Samarco Mineração S.A.

Consolidated Interim Financial Statements for the period ended June 30, 2013 and Report on Review

Report on review of consolidated interim financial statements

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

Introduction

We have reviewed the accompanying consolidated interim balance sheet of Samarco Mineração S.A. and its subsidiaries (the "Company") as at June 30, 2013 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes.

Management is responsible for the preparation and fair presentation of these interim financial statements in accordance with accounting standard CPC 21, Interim Financial Reporting, of the Brazilian Accounting Pronouncements Committee (CPC). Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standards on Reviews of Interim Financial Information (NBC TR 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Brazilian and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements referred to above do not present fairly, in all material respects, the financial position of Samarco Mineração S.A. and its subsidiaries as at June 30, 2013, and their consolidated financial performance and cash flows for the six-month period then ended, in accordance with CPC 21.

PricewaterhouseCoopers, Rua dos Inconfidentes 1190, 9º, Belo Horizonte, MG, Brasil 30140-120, Caixa Postal 289
T: (31) 3269-1500, F: (31) 3261-6950, www.pwc.com/br

Samarco Mineração S.A.

Other matters

Statement of value added

We have also reviewed the consolidated statement of value added for the six-month period ended June 30, 2013. This statement is the responsibility of the Company's management, and is presented as supplementary information. The statement has been subjected to the same review procedures described above and, based on our review, nothing has come to our attention that causes us to believe that it is not prepared, in all material respects, in a manner consistent with the interim financial statements taken as a whole.

Audit and review of prior year and period

The consolidated financial statements of the Company for the year ended December 31, 2012 and the consolidated interim financial statements of the Company for the six-month period ended June 30,2012 were audited and reviewed, respectively, by another firm of auditors whose reports, dated March 25, 2013 and October 11, 2012 respectively, expressed an unmodified opinion and conclusion, respectively, on those statements.

Belo Horizonte, August 21, 2013

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

Carlos Augusto da Silva
Contador CRC 1SP197007/O-2 "S" MG

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Samarco Mineração S.A.

Consolidated Interim Balance Sheet
Expressed in thousands of Reais - R$

Assets	Note	June 30, 2013	December 31, 2012
		(unaudited)	
Current			
Cash and cash equivalents	3	161,193	523,032
Restricted short-term investments	4	308,388	249,028
Accounts receivable	5	841,171	744,422
Inventories	6	395,388	349,939
Recoverable taxes	7	194,074	234,949
Prepaid expenses		10,378	776
Other assets	8	38,065	27,198
		1,948,657	**2,129,344**
Non-current assets			
Judicial deposits	13	156,267	148,746
Recoverable taxes	7	45	47
Other assets	8	35,619	22,413
		191,931	**171,206**
Property, plant and equipment	9	10,649,506	8,669,080
Intangible assets	10	34,096	31,427
		10,875,533	**8,871,713**
Total assets		**12,824,190**	**11,001,057**

The accompanying notes are an integral part of these consolidated interim financial statements

Samarco Mineração S.A.

Consolidated Interim Balance Sheet
Expressed in thousands of Reais - R$ (continued)

Liabilities and equity	Note	June 30, 2013 (unaudited)	December 31, 2012
Current liabilities			
Trade payables		269,163	337,961
Advances on exchange contracts	11	614,488	404,908
Loans and financing	12	311,013	409,497
Financial charges payable	12	29,820	27,314
Payroll, accruals and social contributions		77,344	76,142
Taxes payable		22,230	29,093
Income tax accrual		12,773	81,917
Dividends payable		1,984,733	661,578
Other liabilities	14	128,521	92,335
		3,450,085	**2,120,745**
Non-current			
Loans and financing	12	5,930,767	5,143,893
Financial charges payable	12	586	1,353
Provision for legal contingencies	13	261,702	309,398
Deferred income tax	18	212,039	22,097
Other liabilities	14	137,856	129,443
		6,542,950	**5,606,184**
Equity			
Share capital	15	297,025	297,025
Capital reserves	15	2,476	2,476
Revenue reserves	15	294,549	294,549
Accumulated translation adjustments	15	819,946	695,345
Additional dividends proposed	15	-	1,984,733
Retained earnings	15	1.417,159	-
		2,831,155	**3,274,128**
Total liabilities and equity		**12,824,190**	**11,001,057**

The accompanying notes are an integral part of these consolidated interim financial statements

Samarco Mineração S.A.

Consolidated Interim Statement of Income
Expressed in thousands of Reais - R$

	Note	Six-month periods ended June 30, 2013 (unaudited)	June 30, 2012 (unaudited)
Net revenue	16	3,344,613	3,330,186
Cost of goods sold		(1,239,831)	(1,176,725)
Gross profit		**2,104,782**	**2,153,461**
Operating expenses			
Selling		(62,793)	(53,436)
General and administrative		(26,558)	(26,709)
Other operating expenses, net	17	(388,958)	(200,762)
Income before finance result and income tax		**1,626,473**	**1,872,554**
Finance result	21		
Finance income		2,895	3,026
Finance expense		(60,191)	(54,621)
Net foreign exchange variance		266,556	99,076
Profit before income tax		**1,835,733**	**1,920,035**
Income tax	18	(418,574)	(480,346)
Net income for the period		**1,417,159**	**1,439,689**

The accompanying notes are an integral part of these consolidated interim financial statements

Samarco Mineração S.A.

Consolidated Interim Statement of Comprehensive Income
Expressed in thousands of Reais - R$

	Six-month periods ended	
	June 30, 2013	June 30, 2012
	(unaudited)	(unaudited)
Net income for the period	**1,417,159**	**1,439,689**
Other comprehensive income		
Translation adjustment	124,601	186,149
Other comprehensive income for the period	**124,601**	**186,149**
Total comprehensive income for the period	**1,541,760**	**1,625,838**

The accompanying notes are an integral part of these consolidated interim financial statements

Samarco Mineração S.A.

Consolidated Interim Statement of Changes in Equity
Expressed in thousands of Reais - R$

		Capital reserves			Revenue reserves						
	Capital	Special monetary restatement of PP&E	Premium on share subscription	Tax incentive reserves	Incentive depletion reserve	Legal reserve	Profit retention reserve	Accumulated translation adjustments	Retained earnings	Additional proposed dividends	Total
Balance at December 31, 2011	**297,025**	**785**	**1,681**	**10**	**1,517**	**59,404**	**233,628**	**467,675**		**745,366**	**1,807,091**
Net income for the period									1,439,689		1,439,689
Other comprehensive income											
Translation adjustment for the year, net of income tax								186,149			186,149
Total other comprehensive income								**186,149**			**186,149**
Net income distribution:											
Dividends (R$142.16 per common share and R$ 156.37 per preferred share)										(745,366)	(745,366)
Balance at June 30, 2012	**297,025**	**785**	**1,681**	**10**	**1,517**	**59,404**	**233,628**	**653,824**	**1,439,689**		**2,687,563**
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 income for the period									1,417,159		1,417,159
Other comprehensive income											
Translation adjustment for the year, net of income tax								124,601			124,601
Total other comprehensive income								**124,601**			**124,601**
Net income allocation:											
Dividends (R$378.53 per common share and R$ 416.38 per preferred share)										(1,984,733)	(1,984,733)
Balance at June 30, 2013	**297,025**	**785**	**1,681**	**10**	**1,517**	**59,404**	**233,628**	**819,946**	**1,417,159**		**2,831,155**

The accompanying notes are an integral part of these consolidated interim financial statements

Samarco Mineração S.A.

Consolidated Interim Statement of Cash Flows
Expressed in thousands of Reais - R$

	Six-month periods ended	
	June 30, 2013	June 30, 2012
	(unaudited)	(unaudited)
Cash flows from operating activities		
Income before income tax	1,835,733	1,920,035
Adjustments to reconcile income before income tax to cash provided by operations:		
Depreciation and amortization	105,713	94,568
Allowance for doubtful accounts	(2,129)	437
Reversal of allowance for price review	-	(84,868)
Provision for obsolete inventory	142	585
Provision for realization of recoverable taxes	181,117	66,955
Provision for contingencies	(47,339)	15,878
Provision for mining rights and asset retirement obligations	55,023	33,355
Loss on property, plant and equipment and intangible assets	877	939
Unpaid accrued financial charges	78,366	46,261
Foreign exchange variance, net	(155,823)	2,788
	2,051,680	**2,096,933**
(Increase) decrease in operating assets:		
Restricted short-term investments	(59,360)	(17,585)
Accounts receivable	(94,620)	133,027
Inventories	(17,940)	(71,751)
Recoverable taxes	(140,240)	(257,491)
Judicial deposits	(7,521)	(11,669)
Prepaid expenses	(9,602)	(5,751)
Other assets	(24,073)	(2,828)
Increase (decrease) in operating liabilities:		
Trade payables	(68,798)	(112,594)
Taxes payable	(6,863)	137,815
Payroll, accruals and social contributions	7,262	(10,144)
Income tax paid	(297,776)	(259,227)
Other liabilities	(16,841)	4,756
Net cash provided by operations	**1,315,308**	**1,623,491**
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(1,300,278)	(1,334,897)
Proceeds on sale of property, plant and equipment and intangible assets	87	
Net cash used in investing activities	**(1,300,191)**	**(1,334,897)**
Cash flows from financing activities		
Financing obtained from third parties	1,413,246	1,253,957
Financing repayments	(1,051,774)	(1,663,339)
Interest payment	(76,624)	(42,420)
Dividend payment	(661,578)	
Net cash used in financing activities	**(376,730)**	**(451,802)**
Foreign exchange variance on cash and cash equivalents	(226)	687
Net decrease in cash and cash equivalents	**(361,839)**	**(162,521)**
Cash and cash equivalents at beginning of the period	523,032	270,005
Cash and cash equivalents at end of the period	161,193	107,484
	(361,839)	**(162,521)**

The accompanying notes are an integral part of these consolidated interim financial statements

Samarco Mineração S.A.

