Samarco Mineração S.A.

Consolidated interim financial statements for the six-month period ended June 30, 2014 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, 2014 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.

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Samarco Mineração S.A.

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, 2014, and their consolidated financial performance and cash flows for the six-month period then ended, in accordance with CPC 21.

Other matters

Statement of value added

We have also reviewed the consolidated statement of value added for the six-month period ended June 30, 2014. 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.

Belo Horizonte, August 27, 2014

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CONSOLIDATED BALANCE SHEET

In thousands of Reais - R$

Assets	Note	June 30, 2014	December 31, 2013
Current			
Cash and cash equivalents	3	1,256,780	436,858
Restricted short-term investments	4	588	117,942
Accounts receivable	5	887,256	856,980
Inventories	6	408,059	337,532
Recoverable taxes	7	174,309	277,773
Prepaid expenses		21,355	4,937
Other assets	8	31,478	31,523
Total current assets		**2,779,825**	**2,063,545**
Non-current			
Long-term receivables			
Judicial deposits	17	553,387	409,563
Recoverable taxes	7	22,557	31,393
Other assets	8	35,609	36,238
		611,553	**477,194**
Property, plant and equipment	10	12,147,407	12,457,821
Intangible assets	11	30,298	33,331
Total non-current assets		**12,789,258**	**12,968,346**
Total assets		**15,569,083**	**15,031,891**

CONSOLIDATED BALANCE SHEET

In thousands of Reais - R$

Liabilities	Note	June 30, 2014	December 31, 2013
Current			
Trade payables	12	206,370	290,514
Borrowings and financing	13	835,855	888,679
Financial charges payable	13	47,754	50,364
Payroll, provisions and social contributions	15	87,624	92,345
Taxes payable	16	116,436	208,518
Provision for income tax	26	109,492	-
Dividends	20	2,048,547	682,850
Other provisions	18	123,106	60,842
Other liabilities	19	104,640	19,051
Total current liabilities		**3,679,824**	**2,293,163**
Non-current			
Borrowings and financing	13	8,440,464	8,090,632
Financial charges payable	13	318	438
Provisions for contingencies	17	239,053	145,989
Deferred income tax	26	20,984	419,523
Other provisions	18	169,089	155,852
Other liabilities	19	170,465	168,245
Total non-current liabilities		**9,040,373**	**8,980,679**
Equity			
Capital	20	297,025	297,025
Capital reserves	20	2,476	2,476
Revenue reserves	20	294,549	294,549
Accumulated translation adjustments	20	497,273	1,115,452
Retained earnings	20	1,757,563	-
Additional dividends proposed	20	-	2,048,547
Total shareholders' equity		**2,848,886**	**3,758,049**
Total liabilities and shareholders' equity		**15,569,083**	**15,031,891**

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

CONSOLIDATED STATEMENT OF INCOME

In thousands of Reais - R$

	Note	June 30, 2014	June 30, 2013
Revenue	21	3,588,919	3,344,613
Cost of goods sold and services rendered	22	(1,379,590)	(1,239,831)
Gross profit		**2,209,329**	**2,104,782**
Operating expenses			
Sales	23	(83,265)	(62,793)
General and administrative	23	(30,178)	(26,558)
Other operating expenses, net	24	(460,664)	(388,958)
Operating profit before financial result		**1,635,222**	**1,626,473**
Financial result			
Financial income	25	10,258	2,895
Financial costs	25	(113,783)	(60,191)
Net exchange variances	25	267,664	266,556
Operating profit		**1,799,361**	**1,835,733**
Income tax	26	(41,798)	(418,574)
Net profit for the period		**1,757,563**	**1,417,159**

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

CONSOLIDATED STATEMENT OFCOMPREHENSIVE INCOME

In thousands of Reais - R$

	June 30, 2014	June 30, 2013
Net profit for the period	1,757,563	1,417,159
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Translation adjustments in the period	(618,179)	124,601
Other comprehensive income for the period	**(618,179)**	**124,601**
Total comprehensive income	**1,139,384**	**1,541,760**

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

In thousands of Reais - R$

	Note	Capital	Capital reserves			Revenue reserves			Accumulated translation adjustments	Retained earnings	Additional dividends proposed	Total
			Special monetary restatement of PP&E	Goodwill on share subscription	Tax incentive reserves	Incentivized Depletion reserve	Legal reserve	Profit retention reserve				
Balance at January 1, 2013		297,025	785	1,681	10	1,517	59,404	233,628	695,345	-	1,984,733	3,274,128
Net profit for the year		-	-	-	-	-	-	-	-	2,731,397	-	2,731,397
Other comprehensive income												
Translation adjustment for the year, net of tax	20	-	-	-	-	-	-	-	420,107	-	-	420,107
Total comprehensive income		-	-	-	-	-	-	-	420,107	-	-	420,107
Net income allocations:												
Dividends (R$ 378.53 per common share and R$ 416.38 per preferred share	20.b	-	-	-	-	-	-	-	-	-	(1,984,733)	(1,984,733)
Minimum mandatory dividends		-	-	-	-	-	-	-	-	-	(682,850)	(682,850)
Transfer to additional dividends proposed	20.b	-	-	-	-	-	-	-	-	(2,731,397)	2,731,397	-
Balance at December 31, 2013		**297,025**	**785**	**1,681**	**10**	**1,517**	**59,404**	**233,628**	**1,115,452**	**-**	**2,048,547**	**3,758,049**
Net profit for the period		-	-	-	-	-	-	-	-	1,757,563	-	1,757,563
Other comprehensive income												
Translation adjustment for the period, net of tax	20	-	-	-	-	-	-	-	(618,179)	-	-	(618,179) -
Total comprehensive income		-	-	-	-	-	-	-	(618,179)	-	-	(618,179)
Net allocations:												
Reversal of reserve		-	-	-	-	-	-	(233,628)	-	233,628	-	-
Constitution of reserve		-	-	-	-	-	-	233,628	-	(233,628)	-	-
Dividends (R$ 390.70 per common share and R$ 429.77 per preferred share		-	-	-	-	-	-	-	-	-	(2,048,547)	(2,048,547)
Balance at June 30, 2014		**297,025**	**785**	**1,681**	**10**	**1,517**	**59,404**	**233,628**	**497,273**	**1,757,563**	**-**	**2,848,886**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of Reais - R$

