The financial statements have been translated from the functional currency (US$) to Reais (R$), which is the reporting currency and the currency of the official, accounting and legal records where the company is organized and established, as well as the currency for presentation of the financial statements of companies set up in Brazil.

(c) Accounting estimates

The preparation of financial statements in accordance with accounting practices adopted in Brazil requires that management uses its judgment in determining and recording accounting estimates. Significant assets and liabilities subject to these estimates and assumptions include the residual value of property, plant and equipment; provision for impairment of assets; allowance for doubtful accounts; the provision for the reduction in sale price, the provision for loss of materials, deferred taxes, provision for contingencies; the measurement of financial instruments, and assets and liabilities related to employees' benefits. The settlement of transactions involving these estimates may result in significantly different amounts due to the lack of precision inherent to the process of their determination. The Company reviews the estimates and assumptions at least once a year, in addition to the residual values and useful life of the assets.

(d) Reclassifications

The Company made immaterial reclassifications to deferred income tax, referring to the presentation of deferred tax assets and liabilities by the net balance. These reclassifications do not apply to the period January 01, 2011 as there is no deferred income tax liability, only deferred income tax assets.

	Parent Company			Consolidated		
	December 31, 2011	Reclassification	December 31, 2011	December 31, 2011	Reclassification	December 31, 2011
	Balance originally presented		Reclassified balance	Balance originally presented		Reclassified balance
Assets						
Current	1,594,820	-	1,594,820	1,608,911	-	1,608,911
Noncurrent	5,612,645	(102,787)	5,509,858	5,589,217	(102,787)	5,486,430
Total assets	**7,207,465**	**(102,787)**	**7,104,678**	**7,198,128**	**(102,787)**	**7,095,341**
Liabilities						
Current	2,169,261	-	2,169,261	2,159,924	-	2,159,924
Noncurrent	3,231,113	(102,787)	3,128,326	3,231,113	(102,787)	3,128,326
Shareholders' equity	1,807,091	-	1,807,091	1,807,091	-	1,807,091
Total liabilities and shareholders' equity	**7,207,465**	**(102,787)**	**7,104,678**	**7,198,128**	**(102,787)**	**7,095,341**

(e) Financial statements in functional currency

BALANCE SHEETS

As of December 31, 2012 and 2011 in the functional currency (In thousands of US dollars - USD)

	Parent Company		Consolidated	
	2012	2011	2012	2011
Current Assets				
Cash and cash equivalents	248,276	136,984	256,024	143,995
Restricted short-term investments	-	-	121,900	122,947
Accounts receivable	486,256	522,451	364,385	399,971
Inventory	171,295	142,331	171,295	142,331
Recoverable taxes	114,974	43,754	115,004	43,773
Prepaid expenses	232	743	380	828
Other assets	13,227	3,978	13,300	3,892
Total current assets	**1,034,260**	**850,241**	**1,042,288**	**857,737**
Noncurrent assets				
Judicial deposits	72,811	50,209	72,811	50,209
Recoverable taxes	23	2,276	23	2,276
Deferred income tax	-	134,992	-	135,009
Other assets	10,872	19,610	10,975	19,699
	83,706	**207,087**	**83,809**	**207,193**
Investments	13,459	12,640	-	-
Property, plant and equipment	4,243,469	2,745,575	4,243,517	2,745,616
Intangible	15,382	13,326	15,383	13,327
Total noncurrent assets	**4,356,016**	**2,978,628**	**4,342,709**	**2,966,136**
Total assets	**5,390,276**	**3,828,869**	**5,384,997**	**3,823,873**

BALANCE SHEETS

As of December 31, 2012 and 2011 in the functional currency (In thousands of US dollars - USD)

	Parent Company		Consolidated	
Current liabilities	2012	2011	2012	2011
Trade payables	165,412	160,738	165,426	160,741
Advances on exchange contracts	198,203	663,367	198,203	663,367
Loans and financing	200,449	202,534	200,449	202,534
Financial charges payable	13,370	6,943	13,370	6,943
Payroll, provisions and social contributions	36,274	35,294	37,270	35,943
Taxes payable	14,188	11,090	14,241	11,123
Provision for income tax	40,114	41,152	40,098	41,227
Dividends	323,842	-	323,842	-
Other provisions	30,836	17,190	30,836	17,190
Other liabilities	20,667	18,559	14,352	12,803
Total current liabilities	**1,043,355**	**1,156,867**	**1,038,087**	**1,151,871**
Noncurrent liabilities				
Loans and financing	2,517,937	1,467,078	2,517,937	1,467,078
Financial charges payable	662	458	662	458
Provision for contingencies	151,451	153,743	151,451	153,743
Deferred income tax	10,827	-	10,816	-
Other provisions	63,103	46,808	63,103	46,808
Other liabilities	252	265	252	265
Total noncurrent liabilities	**2,744,232**	**1,668,352**	**2,744,221**	**1,668,352**
Shareholders' equity				
Capital	409,774	409,774	409,774	409,774
Capital reserves	1,619	1,619	1,619	1,619
Profit reserves	97,025	97,025	97,025	97,025
Additional dividends proposed	1,094,271	495,232	1,094,271	495,232
Total shareholders' equity	**1,602,689**	**1,003,650**	**1,602,689**	**1,003,650**
Total liabilities	**5,390,276**	**3,828,869**	**5,384,997**	**3,823,873**

STATEMENTS OF INCOME

For the years ended December 31, 2012 and 2011 in the functional currency (In thousands of US dollars - USD)

	Parent Company		Consolidated	
	2012	2011	2012	2011
Revenue	3,365,511	4,232,503	3,365,511	4,232,613
Cost of goods sold	(1,296,813)	(1,526,038)	(1,296,813)	(1,526,038)
Gross profit	**2,068,698**	**2,706,465**	**2,068,698**	**2,706,575**
Operating expenses				
Sales	(61,381)	(72,160)	(59,319)	(70,037)
General and administrative	(28,982)	(27,519)	(28,982)	(27,519)
Other operating expenses, net	(203,281)	(187,026)	(204,343)	(187,755)
Equity in net income of subsidiaries	819	1,308	-	-
Operating income before financial income/loss	**1,775,873**	**2,421,068**	**1,776,054**	**2,421,264**
Financial result				
Financial income	3,152	5,447	3,227	5,534
Financial expenses	(51,728)	(53,820)	(51,747)	(53,837)
Net exchange variance	70,452	(67,324)	70,415	(67,300)
Operating income	**1,797,749**	**2,305,371**	**1,797,949**	**2,305,661**
Income tax	(379,636)	(491,307)	(379,836)	(491,597)
Net income for the year	**1,418,113**	**1,814,064**	**1,418,113**	**1,814,064**

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2012 and 2011 in the functional currency (In thousands of US dollars - USD)

	Capital	Capital reserves			Profit reserves			Retained earnings (losses)	Additional Proposed Dividends	Total
		Special monetary restatement of PP&E	Goodwill on share subscription	Tax incentive reserves	Depletion reserve	Legal reserve	Reserve of profit retention			
Balance at Jan 01, 2011	**409,774**	**-**	**1,616**	**3**	**935**	**38,538**	**57,552**	**-**	**306,169**	**814,587**
Net income for the year	-	-	-	-	-	-	-	1,814,064	-	1,814,064
Net income allocation:										
Dividends (USD 309.92 per common share and USD 340.91 per preferred share)	-	-	-	-	-	-	-	(1,318,832)	(306,169)	(1,625,001)
Transfer to additional proposed dividends	-	-	-	-	-	-	-	(495,232)	495,232	-
Balance at Dec 31, 2011	**409,774**	**-**	**1,616**	**3**	**935**	**38,538**	**57,552**	**-**	**495,232**	**1,003,650**
Net income for the year	-	-	-	-	-	-	-	1,418,113	-	1,418,113
Net income allocation:										
Dividends (USD 68.53 per common share and USD 75.38 per preferred share)	-	-	-	-	-	-	-	-	(495,232)	(495,232)
Transfer to additional proposed dividends	-	-	-	-	-	-	-	(1,418,113)	1,418,113	-
Minimum mandatory dividends	-	-	-	-	-	-	-	-	(323,842)	(323,842)
Balance at Dec 31, 2012	**409,774**	**-**	**1,616**	**3**	**935**	**38,538**	**57,552**	**-**	**1,094,271**	**1,602,689**

STATEMENTS OF CASH FLOW

For the years ended December 31, 2012 and 2011 in the functional currency (In thousands of US dollars - USD)

	Parent Company		Consolidated	
	2012	2011	2012	2011
Cash flows from operating activities				
Net income before income tax	1,797,749	2,305,371	1,797,949	2,305,661
Adjustments to reconcile net income to cash provided by operations:				
Depreciation and amortization	114,964	110,800	114,977	110,808
Allowance (reversal of allowance) for doubtful accounts	1,291	(47)	1,286	(6)
Allowance (reversal of allowance) for price review	(45,261)	90,521	(45,261)	90,521
Provision for obsolete inventory	1,864	515	1,864	515
Provision for realization of recoverable taxes	90,399	29,684	90,399	29,684
Reversal of the provision for realization of other assets	222	(400)	222	(400)
Recognition of provision for contingencies	(2,195)	7,019	(2,195)	7,019
Reversal (recognition) of the provision for other liabilities	12,270	2,004	14,024	2,004
Loss of property, plant and equipment and intangible assets	1,383	2,868	1,383	2,868
Equity in net income of subsidiaries	(819)	(1,308)	-	-
Financial charges	51,886	36,991	51,886	36,991
Asset and liability exchange variance	(87,124)	64,296	(87,128)	64,296
	1,936,629	**2,648,314**	**1,939,406**	**2,649,961**
(Increase) decrease in operating assets:				
Restricted short-term investments	-	-	1,047	1,895
Trade accounts receivable	80,175	(40,386)	79,572	(53,842)
Inventory	(30,827)	3,272	(30,827)	8,254
Recoverable taxes	(208,073)	(72,331)	(208,066)	(85,867)
Judicial deposits	(22,602)	(6,520)	(22,602)	(6,520)
Prepaid expenses	506	(467)	443	(487)
Other assets	(8,682)	(15,918)	(8,855)	(15,951)
Increase (decrease) in operating liabilities:				
Trade payables	3,126	20,401	3,137	20,318
Taxes payable	13,970	4,461	13,979	18,951

STATEMENTS OF CASH FLOW

For the years ended December 31, 2012 and 2011 in the functional currency (In thousands of US dollars - USD)

	Parent Company		Consolidated	
	2012	2011	2012	2011
Increase (decrease) in operating liabilities:				
Payroll, provisions and social contributions	1,739	4,141	2,087	4,296
Income tax paid/offset	(243,940)	(450,228)	(244,231)	(450,482)
Other liabilities	24,670	(22,551)	22,357	(17,754)
Net cash provided by operations	**1,546,691**	**2,072,188**	**1,547,447**	**2,072,772**
Cash flows from investment activities				
Acquisition of PPE and intangible assets	(1,616,298)	(725,097)	(1,616,317)	(725,113)
Receipt on sale of property, plant and equipment and intangible assets	3	85	3	85
Net cash used in investment activities	**(1,616,295)**	**(725,012)**	**(1,616,314)**	**(725,028)**
Cash flows from financing activities				
Financing obtained from third parties	2,661,990	2,391,087	2,661,990	2,391,087
Financing repayments	(2,078,143)	(2,073,534)	(2,078,143)	(2,073,534)
Interest payment	(45,236)	(36,139)	(45,236)	(36,139)
Dividend payments	(359,299)	(1,625,000)	(359,299)	(1,625,000)
Net cash provided by (used in) financing activities	**179,312**	**(1,343,586)**	**179,312**	**(1,343,586)**
Exchange variance on cash and cash equivalents	1,584	39	1,584	39
Net increase in cash and cash equivalents	**111,292**	**3,629**	**112,029**	**4,197**
Cash and cash equivalents at beginning of year	136,984	133,355	143,995	139,798
Cash and cash equivalents at end of year	248,276	136,984	256,024	143,995
	111,292	**3,629**	**112,029**	**4,197**

STATEMENTS OF ADDED VALUE

For the years ended December 31, 2012 and 2011 in the functional currency (In thousands of US dollars - USD)

	Parent Company		Consolidated	
	2012	2011	2012	2011
Revenue				
Sales of goods, products and services	3,396,736	4,268,506	3,396,736	4,268,616
Other revenue	4,482	2,650	4,482	2,650
Revenue relating to construction of company assets	1,687,232	779,250	1,687,232	779,250
Allowance (reversal of allowance) for doubtful accounts	(1,291)	47	(1,286)	6
	5,087,159	**5,050,453**	**5,087,164**	**5,050,522**
Consumables acquired from third parties				
Cost of goods sold and services rendered	(2,966,943)	(2,222,509)	(2,964,652)	(2,221,043)
Material, electricity, outsourced services and other	(165,297)	(254,003)	(163,195)	(251,808)
Loss/recovery of asset values	(1,619)	1,679	(1,619)	1,679
	(3,133,859)	**(2,474,833)**	**(3,129,466)**	**(2,471,172)**
Gross added value	**1,953,300**	**2,575,620**	**1,957,698**	**2,579,350**
Depreciation and amortization	(114,964)	(110,800)	(114,977)	(110,808)
Added value produced by the Company	**1,838,336**	**2,464,820**	**1,842,721**	**2,468,542**
Transferred added value				
Equity in net income of subsidiaries	819	1,308	-	-
Financial income	138,088	35,694	138,118	35,796
	138,907	**37,002**	**138,118**	**35,796**
Total added value to be distributed	**1,977,243**	**2,501,822**	**1,980,839**	**2,504,338**
Distribution of added value	**1,977,243**	**2,501,822**	**1,980,839**	**2,504,338**
Personnel				
Direct remuneration	131,991	126,331	134,387	128,103
Benefits	35,443	33,332	36,380	33,737
FGTS	7,179	7,211	7,179	7,211
Taxes, charges and contributions				
Federal	245,830	389,751	246,082	390,084
State	(8,104)	(43,394)	(8,104)	(43,394)
Municipal	8,649	9,352	8,649	9,352
Interest expenses				
Interest on loans, financing and other debt items	138,142	165,175	138,153	165,181
Interest earnings				
Minimum mandatory dividends	323,842	-	323,842	-
Interim dividends	-	1,318,832	-	1,318,832
Additional dividends proposed	1,094,271	495,232	1,094,271	495,232

2.2 Accounting practices

The accounting policies described in detail below were applied consistently to all the years presented in these individual and consolidated financial statements.

The Company's main accounting practices are the following:

(a) Consolidation

The Company's consolidated financial statements, which include the financial statements of its subsidiaries, have been prepared in accordance with applicable consolidation practices and legal provisions. Balances of unrealized revenues, expenses and income between companies are eliminated from the consolidated financial statements. Unrealized gains deriving from transactions with investees recorded by the equity income method are eliminated against the investment in proportion to the Group's interest in the investee.

There is, however, no difference between the consolidated shareholders' equity and net income presented by the Group and the shareholders' equity and net income of the Parent Company in its individual financial statements. The Group's consolidated financial statements and parent company's individual financial statements are therefore being presented side-by-side in a single set of financial statements.

(b) Foreign currency

- *Monetary items*

Transactions in foreign currency, i.e. all transactions that are not carried out in the functional currency, are translated at the exchange rate on the dates of each transaction. Foreign-currency monetary assets and liabilities are translated to the functional currency at the exchange rate as of the balance sheet date, with US$ 1.00 being equal to R$ 2.0429 as of December 31, 2012 (US$ 1.00 equal to R$ 1.8751 as of December 31, 2011). The gains and losses arising from variations in the exchange rates on monetary assets and liabilities are recognized in the statement of income.

- *Nonmonetary items*

Non-monetary assets and liabilities acquired or contracted in foreign currency are translated at the exchange rates in effect on the dates of the transactions or on the dates of fair market appraisal when applicable, where this variance is not recognized in the income statement, since the changes in the exchange rates have little or no direct effect on the current and future cash flows from operations, are therefore recorded in a specific account under shareholders' equity denominated "Equity valuation adjustments".