Consolidated Interim Statements of Value Added
Expressed in thousands of Reais - R$

	Six-month periods ended	
	June 30, 2013	June 30, 2012
	(unaudited)	(unaudited)
Revenue		
Sales of goods, products and services	3,371,602	3,374,470
Other revenue	2,915	1,555
Revenue relating to construction of company assets	1,449,026	1,397,556
Allowance for doubtful accounts	2,048	(474)
	4,825,591	**4,773,107**
Consumables acquired from third parties		
Cost of goods sold and services rendered	(2,662,494)	(2,534,820)
Material, electricity, outsourced services and other	(173,445)	(395,004)
Loss/recovery of asset values	(438)	(1,287)
	(2,836,377)	**(2,931,111)**
Gross value added	**1,989,214**	**1,841,996**
Depreciation and amortization	(105,713)	(94,568)
Net value added generated by the Company	**1,883,501**	**1,747,428**
Transferred value added		
Finance income	417,592	254,554
	417,592	**254,554**
Value added to be distributed	**2,301,093**	**2,001,982**
Distribution of value added	**2,301,093**	**2,001,982**
Personnel		
Direct remuneration	164,090	136,893
Benefits	40,981	32,153
FGTS (government mandatory fund for employees)	7,200	6,255
Taxes, charges and contributions		
Federal	340,186	164,771
State	55,773	9,325
Municipal	11,606	7,809
Interest expenses		
Interest on loans, financing and other debt items	264,098	205,087
Earnings reinvested	1,417,159	1,439,689

The accompanying notes are an integral part of these consolidated interim financial statements

1 General information

Samarco Mineração S.A. ("Samarco" or "Company"), a privately held corporation, is a joint venture between Vale S.A. and BHP Billiton Brasil Ltda. Samarco operates an integrated production system consisting of mining, beneficiation and concentration of low-grade iron ore (Germano/Alegria and Mariana mines, in the State of Minas Gerais –MG, Brazil), as well as the transport of such concentrated ore through ore pipelines, connecting with the Company's two operating plants located in the states of Minas Gerais and Espírito Santo. The pelletizing (transformation of iron ore concentrate into pellets, our core product) takes place at the Ubu plant, in addition to the outbound shipments of the production through the Company's own marine terminal (Anchieta, state of Espírito Santo). Production is mainly sold to the international market.

Samarco's reserves are located in the municipalities of Mariana and Ouro Preto (MG), and comprise geological resources of around 8.04 billion metric tons[1] of iron ore.

The technical and economic context of the mineral resource and its specifics suggest recoverable or mineable reserves of around 2.96 billion metric tons[1]. The production of concentrated iron ore until June 30, 2013 was 10.896 million dry metric tons[1] (December 31, 2012 – 22.425 million dry metric tons[1]).

Equity interests are held in the following companies, which are consolidated, with the respective core activities:

» Samarco Iron Ore Europe B.V. (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. (direct interest of 100%) - headquartered in Hong Kong, this company was acquired on July 10, 2001 by Samarco Iron Ore Europe B.V. to provide marketing and selling services through commercial representation in the Asia-Pacific region.

» Samarco Finance Ltd. (direct interest of 100%) - headquartered in the Cayman Islands, this company was incorporated on February 21, 2000 with the core activity of optimizing the 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 authorized the issued and disclosure of these consolidated interim financial statements on August 20, 2013.

[1] Information not audited or reviewed by the independent auditors.

2 Summary of significant accounting polices

2.1 Basis of preparation

The consolidated interim financial statements have been prepared in accordance with CPC 21 – Interim Financial Reporting.

The consolidated interim financial statements have been prepared based on historical cost, except for certain financial instruments which have been measured at fair value through profit or loss.

The preparation of consolidated interim financial statements requires that management uses its judgment in determining and recording accounting estimates. Significant assets and liabilities subject to these estimates and assumptions include the residual value of property, plant and equipment, the provision for impairment of assets, the allowance for doubtful accounts, the allowance for price review, the provision for realization of recoverable taxes, the provision for obsolete inventory, deferred income taxes, provision for contingencies, the measurement of financial instruments, and assets and liabilities related to employee benefits. The settlement of transactions involving these estimates may result in significantly different amounts due to the lack of precision inherent to the process of their determination. The Company reviews the estimates and assumptions at each reporting date.

The accounting policies applied by the Company in these consolidated interim financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended December 31, 2012. The accounting policies described in detail below were applied consistently to the periods presented in these consolidated interim financial statements.

The statements of cash flows are prepared using the indirect method and are presented in accordance with accounting pronouncement CPC 03 – Statement of Cash Flows. The statements of value added are prepared in accordance with accounting pronouncement CPC 09 – Statement of Value Added, and are being presented as supplementary information to the consolidated interim financial statements.

2.2 Consolidation

(a) Subsidiaries

The Company's consolidated interim financial statements include the financial statements of Samarco and its subsidiaries (Note 1). Balances of revenues, expenses and unrealized income between consolidated companies are eliminated from the consolidated interim financial statements.

(a) Jointly-controlled operations

A jointly-controlled operation is a joint arrangement whereby each venturer uses its own assets in connection with the joint operations. The consolidated interim financial statements include the assets that the Company controls and the liabilities that it incurs in the course of the joint operation, and the expenses that the Company incurs and its share of the income it earns from the joint operation. The Company owns a 49% interest in the hydroelectric power plant at Guilman-Amorim, with the remaining interest held by our joint-operation partner ArcelorMittal Brasil S.A..

2.3 Foreign currency translation

(a) Functional and presentation currency

The Company's functional currency is the United States Dollar (USD).

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

(b) Transactions and balances

Transactions in foreign currency, i.e. all transactions that are not carried out in the functional currency, are translated at the exchange rate on the dates of each transaction. Foreign-currency monetary assets and liabilities are translated to the functional currency at the exchange rate as of the reporting date, with US$1.00 being equal to R$2.2150 as of June 30, 2013 (US$1.00 equal to R$2.0207 and R$2.0429 as of June 30, 2012 and December 31, 2012, respectively). The gains and losses arising from variations in the exchange rates on monetary assets and liabilities are recognized in the statement of income. Non-monetary assets and liabilities acquired or contracted in foreign currency are translated at the exchange rates in effect on the dates of the transactions or on the dates of fair market valuation when applicable. The exchange variance is not recognized in the statement of income, since the changes in the exchange rates have little or no direct effect on the current and future cash flows from operations, and therefore are recognized in a specific account of equity denominated "Accumulated translation adjustments".

See below the consolidated balance sheets and consolidated statements of income in our functional currency (US$) and as translated to the reporting currency (R$), both stated in thousands:

Consolidated balance sheets

	June 30, 2013		December 31, 2012	
	US$	**R$**	**US$**	**R$**
Current assets				
Cash and cash equivalents	72,774	161,193	256,024	523,032
Restricted short-term investments	139,227	308,388	121,900	249,028
Accounts receivable	379,721	841,171	364,385	744,422
Inventory	178,249	395,388	171,295	349,939
Recoverable taxes	87,615	194,074	115,004	234,949
Prepaid expenses	4,686	10,378	380	776
Other assets	17,175	38,065	13,300	27,198
	879,447	**1,948,657**	**1,042,288**	**2,129,344**
Non-current assets				
Judicial deposits	70,548	156,267	72,811	148,746
Recoverable taxes	22	45	23	47
Other assets	16,084	35,619	10,975	22,413
	86,654	**191,931**	**83,809**	**171,206**
Property, plant and equipment	4,807,903	10,649,506	4,243,517	8,669,080
Intangible assets	15,393	34,096	15,383	31,427
Total non-current assets	**4,909,950**	**10,875,533**	**4,342,709**	**8,871,713**
Total assets	**5,789,397**	**12,824,190**	**5,384,997**	**11,001,057**

Expressed in thousands of Reais - R$, unless otherwise stated

	June 30, 2013		December 31, 2012	
Current liabilities	**US$**	**R$**	**US$**	**R$**
Trade payables	121,520	269,163	165,426	337,961
Advances on export contracts	277,421	614,488	198,203	404,908
Loans and financing	140,412	311,013	200,449	409,497
Financial charges payable	13,463	29,820	13,370	27,314
Payroll, accruals and social contributions	34,934	77,344	37,270	76,142
Taxes payable	10,037	22,230	14,241	29,093
Income tax accrual	5,767	12,773	40,098	81,917
Dividends payable	896,042	1,984,733	323,842	661,578
Other liabilities	57,955	128,521	45,188	92,335
	1,557,551	**3,450,085**	**1,038,087**	**2,120,745**
Non-current liabilities				
Loans and financing	2,677,547	5,930,767	2,517,937	5,143,893
Financial charges payable	265	586	662	1,353
Provision for legal contingencies	118,150	261,702	151,451	309,398
Deferred income tax	95,729	212,039	10,816	22,097
Other liabilities	62,238	137,856	63,355	129,443
	2,953,928	**6,542,950**	**2,744,221**	**5,606,184**
Equity				
Share capital	409,774	297,025	409,774	297,025
Capital reserves	1,619	2,476	1,619	2,476
Revenue reserves	97,025	294,549	97,025	294,549
Accumulated translation adjustments	-	819,946	-	695,345
Additional dividends proposed	-	-	1,094,271	1,984,733
Retained earnings	769,500	1,417,159	-	-
Total equity	**1,277,918**	**2,831,155**	**1,602,689**	**3,274,128**
Total liabilities and equity	**5,789,397**	**12,824,190**	**5,384,997**	**11,001,057**

Expressed in thousands of Reais - R$, unless otherwise stated

Consolidated statements of income

	June 30, 2013		June 30, 2012	
	US$	R$	US$	R$
Net revenue	1,647,194	3,344,613	1,790,155	3,330,186
Cost of goods sold	(611,008)	(1,239,831)	(632,031)	(1,176,725)
Gross profit	**1,036,186**	**2,104,782**	**1,158,124**	**2,153,461**
Operating expenses				
Selling	(31,216)	(62,793)	(28,609)	(53,436)
General and administrative	(13,032)	(26,558)	(14,335)	(26,709)
Other operating expenses, net	(134,704)	(388,958)	(70,912)	(200,762)
Income before finance result and income tax	**857,234**	**1,626,473**	**1,044,268**	**1,872,554**
Finance results				
Finance result	1,436	2,895	1,737	3,026
Finance expenses	(29,869)	(60,191)	(28,052)	(54,621)
Net foreign exchange variance	130,926	266,556	56,687	99,076
Profit before income tax	**959,727**	**1,835,733**	**1,074,640**	**1,920,035**
Income tax	(190,227)	(418,574)	(253,345)	(480,346)
Net income for the period	**769,500**	**1,417,159**	**821,295**	**1,439,689**

2.4 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, bank deposits and investments in marketable securities with immediate liquidity whose maturities as of the date of the investment are equal to or less than 90 days and with insignificant risk of change in fair value.

2.5 Restricted short-term investments

Restricted short-term investments are financial assets recorded at fair value through profit or loss, which approximates cost plus earnings. They have liquidity terms of more than 90 days but an insignificant risk of change in fair value.

2.6 Financial instruments

Financial instruments include interest-earning bank deposits, accounts receivable from customers and other receivables, including receivables related to cash and cash equivalents, as well as loans and financing, accounts payable and other debts.

The financial instruments are only recognized as from the date on which the Company becomes party to the contractual provisions thereof. Upon recognition, they are initially measured at fair value plus the transaction costs that are directly attributable to their acquisition or issuance (when applicable). The financial instruments are recognized as fair value through profit or loss, loans and receivables, available for sale and held to maturity. At June 30, 2013 and December 31, 2012, the Company does not have 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 as fair value through profit or loss if the Company manages these investments and makes purchase and sales decisions based on their fair value in accordance with the investment strategy and risk management documented by the Company. After initial recognition, attributable transaction costs are recognized in income/expenses when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes in fair value are recognized in profit or loss.