	Note	June 30, 2014	June 30, 2013
Cash flows from operating activities			
Operating profit before income tax		1,799,361	1,835,733
Adjustments to reconcile net profit to cash provided by operations:			
Depreciation and amortization	10 and 11	118,477	105,713
Reversal of allowance for doubtful accounts		(495)	(2,129)
Creation (reversal) of provision for obsolete inventory	6	(923)	142
Provision for realization of recoverable taxes	7	111,875	181,117
Creation of the provision for realization of other assets		64	-
Creation / (reversal) of provision for contingencies	17	93,471	(47,339)
Creation of the provision for other liabilities		56,990	55,023
Loss on the sale of property, plant and equipment	10	11,627	877
Financial charges		136,907	78,366
Asset and liability exchange variance		(362,527)	(155,823)
		1,964,827	**2,051,680**
(Increase) decrease in operating assets:			
Restricted short-term investments		117,354	(59,360)
Trade receivables		(29,781)	(94,620)
Inventories		(99,726)	(17,940)
Recoverable taxes		(192,948)	(333,864)
Judicial deposits		(143,824)	(7,521)
Prepaid expenses		(16,418)	(9,602)
Other assets		612	(24,073)
Increase (decrease) in operating liabilities:			
Trade payables		(84,144)	(68,798)
Taxes payable		(92,082)	(6,863)

CONSOLIDATED STATEMENT OF CASH FLOWS
In thousands of Reais - R$

	Note	June 30, 2014	June 30, 2013
Increase (decrease) in operating liabilities:			
Payroll, provisions and social contributions		8,664	7,262
Income tax paid	26	(137,983)	(104,152)
Other liabilities		92,533	(16,841)
Net cash provided by operations		**1,387,084**	**1,315,308**
Cash flows from investment activities			
Acquisition of property, plant and equipment	10	(613,915)	(1,300,278)
Receipt on sale of property, plant and equipment and intangible assets		140	87
Net cash used in investment activities		**(613,775)**	**(1,300,191)**
Cash flows from financing activities			
Financing obtained from third parties		963,692	1,413,246
Financing repayments		(92,632)	(1,051,774)
Interest payment		(139,638)	(76,624)
Dividend payments	20	(682,850)	(661,578)
Net cash provided (used) in financing activities		**48,572**	**(376,730)**
Exchange variance on cash and cash equivalents		(1,959)	(226)
Net increase in balance of cash and cash equivalents	3	**819,922**	**(361,839)**
Cash and cash equivalents at the beginning of the period		436,858	523,032
Cash and cash equivalents at the end of the period		1,256,780	161,193
		819,922	**(361,839)**

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

CONSOLIDATED STATEMENT OF VALUE ADDED

In thousands of Reais - R$

	Note	June 30, 2014	June 30, 2013
Revenue			
Sales of goods, products and services		3,615,708	3,371,603
Other revenue		2,742	2,915
Revenue relating to construction of company assets		756,420	1,449,026
Allowance (reversal of allowance) for doubtful accounts		495	2,129
		4,375,365	**4,825,673**
Consumables acquired from third parties			
Cost of goods sold and services rendered		(2,062,844)	(2,667,719)
Material, electricity, outsourced services and other		(327,241)	(173,527)
Loss/recovery of asset values		(32,911)	(438)
		(2,422,996)	**(2,841,684)**
Gross value added		**1,952,369**	**1,983,989**
Depreciation and amortization	10 and 11	(118,477)	(105,713)
Value added produced by the Company		**1,833,892**	**1,878,276**
Financial revenue		132,820	417,592
		132,820	**417,592**
Total added value to be distributed		**1,966,712**	**2,295,868**
Distribution of added value		**1,966,712**	**2,295,868**
Personnel			
Direct remuneration		198,241	165,011
Benefits		36,600	34,764
FGTS		8,192	7,271
Taxes, charges and contributions			
Federal		(40,493)	340,186
State	30	(57,503)	55,773
Municipal		32,944	11,606
Remuneration of third parties			
Interest on borrowings, financing and other debt items		31,168	264,098
Remuneration of capital			
Earnings reinvested	21	1,757,563	1,417,159

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

1. OPERATIONS

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

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

In accordance with the technical and economic context plus the particular characteristic of the mineral resource, recoverable reserves (or production) are of the orther of 2,946 billion tons (unaudited). The production of concentrated iron ore until June 30, 2014 was 11.124 million dry metric tons (June 30, 2013 – 10.896 million dry metric tons).

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

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

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

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

The Executive Board authorized the issued and disclosure of these consolidated interim financial statements on August 18, 2014.

2. PRESENTATION OF THE FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

(a) Consolidated interim financial statements

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 historic cost, except for financial instruments which have been measured at fair value through profit and loss.

The preparation of consolidated interim financial statements in accordance with accounting practices adopted in Brazil requires that management uses its judgment in determining and recording accounting estimates. The Company reviews the estimates and assumptions at least once a year, in addition to the residual values and useful life of the assets. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.2.

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

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

(b) Changes in accounting policies and disclosures

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

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

(ii) CPC 33 (R2)/IAS 19 - "Employee Benefits". The following changes were made to the Group's accounting policies: immediate recognition of the cost of past services, which will be recorded in profit or loss for the period, regardless of whether the benefits have been acquired by the employee or not: measurement of the financial costs/gains on liability/assets of the defined benefit plan on a net basis The impacts of this change on the financial statements can be seen in Note 15.

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

(iv) ICPC 18/IFRIC 20 - "Stripping Cost in the Production Phase of a Surface Mine" provides guidelines as to how and when to recognize and measure costs of a surface mine. These amendments come into force on January 01, 2013, and may be applied to an earlier accounting period.

2.2 Critical Accounting Estimates and Judgments

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

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

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

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

The significant estimates and judgments are as follows:

(i) **Allowance for doubtful accounts**

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

(ii) **Deferred income tax**

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

(iii) **Impairment**

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

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

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

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

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

(v) **Retirement obligations**

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

(vi) **Provision for contingencies**

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

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

(vii) **Retirement benefits for employees**

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

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

2.3 Consolidation

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

(a) Subsidiaries

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

(b) Joint operation

A jointly controlled operation involves the use of the entrepreneurs' assets and other resources. Each entrepreneur uses their own resources in the pursuit of joint operations. Joint operations are recorded in the financial statements to represent the Group's contractual rights and obligations. The assets, liabilities, revenue and expenses related to their interests in joint operations are therefore recorded individually in the financial statements. The Company has an interest of 49% in the Guilman-Amorim hydroelectric power plant, where the remaining 51% of the joint operation belongs to the partner Arcelor Mittal Brasil S.A..

