MANAGEMENT REPORT AND FINANCIAL STATEMENTS

December 31, 2013

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

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FORWARD

Samarco Mineração S.A. presents in the publication, its business performance for the financial year ended December 31, 2013. The financial results reported in the financial statements conform to Brazilian generally accepted accounting principles (BRGAAP) and have been audited by PricewaterhouseCoopers (PwC).

This report also explores our strategy and business model, including corporate governance practices and risk management processes, as well as the highlights of our stakeholder relations, environmental management and health and safety performance.

Neither this information nor any information on management, projects and other initiatives not included in the financial statements have been reviewed by independent auditors. A complete analysis of our non-financial performance is published in our Annual Sustainability Report, which is prepared in accordance with Global Reporting Initiative (GRI) guidelines and is available in May 2014 at www.samarco.com.

MANAGEMENT REPORT

SAMARCO

MESSAGE FROM MANAGEMENT

The solid business Samarco has built throughout its 36 years of operations is an accomplishment achieved each day by a team that believes in developing mining operations that are responsible, carefully planned, conducted with dedication and underpinned by integrity. In 2013, an important year in cementing our plans for the future, we combined austerity in business with operating expansion and the implementation of lasting changes in management and strategy.

I like to translate Excellence, Compliance and Growth – the three pillars of our business model – into a single commitment: ensuring efficient, competitive and responsible operations that create value for the Company and the stakeholders we engage with. It was with this goal in mind that we worked each day to pursue our Strategic Roadmap, which included mobilizing our people around achieving maximum productivity; building increasingly solid bonds of trust; and strengthening our operation whilst contributing to the positive transformation of communities surrounding our plants. This year we dedicated special attention to preparing the platform from which our expansion will be launched – the Fourth Pellet Plant Project (P4P). On completion in 2014, the Project will increase our production capacity by 37%.

The year 2013 was marked by both opportunities and challenges, both within and outside our operations. Globally, we saw slow and gradual recovery in economies that are critical for the pellet export market, as well as fluctuating foreign exchange rates and volatile iron ore prices. While previously an exception, this has now become the norm for which we must be at all times prepared.

Faced with this environment, we decided to tailor our approach to customers in line with our new marketing, cost management and operational excellence strategy, in order to ensure our products remain competitive and the Company remains in financial health. As a result, we shipped 21.734 metric tons of iron ore out of the Ubu Port and achieved net income of R$2.7 billion, up 3.2% from 2012. This was achieved in a year of intensive investment: we invested more than R$2.5 billion in operational expansion and efficiency enhancement projects, including R$2.2 billion invested in the P4P project, and we lengthened our debt maturities to 6.2 years as part of our strategy of honoring our outstanding commitments while also obtaining the funding required for growth.

Locally in Brazil, we witnessed citizens legitimately mobilizing to demand better infrastructure and living quality, which had immediate effects on the country's political agenda. Meanwhile, work on the P4P project peaked and required an extra effort to ensure the project would be delivered on schedule and as agreed with shareholders, while protecting the health and safety of the roughly 13 thousand people involved at this stage of construction – our biggest priority. To overcome these challenges, we abided strictly by the commitments made to government agencies and society during the project permitting process and sought to build trust by engaging permanently with the communities surrounding our operations.

We believe that building our reputation and maintaining open and honest communication with society is the way to deliver on our Vision 2022, which calls for a two-fold increase in business value and our recognition as the best company in the industry. Despite our achievements, we encountered difficulties throughout 2013, including strikes involving contractors working on the P4P project in Espírito Santo. As a result, Project delivery was rescheduled to March 2014, without, however, affecting the operation of the new plant. Part of our way of thinking is to have the simplicity and humility to draw lessons from challenges that can later become improvements. Certainly one of the lessons learned during the year was the need to dedicate greater attention to building relationships of trust, as set out in our Sustainability Model, which adds to our Strategic Roadmap toward becoming the Company we want to be in the future.

Looking back at the goals we set for 2013, I believe the changes positively reflect our commitment to conducting all activities across the Company in accordance with the laws and regulations applicable to our business, industry and the locations in which we operate. I am convinced that ethics and integrity in management within the Company will be reflected on the outside as a positive legacy for all stakeholders we engage with. Delivering on our commitment to ethical business conduct across our operations, we have developed policies, such as the Anti-Corruption and Anti-Fraud Policy, that guide our day-to-day actions and are continually disseminated to our teams and leaders.

Risk management is another priority. We have developed compliance handbooks for key functions of the business, such as Environment, Marketing & Sales and Human Resources, and have also reviewed our critical risks to evaluate our ability to respond. Respect for life, an uncompromising value at Samarco, was also reflected by our injury rate of 0.80 in 2013, within our goal of less than 1.00 for the year. This was achieved thanks to initiatives such as the Safe Work Watch and the man-machine segregation process initiated during the year.

On the social and environmental front, we made important deliveries agreed with the government and communities within our direct area of influence. Particularly important was the Environmental Commitment we made voluntarily to the State Public Attorney's Office of Espírito Santo, with technical advice from the State Institute for the Environment and Water Resources. In 2013, we completed a cycle of R$250 million in investments toward building wind fences to help reduce particulate emissions from the iron ore fines and pellet stockpile yards in Ubu (ES).

Within the P4P project, we progressed on the deliverables prescribed in our Social and Environmental Commitment (TCSA), including a waste management plan for three municipalities in the state of Espírito Santo, as well as the creation of the Southern Espírito Santo Intelligence and Imaging Center (Condesul). We also invested more than R$2.4 million in environmental compensation programs and delivered environmental training to more than 35 thousand people in Germano (MG), Ubu (ES) and along the slurry pipeline route. In social communication, we held a series of meetings in municipalities within the Project's area of influence to provide information and to discuss impacts, responsibilities and Company practices.

These initiatives have strengthened the social license we require to operate and grow the business. However, we believe this strategy requires investment in operational excellence to be successful, an aspect that is crucial to our remaining competitive in the iron ore market. Doing more with less has been a continuing pursuit at Samarco through programs such as Lean Six Sigma and Kaizen – which, combined, generated savings of approximately R$196 million in 2013, exceeding the amounts in previous years – and investment in new technology. Our General Management – Technology and Eco-efficiency function, created in 2012, has a list of nearly 50 projects developing long-term solutions that will ensure our sustainability through innovation and efficient use of natural and mineral resources.

Finally, I would like to underline what I regard as a significant milestone toward our sustainability: the creation of key performance indicators to measure our non-financial performance. Based on our Sustainability Model and with practical links to our Strategic Roadmap, these KPI's set goals for aspects such as reducing fresh water collection, increasing value from extracted ore, controlling emissions and waste and improving a range of social development indicators in our area of influence. This way we can measure our performance beyond financial results and gain accurate insight into our impacts and the actions required to mitigate them.

Over the past years, we have engaged in careful planning, responsible management and optimizing productivity, costs and investments as strategic drivers for the success of our business

model. This has been especially important in the unstable business environment surrounding the global iron ore market over the past years and considering other challenges lying ahead in connection with tax issues, Brazil's new regulatory framework for the mining industry and the profitability required to sustain our growth. Looking back, I believe we have made consistent headway in this direction and are prepared for the new cycle that will begin on delivery of P4P. We are confident that 2014 will see us reap the results of our efforts, the essential prerequisites for this being the confidence of our stakeholders and our perseverance in achieving the goals we have set.

Ricardo Vescovi de Aragão
Chief Executive Officer

HIGHLIGHTS OF THE YEAR

Economic and operational

- Total ore produced was 21.125 metric tons of iron ore pellets and 612 thousand metric tons of fines (pellet feed + sinter feed + psm + pond).
- Total ore shipped was 21.734 million metric tons (21.124 million metric tons of pellets and 610 thousand metric tons of fines).
- Gross revenue was R$7,240.2 million, up 9.5% from R$6,610.7 million in 2012, our best performance to date.
- Net income was R$2,731.4 million, increasing 3.2% from R$2,646.3 million in the previous year.
- Adjusted Ebitda of R$3,869.9 million was 8.9% higher than in 2012.
- Operating expenses were R$871.4 million in 2013, or 12.1% of net revenue.
- R$196 million in savings generated by operating excellence programs in 2013; a total of 93 Lean Six Sigma and 514 Kaizen projects were developed throughout the year.
- Gross debt at period-end was R$9.030 million, of which 10.4% was short-term debt and 89.6%, or R$8,091 million, was long-term debt.
- We invested R$2.5 billion in operations in 2013, including R$2.2 billion toward the Fourth Pellet Plant Project (P4P), R$112.5 million in optimization projects and R$408.4 million in maintaining current operations.

Social

- Our overall injury rate in 2013 was 0.80, higher than in 2012 (0.65) but within the goal set for the year (less than 1.00); our lost-time injury rate was 0.29.
- Our "Citizen of the Future" program reached 3,229 students and 34 teachers in four communities (Espírito Santo and Minas Gerais); in total, the project delivered 300 multiple intelligence workshops and four training courses for teachers.
- We received a Strong rating in our Reputation Survey in 2013.
- Our customer satisfaction rate at year-end was 87%, down 2% from the previous year.
- Approximately 200 social and institutional forums were held with 3,494 people attending within our direct area of influence.
- R$6.5 million was invested in the *Saber Samarco* program, in more than 181 thousand training hours.
- R$9.4 million invested voluntarily in 2013 toward social programs (excluding Company investments of R$8.6 million as part of and up to completion of the P4P Project).

Environmental

- Delivery of the Wind Fence project in Ubu (ES) marked the conclusion of our voluntary Environmental Commitment, involving an investment of over R$250 million toward improving air quality in our direct area of influence.
- We completed deliverables required in the Social and Environmental Commitment for the P4P project, including prevention plans, control and inspection of land use and accommodation network and integrated waste management plans covering the municipalities of Anchieta, Guarapari and Piúma (ES).
- We reviewed the Water Resource Master Plan governing our projects, objectives and goals relating to water collection and usage.
- The new Industrial Wastewater Treatment Station was delivered in Ubu (ES).
- R$107.7 million was invested in environmental projects in Samarco, excluding investments within the P4P project.

- More than R$2.4 million was invested in environmental compensation programs within the P4P Project.
- Around 35 thousand people in Germano (MG), Ubu (ES) and along the slurry pipeline were benefited by environmental training as part of the P4P project.
- Our Environmental Education Program benefited 3,472 students and 255 teachers from 25 public and private schools.

AWARDS AND RECOGNITION

Award/ranking	Organization
Best Mining Company and Second Largest Mining Company in Brazil, *"Best and Biggest" Yearbook 2013*	*Exame* Magazine
Transparency Trophy 2013, Privately Held Companies	Anefac, Fipecafi and Serasa Experian
150 Best Companies to Work for in Brazil	*Exame* and *Você S.A.*
"Leaders of Tomorrow" Award / National – Mining Category	Grupo Líderes Empresariais
Best in Mining Industry	*Época Negócios 360º* Yearbook
Minas Business Performance Awards 2012/2013 – 1st Place for Excellence	*Mercado Comum* Magazine
Época "Green Business" Awards – Special Mention	*Época* Magazine, Globo
Brazil's 200 Biggest Mines – Excellence in Safety / John T Ryan Trophy	*Minérios e Minerales Magazine*
HSEC Awards – 1st Place Globally: Excellence (Farming Training Program)	BHP Billiton
Findes Environment Awards – Honorable Mention: Environmental Education Program	Espírito Santo Industry Federation
Social Performance Stamp – *Fundação Aleijadinho* Social Responsibility Awards	Fundação Aleijadinho de Ouro Preto/Minas Gerais (public vote)
Community Trophy/Special Mention – Recognition for social responsibility initiatives in Mariana and Ouro Preto	TV TOP Cultura
Social Recognition Certificate for contribution to the Youth Fund (FIA)	Municipal Council for Youth Rights, Ouro Preto

ABOUT SAMARCO

With operations in two states of Brazil – Minas Gerais and Espírito Santo – and with iron ore pellet exports as our core business, Samarco Mineração S.A. is a privately held company equally owned by industry-leading shareholders BHP Billiton Brasil Ltda. and Vale S.A. Our operations comprise mining, beneficiation, slurry pipeline conveyance, pelletizing and shipping of iron ore, with a focus on two types of product: direct-reduction (DR) and blast-furnace (BF) pellets.

We employed 2.9 thousand people and created approximately 3.5 thousand indirect jobs in 2013. Our operations are located in Germano, between the municipalities of Ouro Preto and Mariana, Minas Gerais (MG) – where iron ore is extracted and then beneficiated at a concentration plant – and in Ubu, in the municipality of Anchieta, Espírito Santo (ES), where we operate three pelletizing plants and port facilities.

Our operations are connected by two slurry pipelines, each approximately 400 kilometers long, which transport the slurry through 25 municipalities. Our administrative headquarters building is in Belo Horizonte (MG) and we operate sales offices in Vitória (ES) and overseas in Amsterdam and Hong Kong.

We are Brazil's tenth largest exporter according to data published in 2013 by the Ministry of Development, Industry and Foreign Trade, with a nominal production capacity of 22.25 million metric tons of iron ore pellets per year. In 2014 our nominal production capacity will expand by 37% with the delivery of the Fourth Pellet Plant Project (P4P). In total, R$6.4 billion is being invested in the construction of a third concentration plant in Germano, a fourth pelletizing plant in Ubu, and a new slurry pipeline running alongside the existing pipelines, as well as modifications to our port facilities.

Essentially an exporting business, we shipped 97% of our production to steelmakers in 20 countries. We ended 2013 with a total of 41 customers distributed across Africa/Middle East (29%), Europe (20%), China (15%), Americas (14%) and other Asian markets (22%).

In addition to our iron ore business, we also own a hydroelectric plant in Muniz Freire (ES) and have an interest in the Guilman-Amorim hydropower joint venture in Antônio Dias and Nova Era (MG). In 2013, these hydroelectric power stations supplied 18.85% of our electric power requirement.

Our mentality

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

Corporate governance

Resting on four core pillars – corporate responsibility, transparency, fairness and accountability – our corporate governance structure seeks to ensure integration between our shareholders and management, with a focus on delivering on our strategy through dialog.

Our primary governance body, the Board of Directors, consists of four sitting members and for substitutes appointed by our shareholders, BHP Billiton Brasil Ltda. and Vale S.A. Directors hold no executive positions within the company and serve a term of three years, subject to reappointment. To qualify for these positions, directors must demonstrate knowledge of management, finance and Brazilian law.

The Board convenes every four months and its duties include establishing general business guidance and strategy; approving our business and investment plan and budget; overseeing management and monitoring business results; approving dividend payments to shareholders and reinvestment; and deliberating on changes to capital structure.

The Board of Directors is advised on its decisions by four committees for Finance and Strategy; Operations; the Fourth Pellet Plant Project; and Remuneration. The Finance Committee has sub-committees for Tax and Contingencies, Treasury and Audit, while the Operations Committee has sub-committees for Performance Management, Capital Expenditure Projects and Technical Matters.

Our senior management consists of the chief executive and executives for Operations & Infrastructure; Finance & Procurement; Project Delivery; Marketing & Sales; and Management, Technology and Sustainability. All leadership practices are documented through policy documents such as our Code of Conduct, Bylaws, Shareholders Agreement and compliance policies. As part of good practice, our shareholders' representatives abstain from deliberating on matters that could involve a conflict of interest.

The Board of Directors appoints the chief executive and periodically reviews the performance of members of senior management. These reviews are based on a set of key performance indicators. In addition, regular audits are conducted by our shareholders and independent audit teams to assess our management processes.

Ethics and compliance

Compliance underpins all our practices and relations. We ensure our management conforms to regulations and Company standards through our compliance program, which was further enhanced in 2013 and includes a standing framework of compliance mechanisms, communication channels, policies and training on ethics and business conduct.

Guiding both our strategic decisions and our staff's day-to-day activities, our Code of Conduct, which is periodically reviewed, lays down general guidance on matters such as corruption, the environment, health and safety, and relations with the government, unions and private-sector representatives. The Code is provided to all employees and available on the intranet, and can be downloaded from our website.

Business ethics is also governed by our Anti-Corruption and Anti-Fraud Policy, published in 2011, as well as our Antitrust Compliance Policy, which provides guidance on relations with shareholders, competitors, suppliers and customers in accordance with the principles of free competition and free enterprise.

In 2013, we developed our Policy on Offering and Accepting Gifts and Hospitality. In addition, we implemented internal processes to identify, approve and verify all employee relations with external parties.

Business conduct

Compliance with our Code of Conduct and other policies on business conduct is monitored by our Ombudsman's Office, which is responsible for managing the Code of Conduct and addressing reports and concerns expressed by employees and the public. The identities of whistle blowers remain anonymous and their concerns are recorded and investigated in periodic meetings held by a Business Conduct Committee consisting of the chief executive and other leadership from functions such as Human Resources, Health & Safety and Legal.

In 2013, the Ombudsman's Office created a hotline for software-based handling of reports and to provide new channels for communication. In addition to e-mail and a commercial telephone number, a toll-free number is now available as well as an electronic form on the Company intranet and website, in both Portuguese and English.

Another focus has been training on the Code of Conduct, which we deliver following an annual calendar covering both employees and contractors working in our operations.
During the year we also created a Human Rights Committee that meets on a quarterly basis to review our projects and actions relating to human rights throughout the organization.

Risk management

We recognize that proper management of any risks potentially affecting our business model is crucial to achieving our Vision 2022. In 2012 we set up a General Management – Risks, Internal Controls and Compliance function to review, update and propose new categories and levels of risk for both internal and external aspects potentially affecting our strategy and operations. Risk management guidelines and methodology are set out in our Risk Management Policy statement and our Corporate Risk Management Handbook, which are based on best practice adopted in our industry and by our shareholders.

Our risk identification and review process covers a range of issues relating to sustainability, including environmental impact, health and safety and legal and financial matters. We classify risk according to its nature and criticality. We currently use five categories: Strategic, Operational, Project, Financial & Compliance and Health & Safety risk.

We perform annual reviews involving our functions and management to identify material – or critical – risks within these categories and evaluate their severity and likelihood of occurring. Throughout 2013 we held 12 risk assessment seminars attended by more than 140 employees. In total, we addressed 18 risks considered material and involving mission-critical aspects such as switchgear rooms, tailings ponds and port facilities.

As another improvement in 2013, we developed a crisis prevention and management system including business continuity plans addressing our most material risks and theoretical and practical response drills. These drills were designed to assess our readiness and procedures for managing events with a potential to disrupt our operations.

Throughout the year, we also continued to develop compliance handbooks establishing subject matter-specific requirements and procedures, in line with applicable local and international regulations. Adding to the Procurement and Financial compliance handbooks prepared in 2012, this year we developed Environment, Information Technology, Human Resources and Commercial handbooks.

Drawing on lessons learned and the challenges we faced throughout the year, in 2014 we plan to deepen our risk analysis and include new topics, and further develop our crisis prevention and management system.

STRATEGY AND MANAGEMENT

Strategic Roadmap

Samarco is committed to developing business planning practices that take into account the need for responsible growth, the outlook for the mining industry and the many opportunities emerging in the field of corporate sustainability. To double our business value and be recognized by employees, customers and society as the best in the industry, in line with our Vision 2022, we pursue compliance, excellence and growth – the three pillars of our Management Model – and invest in developing medium- and long-term strategic plans that prepare us for future challenges.

Our 36 years of experience in the overseas iron ore market provide insight into mining industry trends which we can act on proactively. Using this insight, in 2012 we involved our leaders and teams from various functions in an in-depth review of our strategic plan, which resulted in the development of a Strategic Roadmap that translates our challenges for the period 2012-2022.

Structured into six major components, the Strategic Map indicates how we will grow without compromising on our values. The first component, Company Value, addresses the challenge of optimizing business through efficient financial management that combines cost reduction with revenue expansion and reputation building. The Markets & Society component addresses the relationship of trust we must establish with customers, employees, contractors, the government, shareholders and other stakeholders. Operational Challenges concerns our pursuit of efficiency and productivity while minimizing social and environmental impacts. In the People, Health & Safety component, we establish goals toward creating a healthy work environment conducive to mutual development. And in Growth, Innovation & Technology, we develop smart solutions to enhance productivity and grow the business. Underpinning all the above components is Compliance – which means we act honestly and fairly in all we do and in all our dealings.

In 2013 we continued to translate this guidance into management procedures, providing a new way to address the risks, instability and challenges inherent to our industry. As the primary venue for this process, weekly meetings are convened by senior management to discuss matters such as risk management, audits, internal controls, Capex projects and commercial practices. Another key part of process is the Organizational Health and Performance Management Forum, in which general and senior managers meet to discuss the Company's health based on key performance indicators.

Senior management is also supported by independent committees who assess our results and how well we are performing against goals. Three times a year, our results and progress in delivering on our strategy are discussed in a meeting with general and senior managers. Operations and Infrastructure managers hold quarterly meetings to discuss their five-year plans, which are then fed into the Strategic Roadmap.

In 2013 we continued to conclude five-year business plans for each general management function across Samarco, providing clear guidance on actions to achieve our strategy. In 2014 we plan to conduct a consistency and sufficiency analysis on our project pipeline in order to assess our ability to deliver on our Vision 2022.

Another key goal is to expand the scope of our strategic intelligence process which, drawing on market intelligence and PESTEL (Political, Economic, Social, Technological, Environmental and Legal) analysis, develops ways to use available information more effectively in managing our business plan.

Sustainability Model

Incorporating social and economic goals and indicators in our decisions is another important aspect in achieving our strategy. In 2012 we developed a Sustainability Model – a set of guidelines that steer our actions in line with our Strategic Roadmap and help us build a bond of trust with society. In 2013, our primary challenge was to translate the Sustainability Model into goals linked to the goals in our Roadmap so we can measure our performance in terms of impacts and non-financial aspects.

Building on the trust we have earned and the social license we have received to successfully operate our business, the Model sets out actions to create value in four dimensions: Leading by example, Innovation and technology, Collaborative networks and Responsible enterprise.

Our primary achievement in 2013 was establishing sustainability-driven objectives relating to key environmental, social and economic aspects affecting Samarco, based on the guidance set out in our Strategic Roadmap. Among these objectives are natural resource management – with a focus on water, waste and energy efficiency – and commitments relating to biodiversity, climate change and social and economic development. With this Model as a management requirement in line with our strategy for the coming years, we believe we have successfully developed synergy between our business planning and our commitment to sustainable development.

Operational excellence

Doing more and better with available resources is the guiding principle in our mining activities, creating benefits that range from cost management through reduced process variance to impact management and enhanced productivity, all of which underpin our commitment to Vision 2022. We use two excellence programs to maximize the results of our operations: Lean Six Sigma (LSS) and Kaizen.

Through our LSS program, implemented six years ago, trained employees use problem-solving methods combined with trending and quality management tools to solve medium- and high-complexity problems, with projects lasting six to nine months. Kaizen engages our technical operations staff in implementing quick improvements designed to solve problems involving minor complexity.