(c) Operations jointly controlled

A jointly controlled operation is a joint-venture that involves the use of the entrepreneurs' assets and other resources. Each entrepreneur uses their own resources in the pursuit of joint operations. The Company's consolidated financial statements include:
assets the Company controls and liabilities it incurs in the course of operating the joint venture and expenses the Company incurred and its share of revenue deriving from the joint venture. The Company has an interest of 49% in the Guilman-Amorim hydroelectric power plant, where the remaining 51% of the joint-venture belongs to the partner ArcelorMittal Brasil S.A.

(d) Statement of income

Income and expenses are recognized on the accrual basis, and include costs, expenses and revenue, in addition to the earnings, charges and monetary or exchange variance at official indexes or rates applied to current and noncurrent assets and current and noncurrent liabilities. The attributable income-tax amounts are charged/credited to the income statement.

- *Recognition of revenue from product sales*

Revenue comprises the fair value of the consideration received or receivable for the sale of products and goods in the ordinary course of the Company's activities. They are stated net of tax, returns, deductions and discounts. Product sales revenue is recognized when the risks and rewards of ownership are transferred to the buyer. As most of the sales are made on a FOB (Free-on-Board) basis, the revenue is recognized when the product is delivered to the transporter.

- *Recognition of revenue from services*

The Company only recognizes service revenue when the economic rewards associated with the transaction will probably materialize. When the realization of an amount already recorded under revenue is uncertain, the uncollectible amount or amount unlikely to be realized is recognized as an expense.

(e) Provisions and environmental recovery

- *Asset retirement obligations*

An asset retirement obligation is recognized when the Company has an approved detailed asset retirement plan. The expenses incurred on shutting down mines after mining operations have been completed are recorded as asset retirement obligations. The obligations primarily consist of shutting-down costs. The asset retirement cost related to the obligation is capitalized as part of the value of the property, plant and equipment, and is depreciated over the asset's useful life.

- *Environmental recovery*

An environmental liability is recorded in accordance with the Company's environmental policy and the applicable legal requirements. The provision for environmental recovery is made when an area of degradation is identified that generates an obligation for the Company.

(f) Financial instruments

Non-derivative financial instruments include short-term investments in restricted cash, accounts receivable and other receivables, including receivables related to cash and cash equivalents, loans and financing, as well as accounts payable and other debts.

The financial instruments are only recognized as from the date on which the Company becomes party to the contractual provisions of the financial instruments. Upon recognition, they are initially recorded at fair value plus the transaction costs that are directly attributable to their acquisition or issuance (when applicable). After their initial recognition, non-derivative financial instruments are recognized as follows:

- *Financial instruments at fair value through profit or loss*

A financial instrument is classified as fair value through profit or loss if it is held for trading, i.e. designated as such upon initial recognition. Financial instruments are designated as fair value through profit or loss if the Company manages these investments and makes purchase and sales decisions based on their fair value in accordance with the investment strategy and risk management documented by the Company. After initial recognition, attributable transaction costs are recognized in income/expenses when incurred. Financial instruments at fair value through profit or loss are stated at fair value, and their fluctuations are recognized in income/expenses.

- *Instruments held to maturity*

Non-derivative financial assets with fixed or determinable payments with defined maturities which the Company has the intention and the ability to hold until maturity. These instruments are classified as held to maturity. Held-to-maturity investments are appraised at the amortized cost using the effective interest rate method, minus any impairment.

- *Instruments available for sale*

The Company does not have equity instruments and certain assets related to debt instruments that are classified as available for sale.

- *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on the market. These assets are initially recognized at their fair value plus any directly

attributable transaction costs. After initial recognition, loans and receivables are measured at their amortized cost by using the effective interest rate method, less any impairment losses.
Cash and cash equivalents consist of balances of cash and short-term, highly liquid financial investments originally maturing within three months or less as from the date they are procured. These are subject to an insignificant risk of impairment.

- *Non-derivative financial liabilities*

The Company has the following non-derivative financial liabilities: advances on exchange contracts, loans and financing, overdrafts, trade payables and other accounts payable.
These financial liabilities are initially recognized at their fair value plus any directly attributable transaction costs. After initial recognition, these financial liabilities are measured at their amortized cost by using the effective interest rate method.

- *Costs of loans and financings*

Loans and financing costs attributed to the acquisition, construction or production of an asset that require a long time to be concluded for the purpose of use or sale are capitalized as part of the corresponding asset's cost. Other loans and financing costs are recorded as an expense in the period they are incurred in. Loans and financing are interest and other costs the Company incurs in connection with the loans and financing.

- *Derivative financial instruments*

The Company does not hold derivative financial instruments to hedge against risks related to foreign currencies and interest rates.

(g) Current and noncurrent assets

- Cash and cash equivalents: recorded at cost plus yields accrued through to the balance sheet dates, adjusted to fair value, when applicable. They include the balances of cash, banks and investments in marketable securities with immediate liquidity whose maturities as of the effective date of the investment are equal to or less than 90 days and pose insignificant risks of change in fair value.

- Short-term investments: low-risk investments, maturing between 91 and 360 days, plus earnings.

- Accounts receivable: Accounts receivable consist of trade accounts receivable for the sale of goods or provision of services and are recognized at fair value minus the allowance for doubtful accounts.

- Estimated allowance for doubtful accounts: when applicable, this provision is made to an amount considered sufficient by Management to cover any losses on amounts receivable, based on individual appraisals of the credits and the financial situation of each customer, including the track record of their relationship with the Company.

- Other assets are stated at their realizable amounts, including when applicable the yields and monetary and exchange variance accrued or, in the case of prepaid expenses, at cost, in addition to deducting provisions for losses, when necessary.

(h) Inventory

Appraised at average acquisition or production cost not in excess of the market or realization value.
Samarco uses the absorption costing system. Direct costs are appropriated objectively and indirect costs are appropriated based on normal production capacity and include expenses incurred on the acquisition of inventory, production and transformation costs and other costs incurred to bring the inventories to their current status and location.

(i) Investments in subsidiaries

Investments in subsidiary companies are appraised by the equity method based on the investees' financial statements. The financial statements for overseas investments were prepared in accordance with accounting practices compatible with those adopted by the Company. The subsidiaries have the same functional currency as the parent company, i.e. the US Dollar.

Other permanent investments are recorded at acquisition cost, minus a provision for devaluation, when applicable.

(j) Property, plant and equipment

Property, plant and equipment are recorded at cost of acquisition, formation or construction, and the capitalized financial charges are depreciated the same way as the item of property, plant and equipment into which they were incorporated. Costs are reliably measured according to the economic rewards for the Company associated with the items.

Elements that comprise the cost of an item of property, plant and equipment:

- Acquisition price, plus import taxes and unrecoverable purchase taxes, after deducting any commercial discounts and rebates

- Any direct costs attributable to bringing the asset to its location and condition necessary so it can be operated as intended by Management.

- The initial estimate of the cost of disassembling and removing the item and recovering the area where it is located. These costs comprise the obligation incurred by the Company upon acquiring the item or as a result of having used the item for a certain period for purposes other than the production of inventory in said period.

Depreciation and amortization commence on the date the assets are installed and available for use, and are calculated for the years described in note 11, based on the units produced method for the items directly related to the respective productive areas and based on the straight-line depreciation and amortization method for the rest.

The gains and losses deriving from the sale of property, plant and equipment are determined by comparing the funds obtained through the sale against the book value of the property, plant and equipment, and are recorded net amongst other revenue figures in the income statement.

The residual values and useful lives are reviewed and adjusted if necessary, at the end of each reporting period.

The Company has no real estate investments.

(k) Intangible

Intangible assets acquired separately are measured upon initial recognition at their acquisition cost and, subsequently, less the accumulated amortization and impairment losses, when applicable.

Intangible assets generated internally are recognized in the income statement for the year in which they arise, excluding the capitalized amounts spent on product development, which feature the following aspects:

- technical feasibility to conclude the intangible asset
- intention to complete the intangible assets and to use or sell it;
- ability to use or sell the intangible asset;
- existence of a market or other ways of gaining economic benefits;
- financial and technical resources are available, and
- ability to reliably measure the expenditures attributable to the intangible asset during its development.

Intangible assets with a defined useful life span are amortized according to their estimated economic lives, as per note 12, and when indications of impairment are identified, they are submitted to impairment testing.

(l) Leasing

The Company does not have any leasing that assumes the risks and rewards inherent to the property. The existing leases are operational leases, and the leased assets are not recognized in the Company's balance sheet.

(m) Impairment

- *Financial assets (including receivables)*

The Company takes into account evidence of impairment for receivables and securities kept to maturity, both individually and collectively. All receivables and securities kept to an individually significant maturity are specifically tested for impairment. All receivables and securities kept to an individually significant maturity found not to have incurred individual impairment are then tested collectively for any impairment that may have occurred, but not yet been identified.

Receivables and securities kept to maturity that are not individually material are tested collectively for impairment by grouping securities posing similar risks.

When testing for impairment collectively the Company uses historic patterns of default probability, recovery terms and the size of losses incurred, adjusted to reflect management's judgment as to whether the current economic credit conditions mean that the actual losses are probably greater or less than those suggested by historic patterns.

- *Non-financial assets*

The book values of the Company's non-financial assets, other than inventory and deferred income tax, our reviewed at each reporting date for signs of impairment. If signs of impairment are detected, the recoverable value of the assets is then determined. In the case of intangible assets in development not yet available for use, the recoverable value is estimated every year at the same time.

The recoverable value of an asset or reporting unit is the higher of the value in-use and fair value minus selling expenses. When appraising the value in-use, the estimated future cash flows are discounted to their present values at a before-tax discount rate that reflects the current market terms regarding the capital recoverability period and the asset's specific risks.

For impairment testing purposes, assets that cannot be tested individually are grouped in the smallest group of assets that generate cash for continuous use and which are mainly independent from the cash flows from other assets or groups of assets ("reporting unit or UGC").

Impairment losses are recognized when the book value of an asset or its cash generating unit exceeds its estimated recoverable value. Impairment losses are charged to the income statement. For the financial year ended December 31, 2012 and 2011, the company did not identify any evidence of impairment of its non-financial assets.

(n) Other current and noncurrent assets and liabilities

An asset is recognized in the balance sheet when it is probable that its future economic benefits are generated in favor of the Company and its cost or value can be reliably measured. A liability is recognized in the balance sheet when the Company has a present or constructive obligation as a result of a past event, and it is probable that an outflow of economic resources will be required to settle it. When applicable, the corresponding charges and monetary or exchange variance incurred are added. Provisions are recorded considering the best estimates of the risk involved.

The assets and liabilities are classified as current when they will probably be realized or settled in the next twelve months. They are otherwise stated as non-current.

(o) Adjustment of assets and liabilities to present value

Monetary assets and liabilities are adjusted to their present value when the transaction is originally recorded, taking into account the contractual cash flows, the explicit and in certain cases implicit interest rate of the respective assets and liabilities and the rates charged on the market for similar transactions. This interest is subsequently reallocated to financial expenses and revenue in the income statement by the effective interest rate method for contractual cash flows.

(p) Income tax

The Company calculates income taxes based on the existing legislation, considering the legally established additions and exclusions. Deferred tax credits not used are recognized on temporary additions that become deductible when realized and tax losses, if applicable, when it is probable that future taxable earnings can be generated against which they can be offset. This is measured at the rates expected to apply to the temporary differences when they are reversed, based on the laws that have been decreed and substantially decreed by the reporting date. Deferred tax assets and liabilities are offset if there is a legal right to offset current tax assets and liabilities, and they are related to income taxes levied by the same tax authority on the same entities subject to taxation.

The Company has a tax benefit for exports that entails a reduction of income tax based on its operating income. Deferred tax charges are also made on temporary exclusions that will be taxed when the conditions that make them presently untaxable cease.

The Company has a final and unappealable decision in its favor which ruled that the social contribution on net income (“CSLL”) is unconstitutional. It is not therefore paying this contribution, as stated in note 19 (b).

(q) Statements of cash flow and added value

The statements of cash flow by the indirect method are prepared and presented in accordance with accounting pronouncement CPC 03 (R2) – Statement of Cash Flows. The statements of value added are prepared in accordance with accounting pronouncement CPC 09 – Statement of Added Value, and are being presented as supplementary information to the financial statements.

(r) Contingent assets and liabilities and present obligations

The Brazilian accounting practices for recording and disclosing contingent assets and liabilities and legal obligations are the following:

- Contingent assets are recognized only when there are tangible guarantees or favorable final and unappealable decisions in court cases. Contingent assets rated as probable victories are only disclosed in the notes to the financial statements.

- Contingent liabilities ranked as possible losses are only disclosed in a note to a financial statements, while contingent liabilities classified as remote losses are neither provided for nor disclosed.

- A provision is made for legal obligations when losses and resulting outflows are rated as probable and the amounts can be measured reasonably reliably.

- A provision is recognized for a past event when the Company has a legal or constructive obligation, and it is probable that an outflow of funds will be required to settle the obligation. Provisions are calculated by discounting future expected cash flows at a before-tax rate that reflects current market valuations regarding the value of the money over time and specific risks posed by the liability.

(s) Employee benefits

(i) Defined contribution plan

The defined-contribution plan is a retirement benefits plan under which an entity pays fixed contributions to a separate entity (ValiaPrev) and incurs no legal or constructive obligations to pay additional amounts. When the benefits of a plan are increased, the portion of the increase in the benefit related to past service of employees is recognized in the statement of income according to the straight line method during the average period until the benefits are realized. If the criteria for obtaining these benefits are met, the expenditure is recognized immediately in the statement of income. For the defined-benefit portion in the plan (ValiaPrev), which denotes the constructive obligation, the company makes the actuarial calculation and recognizes these obligations in net income.

(ii) Share-based payments

The fair value payable to employees relating to the long-term incentive plan, payable in cash, is recognized as an expense with a corresponding increase in the liabilities. The amount is revalued at least

once a year, at the end of each year and on the settlement date. Any changes in the liability's fair value are recognized as personnel expenses in the consolidated statement of operations.

(t) Financial income and financial expenses

Financial income includes interest earned on short-term investments and changes in the fair value of financial assets measured at fair value through profit and loss. Interest earned is recorded in the income statement by using the effective interest rate method.

Financial expenses include interest expenses on loans and financing, net of discounting the provisions to present value, changes in the fair value of financial assets measured by fair value through profit and loss, and impairment losses recognized in the financial assets. Loans and financing costs not directly attributable to the acquisition, construction or production of a quantifiable asset are recorded in profit and loss by the effective interest rate method.

Exchange gains and losses are reported net.

(u) Capital

Each common share entitles the holder thereof to one vote on General Meeting resolutions. Preferred shares are classified as shareholders' equity if they are not redeemable or can only be redeemed with the company's consent. The preferred shares do not afford voting rights, but are assured priority in capital reimbursements. Preferred shares yield a dividend that is 10% higher than that attributed to the common shares.

(v) Dividends

Minimum mandatory dividends paid to the Company's stockholders are recognized as a liability in the Company's financial statements at the end of the year, pursuant to its bylaws. The amounts referring to the portion exceedingly the minimum obligation required by law or the bylaws is held in a specific account in the shareholders' equity, and is only provisioned for when the permanent resolution is taken by the shareholders' Annual General Meeting.

(w) Accounting pronouncements

The Company prepared its individual and consolidated financial statements in accordance with accounting practices adapted in Brazil, based on the pronouncements issued by the Accounting Pronouncements Committee (CPC) and ratified by the appropriate regulatory agencies. The CPC's pronouncements applicable from January 01, 2013 will not be implemented in advance by the Company.

(i) Pronouncements, interpretations, guidelines or revisions issued by the Accounting Pronouncements Committee for adoption after December 31, 2012.

- **CPC 46 - Fair value measurement** – CPC pronouncement 46 was approved in December 2012, substantially similar to IFRS 13, which addresses the fair value measurement, which defines the concept of broad fair value to be applied in cases where it is required, and presents specific rules for disclosing fair value. The pronouncement has to be adopted from January 01 2013, and Samarco is not expecting material impacts on its financial statements from these updates.

- **CPC 33(R1) - Employee benefits** – CPC pronouncement 33 was approved in December 2012, rendering it substantially similar to IFRS 19, which changes the definition of short and long-term benefits to clarify the difference between the two. Samarco does not have defined-benefit plans and does not expect any impacts from this pronouncement. IAS 19 (2011) / CPC 33 (R1) is effective for annual periods commencing on or after January 01, 2013.