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Presentation currency

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

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

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

(c) Transactions and balances

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

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

As a supplementary information, the consolidated interim financial statements in the functional currency (USD) are as follows:

Consolidated Balance Sheet – US$

In the functional currency - In thousands of US dollars – USD

Assets	June 30, 2014	December 31, 2013
Current		
Cash and cash equivalents	570,753	186,522
Restricted short-term investments	267	50,359
Accounts receivable	402,953	365,903
Inventories	185,315	144,115
Recoverable taxes	79,160	118,602
Prepaid expenses	9,698	2,108
Other assets	14,618	13,448
Total current assets	**1,262,764**	**881,057**
Non-current assets		
Long-term receivables		
Judicial deposits	251,319	174,875
Recoverable taxes	10,246	13,406
Other assets	16,174	15,475
	277,739	**203,756**
Property, plant and equipment	5,516,784	5,319,309
Intangible assets	13,760	14,232
Total non-current assets	**5,808,283**	**5,537,297**
Total assets	**7,071,047**	**6,418,354**

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

Liabilities and shareholders' equity	June 30, 2014	December 31, 2013
Current		
Trade payables	93,706	124,050
Borrowings and financing	379,606	379,453
Financial charges payable	21,688	21,505
Payroll, provisions and social contributions	39,809	39,445
Taxes payable	52,880	89,035
Provision for income tax	49,726	-
Dividends	930,355	291,567
Other provisions	55,909	25,979
Other liabilities	47,790	8,110
Total current liabilities	**1,671,469**	**979,144**
Non-current liabilities		
Borrowings and financing	3,833,264	3,454,583
Financial charges payable	144	187
Provision for contingencies	108,567	62,335
Deferred income tax	9,530	179,130
Other provisions	72,788	66,546
Other liabilities	81,426	71,846
Total non-current liabilities	**4,105,719**	**3,834,627**
Shareholders' equity		
Capital	409,774	409,774
Capital reserves	1,619	1,619
Revenue reserves	164,485	97,025
Retained earnings	717,981	-
Additonal dividends proposed	-	1,096,165
Total shareholders' equity	**1,293,859**	**1,604,583**
Total liabilities	**7,071,047**	**6,418,354**

Consolidated Statement of comprehensive income - US$

In the functional currency - In thousands of US dollars – USD

	June 30, 2014	June 30, 2013
Revenue	1,571,010	1,647,194
Cost of goods sold and services rendered	(603,651)	(611,008)
Gross profit	**967,359**	**1,036,186**
Operating expenses		
Sales	(37,246)	(31,216)
General and administrative	(13,220)	(13,032)
Other operating expenses, net	(241,160)	(134,704)
Operating profit before financial result	**675,733**	**857,234**
Financial result		
Financial income	4,585	1,436
Financial costs	(50,976)	(29,869)
Net exchange variance	118,540	130,926
Operating profit	**747,882**	**959,727**
Income tax	(29,901)	(190,227)
Net profit for the period	**717,981**	**769,500**

Consolidated Statement of changes in shareholders' equity - US$

In the functional currency - In thousands of US dollars – USD

	Capital	Capital reserves		Revenue reserves			Retained earnings	Additional dividends proposed	Total
		Goodwill on share subscription	Tax incentive reserves	Incentivized Depletion reserve	Legal reserve	Profit retention reserve			
Balance at January 01, 2013	409,774	1,616	3	935	38,538	57,552	-	1,094,271	1,602,689
Net profit for the year	-	-	-	-	-	-	1,387,732	-	1,387,732
Net income allocations:									
Dividends (USD 208.70 per common share and USD 229.57 per preferred share)	-	-	-	-	-	-	-	(1,094,271)	(1,094,271)
Minimum mandatory dividends	-	-	-	-	-	-	-	(291,567)	(291,567)
Transfer to additional dividends proposed	-	-	-	-	-	-	(1,387,732)	1,387,732	-
Balance at December 31, 2013	409,774	1,616	3	935	38,538	57,552	-	1,096,165	1,604,583
Net profit for the period	-	-	-	-	-	-	717,981	-	717,981
Net allocations:									
Constitution of reserve	-	-	-	-	-	125,013	-	(125,013)	-
Dividends (USD 196.19 per common share and USD 215.81 per preferred share)	-	-	-	-	-	(57,553)	-	(971,152)	(1,028,705)
Balance at June 30, 2014	409,774	1,616	3	935	38,538	125,012	717,981	-	1,293,859

Consolidated Statement of comprehensive income - US$
In the functional currency - In thousands of US dollars – USD

	June 30, 2014	June 30, 2013
Net profit for the period	717,981	769,500
Total comprehensive income	717,981	769,500

Statement of cash flows – US$

In the functional currency - In thousands of US dollars – USD

	June 30, 2014	June 30, 2013
Cash flows from operating activities		
Operating profit before income tax	747,882	959,727
Adjustments to reconcile net profitto cash provided by operations:		
Depreciation and amortization	65,633	61,487
Reversal of allowance for doubtful accounts	(208)	(1,073)
Reversal of provision for obsolete inventory	(231)	(193)
Provision for realization of recoverable taxes	78,117	47,412
Creation / (reversal) of the provision for realization of other assets	(27)	70
Creation / (reversal) of provision for contingencies	46,348	(33,203)
Reversal of the provision for other liabilities	32,229	17,313
Loss of property, plant and equipment and intangible assets	7,024	534
Financial charges	62,267	38,397
Asset and liability exchange variance	(127,394)	(130,544)
	911,640	**959,927**
(Increase) decrease in operating assets:		
Restricted short-term investments	50,092	(17,327)
Trade receivables	(36,824)	(14,551)
Inventories	(40,970)	(7,216)
Recoverable taxes	(74,211)	(165,693)
Judicial deposits	(76,445)	2,263
Prepaid expenses	(7,570)	(4,367)
Other assets	12,402	(17,902)
Increase (decrease) in operating liabilities:		
Trade payables	(31,538)	(40,062)
Taxes payable	(41,126)	(4,204)