A total of 93 Lean Six Sigma and 514 Kaizen projects were developed in 2013, generating savings of approximately R$196 million for the Company, nearly double the amount in 2012 (R$101.3 million), as well as other intangible benefits relating to quality, customer service, health and safety, and the environment. Our employees' participation in LSS and Kaizen programs has provided measurable and continual improvement in our processes and results.

Another important aid toward achieving operational excellence is *Campo de Ideias*, a program implemented at Samarco 14 years ago to encourage employees, interns and contractors to develop solutions that either innovate in or improve our processes. At year-end 2013, over 9 thousand ideas had been implemented through the program; in 2013 alone, 2,594 ideas were generated and 1,454 were implemented.

Three Lean Six Sigma projects in 2013 were named finalists in the Team Excellence Awards presented by the American Society for Quality (ASQ), a global leader in continual quality improvement. In the finals in May 2014, Samarco will compete against companies from other countries with projects addressing downtime reduction in loading lines, gas savings at Plant II and the development of a process to measure asset performance.

We also organize annual recognition events in which the best Kaizen and Lean Six Sigma project ideas in a range of categories are presented and evaluated by an independent technical assessment panel. In 2013, 15 projects were recognized – five in each category.

Technology, research and innovation

In addition to expanding our production capacity through the Fourth Pellet Plant Project (P4P) and other Capex projects, we have pursued our Vision 2022 through medium - and long - term research and development projects assessed by our General Management – Technology and Eco-efficiency function in collaboration with other general management functions. The solutions delivered by this function are based on innovation and sustainability and seek to reduce the uncertainty of new technologies and make them usable in our operations.

Since 2012 we have identified a range of eco-efficiency initiatives potentially applicable in our operations. We are currently considering a list of 46 initiatives grouped into seven categories: Mineral Resources; Tailings and Waste Rock; Water Resources; Renewable and/or Alternative Energy Sources; Energy Efficiency; Atmospheric Emissions; and Cost Reduction.

In 2013, six research and development studies were delivered for application in capital expenditure projects. These include technologies to optimize mineral resource usage – such as Semi-Autogenous Grinding (SAG) technology, which can be used for iron ore beneficiation in Germano (MG) – and filter-press filtering, which can be used to optimally process ore slurry in Ubu (ES) before the pelletizing stage. These initiatives are especially important considering that our iron ore tends to increase in hardness and moisture content and requires more efficient technologies to process the ore while reducing costs and environmental impact.

Two other projects are related to filtering processes for slime and sand tailings. When implemented, they will bring benefits that include greater tailings pond efficiency, water recycling systems closer to our beneficiation facilities, and the ability to use tailings as raw materials in other industries. Another two solutions delivered in 2013 addressed the use of sand tailings in the production of interlocking pavers – which have already been used in social projects as part of the Fourth Pellet Plant Project (P4P) in Espírito Santo – and the use of slime tailings to produce wood-plastic composites. These materials are produced from recycled plastic, mineral fillers and wood fibers and have similar properties to wood.

Further studies and research projects will be conducted over the coming years to continue delivering solutions in support of our strategy. R&D investments of approximately R$21.7 million are planned for 2014, more than triple the amount in 2013 (R$5.3 million).

In addition to the initiatives developed by the General Management – Technology and Eco-Efficiency function, our capital expenditure projects are now assessed against eco-efficiency criteria. The goal is to quantify an initiative's contribution to reducing energy and water consumption and greenhouse gas emissions, and to optimizing the use of pond areas and mineral resources. This was an important step in 2013 in line with our Sustainability Model, and led to the incorporation of new eco-friendly indicators and goals into the Strategic Roadmap.

Fourth Pellet Plant Project

The Fourth Pellet Plant Project (P4P), which will expand our production capacity by 37%, peaked during the course of 2013. We positively assess the aggregate progress of 98% (including engineering, construction and procurement) achieved at year-end 2013, and the project is on track for completion in March 2014, successfully delivering to our shareholders and society one of the largest private projects currently under development in Brazil.

With total estimated investments of R$6.4 billion as at year-end 2013, of which 96% had been invested at year's end, the project comprises construction of a third concentrator at the Germano unit (between Ouro Preto and Mariana, Minas Gerais); a fourth pellet plant at the Ubu unit (in Anchieta, Espírito Santo); and a third slurry pipeline running parallel to the two existing pipelines, with a throughput capacity of 20 million metric tons per year. The port facilities in Ubu are also being upgraded to accommodate the added product shipments. In total, our annual iron ore pellet production will increase from 22.25 to 30.5 million metric tons.

We see the growth of our business through the P4P project as an important opportunity for the local development of communities within the Project's area of influence. On completion, we will have employed over 13 thousand temporary contractors (at project peak in 2013) and created over 1.1 thousand direct and indirect permanent jobs in Minas Gerais and Espírito Santo.

In addition, the expansion will generate approximately R$590 million in federal, state and municipal tax revenue. As of December 2013, for example, the P4P project had generated R$552 million in tax revenue across all three levels of government, of which R$173 million derived from slurry pipeline construction alone.

Alongside the project, we have also invested in programs, social communication initiatives and campaigns designed to ensure the works progress ethically and safely, impacts are controlled and relations with employees, contractors, governments and communities are transparent. A key environmental program was the carbon neutralization program, through which we will ensure that the balance of greenhouse gas emissions (originally estimated at 150 thousand metric tons of CO_2 equivalent) during the construction phase is equal to or less than zero through a range of offsetting measures and an investment of R$1.7 million. In 2013 we also continued the operating permitting processes, which will be concluded in the first quarter of 2014.

A number of strikes punctuated the year in Espírito Santo. We maintained sustained dialog with unions and representatives from contractors to minimize delays to the project, which was originally scheduled for delivery in January 2014. As a result of these and other factors, we were required to review the schedule and the total cost of the Project, which was originally estimated at R$5.9 billion (cost variance was zero in US dollars and approximately 9% in reais). Information on the P4P project, corporate social initiatives, operational indicators and other data for 2013 is detailed in our Annual Sustainability Report.

RESULTS AND OUTLOOK

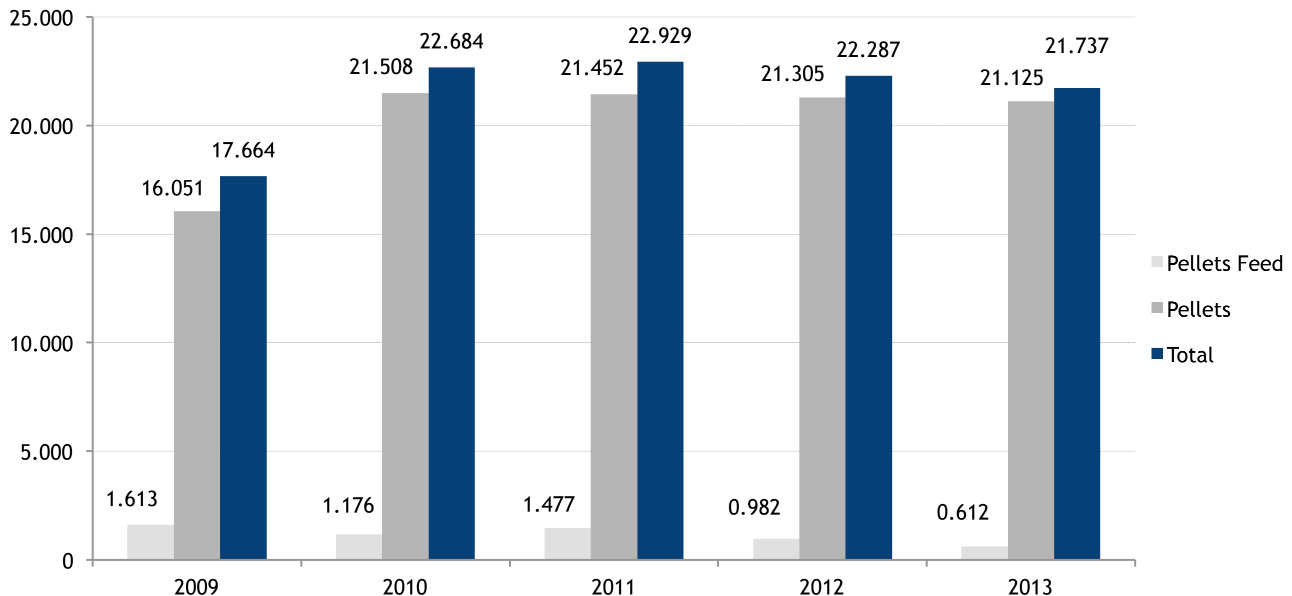
In 2013 we focused on cost management, investments in operational excellence, enhancing relations with customers and strategic partners, and excellence in optimizing productivity, working to remain competitive in the global iron ore market.

Our production volume was 21.125 million metric tons of iron ore pellets, unchanged from the previous year, and 612 thousand metric tons of fines (pellet feed + sinter feed + psm + pond),

totaling 21.737 million metric tons, a reduction of 2.5% from 2012. This approximates our installed capacity of 22.25 million metric tons of pellets. The higher production volume we had expected for 2013 was negatively affected by the Fourth Pellet Plant Project (P4P) being rescheduled for delivery in March 2014.

In terms of sales, we shipped a total of 21.734 million metric tons of products from our port facilities in Ubu, including 21.124 million metric tons of pellets and 610 million metric tons of fines, or 100% of our output for the year. Our products were sold to 41 customers worldwide.

Our Production (thousand metric tons)



Due to iron ore price volatility and in line with our new marketing plan, we maintained our strategy of diversifying to reduce the risks associated with instability in certain markets. In gross tonnage, 29% of our sales were to Africa and the Middle East, followed by Asia excluding China (22%) and Europe (20%). China accounted for 15% of our total sales, while the America's accounted for 14%.

In addition to supplying to neighboring countries, one of our focuses within the Americas has been the United States, which is experiencing an economic upturn and a favorable environment for industry. In 2013, we concluded a contract to supply direct reduction pellets to Nucor LLC's Louisiana site. This partnership reflects our decision to strategically goal the US market as a way of creating balanced value in geographically diversified markets.

In 2014, the 37% increase in production capacity deriving from the Fourth Pellet Plant Project (P4P) will provide an opportunity to grow the business. To mitigate potential risks, our output will be equally proportioned between direct reduction and blast furnace pellets and balanced among clients in different markets.

Financial performance

Financial highlights (in R$ MM)					
	2013	2012	2011	2010	2009
Gross revenue	7,240	6,611	7,117	6,324	2,837
Net revenue	7,204	6,550	7,059	6,240	2,813
Gross margin (%)	62.8	61.3	63.9	64.8	51.6
Net income	2,731	2,646	2,914	2,247	1,312
EBIT	3,653	3,357	3,922	3,493	1,002
EBITDA	3,870	3,554	4,113	3,671	1,180
EBITDA margin (%)	53.7	54.3	58.3	58.8	42.0
Capital expenditure	521	643	420	294	114
Capital expenditure (P4P)	2,160	2,709	935	24	-
Total assets	15,032	11,001	7,095	5,542	4,947
Shareholders' equity	3,758	3,274	1,807	1,377	1,829
Gross debt	9,030	5,987	4,388	3,369	2,560
Net debt	8,475	5,215	3,888	2,928	2,246
Gross Debt/EBITDA	2.3x	1.7x	1.1x	0.9x	2.2x
ROCE	22.5	29.3	55.2	67.2	20.4

Industry outlook

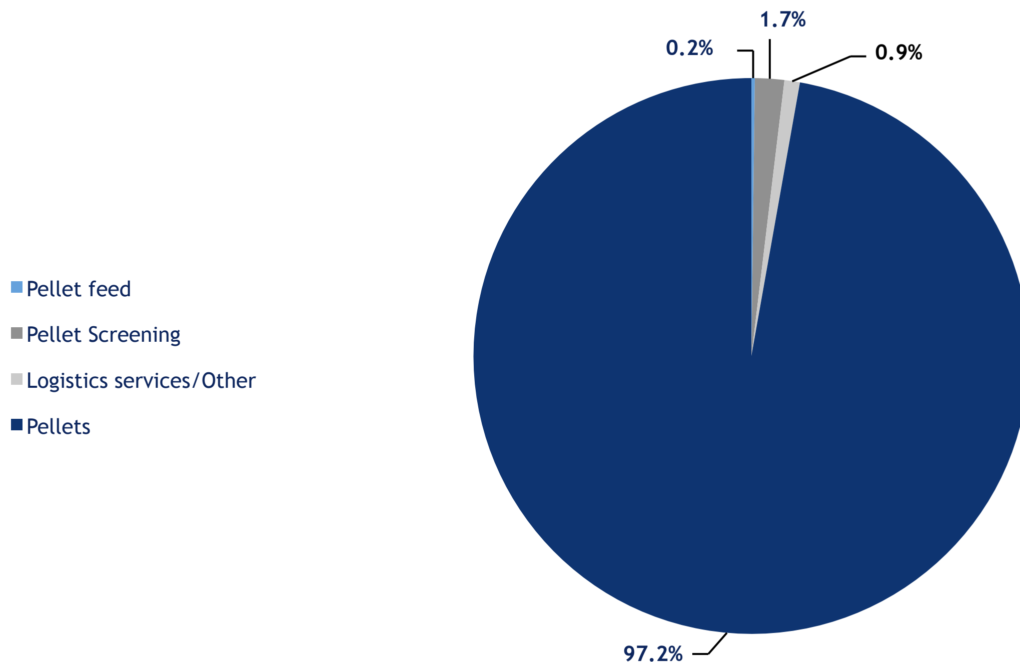
Following a growth period initiated in 2012, iron ore prices reached near-historical highs in the first quarter of 2013. In the second quarter, however, they retracted. The price spike in the first quarter came as a result of the steelmaking industry replenishing stocks it had depleted in the previous period. With iron ore inventories at low levels and higher-than-expected activity in China, as well as a relative recovery in steel prices, demand remained strong throughout the second half of the year.

After reaching US$110 per metric ton in June, prices fluctuated between US$130 and US$140 per metric ton throughout the remainder of the year. With the steel industry restocking only to the extent required to match production, demand remained strong while prices remained stable.

Financial results

Gross revenue was R$7,240.2 in 2013, up 9.5% from R$6,610.7 in the previous year. This was largely due to gains related to domestic currency depreciation (2013: 2.3420 x 2012: 2.0429) and a slight increase of 0.14% in average pellet prices in the international market (2013: US$154.1 /dmt x 2012: US$153.9/dmt). Net income was R$2,731.4 million, an increase of 3.2% from R$2,646.3 million in 2012.

Gross revenue breakdown in 2013 (%)



Cost of products sold was R$2,679.9 million, higher than the R$2,536.3 million in 2012. Among the contributing factors were an increase in personnel expenses (R$43.2 million) as a result of new hires for the Fourth Pellet Plant Project, greater expenditure on consumables (R$34.8 million) and strong pressure in outsourced services (R$14.7 million). Conversely, electricity costs were reduced (R$28.2 million) as a result of improved energy efficiency at our plants and measures taken by the federal government in 2013 to reduce electricity costs, particularly Provisional Measure 579 and the transmission tariff review. The average price and volume of ore purchases from third parties also decreased (R$19.8 million). For these reasons, our gross margin in domestic currency improved by 1.5% compared with the previous year (2013: 62.8% x 2012: 61.3%) despite the higher costs in 2013.

Operating expenses

Operating expenses were R$871.4 million in 2013 or 12.1% of net revenue, versus R$656.2 million or 10.0% of net revenue in the previous year. The poorer performance was due to higher state taxes (R$248.4 million) largely as a result of ICMS tax settlements made with the State of Minas Gerais in December 2013, which had an unfavorable impact of R$212.6 million on net income. The settlement was made in litigation over ICMS taxation of concentrate transfers between Minas Gerais and Espírito Santo from 2000 to 2013. The Company is entitled to use the resulting credits under a special agreement made with the Government of Minas Gerais.

EBITDA

As well as our revenue, adjusted EBITDA (operating income plus net financial income, depreciation and amortization) was up 8.9% year-on-year from R$3,553.9 million in 2012 to R$3,869.9 million in 2013. EBITDA margin fell 0.6 percentage points year-on-year (2013: 53.7% x 2012: 54.3%), under pressure from the increase in costs and operating expenses.

Adjusted EBITDA (in millions of reais)	Consolidated	
	2013	2012
Operating profit	3,560.9	3,387.3
(+) Depreciation and amortization	216.8	196.8
(+) Net exchange variance	(261.2)	(127.5)
(+) Net financial expense/revenue	353.4	97.3
Adjusted EBITDA	**3,869.9**	**3,553.9**

Notes:
(1) EBITDA is a measure that does not represent 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.

Debt

Gross debt was R$9.030 million in 2013, increasing 50.83% (R$3.043 million) from R$5.987 million in 2012. The ratio of total gross debt to EBITDA was 2.3x at year-end, increasing from 1.7x in 2012 but within our expectations and established limits. We entered into material financial transactions throughout the year to support our operations and investments, particularly the following:

- Repayment of the second installment of US$468.4 million under a loan secured by credit insurance from Nippon Export and Investment Insurance ("NEXI") in the first half of the year;
- A bond issue of R$1,639.4 million in the capital market in the second half of the year;
- Export advances of R$854.8 million. A total of four export advances were obtained in the second half of the year from Bank of America (R$234.2 million), Bank of Tokyo Mitsubishi UFJ (R$234.2 million), HSBC (R$234.2 million) and Mizuho (US$152.2 million);
- Two BNDES/Finame loans for a total of R$154.1 million in the second half of the year.

Our debt maturity profile at year-end consisted of 10.4% (R$939.1 million) short-term and 89.6% (R$8,091 million) long-term debt. The funding obtained this year was essentially required for capital expenditure, particularly the Fourth Pellet Plant Project (P4P). The sources of funding were selected to secure competitive terms and accommodate our strategy of lengthening our debt maturities (average maturity was 5.6 years in 2012 versus 6.2 years in 2013).

We retained our investment-grade rating (BBB) in 2013 as determined by two credit rating agencies: Fitch Ratings, which has rated the Company since 2006, e a Standard & Poor's, which has rated the Company since 2012.

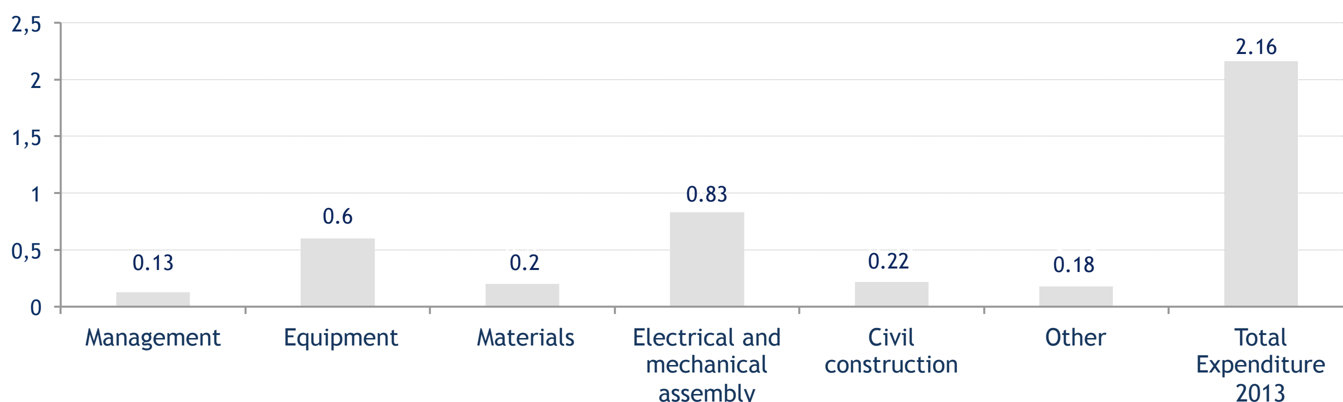
Debt - R$ MM	2013	2012	2011	2010	2009
Gross Debt	9,030	5,987	4,388	3,369	2,560
Cash and cash equivalents	437	523	459	416	295
Short-term investments	118	249	42	25	19
Net Debt	8,475	5,215	3,888	2,928	2,246

Capital expenditure

Total capital expenditure in 2013 was R$2.5 billion, of which R$2.2 billion was invested in the Fourth Pellet Plant Project (P4P), R$112.5 million in optimization projects and R$408.4 million in maintaining current operations. Capital expenditure declinedfrom the previous year largely as a result of the expansion project, which had made significant progress in 2012. A number of optimization projects were also concluded, such as the installation of electrostatic precipitators and the 85VT03 fan repowering project at Plant 2.

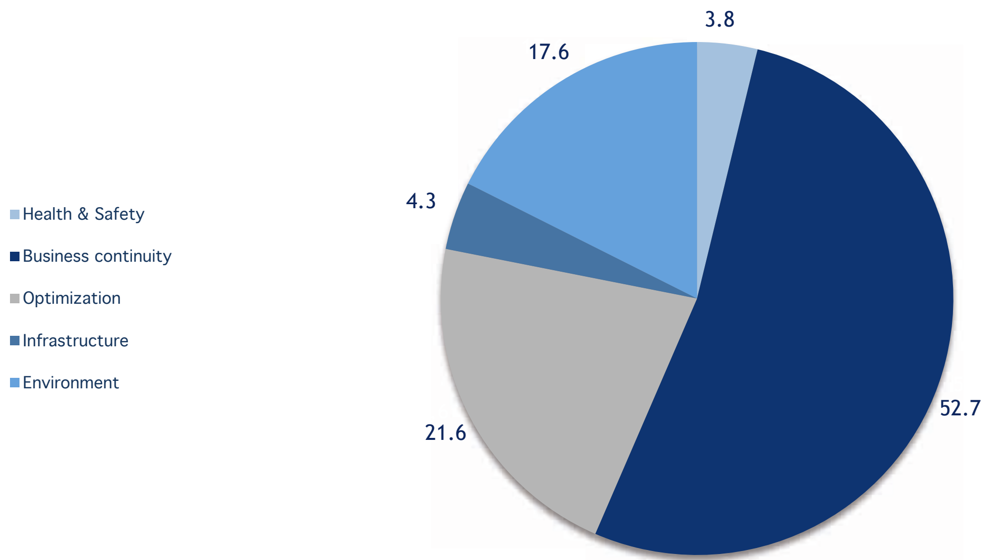
Investments in the P4P project were estimated at R$5.87 billion in nominal terms, i.e. factoring in forecast price adjustments over the term of the project. Due to scope changes and cost variance as the engineering and construction work progressed, an increase of R$580.9 million to total expenditure was approved in 2013, generating a current aggregate budget of R$6.45 billion. Cumulative expenditure was R$5.82 billion, or 94.0% of the total committed amount and 90.2% of the current budget. The P4P project achieved 98% completion in December 2013 and is on track for startup in the first quarter of 2014. Total expenditure in 2013 was R$2.16 billion.