- **CPC 40 (R1) - Financial Instruments: Disclosure** – The revisions of pronouncement CPC 40 were approved in December 2012, rendering it substantially similar to IFRS 7. The amendments include minimum disclosure requirements for financial assets and liabilities offset in the balance sheet or subject to offsetting agreements or similar agreements. The amendments include a reconciliation of the gross and net financial assets and liabilities, separately demonstrating the amounts offset and not offset in the balance sheet. Samarco is evaluating the reporting requirements and does not expect significant effects from the application thereof. This standard is effective for annual periods starting on or after January 01, 2013.

- **CPC 35 (R2) Separate Financial Statements** - The revisions of pronouncement **CPC 35** were approved in December 2012, rendering it substantially similar to IAS 27. The amendments to IAS 27 outline the accounting and disclosure requirements for in investments in subsidiaries, joint ventures and associates, when an entity elects to or is required by local regulations to present separate financial statements. Samarco does not expect significant impacts from this pronouncement. This standard is effective for annual periods starting on or after January 01, 2013.

- **CPC 18 (R2) Investments in associates, subsidiaries and joint ventures -** The revisions of pronouncement CPC 18 were approved in December 2012, rendering it substantially similar to IAS 28. The objective of this standard is to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Samarco does not expect significant impacts from this pronouncement. This standard is effective for annual periods starting on or after January 01, 2013.

- **CPC 19 (R2) - Joint Arrangements** - The revisions of pronouncement CPC 19 were approved in December 2012, rendering it substantially similar to IFRS 11. The pronouncement addresses joint arrangements, which regulate the measurement, recognition and presentation of joint arrangement contracts and agreements for specific cases in which entities are not incorporated The pronouncement has to be adopted from January 01 2013, and Samarco is not expecting material impacts on its financial statements from these updates.

- **CPC 45 - Disclosure of Interests in Other Entities** – In December 2012 CPC pronouncement 45 was approved, substantially similar to IFRS 12. The pronouncement IFRS 12 addresses interests in entities, and in general determines the accounting treatment for investments in other entities, making reference to IFRS 10, IFRS 11, IAS 28 and IAS 27. The pronouncement has to be adopted from January 01 2013, and Samarco is not expecting material impacts on its financial statements from these updates.

- **CPC 36 (R3) – Consolidated Financial Statements –** The revisions of pronouncement CPC 36 were approved in December 2012, rendering it substantially similar to IFRS 10. The pronouncement IFRS 10 about consolidated financial statements, amongst other changes, creates a specific pronouncement for consolidated financial statements, determining that joint ventures should no longer be consolidated, clarifying aspects related to the definition of control and significant influence, and eliminating conflicts between this pronouncement IAS 28 and IAS 27. The pronouncement has to be adopted from January 01 2013, and Samarco is not expecting material impacts on its financial statements from these updates.

(ii) The standards, amendments to standards and IFRS interpretations listed below have not yet come into force for the period ended December 31, 2012, and no related standards and interpretations were issued by the Accounting Pronouncements Committee, as follows:

- **IFRS 9- Financial Instruments (2010) (2009) -** IFRS 9 (2009) introduces a new requirement for classifying and measuring financial assets. Under IFRS 9 (2009) financial assets are classified and measured based on the business model within which they are held and the contractual cash flow characteristics. IFRS 9 (2010) introduces additions for financial liabilities. The IASB currently has an active project to make limited alterations to the classification and measurement requirements of IFRS 9 and to add new requirements to address the impairment loss of financial assets and hedge accounting. This standard is effective for periods starting on or after January 01, 2015. The adoption of IFRS 9 (2010) should impact the Group's financial assets but not its financial liabilities.

  The Accounting Pronouncements Committee has not yet issued an accounting pronouncement or amended existing pronouncements related to this standard.

- **Amendments to IAS 01 Presentation of financial statements -** Amongst other items, this amendment requires an entity to separately present the items of other comprehensive income that could be reclassified to profit or loss in the future from those that will never be reclassified to profit and loss. Entities presenting items of other comprehensive income before the related tax effects will therefore also have to allocate the value of the tax aggregated between the sections. This standard is effective for periods starting on or after July 01, 2012.

- **Amendments to IAS 32 (2011)** – Offsetting Financial Assets and Financial Liabilities – In December 2011, IASB published IAS 32 - Financial Instruments: Presentation clarifying its requirements for offsetting financial instruments. These amendments come into force on January 01, 2014, and may be applied to an earlier accounting period.

- **Amendments to IFRS 10, 11 and 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance -** These amendments were limited to the re-presentation of comparisons for the period immediately prior . The entities that disclose comparative statements for more than period can maintain the unaltered additional comparative periods. The initial application date is now defined in IFRS 10 as the start of the annual reporting period in which a standard is applied for the first time. If the conclusion about the consolidation of an investee does not change on this date, no adjustment to the prior periods is required. These amendments come into force on January 01, 2013.

- **IFRIC Interpretation 20 - Stripping Cost in the Production Phase of a Surface Mine -** In October 2011 the IASB published IFRIC Interpretation 20, which provides guidelines as to how and when to recognize and measure costs of a surface mine. These amendments come into force on January 01, 2013, and may be applied to an earlier accounting period.

Samarco is not expecting material impacts on its financial statements from these updates.

3. CASH AND CASH EQUIVALENTS

The Company’s cash and cash equivalents break down as follows:

	Note	Parent Company		Consolidated	
Cash and bank deposits		2012	2011	2012	2011
Domestic		4,189	2,634	4,189	2,634
Foreign	(a)	502,876	225,076	503,726	225,507
Short-term investments					
Time Deposit / MMDA	(b)	-	-	14,978	12,716
Investment fund	(c)	139	29,148	139	29,148
		507,204	**256,858**	**523,032**	**270,005**

(a) Call accounts linked to the current accounts denominated in US dollars at overseas financial institutions, yielding the overnight Fed Fund rate.

(b) *Time Deposit* and MMDA (*Money Market Deposit Account*) short-term investments denominated in US dollars at overseas financial institutions, yielding the *US Treasuries bond rate*.

(c) The account "financial investment fund" refers to operations with domestic financial institutions that have immediately liquidity. It is linked to the current account, yielding 20% of the CDI rate (20% in 2011).

4. RESTRICTED SHORT-TERM INVESTMENTS

The Company's restricted short-term investments break down as follows:

	Parent Company		Consolidated	
Short-term investments	**2012**	**2011**	**2012**	**2011**
Restricted cash	-	-	249,028	230,539
	-	**-**	**249,028**	**230,539**

The Company has cash restricted in collection accounts through its subsidiary Samarco Finance Ltd., owing to the export prepayment of USD 800 million for the expansion project of the third plant (P3P). The restricted cash is withheld for up to 180 days before each debt repayment is due, limited to 120% of the debt service. This c*ollection* account is managed by Citibank, the agent of the syndicate of banks providing the financing and the amounts maintained are invested in the US$ Liquid Reserves Fund -Admin Shares at Goldman Sachs Bank.

The Company also has other accounts linked to bank financing loans, as detailed below:

- From Union Bank NY-Branch, linked to financing loans, amounting to USD 231 million, USD 335 million and USD 450 million.
- From BNP Paribas NY-Branch, linked to the export prepayment of USD 400 million.
- From JP Morgan NY-Branch, linked to the export prepayment of USD 150 million.
- From Banco do Brasil NY-Branch, linked to the export prepayment of USD 150 million.

For accounts at Union Bank, it is necessary to provide the resources for payment of the principal and interest 30 days in advance (loans of USD 231 million and USD 450 million) and 10 days in advance (loan of USD 335 million). For the account at BNP Paribas (loan of USD 400 million), it is necessary to provide the resources 10 days in advance. For the other accounts, the contracts state it is not necessary to provide funds in advance.

5. ACCOUNTS RECEIVABLE

The accounts receivables break down as follows:

	Note	Parent Company		Consolidated	
		2012	2011	2012	2011
Domestic customers		2,532	1,376	2,532	1,376
Foreign receivables	(a)	993,697	1,148,234	744,822	918,676
Estimated allowances for doubtful accounts	(b)	(2,848)	(192)	(2,932)	(279)
Provision for price reduction	(c)	-	(169,736)	-	(169,736)
		993,381	**979,682**	**744,422**	**750,037**

(a) R$ 353,004 of the foreign trade receivables of R$ 744,822 in 2012 are guaranteed by letters of credit or surety (R$ 389,895 in 2011). The remaining balance was released by analyzing each client's credit, in order to mitigate the risk of default.

(b) The estimated allowance for doubtful accounts (R$ 2,932 - 2012 and R$ 279 in 2011) is made based on an individual analysis of each customer for invoices more than 60 days overdue.

The Company's accounts receivables classified by aging break down as follows:

	Parent Company		Consolidated	
	2012	2011	2012	2011
Outstanding	739,449	941,756	733,963	913,332
Up to 30 days overdue	10,516	1,681	10,513	6,431
31 to 60 days overdue	-	17,901	-	10
61 to 90 days overdue	58,062	38,219	159	-
More than 90 days overdue	188,202	150,053	2,719	279
	996,229	**1,149,610**	**747,354**	**920,052**

(c) Due to expected price increases in 2012 it was not necessary to make a provision for price changes, unlike 2011 when the worsening of the international financial crisis meant prices were expected to fall, meaning it was necessary to record this provision.

6. INVENTORY

The inventory breaks down as follows:

	Parent Company and Consolidated	
	2012	2011
Finished goods	21,142	26,451
Goods in process	21,171	23,304
Consumables	63,739	52,740
Consumption and maintenance materials	223,273	163,081
Provision for loss of materials	(6,754)	(2,704)
Advances to suppliers	27,368	4,014
	349,939	**266,886**

In 2012 raw materials, consumables and changes in the finished goods and inventory in process, recognized in the subsidiary's sales costs, amounted to R$ 2,536,090 (R$ 2,551,273 in 2011) and R$ 2,536,323 (R$ 2,550,752) in the consolidated statements.

The Company appraised its inventory and concluded it was not exceeding its realization value. However, certain storeroom materials considered obsolete or slow-moving were subject to a provision for impairment of R$ 4,050 (R$ 1,160 in 2011).

Change of inventory of finished goods	Parent Company and Consolidated
	2012
Balance at December 31, 2011	**26,451**
Additions	2,510,253
Write-offs due to sale	(2,514,518)
Addition (write-off) of inventory adjustment	(1,938)
Other	894
Balance at December 31, 2012	**21,142**

7. RECOVERABLE TAXES

The balance of recoverable taxes breaks down as follows:

	Note	Parent Company		Consolidated	
		2012	2011	2012	2011
ICMS – MG	(a)	431,027	276,772	431,027	276,772
Provision for ICMS losses - MG	(a)	(431,027)	(276,772)	(431,027)	(276,772)
ICMS - ES	(b)	472,300	382,850	472,300	382,850
Provision for ICMS losses - ES	(b)	(472,300)	(382,850)	(472,300)	(382,850)
PIS and COFINS	(c)	147,243	85,380	147,243	85,380
Income tax recoverable	(d)	87,348	-	87,348	-
Other		336	931	405	974
Total		**234,927**	**86,311**	**234,996**	**86,354**
Current assets		234,880	82,043	234,949	82,086
Noncurrent assets		47	4,268	47	4,268

(a) The ICMS credits are classified as contingent assets as they rely on the outcome of litigation disputing the incidence of ICMS on the transfer of concentrate from Minas Gerais state to Espírito Santo state (see Note 19, b.3). The assessment notices have been made to the amount of the credits. The company accordingly believes made a provision for the loss of the entire balance of ICMS MG credits.

Changes in the provision for losses on ICMS - MG can be summarized as follows:

	Parent Company and Consolidated	
	2012	2011
Balance at beginning of year	(276,772)	(216,926)
Recognition of the provision for losses	(154,255)	(59,846)
Balance at end of year	(431,027)	(276,772)

(b) In view of the history of non-realization of ICMS tax credits held against Espírito Santo state, the Company elected to set up a provision to cover 100% of the credits.

Changes in the provision for losses on ICMS - ES can be summarized as follows:

	Parent Company and Consolidated	
	2012	2011
Balance at beginning of year	(382,850)	(319,492)
Recognition of the provision for losses	(89,450)	(63,358)
Balance at end of year	(472,300)	(382,850)

(c) The PIS and COFINS credits chiefly relate to the acquisition of material, consumables, energy, and property, plant and equipment, appropriation of which is taking place at the rate of 1/12 per month. These credits are realized monthly through offsetting against other federal taxes, especially Corporate Income Tax (IRPJ) payable.

(d) Recoverable income tax referring to overpayments from prior years.

8. OTHER ASSETS

Other assets break down as follows:

	Note	Parent Company		Consolidated	
		2012	2011	2012	2011
Current					
Advances to employees	(b)	19,835	3,578	19,914	3,579
Other	(c)	7,200	4,381	7,284	4,226
		27,035	**7,959**	**27,198**	**7,805**
Noncurrent					
COHESA	(a)	16,176	15,975	16,176	15,975
(-) Adjustment to present value COHESA	(a)	(1,284)	(729)	(1,284)	(729)
Advances to employees	(b)	-	14,553	60	14,642
Other	(c)	7,317	6,972	7,461	7,044
		22,209	**36,771**	**22,413**	**36,932**

(a) The Company passes through funds to COHESA (the Samarco Employees Housing Cooperative) on the basis of an arrangement to implement a housing plan signed March 1, 1994, aimed at financing property for employees, with terms varying from 8 to 25 years. The amounts are restated according to the collective pay rise awarded by the Company and will be received in full upon termination of the Samarco Housing Plan - PHS, i.e. upon full repayment of the financing by the employees. The COHESA balances are adjusted to present value in conformity with CPC 12. The interest rates charged of employees are below rates.

(b) On 10/5/2011 Samarco awarded a loan equal to 150% (one hundred and fifty percent) of the employee's base salary for September 2011, which will be deducted from payroll in August 2013 or deducted from the payment of severance fees in the event of contractual termination prior to 8/31/2013. The loan is subject to a clause in the collective employment agreements signed with the respective trade unions.

(c) The item others in current mainly consists of advances to service suppliers, and in noncurrent, of loans to employees.

9. INVESTMENTS

The Company recorded a gain of R$ 810 in 2012 (gain of R$ 2,376 in 2011) due to the equity gains of its subsidiaries.

In 2012 and 2011 the Company did not receive any dividends from investees under the equity income method.

None of the Companies subject to the equity income method have their stock traded on the stock exchange.

The table below summarizes the subsidiaries' financials:

	Interest	Number of shares or units	Current assets	Noncurrent assets	Total assets	Current liabilities	Noncurrent liabilities	Shareholders' equity	Total liabilities	Revenue	Costs and expenses	Other	Net income for the year
2011													
Samarco Finance Ltd.	100%	50,000	1,283,295	937,550	2,220,845	1,269,619	937,550	13,676	2,220,845	5,404,351	(5,404,663)	1,036	724
Samarco Iron Ore Europe B.V	100%	18,000	12,573	1,234	13,807	3,782	-	10,025	13,807	13,369	(11,731)	14	1,652
		Total	**1,295,868**	**938,784**	**2,234,652**	**1,273,401**	**937,550**	**23,701**	**2,234,652**	**5,417,720**	**(5,416,394)**	**1,050**	**2,376**
2012													
Samarco Finance Ltd.	100%	50,000	1,085,196	612,870	1,698,066	1,070,162	612,870	15,034	1,698,066	4,263,958	(4,263,824)	-	134
Samarco Iron Ore Europe B.V	100%	18,000	15,165	1,380	16,545	4,083	-	12,462	16,545	16,600	(15,819)	(105)	676
		Total	**1,100,361**	**614,250**	**1,714,611**	**1,074,245**	**612,870**	**27,496**	**1,714,611**	**4,280,558**	**(4,279,643)**	**(105)**	**810**

10. RELATED PARTIES

The balances of related party assets and liabilities as of December 31, 2012 and 2011, as well as the related-party transactions that affected income for the year, are the result of transactions between the Company and its shareholders, subsidiaries, key management professionals and other related parties.