Statement of cash flows - US$

In the functional currency - In thousands of US dollars – USD

	June 30, 2014	June 30, 2013
Increase (decrease) in operating liabilities:		
Payroll, provisions and social contributions	4,140	3,274
Income tax paid	(62,369)	(51,873)
Other liabilities	39,879	(8,456)
Net cash provided by operations	**647,100**	**633,813**
Cash flows from investment activities		
Acquisition of PPE and intangible assets	(269,720)	(626,419)
Receipt on sale of property, plant and equipment and intangible assets	60	44
Net cash used in investment activities	**(269,660)**	**(626,375)**
Cash flows from financing activities		
Financing obtained from third parties	413,727	700,414
Financing repayments	(39,184)	(521,459)
Interest payment	(61,918)	(38,642)
Dividend payments	(305,854)	(330,872)
Net cash provided by (used in) financing activities	**6,771**	**(190,559)**
Exchange variance on cash and cash equivalents	20	(129)
Net increase in balance of cash and cash equivalents	**384,231**	**(183,250)**
Cash and cash equivalents at the beginning of the period	186,522	256,024
Cash and cash equivalents at the end of the period	570,753	72,774
	384,231	**(183,250)**

Statement of value added – US$

In the functional currency - In thousands of US dollars – USD

	June 30, 2014	June 30, 2013
Revenue		
Sales of goods, products and services	1,582,977	1,660,467
Other revenue	1,212	1,478
Revenue relating to construction of company assets	323,598	674,338
Allowance (reversal of allowance) for doubtful accounts	208	1,073
	1,907,995	**2,337,356**
Consumables acquired from third parties		
Cost of goods sold and services rendered	(890,557)	(1,300,644)
Material, electricity, outsourced services and other	(139,299)	(63,108)
Loss/recovery of asset values	(15,552)	529
	(1,045,408)	**(1,363,223)**
Gross value added	**862,587**	**974,133**
Depreciation and amortization	(65,633)	(61,487)
Value added produced by the Company	**796,954**	**912,646**
Financial revenue	60,666	203,069
Total value added to be distributed	**857,620**	**1,115,715**

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

	June 30, 2014	June 30, 2013
Personnel		
Direct remuneration	87,179	80,632
Benefits	15,932	17,091
FGTS	3,577	3,571
Taxes, charges and contributions		
Federal	(5,707)	150,830
State	4,375	(14,276)
Municipal	14,531	4,975
Remuneration of third parties		
Interest on borrowings, financing and other debt items	19,752	103,392
Remuneration of capital		
Earnings reinvested	717,981	769,500
Total value added distributed	**857,620**	**1,115,715**

2.5 Cash and cash equivalents

They include the balances of cash, bank deposits and investments in marketable securities with immediate liquidity whose maturities as of the effective date of the investment are equal to or less than 90 days and pose insignificant risks of change in fair value.

2.6 Restricted short-term investments

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

2.7 Financial instruments

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

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

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

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

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

(b) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. These assets are initially recognized at their fair value plus any directly attributable transaction costs. After initial recognition, loans and receivables are measured at their amortized cost by using the effective interest rate method, less any impairment losses. The Company's loans and receivables consist of cash and cash equivalents (except short-term investments measured at fair value through profit and loss), accounts receivable and other assets.

(c) Financial liabilities

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

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

(d) Offsetting of financial instruments

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

(e) Provision for financial asset impairment

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

2.8 Accounts receivable

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

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

2.9 Inventories

Appraised at average acquisition or production cost not in excess of the market or realization value.

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

2.10 Property, plant and equipment

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

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

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

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

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

Depreciation and amortization commence from the date the assets are installed and ready for use. For the items directly related to the respective productive areas the depreciation is calculated by the units produced method. For the remainder the depreciation is calculated based on the straight-line depreciation and amortization method taking into account the years described in Note 10.

The gains and losses deriving from the sale of property, plant and equipment are determined by comparing the funds obtained through the sale against the book value of the property, plant and equipment, and are recorded in "Other operating expenses, net" in profit or loss.

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

Removal of tailings to access the mine deposits

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

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

2.11 Intangible assets

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

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

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

Intangible assets with a defined useful life span are amortized according to their estimated economic lives, as per note 11, and when indications of impairment are identified, they are submitted to impairment testing.

2.12 Impairment of nonfinancial assets

The book values of the Company's non-financial assets with a useful life are reviewed at each reporting date for signs of impairment. If any such indication exists, then the asset's recoverable amount is determined. Assets with an indefinite useful life are not subject to amortization and are tested annually for impairment. In the case of intangible assets in development not yet available for use, the recoverable value is estimated every year at the same time.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. When appraising the value in-use, the estimated future cash flows are discounted to their present values at a before-tax discount rate that reflects the current market terms regarding the capital recoverability period and the asset's specific risks.

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

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

2.13. Trade Payables

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

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

2.14. Borrowings and financing

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

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

The costs of borrowings and financing attributed directly to the acquisition, construction or production of an qualifiable asset that require a long time to be concluded for the purpose of use or sale are capitalized as part of the corresponding asset's cost when it is probable that its future economic benefits are generated in favor of the Company and its cost or value can be reliably measured. Other advances on export contracts and borrowings and financing costs are recorded as an expense in the period they are incurred.

2.15. Provision for contingencies

A provision is made for legal obligations when losses and resulting outflow of resources are rated as probable and the amounts can be measured reliably.

A provision is recognized for a past event when the Company has a legal or constructive obligation, and it is probable that an outflow of funds will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

2.16. Provisions for asset retirement and environmental recuperation

(a) Asset retirement obligations

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

(b) Environmental recuperation

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

2.17. Adjustment of assets and liabilities to present value

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

2.18. Income tax

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

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

The Company has a final and unappealable decision in its favor which ruled that the social contribution on net income (“CSLL”) is unconstitutional. It is not therefore paying this contribution, as stated in Note 17 (b).