Derivatives are also categorized as held for trading unless they are designated as hedges.

(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 using the effective interest rate method, less any impairment losses. The Company's loans and financial includes accounts receivables, cash and cash equivalents (except short-term investments which are classified as at fair value through profit or loss) and other assets.

(c) Financial liabilities

The Company has the following non-derivative financial liabilities: loans and financing, trade payables and other accounts payable.

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

(d) Offsetting 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) Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred 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 (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

2.7 Accounts receivables

Accounts receivables are recognized initially at present value and subsequently recorded at amortized cost using the interest rate method, less provision for doubtful accounts.

The provision for doubtful accounts is recorded at an amount considered sufficient by management to cover any losses on amounts receivable, based on individual analysis of the receivables and the financial situation of each customer, including its relationship experience with the Company.

2.8 Inventory

Inventory is measured at weighted average acquisition or production cost not to exceed net realizable value.

Samarco uses the absorption costing system. Direct costs are appropriated objectively and indirect costs are appropriated based on normal production capacity and include costs incurred on the acquisition of inventory, production and transformation costs and other costs incurred to bring the inventories to their current state and location.

2.9 Property, plant and equipment

Property, plant and equipment are initially recognized at cost of acquisition, formation or construction, including capitalized borrowing costs.

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

- 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 present location and condition necessary so it can be operated as intended by Management.

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

Depreciation and amortization commence on the date the assets are installed and available for use, and are calculated for the estimated periods described in Note 9, based on the unit production method for the items directly related to the respective productive areas, and based on the straight-line depreciation and amortization method for the remaining items.

Gains and losses from the sale of property, plant and equipment are determined by comparing the proceeds from the sale with the net book value of the property, plant and equipment sold, and are recognized as other operating expenses, net in profit or loss.

2.10 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.

The amounts of the intangible assets that cannot be measured and whose price is not fixed or determined are recognized as operating expenses in profit or loss.

Intangible assets generated internally are recognized as operating expenses in profit or loss for the period 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;
- Availability of financial and technical resources; and
- Ability to reliably measure the expenditures attributable to the intangible asset during its development.

Intangible assets with a defined useful life are amortized over their estimated economic lives, as detailed in Note 10, and when indications of impairment are identified, they are tested for impairment losses.

2.11 Impairment of non-financial assets

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

The recoverable value of an asset or group of assets is the higher of the value in use and fair value minus selling expenses. When measuring 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 assessment 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 from continuous use and which are mainly independent from the cash flows of other assets or groups of assets ("cash generating unit or CGU").

Impairment losses are recognized when the book value of an asset or group of assets exceeds its estimated recoverable value. Impairment losses are charged to profit or loss. For the period ended June 30, 2013 and year ended December 31, 2012, the Company did not identify any evidence of impairment of its non-financial assets.

2.12 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Accounts payable are classified as current liabilities if payment is due in one year or less. 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 method.

2.13 Advanced on exchange contracts and loans and financials

Advanced on exchange contracts and loans and financials are recognized initially at fair value, net of transaction costs incurred, and are subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the total amount payable is recognized in the statement of income over the period of the borrowings using the effective interest method.

Advanced on exchange contracts and loans and financials 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.

Advanced on exchange contracts and loans and financials costs directly related to the acquisition, construction or production of a qualifying asset that requires a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset when it is probable that future economic benefits associated with the item will flow to the Company and costs can be measured reliably. The other advanced on exchange contracts and loans and financials costs are recognized as finance costs in the period in which they are incurred.

2.14 Provision for legal contingences

Contingent liabilities deemed to involve possible losses are only disclosed in the financial statements notes, while contingent liabilities classified as remote losses are neither provided for nor disclosed.

A provision is made for legal obligations when losses and resulting outflows are estimated as probable and their 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 calculated by discounting future expected cash flows at a before-tax rate that reflects current market assessments regarding the value of money over time and specific risks of the liability.

Contingent assets are recognized only when there are tangible guarantees or favorable final and unappealable decisions in court cases. Contingent assets for which a successful result is deemed as probable are only disclosed in the notes to the consolidated interim financial statements.

2.15 Provisions for asset retirement and environmental remediation

(a) Asset retirement obligations

An asset retirement obligation is recognized when the Company has a legal or constructive obligation arising from a past event involving a probable outflow of resources in an amount reliably estimated through an approved detailed asset retirement plan. The expenses incurred to close mines after the end of mining operations are recognized 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 property, plant and equipment, and is depreciated over the asset's useful life.

(b) Environmental remediation

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

2.16 Adjustment of assets and liabilities to present value

Monetary assets and liabilities are adjusted to their present value when the transaction is initially recognized, 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 in the market for similar transactions. This interest is subsequently recognized in finance result in profit or loss using the effective interest rate method.

2.17 Income tax

The Company calculates income taxes based on the enacted legislation, considering the legally established tax additions and exclusions. Deferred tax assets are recognized on temporary differences that become deductible when realized and tax losses, if applicable, when it is probable that future taxable earnings will be generated against which they can be offset. Deferred tax assets are measured at the rates expected to apply to the temporary differences when they are reversed, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legal right to offset current tax assets and liabilities, and they are related to income taxes levied by the same tax authority on the same entities subject to taxation. The Company has a tax benefit for exports that entails a reduction of income tax based on its operating income. Deferred tax liabilities are recognized on temporary exclusions that will be taxed when the conditions that made them temporarily nontaxable expire.

The Company has a final and unappealable decision in its favor which ruled that the social contribution on net income ("CSLL") is unconstitutional. Therefore, it is not paying this contribution, as further disclosed in Note 13.

2.18 Employee benefits

(a) Defined benefit plan

The Company´s net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting such benefit to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on instruments that have maturity dates approximating the terms of the Company´s obligations and that are denominated in the currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. This calculation currently results in a benefit to the Company; however, no asset is recognized as no economic benefits are available in the form of any future refunds from the plan or reductions in future contributions to the plan. When the benefits of a plan are improved, the portion of the increased benefit related to past service of employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

(b) Share-based payment transactions

The fair value of the amount payable to employees in respect to the Company's long-term incentive plan, which is settled in cash, is recognized as an expense over the related service period of the employees with a corresponding increase in liabilities. The liability is remeasured at each reporting date and at the settlement date. Any changes in the fair value of the liability are recognized as personnel expense in the consolidated statement of income.

2.19 Share capital

Each common share entitles the holder thereof to one vote on General Meeting resolutions. Preferred shares are classified as 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 yield a dividend that is 10% higher than that attributed to the common shares.

2.20 Statement of income

Income and expenses are recognized on the accrual basis, and include costs, expenses and revenue, in addition to the earnings, charges and monetary or exchange variance at official indexes or rates applied to current and non-current assets and current and non-current liabilities.

(a) Recognition of revenue from product sales

Revenue from product sales is recognized when the significant risks and rewards of ownership have been transferred to the buyer. Revenue is recognized when the product is delivered to the carrier as all sales involve FOB (Free-on-board) shipping terms. Prior to October 2011, prices with customers were mostly based on a quarterly lag system (on a three-month average of indexes for the period ending one month before the beginning of the new quarter). As from October 2011, prices with customers are mostly based on a quarterly system (the current quarter´s average of indexes) or on a monthly basis system (average of the index of the month prior to the shipment). Such pricing mechanisms serve as the base price and a negotiated premium reflecting the quality of the iron ore pellet, performed by independent analysis, is subsequently added to the base price to calculate the final pellet price.

In these circumstances revenue is recognized at the date of shipment based on an estimate of fair value of the consideration to be received. When the realization of an amount already recorded as revenue becomes 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 significant risks and rewards associated with the transaction have been transferred. When the realization of an amount already recorded as revenue becomes uncertain, the uncollectible amount or amount unlikely to be realized is recognized as an expense.

2.21 Finance results

Finance income includes interest earned on short-term investments and changes in the fair value of financial assets measured at fair value through profit or loss. Interest earned is recognized in profit or loss by the effective interest rate method.
Finance costs include interest expenses on loans and the unwinding of the adjustments to present value, changes in the fair value of financial assets measured at fair value through profit or loss, and impairment losses recognized on financial assets (except for impairment of accounts receivable, which is recognized as selling expenses). Borrowing costs not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss by the effective interest rate method.

Foreign exchange gains and losses are presented net in the statement of income.

2.22 Leases

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 under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

As at June 30, 2013 and December 31, 2012 the Company does not have operations classified as finance leases (leases where the Company has substantially all the risks and rewards of ownership). Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased item and the present value of the minimum lease payments.

Expressed in thousands of Reais - R$, unless otherwise stated

2.23 Distribution of dividends and interest on capital

The distribution of dividends and interest on capital to the Company's stockholders is recognized as a liability in the Group's financial statements at year-end based on the Company's bylaws. Any amount that exceeds the minimum required is only provided on the date it is approved by the Shareholders at the General Meeting.

The tax benefit of interest on capital is recognized in the statement of income.

2.24 Accounting standards, amendments and interpretations

In the period ended June 30, 2013, no standards, amendments and interpretations, except for those disclosed in Note 2.2 to the Company's financial statements for the year ended December 31, 2012, were issued, that could effect these consolidated interim financial statements.

3 Cash and cash equivalents

The Company's cash and cash equivalents are as follows:

	June 30, 2013	**December 31, 2012**
Domestic	457	4,189
Foreign (a)	141,295	503,726
Short-term investments		
Time Deposit / MMDA (b)	16,271	14,978
Investment fund (c)	3,170	139
	161,193	**523,032**

(a) Current account denominated in US dollars at an overseas financial institution, yielding the overnight Federal Funds rate.

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

(c) The financial investment fund refers to operations with domestic financial institutions that have immediate liquidity. It consists of bank deposit certificates – CDB yielding 101% of the CDI rate (101% of CDI at December 31, 2012) and a current account, yielding 20% of the CDI rate (20% at December 31, 2012).

Expressed in thousands of Reais - R$, unless otherwise stated

4 Restricted short – term investments

At June 30, 2013, the Company has restricted cash in its subsidiary Samarco Finance Ltd., in the amount of R$ 308,388 (R$ 249,028 at December 31,2012) maintained in a collection account related to an export prepayment agreement of US$800 million for the expansion project of the third plant (P3P). Cash is withheld for up to 180 days before each debt repayment date, limited to 120% of the debt service. This collection account is managed by Citibank, the agent of the syndicate of banks providing the financing, and the amounts are invested in a USD Liquid Reserves Fund -Admin Shares at Goldman Sachs Bank.