P4P Expenditure 2013 – R$ million



Other capital expenditure investments, optimization projects and upkeep expenditure totaled R$520.9 million. Most (52.7%, or R$274.5 million) of the investment went toward operational improvement and continuity initiatives, and particularly to mitigation of industrial process risks. Investments in environmental, health and safety and compliance initiatives totaled R$111.6 million (21.4%). Infrastructure requirements accounted for 4.3% (R$22.3 million) of total expenditure, including improvements at the industrial units and offices in Belo Horizonte. The remainder of our capital expenditure (R$112.5 million, or 21.6%) was allocated to optimization projects to increase our production capacity or reduce costs.

Capital expenditure breakdown 2013 – %



Capital expenditure projects in 2013

Germano high-voltage grid connection: To cut energy transportation costs by connecting to the high-voltage grid, supporting growth and improving power supply reliability, this project was initiated in 2010 and will be completed in 2014. **Investments in 2013:** R$108.4 million.

Wind Fence Construction around pellets and fines stock yards (Ubu-ES): Delivered in 2013, this project entailed construction and installation of wind fence structures to reduce fugitive emissions from iron ore pellet and fines handling operations at stockpile yards. **Investments in 2013:** R$36.3 million. Total investment: R$92.6 million.

Mobile equipment shop (Germano-MG): A new shop is being built in replacement of the existing equipment shop to accommodate the larger fleet of medium and heavy vehicles and improve equipment availability. Initiated in 2011, the project is scheduled to be completed in 2014. **Investments in 2013:** R$24.2 million.

Added value

In 2013, Samarco generated total wealth of R$10,266.6 million, an increase of 2.5% from R$10,020.6 million in 2012. Net added value was R$3,678.7 million in 2013, an increase of 3.6% from R$3,551.4 million in 2012. Added value to be distributed was R$4,214.9 million, increasing 10.6% from R$3,812.5 million in the previous year.

Wealth distribution was as follows:

- R$419.0 million (R$343.0 million in 2012) was distributed through compensation for 2,899 employees, creating approximately 710 direct and indirect jobs, and 181,465.22 training hours, generating an average of 341 man-hours;
- R$279.5 million was distributed through taxes, charges and contributions (R$548.4 million in 2012);
- R$785.0 million was distributed through interest on debt (R$274.9 million in 2012);
- R$2,731.4 million was distributed through interest on shareholders' equity (R$2,646.3 million in 2012).

Added value (in millions of reais)

	Consolidated	
	2013	2012
Revenue (wealth created)	10,266.60	10,020.60
Inputs acquired from third parties	(6,371.20)	(6,272.40)
Gross added value	3,895.50	3,748.20
Depreciation	(216.80)	(196.80)
Net added value produced by the entity	3,678.70	3,551.40
Financial revenue	536.20	261.10
Total added value to be distributed	4,214.90	3,812.50
Personnel	419.00	343.00
Taxes, charges and contributions	279.50	548.40
Interest expenses	785.00	274.90
Interest on shareholders' equity	2,731.40	2,646.30
Distribution of added value	4,214.90	3,812.50

SOCIAL AND ENVIRONMENTAL PERFORMANCE

Stakeholders

Open and honest communication with all stakeholders we engage with, contributing to their development, is a basic principle at Samarco. We believe that building trust is the way to secure our social license for continuing operation and growth.

In 2013 we conducted the second Samarco Reputation Survey, an important instrument for measuring the perceptions our stakeholders – including employees, contractors, customers, suppliers, opinion makers, government and communities – have of the Company. Using Reputation Institute's RepTrak™ Deep Dive methodology, we polled 1,930 people and scored a reputation indicator of 71.6 points, which rates our reputation as Strong on the scale used by the methodology (0 to 100 points), ranging from Poor to Excellent.

The result, similar to the 71.9 points scored in 2011 (among the same stakeholders interviewed in 2013), indicates that we maintained a strong reputation even during the peak of the expansion project. Our goal is now to achieve a score of 80 points, the threshold for an "Excellent" institutional reputation rating.

Communities and government

The year 2013 was challenging in terms of our relations with communities within our direct area of influence. The period was marked by progress in building the Fourth Pellet Plant Project (P4P) in Germano (MG) and Ubu (ES), and the slurry pipeline traversing municipalities in Minas Gerais and Espírito Santo. As is common in the construction phases of projects of this size, in which the day-to-day activities of some communities are often disturbed, we were required to enhance our relations with stakeholders through social dialog channels.

In all, approximately 220 community relations forums were held involving 3,494 participants in the direct area of influence of Germano (MG), the slurry pipeline crossing, Ubu (ES) and the Muniz Freire hydroelectric power station (ES). These forums include industrial site visits, meetings with community leaders and communities, development committees and the Samarco Environmental Permitting Forum.

Throughout the year, we continued our social investment cycle for both the P4P project and existing operations, in line with our Corporate Social Investment Policy. In total, we invested R$9 million in corporate social projects and initiatives, excluding funding associated with permitting requirements and the P4P project, which will receive investments of R$8.6 million up to completion in 2014.

Since 2012, our Corporate Social Development Management function has structured its initiatives around the Social Transformation Strategy – which establishes investment and management priorities according to local needs and the Company's core values. Its components are education and income opportunities; institutional capital; and social citizenship and engagement. These pillars are translated into respectively income generation, culture, education and citizenship programs; dialog and cooperation initiatives for the social development of our direct area of influence; and internal engagement programs.

On the education front, the "Citizen of the Future" program develops activities for public school students in Minas Gerais and Espírito Santo, with a focus on enhancing students' learning ability in Portuguese and mathematics. Through reading and writing workshops and math games, they learn how to use these skills in their everyday activities. They are also offered circus skills, dancing and sports workshops. In 2013, the project additionally incorporated training for teachers on teaching methods. In total, the project benefited four communities with over 300 workshops and four training courses for teachers, and reached 3,229 youth and 34 teachers.

In income generation, our Farming Training Program reached ten municipalities in Minas Gerais and Espírito Santo with initiatives geared to providing professional training to around 540 rural producers on subjects such as productivity, quality improvement and environmental preservation. The project ranked first for Excellence in the "Community" category of the 2013 edition of BHP Billiton's international Health, Safety, Environment and Community (HSEC) awards.

In institutional capital and relations with government, we further contributed to the development of territories within our direct area of influence throughout 2013 through a regional governance program. Based on our business planning experience and using systemic thinking – which entails a detailed assessment of management impacts and opportunities and steps for the growth of organizations and locations – we worked with the Municipal Government of Anchieta (ES) to map

out the most material issues for the municipality, identify future development opportunities and recommend action to implement those opportunities.

In Anchieta, we held eight meetings in 2013 that were attended by the mayor, municipal secretaries and citizens to develop a master plan for sustainable local development. In 2014 the project will be extended to Guarapari (ES) and Mariana (MG).

P4P: investment and impact management

As part of the Fourth Pellet Plant Project, we expanded our calendar of community meetings and corporate social investments, including approximately R$8.6 million planned for the project development period. Our Professional Development Program delivered training courses to more than 380 individuals in a number of functions, in both Espírito Santo and Minas Gerais. Another important initiative, and a permitting prerequisite, is our Social and Environmental Commitment. In collaboration with the government, local leaders and communities, and with support from the State Public Attorney's Office of Espírito Santo, we supported the creation of the Southern Espírito Santo Intelligence and Imaging Center (Condesul) for real-time monitoring of land-use conditions across the state, and assisted in developing waste management and accommodation plans for the municipalities of Anchieta, Guarapari and Píuma.

In addition, the P4P Social and Economic Indicators Program has provided valuable input into measuring the Project's positive and negative impacts on its direct area of influence using a range of indicators and local data on aspects such as the local economy, tax, education, public security, employment, mobility and health care. In 2013, for example, municipal, state and federal tax revenue was R$552 million at year-end, with the slurry pipeline alone contributing R$173 million. In terms of local hiring, the P4P project achieved an average of 60% of workers sourced from Ubu (ES) and 45% from Germano (MG). We have also made significant contributions in mobility (by establishing measures to reduce the impacts of the fleets used for the P4P project in Ubu and Germano), health care, and increasing job opportunities in our area of influence.

Employees

As part of our human resources repositioning program, initiatives geared to employees in 2013 focused on leadership development and performance improvement, internal climate management, training, productivity, retaining talent and preparing for the new growth cycle created by the P4P project.

We hired 514 employees during the year, excluding interns and apprentices, of which 85.21% are residents of cities within our direct area of influence. Most vacancies were for technical and operational positions. We also conducted a climate survey and received feedback from 81% of our 2.9 thousand direct employees. The survey revealed an overall satisfaction level of 81.69%, a result that was reflected in our being included in the *Guia Você S/A Exame* ranking of the 150 best companies to work for. Using a similar methodology, we also conducted a P4P climate survey involving contractors at job sites in Germano, Ubu and along the slurry pipeline. More than 17 thousand questionnaires were returned by 11 thousand employees and contractors over a period of three years. The results reveal an overall satisfaction level of approximately 80%.

As part of the General Management – Human Resources function's five-year plan, we undertook a range of leadership development, climate improvement, trainee development and other

Initiatives. A key focus in 2013, in line with our strategy, was leadership; recognizing the role that leadership plays in disseminating our organizational culture, engaging teams and delivering results, we improved our leadership development process by redefining roles and responsibilities and obtaining in depht deepening our understanding of the profiles our current and future leaders should have.

In partnership with organizations such as Fundação Dom Cabral, IMD, Trend School and ABRH, we provided programs such as coaching, training courses, Executive MBA programs, Results-Driven Training and Connecting People and Results. These programs helped improve our indicators during the year. In the Climate Survey, the Leadership dimension received a rating of 80.9%, three percentage points higher than then in the previous survey in 2011. In the performance dimension, 93.2% of our leaders were rated as meeting or exceeding expectations. In addition, we achieved an internal leadership sourcing rate of 75% in 2013, meaning three out of every four vacancies were filled by employees through a structured leadership succession and development plan.

The need to develop skilled labor, a key challenge in Brazil, was also reflected in our professional development investments. In 2013, we invested R$6.5 million in more than 181 thousand hours of training, particularly through the *Saber Samarco* program – a corporate education model established in 2011 and divided into five subjects: Leadership, the Samarco Identity, Excellence, Technology and Sustainability.

A highlight in 2013 was the initial operation of the Samarco Identity school, through which we provide training on the Company's essence, vision, mission and key values. During the year, 99.6% of our employees received business conduct training.

With a focus on the specific requirements of the P4P project, we also expanded programs such as technical and behavioral training for university-level trainees. In an innovative initiative, in addition to classroom-based training and skills building, participants were given the challenge of developing social projects within Samarco's direct area of influence during the course of their training. We believe this initiative was highly relevant in helping to train future leaders who are engaged in sustainability and the social and economic development of affected communities.

In addition to investing in professional development actions and tools, we annually assess the performance of all employees to support improvement and greater engagement in our strategy. Reformulation of the tool began early in 2013 through a Performance & Career Process Optimization project, which is due to be completed in the second half of 2014.

Samarco Employees (as of December 2013)*						
Operation	Belo Horizonte	Matipó Pump Station	Germano Mine	Ubu	Vitória	Total
Employees	99	75	1,465	1,248	12	2,899

** Not including interns and foreign-based employees.*

Customers

We recognize that market diversification and investment in lasting partnerships are crucial to supporting our export-geared business model and ensuring the sustainability of the business. In 2013 we served 41 customers in 20 countries around the world. One of the main focuses of our Marketing department was the development of a new plan and commercial approach focused on customer segmentation, improving profitability and carefully analyzing market conditions and trends.

As part of this approach, we improved our business intelligence, market relations and solutions development functions with an emphasis on offering high value-added products that meet customers' requirements. Also important was our advanced marketing initiative, in which a person is assigned responsibility at each regional office (China, the Netherlands and Brazil) for further strengthening relations with customers.

Marketing management is coordinated globally by the Executive Marketing Group, which brings together the Marketing & Sales department heads and general marketing and sales managers from different markets to discuss commercial strategy, as well as the Commercial Managers Meeting (CMM), which is attended by marketing, planning and sales managers. Both groups hold either video conference or in-person meetings throughout the year.

We measure the quality of our customer relations through a Customer Satisfaction Index, which in 2013 stood at 87% – two percentage points lower than in the previous year, but higher than in 2011. The result was impacted essentially by berth times at port in Ubu (ES) due to technical and operational adjustments during loading.

In addition to strengthening long-term commercial relations, we have invested in diversifying the geographic areas we serve as a business to control the risks associated with price volatility and instability in certain economies. In 2013, sales to the Americas approached the volumes sold to China, helped particularly by the development of shale gas exploration in US, which has created new possibilities for local industry. At year-end we had signed contracts formalizing intended purchases for the entire volume from future operations (31 million metric tons, including the added output from the Fourth Pellet Plant), maintaining the same customer base. We also increased sales to Europe, which has shown signs of recovery.

Suppliers

Underpinning our business are suppliers with whom we endeavor to maintain relationships based on mutual development, compliance and productivity. In 2013 we were served by approximately 7.3 thousand active suppliers providing direct inputs into our operations (such as natural gas, limestone, coal and bentonite), services, equipment and materials. Our supplier relations are based on a Strategic Procurement Matrix, which establishes three materiality criteria: expenditure, market complexity and business impact.

Being present in dozens of communities in two states, Samarco combines a commitment to profitability with the development of local supply chains; in 2013, around 38% of all purchases were sourced from local suppliers, i.e. suppliers within our direct area of influence, which also includes municipalities within Greater Vitória (ES). In the case of the P4P project, this ratio is higher than 50%.

Over the past years, we have worked to reduce supply chain costs, increase supplier productivity and ensure compliance in processes. We have a development program in place involving around 120 suppliers, with periodic assessments and meetings focusing on quality, social and environmental performance and tax, legal and labor compliance.

In 2013, we held the fourth edition of our Supplier Conference in Belo Horizonte (MG), with the participation of 90 companies that collectively account for 80% of our supply chain. The conference addressed the Company's strategy for the coming years, the outlook for the iron ore pellet market and information on ethics, business conduct and compliance.

Shareholders

Transparency and trust are key tenets of our relationship with shareholders. In 2013 we held all required Board meetings as well as advisory committee and subcommittee meetings. As part of our governance structure, periodic and special meetings were held by a specific committee dedicated to addressing the progress of and challenges related to the P4P project. This committee will be maintained through to the completion and final assessment of the project in the first half of 2014.

Environmental management

Based on the pillars of Compliance, Excellence and Growth, Samarco's environmental management practices are focused on controlling impacts inherent to the mining business, improving natural resource use efficiency and ensuring our operations' continuing compliance with applicable laws and regulations.

In 2013 we maintained programs focused on critical issues in our business, such as managing water and wastewater, solid waste and tailings, greenhouse gas emissions, particulate matter and impacts on biodiversity. Our total environmental investment, excluding the P4P project, was R$107.7 million.

Among this year's highlights were the successful completion of the Environmental Commitment we voluntarily signed in 2009 with the State Public Attorney's Office of Espírito Santo, with technical advice from the State Institute for the Environment and Water Resources (Iema). Over a period of four years, we invested more than R$250 million in initiatives to improve air quality in the Ubu area (ES). Delivered in 2013 and costing R$92.6 million, wind fencing is a technology that uses steel structures clad with screens to enclose iron ore pellet stockpile yards. Following construction, particulate emissions from these areas fell by 76%, exceeding the 54% reduction estimated during system design.

Other recent deliveries as part of the Environmental Commitment included electrostatic precipitators – we installed two new units in replacement of the scrubbers at pellet plants 1 and 2, an investment of R$147.3 million – and the expansion and upgrade of our air quality monitoring network, one of the most modern systems of its kind in Brazil, which continuously measures particulate and gas concentrations in surrounding communities.

The year was also marked by improvements in water footprint management – a material aspect in managing water collection in the Germano (MG) and slurry pipeline operations, and wastewater disposal in Ubu (ES). We reviewed our Water Resource Master Plan, which establishes water management goals and objectives, and maintained our water recycling rate at around 90% across our operations. In parallel, we delivered a new Industrial Wastewater Treatment Plant in Ubu (ES), which further treats pre-treated water from each facility's wastewater treatment systems before disposal in Lake Mãe-Bá.

As a highlight on the biodiversity front in 2013, we adapted our lighting systems in the port yard areas to help preserve marine turtle nesting sites. An investment of R$1 million, the project has also reduced power consumption and improved safety in our ore yard and ship handling operations.

Waste and tailings management also improved. In a joint effort of the Environment and General

Management – Technology and Eco-Efficiency functions, research was conducted on the reuse of tailings in other products and industries. A study is also being conducted on the use of scrap wood as biofuel.

Environmental Permitting

As the P4P project neared completion in 2013, work began on obtaining the environmental permits required for project startup in 2014.

Health & Safety

Respect for people, a core value at Samarco, is the basis of and non-negotiable requirement for ensuring the integrity of employees and contractors across our operations. Centered on three pillars – Leadership, Behavior and Systems – our health and safety programs became even more relevant in 2013, a year that saw the peak of the Fourth Pellet Plant (P4P) construction project and improvement in specific risk management practices.

In 2013, our injury rates showed a slight increase from the previous year due to the smaller number of hours worked. Within the P4P project, in which injury rates are monitored on a monthly basis and also include restricted duty or doctor's cases, the injury rate at year-end 2013 was 1.02.

Safety indicators (Samarco and contractors)	2009	2010	2011	2012	2013
Lost-time injury (LTI) rate	0.10	0.22	0.22	0.14	0.29
Overall injury rate (LTI + NLTI)	1.17	0.93	0.49	0.65	0.80

Our Health and Safety Management System is based on OHSAS 18.001 requirements, industry best practice and shareholder requirements. To engage senior management in continual improvement of health and safety processes, the System implemented a Central Health & Safety Committee, Daily Health & Safety Talks, periodic general manager meetings, a Leadership Development Program and operations committees, which meet on a monthly basis. Notable actions around the environmental pillar include training, accident prevention campaigns and safe behavior programs such as Daily Health & Safety Meetings, Safe Work Watch programs and mentoring programs.

On the systems front, we improved controls to reduce our Risk Factor, a management indicator calculated for all operational activities, and for which we have set a reduction goal of 10% per year. Our primary approach to achieving this goal is improving our management of risks considered critical. We currently have 18 critical risks identified in a number of areas, which are mitigated through management actions and regular inspections. Every year, we invest more than R$10 million to keep these risks in check. As a result, we achieved a Risk Factor reduction of 11.5% in 2013.

During the year, we expanded controls to mitigate critical human-machine interaction risks as part of action taken following an audit by shareholder BHP Billiton at the Ubu (ES) and Germano (MG) sites. Improvements currently underway include mine site traffic controls, industrial area enclosures, traffic pattern changes, signage and access restriction in a number of areas.

In health, critical risk mapping and management work continued in 2013 with action that included noise reduction through replacement of pellet plant blowers and lab improvements at Ubu. Other employee well-being services include physical, hearing and dental examinations, social services, ergonomics monitoring, occupational health and sports. Through our employee Health Profile program, we also identify and organize degrees of risk based on the results of medical exams and then offer a voluntary living quality program with action plans that are monitored on a quarterly basis.

INDEPENDENT AUDITORS' REPORT

(A free translation of the original in Portuguese)

Independent auditors' report on the financial statements individual and consolidated

To the Board of Directors and Shareholders
Samarco Mineração S.A.

We have audited the accompanying financial statements of Samarco Mineração S.A. ("Parent Company"), which comprise the balance sheet as at December 31, 2013 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as the accompanying consolidated financial statements of Samarco Mineração S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2013 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices adopted in Brazil, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Samarco Mineração S.A.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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. and of Samarco Mineração S.A. and its subsidiaries as at December 31, 2013, and the parent company financial performance and cash flows, as well as the consolidated financial performance and cash flows, for the year then ended, in accordance with accounting practices adopted in Brazil.

Other matters

Supplementary information – statements of value added

We also have audited the parent company and consolidated statements of value added for the year ended December 31, 2013, which are the responsibility of the Company's management, as supplementary information to the accounting practices adopted in Brazil. The presentation of these statements is required by Brazilian corporate legislation only for listed companies. These statements were subject to the same audit procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Audit of prior-year information

The audit of the financial statements for the year ended December 31, 2012, presented for comparison purposes, was conducted by other independent auditors who issued an unqualified opinion thereon dated March 25, 2013.

Belo Horizonte, February 26, 2014

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F" MG

Myrian Buenos Aires Moutinho
Contador CRC MG 070919/O-8

FINANCIAL STATEMENTS

December 31, 2013

SAMARCO

BALANCE SHEET

At December 31

In thousands of Reais – R$

Assets	Note	Parent Company		Consolidated	
		2013	2012	2013	2012
Current					
Cash and cash equivalents	3	418,487	507,204	436,858	523,032
Restricted short-term investments	4	117,808	-	117,942	249,028
Accounts receivable	5	857,122	993,381	856,980	744,422
Inventories	6	337,532	349,939	337,532	349,939
Recoverable taxes	7	277,759	234,880	277,773	234,949
Prepaid expenses		4,414	474	4,937	776
Other assets	8	31,540	27,035	31,523	27,198
Total current assets		**2,044,662**	**2,112,913**	**2,063,545**	**2,129,344**
Non-current					
Judicial deposits	19	409,563	148,746	409,563	148,746
Recoverable taxes	7	31,393	47	31,393	47
Other assets	8	36,066	22,209	36,238	22,413
		477,022	**171,002**	**477,194**	**171,206**
Investments	9	34,025	27,496	-	-
Property, plant and equipment	11	12,457,306	8,668,983	12,457,821	8,669,080
Intangible assets	12	33,330	31,425	33,331	31,427
Total noncurrent assets		**13,001,683**	**8,898,906**	**12,968,346**	**8,871,713**
Total assets		**15,046,345**	**11,011,819**	**15,031,891**	**11,001,057**

The accompanying management notes are an integral part of these financial statements.

BALANCE SHEET

At December 31

In thousands of Reais – R$

Liabilities	Note	Parent Company		Consolidated	
		2013	2012	2013	2012
Current					
Trade payables	13	290,441	337,934	290,514	337,961
Advances on export contracts	14	-	404,908	-	404,908
Borrowings and financing	15	888,679	409,497	888,679	409,497
Financial charges payable	14 and 15	50,364	27,314	50,364	27,314
Payroll, provisions and social contributions	17	90,278	74,108	92,345	76,142
Taxes payable	18	208,356	28,985	208,518	29,093
Provision for income tax	28	-	81,949	-	81,917
Dividends	22	682,850	661,578	682,850	661,578
Other provisions	20	60,842	62,995	60,842	62,995
Other liabilities	21	35,752	42,231	19,051	29,340
Total current liabilities		**2,307,562**	**2,131,499**	**2,293,163**	**2,120,745**
Non-current					
Borrowings and financing	15	8,090,632	5,143,893	8,090,632	5,143,893
Financial charges payable	14 and 15	438	1,353	438	1,353
Provisions for contingencies	19	145,989	309,398	145,989	309,398
Deferred income tax	28	419,561	22,119	419,523	22,097
Other provisions	20	155,852	128,913	155,852	128,913
Other liabilities	21	168,262	516	168,245	530
Total noncurrent liabilities		**8,980,734**	**5,606,192**	**8,980,679**	**5,606,184**
Equity					
Capital	22	297,025	297,025	297,025	297,025
Capital reserve	22	2,476	2,476	2,476	2,476
Revenue reserves	22	294,549	294,549	294,549	294,549
Accumulated translation adjustments	22	1,115,452	695,345	1,115,452	695,345
Additional dividends proposed	22	2,048,547	1,984,733	2,048,547	1,984,733
Total shareholders' equity		**3,758,049**	**3,274,128**	**3,758,049**	**3,274,128**
Total liabilities and shareholders' equity		**15,046,345**	**11,011,819**	**15,031,891**	**11,001,057**

The accompanying management notes are an integral part of these financial statements.