2.19. Employee benefits

(a) Retirement obligation

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

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

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

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

(b) Share-based payments

Samarco operates a share-based payment plan, settled in cash. The fair value payable to employees relating to the long-term incentive plan is recognized as an expense with a corresponding increase in the liabilities. The amount is revalued at least once a year, at the end of each year and on the settlement date. Any changes in the liability's fair value are recognized as personnel expenses in the income statement.

2.20. Capital

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

2.21. Payment of dividends

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

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

(a) Recognition of revenue from product sales

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

The revenue is then recognized at the dispatch date based on an estimated fair value of the payment receivable. When the realization of an amount already recorded under revenue is uncertain, the uncollectible amount or amount unlikely to be realized is recognized as an expense.

(b) Recognition of revenue from services

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

(c) Financial income and financial costs

Financial income includes interest earned on short-term investments and changes in the fair value of financial assets measured at fair value through profit and loss.

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

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

Exchange gains and losses are reported net.

2.23. Leasing

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

As of June 30, 2014 and December 31, 2013 the Company does not have any operations classified as commercial leases (in which the Company assumes most of the risks and rewards of ownership). Commercial leases are capitalized at the start of the lease at the lower of the fair value of the leased assets and the present value of the lease's minimum payments.

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

The following new standards and interpretations have been issued by the *International Accounting Standards Board* (IASB) but are not in force for the period ended June 30, 2014. Whilst encouraged by the IASB, the early adoption of standards in Brazil is not permitted by the Accounting Pronouncements Committee (CPC).

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

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

. IFRS 15 – “Revenue from contracts with customers” is the result of a joint standard setting process with the FASB and will be published at the same time as the FASB’s Accounting Standards Update. The guidance is expected to be substantially converged. The proposed effective date is expected to be 1 January 2017 for IFRS preparers with early adoption permitted.

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

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

3. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is as follows:

Cash and bank deposits		June 30, 2014	December 31, 2013
Domestic		47	1,225
Foreign	(a)	575,364	413,327
Short-term investments			
Time Deposit / MMDA	(b)	680,088	17,262
Investment fund	(c)	1,281	5,044
		1,256,780	**436,858**

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

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

(c) The financial investment fund refers to securities with domestic financial institutions that have immediate liquidity. They are linked to the current account, yielding 20% of the CDI rate (20% in 2013).

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

4. RESTRICTED SHORT-TERM INVESTMENTS

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

Short-term investments	June 30, 2014	December 31, 2013
Restricted cash	588	117,942
	588	**117,942**

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

In December 31, 2013 the Company has cash restricted in bank collection accounts linked to a number of financing, as shown below:

- From Union Bank NY-Branch, linked to financing borrowings, amounting to USD 231 million and USD 450 million;
- From BNP Paribas NY-Branch, linked to the financing borrowing of USD 400 million.

For the mentioned accounts at Union Bank, it is necessary to provide the resources for payment of the principal and interest 30 days in advance (loans amounting USD 231 million and USD 450 million). For the account at BNP Paribas (loan amounting USD 400 million), it is necessary to provide the resources 10 days in advance. The short-term investments aims to provide more comfort to the creditors in respect to the forthcoming instalments to be disbursed.

5. ACCOUNTS RECEIVABLE

The accounts receivables are as follows:

		June 30, 2014	December 31, 2013
Domestic receivables		3,796	7,635
Foreign receivables	(a)	883,583	849,963
Allowance for doubtful accounts	(b)	(123)	(618)
		887,256	**856,980**

(a) R$ 511,639 (R$ 268,964 in 2013) of the foreign trade receivables at June 30, 2014 is guaranteed by letters of credit or export credit insurance. The remaining balance was submitted to an individual customer credit analysis process in order to mitigate the risk of default.

(b) The estimated allowance for doubtful accounts of R$ 123 in June 30, 2014 (R$ 618 in 2013) is made based on an individual analysis of each customer for invoices more than 60 days overdue.

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

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

	June 30, 2014	December 31, 2013
Outstanding	879,799	845,508
Up to 30 days overdue	5,857	11,354
31 to 60 days overdue	1,130	118
61 – 90 days overdue	495	198
More than 90 days overdue	98	420
	887,379	**857,598**

At June 30, 2014, accounts receivable of R$ 5,857 (R$ 12,708 in 2013) were overdue but nor provided for. These accounts belong to a series of independent clients with no recent history of default.

6. INVENTORIES

The inventory breaks down as follows:

	June 30, 2014	December 31, 2013
Finished goods	82,509	25,136
Goods in process	28,456	22,935
Consumables	86,274	62,415
Consumption and maintenance materials	187,913	212,762
Provision for loss of materials	(6,026)	(6,949)
Advances to suppliers	28,933	21,233
	408,059	**337,532**

Raw materials, consumables and changes in the finished goods and inventory in process, recognized in the cost of goods sold, amounted to R$ 1,379,590 for the six-month period ended on June 30, 2014 (R$ 1,239,831 in the six-month period ended on June 30, 2013).

The Company appraised its inventory at the balance sheet date and concluded it was not exceeding its realization value. In the six-month period ended on Jun 30, 2014 the Company reversed the provision for loss of materials in the amount of R$ 923 (R$ 142 – June 30, 2013) in the results .

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

Change of inventory of finished goods	June 30, 2014	December 31, 2013
Balance at December 31, 2013	**25,136**	**21,142**
Additions	1,432,751	2,515,245
Write-offs due to sale	(1,376,268)	(2,513,722)
Addition (write-off) of inventory adjustment	2,422	1,040
Conversion	(1,532)	1,431
Balance at June 30, 2014	**82,509**	**25,136**

7. RECOVERABLE TAXES

The balance of recoverable taxes is as follows:

		June 30, 2014	December 31, 2013
ICMS – Minas Gerais (MG)	(a)	56,997	68,892
ICMS – Espírito Santo (ES)	(b)	1,117,058	1,005,183
Provision for ICMS losses - ES	(b)	(1,117,058)	(1,005,183)
PIS and COFINS	(c)	98,830	140,971
Income tax recoverable	(d)	41,078	98,774
Others		(39)	529
Total		**196,866**	**309,166**
Current assets		174,309	277,773
Non-current assets		22,557	31,393

(a) The ICMS-MG credits are classified as contingent assets as they rely on the outcome of litigation disputing the incidence of ICMS on the transfer of concentrate from the State of Minas Gerais to the State of Espírito Santo (Note 17). The assessment notices cover the amount of the credits.