The Company has also other accounts with cash linked to loan agreements, which are:

- Three accounts with Union Bank NY-Branch in connection with: US$231 million, US$ 450 million and US$335 million export prepayment agreements;
- An account with BNP Paribas NY-Branch in connection with a US$400 million export prepayment agreement;
- An account with JP Morgan NY-Branch in connection with a US$150 million export prepayment agreement; and
- An account with Banco do Brasil NY-Branch in connection with a US$150 million export prepayment agreement.

The accounts maintained with Union Bank must receive the necessary funds for the respective payments of principal and interest 30 days in advance (for the US$231 million and the US$ 450 million agreements) and 10 days in advance (for the US$335 million agreement). The account with BNP Paribas (for the US$400 million agreement) shall hold funds 10 days in advance. The other accounts do not have the obligation to withhold amounts according to the respective loan agreements.

At June 30, 2013 there are no restricted debt balance related to the above mentioned contracts.

5 Accounts receivable

The accounts receivables are as follows:

	June 30, 2013	**Decembe r 31, 2012**
Domestic customers	36,689	2,532
Foreign customers (a)	805,285	744,822
Allowance for doubtful accounts	(803)	(2,932)
	841,171	**744,422**

(a) Approximately R$185,778 (R$353,004 at December 31, 2012) of the foreign trade receivables at June 30, 2013 are guaranteed by letters of credit or export insurance.

Expressed in thousands of Reais - R$, unless otherwise stated

The breakdown of the Company's gross receivables classified by aging is as follows:

	June 30, 2013	December 31, 2012
Current	785,127	733,963
Up to 30 days overdue	55,799	10,513
31 to 60 days overdue	245	-
61 to 90 days overdue	444	159
More than 90 days overdue	359	2,719
	841,974	**747,354**

The allowance for doubtful accounts in the amount of R$803 (R$2,878 at December 31, 2012) is recognized for invoices more than 60 days overdue, following an individual analysis of each customer's credit status.

6 Inventories

The inventory breakdown is as follows:

	June 30, 2013	December 31, 2012
Finished goods	58,428	21,142
Goods in process	25,456	21,171
Consumables	77,554	63,739
Spare parts	224,307	223,273
Provision for inventory losses	(6,896)	(6,754)
Advances to suppliers	16,539	27,368
	395,388	**349,939**

For the six-month period ended June 30, 2013 raw materials, consumables and changes in the finished goods and goods in process, recognized in the cost of goods sold, amounted to R$1,239,831 (R$1,726,725 in the six-month period ended June 30 2012).

The Company evaluated its inventory cost and concluded it did not exceed the net realizable value. However, certain storeroom materials considered obsolete or slow-moving were subject to a provision for impairment in the six-month period of R$ 142 (R$ 585 in the six-month period ended June 30, 2012).

Expressed in thousands of Reais - R$, unless otherwise stated

7 Recoverable taxes

The breakdown of the balance of recoverable taxes is as follows:

	June 30, 2013	December 31, 2012
ICMS (VAT tax) – MG state (a)	577,953	431,027
Provision for ICMS losses - MG state (a)	(577,953)	(431,027)
ICMS (VAT tax) - ES state (b)	506,491	472,300
Provision for ICMS losses - ES state (b)	(506,491)	(472,300)
PIS and COFINS (revenue taxes) (c)	145,771	147,243
IRPJ recoverable /CIT recoverable (d)	47,872	87,348
Other	476	405
	194,119	**234,996**
Current assets	194,074	234,949
Non-current assets	45	47

(a) Amounts relate to litigation disputing the incidence of ICMS (VAT tax) on the transfer of concentrate from Minas Gerais (MG) state to Espírito Santo (ES) state (Note 13). The Company has received tax assessments for the amount of the credits. Accordingly, the Company recognized a corresponding provision for the loss of the entire balance of ICMS credits – for both MG and ES states.

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

	June 30, 2013	December 31, 2012
Balance at beginning of year/period	431,027	276,772
Recognition of provision for losses	146,926	154,255
Balance at end of year/period	577,953	431,027

(b) In view of the history of non-realization of ICMS tax credits held against ES state, the Company recognized a provision to cover 100% of the credits.

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

	June 30, 2013	December 31, 2012
Balance at beginning of year/period	472,300	382,850
Recognition of provision for losses	34,191	89,450
Balance at end of year/period	506,491	472,300

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(c) PIS and COFINS (revenue taxes) credits mainly relate to the acquisition of material, consumables, energy, and property, plant and equipment, recoverable 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) Income tax recoverable refers to the recoverable balance in the 2012 Tax Return.

8 Other assets

Other assets are as follows:

Current	June 30, 2013	December 31, 2012
Advances to employees (a)	21,574	19,914
Other	16,491	7,284
	38,065	**27,198**
Non-current		
COHESA (b)	16,266	16,176
(-) Adjustment to present value COHESA	(1,580)	(1,284)
Other	20,933	7,521
	35,619	**22,413**

(a) On October 5, 2011 Samarco made an advance equal to 150% of the employee's base salary for September 2011, which will be deducted from payroll in August 2013 or deducted from the payment of severance indemnities in the event of contractual termination prior to August 31, 2013. The advance was made in accordance with the collective labor agreements signed with the respective trade unions.

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

9 Property, plant and equipment

The Company made a number of investments throughout 2012 to increase 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 environment and health and safety.

Expressed in thousands of Reais - R$, unless otherwise stated

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

	Land	Industrial facilities (buildings, machinery and equipment)	Ore pipeline and correlated system	Plant decommissioning	Data processing equipment and furniture and fixtures	Vessels and vehicles	Tools, rotating assets and mass assets	Construction in progress	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)	-	-	-	-	-	-	-	1,300,278	1,300,278
Transfers – Inbound (b)	-	175,393	71,505	-	5,392	8,710	6,080	-	267,080
Transfers – Outbound (b)	-	-	-	-	-	-	-	(270,968)	(270,968)
Sales/disposals (c)	-	(9,788)	-	-	(58)	-	-	-	(9,846)
Effect of exchange rate variance (d)	2,505	387,501	165,739	(1,676)	7,674	8,852	8,139	432,050	1,010,784
Balance at June 30, 2013	**30,420**	**4,860,830**	**2,021,974**	**55,958**	**94,695**	**107,881**	**99,054**	**6,128,440**	**13,399,252**
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)	-	(67,295)	(23,869)	(739)	(4,583)	(3,552)	(1,947)	-	(101,985)
Sales/disposals (c)	-	8,837	-	-	45	-	-	-	8,882
Effect of exchange rate variance (d)	-	(152,443)	(59,919)	(199)	(4,378)	(5,300)	(1,560)	-	(223,799)
Balance at June 30, 2013	**-**	**(1,927,960)**	**(687,614)**	**(4,567)**	**(51,114)**	**(60,667)**	**(17,824)**	**-**	**(2,749,746)**
Net book value									
As of 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**
As of June 30, 2013	**30,420**	**2,932,870**	**1,334,360**	**51,391**	**43,581**	**47,214**	**81,230**	**6,128,440**	**10,649,506**

(a) The additions include the main projects and investments still under construction as of June 30, 2013 as follows:

Fourth Pelletizing Plant - construction of a third concentrator at the Germano plant (MG state), the installation of a third slurry pipeline, alongside the two existing pipelines, construction of a fourth pelletizing plant at the Ubu plant and the upgrading of the storage and shipment system.

Implementation of Wind Fence in the pellets and iron ore fines yards.

Additional investment to increase production concentrator 3.

Access to the Germano high-voltage grid - this project aims to cut energy transportation costs by connecting to the high-voltage grid, thereby facilitating Samarco's plans for growth and improving the reliability of the energy supply.

Expressed in thousands of Reais - R$, unless otherwise stated

Acquisition of land.

Refractory ovens.

Mobile equipment shop.

(b) The investments in property, plant and equipment and intangible assets are first recorded in construction in progress. Once these investments are concluded and have come into operation, the assets are transferred to the respective accounts of property, plant and equipment and intangible assets, depending on the accounting nature of each item. Loans and financing costs were recorded in the six-month period ended June 30, 2013 of R$ 5,821 (R$ 5,438 in the six-month period ended June 30, 2012) referring to financing obtained to carry out several projects (concentrator I and II, Germano high-voltage grid, electrostatic precipitator, coolers of plants 1 and 2, vehicle workshop, wind fence data center, new reception, storage yards, Ubu security, and the fourth pelletizing plant project), subject to a capitalization rate of up to 2.99% a year.

(c) Sales/disposals primarily consist of scrap written off on replacement of grate cars of plant 1.

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

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

	Useful life (years) June 30, 2013	**Useful life (years) December 30, 2012**
Industrial facilities (buildings, machinery and equipment)	10 to 50	10 to 50
Ore pipeline and correlated system	20 to 43	20 to 43
Plant decommissioning	43	43
Electronic data processing equipment	5	5
Furniture and fixtures	10	10
Vessels	9 to 24	9 to 24
Vehicles	4 to 25	4 to 25
Tools	10 to 25	10 to 25
Rotating assets	10 to 27	10 to 27
Mass assets	5 to 24	5 to 24

Expressed in thousands of Reais - R$, unless otherwise stated

Impairment

The Company evaluated the existence of indicators that certain assets of its PP&E might be recorded at amounts above their recoverable amounts. No assets were identified with carrying amounts above their recoverable amounts.

Review of useful life

In compliance with technical pronouncement CPC 27 - Property, plant and equipment, in 2012 the Company concluded that the residual useful lives of its industrial complex remained unchanged, as there had been no changes to the expected use of the assets, based on the physical production or expected capacity. 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 useful lives of Samarco's property, plant and equipment in 2012, i.e. the useful lives are compatible with the expected benefit of the industrial complex.

Residual value

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

In 2010 an external specialized company evaluated the Company's policies and its assets and concluded that the Company should not expect to recover any part of the value of property, plant and equipment through sale, i.e. the residual value thereof is close to zero.

Fully depreciated assets in operation

The following fully depreciated items were still in operation:

	June 30, 2013		December 31, 2012	
	Cost	**Accumulated depreciation**	**Cost**	**Accumulated depreciation**
Buildings	47,661	(47,661)	46,653	(46,653)
Machinery and equipment	22,004	(22,004)	21,954	(21,954)
Systems	5,596	(5,596)	5,596	(5,596)
Data processing equipment	13,045	(13,045)	5,437	(5,437)
Furniture and fixtures	4,064	(4,064)	3,606	(3,606)
Vessels	272	(272)	272	(272)
Vehicles	14,720	(14,720)	14,720	(14,720)
Tools	685	(685)	677	(677)
	108,047	**(108,047)**	**98,915**	**(98,915)**

Expressed in thousands of Reais - R$, unless otherwise stated

Pledged assets

As of June 30, 2013 the Company had pledged assets as collateral for judicial proceedings, amounting to approximately R$136,736 (R$136,736 at December 31, 2012).