STATEMENT OF INCOME

Years ended December 31
In thousands of Reais – R$

	Note	Parent Company		Consolidated	
		2013	2012	2013	2012
Revenue	23	7,204,417	6,549,679	7,204,417	6,549,679
Cost of goods sold and services rendered	24	(2,679,880)	(2,536,090)	(2,679,880)	(2,536,323)
Gross profit		**4,524,537**	**4,013,589**	**4,524,537**	**4,013,356**
Operating expenses					
Sales	25	(133,493)	(118,606)	(129,879)	(115,203)
General and administrative	25	(56,765)	(56,685)	(56,765)	(56,685)
Other operating expenses, net	26	(682,915)	(482,247)	(684,820)	(484,353)
Equity in income of subsidiaries	9	1,394	810	-	-
Operating profit before financial result		**3,652,758**	**3,356,861**	**3,653,073**	**3,357,115**
Financial result					
Financial income	27	7,024	5,913	7,147	6,061
Financial costs	27	(360,490)	(103,396)	(360,530)	(103,431)
Net exchange variances	27	261,081	127,571	261,188	127,536
Operating profit		**3,560,373**	**3,386,949**	**3,560,878**	**3,387,281**
Income tax	28	(828,976)	(740,638)	(829,481)	(740,970)
Net profit for the year		**2,731,397**	**2,646,311**	**2,731,397**	**2,646,311**

The accompanying management notes are an integral part of these financial statements.

COMPREHENSIVE STATEMENT OF INCOME

Years ended December 31
In thousands of Reais – R$

	Parent Company and Consolidated	
	2013	2012
Net profit for the year	2,731,397	2,646,311
Other comprehensive income		
Items that will not be reclassified to profit or loss	-	-
Translation adjustments in the year	420,107	227,670
Other comprehensive income for the year	**420,107**	**227,670**
Total comprehensive income	**3,151,504**	**2,873,981**

The accompanying management notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31

In thousands of Reais – R$

	Note	Capital	Capital reserves			Revenue reserves			Accumulated translation adjustments	Profit (losses)	Additional	Total
			Special monetary restatement of PP&E	Goodwill on share subscription	Tax incentive reserves	Incentivized Depletion reserve	Legal reserve	Profit retention reserve				
Balance at January 01, 2012		297,025	785	1,681	10	1,517	59,404	233,628	467,675	-	745,366	1,807,091
Net profit 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 allocations												
Dividends (R$142.16 per common share and R$156.37 per preferred share)	22.b	-	-	-	-	-	-	-	-	-	(745,366)	(745,366)
Minimum mandatory dividends		-	-	-	-	-	-	-	-	-	(661,578)	(661,578)
Transfer to additional proposed	22.b	-	-	-	-	-	-	-	-	(2,646,311)	2,646,311	-
Balance at December 31, 2012		**297,025**	**785**	**1,681**	**10**	**1,517**	**59,404**	**233,628**	**695,345**	**-**	**1,984,733**	**3,274,128**
Net profit for the year		-	-	-	-	-	-	-	-	2,731,397	-	2,731,397
Other comprehensive income												
Translation adjustment for the year, net of tax	22	-	-	-	-	-	-	-	420,107	-	-	420,107
Total comprehensive income		-	-	-	-	-	-	-	420,107	-	-	420,107
Net income allocations:												
Dividends (R$378.53 per common share and R$416.38 per preferred share)	22.b	-	-	-	-	-	-	-	-	-	(1,984,733)	(1,984,733)
Minimum mandatory dividends	_	-	-	-	-	-	-	-	-	-	(682,850)	(682,850)
Transfer to additional proposed dividends	22.b	-	-	-	-	-	-	-	-	(2,731,397)	2,731,397	-
Balance at December 31, 2013		**297,025**	**785**	**1,681**	**10**	**1,517**	**59,404**	**233,628**	**1,115,452**	**-**	**2,048,547**	**3,758,049**

The accompanying management notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

Years ended December 31
In thousands of Reais – R$

	Note	Parent Company		Consolidated	
		2013	2012	2013	2012
Cash flows from operating activities					
Operating profit before income tax		3,560,373	3,386,949	3,560,878	3,387,281
Adjustments to reconcile net profit to cash provided by operations:					
Depreciation and amortization	11 and 12	216,728	196,775	216,796	196,798
Allowance (reversal of allowance) for doubtful accounts		(2,333)	2,656	(2,314)	2,653
Allowance (reversal of allowance) for price review	5	-	(84,868)	-	(84,868)
Provision for obsolete inventory	6	195	4,050	195	4,050
Provision for realization of recoverable taxes	7	101,856	243,705	101,856	243,705
Reversal of the provision for realization of other assets		(399)	555	(399)	555
Creation of provision for contingencies	19	(162,697)	21,316	(162,697)	21,316
Reversal (creation) of the provision for other liabilities		33,938	35,715	33,854	35,715
Loss on the sale of property, plant and equipment	11	1,158	2,353	1,158	2,352
Equity in net income of subsidiaries	9	(1,394)	(810)	-	-
Financial charges		183,603	104,892	183,603	104,892
Asset and liability exchange variance		32,419	41,578	38,022	41,480
		3,963,447	**3,954,866**	**3,970,952**	**3,955,929**
(Increase) decrease in operating assets:					
Restricted short-term investments		(117,808)	-	131,086	(18,489)
Trade receivables		138,592	68,513	(110,244)	87,829
Inventories		26,866	(69,238)	26,866	(69,238)
Recoverable taxes		(176,083)	(414,438)	(176,026)	(414,434)
Judicial deposits		(260,817)	(54,600)	(260,817)	(54,600)
Prepaid expenses		(3,439)	832	(4,161)	777
Other assets		(17,961)	(8,070)	(17,751)	(5,437)
Increase (decrease) in operating liabilities:					
Trade payables		(47,494)	36,517	(47,447)	36,542
Taxes payable		179,371	30,309	179,425	30,332

The accompanying management notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

Years ended December 31
In thousands of Reais – R$

	Note	Parent Company		Consolidated	
		2013	2012	2013	2012
Increase (decrease) in operating liabilities:					
Payroll, provisions and social contributions		8,022	3,487	8,055	4,303
Income tax paid/offset	28	(513,483)	(460,612)	(513,972)	(461,118)
Other liabilities		159,553	47,880	155,795	45,767
Net cash provided by operations		**3,338,766**	**3,135,446**	**3,341,761**	**3,138,163**
Cash flows from investment activities					
Acquisition of property, plant and equipment	11	(2,659,143)	(3,231,669)	(2,659,595)	(3,231,705)
Receipt on sale of property, plant and equipment and intangible assets		87	6	87	6
Net cash used in investment activities		**(2,659,056)**	**(3,231,663)**	**(2,659,508)**	**(3,231,699)**
Cash flows from financing activities					
Financing obtained from third parties		4,209,706	5,270,919	4,209,706	5,270,919
Financing repayments		(2,170,267)	(4,092,181)	(2,170,267)	(4,092,181)
Interest payment		(161,469)	(90,103)	(161,469)	(90,103)
Dividend payments	22	(2,646,311)	(745,366)	(2,646,311)	(745,366)
Net cash provided (used) in financing activities		**(768,341)**	**343,269**	**(768,341)**	**343,269**
Exchange variance on cash and cash equivalents		(86)	3,294	(86)	3,294
Net increase in balance of cash and cash equivalents	3	**(88,717)**	**250,346**	**(86,174)**	**253,027**
Cash and cash equivalents at the beginning of the year		507,204	256,858	523,032	270,005
Cash and cash equivalents at the end of the year		418,487	507,204	436,858	523,032
		(88,717)	**250,346**	**(86,174)**	**253,027**

The accompanying management notes are an integral part of these financial statements.

STATEMENT OF VALUE ADDED

Years ended December 31
In thousands of Reais – R$

	Note	Parent Company		Consolidated	
		2013	2012	2013	2012
Revenue					
Sales of goods, products and services		7,240,165	6,610,740	7,240,179	6,610,740
Other revenue		6,868	9,075	6,868	9,075
Revenue relating to construction of company assets		3,017,238	3,403,438	3,017,278	3,403,443
Allowance (reversal of allowance) for doubtful accounts		2,333	(2,656)	2,314	(2,653)
		10,266,604	**10,020,597**	**10,266,639**	**10,020,605**
Consumables acquired from third parties					
Cost of goods sold and services rendered		**(6,109,798)**	**(5,903,569)**	**(6,104,280)**	**(5,899,274)**
Material, electricity, outsourced services and other		(267,955)	(372,015)	(264,090)	(368,526)
Loss/recovery of asset values		(2,788)	(4,605)	(2,788)	(4,605)
		(6,380,541)	**(6,280,189)**	**(6,371,158)**	**(6,272,405)**
Gross value		**3,886,063**	**3,740,408**	**3,895,481**	**3,748,200**
Depreciation and amortization	11 and 12	(216,728)	(196,775)	(216,796)	(196,798)
Value added produced by the Company		**3,669,335**	**3,543,633**	**3,678,685**	**3,551,402**
Transferred value added					
Equity in income of subsidiaries	9	1,394	810	-	-
Financial revenue		535,924	261,024	536,199	261,127
		537,318	**261,834**	**536,199**	**261,127**
Total value added to be distributed		**4,206,653**	**3,805,467**	**4,214,884**	**3,812,529**
Distribution of value added		**4,206,653**	**3,805,467**	**4,214,884**	**3,812,529**
Personnel					
Direct remuneration		315,746	252,863	321,433	257,700
Benefits		78,863	69,259	80,771	71,173
FGTS		16,773	14,098	16,773	14,098
Taxes, charges and contributions					
Federal		616,587	479,483	617,304	479,918
State	32	(357,276)	51,441	(357,441)	51,293
Municipal		19,642	17,180	19,642	17,181
Remuneration of third parties					
Interest on borrowings, financing and other debt items		784,922	274,832	785,005	274,855
Remuneration of capital					
Minimum mandatory dividends	22	682,850	661,578	682,850	661,578
Additional dividends proposed	22	2,048,547	1,984,733	2,048,547	1,984,733

The accompanying management notes are an integral part of these financial statements.

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

(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 Rua Paraíba, nº 1122, Bairro Funcionários, Belo Horizonte – State of Minas Gerais (MG). Samarco operates an integrated enterprise consisting of the mining, beneficiation and concentration of low-grade iron ore (Germano/Alegria and Mariana, in the State of Minas Gerais - MG), as well as the movement of such concentrated ore through pipelines, connecting the Company's two operating plants located in Minas Gerais and Espírito Santo (ES). The pelletizing - transformation of concentrated iron ore into pellets, our core product, takes place at the Ubu plant, and the shipment of the product through the Company's own marine terminal (Anchieta, Espírito Santo). Production is substantially sold on the international market.

Samarco's ore deposits are located in the municipalities of Mariana and Ouro Preto (MG), and comprise geological resources of around 8.006 billion tons of iron ore.

In accordance with the technical and economic context plus the particular characteristic of the mineral resource, recoverable reserves (or production) are of the orther of 2.946 billion tons. The production of concentrated iron ore in 2013 was 22.321 million dry metric tons (2012 – 22.425 million dry metric tons[1]).

The Company has equity interests in the following companies (referred to jointly with Samarco as the "Group"):

» Samarco Iron Ore Europe B.V. ("Samarco Europe") - *direct interest of 100%* - 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.

» Samarco Asia Ltd. ("Samarco Asia") - direct interest of 100% - 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.

» Samarco Finance Ltd. ("Samarco Finance") - direct interest of 100% - 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.

The Executive Board approved the issuance of these financial statements on February 24, 2014.

2. PRESENTATION OF THE FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

The main accounting policies used to prepare these financial statements are as follows. These policies were consistently applied in the previous years presented, unless stipulated otherwise.

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

2.1 Basis of preparation

(a) **Individual and consolidated financial statements**

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.

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. The Company reviews the estimates and assumptions at least once a year, in addition to the residual values and useful life of the assets. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the parent company and financial statements are disclosed in Note 2.2.

The individual and consolidated financial statements have been prepared in accordance with accounting practices adapted in Brazil, including the pronouncements issued by the Accounting Pronouncements Committee (“CPC”), ratified by the regulatory agencies.

The statement of cash flows by the indirect method are prepared and presented in accordance with accounting pronouncement CPC 03 (R2) – Statement of Cash Flows. The statement of value added was prepared in accordance with accounting pronouncement CPC 09 – Statement of Value Added, and as it is only required of listed companies is being presented as supplementary information to the financial statements, without prejudice to the financial statements as a whole.

(b) **Changes in accounting policies and disclosures**

The following pronouncements were adopted for the first time in the financial year starting on January 1, 2013 and have impacts on the Group.

(i) CPC 26 (R1)/IAS 1 - "Presentation of Financial Statements". The main change for 2013 is the requirement to group items presented in the "Statement of comprehensive income" based on whether they are potentially reclassifiable to profit or loss.

(ii) CPC 33 (R2)/IAS 19 - "Employee Benefits". The following changes were made to the Group's accounting policies: immediate recognition of the cost of past services, which will be recorded in profit or loss for the year, regardless of whether the benefits have been acquired by the employee or not measurement of the financial costs/gains on liability/assets of the defined benefit plan on a net basis. The impacts of this change on the financial statements can be seen in Note 16.

(iii) CPC 46/IFRS 13 - "Fair value measurement" aims to improve consistency and reduce complexity when measuring fair value, providing a more precise definition and a single source for measuring fair value and disclosure requirements.

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

2.2 Critical Accounting Estimates and Judgments

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Based on assumptions, the Company makes estimates concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. These estimates are based on the best knowledge existing in each financial year. Changes in facts and circumstances could lead to a revision of estimates, meaning the actual future results could diverge from the estimates.

The estimates and assumptions posing a significant risk used by Company Management to prepare the financial statements can be seen below.

The significant estimates and judgments are as follows:

(i) **Allowance for doubtful accounts**

The allowance for doubtful accounts is presented as a reduction to accounts receivable and is compiled based on the profile of the client portfolio, aging list, economic scenario and risks involved in each case, at an amount considered sufficient to cover any losses on the realization of such credits.

(ii) **Deferred income tax**

Current and deferred income tax is calculated in accordance with the interpretations deriving from the existing legislation. This process normally involves complex estimates to determine the taxable income and the deductible or taxable temporary differences. The measurement of the recoverability of deferred income tax on tax losses and temporary differences takes into account the estimated future taxable income and is based on conservative fiscal assumptions.

(iii) **Impairment**

Impairment losses are recorded for tangible and intangible assets when the book value of an asset or its cash generating unit exceeds its recoverable value.

The Company annually evaluates its assets with a defined useful life for indications of impairment. If such indicators do exist, the recoverability of its tangible and intangible assets segregated by cash generating unit is tested. The discounted cash flow criteria is usually used, which depends on several estimates, which are influenced by the market conditions in force at the time when the impairment test is conducted.

(iv) **Mineral reserves and useful life of mines**

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

The estimated proven and probable reserves are periodically evaluated and updated. These reserves are determined by using generally accepted geological estimate techniques.

The volume of the mineral reserves is estimated by determining the portion of depletion of the respective mines and its estimated useful life is a prime factor for quantifying the provision for environmental recovery of the mines upon derecognition from property, plant and equipment. Any change in the estimated volume of reserves of the mine and the useful life of the underlying assets could have a significant impact on the depreciation, depletion and amortization charges recognized in the financial statements as the cost of goods sold. Changes in the estimated useful life of a mine could impact the estimated provision for environmental expenses, the recovery thereof upon derecognition of the property, plant and equipment and impairment analyses.

(v) **Retirement obligations**

The Company recognizes an obligation at fair value for demobilization of assets in the period in which they occur. The Company considers the accounting estimates related to the recovery of degraded areas and the cost of closing a mine as a critical accounting practice as it involves large provisions and estimates involving a range of assumptions, such as interest rates, inflation, useful life of the asset under scrutiny and the current stage of depletion and the projected depletion dates of each mine. These estimates are revised annually.

(vi) **Provision for contingencies**

Contingencies are analyzed by Company Management in conjunction with its legal advisers. The Company's analyses include factors like hierarchy of laws, case law available, recent decisions delivered by courts and their relevance in the legal order. These evaluations involve Management judgments.

Provisions are recorded when the value of the loss can be reasonably estimated.

(vii) **Retirement benefits for employees**

The assets and liabilities of retirement benefits are calculated according to a series of factors determined based on actuarial calculations which rely on a number of assumptions to determine the costs and liabilities, amongst others. One of the assumptions made to determine the value to be recorded is the interest rate for discount and adjustment. Any changes in these assumptions will affect the accounting records.

In conjunction with its independent auditors, every year the Company reviews the assumptions used for the following year. These assumptions are used for the adjustments and discounts to fair value of assets and liabilities, costs and expenses and determination in future values of estimated cash disbursements necessary to settle obligations incurred on the pension plans.

2.3 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

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

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 accounting method are eliminated against the investment in proportion to the Group's interest in the investee.

(a) Subsidiaries

Subsidiaries are all entities the Group exercises control over. The Group controls an entity when it is exposed or entitled to variable returns deriving from its involvement in the entity and can influence its returns due to the power it exercises over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(b) Joint ventures

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. Joint operations are recorded in the financial statements to represent the Group's contractual rights and obligations. The assets, liabilities, revenue and expenses related to their interests in joint operations are therefore recorded individually in the financial statements. 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.

2.4 Foreign currency translation

(a) Functional and presentation currency

The financial statements have been prepared in US dollars (US$), which is the functional currency of the Company and its subsidiaries and has been translated into Reais (R$), which is the reporting currency. The amounts in reais presented in the individual and consolidated financial statements of the Company were measured using the US dollar as the functional currency.

(b) Presentation currency

In accordance with Brazilian legislation, these financial statements are being presented in reais, where the financial statements prepared in the Company's functional currency are translated to reais by using the following criteria:

- Assets and liabilities are converted at the closing rate at the respective reporting date.
- Income accounts, comprehensive income, statements of cash flow and value added are converted by the average monthly exchange rates.
- Shareholders' equity at historical formation value.

The exchange variance resulting from the translation are recognized in a specific account of the shareholders' equity titled "Accumulated translation adjustments".

(c) Transactions and balances

Transactions in currencies other than the functional currency are translated into the functional

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

currency at the exchange rates prevailing on the transaction or valuation dates, on which the items are remeasured. Exchange gains and losses resulting from the settlement of these transactions and the translation at the exchange rates at the end of the financial year for monetary assets and liabilities denominated in foreign currency are recognized in the income statement.

Exchange gains and losses relating to operations in currencies other than the functional currency are presented in profit or loss under financial result.

The individual and consolidated financial statements in the functional currency (USD) are as follows:

Balance Sheet

Assets	Parent Company		Consolidated	
	2013	2012	2013	2012
Current				
Cash and cash equivalents	178,678	248,276	186,522	256,024
Restricted short-term investments	50,302	-	50,359	121,900
Accounts receivable	365,983	486,256	365,903	364,385
Inventories	144,115	171,295	144,115	171,295
Recoverable taxes	118,599	114,974	118,602	115,004
Prepaid expenses	1,885	232	2,108	380
Other assets	13,460	13,227	13,448	13,300
Total current assets	**873,022**	**1,034,260**	**881,057**	**1,042,288**
Noncurrent assets				
Judicial deposits	174,875	72,811	174,875	72,811
Recoverable taxes	13,405	23	13,406	23
Other assets	15,399	10,872	15,475	10,975
	203,679	**83,706**	**203,756**	**83,809**
Investments	14,528	13,459	-	-
Property, plant and equipment	5,319,089	4,243,469	5,319,309	4,243,517
Intangible assets	14,231	15,382	14,232	15,383
Total noncurrent assets	**5,551,527**	**4,356,016**	**5,537,297**	**4,342,709**
Total assets	**6,424,549**	**5,390,276**	**6,418,354**	**5,384,997**

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

Liabilities and shareholders' equity	Parent Company		Consolidated	
	2013	2012	2013	2012
Current				
Trade payables	124,014	165,412	124,050	165,426
Advances on export contracts	-	198,203	-	198,203
Borrowings and financing	379,453	200,449	379,453	200,449
Financial charges payable	21,505	13,370	21,505	13,370
Payroll, provisions and social contributions	38,562	36,274	39,445	37,270
Taxes payable	88,965	14,188	89,035	14,241
Provision for income tax	-	40,114	-	40,098
Dividends	291,567	323,842	291,567	323,842
Other provisions	25,979	30,836	25,979	30,836
Other liabilities	15,278	20,667	8,110	14,352
Total current liabilities	**985,323**	**1,043,355**	**979,144**	**1,038,087**
Noncurrent liabilities				
Borrowings and financing	3,454,583	2,517,937	3,454,583	2,517,937
Financial charges payable	187	662	187	662
Provision for contingencies	62,335	151,451	62,335	151,451
Deferred income tax	179,146	10,827	179,130	10,816
Other provisions	66,546	63,103	66,546	63,103
Other liabilities	71,846	252	71,846	252
Total noncurrent liabilities	**3,834,643**	**2,744,232**	**3,834,627**	**2,744,221**
Shareholders' equity				
Capital	409,774	409,774	409,774	409,774
Capital reserves	1,619	1,619	1,619	1,619
Revenue reserves	97,025	97,025	97,025	97,025
Additional dividends proposed	1,096,165	1,094,271	1,096,165	1,094,271
Total shareholders' equity	**1,604,583**	**1,602,689**	**1,604,583**	**1,602,689**
Total liabilities	**6,424,549**	**5,390,276**	**6,418,354**	**5,384,997**

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

Statement of income

	Parent Company		Consolidated	
	2013	2012	2013	2012
Revenue	3,332,679	3,365,511	3,332,679	3,365,511
Cost of goods sold	(1,241,107)	(1,296,813)	(1,241,107)	(1,296,813)
Gross profit	**2,091,572**	**2,068,698**	**2,091,572**	**2,068,698**
Operating expenses				
Sales	(63,577)	(61,381)	(61,549)	(59,319)
General and administrative	(26,270)	(28,982)	(26,270)	(28,982)
Other operating expenses, net	(227,936)	(203,281)	(228,721)	(204,343)
Equity in income of subsidiaries	1,069	819	-	-
Operating profit before financial result	**1,774,858**	**1,775,873**	**1,775,032**	**1,776,054**
Financial result				
Financial income	3,220	3,152	3,272	3,227
Financial costs	(159,482)	(51,728)	(159,501)	(51,747)
Net exchange variance	128,151	70,452	128,197	70,415
Operating profit	**1,746,747**	**1,797,749**	**1,747,000**	**1,797,949**
Income tax	(359,015)	(379,636)	(359,268)	(379,836)
Net profit for the year	**1,387,732**	**1,418,113**	**1,387,732**	**1,418,113**