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

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

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

	June 30, 2014	December 31, 2013
Balance of the provision for losses ICMS - MG at the start of the period	-	(431,027)
Creation of the provision for losses	-	(262,209)
Reversal of the provision for losses	-	693,236
Balance of the provision for losses ICMS - MG at the end of the period	-	-

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

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

	June 30, 2014	December 31, 2013
Balance of the provision for loss of ICMS ES at the start of the period	(1,005,183)	(472,300)
Creation of the provision for losses	(111,875)	(532,883)
Balance of the provision for loss of ICMS ES at the end of the period	(1,117,058)	(1,005,183)

(c) The PIS and COFINS credits chiefly relate to the acquisition of material, consumables, energy, and property, plant and equipment, appropriation of which is taking place over 48 months at the rate of 1/12 per month. These credits are realized monthly through offsetting against other federal taxes, especially Corporate Income Tax (IRPJ) payable.

(d) Recoverable income tax referring to overpayments of prior periods.

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

8. OTHER ASSETS

Other assets are as follows:

		June 30, 2014	December 31, 2013
Current			
Advances to employees	(a)	7,089	12,945
Recoverable insurance	(b)	9,615	9,591
Amount receivable for electricity	(c)	11,523	4,492
Consórcio UHE Guilman Amorim		2,463	2,283
Others	(d)	788	2,212
		31,478	**31,523**
Non-current			
COHESA	(e)	16,506	16,374
(-) Adjustment to present value COHESA	(e)	(1,347)	(1,283)
Recoverable insurance		13,726	13,726
Amounts recoverable AEL - Engenharia Ltda.	(f)	2,992	2,992
(-) Provision for loss AEL - Engenharia Ltda.	(f)	(2,992)	(2,992)
Advances to employees	(a)	6,724	7,421
		35,609	**36,238**

(a) On October 5, 2011 Samarco awarded a loan equal to 150% (one hundred and fifty percent) of the employee's base salary for September 2011, which was to be deducted from payroll in August 2013 or deducted from the payment of severance amounts in the event of contractual termination prior to August 31, 2013. However, fresh negotiations with the unions took place in July 2013 and payment terms were extended and split into two instalments. The first portion was discounted in December 2013, and the second portion was discounted in March 2014. At December 2013 the amount of R$ 6,428 was recorded as current assets. The loan is evidenced in a clause in the collective employment agreements signed with the respective trade unions. At June 2014 the amount of R$ 13,813 refers to others advances to employees (R$ 13,938 at December 31, 2013).

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

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

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

(e) The Company passes on funds to COHESA (the Samarco Employees Housing Cooperative) on the basis of an arrangement to implement a housing plan signed March 1, 1994, aimed at financing property for employees, with terms varying from 8 to 25 years.

The passed on amounts will be received in full upon termination of the Samarco Housing Plan - PHS, i.e. upon full repayment of the financing by the employees. The COHESA balances are adjusted to present value.

The interest charged by COHESA is restated according to the collective pay rise awarded by the Company.

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

9. RELATED PARTIES

The balances of related party assets and liabilities at June 30, 2014 and December 31, 2013, as well as the related-party transactions that affected income for the period, are the result of transactions between the Company and its shareholders, key management professionals and other related parties.

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

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

		Shareholders			Shareholders		
		BHP Billiton	Vale	June 30, 2014	BHP Billiton	Vale	December 31, 2013
Current assets							
Accounts receivable			37	37		82	82
Current and non-current liabilities							
Trade payables	(a)		47,696	47,696		67,174	67,174
Borrowings and financing (Note 13)		330,285		330,285	351,300		351,300
Financial charges payable (Note 13)		194		194	238		238
Dividends (Note 20)		1,024,274	1,024,274	2,048,548	341,425	341,425	682,850
Others (Mining Rights)	(b)		81,942	81,942		27,314	27,314
Statement of income		BHP Billiton	Vale	June 30, 2014	BHP Billiton	Vale	June 30, 2013
Cost of goods sold and services rendered	(a)		(251,308)	(251,308)		(263,283)	(263,283)
Operating expenses	(b)		(81,942)	(81,942)		(79,389)	(79,389)
Financial expenses		(10,887)		(10,887)	(4,769)		(4,769)

(a) Related to the acquisition of iron ore fines direct from the shareholder Vale, for use in production. R$ 75,358 of the acquisitions in 2014 remained in the inventory (R$ 77,517 at December 31, 2013).

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

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

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

The price determined to in the agreement is not fixed, and was established as a percentage of the gross dividends paid. For the period ended June 30, 2014 the payments totaled R$ 27,314 (R$ 26,463 in June 30, 2013).

Samarco sponsors Fundação Vale do Rio Doce de Seguridade Social – ValiaPrev, which provide participants and their dependents supplementary benefits or benefits similar to those offered by the official basic pension scheme. Details of this plan can be seen in Note 15.

The compensation of key management staff has been presented below:

	June 30, 2014	June 30, 2013
Compensation (i)	(17,686)	(14,252)
Medical assistance plan	(38)	(87)
Private pension	(683)	(617)
Life insurance	(68)	(56)
	(18,475)	**(15,012)**

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

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

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

10. PROPERTY, PLANT AND EQUIPMENT

The Company made a number of investments throughout 2013 to raise its production capacity and the productivity of its industrial plants, in addition to ensuring operational continuity and improvements, replacing equipment of the industrial plants and achieving sustainable development in accordance with the standards, policies and legislation regarding the environment and health and safety.