10 Intangible assets

The Company's intangible assets are as follows:

	Easements (d)	Mining Rights	Other Rights	Application Systems Software	Total
Cost					
Balance at December 31, 2012	**7,613**	**25,841**	**1,179**	**61,851**	**96,484**
Transfers – Inbound (a)	-	-	-	4,080	4,080
Effect of exchange rate variance (b)	641	2,177	99	5,661	8,578
Balance at June 30, 2013	**8,254**	**28,018**	**1,278**	**71,592**	**109,142**
Amortization					
Balance at December 31, 2012	**(2,576)**	**(16,735)**	**(1,176)**	**(44,570)**	**(65,057)**
Amortization in the period (c)	(44)	(81)		(3,603)	(3,728)
Effect of exchange rate variance (b)	(240)	(1,451)	(99)	(4,471)	(6,261)
Balance at June 30, 2013	**(2,860)**	**(18,267)**	**(1,275)**	**(52,644)**	**(75,046)**
Net book value					
As of December 31,2012	**5,037**	**9,106**	**3**	**17,281**	**31,427**
As of June 30, 2013	**5,394**	**9,751**	**3**	**18,948**	**34,096**

(a) The investments in intangible assets are first recognized in construction in progress in the property, plant and equipment. Once these investments are concluded and have come into operation, the assets are 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 remaining items. The table below shows the useful life for each type of asset.

Expressed in thousands of Reais - R$, unless otherwise stated

	Useful life (years) June 30, 2013	Useful life (years) December 31, 2012
Easements	43	43
Fees for assignments of mining rights	43	43
Other rights	15	15
Applications and software	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 75,424/75 and allows the Company to lay underground ore pipelines (pipelines to transport iron ore slurry - ore and water), which makes it possible to integrate Samarco's productive process at low cost, connecting the industrial concentration plants located in the municipalities of Mariana and Ouro Preto in Minas Gerais state to the pelletizing plants in Anchieta, Espírito Santo state.

Fully amortized intangible assets

As of June 30, 2013 and December 31, 2012 the following fully amortized items were still in use:

	June 30, 2013		December 31, 2012	
	Cost	**Accumulated amortization**	**Cost**	**Accumulated amortization**
Other rights	557	(557)	557	(557)
Software	44,005	(44,005)	34,872	(34,872)
	44,562	**(44,562)**	**35,429**	**(35,429)**

Expressed in thousands of Reais - R$, unless otherwise stated

Research and development

The Company incurred research and development expenses of R$19,076 in the six-month period ended June 30, 2013 (R$23,089 in the six-month period ended June 30, 2012), which were recognized as expenses in the statement of income.

11 Advances on foreign exchange contracts

Advances on foreign exchange contracts ("ACC") commonly involve short-term loans to finance the Company's working capital requirements. Maturities are scheduled for the period from July 2013 through October 2013, and settlement will occur by offshore payments of future exports of the Company's products. This financing is denominated in U.S. Dollars and is subject to interest rates of between 0.56% and 0.83% per annum (0.95% to 1.10% p.a. at December 31, 2012) with varying maturities. The variance in the aforesaid interest rates is due to effects arising from the domestic and international financial markets over the course of the period and the contracted terms. The interest is agreed when the funds are borrowed and established based on the LIBOR in effect on the execution date plus the bank's spread ("all in rate").

At June 30, 2013 ACC interest accrued amount to R$ 597 with annual rate ranging between 0.5% to 1% (R$988 – 0% to 2% at December 31, 2012).

12 Loans and financing

Domestic and foreign currency loans and financing are as follows:

			June 30, 2013	December 31, 2012
	Current	Non-current	Total	Total
Overseas transactions (prepayment)	307,885	5,597,305	5,905,190	5,242,081
Overseas transactions with related parties (prepayment)	-	332,250	332,250	306,435
Domestic borrowings	3,128	1,212	4,340	4,874
	311,013	**5,930,767**	**6,241,780**	**5,553,390**
Current	311,013	-	311,013	409,497
Non-current	-	5,930,767	5,930,767	5,143,893

An amount of US$100 million was paid from December 2012 to June 2013 under the export prepayment agreement of US$800 million, in connection with the financing of a project to construct the third pelletizing plant (P3P).

Expressed in thousands of Reais - R$, unless otherwise stated

At June 30, 2013 the accrued interest are as follows:

	June 30, 2013	**December 31, 2012**
1% to 2 %	10,974	5,423
2% to 3%	1,091	5,771
3% to 4%	516	546
Over 4%	17,228	15,939
	29,809	**27,679**
Advances on exchange contracts	597	988
	30,406	**28,667**
Current	29,820	27,314
Non-current	586	1,353

At June 30, 2013 loans and financing payments mature as follows:

2013	223,064
2014	840,046
2015	1,058,770
2016	172,770
2017	172,770
2018	914,795
2019	172,770
2020	172,770
2021	99,675
2022	2,314,675
2023	99,675
	5,553,390

Guarantees and obligations - loans and financing

The Company's borrowing are guaranteed by promissory notes and accounts receivables and are subject to certain financial covenants related to debt ratios (“*Total Debt / EBITDA” and “Net Debt/ EBITDA*”), both of which may not exceed 3:1.

All contractual covenants were being complied with at June 30, 2013 and December 31, 2012.

Expressed in thousands of Reais - R$, unless otherwise stated

13 Provision for legal 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 in an amount considered sufficient to cover cases rated as involving probable losses.

At June 30, 2013 the balance of judicial deposits referring to the provisions for present obligations is R$ 31,060 (R$ 30,703 at December 31, 2012) and is deducted from the related provisions. The balance of judicial deposits without corresponding provisions is classified in the balance sheet as assets in the amount of R$ 156,267 (R$ 148,746 at December 31, 2012).

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

	December 31, 2012	Additions	Reductions	Interest	June 30,2013
Tax proceedings	268,789	-	(58,964)	2,156	211,981
(-) Judicial tax deposits	(28,681)	-	-	-	(28,681)
Civil claims	61,932	307	-	4,002	66,241
Labor claims	9,378	5,425	(295)	30	14,538
(-) Judicial labor deposits	(2,022)	(447)	350	(260)	(2,379)
Environmental proceedings	2	-	-	-	2
	309,398	**5,285**	**(58,909)**	**5,928**	**261,702**

Expressed in thousands of Reais - R$, unless otherwise stated

The provisions are comprised as follows:

		June 30, 2013			December 31, 2012		
		Provision	**Judicial deposits**	**Net**	**Provision**	**Judicial deposits**	**Net**
Tax proceedings							
IRPJ (Income tax) – Summer Plan	(a.1)	41,933	-	41,933	41,366	-	41,366
IRPJ (Income tax) – Real Plan	(a.2)	44,975	-	44,975	44,458	-	44,458
IRPJ (Income tax) - 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 (Revenue tax) – Law 9718/98	(a.5)	10,950	-	10,950	10,830	-	10,830
IRPJ (Income tax) – Tax Loss – PAES (Tax refinancing program)	(a.6)	41,485	-	41,485	40,983	-	40,983
ICMS (VAT tax) – Fine – Muniz Freire - ES	(a.7)	11,012	-	11,0120	10,758	-	10,758
ICMS (VAT tax) – Rate Differential Property, Plant and Equipment - ES	(a.8)	-	-	-	30,398	-	30,398
IRPJ – IRRF (Income tax withheld)	(a.9)	19,401	-	19,401	19,236	-	19,236
Attorneys' fees	(a.10)	10,883	-	10,883	2,911	-	2,911
Other		3,706	(1,045)	2,661	3,676	(1,045)	2,631
		211,981	**(28,681)**	**183,3**	**268,789**	**(28,681)**	**240,108**
Other							
Civil claims	(a.11)	66,241	-	66,241	61,932	-	61,932
Labor claims	(a.12)	14,538	(2,379)	12,159	9,378	(2,022)	7,356
Environmental proceedings	(a.13)	2	-	2	2	-	2
		80,781	**(2,379)**	**78,402**	**71,312**	**(2,022)**	**69,290**
		292,762	**(31,060)**	**261,702**	**340,101**	**(30,703)**	**309,398**

Expressed in thousands of Reais - R$, unless otherwise stated

(a) Legal obligations provisioned by the Company:

Note	Description	Position	June 30, 2013	December 31, 2012
(a.1)	Lawsuit seeking to maintain the procedure of deducting the amounts relating to depreciation, depletion and write-off of fixed assets for the purpose of Corporate Income Tax (IRPJ), by applying the variance in the consumer price index (IPC) from January 1989.	Awaiting decision in higher court.	41,933	41,366
(a.2)	Lawsuit seeking to use the IGP-M for the months of July and August 1994 relating to depreciation, depletion and write-off of fixed and intangible assets in the calculation of income tax.	Awaiting decision in higher court.	44,975	44,458
(a.3)	Lawsuit seeking to maintain the procedure relating to the restatement of depreciation, depletion, amortization and write-off of fixed and intangible assets in the calculation of income tax.	Unfavorable higher court decision. Payment made.	-	36,537
(a.4)	Lawsuit seeking to declare the unconstitutionality and illegality of the demand charges on purchase of emergency power due to technical defects.	The case awaiting decision in the Espírito Santo and Minas Gerais higher courts.	27,636	27,636
(a.5)	Lawsuit seeking to declare the unconstitutionality of Law 9,718/98 which led to broadening of the base of the PIS / COFINS.	Awaiting decision on administrative appeal.	10,950	10,830
(a.6)	Lawsuits regarding the resumption of tax enforcement previously suspended and prosecution of other matters, all pertaining to full compensation of tax losses, without the limitation of 30%, given the exclusion of the company from PAES (Special Installment established by Law 10,684/2003) by reason of divergence between the calculated values and the values declared by the Federal Revenue of Brazil (RFB).	The process relating to calendar year 1995 awaits higher court decision. Trial court proceedings, and processes related to calendar years 1998 and 2000 await decision.	41,485	40,983
(a.7)	Tax assessments relating to ICMS on transfer of electricity from the Muniz Freire power plant, for consumption in the industrial facility at Ponta Ubu Anchieta, ES, as well as a fine for failure to issue tax invoices in such operations .	Awaiting decision in trial court.	11,012	10,758