Commercial purchase and sales transactions for goods, raw materials and the hiring of services, as well as financing transactions involving loans and the raising of funds between the Group's Companies are carried out under the conditions described below.

						Parent Company		Consolidated	
		Shareholders		Subsidiary					
	Note	BHP Billiton	Vale	Samarco Finance	Samarco Europe	Total 2012	Total 2011	2012	2011
Current assets									
Trade accounts receivable	(a)	-	287	658,617	-	**658,904**	**890,016**	**287**	**339**
Other accounts receivable		-	-	-	105	**105**	**2,095**	**-**	**1,762**
Current liabilities									
Trade payables	(b)	-	66,478	-	-	**66,478**	**69,311**	**66,478**	**69,311**
Commission payable	(d)	-	-	-	14,032	**14,032**	**12,044**	**-**	**-**
Financing	15	-	-	408,580	-	**408,580**	**375,020**	**-**	**-**
Financial charges	15	273	-	2,699	-	**2,972**	**4,143**	**273**	**273**
Dividends	22	330,789	330,789	-	-	**661,578**	**-**	**661,578**	**-**
Other (Mining Rights)	(c)	-	(26,463)	-	-	**(26,463)**	**-**	**(26,463)**	**-**
Noncurrent liabilities									
Financing	15	306,435	-	306,435	-	**612,870**	**937,550**	**306,435**	**281,265**
Statement of income									
Sales revenue	(a)	-	-	4,263,958	-	**4,263,958**	**5,404,351**	**-**	**-**
Cost	(b)	-	(617,348)	-	-	**(617,348)**	**(786,704)**	**(617,348)**	**(786,704)**
Operating expenses	(c)	-	(56,278)	-	-	**(56,278)**	**(110,753)**	**(56,278)**	**(110,753)**
Sales expenses	(d)	-	-	-	(16,600)	**(16,600)**	**(13,141)**	**-**	**-**
Financial expenses	15	(10,883)	-	(18,525)	-	**(29,408)**	**(26,044)**	**(10,883)**	**(8,181)**

(a) The balance of accounts receivable and sales revenue of the subsidiary Samarco Finance entails the sale of iron ore acquired from the Parent Company and sold on the international market to other companies.

(b) Related to the acquisition of iron ore fines direct from the shareholder Vale, for use in production. R$ 84,615 of the acquisitions in 2012 remained in the inventory (R$ 82,296 in 2011).

(c) The Company pays its shareholder Vale for the assignment of mining rights to iron ore geological resources. These amounts are calculated at the rate of 4% of dividends paid (see Note 12).

(d) Agency commission paid to the subsidiary Samarco Europe for intermediating in iron ore sales.

Samarco sponsors Fundação Vale do Rio Doce de Seguridade Social – ValiaPrev, which provide participants and their dependents supplementary benefit or benefits similar to those offered by the official basic pension scheme. Details of this plan can be seen in Note 16.

The compensation of key management staff has been presented below:

	2012	2011
Compensation (i)	19,348	19,960
Medical assistance plan	204	69
Private pension	1,158	1,072
Life insurance	95	77
Total	**20,805**	**21,178**

(i) Includes wages, salaries, profit shares, bonuses and indemnification.

Key management personnel are considered to be members of the statutory executive board and general managers.

11. PROPERTY, PLANT AND EQUIPMENT

The Company made a number of investments throughout 2012 to raise its production capacity and the productivity of its industrial plants, in addition to ensuring operational continuity and improvements, replacing equipment of the industrial plants and achieving sustainable development in accordance with the standards, policies and legislation regarding the environment and health and safety.

The Company's property, plant and equipment breaks down as follows:

	Parent Company									
	Note	Land	Industrial facilities (buildings, machinery and equipment)	Ore pipeline and correlated system	Plant decommissioning	Data processing equipment and furniture and fixtures	Vessels and vehicles	Tools, rotating assets and mass assets	Construction assets	Total
COST										
Balance at December 31, 2011		**25,359**	**3,869,645**	**1,581,904**	**37,508**	**56,338**	**66,352**	**52,554**	**1,493,576**	**7,183,236**
Additions	(a)	-	-	-	-	-	-	-	3,111,104	3,111,104
Capitalized interest	(a)	-	-	-	-	-	-	-	89,046	89,046
Transfers - Inbound	(b)	135	88,335	54,862	31,519	17,691	15,409	23,843	-	231,794
Transfers - Outbound	(b)	(23)	(1,294)	-	-	(65)	(1)	(79)	(208,537)	(209,999)
Sales	(c)	-	(6,111)	(4,205)	-	(212)	(46)	(5)	-	(10,579)
Effect of exchange rate variance	(d)	2,444	357,149	152,169	(11,393)	7,424	8,605	8,522	181,891	706,811
Balance at December 31, 2012		**27,915**	**4,307,724**	**1,784,730**	**57,634**	**81,176**	**90,319**	**84,835**	**4,667,080**	**11,101,413**
ACCUMULATED DEPRECIATION										
Balance at December 31, 2011		**-**	**(1,443,496)**	**(505,597)**	**(2,644)**	**(30,580)**	**(42,510)**	**(9,920)**	**-**	**(2,034,747)**
Depreciation in the period	(e)	-	(129,978)	(43,851)	(828)	(7,935)	(4,663)	(3,268)	-	(190,523)
Transfers - Inbound	(b)	-	(65)	(307)	-	(28)	-	-	-	(400)
Transfers - Outbound	(b)	-	362	-	-	5	1	32	-	400
Sales	(c)	-	4,355	3,674	-	150	45	4	-	8,228
Effect of exchange rate variance	(d)	-	(148,237)	(57,745)	(157)	(3,396)	(4,688)	(1,165)	-	(215,388)
Balance at December 31, 2012		**-**	**(1,717,059)**	**(603,826)**	**(3,629)**	**(41,784)**	**(51,815)**	**(14,317)**	**-**	**(2,432,430)**
NET BOOK AMOUNT										
December 31, 2011		25,359	2,426,149	1,076,307	34,864	25,758	23,842	42,634	1,493,576	5,148,489
December 31, 2012		27,915	2,590,665	1,180,904	54,005	39,392	38,504	70,518	4,667,080	8,668,983

	Consolidated									
	Note	Land	Industrial facilities (buildings, machinery and equipment)	Ore pipeline and correlated system	Plant decommissioning	Data processing equipment and furniture and fixtures	Vessels and vehicles	Tools, rotating assets and mass assets	Construction assets	Total
COST										
Balance at December 31, 2011		**25,359**	**3,869,645**	**1,581,904**	**37,508**	**56,772**	**66,352**	**52,554**	**1,493,576**	**7,183,670**
Additions	(a)	-	-	-	-	-	-	-	3,111,104	3,111,104
Capitalized interest	(a)	-	-	-	-	-	-	-	89,046	89,046
Transfers - Inbound	(b)	135	88,335	54,862	31,519	17,727	15,409	23,843	-	231,830
Transfers - Outbound	(b)	(23)	(1,294)	-	-	(65)	(1)	(79)	(208,537)	(209,999)
Sales	(c)	-	(6,111)	(4,205)	-	(212)	(46)	(5)	-	(10,579)
Effect of exchange rate variance	(d)	2,444	357,149	152,169	(11,393)	7,465	8,605	8,522	181,891	706,852
Balance at December 31, 2012		**27,915**	**4,307,724**	**1,784,730**	**57,634**	**81,687**	**90,319**	**84,835**	**4,667,080**	**11,101,924**
ACCUMULATED DEPRECIATION										
Balance at December 31, 2011		**-**	**(1,443,496)**	**(505,597)**	**(2,644)**	**(30,936)**	**(42,510)**	**(9,920)**	**-**	**(2,035,103)**
Depreciation in the period	(e)	-	(129,978)	(43,851)	(828)	(7,956)	(4,663)	(3,268)	-	(190,544)
Transfers - Inbound	(b)	-	(65)	(307)	-	(28)			-	(400)
Transfers - Outbound	(b)	-	362		-	5	1	32	-	400
Sales	(c)	-	4,355	3,674	-	150	45	4	-	8,228
Effect of exchange rate variance	(d)	-	(148,237)	(57,745)	(157)	(3,433)	(4,688)	(1,165)	-	(215,425)
Balance at December 31, 2012		**-**	**(1,717,059)**	**(603,826)**	**(3,629)**	**(42,198)**	**(51,815)**	**(14,317)**	**-**	**(2,432,844)**
NET BOOK AMOUNT										
December 31, 2011		25,359	2,426,149	1,076,307	34,864	25,836	23,842	42,634	1,493,576	5,148,567
December 31, 2012		27,915	2,590,665	1,180,904	54,005	39,489	38,504	70,518	4,667,080	8,669,080

(a) The additions include the main projects and investments concluded and still under construction as of December 31, 2012:

Works in progress - Main projects	Start date	Expected conclusion	12/31/2012	12/31/2011
Fourth Pelletizing Project	2011	2014	2,518,815	889,304
Drainage system of storage yards A and B	2010	2013	16,704	914
Installation of electrostatic precipitators	2009	2013	49,908	52,313
Germano basic grid connection	2010	2013	121,617	48,644
Mobile equipment shop	2011	2014	35,806	14,387
Replacement of 267 grate cars of Plant 1	2011	2013	32,144	25
Implementation of *Wind Fence* in the pellets and iron ore fines yards	2011	2013	48,434	4,313
Replacement of ventilator 55VT03 of plant 1	2011	2013	13,997	11,182
Total			**2,837,425**	**1,021,082**

(b) The investments to be recorded in property, plant and equipment are recorded in Assets under construction. Once these investments are concluded and have come into operation, the assets are capitalized (transferred) to the respective accounts of property, plant and equipment and intangible assets, depending on the accounting nature of each item. Loans and financing costs were recorded in the year ended December 31, 2012 of R$ 89,046 (R$ 22,992 in 2011) referring to financing to carry out several projects (concentrator I and II, Germano high-voltage grid, electrostatic precipitator, coolers of plants 1 and 2, vehicle workshop, wind fence data center, new reception, storage yards, Ubu security, and the fourth pelletizing plant project, of which R$ 78,681 was recorded in 2012), subject to a capitalization rate of up to 2.99% a year.

(c) Disposals in 2012 largely consist of plant and equipment written off as scrap (vibratory screens, grate cars, belt feeders, voltage transformer, furnace fan).

(d) The effect of the exchange rate variance resulted from translating the financial statements from the Functional Currency (US dollars) to the Reporting Currency (Real).

(e) Depreciation of property, plant and equipment is calculated according to the expected useful life of the assets, based on the units produced method for the items directly related to the respective productive areas and based on the straight-line depreciation method for the rest. The table below denotes the useful life for each type of asset.

Property, plant and equipment account	Average weighted useful life as of 12/31/2012	Years of depreciation at 12/31/2012	Average weighted useful life as of 12/31/2011	Years of depreciation at 12/31/2011
Buildings	32	10 to 50	33	10 to 50
Machinery and equipment	20	10 to 50	19	10 to 50
Ore pipeline and correlated system	19	20 to 43	19	20 to 43
Electronic data processing equipment	5	5	5	5
Plant decommissioning	43	43	43	43
Furniture and fixtures	9	10	9	10
Vessels	18	9 to 24	18	9 to 24
Vehicles	12	4 to 25	12	4 to 25
Tools	13	10 to 25	13	10 to 25
Rotating assets	23	10 to 27	22	10 to 27
Mass assets	23	5 to 24	23	5 to 24

- Analysis of recoverable value

In the year the Company appraised the existence of indicators that certain assets of its property, plant and equipment might be recorded at amounts above their recoverable amounts. No assets were identified with amounts recorded above their recoverable amounts.

- Review of useful life

In compliance with technical pronouncement CPC 27 - Property, plant and equipment, in the course of 2012 the Company concluded that the residual useful lives of its industrial complex were expiring normally, as there had been no changes to the expected use of the asset, that is appraised based on the physical production or capacity expected of it. Furthermore, operational factors, such as number of shifts during which assets will be used, repair and maintenance schedules, obsolescence caused by production enhancements or changes, and market demand for the product or service derived from the asset, did not change the normal physical expected wear and tear. There were therefore no changes to the standard uses of Samarco's property, plant and equipment in 2012, i.e. the useful lives are compatible with the expected benefit of the industrial complex.

- Residual value

It is Company policy to extend the use life of its assets as much as possible by carrying out preventive and corrective maintenance. These policies enable the company to maintain its assets in a perfect state of repair and operation for lengthy periods of time until they become obsolete or are scrapped.

- Pledged assets

At December 31, 2012 the Company had assets pledged as collateral in judicial proceedings. These assets are recorded under Property, Plant and Equipment as machinery and equipment, vessels and related systems, amounting to approximately R$ 136,736 (R$ 136,665 in 2011).

(f) Below are summary descriptions of the Property, Plant and Equipment accounts:

- Real estate - properties essentially hosting industrial, engineering and office buildings.

- Buildings - essentially industrial buildings, office buildings, parking lots, streets, and water and sewer systems.

- Vessels - boats, barges and dredges.

- Machinery and equipment - essentially the machinery and equipment used directly or indirectly in our industrial processes.

- Systems - assets used exclusively at industrial sites but without separate identification or dedicated drives. Systems also include any industrial installations shared in common by more than one industrial facility, particularly underground slurry pipelines (carrying iron ore concentrate as a slurry).

- Data processing equipment - equipment in general used in information systems, also referred to as hardware. This account also includes remote processing, data storage and network items used in production, engineering and administrative processes;

- Furniture and fixtures - essentially furniture and fixtures used in production, engineering and office areas.

- Vehicles - essentially industrial vehicles and cars.

- Tools - small manual or electric tools used to support operations in production areas.

- Rotating assets - parts used exclusively in production areas.

- Mass assets - assets in general, normally of small size and value, that can be treated as assemblies.

- Assets under construction - essentially expansion projects at industrial facilities (fourth pellet plant project) and short-term investments in maintaining current operations.

12. INTANGIBLE

The Company's intangible assets break down as follows:

	Parent Company					
	Note	Right of way (e)	Rights mining (d)	Other rights	Application systems software (f)	Total
COST						
Balance at December 31, 2011		**6,988**	**23,720**	**1,083**	**46,541**	**78,332**
Transfers - Inbound	(a)	-	-	-	9,841	9,841
Transfers - Outbound	(a)	-	-	-	(115)	(115)
Sales		-	-	-	-	-
Effect of exchange rate variance	(b)	625	2,121	96	5,583	8,425
Balance at December 31, 2012		**7,613**	**25,841**	**1,179**	**61,850**	**96,483**
ACCUMULATED AMORTIZATION						
Balance at December 31, 2011		**(2,250)**	**(15,153)**	**(1,079)**	**(34,862)**	**(53,344)**
Amortization in the period	(c)	(87)	(163)	-	(6,005)	(6,255)
Transfers - Inbound	(a)	-	-	-	-	-
Transfers - Outbound	(a)	-	-	-	2	2
Sales		-	-	-	-	-
Effect of exchange rate variance	(b)	(239)	(1,419)	(97)	(3,706)	(5,461)
Balance at December 31, 2012		**(2,576)**	**(16,735)**	**(1,176)**	**(44,571)**	**(65,058)**
NET BOOK AMOUNT						
December 31, 2011		4,738	8,567	4	11,679	24,988
December 31, 2012		5,037	9,106	3	17,279	31,425

	Consolidated					
	Note	Right of way (e)	Rights mining (d)	Other rights	Application systems software (f)	Total
Cost						
Balance at December 31, 2011		**6,988**	**23,720**	**1,083**	**46,542**	**78,333**
Transfers - Inbound	(a)	-	-	-	9,841	9,841
Transfers - Outbound	(a)	-	-	-	(115)	(115)
Sales		-	-	-		
Effect of exchange rate variance	(b)	625	2,121	96	5,583	8,425
Balance at December 31, 2012		**7,613**	**25,841**	**1,179**	**61,851**	**96,484**
ACCUMULATED AMORTIZATION						
Balance at December 31, 2011		**(2,250)**	**(15,153)**	**(1,079)**	**(34,861)**	**(53,343)**
Amortization in the period	(c)	(87)	(163)	-	(6,005)	(6,255)
Transfers - Inbound	(a)	-	-	-	-	-
Transfers - Outbound	(a)	-	-	-	2	2
Sales		-	-	-	-	-
Effect of exchange rate variance	(b)	(239)	(1,419)	(97)	(3,706)	(5,461)
Balance at December 31, 2012		**(2,576)**	**(16,735)**	**(1,176)**	**(44,570)**	**(65,057)**
NET BOOK AMOUNT						
December 31, 2011		4,738	8,567	4	11,681	24,990
December 31, 2012		5,037	9,106	3	17,281	31,427

(a) The investments and expenditure to be recorded in intangible assets are recorded in Assets under construction in the property, plant and equipment. Once these investments are concluded and have come into operation, the assets are capitalized (transferred) to the respective accounts of intangible assets, depending on the accounting nature of each item.