The Company's property, plant and equipment is 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	Assets under construction	Total
Cost										
Balance at December 31, 2013		**32,269**	**5,178,865**	**2,173,563**	**59,166**	**102,689**	**114,207**	**107,524**	**7,742,517**	**15,510,800**
Additions	(a)	-	-	-	-	-	-	-	551,427	551,427
Capitalized interest	(a)	-	-	-	-	-	-	-	62,488	62,488
Transfers - Inbound	(b)	924	2,498,064	1,959,407	-	11,775	57,752	10,481	-	4,538,403
Transfers - Outbound	(b)	-	(4,479)	(18)	-	-	-	(16)	(4,536,526)	(4,541,039)
Sales	(c)	-	(28,769)	(345)	-	(74)	(394)	(85)	-	(29,667)
Effect of exchange rate variances	(d)	(1,685)	(172,992)	56,339	(3,539)	(5,697)	(3,635)	(5,118)	(836,402)	(972,729)
Balance at June 30, 2014		**31,508**	**7,470,689**	**4,188,946**	**55,627**	**108,693**	**167,930**	**112,786**	**2,983,504**	**15,119,683**
Accumulated depreciation										
Balance at December 31, 2013		**-**	**(2,133,968)**	**(764,617)**	**(5,497)**	**(58,476)**	**(69,197)**	**(21,224)**	**-**	**(3,052,979)**
Depreciation in the period	(e)	-	(73,824)	(29,562)	(804)	(4,264)	(4,792)	(2,125)	-	(115,371)
Sales	(c)	-	17,313	78	-	62	394	49	-	17,896
Effect of exchange rate variances	(d)	-	132,574	38,192	502	2,750	3,269	891	-	178,178
Balance at June 30, 2014		**-**	**(2,057,905)**	**(755,909)**	**(5,799)**	**(59,928)**	**(70,326)**	**(22,409)**	**-**	**(2,972,276)**
Balance										
At December 31, 2013		**32,269**	**3,044,897**	**1,408,946**	**53,669**	**44,213**	**45,010**	**86,300**	**7,742,517**	**12,457,821**
At June 30, 2014		**31,508**	**5,412,784**	**3,433,037**	**49,828**	**48,765**	**97,604**	**90,377**	**2,983,504**	**12,147,407**

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

(a) The additions include the main projects and investments concluded and still under construction at June 30, 2014:

Works in progress - Main projects	Start date	Expected conclusion	June 30, 2014	December 31, 2013
Fourth Pelletizing Plant project	2011	2014	426,728	2,153,597
Waterproofing of Slurry Pond	2013	2014	6,093	18,837
IT Management Systems 2013	2013	2015	-	13,901
Access to Germano basic grid	2010	2014	4,792	96,216
Mobile Equipment Shop	2011	2014	11,859	22,807
Raising of Sela Tulipa and Selinha	2013	2014	-	10,331
Implementation of Wind Fence in the pellets and iron ore fines yards	2011	2014	-	35,449
Additional fleet to increase production in conc. 3	2013	2014	-	10,121
Risk Oven Program 1 - Alignment Rotary Joint	2014	2014	11,336	-
Replacement Powders	2014	2014	8,516	-
Others			144,590	141,272
Total			**613,914**	**2,502,531**

(b) The investments in property, plant and equipment and intangible assets are recorded in Assets under construction. Once these investments are concluded and have come into operation, the assets are capitalized (transferred) to the respective accounts of property, plant and equipment and intangible assets, depending on the accounting nature of each item. Borrowings costs were recorded in the six-month period ended June 30, 2014 of R$ 62,487 (R$ 5,821 in June 30, 2013) referring to borrowings and financing to carry out several projects, subject to a capitalization rate of 2.99% per annum.

(c) Disposals in 2014 relate mainly to low by the scrappage bills of machinery and equipment (ship loader).

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

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

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

	Average weighted useful life in years June 30, 2014	Years of depreciation at June 30, 2014	Average weighted useful life in years December 31, 2013	Years of depreciation at December 31, 2013
Buildings	32	10 to 50	32	10 to 50
Machinery and equipment	20	10 to 50	20	10 to 50
Ore pipeline and correlated system	19	20 to 43	19	20 to 43
Plant decommissioning	43	43	43	43
Electronic data processing equipment	5	5	5	5
Furniture and fixtures	9	10	9	10
Vessels	18	9 to 24	18	9 to 24
Vehicles	11	4 to 25	11	4 to 25
Tools	13	10 to 25	13	10 to 25
Rotating assets	23	10 to 27	23	10 to 27
Mass assets	23	5 to 24	23	5 to 24

- Impairment analysis

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

- Review of useful life

In compliance with technical pronouncement CPC 27 - Property, plant and equipment, in the course of 2013 the Company concluded that the residual useful lives of its industrial complex were expiring normally, as there had been no changes to the expected use of the asset, that is appraised based on the physical production or capacity expected of it. Furthermore, operational factors, such as number of shifts during which assets will be used, repair and maintenance schedules, obsolescence caused by production enhancements or changes, and market demand for the product or service derived from the asset, did not change the normal physical expected wear and tear. There were therefore no changes to the standard uses of Samarco's property, plant and equipment in 2013, i.e. the useful lives are compatible with the expected benefit of the industrial complex.

- Residual value

It is Company policy to extend the use life of its assets as much as possible by carrying out preventive and corrective maintenance. These policies enable the Company to maintain its assets in a perfect state of repair and operation for lengthy periods of time until they become obsolete or are scrapped. It is not expected to recover part of the value of sold property, plant and equipment, i.e. the residual value thereof is close to zero.

(f) Pledged assets

At June 30, 2014 the Company had assets pledged as collateral in judicial proceedings. These assets are recorded under Property, Plant and Equipment as machinery and equipment, vessels and related systems, amounting to R$ 66,564 (R$ 67,906 at December 31, 2013).

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

- Land – lands used essentially for industrial, engineering and office building.
- Buildings - essentially industrial buildings, office buildings, parking lots, roads, and water and sewer systems.
- Machinery and equipment - essentially the machinery and equipment used directly or indirectly in our industrial processes.

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

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

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

- Vessels - boats, barges and dredges.

- Vehicles - essentially industrial vehicles and cars.

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

- Rotating assets - parts used exclusively in production areas.