Expressed in thousands of Reais - R$, unless otherwise stated

Note	Description	Position	June 30, 2013	December 31, 2012
(a.8)	Lack of payment of ICMS at differential rates, due on the acquisition of goods from other states for fixed assets during the period 2006 to December 2009. Required Term Compensation pursuant to the Law 9,897/2012	Payment made.	-	30,398
(a.9)	Tax assessments relating to calendar years 2000 to 2008, alleging various breaches of tax law, among which are the matters which amounts are included in items (a.1), (a.2) and (a. 3), and also other issues, such as (i) disallowance of certain expenses, (ii) incidence of income tax on credits received in transfer operations of ICMS (iii) effects of the items (i) and (ii) on the basis of calculating the income tax and social contribution taxes, and (iv) allegedly improper use of the rate of profit from export incentives.	Awaiting decision on administrative appeal.	19,401	19,236
(a.10)	This provision relates to legal fees in connection with processes that are classified as remote loss.		10,883	2,911
Others	Processes related to the extint Hydroelectric Guilman-Amorim, extinguished by split-up and subsequent merger, relating to income tax, social contribution Compensation Tax Losses, PIS, COFINS.	Processes awaiting administrative and judicial decisions of Appellate court.	3,706	3,676
(a.11)	Provision to cover potential losses with civil lawsuits related to damages caused to third parties and processes of intermediation in the transfer of ICMS credits.	Processes in the judicial sphere, at the procedural stages.	66,241	61,932
(a.12)	Labor claims made by employees and outsourced service providers, in addition to administrative claims.	Processes in the administrative and judicial spheres, at the procedural stages.	14,538	9,378
(a.13)	Assessment notice 1284/10 issued by the National Mineral Production Departament (DNPM) due to the alleged failure to report an accident that occurred in July 2010 at Espera Feliz/MG.	Administrative defense presented awaits analysis.	2	2
			292,762	**340,101**

Expressed in thousands of Reais - R$, unless otherwise stated

(b) Contingent liabilities not provided for:

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 made a provision for losses, since the chance of loss has been rated as possible but not probable. The main such cases are described below:

Description	**Position**	**June 30, 2013**	**December 31, 2012**
Tax assessments and foreclosures related to alleged non-payment of social contribution in calendar year 2008.	One case awaiting decision in higher court.	411,431	2,307,675
Tax assessments, covering the years 2000 to 2003, 2007 and 2008, for alleged improper calculation of income tax due to the application of the rate of 18% on income derived from the export of minerals rather than the standard rate of 15% plus an additional 10%.	Awaiting decision on administrative appeal.	773,736	757,618
Deficiency notices issued by the National Department of Mineral Production (DNPM) for alleged underpayment of Financial Compensation for Exploiting Mineral Resources (CFEM) and parallel lawsuit filed by the Municipality of Mariana, whose legal reasoning is the same as stated by DNPM in its assessments.	One process awaiting decision in the trial court, three cases pending in initial arguments and one awaiting an administrative decision.	730,450	720,704
Tax Foreclosures on the timing and the respective values of PIS paid as calculated on a semiannual basis during the period from September 1989 to August 1994.	One process awaiting trial court proceedings pending judicial decision and one in higher court.	22,863	22,677
Tax assessments relating to social security contributions levied on payments made to government-insured employees under the Participation and Profit Sharing Award "Field of Ideas," among other matters, such as (i) social contributions allegedly owed to the National Development Fund, levied on payments made, (ii) fine for failing to collect social security contributions, and (iii) fine for lack of information on GFIPs.	Awaiting decision on administrative appeal.	13,787	3,795
Requirement of PIS and COFINS due on allegedly importing and contracting other services abroad, such as freight, agents commission and demurrage on exports in 2007 and 2008, issued in September 2011.	Administrative decision favorable to the Company and cases closed.	-	35,568
Disallowance of offset of income tax and social contribution losses of the of extinct Hydroelectric Guilman-Amorim (30% limit established by law).	Awaiting administrative decision.	6,414	6,259

Expressed in thousands of Reais - R$, unless otherwise stated

Description	Position	June 30, 2013	December 31, 2012
Disallowance of offset of PIS and COFINS credits in the period April 2006 to December 2007 (14 administrative proceedings) and 2008 to 2010 (23 administrative proceedings) with taxes payable on monthly estimates recorded in the same period, given the PER / DCOMP 's individualized per quarter and source credits (PIS and COFINS) .	Partially favorable decisions in administrative proceedings involving the period from 2006 to 2007. Awaiting decision on administrative appeal. For the administrative proceedings involving 2008 to 2010, waiting for decision in trial court.	124,049	141,622
Tax assessments relating to ICMS on transfer of electricity from Muniz Freire power plant, for consumption in the industrial facility at Ponta Ubu Anchieta, ES, as well as a fine for failure to issue tax invoices in such operations .	Awaiting decision in trial court.	43,540	40,866
Tax assessments of the state of Minas Gerais related to ICMS on purchases of inputs, alleging that the rules of the Federal Revenue Service of Brazil on customs procedures for "drawback" contemplate exclusively the establishments of SAMARCO located in the same state (Espírito Santo), so that import operations performed by the mining establishment would no longer be covered by the suspension of ICMS.	Three cases awaiting decision in judicial processes and administrative proceedings pending decision.	74,027	72,478
Tax Foreclosure and tax assessment notice issued by the city of Anchieta with respect to property tax (ITR). Given the expert opinion delivered in 2012, the risk of loss was reclassified from remote to possible.	One process awaiting decision. Trial court proceedings pending judicial and administrative decision.	48,981	47,106
Civil lawsuits related mainly to damages caused to third parties. According to the opinion of the Company's legal advisors, the likelihood of loss in connection with such disputes is possible.	Processes in court at the procedural stages.	68,11	63,191
Labor claims made by employees and outsourced service providers, in addition to administrative claims.	Processes in administrative and judicial spheres at various procedural stages.	35,673	19,827
Processes involving environmental risks related to the states of Minas Gerais and Espirito Santo.	Processes in administrative and judicial spheres at various procedural stages.	32,384	30,697
Other		66,214	63,639
		2,451,659	**4,333,722**

In addition to the processes listed above, the Company informs the following:

(i) that it is challenging in court the legality of taxing the right to use the transmission lines of electricity. The Company obtained a court order to suspend the tax and made a judicial deposit which amounts at June 30, 2013 to R$ 108,289 (R$ 102,434 at December 31, 2012).

Expressed in thousands of Reais - R$, unless otherwise stated

(ii) that it is challenging the constitutionality and legality of the fee established by the Government of Minas Gerais for monitoring the activities of Research, Mining, Exploration and Exploitation of Mineral Resources (TFRM). The Company obtained a court order authorizing the judicial deposit of the amounts discussed so as to suspend payments of the fee. The amount of the deposit at June 30, 2013 and December 31, 2012 was R$ 33,120. Under Law 20,540/2012, the Company decided to begin paying the TFRM as from June 2013 without giving up the lawsuit.
And in view of the importance of the issue, the Company informs the existence of the contingency below, which involves a remote risk of loss.

(iii) ICMS - Transfer of iron ore - The Company received a tax assessment and tax enforcement notice of the Ministry of Finance and the State of Minas Gerais, respectively, related to the alleged non-payment of ICMS on transfers of iron ore between its units, Germano (MG) and Ubu (ES), from January 2000 to December 2010. The principal amount, penalty, interest and monetary adjustment, still in discussion in these processes, at June 30, 2013, total approximately R $ 421,539 (R$ 411,973 at December, 2012). The Company obtained favorable administrative decisions with respect to fines and interest.

(iv) Tax assessments and foreclosures related to alleged non-payment of social contribution in calendar 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 reversed the referred contingence amount of approximately R$ 1,900.

14 Other liabilities

Other liabilities are comprised as follows:

	June 30, 2013	**December 31, 2012**
Provision for asset retirement obligations (a)	128,727	121,786
Accrual for electricity	29,018	34,351
Demurrage payable	7,692	9,786
Accrual for purchase of iron ore	1,902	2,181
Provision for environmental liabilities	8,621	7,127
Provision for royalties mineral rights	79,389	26,463
Other	11,028	20,084
	266,377	**221,778**
Current	128,521	92,335
Non-current	137,856	129,443
	266,377	**221,778**

Expressed in thousands of Reais - R$, unless otherwise stated

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

	June 30, 2013	December 31, 2012
Provision at beginning of year/period	121,786	81,029
Additional provision	-	33,520
Estimated revisions in cash flows	6,941	7,237
Provision at end of year/period	128,727	121,786

15 Equity

(a) Share capital

As of June 30, 2013 and December 31, 2012 the Company's authorized share capital consists of 5,243,306 shares, of which 5,243,298 are common shares and 8 are preferred shares, all with no par value. All issued shares have been fully paid in. The Company's capital is owned by:

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

Each common share entitles the holder thereof to one vote on General Meeting resolutions. The preferred shares do not confer voting rights, but they have 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

One quarter (25%) of the adjusted net income has to be distributed to the shareholders in the form of mandatory dividends. Any amount that exceeds the minimum required is only provided on the date it is approved by the Shareholders at the General Meeting. The Board of Directors may authorize the distribution of interim dividends, from the net income for the year or revenue reserves, pursuant to Article 204 of Law 6,404/76.

By decision of its Board of Directors the Company may also pay out interim dividends or credit interest on shareholders' equity pursuant to applicable legislation, the net amount of which is to be considered as part of the mandatory dividend.

In the six-month period ended June 30, 2013 and 2012 there were no payment of interim dividends.

Expressed in thousands of Reais - R$, unless otherwise stated

(c) Legal reserve

The balance of the legal reserve has reached the maximum limit determined by article 193 of Law 6,404/76. No net income for the year ended December 31, 2012 has been allocated to this reserve.

(d) Profit retention and retained earnings reserve

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

(e) Accumulated translation adjustments

These adjustments are made for the foreign exchange variance resulting from translating the balance sheet and statement of income for the period from the functional currency (USD) to the reporting currency (R$).

(f) Recognition of dividends proposed

As of December 31, 2012 the Company recognized proposed dividends amounting to R$1,984,733 in a specific account within equity, as this amount did not meet the legal obligation criteria stipulated by ICPC 08.

16 Revenue

The Company's revenue derives 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 and pellet screening).

The Company uses the FOB shipping method to sell its products, where the definitions and responsibilities are determined by Incoterms – International Commercial Terms.

In 2013 the Company maintained the essential feature of an exporting company, shipping to countries in the Americas, Asia, Africa and Europe, but also with sales to the domestic market.

Details of the net revenue are shown below:

	June 30, 2013	June 30, 2012
Gross revenue		
Pellets		
Domestic	110,978	173,069
Overseas	3,174,277	3,081,187
Fines		
Domestic	-	21,410
Overseas	53,926	72,156
Other goods and services	32,422	26,648
	3,371,603	**3,374,470**
Deduction from gross revenue		

Sales taxes	(26,990)	(44,284)
Net revenue	**3,344,613**	**3,330,186**

17 Other operating expenses, net

Details of other operating expenses, net are shown below:

	June 30, 2013	June 30, 2012
Tax	(65,132)	(8,103)
Provision for ICMS (VAT tax) losses - ES and MG (Note 7)	(181,117)	(66,955)
Provision for contingencies (Note 13)	(43,060)	(12,562)
Investments and social projects	(4,528)	(3,763)
Employee profit sharing (a)	(55,054)	(48,881)
Research expenses (Note 12)	(19,076)	(23,089)
Fees for assignment of mining rights (Note 20)	(79,389)	(29,815)
Other, net	58,398	(7,594)
	(388,958)	(200,762)

(a) Based on the variable remuneration policy approved by the Board of Directors, the Company grants profit sharing to its employees, subject to reaching Company goals, the evaluation of results and the achievement of specific targets, which are established and agreed at the beginning of each year.