(b) The effect of the exchange rate variance resulted from translating the financial statements from the functional currency (US dollars) to the reporting currency (Real).

(c) Amortization of the intangible assets is calculated according to the expected useful life of the iron ore mines owned by the Company, for the Right of way and Mining Rights and the straight-line method for the rest. The table below denotes the useful life for each type of asset.

Intangible account	Average weighted useful life as of 12/31/2012	Years of amortization at 12/31/2012	Average weighted useful life as of 12/31/2011	Years of amortization at 12/31/2011
Right of way	43	43	43	43
Mining rights	43	43	43	43
Other rights	14	15	14	15
Applications and software	5	5	5	5

(d) Mining rights

In November 1989 the Company and Vale signed a mining rights transfer agreement for iron ore deposits, whereby Vale assigned and transferred to Samarco prospecting rights for its ore reserves.

The value of the contract considered the payment of the following amounts for mining rights: (i) Payment of a fixed/determined amount equal to R$ 19,972, and (ii) Variable payments equal to 4% of the dividends paid by Samarco to its shareholders through depletion of the reserves.

The price agreed to in the agreement is not fixed, and nor was it established as a percentage of the gross dividends paid out.

For the year ended December 31, 2012 the payments totaled R$ 29,815 (R$ 110,753 in 2011).

(e) Right of way

Right of way consist of rights acquired to use the right of way on the ground. These rights were awarded in February 1975 by decree 75424/75.
The company uses this right to lay underground ore pipelines (pipelines to transport iron ore slurry - ore and water), which makes it possible to integrate Samarco's productive process at low cost, connecting the industrial concentration plants located in the municipalities of Mariana and Ouro Preto in Minas Gerais state to the pelletizing plants in Anchieta, Espírito Santo state.

(f) Applications and software

This includes software used under license or source code – including copyright and proprietary rights – developed by third parties or internally.

- Research and development

The Company incurred research and development expenses of R$ 53,875 (R$ 57,508 in 2011), which were recognized as expenses in the year 2012.

13. TRADE PAYABLES

The balance of trade payables breaks down as follows:

	Note	Parent Company		Consolidated	
		2012	2011	2012	2011
Domestic customers		262,767	212,156	262,763	212,154
Foreign customers		8,689	19,950	8,720	19,954
Related-party transactions	10	66,478	69,311	66,478	69,311
		337,934	**301,417**	**337,961**	**301,419**

14. ADVANCES ON EXCHANGE CONTRACTS

Advances on exchange contracts ("ACC") commonly involve short-term loans intended to finance the Company's working capital requirements. The maturities are scheduled for the period January through March 2013, settlement of which will occur by linking amounts to future exports of the Company's products. This financing is denominated in U.S. Dollars and is subject to interest rates between 0.95% and 1.10% per annum (0.86% to 2.17% p.a. in 2011) with varying terms. The variance in the aforesaid interest rates is due to effects arising on the domestic and international financial markets over the course of the period and contracted terms. The interest is fixed when the funds are borrowed and established based on the LIBOR in effect on this date plus the bank spread (the "All In Rate").

	Average interest rate	Parent Company and Consolidated	
		2012	2011
Various Financial institutions	1.04%	404,908	1,243,879
		404,908	**1,243,879**

As of December 31, 2012 the provision for interest on ACC operations was as follows:

	Principal value	Provision for interest
0 % to 1%	102,245	243
1 % to 2 %	302,663	745
	404,908	**988**

15. LOANS AND FINANCING

Loans and financing are instruments commonly used by the Company to finance its long-term-projects and ventures. They particularly consist of transactions with maturities exceeding 1 (one) year, usually denominated in US dollars.

	Parent Company				Consolidated	
	Current	Noncurrent	Total 2012	Total 2011	Total 2012	Total 2011
Foreign transactions (Prepayment)	-	4,527,066	4,527,066	1,811,347	5,242,081	2,842,652
Foreign transactions with related parties (prepayment)	408,580	612,870	1,021,450	1,312,570	306,435	281,265
Local currency borrowings	917	3,957	4,874	6,774	4,874	6,774
Total	**409,497**	**5,143,893**	**5,553,390**	**3,130,691**	**5,553,390**	**3,130,691**
Current	409,497	-	409,497	379,772	409,497	379,772
Noncurrent	-	5,143,893	5,143,893	2,750,919	5,143,893	2,750,919

The primary financing transactions in 2012 were:

(i) Financing of US$ 1 billion raised during the third quarter of the year through an offshore bond issue with a total maturity of ten years and repayment on final maturity, carrying fixed interest paid semiannually; and

(ii) A direct loan secured by credit insurance from Nippon Export and Investment Insurance (“NEXI”), with a total maturity of eleven years and repayment on final maturity, carrying interest of Libor plus the bank spread, paid semiannually.

Two installments of USD 100 million were amortized in 2012 under the early export payment amounting to USD 800 million, referring to the financing of a project to construct the third pelletizing plant (P3P).
As of December 31, 2012 the provision for interest on long-term loans and financing was subject as follows for the parent company and consolidated statements:

	Principal value	Provision for interest
1% to 2 %	1,391,215	5,423
2% to 3%	1,501,532	5,771
3% to 4%	612,870	546
Over 4%*	2,047,773	15,939
	5,553,390	**27,679**

** Note: includes* bonds *at a fixed cost (cupom) of 4.125% pa.*

As of December 31, 2012 the long-term loans and financing payments were subject to the following maturities:

	Parent Company and Consolidated
2014	735,314
2015	935,648
2016	118,488
2017	118,488
2018	802,860
2019	118,488
2020	118,488
2021	51,073
2022	2,093,973
2023	51,073
	5,143,893

Guarantees and obligations - loans and financing

The Company's non-current financing is guaranteed by promissory notes and is primarily linked to previously defined export receivables. These financing loans are subject to covenants. Some covenants are related to debt ratios (“*Total Debt / EBITDA” and “Net Debt/ EBITDA*”), which may not exceed 3:1; the aforesaid ratios stood at 1.7x and 1.59x respectively in 2012.

Company Management confirmed all contractual covenants were being complied with as of December 31, 2012.

16. EMPLOYEE BENEFITS

16.1 Retirement benefits

Samarco sponsors Fundação Vale do Rio Doce de Seguridade Social (ValiaPrev), a multi-sponsor, multi-plan entity managing benefits plans with asset independence and providing participants and their dependents with benefits supplementary, or similar, to Official Basic Social Security benefits. The plan is a defined-contribution plan and offers the following benefits:

» Normal retirement income
» Early retirement income
» Supplementary disability retirement
» Supplementary pension for death
» Pension income for death
» Deferred benefit income for voluntary departure from Company

» Supplementary annual bonus
» Annual income bonus.
» Redemption.

The plan is supported by regular contributions precisely matching participant contributions and limited to 9% of the amount by which contribution salaries exceed 10 reference plan units, as well as by contributions to support risk benefits (disablement and death at work) and plan administration expenses.

In accordance with CPC 33, the Company discloses information as follows:

The Company records the expenses and obligations related to the pension benefits offered to its employees when they retire, based on a specific actuarial appraisal report.

The actuarial appraisal report calculated the retirement benefits considering the definitions contained in the regulations that concern eligibilities, benefit formulas and means of readjustment.

The actuarial report appraised the defined-benefit portion in the plan, which denotes the constructive obligation referring to supplementary retirements, pension for death and annual bonus, denominated Risk Plan and retirement income. However, in the financial year ended December 31, 2012 there were no changes to the Company's informal practices which could generate a positive obligation in accordance with item 52 of CPC 33.

1 – Change in actuarial obligation (VPO)

	2012	2011
Present value of the actuarial liability at the beginning of the year	16,490	11,558
Current service cost	1,042	645
Interest on actuarial obligation	1,678	1,225
Actuarial gains(losses)	8,201	3,493
Benefits paid directly by the Company	(462)	(432)
Present value of the actuarial liability at the end of the year	26,949	16,489

2 – Change in fair value of the assets

	2012	2011
Fair value of assets at start of year	19,840	15,788
Real return on investments	5,436	2,722
Contributions paid by the Company	2,060	1,761
Benefits paid	(462)	(432)
Fair value of assets at end of year	26,874	19,839

3 – Expenses recognized in the statements of income

	2012	2011
Current service cost of the company	1,042	645
Interest cost	1,679	1,225
Expected return on the plan's assets	(2,595)	(1,927)
Recognition of actuarial (gain)/losses	5,285	2,698
Expenses/(revenue) before special events	**5,411**	**2,641**
Restriction of the asset due to the limit (item 58 CPC 33)	(3,350)	(880)
Expenses/(revenue) to be recognized as December 31	**2,061**	**1,761**

4 – Change in the net liability/asset to be recognized in the balance sheet as per CPC 33

4.1 – Position of disclosure

	2012	2011
Present value of obligation (VPO)	(26,949)	(16,490)
Fair value of the assets	26,874	19,840
Present value of the net liability of the plan's assets	**(75)**	**3,350**
Past service not recognized	-	-
Unrecognized actuarial (gains) / losses	75	-
Restriction of the asset due to the limit (item 58 CPC 33)	-	(3,350)
Net total (liability)/assets to be recognized	-	-

4.2 – Change in net total (liability)/assets

	2012	2011
Net total (liability)/asset at beginning of year	-	-
Net annual (Expenses)/revenue recognized	(2,061)	(1,761)
Contributions paid by the Company	2,061	1,761
Net total (liability)/asset at end of year	-	-

5 – Historical information

	2012	2011
Present value of obligation (VPO)	(26,949)	(16,490)
Fair value of the plan's assets	26,874	19,840
Deficit/(surplus) of the plan	**(75)**	**3,350**
Unrecognized actuarial (gains) / losses	75	-
Limit restriction on a defined benefit asset	-	(3,350)
Net total (liability)/asset at end of year	**-**	**-**

6 – Expected cash flows

The Company expects to incur the following disbursements in the next financial year:

	12/31/2013
Company Contributions	2,231
Participant contributions	-
Benefits paid directly by the Company	-
Benefits paid by the plan	601

7 - Actuarial assumptions

	2012	2011
Economic		
Discount rate	8.68 % per year	10.35 % per year
Salary growth rate	6.59 % per year	6.59 % per year
Inflation	4.50 % per year	4.50 % per year
Benefits growth	4.50 % per year	4.50 % per year
Return on noncurrent assets	8.68 % per year	12.66 % per year
Capacity factor		
Salaries	100%	100%
Benefits	100%	100%
Demographic		
Mortality table	AT-1983 (H)	AT-1983 (H)
Mortality table of disabled people	AT-1983 (H)	AT-1983 (H)
Disability rate table	Aggravated Álvaro Vindas of 3.0	Aggravated Álvaro Vindas of 3.0
Turnover rate	Nil	Nil
Retirement age	First age entitled to one of the benefits	First age entitled to one of the benefits
% of active participants married at retirement	95%	95%
Age difference between participant and spouse	Wives are 4 years younger than husbands	Wives are 4 years younger than husbands

8 – Summary of participants' data

		12/31/2012	12/31/2011
Active and self-sponsored employees			
	Number	2,452	2,290
	Average age	36.50	36.40
	Average length of service	8.65	8.59
	Annual average payroll	61,247	55,841
Participants with assisted benefits			
	Number	73	85
	Average age	53	54
	Annual average payroll	16,582	19,482
Participants with deferred benefits			
	Number	1	1
	Average age	62	63
	Annual average payroll	6,618	6,735

9 – The plan's assets are administered as follows:

Assets by category		12/31/2012	12/31/2011
	Fixed income	225,149	154,226
	Variable income	52,109	40,924
	Structured investments	-	-
	Overseas investments	-	-
	Property	-	-
	Loans	40,529	28,680
		317,787	223,830

16.2 Other employee benefits

The Company additionally offers employee benefits such as a health care plan (self-managed and contributed to by employees for expenses incurred) entitled Assistência Médica Supletiva (A.M.S), which is also extended to dependents. The plan covers outpatient, inpatient and dental care as well as medication for beneficiaries and is ensured by a Collective Labor Agreement. Plan management fees are fully borne by the Company.

Expenses on other benefits were recognized in the statement of income as follows:

	Parent Company		Consolidated	
Expenses on other benefits	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Compensation and charges	(261,372)	(220,842)	(265,478)	(223,572)
Social security charges	(51,177)	(44,197)	(51,177)	(44,197)
Retirement plan benefits	(10,425)	(8,492)	(10,846)	(8,670)
Meal vouchers	(15,205)	(11,754)	(15,205)	(11,754)
Medical assistance	(13,461)	(10,009)	(13,539)	(10,026)
Other	(19,668)	(15,659)	(21,063)	(16,164)
	(371,308)	(310,953)	(377,308)	(314,383)

16.3 Stock-based payments

The long-term incentive plan (ILP) was introduced in 2011, with the aim of attracting, retaining and sharing Samarco's growth with its executives.

The phantom stocks awarded to participants were calculated by a formula that takes into account a multiple of each participant's annual salary, calculated in accordance with the plan's regulations. The phantom stocks can be exercised on the third anniversary of the concession date. At any time the Company may amend the respective regulations or suspend or close the plan.

The fair value at the concession date of the phantom stocks was calculated, based on a Monte Carlo sampling. The predicted volatility is estimated by considering the volatility of the average historic price of our shareholder's shares in the market, for a term of three years. The data used to calculate the plan's fair values based on the equity interest are as follows:

Fair value of shares and assumptions	Parent Company and Consolidated	
	2012	2011
Value of the shares	68.45	100.00
Strike value	-	-
Projected volatility (average weighted volatility)	13.75%	14.30%
Dividends forecast	0%	0%
Risk-free interest rate (based on government bonds)	5.675%	5.675%

This plan's expenses were approximately R$ 1,740 as of December 31, 2012, included in the consolidated statement, and are classified as operating expenses related to employee benefits.

17. PAYROLL, PROVISIONS AND SOCIAL CONTRIBUTIONS

The balance of payroll, provisions and contributions is shown below:

	Parent Company		Consolidated	
	2012	2011	2012	2011
Provision for profit sharing	39,000	36,300	41,004	37,459
Vacations payable	26,024	22,707	26,049	22,698
Employees INSS	4,349	3,778	4,349	3,778
FGTS payable	1,751	2,340	1,751	2,340
Provision for share-based remuneration plan	1,740	-	1,740	-
Other	1,244	1,056	1,249	1,124
	74,108	**66,181**	**76,142**	**67,399**

18. TAXES PAYABLE

The balance of taxes payable is shown below:

	Parent Company		Consolidated	
	2012	2011	2012	2011
ISS withheld	7,898	5,328	7,898	5,328
INSS retained from third parties payable	7,965	4,869	7,965	4,869
IRRF payable	4,920	4,349	5,028	4,412
INSS DIFAL payable	3,119	2,491	3,119	2,491
CFEM payable	2,539	2,151	2,539	2,151
COFINS withheld	1,556	1,011	1,556	1,011
Other	988	596	988	596
	28,985	**20,795**	**29,093**	**20,858**

19. PROVISION FOR CONTINGENCIES

The Company is party to judicial and administrative proceedings in various courts and government agencies, arising from the normal course of operations, basically involving tax, civil, labor and environmental issues.

Based on the information and opinions of its internal and external legal advisors, Management has made a provision for contingencies to an amount considered sufficient to cover cases rated as probable losses.