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

Statement of changes in shareholders' equity

	Capital	Capital reserves			Revenue reserves			Profit (losses)	Additional proposed	Total
		Special monetary restatement of PP&E	Goodwill on share subscription	Tax incentive reserves	Incentivized depletion reserve	Legal reserve	Profit retention reserve			
Balance at January 01, 2012	**409,774**	**-**	**1,616**	**3**	**935**	**38,538**	**57,552**	**-**	**495,232**	**1,003,650**
Net profit for the year	-	-	-	-	-	-	-	1,418,113	-	1,418,113
Net income allocation										
Dividends (U$D68.53 per common share and U$D75.38 per preferred share)	-	-	-	-	-	-	-	-	(495,232)	(495,232)
Minimum mandatory dividends	-	-	-	-	-	-	-	-	(323,842)	(323,842)
Transfer to additional dividends proposed	-	-	-	-	-	-	-	(1,418,113)	1,418,113	-
Balance at December 31, 2012	**409,774**	**-**	**1,616**	**3**	**935**	**38,538**	**57,552**	**-**	**1,094,271**	**1,602,689**
Net profit for the year	-	-	-	-	-	-	-	1,387,732	-	1,387,732
Net income allocation										
Dividends (U$D208.70 per common share and U$D229.57 per preferred share)	-	-	-	-	-	-	-	-	(1,094,271)	(1,094,271)
Minimum mandatory dividends	-	-	-	-	-	-	-	-	(291,567)	(291,567)
Transfer to additional dividends proposed	-	-	-	-	-	-	-	(1,387,732)	1,387,732	-
Balance at December 31, 2013	**409,774**	**-**	**1,616**	**3**	**935**	**38,538**	**57,552**	**-**	**1,096,165**	**1,604,583**

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

Comprehensive statement of income

	Parent Company and Consolidated	
	2013	2012
Net income for the year	1,387,732	1,418,113
Total comprehensive income	**1,387,732**	**1,418,113**

Statement of cash flows

	Parent Company		Consolidated	
	2013	2012	2013	2012
Cash flows from operating activities				
Operating profit before income tax	1,746,747	1,797,749	1,746,999	1,797,949
Adjustments to reconcile net profit to cash provided by operations:				
Depreciation and amortization	125,923	114,964	125,957	114,977
Allowance (reversal of allowance) for doubtful accounts	(1,174)	1,291	(1,171)	1,286
Allowance (reversal of allowance) for price review	-	(45,261)	-	(45,261)
Provision for obsolete inventory	(339)	1,864	(339)	1,864
Provision for realization of recoverable taxes	(12,980)	90,399	(12,980)	90,399
Reversal of the provision for realization of other assets	(185)	222	(185)	222
Creation of provision for contingencies	(88,878)	(2,195)	(88,878)	(2,195)
Reversal (creation) of the provision for other liabilities	2,070	12,270	2,070	14,024
Loss of property, plant and equipment and intangible assets	693	1,383	649	1,383
Equity in net income of subsidiaries	(1,069)	(819)	-	-
Financial charges	84,160	51,886	84,160	51,886
Asset and liability exchange variance	(119,754)	(87,124)	(119,757)	(87,128)
	1,735,214	**1,936,629**	**1,736,525**	**1,939,406**
(Increase) decrease in operating assets:				
Restricted short-term investments	(50,302)	-	71,541	1,047
Trade receivables	121,427	80,175	(367)	79,572
Inventories	27,315	(30,827)	27,315	(30,827)
Recoverable taxes	(110,202)	(208,073)	(110,175)	(208,066)
Judicial deposits	(102,064)	(22,602)	(102,064)	(22,602)
Prepaid expenses	(1,732)	506	(1,808)	443
Other assets	(26,745)	(8,682)	(26,591)	(8,855)
Increase (decrease) in operating liabilities:				
Trade payables	(38,045)	3,126	(38,024)	3,137
Taxes payable	84,937	13,970	84,954	13,979

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

Statement of cash flows

	Parent Company		Consolidated	
	2013	2012	2013	2012
Increase (decrease) in operating liabilities:				
Payroll, provisions and social contributions	3,634	1,739	3,521	2,087
Income tax paid/offset	(245,371)	(243,940)	(245,608)	(244,231)
Other liabilities	66,644	24,670	65,793	22,357
Net cash provided by operations	**1,464,710**	**1,546,691**	**1,465,012**	**1,547,447**
Cash flows from investment activities				
Acquisition of PPE and intangible assets	(1,201,084)	(1,616,298)	(1,201,290)	(1,616,317)
Receipt on sale of property, plant and equipment and intangible assets	44	3	44	3
Net cash used in investment activities	**(1,201,040)**	**(1,616,295)**	**(1,201,246)**	**(1,616,314)**
Cash flows from financing activities				
Financing obtained from third parties	1,933,717	2,661,990	1,933,717	2,661,990
Financing repayments	(1,016,006)	(2,078,143)	(1,016,006)	(2,078,143)
Interest payment	(76,393)	(45,236)	(76,393)	(45,236)
Dividend payments	(1,174,506)	(359,299)	(1,174,506)	(359,299)
Net cash provided by (used in) financing activities	**(333,188)**	**179,312**	**(333,188)**	**179,312**
Exchange variance on cash and cash equivalents	(80)	1,584	(80)	1,584
Net increase in balance of cash and cash equivalents	**(69,598)**	**111,292**	**(69,502)**	**112,029**
Cash and cash equivalents at the beginning of the year	248,276	136,984	256,024	143,995
Cash and cash equivalents at the end of the year	178,678	248,276	186,522	256,024
	(69,598)	**111,292**	**(69,502)**	**112,029**

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

Statement of value added

	Parent Company		Consolidated	
	2013	2012	2013	2012
Revenue				
Sales of goods, products and services	3,349,838	3,396,736	3,349,838	3,396,736
Other revenue	3,191	4,482	3,191	4,482
Revenue relating to construction of company assets	1,366,221	1,687,232	1,366,238	1,687,232
Allowance (reversal of allowance) for doubtful accounts	1,174	(1,291)	1,171	(1,286)
	4,720,424	**5,087,159**	**4,720,438**	**5,087,164**
Consumables acquired from third parties				
Cost of goods sold and services rendered	(2,799,928)	(2,966,943)	(2,797,523)	(2,964,652)
Material, electricity, outsourced services and other	(115,436)	(165,297)	(113,294)	(163,195)
Loss/recovery of asset values	5	(1,619)	5	(1,619)
	(2,915,359)	**(3,133,859)**	**(2,910,812)**	**(3,129,466)**
Gross value added	**1,805,065**	**1,953,300**	**1,809,626**	**1,957,698**
Depreciation and amortization	(125,923)	(114,964)	(125,957)	(114,977)
Value added produced by the Company	**1,679,142**	**1,838,336**	**1,683,669**	**1,842,721**
Transferred value added				
Equity in income of subsidiaries	1,069	819	-	-
Financial revenue	252,905	138,088	253,024	138,118
	253,974	**138,907**	**253,024**	**138,118**
Total value added to be distributed	**1,933,116**	**1,977,243**	**1,936,693**	**1,980,839**

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

	Parent Company		Consolidated	
	2013	2012	2013	2012
Personnel				
Direct remuneration	145,127	131,991	147,567	134,387
Benefits	36,321	35,443	37,135	36,380
FGTS	7,705	7,179	7,705	7,179
Taxes, charges and contributions				
Federal	230,866	245,830	231,218	246,082
State	(236,593)	(8,104)	(236,663)	(8,104)
Municipal	9.035	8,649	9,035	8,649
Remuneration of third parties				
Interest on loans, financing and other debt items	352,923	138,142	352,964	138,153
Remuneration of capital				
Minimum mandatory dividends	291,567	323,842	291,567	323,842
Interim dividends	-	-	-	-
Additional dividends proposed	1,096,165	1,094,271	1,096,165	1,094,271

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

2.5 Cash and cash equivalentes

They include the balances of cash, bank deposits 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.

2.6 Restricted short-term investments

Financial assets stated at fair value through profit or loss. They have a liquidity of more than 90 days, but pose a negligible risk of impairment.

2.7 Financial instruments

Financial instruments include cash and cash equivalents, restricted short-term investments, trade accounts receivable, other assets, advances on export contracts, trade payables, borrowings and financings and other liabilities.

The financial instruments are recognized as from the date on which the Company becomes party to the contractual provisions of the financial instruments. Financial instruments are initially recognized as measured at fair value through profit or loss, loans and receivables, available-for-sale and held-to-maturity. As of December 31, 2013 and 2012 the Company did not have any financial instruments classified as available-for-sale and held-to-maturity.

(a) **Financial instruments at fair value through profit or loss**

A financial instrument is classified at fair value through profit or loss if it is held for trading, i.e. designated as such upon initial recognition. Financial instruments are designated at 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. Financial instruments at fair value through profit or loss or initially recognized and the attributable transaction costs are recognized in profit or loss when incurred at fair value. Gains or losses arising from changes in the fair value are carried through profit or loss within financial income.

Derivatives are also classified as held for trading, except for those designated as hedge instruments.

(b) **Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active 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. The Company's loans and receivables consist of cash and cash equivalents (except short-term investments measured at fair value through profit and loss), accounts receivable and other assets.

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

(c) **Financial liabilities**

The Company has the following non-derivative financial liabilities: trade payables, advance on export contracts, borrowings and financing and other liabilities.

Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are measured at their amortized cost by using the effective interest rate method.

(d) **Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(e) **Provision for financial asset impairment**

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets has impairment losses only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event"), and that event(s) had an impact on the estimated future cash flows of that financial asset that can be estimated reliably.

When testing for impairment collectively the Company uses historic patterns of default probability, recovery terms and the amount 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.

2.8 Accounts receivable

Trade receivables consist of amounts owed by customers for goods or services acquired, and are recognized initially at present value and subsequently measured at amortized cost using the interest rate method, less an allowance for doubtful accounts.

Allowance for doubtful accounts: when applicable, this provision is determined at 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.

2.9 Inventories

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

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incurred to bring the inventories to their current status and location.

2.10 Investments

In the individual financial statements, subsidiaries are valued by the equity accounting 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.

2.11 Property, plant and equipment

Property, plant and equipment are recorded at the cost of acquisition, formation or construction including capitalized financial charges.

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.

Depreciation and amortization commence from the date the assets are installed and ready for use. For the items directly related to the respective productive areas the depreciation is calculated by the units produced method. For the remainder the depreciation is calculated based on the straight-line depreciation and amortization method taking into account the years described in Note 11.

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 in "Other operating expenses, net" in profit or loss.

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

(a) **Removal of tailings to access the mine deposits**

The cost of tailings (costs associated with removing tailings and other waste products) incurred during the development of the mine, before production, is capitalized as part of the depreciable cost of the asset under development. These costs are amortized over the mine's useful life, based on the proven and probable reserves.

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

The cost of tailings incurred during production are added to the value of the inventory, except when a specific extraction campaign is conducted to access deposits located deeper in the reserve. In this case, the costs are capitalized and recorded in noncurrent assets when the ore is extracted, and will be amortized over the reserve's useful life.

2.12 Intangible assets

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 asset 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;
- 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.

2.13 Impairment of nonfinancial assets

The book values of the Company's non-financial assets with a useful life are reviewed at each reporting date for signs of impairment. If any such indication exists, then the asset’s recoverable amount is determined. Assets with an indefinite useful life are not subject to amortization and are tested annually for impairment. 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 amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 CGU").

Impairment losses are recognized when the book value of an asset or its cash generating unit exceeds its estimated recoverable value. Impairment losses are recognized in profit or loss. For the financial year ended December 31, 2013 and 2012, the company did not identify any evidence of impairment of its non-financial assets.

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

2.14. Trade Payables

Trade payables are obligations payable to suppliers for goods and services acquired in the normal course of business, and are classified as current liabilities if the payment is due within a year. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

2.15 Advance on export contracts and borrowings and financing

Advances on export contracts and borrowings and financing are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the total settlement value is recognized in the statement of income over the period of the borrowings using the effective interest rate method.

Advance on export contracts and borrowings and financing are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

The costs of advances on export contracts and borrowings and financing attributed directly to the acquisition, construction or production of an qualifiable 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 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. Other advance on export contracts and borrowings and financing costs are recorded as an expense in the period they are incurred.

2.16 Provision for contingencies

A provision is made for legal obligations when losses and resulting outflow of resources are rated as probable and the amounts can be measured 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 determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

2.17 Provisions for asset retirement and environmental recuperation

(a) Asset retirement obligations

An asset retirement obligation is recognized when there is 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

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the value of the property, plant and equipment, and is depreciated over the asset's useful life.

(b) Environmental recuperation

An environmental liability 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.

2.18 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.

2.19 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 enacted and substantially enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity.

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).

2.20 Employee benefits

(a) **Retirement obligation**

The defined-contribution plan is a retirement benefits plan under which a Company pays fixed contributions to a separate entity (ValiaPrev) and incurs no legal or constructive obligations to pay additional amounts. Contributions are recognized as an employee benefit expense when due.

For the defined-benefit portion in the plan (ValiaPrev), which denotes the constructive obligation, the Company makes the actuarial calculation. When the benefits of a plan are increased, the portion of the increase in the benefit related to past service of employees is

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recognized immediately in profit or loss.

The defined-benefit obligation is calculated annually by independent actuaries by the projected unit of credit method. The present value of the defined benefit obligation is determined by discounting future estimated cash disbursements using interest rates in line with market yields, which are denominated in the currency in which benefits are paid and have maturity terms close to those of the respective pension plan obligation. However, no asset is recognized as there is no such provision in the bylaws for reimbursing the Company or reducing future contributions.

The actuarial gains or losses arising from the adjustment for experience and changes in actuarial assumptions are recorded directly in shareholders' equity as other comprehensive income, when incurred.

(b) **Share-based payments**

Samarco operates a share-based payment plan, settled in cash. The fair value payable to employees relating to the long-term incentive plan 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 income statement.

2.21 Capital

Each common share entitles the holder 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 have voting rights, but are assured priority in capital reimbursements. Preferred shares have the right to a dividend that is 10% higher than that attributed to the common shares.

2.22 Payment of dividends

Minimum mandatory dividends paid to the Company's shareholders 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 provided for when the permanent resolution is taken by the shareholders' Annual General Meeting.

2.23 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 liabilities. The attributable income-tax amounts are charged/credited to the income statement.

(a) Recognition of revenue from product sales

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

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recognized when the product is delivered to the transporter. Up to October 2011 the customers prices were primarily based on the average price indexes in the previous quarter, with mismatch of one month. From October 2011 the prices for customers mainly began to be based on the quarterly arrangement (average indexes of the current quarter) or monthly arrangement (average index in the prior month). These mechanisms are used to form the base price and a negotiated premium, detailed by an external analysis of the quality of the iron ore pellets, and is subsequently included in the base price of calculating the final price of the pellet.

The revenue is then recognized at the dispatch date based on an estimated fair value of the payment receivable. 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.

(b) 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.

(c) Financial income and financial costs

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.

Financial costs include interest expenses on advances on export contracts, borrowings and financing and changes in the fair value of financial assets measured at fair value through profit and loss.

Interest income and costs are recognized as they accrue in profit or loss, using the effective interest rate method.

Exchange gains and losses are reported net.

2.24 Leasing

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made for operating leases (net of any incentives receipt from the lessor) are recognized in profit or loss on the straight-line method during the lease period.

As of December 31, 2013 and 2012 the Company does not have any operations classified as commercial leases (in which the Company assumes most of the risks and rewards of ownership). Commercial leases are capitalized at the start of the lease at the lower of the fair value of the leased assets and the present value of the lease's minimum payments.

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2.25 New standards, amendments and interpretations of standards that are not yet effective

The following new standards and interpretations have been issued by the *International Accounting Standards Board* (IASB) but are not in force for FY 2013. Whilst encouraged by the IASB, the early adoption of standards in Brazil is not permitted by the Accounting Pronouncements Committee (CPC).

. IFRS 9 - "Financial Instruments", issued in November 2009 and October 2010. IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the measurement model and establishes two categories of the main measurements for financial assets: amortized cost and fair value. This should be determined when the financial instrument is initially acquired. The classification depends on the entity's business model and the contractual terms of the cash flow from the financial assets. The standard retains most of the requirements of IAS 39 for financial liabilities. The main change consists of cases where the fair value of the financial liabilities calculated should be segregated, so that the part relating to the fair value relating to the credit risk of the entity is recognized in "Other comprehensive income" and not net income for the period. The guidelines included in IAS 39 about impairment of financial assets and hedge accounting are still applicable. The standard is applicable from January 1, 2015. The Company is assessing all the impacts of the standard and believes there will not be any significant impacts on its financial statements.

. IFRIC 21 - "Taxes" provides guidance on when to recognize a tax imposed by a government, in accordance with IAS 37-Provisions, Contingent Liabilities and Contingent Assets. The Interpretation typifies the government taxes and the events that create a liability for payment, clarifying when they should be paid. The Company is not currently subject to significant rates and for this reason the impact is not material.

There are no other standards and interpretations not in force which the Company expects to have a material impact deriving from application to its financial statements.

3. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is as follows:

		Parent Company		Consolidated	
Cash and bank deposits		**2013**	**2012**	**2013**	**2012**
Domestic		1,225	4,189	1,225	4,189
Foreign	(a)	412,218	502,876	413,327	503,726
Short-term investments					
Time Deposit / MMDA	(b)	-	-	17,262	14,978
Investment fund	(c)	5,044	139	5,044	139
		418,487	**507,204**	**436,858**	**523,032**

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(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) are short-term investments denominated in US dollars at overseas financial institutions, yielding the US Treasuries bond rate.

(c) The financial investment fund refers to operations with domestic financial institutions that have immediate liquidity. They are linked to the current account, yielding 20% of the CDI rate (20% in 2012).

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.

4. RESTRICTED SHORT-TERM INVESTMENTS

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

	Parent Company		Consolidated	
Short-term investments	**2013**	**2012**	**2013**	**2012**
Restricted cash	117,808		117,942	249,028
	117,808		**117,942**	**249,028**

The Company has cash restricted in collection accounts linked to a number of borrowings and financing, as shown below:

- From Union Bank NY-Branch, linked to financing borrowings, amounting to U$D231 million, U$D335 million and U$D450 million.
- From BNP Paribas NY-Branch, linked to the export prepayment of U$D400 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 U$D231 million and U$D450 million) and 10 days in advance (loan of U$D335 million). For the account at BNP Paribas (loan of U$D400 million), it is necessary to provide the resources 10 days in advance. For the other accounts, it is not necessary to provide funds in advance.

These investments aim to provide a cash guarantee to the creditor, and not the payment of the instalment of borrowings and financing net of the investment.

Through its subsidiary Samarco Finance Ltd., in 2013 the Company settled the final repayments (U$D200 million) of the export prepayment of U$D800 million for the expansion project of the third plant (P3P). The collection account was held at Citibank, the agent of the syndicate of banks participating in the financing.

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5. ACCOUNTS RECEIVABLE

The accounts receivables are as follows:

		Parent Company		Consolidated	
		2013	2012	2013	2012
Domestic receivables		7,635	2,532	7,635	2,532
Foreign receivables	(a)	850,002	993,697	849,963	744,822
Allowance for doubtful accounts	(b)	(515)	(2,848)	(618)	(2,932)
		857,122	**993,381**	**856,980**	**744,422**

(a) R$268,964 of the foreign trade receivables of R$849,893 in 2013 (R$744,822 in 2012) is secured by letters of credit or surety (R$353,004 in 2012). 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 of R$618 in 2013 (R$2,932 in 2012) 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	
	2013	2012	2013	2012
Outstanding	845,537	739,449	845,508	733,963
Up to 30 days overdue	11,327	10,516	11,354	10,513
31 to 60 days overdue	164		118	
61 to 90 days overdue	198	58,062	198	159
More than 90 overdue	411	188,202	420	2,719
	857,637	**996,229**	**857,598**	**747,354**

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At December 31, 2013 consolidated accounts receivable of R$12,708 (2012 - R$16,323) were overdue but nor provided for. These accounts belong to a series of independent clients with no recent history of default. At December 31, 2013 Parent Company accounts receivable of R$12,615 (2012 - R$259,628) were overdue but nor provided for. They are related to subsidiaries with no history of default.

6. INVENTORIES

The inventory is as follows:

	Parent Company and Consolidated	
	2013	2012
Finished goods	25,136	21,142
Goods in process	22,935	21,171
Consumables	62,415	63,739
Consumption and maintenance materials	212,762	223,273
Provision for loss of materials	(6,949)	(6,754)
Advances to suppliers	21,233	27,368
	337,532	**349,939**

In 2013 raw materials, consumables and changes in the finished goods and inventory in process, recognized in the parent company's costs of sales, amounted to R$2,513,722 (R$2,514,518 in 2012) and R$2,679,995 (R$2,536,323 in 2012) in the consolidated.

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$195 (R$4,050 in 2012) in profit or loss.

Change of inventory of finished goods	Parent Company and Consolidated	
	2013	2012
Balance at December 31, 2012	**21,142**	**26,451**
Additions	2,515,245	2,510,253
Write-offs due to sale	(2,513,722)	(2,514,518)
Addition (write-off) of inventory adjustment	1,040	(1,938)
Conversion	1,431	894
Balance at December 31, 2013	**25,136**	**21,142**

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7. RECOVERABLE TAXES

The balance of recoverable taxes is as follows:

		Parent Company		Consolidated	
		2013	2012	2013	2012
ICMS – Minas Gerais (MG)	(a)	68,892	431,027	68,892	431,027
Provision for ICMS losses - MG	(a)	-	(431,027)	-	(431,027)
ICMS – Espírito Santo (ES)	(b)	1,005,183	472,300	1,005,183	472,300
Provision for ICMS losses - ES	(b)	(1,005,183)	(472,300)	(1,005,183)	(472,300)
PIS and COFINS	(c)	140,971	147,243	140,971	147,243
Income tax recoverable	(d)	98,774	87,348	98,774	87,348
Others		515	336	529	405
Total		**309,152**	**234,927**	**309,166**	**234,996**
Current assets		277,759	234,880	277,773	234,949
Noncurrent assets		31,393	47	31,393	47

(a) The ICMS-MG 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 the State of Minas Gerais to the State of Espírito Santo (Note 19). The assessment notices cover the amount of the credits.

In 2013 the Company obtained the right to use the credit balance, via a special arrangement with the Government of the State of Minas Gerais. For this reason the Company did not make a provision for losses.