18 Income tax

The Company is subject to income tax at the rate of 18% on income derived from exports and 25% on other profits.

(a) Deferred income tax balance

The Company has deferred income tax assets on temporary differences, at the rates of 18% and 25%. Rates vary as tax on income generated from exports is subsidized by the federal government.

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

Expressed in thousands of Reais - R$, unless otherwise stated

	June 30, 2013			December 31, 2012		
	25%	18%	Total	25%	18%	Total
Provision for ICMS (VAT) - ES and MG	271,111	-	271,111	225,832	-	225,832
Provision for IRPJ – Real Plan, Summer Plan and CMB	-	4,612	4,612	-	8,581	8,581
Accrual for profit sharing	5,876	-	5,876	9,750	-	9,750
Provision for asset retirement obligations	14,537	-	14,537	12,801	-	12,801
Provision for attorneys' fees	2,721	-	2,721	728	-	728
Allowance for doubtful accounts	200	-	200	712	-	712
Provision for losses - AIRE	1,058	-	1,058	1,058	-	1,058
Provision for electricity	7,255	-	7,255	8,588	-	8,588
Provision for IRPJ - IRRF (interest)	-	1,663	1,663	-	1,649	1,649
Provision for loss of tax credits	2,767	-	2,767	2,767	-	2,767
Provision for civil claims	16,560	-	16,560	15,483	-	15,483
Provision for fees for assignment of mining rights	19,847	-	19,847	6,616	-	6,616
Provision for ICMS (VAT) fine - ES	2,753	-	2,753	2,690	5,472	8,161
Adjustments for compliance with CPCs	-	(442,059)	(442,059)	-	(234,155)	(234,155)
Tax depreciation	-	(137,411)	(137,411)	-	(102,752)	(102,752)
Other	12,191	4,280	16,471	7,849	4,236	12,085
	356,876	**(568,915)**	**(212,039)**	**294,872**	**(316,969)**	**(22,097)**

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	Beyond years	Total
Tax proceedings	450	-	-	22,664	7,592	5,492	36,198
Labor claims	249	3,326	59	-	-	-	3,634
Environmental proceedings	-	-	1	-	-	-	1
Civil proceedings	91	16,003	439	27	-	-	16,560
Provision for ICMS (VAT) - ES and MG	-	-	-	-	-	271,111	271,111
Adjustments for compliance with CPCs	(442,059)	-	-	-	-	-	(442,059)
Tax depreciation	(137,411)	-	-	-	-	-	(137,411)
Others	39,927	-	-	-	-	-	39,927
	(538,753)	**19,329**	**499**	**22,691**	**7,592**	**276,603**	**(212,039)**

(b) Income tax in the statement of income

	June 30, 2013	June 30, 2012
Operating income	1,835,733	1,920,035
Transitional taxation system (RTT)	(886,836)	(331,494)
Permanent differences:		
Equity in the results of subsidiaries	(6,057)	(5,553)
Overseas profits	7,299	6,757
Non-deductible tax fines	13,828	3
Nondeductible donations	2,667	2,362
Excess interest Law 12,248/10 Art. 25	-	8,027
Other additions (exclusions)	(10,992)	(130,110)
Profit deriving from subsidized exports	(859,985)	(1,497,062)
Calculation basis	95,657	(27,035)
Statutory rate	25%	25%
Income tax calculated	23,914	(6,759)
Income tax on subsidized exports 18%	154,797	269,471
Tax incentive (PAT)	(3,095)	(2,209)
Tax paid by companies overseas	479	438
Deferred income tax from prior years	(84)	20
Deferred income tax on translation differences	242,563	219,385
Income tax in the statement of income	**418,574**	**480,346**

Expressed in thousands of Reais - R$, unless otherwise stated

19 Commitments

At June 30, 2013, the Company is a party to long-term contracts for the supply of raw materials and services and the acquisition of PP&E, as shown below:

	Up to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Capital expenditure for expansion and overhaul of property, plant and equipment	1,143,393	-	-	-	-	1,143,393
Services and other	429,162	239,964	163,289	51,426	14,600	898,441
Iron ore acquisition	716,158	546,977	546,977	1,093,953	-	2,904,065
Supply of power and raw materials	556,685	594,907	579,500	687,266	1,707,658	4,126,016
Freight and logistics costs	11,622	-	-	-	-	11,622
	2,857,020	**1,381,848**	**1,289,766**	**1,832,645**	**1,722,258**	**9,083,537**

20 Related parties

The balances of related party assets and liabilities as of June 30, 2013 and December 31, 2012, as well as the related-party transactions that affected the statement of income for the periods ended June 30, 2013 and June 30, 2012, are the result of transactions between the Company and its shareholders, key management professionals and other related parties as shown below.

Commercial purchase and sales of goods, raw materials and services between related parties are carried out under the conditions described below:

	BHP	Vale	Total June 30, 2013	BHP	Vale	Total December 31, 2012
Current assets						
Trade accounts receivable		90	90	-	287	287
Other assets		-	-	-	-	-
Current liabilities						
Trade payables (a)		71,185	71,185		66,478	66,478
Financial charges payable	258	-	258	273	-	273
Dividends	992,367	992,367	1,984,734	330,789	330,789	661,578
Other (Mining Rights) (b)	-	(79,389)	(79,389)	-	(26,463)	(26,463)
Non-current liabilities						
Loans and financing (Note 12)	332,250	-	332,250	306,435	-	306,435

	BHP	Vale	Total June 30, 2013	BHP	Vale	Total June 30, 2012
Statement of income						
Cost of goods sold	-	(263,283)	(263,283)	-	(311,417)	(311,417)
Operating expenses	-	(79,389)	(79,389)	-	(29,815)	(29,815)
Finance expenses	(4,769)		(4,769)	(5,443)	-	(5,443)

Expressed in thousands of Reais - R$, unless otherwise stated

(a) Related to the acquisition of iron ore fines from the shareholder Vale S.A., for use in production. The price is agreed quarterly between the parties with no minimum purchase obligation. Payment is made monthly.

(b) Fees for the assignments of mining rights:

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

The value of the contract considered the payment of the following amounts for the assignments of 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 up to depletion of the reserves.

The price agreed to in the contract is not fixed; it was established as a percentage of the gross dividends paid out.

For the six-month period ended June 30, 2013 the payments totaled R$26,463 there was no payment in the six-month period ended June 30, 2012.

Samarco sponsors Fundação Vale do Rio Doce de Seguridade Social – ValiaPrev, which provides participants and their dependents supplementary benefits or benefits similar to those offered by the official basic pension scheme.

The compensation of key management is presented below:

	June 30, 2013	**June 30, 2012**
Compensation	14,252	12,442
Medical assistance plan	87	57
Pension plan	617	548
Life insurance	56	41
	15,012	13,088

21 Finance result

The Company's finance income (expenses) are as follows:

	June 30, 2013	**June 30, 2012**
Finance income		
Earnings on investments	360	325
Discounts obtained	461	53
Other finance income	2,074	2,648
	2,895	3,026

Expressed in thousands of Reais - R$, unless otherwise stated

Finance expenses		
Financing charges	(24,096)	(26,549)
Finance expenses on foreign exchange contracts	(1,559)	(11,414)
Commission and bank interest	(8,909)	(12,918)
Interest paid to suppliers	-	(3)
IOF - Tax on financial transactions	(175)	(77)
Other finance expenses	(25,451)	(3,660)
	(60,191)	(54,621)
Net financial expenses	**(57,296)**	**(51,595)**

22 Financial risk management

22.1 Financial risk factors

The Company has financial instruments inherent to its operations, represented by cash and cash equivalents, restricted short-term investments, accounts receivable, trade payables, loans and financings, advances on foreign exchange contracts (ACCs) and bank sureties.

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

The use of financial instruments for hedging purposes is subject to a periodic analysis of the risk exposure that management intends to mitigate (currency, interest rate etc.). The policies and strategies are determined by Company management and approved by its Strategy and Finance Committee.

The Company does not invest in derivatives or any other risk assets and does not have embedded derivatives or hedge accounting operations.

The financial instruments have been classified as follows:

Financial Instrument	Classification
Assets	
Cash and cash equivalents	At fair value through profit or loss
Restricted short-term investments	At fair value through profit or loss
Accounts receivable	Loans and receivables
Liabilities	
Trade payables	Other liabilities
Advances on export contracts	Other liabilities
Loans and financing	Other liabilities

The Company'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:

Expressed in thousands of Reais - R$, unless otherwise stated

(a) Credit risk

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

Gross sales from January to June 30, 2013 amounted to R$3,372 billion (R$3,374 billion in the six-month period ended June 30, 2012), while the allowance for doubtful accounts was R$803 (R$2,878 at December 31, 2012). Approximately 22% of the outstanding accounts receivable is secured by letters of credit or export insurance at June 30, 2013 (47% at December 31, 2012).

With respect to financial institutions, the Company only carries out operations with institutions rated as low risk by rating agencies.

The concentration of receivables to credit risk by geographical area is minimal because they are dispersed across the regions, as shown in the table below:

	June 30,2013	December 31, 2012
Middle East / Africa	24%	23%
China	14%	16%
Asia (except China)	24%	27%
Europe	21%	19%
Americas	17%	15%

(b) Price risk

(i) Market risk

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

(ii) Interest rate risk

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

Most of the Company's loans and financings as of June 30, 2013 are denominated in U.S. Dollars, with approximately R$2,829 billion bearing interest at fixed rates and R$4,027 billion at floating rates corresponding to the variance in LIBOR plus a contractual spread. The Company has no hedge against fluctuations in LIBOR, in accordance with its internal and shareholders' guidelines. Interest-rate risk also derives from the small amount of debts denominated in reais and indexed to the IGP-DI (Brazilian inflation) and short-term investments referenced to CDI.

Expressed in thousands of Reais - R$, unless otherwise stated

Bank sureties

The Company has bank sureties issued for an indefinite period to guarantee the suspension of disputed tax obligations amounting to a monetarily restated total as of June 30, 2013 of R$1,775 million, whose total amount originally contracted is R$1,336 million. The Company also has guarantees for fixed terms. These sureties are used to guarantee the payment of electricity purchases and full performance of obligations required in the transmission system usage agreement amounting to a monetarily restated total as of June 30, 2013 of R$23 million, whose original contracted amount is the same.