In 2012 the balance of judicial deposit referring to the provisions for present obligations was R$ 30,703 (R$ 30,502 in 2011) and the balance of judicial deposits without provisions remained in the assets at the amount of R$ 148,746 (R$ 94,146 in 2011).

The changes in the Company's provision for legal obligations losses are as follows:

	Parent Company and Consolidated					
	12/31/2011	Additions	Reversals	Incurred	Charges	12/31/2012
Tax proceedings	265,777	-	(3,770)	-	6,782	268,789
(-) Judicial tax deposits	(28,888)	-	207	-	-	(28,681)
Civil claims	46,758	1,801	(170)	-	13,543	61,932
Labor claims	6,248	1,008	(1,353)	-	3,475	9,378
(-) Judicial labor deposits	(1,614)	(604)	196	-	-	(2,022)
Environmental proceedings	2	-	-	-	-	2
	288,283	**2,205**	**(4,890)**	**-**	**23,800**	**309,398**

The provisions break down as follows:

Parent company and consolidated	Note	2012			2011		
		Provision	Judicial deposits	Net	Provision	Judicial deposits	Net
Tax proceedings							
IRPJ - Summer Plan	(a.1)	41,366	-	41,366	40,023	-	40,023
IRPJ - Real Plan	(a.2)	44,458	-	44,458	43,230	-	43,230
IRPJ - CMB	(a.3)	36,537	-	36,537	35,408	-	35,408
ECE - ES	(a.4)	15,089	(15,089)	-	15,089	(15,089)	-
ECE - MG	(a.4)	12,547	(12,547)	-	12,547	(12,547)	-
PIS - Law 9718/98	(a.5)	10,830	-	10,830	10,545	-	10,545
IRPJ - Tax Loss - PAES	(a.6)	40,983	-	40,983	39,792	-	39,792
ICMS - Fine - Muniz Freire - ES	(a.7)	10,758	-	10,758	10,758	-	10,758
ICMS - Rate Differential Property, Plant and Equipment - ES	(a.8)	30,398	-	30,398	29,273	-	29,273
IRPJ - IRRF	(a.9)	19,236	-	19,236	18,843	-	18,843
Attorneys' fees	(a.10)	2,911	-	2,911	5,725	-	5,725
Other		3,676	(1,045)	2,631	4,544	(1,252)	3,292
Total provision for tax proceedings		**268,789**	**(28,681)**	**240,108**	**265,777**	**(28,888)**	**236,889**
Other							
Civil claims	(a.11)	61,932	-	61,932	46,758	-	46,758
Labor claims		9,378	(2,022)	7,356	6,248	(1,614)	4,634
Environmental proceedings		2	-	2	2	-	2
		71,312	**(2,022)**	**69,290**	**53,008**	**(1,614)**	**51,394**
Total of provision for legal obligations		**340,101**	**(30,703)**	**309,398**	**318,785**	**(30,502)**	**288,283**

(a) Legal obligations provided for the Company:

Note	Description	Status	2012	2011
(a.1)	Court proceeding filed to maintain the procedure for deducting depreciation, depletion and the derecognition of permanent asset, by applying the variance of the IPC index for January 1989.	Pending decision at the appeal court (2nd judicial instance).	41,366	40,023
(a.2)	Court proceeding filed to apply variance of the IGP-M price index for the months of July and August 1994 relating to the depreciation, depletion and the derecognition of property, plant and equipment and intangible assets from the calculation of IRPJ.	Pending decision at the appeal court (2nd judicial instance).	44,458	43,230
(a.3)	Court proceeding filed to maintain the procedure for monetary restatement on the depreciation, depletion, amortization and derecognition of property, plant and equipment and intangible assets from the calculation of IRPJ.	Pending decision at the appeal court (2nd judicial instance).	36,537	35,408
(a.4)	Court proceeding filed to have declared the unconstitutionality and illegality of the requirement to pay charges and acquisition of emergency energy, due to technical defects when these requirements were introduced.	The case for Espírito Santo is pending a decision of the appeal Court (2nd judicial instance) and the case relating to Minas Gerais is pending decision of another appeals court (3rd judicial instance).	27,636	27,636
(a.5)	Court proceeding filed to have declared the unconstitutionality of Law 9718/98 which determined the expansion of the PIS/COFINS calculation base.	Pending decision of the administrative appeal.	10,830	10,545
(a.6)	Judicial proceedings relating to the resumption of the stayed tax enforcement and filing of other tax enforcements, all relating to the full offsetting of income tax losses beyond the 30% annual limit, given the company's exclusion from the PAES (Special Financing Program introduced by Law 10684/2003), owing to discrepancies between the amounts declared and those consolidated by the Federal Revenue Service (SRFB).	The proceeding related to the 1995 calendar year is pending a decision of the 2nd judicial instance (appeal court) and the proceedings for 1998 and 2000 are pending decisions of the lower court (1st judicial instance).	40,983	39,792
(a.7)	Assessments for ICMS due on the transfer of electricity from the Muniz Freire power plant, which it owns, for consumption at its industrial establishment in Ponta Ubu, Anchieta, ES, as well as a fine for failing to issue invoices on these transfers.	Pending decision at the lower court (1st judicial instance).	10,758	10,758
(a.8)	Non-payment of differential ICMS rates due on the acquisition of goods from other states to comprise property, plant and equipment in the period 2006 to December 2009.	Offsetting Agreement applied for under Law 9897/2012.	30,398	29,273
(a.9)	Tax assessments for the calendar years 2000 to 2008 on several alleged breaches of tax legislation, including matters related to the amounts addressed in items (a.1), (a.2) and (a.3) and other matters, like (i) disallowance of certain operating expenses; (ii) levying of IRPJ on credits received in ICMS assignments and transfers; (iii) reflexes of items (i) and (ii) on the taxable income for CSLL and IRPJ purposes; and (iv) alleged incorrect use of the profit earned on exports benefiting from tax incentives.	Pending decision of the administrative appeal.	19,236	18,843
(a.10)	Provision is made for lawyers' fees referring to proceedings classified as having a remote chance of		2,911	5,725

	defeat.			
Other	Proceedings related to the former Guilman-Amorim hydroelectric power plant, closed down as a result of a spin-off and subsequent merger, for IRPJ, CSLL Offsetting of tax losses, PIS and COFINS.	Proceedings pending decisions under administrative appeals and 1st and 2nd instance judicial decisions.	3,676	4,544
(a.11)	Provision made to cover potential losses on civil proceedings related to third-party compensation and proceedings entailing the intermediation of transferred ICMS credits.	Proceedings at the judicial courts at several stages.	61,932	46,758
Labor	Labor claims primarily related to the application of fines by the authorities, in addition to labor claims filed by employees and service providers.	Proceedings at the judicial and administrative courts at several stages.	9,378	6,248
Environmental	Assessment Notice 1284/10 issued by the National Mineral Production Department (DNPM) due to the alleged failure to report an accident that occurred in July 2010 in Espera Feliz / MG.	Pending analysis of the administrative defense submitted.	2	2
			340,101	**318,785**

(b) The contingent liabilities break down as follows:

The Company is party to other cases for which Management, based on the information and opinions of its internal and external legal advisors, has not set up a provision for contingencies, since the chance of loss has been rated as possible. The main such cases are described below:

Description	Status	2012	2011
Tax assessment and tax enforcements relating to the alleged failure to pay CSLL in the years 1991,1992,1995 to 1998, 2000 to 2003, 2004 to 2006 and 2007 and 2008. (R$ 30,508 was reclassified which in 2011 was recorded under "other").	3 proceedings awaiting the decision of the 2nd judicial court and 3 proceedings awaiting the decision of the administrative appeal.	2,307,675	2,217,887
Assessment notices for 2000 to 2003 and 2007 and 2008, for allegedly incorrectly calculating the IRPJ as a result of using the rate of 18% over profit deriving from mineral exports instead of the general rate of 15% plus the 10% surcharge.	Pending decision of the administrative appeal.	757,618	742,794
Assessment Notice issued by the National Mining Production Department (DNPM) for alleged underpayment of the Financial Compensation for Exploration of Mineral Resources (CFEM). The city government of Mariana filed suit against the Company, based on the same legal grounds as those invoked by the DNPM in its assessments.	1 proceeding awaiting the decision of the 1st judicial court, 2 proceedings awaiting summons of the 1st judicial court and 3 proceedings awaiting the decision of the administrative appeal.	720,704	690,075
Tax enforcements regarding the timeliness and respective amounts of PIS paid on a semi-annual basis in the periods September 1989 to August 1994.	1 proceeding awaiting the decision of the 1st judicial court and 1 proceeding awaiting the decision of the 2nd judicial court.	22,677	22,237
Assessment Notice demanding social security contributions on payments made to insured employees as profit shares and "Field of Ideas" Premium, amongst other matters such as (i) social contributions allegedly due to the National Development Fund (FND) on said payments; (ii) fine for failure to pay social contributions; and (iii) fine for submitting incomplete information in declaration forms known as GFIPs.	Pending decision of the administrative appeal.	3,795	3,636

Requirement to pay import PIS and COFINS supposedly due on imported services and other overseas procurements, such as freight, agent commission and demurrage in exports in 2007 and 2008, issued in September 2011.	Pending decision of the administrative appeal.	35,568	34,259
Disallowance of the offset negative balance of IRPJ and CSLL of the former Guilman-Amorim hydroelectric power plant (subject to the legally established 30% limit).	Pending administrative decision.	6,259	5,890
Disallowance of offset PIS and COFINS credits in the period April 2006 to December 2007 against monthly estimated IRPJ debits calculated in the same period, submitting the individual PER/DCOMPs by quarter and origin of credits (PIS and COFINS credits).	Pending administrative decision.	141,622	42,869
Assessments for ICMS due on the transfer of electricity from the Muniz Freire power plant, which it owns, for consumption at its industrial establishment in Ponta Ubu, Anchieta, ES, as well as a fine for failing to issue invoices on these transfers.	Pending decision at the lower court (1st judicial instance).	40,866	38,845
Assessment Notice issued by Minas Gerais state for ICMS on acquisitions of consumables, on the grounds that the permission awarded by the federal tax authorities for the drawback customs basis only applies to SAMARCO's establishment in the same state (Espírito Santo), so that imports made by the establishment in Minas Gerais state are not embraced by the ICMS suspension.	3 proceedings awaiting the decision of the 1st judicial court and 2 proceedings awaiting the administrative decision.	72,478	60,374
Tax enforcement and assessment notice issued by the municipal government of Anchieta as it contests the area where Samarco's industrial plant is located in Ubu, which is subject to the tax, also demanding the tax on the area for which the ITR is paid. Following the expert report submitted to the case records in 2012, the risk of defeat in the case has been reclassified from remote to possible.	1 proceeding awaiting the decision of the 1st judicial court and 1 proceeding awaiting the administrative decision.	47,106	-
Other		63,639	36,225
Civil proceedings primarily related to third-party compensation. According to the opinion of the Company’s legal advisers, the probability of losing these cases is possible.	Proceedings at the judicial courts at several stages.	63,191	56,220
Labor claims primarily related to the application of fines by the authorities, in addition to labor claims filed by employees and service providers.	Proceedings at the judicial and administrative courts at several stages.	19,827	8,155
Proceedings involving environmental risks in the states of Minas Gerais and Espírito Santo, consisting of assessments from the inspection authorities.	Proceedings at the judicial and administrative courts at several stages.	30,697	29,368
		4,333,722	**3,988,834**

In addition to the above proceedings, the Company informs:

(i) It is judicially contesting the legality of the levying of ICMS on the right to use electric power transmission lines. It also obtained a court decision staying the requirement to pay the tax, making a judicial deposit. The judicial deposit in 2012 amounted to R$ 102,434 (R$ 85,272 in 2011).

(ii) This is addressing the constitutionality and legality of the fee introduced by the Minas Gerais government to inspect the survey, mining, exploration and use of mineral resource activities (TFRM). The Company obtained a misplaced decision and the judicial decision authorizing the judicial deposit in order to stay the requirement to pay the tax. The judicial deposit as of December 31, 2012 amounted to R$ 33,120.

Given the issue's important, the Company has informed the existence of the contingency below, which has a remote risk of defeat:

(iii) ICMS – Transfer of iron ore - The Company received a tax assessment and tax enforcement from the offices of the State Treasury Departments of Minas Gerais and Espírito Santo, respectively, relating to the alleged failure to pay ICMS on transfers of iron ore between its plants - from Germano (MG) to Ubu (ES), in the period January 2000 to December 2010. The amount of the principal, fine, interest and restatement still being disputed under these proceedings as of December 31, 2012, corresponds to approximately R$ 411,973 (R$ 423,016 in 2011). The Company obtained favorable decisions in the administrative sphere with respect to demand for the fine and interest.

20. OTHER PROVISIONS

	Note	Parent Company and Consolidated	
		2012	2011
Current			
Provision for electricity	(a)	34,351	31,381
Provision for mining rights	(b)	26,463	-
Provision for purchase of iron ore	(c)	2,181	852
		62,995	**32,233**
Noncurrent			
Provision for asset retirement obligation	(d)	121,786	81,029
Provision for environmental liabilities	(e)	7,127	6,741
		128,913	**87,770**

(a) Acquisition of energy for use in production, not invoiced by the concession operators in the period.

(b) The Company pays its shareholder Vale for the assignment of mining rights to iron ore geological resources. These amounts are calculated at the rate of 4% of dividends paid (see Note 12).

(c) Related to the acquisition of iron ore fines direct from the shareholder Vale S.A., for use in production.

(d) The changes in the provision for asset retirement obligations were as follows:

	Parent Company and Consolidated	
	2012	2011
Provision at beginning of year	81,029	73,792
Provision increase	33,520	-
Estimated revisions in cash flows	7,237	7,237
Provision at end of year	121,786	81,029

In December 2012 the Company revised its conceptual plan to close down operating units in order to diagnose the environmental situation of the areas, acquire data to support the assessment of the environmental impacts and risks at closing, establish measures to mitigate any risks posed by potential sources of contamination in order to stabilize any potential environmental liabilities and estimate the closing costs according to the phase of the plan. This plan will be reviewed every three years and may be brought forward in the event conditions change significantly.

The increase in the provision is primarily due to the P4P facilities (third processing plant, third slurry pipeline, fourth pelletizing plant, Natividade tailings pile, Santa Bárbara water pipeline and the Germano transmission line.

(e) Amount is recorded in accordance with the Company's environmental policy and the applicable legal requirements. The provision for environmental recuperation is made when an area of degradation is identified that generates an obligation for the Company.

21. OTHER LIABILITIES

Other liabilities break down as follows:

	Note	Parent Company		Consolidated	
		2012	2011	2012	2011
Current					
Commission payable overseas to related parties	(a)	14,032	12,044	-	-
Demurrage payable	(b)	9,786	13,628	9,786	13,628
Payables (Material/Services)	(c)	15,687	2,730	15,687	2,730
Other		2,726	6,399	3,867	7,681
		42,231	**34,801**	**29,340**	**24,039**
Noncurrent					
Other		516	495	530	495
		516	**495**	**530**	**495**

(a) Agency commission paid to the subsidiary Samarco Europe for intermediating in iron ore sales.

(b) Amount owed by Samarco to the other party, refer to the extra time used on unloading or loading the product at the port.

(c) Amounts denoting goods acquired and services provided, which are pending the due fiscal registration for accounting purposes. Both the goods and services have been recorded under inventory and cost respectively.

22. SHAREHOLDERS' EQUITY

(a) Capital

As of December 31, 2012 and 2011 the Company's authorized share capital consists of 5,243,306 shares, of which 5,243,298 are common shares and 8 preferred shares, with no par value. All issued shares have been fully paid in. The company's capital is owned as follows:

	Number of shares		% of total capital
	Common	Preferred	
BHP Billiton Brasil Ltda.	2,621,649	4	50
Vale S.A.	2,621,649	4	50
	5,243,298	**8**	**100**

Each common share entitles the holder thereof to one vote on General Meeting resolutions. The preferred shares do not entitle the holder thereof to voting rights, but they are assured priority in capital reimbursements, without a premium, in the event of Company dissolution and an annual dividend that is 10% greater than the amount paid out on common shares.