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

	Parent Company and Consolidated	
	2013	2012
Balance of the provision for losses ICMS - MG at the start of the year	(431,027)	(276,772)
Creation of the provision for losses	(262,209)	(154,255)
Reversal of the provision for losses	693,236	-
Balance of the provision for losses ICMS - MG at the end of the year	-	(431,027)

(b) The increase of ICMS - ES credits derived from the adherence to the special arrangement with the Government of the State of Minas Gerais, where ICMS began to be credited on the transfers of concentrate from MG to ES. In view of the history of non-realization of ICMS tax credits with the State of Espírito Santo, the Company set up a provision to cover 100% of the credits.

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

	Parent Company and Consolidated	
	2013	2012
Balance of the provision for loss of ICMS-ES at the start of the year	(472,300)	(382,850)
Creation of the provision for losses	(532,883)	(89,450)
Balance of the provision for loss of ICMS-ES at the end of the year	(1,005,183)	(472,300)

(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 over 48 months 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 refers to estimates overpaid in 2013, amounting to R$49,904 and R$48,870 deriving from overpayments of prior periods.

8. OTHER ASSETS

Other assets are as follows:

		Parent Company		Consolidated	
		2013	2012	2013	2012
Current					
Advances to employees	(a)	12,948	19,835	12,945	19,914
Recoverable insurance	(b)	9,591	1,456	9,591	1,456
Amount receivable for electricity	(c)	4,492	-	4,492	-
Stake in the UHE Guilman-Amorim		2,283	2,107	2,283	2,107
Other	(d)	2,226	3,637	2,212	3,721
		31,540	**27,035**	**31,523**	**27,198**
Non-current					
COHESA	(e)	16,374	16,176	16,374	16,176
(-) Adjustment to present value COHESA	(e)	(1,283)	(1,284)	(1,283)	(1,284)
Insurance amounts recoverable		13,726	-	13,726	-
Amounts recoverable AEL - Engenharia Ltda.	(f)	2,992	-	2,992	-
(-) Provision for loss AEL - Engenharia Ltda.	(f)	(2,992)	-	(2,992)	-
Advances to employees	(a)	7,249	7,317	7,421	7,521
		36,066	**22,209**	**36,238**	**22,413**

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(a) On October 5, 2011 Samarco awarded a loan equal to 150% (one hundred and fifty percent) of the employee's base salary for September 2011, was to be deducted from payroll in August 2013 or deducted from the payment of severance amounts in the event of contractual termination prior to August 31, 2013. However, fresh negotiations with the unions took place in July 2013 and payment terms were extended and split into two instalments. The first portion was discounted in December 2013, and the second portion will be discounted in March 2014. The loan is evidenced in a clause in the collective employment agreements signed with the respective trade unions.

(b) Amounts referring to expenses incurred on recovering damaged property, plant and equipment.

(c) Refer to the sale of surplus electricity acquired for production, but not used.

(d) Primarily consists of advances conceded to service suppliers.

(e) The Company passes on 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 passed on amounts 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 balance are adjusted to present value.

The interest charged by COHESA is restated according to the collective pay rise awarded by the Company and is lower than market rates.

(f) Refers to the opening of arbitration proceedings between the Company and the company AEL – Engenharia Ltda., due to nonperformance of the service provision agreement.

9. INVESTMENTS

The Company recorded a gain of R$1,394 in 2013 (R$810 in 2012) due to the equity accounting adjustments of its subsidiaries.

In 2013 and 2012 the Company did not receive dividends deriving from investments in subsidiaries.

None of the investee's shares are traded on stock exchanges.

The table below summarizes the subsidiaries' financials:

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2012	Interest	Number of shares or units	Current assets	Non current assets	Total assets	Current liabilities	Non current liabilities	Share-holders' equity	Total liabilities	Revenue	Costs and expenses	Others	Net income for the year
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%	180	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**
2013													
Samarco Finance Ltd.	100%	50,000	1,297,600	-	1,297,600	1,280,313	-	17,287	1,297,600	4,502,885	(4,502,823)	-	62
Samarco Iron Ore Europe B.V	100%	180	18,681	2,324	21,005	4,267	-	16,738	21,005	18,872	(17,540)	-	1,332
		Total	**1,316,281**	**2,324**	**1,318,605**	**1,284,580**	**-**	**34,025**	**1,318,605**	**4,521,757**	**(4,520,363)**	**-**	**1,394**

10. RELATED PARTIES

The balances of related party assets and liabilities at December 31, 2013 and 2012, 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.

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

		Shareholders		Subsidiary		Parent Company		Consolidated	
		BHP Billiton	Vale	Samarco Finance	Samarco Europe	Total 2013	Total 2012	2013	2012
Current assets									
Accounts receivable	(a)	-	82	577,213	-	**577,295**	**658,904**	**82**	**287**
Other assets		-	-	-	266	**266**	**105**	**-**	**-**
Current liabilities									
Trade payables	(b)	-	67,174	-	-	**67,174**	**66,478**	**67,174**	**66,478**
Other liabilities (Commission payable)	(d)	-	-	-	17,481	**17,481**	**14,032**	**-**	**-**
Borrowings and financing (Note 15)		351,300	-	351,300	-	**702,600**	**408,580**	**351,300**	**-**
Financial charges payable (Note 15)		238	-	238	-	**476**	**2,972**	**238**	**273**
Dividends (Note 22)		341,425	341,425	-	-	**682,850**	**661,578**	**682,850**	**661,578**
Other (Mining Rights)	(c)	-	27,314	-	-	**27,314**	**26,463**	**27,314**	**26,463**
Noncurrent liabilities									
Borrowings and financing (Note 15)		-	-	-	-	**-**	**612,870**	**-**	**306,435**
Statement of income									
Revenue	(a)	-	-	4,502,885	-	**4,502,885**	**4,263,958**	-	-
Cost of goods sold and services rendered	(b)	-	(597,503)	-	-	**(597,503)**	**(617,348)**	**(597,503)**	**(617,348)**
Operating expenses	(c)	-	(106,703)	-	-	**(106,703)**	**(56,278)**	**(106,703)**	**(56,278)**
Sales expenses	(d)	-	-	-	(18,869)	**(18,869)**	**(16,600)**	**-**	**-**
Financial costs		(11,191)	-	(12,984)	-	**(24,175)**	**(29,408)**	**(11,191)**	**(10,883)**

(a) The balance of accounts receivable and 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$77,517 of the acquisitions in 2013 remained in the inventory (R$84,615 in 2012).

(c) 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.

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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 until depletion of the reserves.

The price determined to in the agreement is not fixed, and was established as a percentage of the gross dividends paid. For the year ended December 31, 2013 the payments totaled R$105,852 (R$29,815 in 2012).

(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:

	2013	2012
Compensation (i)	22,616	19,348
Medical assistance plan	197	204
Private pension	1,275	1,158
Life insurance	123	95
	24,211	**20,805**

(i) Includes wages, salaries, profit sharing, bonuses and compensation

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

11. PROPERTY, PLANT AND EQUIPMENT

The Company made a number of investments throughout 2013 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.

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

		Parent Company								
		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	Assets under Construction	Total
Cost										
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**
Additions	(a)	-	-	-	-	-	-	-	2,502,531	2,502,531
Capitalized interest	(a)	-	-	-	-	-	-	-	156,612	156,612
Transfers - Inbound	(b)	-	207,738	99,561	-	7,766	8,833	8,258	-	332,156
Transfers - Outbound	(b)	-	-	-	-	-	-	-	(337,510)	(337,510)
Sales	(c)	-	(10,357)	-	-	(187)	-	(134)	-	(10,678)
Effect of exchange rate variance	(d)	4,354	673,373	289,272	1,532	13,353	15,055	14,565	753,804	1,765,308
Balance at December 31, 2013		**32,269**	**5,178,478**	**2,173,563**	**59,166**	**102,108**	**114,207**	**107,524**	**7,742,517**	**15,509,832**
Accumulated depreciation										
Balance at December 31, 2012		**-**	**(1,717,059)**	**(603,826)**	**(3,629)**	**(41,784)**	**(51,815)**	**(14,317)**	**-**	**(2,432,430)**
Depreciation in the period	(e)	-	(138,584)	(49,822)	(1,543)	(8,444)	(7,358)	(3,981)	-	(209,732)
Sales	(c)	-	9,209	-	-	122	-	102	-	9,433
Effect of exchange rate variance	(d)	-	(287,275)	(110,967)	(325)	(8,178)	(10,024)	(3,028)	-	(419,797)
Balance at December 31, 2013		**-**	**(2,133,709)**	**(764,615)**	**(5,497)**	**(58,284)**	**(69,197)**	**(21,224)**	**-**	**(3,052,526)**
Balance										
At 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
At December 31, 2013		**32,269**	**3,044,769**	**1,408,948**	**53,669**	**43,824**	**45,010**	**86,300**	**7,742,517**	**12,457,306**

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

		Consolidated								
		Land	Industrial facilities (buildings, machinery and equipment)	Ore pipeline and correlated system	Plant decommis-sioning	Data processing equipment and furniture and fixtures	Vessels and vehicles	Tools, rotating assets and mass assets	Assets under Construction	Total
Cost										
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**
Additions	(a)	-	-	-	-	-	-	-	2,502,531	2,502,531
Capitalized interest	(a)	-	-	-	-		-	-	156,612	156,612
Transfers - Inbound	(b)	-	208,025	99,561	-	7,931	8,833	8,258	-	332,608
Transfers - Outbound	(b)	-	-	-	-		-	-	(337,510)	(337,510)
Sales	(c)	-	(10,357)	-	-	(187)	-	(134)	-	(10,678)
Effect of exchange rate variance	(d)	4,354	673,473	289,272	1,532	13,258	15,055	14,565	753,804	1,765,313
Balance at December 31, 2013		**32,269**	**5,178,865**	**2,173,563**	**59,166**	**102,689**	**114,207**	**107,524**	**7,742,517**	**15,510,800**
Accumulated depreciation										
Balance at December 31, 2012		**-**	**(1,717,059)**	**(603,826)**	**(3,629)**	**(42,198)**	**(51,815)**	**(14,317)**	**-**	**(2,432,844)**
Depreciation in the period	(e)	-	(138,608)	(49,822)	(1,543)	(8,486)	(7,358)	(3,981)	-	(209,798)
Sales	(c)	-	9,209	-	-	122	-	102	-	9,433
Effect of exchange rate variance	(d)	-	(287,510)	(110,969)	(325)	(7,914)	(10,024)	(3,028)	-	(419,770)
Balance at December 31, 2013		**-**	**(2,133,968)**	**(764,617)**	**(5,497)**	**(58,476)**	**(69,197)**	**(21,224)**	**-**	**(3,052,979)**
Balance										
At 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
At December 31, 2013		**32,269**	**3,044,897**	**1,408,946**	**53,669**	**44,213**	**45,010**	**86,300**	**7,742,517**	**12,457,821**

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

(a) The additions include the main projects and investments concluded and still under construction at December 31, 2013:

Works in progress - Main projects	Start date	Expected conclusion	2013	2012
Fourth Pelletizing Plant project	2011	2014	2,153,597	2,518,815
Waterproofing of Slurry Pond	2013	2014	18,837	-
IT Management Systems 2013	2013	2015	13,901	-
Access to Germano basic grid	2010	2014	96,216	121,617
Mobile Equipment Shop	2011	2014	22,807	35,806
Substitution of 267 grate cars of Plant 1	2011	2013	-	32,144
Substitution of ventilator 55VT03 of Plant 1	2011	2013	-	13,997
Drainage system of storage yards A and B	2010	2013	-	16,704
Installation of Electrostatic Precipitators	2009	2013	-	49,908
Raising of Sela Tulipa and Selinha	2013	2014	10,331	-
Implementation of Wind Fence in the pellets and iron ore fines yards	2011	2014	35,449	48,434
Additional fleet to increase production in conc. 3	2013	2014	10,121	-
Others			141,272	273,679
Total			**2,502,531**	**3,111,104**

(b) The investments in property, plant and equipment and intangible assets 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. Borrowings costs were recorded in the year ended December 31, 2013 of R$156,612 (R$89,046 in 2012) referring to borrowings and 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, personal and property security of Ubu and the Fourth Pelletizing Plant Project). Of the amount capitalized in 2013, R$143,970 (R$78,681 in 2012) related to the Fourth Pelletizing Plant Project, subject to a capitalization rate of 2.99% per annum.

(c) Disposals in 2013 largely consist of write-offs due to scrap/sales of machinery and equipment (panels with frequency inverters, seat loaders, grate cars and dynamic brakes of conveyor belts).

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

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

(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.

	Average weighted useful life in years 2013	Years of depreciation at 2013	Average weighted useful life in years 2012	Years of depreciation at 2012
Buildings	32	10 to 50	32	10 to 50
Machinery and equipment	20	10 to 50	20	10 to 50
Ore pipeline and correlated system	19	20 to 43	19	20 to 43
Plant decommissioning	43	43	43	43
Electronic data processing equipment	5	5	5	5
Furniture and fixtures	9	10	9	10
Vessels	18	9 to 24	18	9 to 24
Vehicles	11	4 to 25	12	4 to 25
Tools	13	10 to 25	13	10 to 25
Rotating assets	23	10 to 27	23	10 to 27
Mass assets	23	5 to 24	23	5 to 24

- Impairment analysis

In the year the Company appraised the existence of indicators that certain assets of its PP&E might be recorded at amounts above their recoverable amounts. This evaluation did not identify indictors of asset impairment.

- Review of useful life

In compliance with technical pronouncement CPC 27 - Property, plant and equipment, in the course of 2013 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 2013, 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

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

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. It is not expected to recover part of the value of sold property, plant and equipment, i.e. the residual value thereof is close to zero.

(f) Pledged assets

At December 31, 2013 the Compand 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 R$67,906 (R$75,956 in 2012).

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

- Real estate - properties essentially for industrial, engineering and office buildings.
- Buildings - essentially industrial buildings, office buildings, parking lots, roads, and water and sewer systems.
- 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 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.
- Vessels - boats, barges and dredges.
- 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.

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

12. INTANGIBLE ASSETS

The intangible assets are as follows:

		Parent Company				
		Right of way (e)	Mining Rights (d)	Other rights	Application systems *Software (f)*	Total
Cost						
Balance at December 31, 2012		**7,613**	**25,841**	**1,179**	**61,850**	**96,483**
Transfers of property, plant and equipment	(a)	-	-	-	5,354	5,354
Effect of exchange rate variance	(b)	1,115	3,784	172	9,962	15,033
Balance at December 31, 2013		**8,728**	**29,625**	**1,351**	**77,166**	**116,870**
Accumulated amortization						
Balance at December 31, 2012		**(2,576)**	**(16,735)**	**(1,176)**	**(44,571)**	**(65,058)**
Amortization in the period	(c)	(86)	(163)	-	(6,747)	(6,996)
Effect of exchange rate variance	(b)	(434)	(2,545)	(172)	(8,335)	(11,486)
Balance at December 31, 2013		**(3,096)**	**(19,443)**	**(1,348)**	**(59,653)**	**(83,540)**
Balance						
At December 31, 2012		5,037	9,106	3	17,279	31,425
At December 31, 2013		**5,632**	**10,182**	**3**	**17,513**	**33,330**

		Consolidated				
		Right of way (d)	Mining Rights (e)	Other rights	Application systems *Software* (f)	Total
Cost						
Balance at December 31, 2012		**7,613**	**25,841**	**1,179**	**61,851**	**96,484**
Transfers of property, plant and equipment	(a)	-	-	-	5,353	5,353
Effect of exchange rate variance	(b)	1,115	3,784	172	9,963	15,034
Balance at December 31, 2013		**8,728**	**29,625**	**1,351**	**77,167**	**116,871**
Accumulated amortization						
Balance at December 31, 2012		**(2,576)**	**(16,735)**	**(1,176)**	**(44,570)**	**(65,057)**
Amortization in the period	(c)	(86)	(163)	-	(6,747)	(6,996)
Effect of exchange rate variance	(b)	(434)	(2,545)	(172)	(8,336)	(11,487)
Balance at December 31, 2013		**(3,096)**	**(19,443)**	**(1,348)**	**(59,653)**	**(83,540)**
Balance						
At December 31, 2012		5,037	9,106	3	17,281	31,427
At December 31, 2013		**5,632**	**10,182**	**3**	**17,514**	**33,331**

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

(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 Easements and Mining Rights and the straight-line method for the rest. The table below denotes the useful life for each type of asset.

	Average weighted useful life in years 2013	Years of amortization in 2013	Average weighted useful life in years 2012	Years of amortization in 2012
Easements	43	43	43	43
Mining rights	43	43	43	43
Other rights	14	15	14	15
Applications and software	5	5	5	5

(d) Easements

Easements 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 the State of Minas Gerais to the pelletizing plants in Anchieta, in State of Espírito Santo.

(e) Mining rights

As described in Note 10, 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.

(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$55,650 (R$53,875 in 2012), which were recognized as net operating expenses in 2013.

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

13. TRADE PAYABLES

The balance of trade payables is as follows:

	Parent Company		Consolidated	
	2013	2012	2013	2012
Domestic customers	205,785	262,767	205,793	262,763
Foreign customers	17,482	8,689	17,547	8,720
Related-party transactions (Note 10)	67,174	66,478	67,174	66,478
	290,441	**337,934**	**290,514**	**337,961**

14. ADVANCES ON EXCHANGE CONTRACTS

Advances on exchange contracts ("ACC") involve short-term borrowings and financing intended to finance the Company's working capital requirements. The amounts are settled by future exports of the Company's products, and this financing is denominated in US dollars. The balance of these operations in December 2013 was zero (R$404,980 in 2012). However, during the year, the Company made several borrowings at interest rates of 0.37% to 0.80% p.a. (0.95% to 1.10% per annum in 2012) with varied terms. The variance in the 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").

15. BORROWINGS AND FINANCING

Borrowings and financing are instruments 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	Non-current	Total	Total	Total	Total
			2013	2012	2013	2012
Foreign transactions (prepayment)	182,676	7,930,925	8,113,601	4,527,066	8,464,901	5,242,081
Foreign transactions with related parties (prepayment)	702,600	-	702,600	1,021,450	351,300	306,435
Local currency borrowings	3,403	159,707	163,110	4,874	163,110	4,874
Total	**888,679**	**8,090,632**	**8,979,311**	**5,553,390**	**8,979,311**	**5,553,390**
Current	888,679	-	888,679	409,497	888,679	409,497
Non-current	-	8,090,632	8,090,632	5,143,893	8,090,632	5,143,893

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

The primary financing transactions in 2013 were:

(i) Disbursement of the second portion of the borrowings and financing secured by credit insurance from Nippon Export and Investment Insurance (“NEXI”) amounting to U$D 200 million, with a total maturity of eleven years and repayment over 20 (twenty) installments, carrying interest of Libor plus the bank spread, paid semiannually.

(ii) Financing of US$700 million 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.

(iii) Amounts raised through export prepayments amounting to U$D 775 million. 4 (four) loans were conducted in the fourth quarter of the year with the banks Bank of America (U$D200 million, total term of 5 years), Bank of Tokyo Mitsubishi UFJ (U$D 200 million, total term of 5 years), HSBC (U$D 250 million, total term of 5 years) and Mizuho (U$D 125 million, total term of 7 years). The loans incur Libor interest plus a bank spread with semi-annual payments. The amount effectively disbursed in the year amounted to U$D 365 million.

(iv) Loans and financing secured in local currency via BNDES/Finame loans conducted in the fourth quarter of the year. There were 2 (two) such loans with a term of 10 (ten) years amounting to R$154.1 million. The loans are subject to fixed interest paid monthly.

Two amortizations of U$D 100 million were made in 2013 under the final installments of the early export payment amounting to U$D 800 million, referring to the financing of a project to construct the third pelletizing plant (P3P).

At December 31, 2013 the provision for interest on foreign-currency borrowings and financing (which accounted for 98.2% of total borrowings) was as follows for the parent company and consolidated statements:

	Principal value	Provision for interest
0% to 2%	3,223,727	12,445
2% to 3%	936,800	1,436
3% to 4%	702,600	476
Over 4%	3,953,075	34,175
	8,816,202	**48,532**

Local currency borrowings and financing accounted for 1.8% of the total (R$163,110 million) and primarily consist of BNDES/Finame borrowings with an interest rate of 3.0% p.a. The average cost of our total debt, including foreign currency loans and financing is 6.2% p.a.

At December 31, 2013 the loans and financing payments were subject to the following maturities:

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

	Parent Company and Consolidated
2014	888,679
2015	1,121,088
2016	198,043
2017	198,043
2018	1,719,941
2019	258,935
2020	258,935
2021	120,757
2022	2,462,757
2023	1,752,133
	8,979,311

The fair value of financial liabilities related to the borrowings, whose balances are measured at amortized cost, is calculated as follows: the fair value of the bonds is obtained from the security's price in the secondary market. The value used is the closing value informed by Bloomberg. The recorded value for the borrowings, which have no secondary market (or for which the secondary market does not have enough liquidity) is close to fair value, as the floating rates are periodically restated (in accordance with the interest period of the borrowings). There are other smaller operations which have fixed rates and floating rates, also restated periodically. See below the presentation of the estimated fair values of the borrowings and financing:

	Book value	Estimated fair value
Bonds	3,953,075	4,021,597
EPPs (export pre payments)	4,863,126	4,888,059
Others	163,110	163,110
	8,979,311	**9,072,766**

Guarantees and obligations – borrowings and financing

The Company's non-current borrowings and financing is guaranteed by promissory notes and is primarily linked to previously defined export receivables. These borrowings and financing are subject to a number of covenants. A number of covenants concern the debt ratios - *"Total Debt /EBITDA" and "Net Debt/EBITDA"* -, both limited to 3:1. In 2013 the indexes generated were 2.0x and 1.9x respectively (unaudited).

Company Management confirmed all contractual covenants were being complied with at December 31, 2013.

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

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 supplementary benefits, 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 severance
» 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 annual bonus) and plan administration expenses. In 2013 the Company made contributions to the defined contribution plan of R$10,240 (R$8,923 in 2012).

The Company records the cost 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.