Bank	Amount secured	Monetarily restated amount	Index	Term
Banco Bradesco S.A	1,032,157	1,193,204	Selic (Federal Treasury rate)	Indefinite
Banco Bradesco S.A	64,648	81,802	VRTE (State Treasury rate)	Indefinite
Banco Bradesco S.A	14,265	14,265	-	Determined
Banco Votorantim S.A.	111,042	270,054	Selic (Federal Treasury rate)	Indefinite
Banco Itaú S.A.	101,716	192,547	Selic (Federal Treasury rate)	Indefinite
Banco Itaú S.A.	2,971	2,519	IGPM (Brazilian inflation rate)	Determined
Banco Itaú S.A.	6,022	6,022	-	Determined
Banco Safra S.A.	26,254	37,473	INPC (Brazilian inflation rate)	Indefinite

(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 etc. The Company has the following assets and liabilities which can affect its results due to exchange rate variations:

	June 30, 2013	December 31, 2012
Assets		
Current		
Cash and cash equivalents	885	4,347
Accounts receivable	36,689	2,532
Recoverable taxes	194,074	234,949
Prepaid expenses	10,378	776
Other assets	38,065	
Non-current		
Judicial deposits	156,267	148,746
Recoverable taxes	45	47
Deferred income tax	-	-
Other assets	35,619	22,413

Expressed in thousands of Reais - R$, unless otherwise stated

	June 30, 2013	December 31, 2012
Liabilities		
Current		
Trade payables	(247,343)	(329,241)
Loans and financing	(3,128)	(917)
Financial charges payable	(1,160)	(306)
Payroll, accruals and social contributions	(77,344)	(76,142)
Taxes payable	(22,230)	(29,093)
Income tax accrual	(12,773)	(81,917)
Dividends	(1,984,733)	-
Other liabilities	(119,749)	(82,549)
Non-current		
Loans and financing	(1,212)	(3,956)
Financial charges payable	(586)	(1,353)
Provision for legal contingencies	(261,702)	(309,398)
Deferred income tax	(212,039)	(22,097)
Other liabilities	(137,856)	(129,443)
Net exposure recognized in the balance sheet	**(2,609,834)**	**(625,404)**
Liabilities not recognized in the balance sheet		
Tax proceedings		
Chance of loss remote	(2,481,160)	(516,188)
Chance of loss possible	(2,315,492)	(4,220,008)
Labor claims		
Chance of loss remote	(4,209)	(5,244)
Chance of loss possible	(35,673)	(19,827)
Civil claims		
Chance of loss remote	(7,272)	(7,311)
Chance of loss possible	(68,110)	(63,191)
Environmental proceedings		
Chance of loss remote	(18)	(18)
Chance of loss possible	(32,385)	(30,696)
Exposure not recognized in the balance sheet	**4,944,318**	**(4,862,483)**
Total net exposure	**(7,554,152)**	**(5,487,887)**

The Company does not hedge its assets and liabilities in Brazilian Reais, in accordance with the internal guidelines of management and also with the shareholders' decision, based on the fact that there is a natural hedge/balance against variations in the exchange rate when the assets and liabilities in US Dollars and in Brazilian Reais are taken into account.

Foreign-currency assets and liabilities are translated to the functional currency at the exchange rate as of the reporting date, with US\$1.00 being equal to R\$2.2150 as of June 30, 2013 (US\$1.00 equal to R\$2.0429 as of December 31, 2012 and US\$1.00 equal to R\$2.0207 as of June 30, 2012).

Expressed in thousands of Reais - R$, unless otherwise stated

(c) Liquidity risk

The Company's liquidity risk is related to the possibility of having insufficient funds to honor its obligations as they fall due.

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

		June 30, 2013	
	Total	Up to 12 months	1 – 10 years
Trade payables	269,163	269,163	-
Loans, financings and ACCs	6,856,267	617,615	6,238,652
Financial charges payable	30,406	1,661	28,745

Expressed in thousands of Reais - R$, unless otherwise stated

(d) Book value

Financial liabilities	Book value	Contractual cash flow	June 30, 2013 0 -6 months	2014	2015	2016	2017	2018 - 2020
Trade payables	269,163	269,163	256,257	12,906	-	-	-	-
Loans and financing	6,856,267	6,856,267	835,988	837,270	1,058,770	172,770	177,110	3,774,360
Financial charges	30,406	1,136,613	83,553	164,518	141,287	120,931	118,334	507,989
Total	**7,155,836**	**8,262,043**	**1,175,798**	**1,014,694**	**1,200,057**	**293,701**	**295,444**	**4,282,349**

22.2 Capital structure risk

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

Expressed in thousands of Reais - R$, unless otherwise stated

23 Sensitivity analysis

The main risks in the Company's operations are relative to changes in LIBOR for long-term financing at floating rates, IGP-DI for domestic operations and CDI for short-term investments.

Long-term financing at floating rates is recorded using the effective interest method and its book value approximates fair value.

Cash equivalents are linked to CDI and considering their short-term nature, the book value approximates fair value, based on prices disclosed by the financial institutions.

Three different scenarios were determined to measure the Company's sensitivity to changes in the CDI index as of June 30, 2013. Based on market projections and the official interest rate (Selic) in force at that date, the Company considered as reasonable to use the current rate of 7.90% p.a. 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	7.90% p.a.	5.93% p.a.	3.95% p.a.
Yields as of June 30, 2012	-	52	51	50

The gross finance income was calculated without considering taxes and the sensitivity analysis was projected over the following 12 months.

Three different scenarios were determined to measure the Company's sensitivity to changes in the IGP-DI index and Libor rate as of June 30, 2013. Based on the rates in force as of June 30, 2013, the Company determined a probable scenario and two other additional scenarios based on the first (II and III), with increases of 25% and 50% respectively.

Operation	Risk	Probable scenario I	Scenario II	Scenario III
Overseas financing	Libor	0.41340% p.a.	0.5168% p.a.	0.6201% p.a.
Interest as of June 30, 2013	-	26,215	32,769	39,323
Domestic financing	IGP-DI	1.0841%	1.3551%	1.6262%
Interest as of June 30, 2013	-	46	58	69

Amounts corresponded to the indexes and rates specified for the total long-term debt as of June 30, 2013, with repayment at the end of the period only (effect of simulation).

Three different scenarios were determined to measure the Company's sensitivity to changes in foreign currency as of June 30, 2013, where scenarios II and III reflect an exchange-rate decrease of 25% and 50% respectively, based on the first, called probable scenario I.

Expressed in thousands of Reais - R$, unless otherwise stated

Financial liabilities	**Exposure (R$)**	**Scenario Probable I (USD)**	**Scenario II (USD)**	**Scenario III (USD)**
Exchange rate - (Risk - R$/ USD)	-	22,150	1.6613	1.1075
Total assets	472,022	213,103	284,137	426,205
Total liabilities	(3,081,856)	(1,391,357)	(1,855,143)	(2,782,715)
Net exposure in Reais recognized in the balance sheet	**(2,609,834)**	**(1,178,254)**	**(1,571,006)**	**(2,356,510)**

The balance of foreign exchange variance derives from the following assets and liabilities:

	June 30, 2013	**June 30, 2012**
Exchange variance		
Cash	(6,211)	(2,224)
Trade accounts receivable	2,237	2,821
Recoverable taxes	132,657	64,020
Property, plant and equipment	-	42,832
Trade payables	(2,384)	(1,265)
Payroll obligations	(2,906)	(1,404)
Tax obligations	(1,946)	(656)
Dividends payable	(393,649)	(200,902)
Contingencies	(3,100)	(6,455)
Other	8,746	4,157
Net exchange variance - consolidated	**(266,556)**	**(99,076)**

24 Share-based payments

In August 2011, our long-term incentive plan was established for a period of three years to enable our executive officers and key employees to share in the Company's value and to attract, motivate and retain them. Our executive officers and employees earning in excess of a certain threshold as of January 1, 2011 are eligible to participate in the plan. In March of each year our Remuneration Committee determines, at its discretion, who among the eligible participants will be offered "phantom shares" in our Company based upon an assessment of the eligible participants' performance.

The amount of phantom shares granted to a selected participant is based on a formula that takes into account a certain multiple of the participant's salary weighted by his or her position in our Company and divided by the value of each individual phantom share, which is determined in accordance with our Company's value calculated pursuant to the plan's regulation. The phantom shares are granted for zero consideration and vest on the third anniversary of the granting date, when the employee receives a cash payment equivalent to the current value of the vested phantom shares.

Phantom shares lapse when a participant leaves the Company either upon dismissal or at his or her option. If a participant is dismissed without cause, retires, dies or becomes permanently disabled, under certain circumstances his or her phantom options may vest proportionally to the period from the granting date to the date of his or her employment termination. Our Remuneration Committee determines at its discretion the rights of an executive officer or key employee with respect to his or her phantom shares in the event of employment termination for a reason not provided for in our long-term phantom shares plan regulations. Moreover, our Remuneration Committee may, at any time, at its discretion, amend the regulations of, suspend or terminate our long-term phantom shares plan.

Expressed in thousands of Reais - R$, unless otherwise stated

The grant-date fair value of the phantom shares was measured based on the Monte Carlo method. Expected volatility is estimated by considering historic average share price volatility of our competitor in the market using a 3 year period. The inputs used in the measurement of the fair values of the share-based payment plan are as follows:

Fair value of shares and assumptions	**June 30, 2013**	**December 31, 2012**
Share price	94.28	68.45
Exercise price	0	0
Expected volatility (weighted average volatility)	13.75%	13.75%
Expected dividends	0%	0%
Risk-free interest rate (based on government bonds)	5.675%	5.675%

Personnel expenses related to this plan of approximately R$9,435 and R$1,740 for the six-months ended June 30, 2013 and 2012, respectively, were included in the consolidated statement of income and classified in the same expense line item as employee benefits i.e. salaries.

25 Statement of value added

The state taxes break down is as follows:

	June 30, 2013	**June 30, 2012**
State tax expenses (a)	212,394	91,555
State tax credits (b)	(156,621)	(82,230)
Total state taxes	**55,773**	**9,325**

(a) State tax expenses consist of ICMS payable on domestic iron ore sales, logistics services and other items, in addition to 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.

26 Insurance coverage

It is the Company's policy to maintain insurance coverage for amounts it considers necessary to cover the risks involved. The Company takes out operating risk insurance, which covers indemnity for material damages and losses of gross revenue (interrupted production due to accidents).

The assets insured amount to R$5,637,093 as of June 30, 2013 (R$6,549,076 at December 31, 2012) and the indemnity ceiling is R$1,283,078 at June 30, 2013 (R$1,540,478 at December 31, 2012).

SAMARCO MINERAÇÃO S.A.

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Helio Moreira Cabral
James John Wilson

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Maury de Souza Júnior
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Kleber Luiz de Mendonça Terra
Chief Operations and Infrastructure Officer

Eduardo Bahia Martins Costa
Chief Financial Officer and Supplies

Accountant Responsible

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