(b) Shareholders remuneration

One quarter (25%) of the adjusted net income has to be distributed to the shareholders in the form of dividends. The Board of Directors may authorize the distribution of interim dividends, charged to the net income for the year or profit reserves, pursuant to Article 204 of Law 6404/76.

By decision of its Board of Directors the Company may also pay out or credit interest on shareholders' equity pursuant to the existing legislation, the net amount of which is to be included in the mandatory dividend.

Dividends break down as follows:

	Parent Company and Consolidated	
	2012	2011
Net income for the year	2,646,311	2,914,332
Net income available for distribution	**2,646,311**	**2,914,332**
Minimum mandatory dividends - 25%	**(661,578)**	**(728,583)**
Interim dividends	-	2,168,966
Dividends proposed on net income for the year	2,646,311	745,366
	2,646,311	**2,914,332**
Total dividends proposed	**2,646,311**	**2,914,332**
Percentage over calculation base	100%	100%

(c) Reserve of profit retention and retained earnings

The balances of the Company's retained earnings are in accordance with Article 199 of the Corporation Law and thus do not exceed the capital stock.

(d) Recognition of dividends proposed

As of December 31, 2012 the Company recognized proposed dividends amounting to R$ 1,984,733 (R$ 745,366 in 2011) in a specific account of shareholders' equity, as it believed this amount did not meet the legal obligation criteria stipulated by CPC 25.
The remaining portion of the net income in 2012 allocated to the proposed dividends was accordingly recognized in a specific account as additional proposed dividends until a resolution is issued by the annual general meeting.

(e) Accumulated translation adjustments

These adjustments are made for exchange variance resulting from translating the balance sheet and income statement for the year from the functional currency (USD) to the reporting currency (R$), as follows:

	Parent Company and Consolidated	
	2012	2011
Inventory	34,095	13,972
Property, plant and equipment	891,303	327,900
Intangible assets	6,120	2,587
Cost	34,704	(581)
Idle capacity	125	125
Exchange variance	(251,249)	147,615
Other	(20,563)	(23,943)
Accumulated translation adjustments	**695,345**	**467,675**

The balance of the legal reserve has reached the maximum limit determined by article 193 of Law 6404/76.

23. REVENUE

The Company operates in the mining sector, deriving its revenue from the sale of two types of iron ore pellets: PDR – Pellets for direct reduction and PBF – Pellets for the blast furnace. The surplus production of iron ore concentrate is sold as fines (pellet feed).
In 2012 the Company made domestic sales, although most of its sales continued to be exports, selling its products and subproducts in countries of the Americas, Asia, Africa and Europe.

In addition to product and subproduct revenue, in 2012 the Company obtained revenue from logistics services at the Port owned by the Company, such as renting boats, tug boats and land, in addition to selling unagglomerated iron ore, surplus electricity and other items, which were recorded under "other products and services".

Details of the operating revenue are shown below.

	Parent Company		Consolidated	
	2012	2011	2012	2011
Gross revenue				
Pellets				
Country	219,579	240,971	219,579	240,971
Overseas	6,160,721	6,652,887	6,160,721	6,652,629
Fines				
Country	33,028	13,225	33,028	13,225
Overseas	144,731	190,325	144,731	190,081
Other goods and services	52,681	20,410	52,681	20,410
Total	**6,610,740**	**7,117,818**	**6,610,740**	**7,117,316**
Deduction from gross revenue				
Sales taxes	(59,472)	(56,601)	(59,472)	(56,601)
Freight on sales	(1,589)	(1,785)	(1,589)	(1,785)
Net revenue	**6,549,679**	**7,059,432**	**6,549,679**	**7,058,930**

24. COST OF GOODS SOLD

The costs of goods sold break down as follows:

	Parent Company		Consolidated	
	2012	2011	2012	2011
Mine	(710,796)	(721,595)	(710,796)	(721,595)
Processing	(629,636)	(675,421)	(629,636)	(675,421)
Ore pipeline	(123,540)	(110,041)	(123,540)	(110,041)
Filtration	(159,372)	(154,224)	(159,372)	(154,224)
Pelletizing	(678,182)	(673,130)	(678,182)	(673,130)
Total	**(2,301,526)**	**(2,334,411)**	**(2,301,526)**	**(2,334,411)**
Depreciation and amortization	(186,035)	(179,474)	(186,058)	(179,487)
Increase (decrease) in inventory	(48,529)	(37,388)	(48,739)	(36,854)
Cost of goods sold	**(2,536,090)**	**(2,551,273)**	**(2,536,323)**	**(2,550,752)**

25. SALES, GENERAL AND ADMINISTRATIVE EXPENSES

	Parent Company		Consolidated	
	2012	2011	2012	2011
Sales expenses (revenue)				
Services	(37,788)	(31,283)	(37,788)	(31,283)
Personnel expenses	(24,185)	(22,763)	(24,185)	(22,763)
Depreciation and amortization	(10,324)	(10,440)	(10,324)	(10,440)
Auxiliary supplies	(11,578)	(12,252)	(11,578)	(12,252)
Sales commission	(16,600)	(13,141)	-	-
Shipment expenses	(6,278)	(22,896)	(6,278)	(22,896)
Allowance (reversal of allowance) for doubtful accounts	(2,656)	57	(2,656)	(20)
Sales expenses of subsidiaries	-	-	(13,197)	(10,106)
General expenses	(9,197)	(8,258)	(9,197)	(8,258)
Total	**(118,606)**	**(120,976)**	**(115,203)**	**(118,018)**
General and administrative expenses				
Services	(17,894)	(13,682)	(17,894)	(13,682)
Personnel expenses	(30,518)	(27,254)	(30,518)	(27,254)
Depreciation and amortization	(416)	(392)	(416)	(392)
Auxiliary supplies	(117)	(151)	(117)	(151)
General expenses	(7,740)	(5,166)	(7,740)	(5,166)
Total	**(56,685)**	**(46,645)**	**(56,685)**	**(46,645)**

26. OTHER OPERATING EXPENSES, NET

Details of other net operating expenses are shown below:

	Note	Parent Company		Consolidated	
		2012	2011	2012	2011
Tax		(11,411)	(5,402)	(11,411)	(5,402)
Provision for ICMS losses - ES and MG	7	(243,705)	(123,204)	(243,705)	(123,204)
Provisions for contingencies	19	(18,797)	(10,534)	(18,797)	(10,534)
Investments and social projects		(15,973)	(21,091)	(15,973)	(21,091)
Employee profit sharing	(a)	(67,542)	(57,437)	(71,357)	(58,614)
Provision for share-based remuneration plan	16	(1,740)	-	-	-
Research expenses	12	(53,875)	(57,508)	(53,875)	(57,508)
Mining rights	10	(56,278)	(110,753)	(56,278)	(110,753)
Other, net		(12,926)	(34,081)	(12,957)	(34,111)
Total		**(482,247)**	**(420,010)**	**(484,353)**	**(421,217)**

(a) Based on the variable remuneration policy approved by its Board of Directors, the Company grants Profit Sharing to its employees, subject to the performance of Company goals, the evaluation of results and the achievement of specific targets, which are established and agreed at the beginning of each year. In 2011 the company made advances to employees as a result of the Special Permanency Allowance, to be settled on 8/31/2013, as per the collective agreement signed with the trade union of the category for the two-year period 2011/2013.

27. FINANCIAL RESULT

The Company's financial income (parent company and consolidated) breaks down as follows:

	2012	2011
Financial income		
Earnings on short-term investments	1,031	962
Interest received from clients	-	(112)
Discounts obtained	913	722
Other financial income	4,117	7,757
	6,061	9,329
Financial expenses		
Charges on loans and financing	(58,923)	(46,357)
Financial expenses on exchange contract	(19,078)	(13,265)
Commission and bank interest	(17,848)	(23,118)

IOF - Tax on financial transactions	(190)	(63)
Other financial expenses	(7,392)	(9,013)
	(103,431)	(91,816)
Net financial expenses - consolidated	**(97,370)**	**(82,487)**
Income (expenses) recorded of subsidiaries	(113)	(121)
Net financial expenses - parent company	**(97,483)**	**(82,608)**

The balance of exchange variance breaks down as follows:

	Parent Company and Consolidated	
	2012	2011
Exchange variance		
Cash	8,754	8,140
Trade accounts receivable	(3,228)	2,807
Recoverable taxes	(83,598)	(120,623)
Property, plant and equipment	(17,503)	(48,023)
Trade payables	(10,250)	10,082
Payroll, provisions and social contributions	2,135	4,128
Taxes payable	1,137	25,681
Dividends	243,405	-
Contingency	8,654	13,052
Other	(21,970)	(17,307)
Net exchange variance - consolidated	**127,536**	**(122,063)**
Net exchange variance of subsidiaries	35	(973)
Net exchange variance - parent company	**127,571**	**(123,036)**

28. INCOME TAX

The Company is subject to income tax at the rate of 18% on income derived from subsidized exportations and 25% on the unsubsidized portion.

Income tax payable

See below the changes in income tax payable:

	Parent Company		Consolidated	
	2012	2011	2012	2011
Balance at beginning of year	**77,164**	**81,878**	**77,306**	**81,945**
Provisions in the period	465,397	725,779	465,729	726,267
Payments	(286,514)	(509,692)	(287,021)	(510,105)
Offsetting with PIS and COFINS credits	(260,768)	(227,311)	(260,768)	(227,311)
Offsetting of recoverable tax (prepayment)	39,476	6,510	39,476	6,510
Offsetting of the negative balance of return from prior years	47,872	-	47,872	-
Offsetting of IRRF on short-term investments	(677)	-	(677)	-
Balance at end of year	**81,949**	**77,164**	**81,917**	**77,306**

Deferred income tax

The Company has deferred income tax recorded under noncurrent assets on temporarily non-deductible provisions, at the rates of 18% and 25%, according to the application of each provision as adjustment of the net income from subsidized exports or adjustment of taxable income, respectively

	Note	2012			2011		
Amounts recorded at the rate of:		25%	18%	Total	25%	18%	Total
Noncurrent assets							
Provision for ICMS losses - ES and MG	7	225,832	-	225,832	164,906	-	164,906
Provision for IRPJ – Real Plan, Summer Plan and CMB	19	-	8,581	8,581	-	8,136	8,136
Provision for profit sharing	26	9,750	-	9,750	9,075	-	9,075
Provision for asset retirement obligation	20	12,801	-	12,801	10,992	-	10,992
Provision for attorneys' fees		728	-	728	1,431	-	1,431
Estimated allowances for doubtful accounts	5	712	-	712	48	-	48
Provision for losses - AIRE		1,058	-	1,058	1,058	-	1,058
Provision for electricity	20	8,588	-	8,588	7,845	-	7,845
Provision for IRPJ - IRRF (interest)	19	-	1,649	1,649	-	1,616	1,616
Provision for loss of tax losses		2,767	-	2,767	2,767	-	2,767
Provision for civil claims	19	15,483	-	15,483	11,689	-	11,689
Provision for mining rights	20	6,616	-	6,616	-	-	-
Provision for price rectification	5	-	-	-	42,434	-	42,434
Provision for ICMS fine - ES	19	2,690	5,472	8,161	2,614	5,324	7,938
Other		7,849	4,236	12,085	6,248	4,131	10,379
Total consolidated assets		**294,872**	**19,938**	**314,810**	**261,107**	**19,207**	**280,314**

Adjustments for compliance with CPCs	(a)	-	(234,155)	(234,155)	-	(102,787)	(102,787)
Fiscal depreciation		-	(102,752)	(102,752)	-	-	-
Total consolidated liabilities		**-**	**(336,907)**	**(336,907)**	**-**	**(102,878)**	**(102,787)**
Consolidated net total		**294,872**	**(316,907)**	**(22,097)**	**(261,107)**	**(83,580)**	**177,527**
Provisions recorded at subsidiaries		(22)	-	(22)	(32)	-	(32)
Parent company net total		**294,850**	**-**	**22,119**	**261,075**	**19,207**	**177,495**

(a) Deferred income tax on non-monetary items

The financial statements have been translated from the functional currency (USD) to Reais (R$), which is the reporting currency. The base for calculating income tax and assets and liabilities is denominated in Brazilian reais (R$). The change in the rate could therefore have a significant effect on the income tax expenses, especially on non-monetary assets.

The expected realization of deferred income tax is shown below:

	Up to 1 year	1 to 3 years	3 to 5 years	5 to 8 years	8 to 10 years	Over 10 years	Total 2012
Tax proceedings	445	-	-	28,999	7,502	10,912	47,858
Labor claims	505	587	1,224	29	-	-	2,344
Environmental proceedings	-	1	-	-	-	-	1
Civil proceedings	53	-	397	15,033	-	-	15,483
Provision for ICMS losses - ES and MG	-	-	-	-	-	225,832	225,832
Adjustments for compliance with CPCs	(234,155)	-	-	-	-	-	(234,155)
Fiscal depreciation	-	-	-	-	-	(102,752)	(102,752)
Other	10,491	-	-	-	-	12,801	23,292
Total consolidated	**(222,661)**	**587**	**1,621**	**44,061**	**7,502**	**146,793**	**(22,097)**
Provisions recorded at subsidiaries	(22)	-	-	-	-	-	(22)
Total parent company	**(222,683)**	**587**	**1,621**	**44,061**	**7,502**	**146,793**	**(22,119)**

(b) Income tax in the income statement

	Parent Company		Consolidated	
	2012	2011	2012	2011
Net income before income tax	3,386,949	3,717,260	3,387,281	3,717,748
Effects resulting from changes to accounting practices Law 11638/07	(363,099)	(164,453)	(363,099)	(164,453)
Fiscal depreciation	(385,846)	-	(385,846)	-
Net income after the adjustments to the transitional taxation scheme	2,638,004	3,552,807	2,638,336	3,553,295
Permanent differences:				
Equity in net income of subsidiaries	(810)	(2,376)	(810)	(2,376)
Overseas profits	2,187	4,693	2,187	4,693
Non-deductible tax fines	65	272	65	272
Nondeductible donations	10,297	12,614	10,297	12,614
Excess interest Law 12248/10 Art. 25	-	17,623	-	17,623
Other additions (exclusions)	3,917	4,056	3,582	3,568
Profit deriving from subsidized exports	(2,541,913)	(3,458,890)	(2,541,913)	(3,458,890)
Calculation basis	111,747	130,799	111,744	130,799
Statutory rate	25%	25%	25%	25%
Income tax calculated	27,937	32,700	27,936	32,700
Income tax on subsidized exports 18%	457,544	622,600	457,544	622,600
Tax incentive (PAT)	(7,401)	(2,942)	(7,401)	(2,942)
Tax paid by companies overseas	-	-	333	488
Overstated offsetting 2009 declaration	-	(8,474)	-	(8,474)
Negative balance of return from prior years	(47,872)	-	(47,872)	-
Other adjustments (IRRF)	677	-	677	-
Deferred income tax adjustment	6	5,682	6	5,682
Deferred income tax on translation differences	309,748	153,362	309,748	153,362
Income tax in the income statement	**740,638**	**802,928**	**740,970**	**803,416**

See below the breakdown of the income tax revenue (expense) segregated between current and deferred:

	Parent Company		Consolidated	
	2012	2011	2012	2011
Current income tax	(465,397)	(725,779)	(465,729)	(726,267)
Deferred income tax on temporary differences	34,506	76,213	34,506	76,213
Deferred income tax on non-monetary items	(309,748)	(153,362)	(309,748)	(153,362)
Current and deferred income tax expenses	**(740,638)**	**(802,928)**	**(740,970)**	**(803,416)**

29. COMMITMENTS

The Company is party to long-term contracts as from 2012 for the supply of raw materials and services and the acquisition of real estate, as shown below:

	Up to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total 2012
Capital expenditure for expansion and overhaul of property, plant and equipment	1,179,581	895,100	-	-	-	2,074,681
Services and other	460,939	246,491	156,036	59,046	17,925	940,437
Iron ore acquisition	530,868	407,166	407,166	814,334	-	2,159,534
Supply of power and raw materials	457,001	596,225	601,814	806,985	1,815,401	4,277,426
Freight and logistics costs	10,719	-	-	-	-	10,719
	2,639,108	**2,144,982**	**1,165,016**	**1,680,365**	**1,833,326**	**9,462,797**

The commitments demonstrate the firm commitments undertaken by Samarco consisting of long-term contractual obligations to suppliers to renew and expand fixed assets, in addition to the provision of several services to maintain the manufacturing and administrative facilities, to acquire iron ore from third parties, to supply energy, consumables and costs on cargo chartering.