1 – Change in present value of the obligations

	2013	2012
Present value of the actuarial liability at the beginning of the year	26,949	16,490
Current service cost	2,409	1,042
Interest on actuarial obligation	2,522	1,678
Actuarial (gains)/losses - Experience	774	8,202
Actuarial (gains)/losses - Financial hypothesis	(12,292)	-
Benefits paid by the plan	(751)	(463)
Present value of the actuarial liability at the end of the year	**19,611**	**26,949**

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

2 - Change in fair value of the assets

	2013	2012
Fair value of assets at the start of the year	26,874	19,840
Real return on investments	6,054	5,436
Contributions paid by the Company	2,381	2,061
Benefits paid by the plan	(751)	(463)
Fair value of assets at the end of the year	**34,558**	**26,874**

3 - Change in unrecoverable surplus

	2013	2012
Unrecoverable surplus at the end of the previous year	-	3,350
Interest on unrecoverable surplus	-	347
Change in unrecoverable surplus during period	14,947	(3,697)
Unrecoverable surplus at the end of the current year	**14,947**	**-**

4 - Costs of defined benefit

4.1 - Net Income for the Year

	2013	2012
Current service cost of the company	2,409	1,042
Net interest of net liabilities/(assets)	119	(98)
Cost of defined benefit in net income	**2,528**	**944**

4.2 - Other Comprehensive Income (ORA)

	2013	2012
Actuarial gains(losses) of change in liabilities	774	8,202
Actuarial gains(losses) of changes in hypothesis	(12,292)	-
Actuarial gains(losses) arising in the period	**(11,518)**	**8,202**
Yields on plan assets (greater)/smaller than discount rate	(3,651)	(3,313)
Change in unrecoverable surplus	14,947	(3,697)
Re-measurement of effects on Other comprehensive income	**(222)**	**1,192**

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

4.3 - Cost of Defined Benefit

	2013	2012
Current service cost	2,409	1,042
Net interest on net value of liability/(asset)	119	(98)
Remuneration of effects recognized in ORA	(222)	1,192
Cost of defined benefit	**2,306**	**2,136**

5 - Change in net liability/asset

5.1 - Net liability/asset

	2013	2012
Present value of obligation (VPO)	(19,611)	(26,949)
Fair value of the assets	34,558	26,874
Present value of the net liability of the plan's assets	**14,947**	**(75)**
Past service not recognized	-	-
Unrecognized actuarial (gains) / losses	-	-
Restriction of the asset due to the limit (item 58 CPC 33)	-	-
Net total (liability)/asset to be recognized	**14,947**	**(75)**

5.2 - Reconciliation in net total (liability)/asset

	2013	2012
Net total (liability)/asset at the beginning of the year	(75)	-
Service Cost	(2,409)	(1,042)
Net interest on net value of liabilitiy/(asset)	(119)	98
Remuneration of effects recognized in ORA	222	(1,192)
Contributions paid by the Company	2,381	2,061
Net total (liability)/asset at the end of the year	**-**	**(75)**

6 - Estimated cost of defined benefit for 2014

Current service cost	1,468
Net interest of net liability (asset)	(167)
Cost to be recognized in result	1,301

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

7 – Expected cash flows

The Company expects to incur the following disbursements in 2014:

Company contributions	2,769
Benefits paid by the plan	864

8 - Actuarial assumptions

	2013	2012
Economic		
Discount rate	8.68% per year	8.68% 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 non current assets	12.04% per year	8.68% per year
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

9 – Summary of participants' data

	2013	2012
Active and self-sponsored employees		
Number	2,740	2,394
Average age	37.18	36.67
Average length of service	9.24	9.84
Annual average payroll	59,806	62,536
Participants with assisted benefits		
Number	59	50
Annual average payroll	12,606	9,536
Participants with deferred benefits		
Number	-	-
Annual average payroll	-	-

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

Assets by category	2013	2012
Fixed income	247,279	225,149
Variable income	54,753	52,109
Loans	47,668	40,529
	349,700	317,787

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	
	2013	2012	2013	2012
Compensation and charges	(306,980)	(261,372)	(312,384)	(265,478)
Social security charges	(60,545)	(51,177)	(60,545)	(51,177)
Retirement plan benefits	(11,811)	(10,425)	(12,009)	(10,846)
Meal vouchers	(18,830)	(15,205)	(18,830)	(15,205)
Medical assistance	(14,780)	(13,461)	(14,817)	(13,539)
Other	(20,550)	(19,668)	(22,089)	(21,063)
	(433,496)	**(371,308)**	**(440,674)**	**(377,308)**

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.

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

Theoretical shares are cancelled when the participant leaves the Company voluntarily or otherwise. If a participant is dismissed fairly, retires, dies or becomes permanently incapacitated, in certain conditions their theoretical options can be exercised in proportion to the period between the date they were awarded and the date their employment contract was terminated. At its sole discretion the Compensation Committee also determines the rights of executives and key personnel in relation to their theoretical shares in the event of dismissal for reasons not stipulated in the long-term share plan regulations. At any time and at its sole discretion the Compensation Committee may also change the regulations or suspend or terminate the long-term share 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:

	Parent Company and Consolidated	
Value of the shares	94.28	68.45
Strike value	-	-
Projected volatility (average weighted volatility)	3.63%	13.75%
Dividends forecast	0%	0%
Risk-free interest rate (based on government bonds)	5.625%	5.675%

This plan's expenses were R$7,260 at December 31, 2013, (R$1,740 in 2012) 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	
	2013	2012	2013	2012
Provision for profit sharing	47,010	39,000	49,038	41,004
Vacations payable	29,306	26,024	29,338	26,049
Employees INSS	6,797	4,349	6,797	4,349
FGTS payable	3,352	1,751	3,352	1,751
Provision for share-based remuneration plan	1,878	1,740	1,878	1,740
Other	1,935	1,244	1,942	1,249
	90,278	**74,108**	**92,345**	**76,142**

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

18. TAXES PAYABLE

The balance of taxes payable is shown below:

		Parent Company		Consolidated	
		2013	2012	2013	2012
ICMS Minas Gerais payable - taxes in instalments	(a)	162,409	-	162,409	-
REFIS – Tax recovery – taxes in instalments	(b)	12,053	-	12,053	-
ISS withheld		8,436	7,898	8,436	7,898
INSS retained from third parties payable		9,699	7,965	9,699	7,965
IRRF payable		7,247	4,920	7,409	5,028
INSS DIFAL payable		1,389	3,119	1,389	3,119
CFEM payable		2,406	2,539	2,406	2,539
COFINS withheld		2,102	1,556	2,102	1,556
TFRM payable		1,409	-	1,409	-
Others		1,206	988	1,206	988
		208,356	**28,985**	**208,518**	**29,093**

(a) Refers to 12 instalments of ICMS payable to the State of Minas Gerais (Note 19).

(b) Refers to 12 instalments deriving from accession to the REFIS IV Tax Financing Program (Note 21).

19. PROVISIONS 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 at an amount considered sufficient to cover cases rated as probable losses.

In 2013 the balance of judicial deposit referring to the provisions for present obligations was R$31,416 (R$30,703 in 2012) and the balance of judicial deposits without provisions remained in the assets at the amount of R$409,563 (R$148,746 in 2012).

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

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

	Parent Company and Consolidated					
	12/31/2012	Additions	Reversals	Incurred	Charges	12/31/2013
Tax proceedings	268,789	-	(216,576)	-	325	52,538
(-) Judicial tax deposits	(28,681)	-	694	-	-	(27,987)
Civil claims	61,932	42,077	-	-	6,859	110,868
Labor claims	9,378	4,630	(793)	-	782	13,997
(-) Judicial labor deposits	(2,022)	(1,526)	119	-	-	(3,429)
Environmental proceedings	2	-	-	-	-	2
	309,398	**45,181**	**(216,556)**	**-**	**7,966**	**145,989**

The provisions are as follows:

Parent company and consolidated		2013			2012		
		Provision	Judicial deposits	Net	Provision	Judicial deposits	Net
Tax proceedings							
IRPJ - Summer Plan	(a.1)	-	-	-	41,366	-	41,366
IRPJ - Real Plan	(a.2)	-	-	-	44,458	-	44,458
IRPJ - CMB	(a.3)	-	-	-	36,537	-	36,537
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
IRPJ - Tax Loss - PAES	(a.6)	-	-	-	40,983	-	40,983
ICMS - Fine - Muniz Freire - ES	(a.7)	11,012	-	11,012	10,758	-	10,758
ICMS - Rate Differential Property, Plant and Equipment - ES	(a.8)	-	-	-	30,398	-	30,398
IRPJ - IRRF	(a.9)	-	-	-	19,236	-	19,236
Attorneys' fees	(a.10)	11,189	-	11,189	2,911	-	2,911
Other		2,701	(351)	2,350	3,676	(1,045)	2,631
Total provision for tax proceedings		**52,538**	**(27,987)**	**24,551**	**268,789**	**(28,681)**	**240,108**
Other							
Civil claims	(a.11)	110,868	-	110,868	61,932	-	61,932
Labor claims		13,997	(3,429)	10,568	9,378	(2,022)	7,356
Environmental proceedings		2	-	2	2	-	2
		124,867	**(3,429)**	**121,438**	**71,312**	**(2,022)**	**69,290**
		177,405	**(31,416)**	**145,989**	**340,101**	**(30,703)**	**309,398**

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

(a) Legal obligations provided for by the Company:

Note	Description	Status	2013	2012
(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.	Appeal court decision unfavorable to Samarco. Pending judgment of the Motion for Clarification. Process included in REFIS	-	41,366
(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). Process included in REFIS.	-	44,458
(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 high court decision. Payment made on 4/30/2013.	-	36,537
(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. Process included in REFIS	-	10,830
(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). Processes included in REFIS.	-	40,983
(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).	11,012	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. Payment made on 6/25/2013.	-	30,398
(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. The case for 2000 to 2003 was partially included in REFIS.	-	19,236
(a.10)	Provision is made for lawyers' fees referring to proceedings classified as having a remote chance of defeat.		11,189	2,911
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. Processes included in REFIS.	2,701	3,676
(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 with the judicial courts at several stages.	110,868	61,932
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.	13,997	9,378
Environmental	Assessment Notice 1284/10 issued by DNPM, for the alleged breach of Article 54 (V) of the mining code's regulations.	Pending analysis of the administrative defense submitted.	2	2
			177,405	**340,101**

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(b) Possible contingencies:

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 cases are described below:

	Status	2013	2012
Assessment Notices for the alleged non-payment of CSLL in 2008, 2009 and 2010.	2 proceedings pending an administrative decision.	1,596,436	400,445
Assessment notices for 2000 to 2003 and 2007, 2008, 2009 and 2010, 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.	A favorable decision from the administrative appeals court has been obtained for the proceeding for the period 2007 and 2008. Pending preparation of appeal decision. Pending decisions of the administrative appeal.	1,578,203	757,618
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.	750,397	720,704
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.	23,103	22,677
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 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. The proceedings up to 2008 that have not incurred the statute of limitations have been included in the REFIS program.	11,387	3,795
Requirement to pay import PIS and COFINS supposedly due on imported services and other overseas procurements, such as freight, agents commission and demurrage on exports in 2007 and 2008, issued in September 2011.	Proceeding concluded with Samarco prevailing.	-	35,568
Disallowance of the offset on the negative balance of IRPJ and CSLL of the former Guilman-Amorim hydroelectric power plant (subject to the legally established 30% limit).	Pending administrative decision.	6,616	6,259
Disallowance of the offset of 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 decision of the administrative appeal.	173,680	141,622
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).	44,593	40,866
Assessment Notice issued by the State of Minas Gerais 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 the State of Minas Gerais are not embraced by the ICMS suspension.	1 proceeding with a favorable decision pending judgment of the appeal by appeal court, 2 proceedings pending decision by the lower court and 2 proceedings awaiting judicial summons.	76,025	72,478
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 IPTU, 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.	50,856	47,106
Others		62,848	63,639
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 with the judicial courts at several stages.	30,512	63,191
Labor claims primarily related to the application of fines by the authorities, in addition to labor claims filed by employees and service providers.	Proceedings with the judicial and administrative courts at several stages.	31,965	19,827
Proceedings involving environmental risks in the States of Minas Gerais and Espírito Santo, consisting of assessments from the inspection authorities.	Proceedings with the judicial and administrative courts at several stages.	36,478	30,697
		4,473,099	**2,426,492**

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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 amount corresponding to the balance of the deposit made in the year is R$111,415 (R$102,434 in 2012).

(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 an unfound decision and the judicial decision authorizing the judicial deposit in order to stay the requirement to pay the tax. The judicial deposit at December 31, 2013 amounted to R$33,120 (R$33,120 in 2012). On December 26, 2013 the Company entered the Special Arrangement REGIME ESPECIAL/E-PTA Nº: 45.000005700-79, which among other obligations stipulated the payment of the TFRM, with the consequent withdrawal of the proceeding and conversion of part of the judicial deposit into government income.

(iii) 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 Company obtained favorable decisions in the administrative sphere with respect to the demand for the fine and interest. On December 26, 2013 the Company entered the Special Arrangement REGIME ESPECIAL/E-PTA Nº: 45.000005700-79, which among other obligations stipulated the payment of the amounts subject to the judicial dispute about the transfer of the concentrate, with the judicial proceedings consequently being withdrawn.

(iv) In 2013 it reclassified the risk of loss for the periods 1991 to 2007 to remote for proceedings related to CSLL, with the period 2008 to 2010 remaining as a possible risk of loss. As of December 31, 2013 the proceedings classified as remote amounted to R$1,995,761 (R$1,907,230 in 2012).

(v) That based on the 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. After a new evaluation Samarco decided to change the risk of loss from possible to remote and reverse the respective contingency of approximately R$1,900 million.

On December 20, 2013 Samarco entered the REFIS IV financing program introduced by Law 12865/13, solely because of the prospects of defeat in the proceedings listed in items **(a)** and **(b)**, over 180 installments. The total financed amount is R$180,789. Note that this program is still pending regulation before the debits can be effectively consolidated.

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

20. OTHER PROVISIONS

		Parent Company and Consolidated	
		2013	2012
Current			
Provision for electricity	(a)	33,430	34,351
Provision for mining rights	(b)	27,314	26,463
Provision for purchase of iron ore	(c)	98	2,181
		60,842	**62,995**
Non-current			
Provision for asset retirement obligation	(d)	135,669	121,786
Provision for environmental liabilities	(e)	13,061	7,127
Provision for share-based payments (Note 16)		7,122	-
		155,852	**128,913**

(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, at the rate of 4% on the dividends paid (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	
	2013	2012
Provision at the beginning of the year	121,786	81,029
Provision increase	-	33,520
Estimated revisions in cash flows	13,883	7,237
Provision at the end of the year	135,669	121,786

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

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 of 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.

Based on the review of the planning in 2012, as mentioned above 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 procedures 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.

(f) Provision for share-based payments (Note 16).

21. OTHER LIABILITIES

Other liabilities are as follows:

		Parent Company		Consolidated	
		2013	2012	2013	2012
Current					
Commission payable overseas to related parties	(a)	17,481	14,032	-	-
Demurrage payable	(b)	10,154	9,786	10,154	9,786
Amounts payable (material/services)	(c)	1,670	15,687	1,670	15,687
Consórcio UHE Guilman Amorim (Note 2)		2,283	2,107	2,283	2,107
Other		4,164	619	4,944	1,760
		35,752	**42,231**	**19,051**	**29,340**
Non-current					
REFIS – Tax recovery	(d)	167,732	-	167,732	-
Others		530	516	513	530
		168,262	**516**	**168,245**	**530**

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

(b) Amount owed by Samarco for 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 reclassification. Both the goods and services have been recorded under inventory and cost respectively.

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(d) On December 20, 2013 Samarco entered the REFIS IV Financing Program introduced by Law 12865/13. The first instalment was paid at the time of accession. The total amount financed was R$180,789, to be paid over 180 installments. R$167,732 refers to 167 long-term installments (Note 19).

The effect on the income accounts of the REFIS program is shown as follows:

	Parent Company and Consolidated
	2013
Other net operating expenses (reversal of provision)	87,790
Financial expense (Note 27)	(97,203)
Income tax expenses	(9,591)
	(19,004)

22. SHAREHOLDERS' EQUITY

(a) Capital

At December 31, 2013 and 2012 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 up. 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 to one vote on General Meeting resolutions. The preferred shares do not entitle the holder to voting rights, but they are assured priority in capital reimbursements, without a premium, in the event of the Company's dissolution and an annual dividend that is 10% greater than the amount paid out on common shares.

(b) Dividends

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 are as follows:

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

	Parent Company and Consolidated	
	2013	2012
Net income for the year	2,731,397	2,646,311
Net income available for distribution	**2,731,397**	**2,646,311**
Minimum mandatory dividends - 25%	**(682,850)**	**(661,578)**
Interim dividends	-	-
Dividends proposed on net income for the year	2,731,397	2,646,311
	2,731,397	**2,646,311**
Total dividends proposed	**2,731,397**	**2,646,311**
Percentage over calculation base	100%	100%

(c) Revenue reserves

The balances of the Company's revenue reserves are in accordance with Article 199 of the Corporation Law and so do not exceed the share capital.

- Legal reserve

The legal reserve is constituted annually by allocating 5% of the net income for the year and may not exceed 20% of the share capital.

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

- Profit retention reserve

The amounts in the profit retention reserve were retained in accordance with article 196 of Law 6404/76.

(d) Proposed dividends

These financial statements only reflect the minimum mandatory dividends stipulated in the Company's bylaws at 25% of Samarco's net income for the year.

The provision for any amount in excess of the mandatory minimum will be made on the date it is approved by the shareholders.

On December 31, 2013 the Company accordingly recognized additional proposed dividends in a specific account of shareholders' equity of R$2,048,548 (R$1,984,733 in 2012), which will be held in this account until approval by the shareholders as it does not constitute a present obligation.

(e) Accumulated translation adjustments

These adjustments are made for exchange variances resulting from translating the balance

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sheet and income statement for the year from the functional currency (USD) to the reporting currency (R$), as follows:

	Parent Company and Consolidated	
	2013	2012
Inventories	49,559	34,005
Property, plant and equipment	2,236,813	891,303
Intangible assets	9,668	6,120
Cost	106,322	34,704
Idle capacity	125	125
Exchange variance	(1,272,371)	(251,249)
Others	(14,664)	(20,563)
Accumulated translation adjustments	**1,115,452**	**695,345**

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 2013 the Company made overseas sales of 97%, maintaining the essential characteristic of an exporting Company, selling its products and subproducts in countries of the Americas, Asia, Africa and Europe.

In addition to product and subproduct revenue, in 2013 the Company obtained revenue from logistics services at the Port owned by the Company, such as renting boats, tug boats and providing areas, 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	
Gross revenue	2013	2012	2013	2012
Pellets				
Country	127,071	219,579	127,071	219,579
Overseas	6,907,319	6,160,721	6,907,319	6,160,721
Fines				
Country	-	33,028	-	33,028
Overseas	138,772	144,731	138,772	144,731
Other goods and services	67,003	52,681	67,003	52,681
Total	**7,240,165**	**6,610,740**	**7,240,165**	**6,610,740**
Deduction from gross revenue				
Sales taxes	(34,095)	(59,472)	(34,095)	(59,472)
Freight on sales	(1,653)	(1,589)	(1,653)	(1,589)
Net revenue	**7,204,417**	**6,549,679**	**7,204,417**	**6,549,679**

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

24. COST OF GOODS SOLD

The costs of goods sold are as follows:

	Parent Company		Consolidated	
	2013	2012	2013	2012
Mine	(685,634)	(710,796)	(685,634)	(710,796)
Processing	(671,731)	(629,636)	(671,731)	(629,636)
Ore pipeline	(85,550)	(123,540)	(85,550)	(123,540)
Filtration	(172,676)	(159,372)	(172,676)	(159,372)
Pelletizing	(701,760)	(678,182)	(701,760)	(678,182)
Total	**(2,317,351)**	**(2,301,526)**	**(2,317,351)**	**(2,301,526)**
Depreciation and amortization	(205,141)	(186,035)	(205,141)	(186,058)
Increase (decrease) in inventory	(157,388)	(48,529)	(157,388)	(48,739)
Cost of goods sold	**(2,679,880)**	**(2,536,090)**	**(2,679,880)**	**(2,536,323)**

25. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Parent Company		Consolidated	
	2013	2012	2013	2012
Sales expenses				
Outsourced services	(43,501)	(37,788)	(43,501)	(37,788)
Personnel expenses	(23,463)	(24,185)	(23,463)	(24,185)
Depreciation and amortization	(11,155)	(10,324)	(11,155)	(10,324)
Auxiliary supplies	(11,060)	(11,578)	(11,060)	(11,578)
Sales commissions	(18,869)	(16,600)	-	-
Shipment expenses	(15,856)	(6,278)	(15,856)	(6,278)
Allowance (reversal of allowance) for doubtful accounts	2,333	(2,656)	2,314	(2,656)
Sales expenses of subsidiaries	-	-	(15,233)	(13,197)
General expenses	(11,922)	(9,197)	(11,925)	(9,197)
Total	**(133,493)**	**(118,606)**	**(129,879)**	**(115,203)**
General and administrative expenses				
Outsourced services	(15,360)	(17,894)	(15,360)	(17,894)
Personnel expenses	(34,980)	(30,518)	(34,980)	(30,518)
Depreciation and amortization	(433)	(416)	(433)	(416)
Auxiliary supplies	(137)	(117)	(137)	(117)
General expenses	(5,855)	(7,740)	(5,855)	(7,740)
Total	**(56,765)**	**(56,685)**	**(56,765)**	**(56,685)**

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26. OTHER NET OPERATING EXPENSES

Details of other net operating expenses are shown below:

		Parent Company		Consolidated	
		2013	2012	2013	2012
Taxes	(a)	(312,003)	(11,411)	(312,003)	(11,411)
Provision for ICMS losses - ES and MG (Note 7)		(101,856)	(243,705)	(101,856)	(243,705)
Provisions for contingencies (Note 19)		115,973	(18,797)	115,973	(18,797)
Investments and social projects		(14,050)	(15,973)	(14,050)	(15,973)
Employees profit sharing	(b)	(91,940)	(67,542)	(93,704)	(71,357)
Provision for share-based payments (Note 16)		(7,260)	(1,740)	(7,260)	(1,740)
Research expenses (Note 12)		(55,650)	(53,875)	(55,650)	(53,875)
Mining rights (Note 10)		(106,703)	(56,278)	(106,703)	(56,278)
Lawyers and Expert Fees		(25,988)	(1,917)	(25,988)	(1,917)
Others, net		(83,438)	(11,009)	(83,579)	(9,300)
Total		**(682,915)**	**(482,247)**	**(684,820)**	**(484,353)**

(a) This amount primarily refers to taxes under the drawback, REFIS, ICMS DIFAL and the Special Arrangement with the government of the State of Minas Gerais (Note 19).

(b) 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 goals, which are established and agreed at the beginning of each year.

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27. FINANCIAL RESULT

The Company's financial result (consolidated and parent company) is as follows:

		2013	2012
Financial income			
Earnings on investments		1,209	1,031
Interest received from clients		-	-
Discounts obtained		643	913
Other financial revenue		5,295	4,117
		7,147	**6,061**
Financial costs			
Arrears and tax fines	(a)	(256,168)	-
Charges on borrowings and financing		(49,946)	(58,923)
Financial expenses on exchange contract		(2,589)	(19,078)
Commission and bank interest		(19,202)	(17,848)
IOF - Tax on financial transactions		(218)	(190)
Other financial expenses		(32,407)	(7,392)
		(360,530)	**(103,431)**
Net financial costs (income) - consolidated		**(353,383)**	**(97,370)**
Revenue (expenses) recorded of subsidiaries		(83)	(113)
Net financial costs (income) - parent company		**(353,466)**	**(97,483)**

(a) Breakdown of arrears and tax interest

	2013
ICMS Minas Gerais	(129,965)
REFIS (Note 21)	(97,203)
Monetary restatement of balance sheet - Income tax	(16,969)
DIFAL – Rate differential	(7,755)
Others	(4,276)
	(256,168)

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The balance of the exchange variance is as follows:

	Parent Company and Consolidated	
	2013	2012
Cash	22,159	8,754
Trade accounts receivable	(4,476)	(3,228)
Recoverable taxes	(233,944)	(83,598)
Judicial deposits	(40,917)	(10,707)
Property, plant and equipment	-	(17,503)
Trade payables	(24,433)	(10,250)
Payroll, provisions and social contributions	5,314	2,135
Taxes payable	6,382	1,137
Dividends	517,135	243,405
Contingency	9,172	8,654
Others	4,796	(11,263)
Net exchange variance - consolidated	**261,188**	**127,536**
Net exchange variance of subsidiaries	(107)	35
Net exchange variance - parent company	**261,081**	**127,571**

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.

28.1 Income tax payable

See below the changes in income tax payable:

	Parent Company		Consolidated	
	2013	2012	2013	2012
Balance at the beginning of the year	**81,949**	**77,164**	**81,917**	**77,306**
Provisions in the period	431,534	465,397	432,039	465,729
Payments	(176,632)	(286,514)	(177,105)	(287,021)
Offsetting with PIS and COFINS credits	(334,696)	(260,768)	(334,696)	(260,768)
Offsetting of recoverable tax (prepayment)	49,904	39,476	49,904	39,476
Offsetting of the negative balance of return from prior years	(48,572)	47,872	(48,572)	47,872
Offsetting of IRRF on short-term investments	-	(678)	-	(677)
Recognition of negative balance of prior years	6,107	-	6,107	-
Proceedings related to REFIS	(9,594)	-	(9,594)	-
Balance at the end of the year	**-**	**81,949**	**-**	**81,917**

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28.2 Deferred income tax

The Company has deferred income tax recorded under non-current 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	2013			2012		
Amounts recorded at the rate of:		25%	18%	Total	25%	18%	Total
Noncurrent assets							
Provision for ICMS losses - ES and MG	7	251,296	-	251,296	225,832	-	225,832
Provision for IRPJ – Real Plan, Summer Plan and CMB	19	-	-	-	-	8,581	8,581
Provision IRPJ – Transfer of ICMS – ES Credits		-	464	464	-	-	-
Provision for profit sharing	17	11,753	-	11,753	9,750	-	9,750
Provision for asset retirement obligation	20	16,272	-	16,272	12,801	-	12,801
Provision for attorneys' fees	19	2,797	-	2,797	728	-	728
Estimated allowances for doubtful accounts	5	129	-	129	712	-	712
Provision for losses - AIRE		1,058	-	1,058	1,058	-	1,058
Provision for electricity	20	8,358	-	8,358	8,588	-	8,588
Provision for IRPJ - IRRF (interest)	19	-	-	-	-	1,649	1,649
Provision for loss of tax losses		2,767	-	2,767	2,767	-	2,767
Provision for civil claims	19	27,717	-	27,717	15,483	-	15,483
Provision for mining rights	20	6,828	-	6,828	6,616	-	6,616
Provision for UGHASA – DCOMP (Years 1995 to 2001)		-	458	458	-	-	-
Provision for ICMS fine - ES	19	2,753	-	2,753	2,690	5,472	8,162
Other		4,841	29	4,870	7,847	4,236	12,083
Total consolidated assets		**336,569**	**951**	**337,520**	**294,872**	**19,938**	**314,810**
Effects resulting from changes to accounting practices Law 11638/07 (a)		-	(585,724)	(585,724)	-	(234,155)	(234,155)
Fiscal depreciation		-	(171,319)	(171,319)	-	(102,752)	(102,752)
Total consolidated liabilities		**-**	**(757,043)**	**(757,043)**	**-**	**(336,907)**	**(336,907)**
Consolidated net total		**336,569**	**(756,092)**	**(419,523)**	**294,872**	**(316,969)**	**(22,097)**
Provisions recorded by subsidiaries		(38)	-	(38)	(22)	-	(22)
Parent company net total		**336,531**	**(756,092)**	**(419,561)**	**294,850**	**(316,969)**	**(22,119)**

(a) Deferred income tax on non-monetary items

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

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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 2013
Tax proceedings	-	-	-	7,413	-	29	7,442
Labor claims	1,949	498	3,001	-	-	-	5,448
Environmental proceedings	-	1	-	-	-	-	1
Civil proceedings	10,449	17,268	10,449	-	-	-	38,166
Provision for ICMS losses - ES and MG	-	-	-	-	-	251,296	251,296
Adjustments for compliance with CPCs	(585,724)	-	-	-	-	-	(585,724)
Fiscal depreciation	-	-	-	-	-	(171,317)	(171,317)
Others	18,855	-	-	-	-	16,272	35,127
Total consolidated	**(554,471)**	**17,767**	**13,450**	**7,413**	**-**	**96,280**	**(419,561)**
Provisions recorded by subsidiaries	38	-	-	-	-	-	38
Total parent company	**(554,433)**	**17,767**	**13,450**	**7,413**	**-**	**96,280**	**(419,523)**

28.3 Income tax in the statement of income

	Parent Company		Consolidated	
	2013	2012	2013	2012
Net income before income tax	3,560,373	3,386,949	3,560,878	3,387,281
Effects resulting from changes to accounting practices Law 11638/07	(949,308)	(363,099)	(949,308)	(363,099)
Fiscal depreciation	(377,272)	(385,846)	(377,272)	(385,846)
Net income after the adjustments to the transitional taxation scheme	2,233,793	2,638,004	2,234,298	2,638,336
Permanent differences:				
Equity in net income of subsidiaries	(1,394)	(810)	(1,394)	(810)
Overseas profits	3,037	2,187	3,037	2,187
Nondeductible tax fines	34,313	65	34,313	65
Nondeductible donations	9,442	10,297	9,442	10,297
Other additions (exclusions)	2,672	3,917	2,166	3,582
Profit deriving from subsidized exports	(2,166,580)	(2,541,913)	(2,166,580)	(2,541,913)
Calculation basis	115,283	111,747	115,282	111,744
Statutory rate	25%	25%	25%	25%
Income tax calculated	28,821	27,937	28,821	27,936
Income tax on subsidized exports 18%	389,984	457,544	389,984	457,544
Tax incentive (PAT)	(6,395)	(7,401)	(6,395)	(7,401)
Tax paid by companies overseas	-	-	505	333
Negative balance of return from prior years	6,107	(47,872)	6,107	(47,872)
Proceedings related to REFIS	(9,591)	-	(9,591)	-
Other adjustments (IRRF)	-	677	-	677
Deferred income tax adjustment	(85)	5	(85)	5
Deferred income tax on translation differences Law 11638/07	420,135	309,748	420,135	309,748
Income tax in the statement of income	**828,976**	**740,638**	**829,481**	**740,970**

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

	Parent Company		Consolidated	
	2013	2012	2013	2012
Current income tax	(431,534)	(465,397)	(432,039)	(465,729)
Deferred income tax on temporary differences	22,693	34,507	22,693	34,507
Deferred income tax on non-monetary items	(420,135)	(309,748)	(420,135)	(309,748)
Current and deferred income tax expenses	**(828,976)**	**(740,638)**	**(829,481)**	**(740,970)**

29. COMMITMENTS

The Company is party to long-term contracts as from 2013 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 2013
Capital expenditure for expansion and overhaul of property, plant and equipment	457,928	-	-	-	-	457,928
Services and others	476,758	319,681	192,011	69,619	21,761	1,079,830
Iron ore acquisition	535,522	533,906	515,273	962,225	1,042,092	3,589,017
Supply of power and raw materials	813,954	819,187	784,657	815,356	1,543,520	4,776,674
Freight and logistics costs	7,373	-	-	-	-	7,373
	2,291,535	**1,672,774**	**1,491,941**	**1,847,200**	**2,607,373**	**9,910,822**

The commitments demonstrate the 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. FINANCIAL INSTRUMENTS

30.1 Financial Risk Management

The Company has financial instruments inherent to its operations, represented by cash and cash equivalents, restricted marketable securities, trade accounts receivable, trade payables, exchange contract advances and borrowings and financing.

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

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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.

30.2 Financial instruments by category

The financial instruments have been classified below:

	Classification
Assets	
Cash and cash equivalents	Loans and receivables, except short-term investments
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
Borrowings and financing	Liabilities measured at amortized cost

Financial assets consist of:

(a) Cash, cash equivalentes and restricted short-term investments

	Parent Company		Consolidated	
	2013	2012	2013	2012
Cash and cash equivalents	418,487	507,204	436,858	523,032
Restricted short-term investments	117,808	-	117,942	249,028
	536,295	**507,204**	**554,800**	**772,060**

- Cash and cash equivalentes

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.

Marketable Securities – Funds invested in conservative, highly liquid bank products. Investment Funds, Certificates of Bank Deposits and Debentures.

- Restricted cash held in specific collection accounts as a result of export prepayment operations.

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(b) Accounts receivable

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

	Parent Company		Consolidated	
	2013	2012	2013	2012
Accounts receivable	857,122	993,381	856,980	744,422

Financial liabilities consist of:

(a) Borrowings, financings, and exchange contract advances.

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

The geographical distribution by region of the Company's borrowings, financing and advances on export contracts is shown in the table below:

	Parent Company and Consolidated	
	2013	2012
Brazil	1.79%	6.88%
USA	80.52%	76.63%
Japan	17.69%	16.49%

30.3 Financial risk factors

The Company's' s activities expose it to a variety of financial risks: credit risk, market risk (including price risk, interest rate risk, exchange rate risk) and liquidity risk, as follows:

(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 customers. The Company conducts credit analyses on its customers every year, in order to mitigate risks of non-payment for outstanding sales and future sales. Customers payment capacity is also evaluated during the credit analysis. The Company presently offers its customers the following means of payment: letter of credit, cash payment or credit sale in current account.

Gross sales revenue amounted to R$7.240 billion in 2013 (R$6.611 billion in 2012), while the allowance for doubtful accounts made in 2013 was R$618 thousand (R$2.932 thousand in 2012). 31.37% of the outstanding accounts receivable is secured by letters of credit or credit surety in 2013 (47.33% in 2012).

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.

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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	
	2013	2012
Middle East / Africa	29%	23%
China	15%	16%
Asia (except China)	22%	27%
Europe	20%	19%
Americas	14%	15%

(b) Market risk

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

(ii) 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 borrowings and financings at December 31, 2013 are denominated in United States Dollars, with approximately R$4.137 billion bearing interest at fixed rates and R$4.881 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.

(iii) 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/or services, pay taxes, dividends, and others. The Company has the following assets and liabilities, which can affect its results due to exchange rate variations:

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	Consolidated	
Assets	2013	2012
Current		
Cash and cash equivalents	5,776	4,347
Domestic accounts receivable	7,635	2,532
Recoverable taxes	277,759	234,949
Prepaid expenses	4,937	776
Other assets	31,523	27,198
Non-current		
Judicial deposits	409,563	148,746
Recoverable taxes	31,393	47
Deferred income tax	-	-
Other assets	36,238	22,413
Liabilities		
Current		
Trade payables	(272,967)	(329,241)
Domestic borrowings and financing	(3,403)	(917)
Financial charges payable in Brazil	(1,831)	(306)
Payroll, provisions and social contributions	(92,345)	(76,142)
Taxes payable	(208,518)	(29,093)
Provision for income tax	-	(81,917)
Other provisions	(60,842)	(62,995)
Other liabilities	(7,962)	(19,554)
Non-current		
Domestic borrowings and financing	(159,707)	(3,956)
Financial charges payable in Brazil	(438)	(1,353)
Provision for legal obligations	(145,989)	(309,398)
Deferred income tax	(419,523)	(22,097)
Other provisions	(155,852)	(128,913)
Other liabilities	(168,245)	(530)
Net exposure recorded in the balance sheet	**(892,798)**	**(625,404)**
Liabilities not recorded in the balance sheet		
Tax proceedings		
Chance of loss remote	(2,102,598)	(516,188)
Chance of loss possible	(4,374,143)	(4,220,008)
Labor claims		
Chance of loss remote	(6,024)	(5,244)
Chance of loss possible	(31,965)	(19,827)
Civil claims		
Chance of loss remote	(9,118)	(7,311)
Chance of loss possible	(30,512)	(63,191)
Environmental proceedings		
Chance of loss remote	(18)	(18)
Chance of loss possible	(36,478)	(30,696)
Exposure not recorded in the balance sheet	**(6,590,856)**	**(4,862,483)**
Total net exposure	**(7,483,654)**	**(5,487,887)**

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

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$2.3420 at December 31, 2013 and US$1.00 equal to R$2.0429 at December 31, 2012.

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

(c) 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.

The carrying amounts of the cash flows from financial liabilities are:

	Consolidated		
	12/31/2013		
	Amount	Up to 12 months	1 - 5 years
Trade payables	290,514	290,514	-
Borrowings, financings and ACCs	8,979,311	884,787	8,094,523
Financial charges payable	50,802	50,364	438

The values of the non-discounted cash flows are as follows:

Financial liabilities	Book Amount	Contractual cash flow	2014		2015	2016	2017	2018 - 2023
			0 - 6 months	6 - 12 months				
Trade payables	290,514	290,514	289,671	843	-	-	-	-
Borrowings, financings and ACCs	8,979,311	8,979,311	90,849	793,939	1,124,980	198,043	198,043	6,573,457
Financial charges	50,802	2,197,326	144,414	146,517	270,071	246,686	242,435	1,147,203
Total	**9,320,627**	**11,467,151**	**524,934**	**941,299**	**1,395,051**	**444,729**	**440,478**	**7,720,660**

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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 at December 31, 2013 of R$2,100 million. The total amount originally contracted is R$1,538 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 at December 31, 2013 of R$28 million; the original amount contracted was the same. No losses are expected on these guarantees.

Bank	Amount secured	Restated amount	Index	Term
Bradesco	1,032,157	1,257,685	Selic	Indefinite
Bradesco	64,648	81,802	VRTE	Indefinite
Bradesco	14,001	14,001	-	Determined
Votorantim	111,042	283,069	Selic	Indefinite
Itaú	303,926	438,805	Selic	Indefinite
Itaú	3,565	3,725	Selic	Determined
Itaú	10,276	10,276	-	Determined
Sumitomo	265	265	-	Determined
Safra	26,254	38,978	INPC	Indefinite
Total	**1,566,134**	**2,128,606**	-	-

30.4 Capital management

The Company manages its capital with a view to safeguarding liquidity while yielding sustainable returns for shareholders and benefits for other stakeholders, in addition to maintaining an ideal capital structure, which can further optimize cost. In order to maintain or adjust the Company's capital structure, Management constantly monitors its debt levels, aligned with its dividends policy, which in turn follows shareholder guidelines.

The Company and its subsidiaries permanently monitor and manage their level of indebtedness in accordance with market standards, its strategy and covenants established in borrowings and financing contracts, where the main debt indexes are Total Debt/EBITDA and Net Debt/EBITDA.

The Company monitors its capital structure based on the financial leverage index. This index denotes net debt in comparison with the Company's cash generation, as measured by EBITDA. Net debt, in turn, corresponds to total borrowings (including short- and long-term borrowings, as demonstrated in the consolidated balance sheet), minus cash and cash equivalents.

In 2013 the Company's strategy, which remained unchanged in relation to 2012, was to maintain the classification of credit as investment grade (BBB on the scale of Standard and Poor's).

We also demonstrated the calculation of the financial leverage index considering net debt as a percentage of total capital. Total capital is calculated by adding the shareholders' equity, as demonstrated in the consolidated balance sheet, to net debt:

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

	2013	2012
Total borrowings and financing	9,030,113	5,986,965
(-) Cash, cash equivalents, restricted short-term investments	(554,800)	(772,060)
Net debt	8,475,313	5,214,905
Total shareholders' equity	3,758,049	3,274,128
Total capital	12,233,362	8,489,033
Financial leverage index	69%	61%

The change in the ratio between Net Debt/EBITDA over 2012 impacted the CAPEX disbursements under the Fourth Pelletizing Project of R$2,160,008 and the recognition of expenses on tax contingencies with an impact on the result of R$248,616.

30.5 Fair value hierarchy

The Company considers fair value as the price that would be obtained on the sale of an asset or paid to transfer a liability in an arm's length transaction on the measurement date (sale price). The Company uses market data or assumptions that market participants would use to price the asset and liability, including assumptions about the risks and risks inherent to the inputs used in the valuation method. The Company mainly applies the market approach to measure fair value and makes every effort to use the best information available. The Company consequently uses evaluation techniques to maximize the use of observable inputs and minimizes the use of unobservable inputs. The Company can classify the fair value balances based on observable inputs. The fair value hierarchy is used to prioritize the inputs used to measure fair value. The three levels of fair value hierarchy are as follows:

- Level 1 . Active market: quoted price - A financial instrument is deemed to be quoted in an active market if the quoted prices are readily and regularly disclosed by a stock exchange or organized over the counter market by operators, brokers or market association, by entities founded to disclose prices by regulatory agencies, and if these prices represent market transactions which take place frequently between independent parties, on an arm's length basis.

- Level 2 . No active market: Evaluation Method - The evaluation/pricing method should be used to determine the fair value of an instrument which is not traded in an active market. Other criteria like data of the current fair value of another instrument similar to it, discounted cash flow analyses and options pricing models can be used. The valuation method aims to establish the transaction price at the measurement date in an arm's length transaction.

- Level 3. No active market: equity instrument - Fair value of equity interests/equity instruments not quoted in an active market and underlying derivatives should be settled by delivering the unquoted equity instruments.

MANAGEMENT NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2013

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

	Balance at 2013	Fair value hierarchy		
		Level 1	Level 2	Level 3
Cash and cash equivalents	436,858	-	436,858	-
Restricted short-term investments	117,942	-	117,942	-

30.6 Sensitivity analysis

The Company's financial instruments consist of restricted cash and cash equivalents, accounts receivable, accounts payable, borrowings 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, IGP-DI for domestic operations and CDI for short-term investments.

In order to identify the sensitivity of the index in the short-term investments to which the Company was exposed at December 31, 2013, three different scenarios were determined. Based on market projections and the official interest rate (Selic) in force at that date, the Company thought it was reasonable to use the rate of 9.90% 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.

	Risk	Probable scenario I	Scenario II	Scenario III
Short-term investments	CDI	9.90% p.a.	7.43% p.a.	4.95% p.a.
Yields as of December 31, 2013	-	28	27	26

The sensitivity analysis was simulated over the previous 12 months (Amounts corresponding to the yields obtained in the period, based on the rates used in the evaluated scenarios at December 31, 2013).

In order to identify the sensitivity of the index in the long-term investments to which the Company was exposed at December 31, 2013, 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 valid for 12 months, ruling at December 31, 2013, the Company determined a probable scenario and two other additional scenarios based on the first scenarios II and III, with increases of 25% and 50% respectively.

	Risk	Probable scenario I	Scenario II	Scenario III
Overseas financing	Libor	0.3480% p.a.	0.4350% p.a.	0.5220% p.a.
Interest as at December 31, 2013	-	17,243	21,554	25,865
Domestic financing	IGP-DI	4.80%	6.01%	7.21%
Interest as at December 31, 2013	-	366	457	549

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

Amounts corresponding to the indexes and rates specified over the total long-term debt in USD, indexed to floating interest rates, at December 31, 2013, 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 at December 31, 2013, 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)	-	2.3420	1.7565	1.1710
Total Assets	804,824	343,648	458,197	687,296
Total liabilities	(1,697,622)	(724,860)	(966,480)	(1,449,720)
Net exposure in Reais recorded in the balance sheet	(892,798)	(381,212)	(508,282)	(762,424)

31. CREDIT QUALITY OF FINANCIAL ASSETS

The quality of the financial assets' credits can be evaluated by referring to the independent credit ratings (if applicable), or historical information about the levels of default incurred by counterparties and analyses of the financial statements.

Cash and cash equivalents

	Parent Company		Consolidated	
	2013	2012	2013	2012
Current Account and Short-term Bank Deposits				
Investment Grade	536,295	507,204	554,800	772,060
Non-investment Grade	-	-	-	-
	536,295	**507,204**	**554,800**	**772,060**

This category includes current accounts and short-term investments at banks.

Trade accounts receivable

	Parent Company		Parent Company	
	2013	2012	2013	2012
Counterparties with independent credit rating (S&P)				
Investment Grade	213,806	188,654	213,806	188,012
Non-Investment Grade	186,598	309,892	186,598	63,795
Counterparties without independent credit rating (S&P)				
Group 1	87,193	155,796	87,193	112,929
Group 2	130,983	180,491	130,983	222,383
Group 3	231,430	158,936	231,430	157,787
Group 4	7,626	2,459	7,626	2,448
	857,637	**996,229**	**857,637**	**747,354**

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Group 1 - customers with relationship of up to 5 years;
Group 2 - customers with relationship of more than 5 years without history of default
Group 3 - customers with relationship of more than 5 years with little history of default
Group 4 - domestic customers not purchasing iron ore

32. STATEMENT OF VALUE ADDED

The state taxes are as follows:

		Parent Company		Consolidated	
		2013	2012	2013	2012
State tax expenses	(a)	439,759	277,621	439,759	277,621
State tax credits	(b)	(797,035)	(226,180)	(767,200)	(226,328)
Total state taxes		**(357,276)**	**51,441**	**(357,441)**	**51,293**

(a) State tax expense consist of ICMS payable on domestic iron ore sales, logistics services and other items, and are net of the provision for loss of ICMS credits.

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

In 2013 the expenses were lower than the credits due to the debits under the transfer from Minas Gerais in the past 5 years, as detailed in Note 7.

33. 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 assets covered correspond to R$5,972,045 as of December 31, 2013 (R$6,459,076 in 2012) and the maximum (limit of) indemnity is R$1,361,007 in the year (R$1,540,478 in 2012).

33. PROVISIONAL LAW 627, ISSUED NOVEMBER 11, 2013

Provisional Law 627 was issued on November 11, 2013, which repealed the Transitional Taxation Scheme (RTT) and introduced other measures, including: (i) amendments to Decree Law 1598/77 which deals with corporate income tax and changes in legislation regarding the social contribution on net income; (ii) provides that the modification or adoption of accounting methods and criteria under the administrative acts issued based on the competence attributed by commercial law subsequent to the publication of this Provisional Law will not affect the calculation of federal taxes until the tax law regulates the matter; (iii) includes specific treatment about the potential taxation of profits or dividends; (iv) includes provisions about the calculation of interest on shareholder's equity and considerations about investments valued by the equity accounting method.

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The provisions established in the Provisional Law are effective from 2015. The early adoption in 2014 could eliminate potential tax effects, specially related to the payment of dividends and interest on shareholders' equity effectively paid by the publication of this Law, in addition to equity accounting results.

The Company studied the possible effects which could arise from the application of this new standard and concluded that the early adoption not will result in non-material adjustments to the Company's financial statements. Management is waiting for further developments and possible amendments to the text of the Provisional Measure, so it can decide about whether to adopt early within the deadlines established by the tax standard.

SAMARCO MINERAÇÃO S.A.

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