30. INSURANCE COVERAGE

It is Company policy to maintain insurance coverage for amounts it considers necessary to cover the risks involved. The company takes out operating risk insurance, which covers compensation for material damages and losses to gross revenue (interrupted production due to accidents). The assumptions adopted, given their nature, are not part of the scope of an audit of financial statements and, accordingly, they were not examined by our independent auditors.

The assets covered stand at R$ 6,459,076 as of December 31, 2012 (R$ 6,006,612 in 2011) and the indemnification ceiling is R$ 1,540,478 in the year (R$ 1,514,417 in 2011).

31. FINANCIAL INSTRUMENTS

The Company has financial instruments inherent in its operations, represented by cash and cash equivalents, restricted marketable securities, trade accounts receivable, trade payables, loans and financings, exchange contract advances and bank sureties.

The management of these instruments is done through operating strategies and internal controls, aimed at liquidity, profitability and security.

The use of financial instruments for hedging purposes is done through a periodic analysis of the risk exposure that management intends to mitigate (exchange, interest rate etc.) the policies and strategies determined by Company management, approved by the strategy and finances committee.
The Company and its subsidiaries do not invest in derivatives or any other risky assets on a speculative basis.

The financial instruments have been classified below:

Financial Instruments	Classification
Assets	
Cash and cash equivalents	Assets measured at amortized cost
Restricted short-term investments	Financial assets stated at fair value through profit or loss
Accounts receivable	Loans and receivables
Liabilities	
Trade payables	Liabilities measured at amortized cost
Advances on export contracts	Liabilities measured at amortized cost
Loans and financing	Liabilities measured at amortized cost
Bank sureties	Liabilities measured at amortized cost

Financial assets consist of:

<u>Cash, cash equivalents, restricted interest-earning bank deposits</u>

	Note	Parent Company		Consolidated	
		2012	2011	2012	2011
Cash and cash equivalents and short-term investments	(a)	507,204	256,858	523,032	270,005
Restricted short-term investments	(b)	-	-	249,028	230,539
		507,204	**256,858**	**772,060**	**500,544**

(a) Cash and cash equivalents and interest-earning bank deposits:

Banks - Funds available in current accounts maintained in Brazil and abroad.

Floating Fixed Fund – Petty funds (no yield) intended for US$ advances required on international trips made by employees.

Short-term investments – Funds invested in conservative, highly liquid bank products. Investment Funds, Certificates of Bank Deposits and Debentures.

(b) Restricted cash held in specific collection accounts as a result of export prepayment operations.

Accounts receivable

Funds to be received by the Company, the balance of which represents market value.

	Note	Parent Company		Consolidated	
		2012	2011	2012	2011
Accounts receivable	(a) and (b)	993,381	979,682	744,422	750,037

(a) Credit risk

The Company's sales policy is governed by the credit policies determined by management, and are aimed at minimizing any losses resulting from default by its clients. The Company conducts credit analyses on its clients every year, in order to mitigate risks of non-payment for outstanding sales and future sales. Client payment capacity is also evaluated during the credit analysis. The Company presently offers its clients the following means of payment: letter of credit, cash payment or credit sale in current account.

Gross sales revenue amounted to R$ 6.611 billion in 2012 (R$ 7.117 billion in 2011), while the allowance for doubtful accounts made in 2012 was R$ 2,932 (R$ 279 in 2011). 47.33% of the outstanding accounts receivable is secured by letters of credit in 2012 (33.92% in 2011).

With respect to financial institutions, the Company and its subsidiaries only carry out operations with first-class institutions ranked as low risk by rating agencies.

The receivables' exposure to the credit risk by geographical distribution is minimal because they are dispersed across the regions, as shown in the table below:

	Parent Company and Consolidated	
	2012	2011
Middle East / Africa	23%	21%
China	16%	19%
Asia (except China)	27%	24%
Europe	19%	19%
Americas	15%	17%

(b) Price risk

The price of the Company's principal product, iron ore pellets, is set through quarterly negotiations with customers. The level of prices negotiated is directly impacted by global supply and demand for iron ore.

Financial liabilities consist of:

Loans, financings, and exchange contract advances.

These funding operations are intended to support the Company's routine activities and investments.

For further details about advances on exchange contracts and loans and financing see notes 14 and 15.

The geographical distribution by region of the Company's loans, financing and advances on export contracts as of December 31, 2012 is shown in the table below:

	Parent Company and Consolidated	
	2012	2011
Brazil	6.88%	28.59%
USA	76.63%	61.51%
Japan	16.49%	9.90%

	Note	Parent Company and Consolidated	
		2012	2011
Loans, financings, and exchange contract advances.	(a)	5,958,298	4,374,570

(a) Interest rate risk

This arises from the possibility of the Company and its subsidiaries sustaining unforeseen impacts arising from fluctuations in interest rates on its financial assets and liabilities, and inflation.

Most of the Company's loans and financings as of December 31, 2012 are denominated in United States Dollars, with approximately R$ 2.448 billion bearing interest at fixed rates and R$ 3.510 billion at floating rates corresponding to the variance in the LIBOR plus a contractual spread. The Company has no hedge against LIBOR variance, in accordance with its internal and its shareholders' guidelines. Interest-rate risk also derives from the small amount of debt referenced to the IGP-DI price index and short-term investments referenced to CDI.

Bank sureties

The Company has bank sureties issued for an indefinite term to guarantee the suspension of amounts demanded under tax enforcements amounting to a restated total as of December 31, 2012 of R$ 1.160 million; the total amount originally contracted is R$ 775 million. The Company also has fixed-term sureties used to guarantee the payment of electricity purchases and full performance of obligations required in the transmission system usage agreements amounting to a restated total as of December 31, 2012 of R$ 26.7 million; the original amount contracted was the same.

Bank	Amount secured	Restated amount	Index	Term
Bradesco	470,862	595,749	Selic	Indefinite
Bradesco	64,648	81,802	VRTE	Indefinite
Bradesco	17,717	17,717	-	Determined
Votorantim	111,042	256,816	Selic	Indefinite
Itaú	101,716	189,076	Selic	Indefinite
Itaú	2,971	2,981	IGPM	Determined
Itaú	6,022	6,022	-	Determined
Safra	26,254	36,109	INPC	Indefinite
Total	**801,232**	**1,186,272**	-	-

The Company does not have derivatives embedded in financial instruments.

The operations of the Company and its subsidiaries are also subject to the risk factors described below:

Exchange rate risk

This risk results from the possibility of fluctuations in the exchange rates for the foreign currencies (other than the functional currency) used by the Company to acquire domestic consumables and/o services, pay taxes, dividends, etc. The Company has the following assets and liabilities, which can affect its results due to exchange rate variations:

	Consolidated	
Assets	**2012**	**2011 (Reclassified)**
Current		
Cash and cash equivalents	4,347	2,673
Domestic accounts receivable	2,532	1,376
Recoverable taxes	234,949	82,086
Prepaid expenses	776	1,553
Other assets	27,198	7,805

Noncurrent		
Judicial deposits	148,746	94,146
Recoverable taxes	47	4,268
Deferred income tax	-	177,527
Other assets	22,413	36,932
Liabilities		
Current		
Trade payables	(329,241)	(281,465)
Domestic loans and financing	(917)	(4,752)
Financial charges payable in Brazil	(306)	(578)
Payroll, provisions and social contributions	(76,142)	(67,399)
Taxes payable	(29,093)	(20,858)
Provision for income tax	(81,917)	(77,306)
Other provisions	(62,995)	(32,233)
Other liabilities	(19,554)	(10,411)
Noncurrent		
Domestic loans and financing	(3,956)	(2,022)
Financial charges payable in Brazil	(1,353)	(859)
Provision for contingencies	(309,398)	(288,283)
Deferred income tax	(22,097)	-
Other provisions	(128,913)	(87,770)
Other liabilities	(530)	(495)
Net exposure recorded in the balance sheet	**(625,404)**	**(466,065)**

Liabilities not recorded in the balance sheet

Tax proceedings		
Chance of defeat remote	(516,188)	(554,608)
Chance of defeat possible	(4,220,008)	(3,895,092)
Labor claims		
Chance of defeat remote	(5,244)	(165,758)
Chance of defeat possible	(19,827)	(8,155)
Civil claims		
Chance of defeat remote	(7,311)	(5,497)
Chance of defeat possible	(63,191)	(56,220)
Environmental proceedings		
Chance of defeat remote	(18)	(18)
Chance of defeat possible	(30,696)	(29,368)
Exposure not recorded in the balance sheet	**(4,862,483)**	**(4,714,716)**
Total net exposure	**(5,487,887)**	**(5,180,781)**

The Company does not conduct any operations to hedge its assets and liabilities in Reais, in accordance with the internal guidelines of management and shareholders, out of the belief that there is a natural hedge/balance against variations in the exchange rate when the assets and liabilities in Dollars and Reais are taken into account.

Foreign-currency assets and liabilities are translated to the functional currency at the exchange rate as of the balance sheet date, with US$ 1.00 being equal to R$ 2.0429 as of December 31, 2012 and US$ 1.00 equal to R$ 1.8751 as of December 31, 2011.

The Parent Company's assets and liabilities exposed to exchange variance risks are the same as the consolidated statement.

Capital structure risk

This arises from the choice between equity capital (financial resources provided by shareholders and retaining of profits) and third-party capital that the Company and its subsidiaries use to finance their operations. To mitigate liquidity risks and to optimize the weighted average cost of capital, the Company and its subsidiaries permanently monitor and manage their level of indebtedness in accordance with market standards, its strategy and covenants established in loans and financing contracts, where the main debt indexes are Total Debt / EBITDA and Net Debt / EBITDA.

Liquidity risk

The liquidity risk arises if the Company does not have sufficient funds to honor its obligations on time.

Management believes the Company has a low liquidity risk due to its cash generation capacity and its capacity to borrow funds in advance, where necessary, thereby enabling it to perform its scheduled commitments and obligations.

	Consolidated			
	12/31/2012			
	Note	Amount	Up to 12 months	1 - 5 years
Trade payables	(a)	337,961	337,961	-
Loans, financings and ACCs	(a)	5,958,298	814,405	5,143,893
Financial charges payable		28,667	27,314	1,353

(a) Refers to book value

Financial liabilities	Amount book	Contractual cash flow	2013		2014	2015	2016	2017 - 2023
			0 - 6 months	6 - 12 months				
Trade payables	337,961	337,961	328,469	9,492	-	-	-	-
Loans, financings and ACCs	5,958,298	5,958,298	614,071	204,290	731,358	935,648	118,488	3,354,443
Financial charges	28,667	1,141,459	78,897	79,746	155,454	133,232	113,465	580,665
Total	**6,324,926**	**7,437,718**	**1,021,437**	**293,528**	**886,812**	**1,068,880**	**231,953**	**3,935,108**

Sensitivity analysis

The Company's financial instruments consist of restricted cash and cash equivalents, accounts receivable, accounts payable, loans and financing and advances on export contracts.

The main risks facing the Company's operations are posed by changes in the Libor rate for long-term financing at floating rates, IGP-DI for domestic operations and CDI for short-term investments.

Long-term financing at floating rates are recorded at the value closest to market value.

Short-term investments are linked to CDI and recorded at market value, in accordance with periodical restatements based on prices disclosed by the financial institutions.

In order to identify the sensitivity of the index in the short-term investments to which the Company was exposed as of December 31, 2012, three different scenarios were determined. Based on market projections and the official interest rate (Selic) in force at said date, the Company thought it was reasonable to use the rate of 7.29% p.a. of CDI for the sensitivity analysis, a rate defined as the probable scenario. Based on the rate established for the probable scenario, two more scenarios were prepared (II and III), with a negative variance of 25% and 50% respectively.

Operation	Note	Risk	Probable scenario I	Scenario II	Scenario III
Short-term investments		CDI	7.29% p.a.	5.47% p.a.	3.65% p.a.
Yields as of December 31, 2012	(a) and (b)	-	26	26	25

(a) The gross financial expenses were calculated, not including the taxes and flow of maturities.

(b) The sensitivity analysis was projected over the following 12 months. Amounts corresponding to the yields obtained in the period, based on the rates used in the evaluated scenarios as of December 31, 2012.

In order to identify the sensitivity of the index in the long-term investments to which the Company was exposed as of December 31, 2012, three different scenarios were determined, in order to embrace the following 12 months. Based on the accumulated IGP-DI price index and Libor rate in force for 12 months, calculated by the Brazilian Central Bank, in force at December 31, 2012, the Company determined a probable scenario and two other additional scenarios based on the first (II and III), with increases of 25% and 50% respectively.

Operation	Note	Risk	Probable scenario I	Scenario II	Scenario III
Overseas financing		Libor	0.50825% p.a.	0.63531% p.a.	0.762375% p.a.
Interest as of December 31, 2012	(c)	-	28,670	35,838	43,006
Domestic financing		IGP-DI	7.4032%	9.2540%	11.1048%
Interest as of December 31, 2012	(c)	-	353	441	529

(c) Amounts corresponding to the indexes and fees specified over the total long-term debt in USD, indexed to floating interest rates, as of December 31, 2012, with repayment at the end of the period only (effect of simulation).

In order to identify the sensitivity of the changes in foreign currency to which the Company was exposed as of December 31, 2012, three different scenarios were determined, where scenarios II and III entail an exchange-rate decrease of 25% and 50% respectively, based on the first, called probable scenario I.

Financial liabilities	Exposure (R$)	Scenario Probable I (USD)	Scenario II (USD)	Scenario III (USD)
Exchange rate - (Risk - R$ / USD)	-	2.0429	1.5322	1.0215
Total Assets	441,008	215,874	287,827	431,726
Total liabilities	(1,066,412)	(522,009)	(696,001)	(1,043,967)
Net exposure in Reais recorded in the balance sheet	(625,404)	(306,135)	(408,174)	(612,241)

32. STATEMENT OF ADDED VALUE

The state taxes (parent company and consolidated) break down as follows:

	Note	Parent Company		Consolidated	
		2012	2011	2012	2011
State tax expenses	(a)	277,621	155,894	277,621	155,894
State tax credits	(b)	(226,180)	(155,824)	(226,328)	(155,905)
Total state taxes		**51,441**	**70**	**51,293**	**(11)**

(a) State tax expense consist of ICMS payable on domestic iron ore sales, logistics services and other items, in addition to the provision for loss of ICMS credits. In 2012 we observed that the expenses were greater than the credits due to the increase in the provision for loss of ICMS credits in Minas Gerais state, as explained in note 07.

(b) State tax credits consist of ICMS credits on acquisitions of materials, consumables and property, plant and equipment.

The yield on company capital (parent company and consolidated) breaks down as follows:

	Note	Parent Company and Consolidated	
		2012	2011
Interim dividends	22	-	2,168,966
Minimum mandatory dividends	22	661,578	-
Additional dividends proposed	22	1,984,733	745,366
Total yield on company capital		**2,646,311**	**2,914,332**

33. SUBSEQUENT EVENTS

The Executive Board authorized the conclusion of these financial statements on March 25, 2013. There were no subsequent events between the end of the year - December 31, 2012 - and the date the conclusion of these financial statements were authorized, in accordance with CPC 24 - Subsequent events.

SAMARCO MINERAÇÃO S.A.

BOARD OF DIRECTORS

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José Carlos Martins – Deputy Chairman
Jimmy Wilson
Hélio Moreira Cabral

Deputies
Jeffery Mark Zweig
Stephen Potter
Sérgio Consoli Fernandes
Marcelo Botelho

Executive Board
Ricardo Vescovi de Aragão
Chief Executive Officer

Roberto Lúcio Nunes de Carvalho
Commercial Officer

Maury de Souza Júnior
Project Implementation Officer

Kleber Luiz de Mendonça Terra
Operations and Infrastructure Officer

Eduardo Bahia Martins Costa
CFO and Supplies Officer

Accountant Responsible
Lucas Brandão Filho
Accountant - CRC-MG 046442/O - T ES

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