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

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

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

11. INTANGIBLE ASSETS

The intangible assets are as follows:

		Easements (d)	Mining rights (e)	Other rights	Application systems *Software* (f)	Total
Cost						
Balance at December 31, 2013		**8,728**	**29,625**	**1,351**	**77,167**	**116,871**
Transfers of property, plant and equipment	(a)	-	-	-	2,641	2,641
Effect of exchange rate variances	(b)	(522)	(1,772)	(81)	(4,574)	(6,949)
Balance at June 30, 2014		**8,206**	**27,853**	**1,270**	**75,234**	**112,563**
Accumulated amortization						
Balance at December 31, 2013		**(3,096)**	**(19,443)**	**(1,348)**	**(59,653)**	**(83,540)**
Amortization in the period	(c)	(43)	(81)	-	(2,982)	(3,106)
Effect of exchange rate variances	(b)	160	1,114	80	3,027	4,381
Balance at June 30, 2014		**(2,979)**	**(18,410)**	**(1,268)**	**(59,608)**	**(82,265)**
Balance						
At December 31, 2013		**5,632**	**10,182**	**3**	**17,514**	**33,331**
At June 30, 2014		**5,227**	**9,443**	**2**	**15,626**	**30,298**

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

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

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

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

	Years of amortization in June 30, 2014	Years of amortization in December 31, 2013
Easements	39	39
Mining rights	39	39
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 75424/75. The Company uses this right to lay underground ore pipelines (pipelines to transport iron ore slurry - ore and water), which makes it possible to integrate Samarco's productive process at low cost, connecting the industrial concentration plants located in the municipalities of Mariana and Ouro Preto in the State of Minas Gerais to the pelletizing plants in Anchieta, in the State of Espírito Santo.

(e) Mining rights

As described in Note 9, in November 1989 the Company and Vale signed a mining rights transfer agreement for iron ore deposits, whereby Vale assigned and transferred to Samarco prospecting rights for its ore reserves.

(f) Applications and software

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

Research and development

The Company incurred research and development expenses of R$ 38,229 (R$ 55,650 in 2013), which were recognized as net operating expenses in 2014.

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

12. TRADE PAYABLES

The balance of trade payables is as follows:

	June 30, 2014	December 31, 2013
Domestic customers	136,088	205,793
Foreign customers	22,586	17,547
Related party transactions (Note 9)	47,696	67,174
	206,370	**290,514**

13. BORROWINGS AND FINANCING

	June 30, 2014	December 31, 2013
Foreign transactions	8,777,661	8,464,901
Foreign transactions with related parties	330,285	351,300
Local currency borrowings	168,373	163,110
Total	**9,276,319**	**8,979,311**
Current	835,855	888,679
Non-current	8,440,464	8,090,632

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

The financing transactions in the first half of 2014 were as follows:

(i) Disbursements of export prepayments amounting to USD 410 million in the period ended June 30, 2014 under 4 (four) loans that were conducted in the fourth quarter of 2013 with Bank of America (USD 200 million, total term of 5 years), Bank of Tokyo Mitsubishi UFJ (USD 200 million, total term of 5 years), HSBC (USD 250 million, total term of 5 years) and Mizuho (USD 125 million, total term of 7 years). The total amount disbursed in 2013 was USD 365 million. The loans have interest payments at Libor plus a spread on a semi-annual basis.

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

(ii) Disbursement in the period ended June 30, 2014 of the remaining portion of R$ 5.2 million of loans celebrated in local currency via BNDES/Finame in the fourth quarter of the 2013. In 2013 Samarco closed 2 (two) loans with 10 (ten) year-tenor amounting to R$ 159.2 million in aggregate. The loans have interest payments at a fixed rate paid every 3 (three) months during the grace period and monthly thereafter.

During 2013 the Company :

(i) disbursed the second portion of the borrowings and financing secured by credit insurance from Nippon Export and Investment Insurance ("NEXI") amounting to USD 200 million, with a total maturity of eleven years and repayment in 20 (twenty) installments, carrying interest of Libor plus the bank spread, paid semi-annually.

(ii) obtained US$ 700 million raised through an offshore bond issue with a total maturity of ten years and repayment on final maturity, carrying fixed interest paid semi-annually;

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

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

As of June 30, 2014 the provision for interest on foreign-currency borrowings and financing (which accounted for 98.2% of total borrowings) was as follows:

	Principal value	Provision for interest
0% to 2 %	3,848,456	11,756
2% to 3%	880,760	1,385
3% to 4%	660,570	388
Over 4%	3,718,160	31,632
	9,107,946	**45,161**

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

Local currency borrowings and financing accounted for 1.8% of the total (R$ 168,373 thousand) and primarily consist of BNDES/Finame loans with an interest rate of 3.0% p.a. The average cost of our total debt, including foreign currency borrowings and financing is 2.9% p.a..

As of June 30, 2014 the loans and financing payments were subject to the following maturities:

2014	835,855
2015	969,718
2016	188,217
2017	193,827
2018	2,412,136
2019	298,312
2020	298,312
2021	115,554
2022	2,317,454
2023	1,646,934
	9,276,319

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

	Book value	Estimated fair value
Bonds	3,708,887	3,750,548
EPPs (export pre payments)	5,399,059	5,403,315
Others	168,373	171,284
	9,276,319	**9,325,147**

Guarantees and obligations - borrowings and financing

The Company's non-current borrowings and financing is guaranteed by promissory notes and is primarily linked to previously defined export receivables. These borrowings and financing are subject to certain covenants, including a financial ratio: *"Net Debt/ EBITDA"* limited to 3:1 (or 4:1 in some agreements, subject to certain conditions) (unaudited).

Company management confirmed all contractual covenants were being complied with at June 30, 2014.

14. EMPLOYEE BENEFITS

14.1 Retirement benefits

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

» Normal retirement income
» Early retirement income
» Supplementary disability retirement.
» Supplementary pension for death
» Pension income for death
» Deferred benefit income for severance
» Supplementary annual bonus.
» Annual income bonus.
» Redemption.

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

(a) Defined-contribution retirement plan

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

In the period ended June 30, 2014 the Company made contributions to the defined contribution plan of R$ 5,945 (R$ 5,548 – June 30 ,2013).

(b) Defined-benefit portion of the retirement plan

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

The actuarial appraisal report was carried out by independent actuary for December 31, 2013. This study will be reviewed as of December 31, 2014.

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

The actuarial report appraised the defined-benefit portion in the plan, which denotes the constructive obligation referring to supplementary retirements, pension for death and annual bonus, denominated Risk Plan and retirement income.

1 – Change in present value of the obligations

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

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

2 – Change in fair value of the assets

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

3 – Change in unrecoverable surplus

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

4 – Costs of defined benefit

4.1 - Net Income for the Year

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

4.2 - Other Comprehensive Income (OCI)

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

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

4.3 – Cost of Defined Benefit

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

5 – Change in net liability/asset

5.1 – Net liability/asset

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

5.2 – Reconciliation in net total (liability)/asset

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

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

6 – Estimated cost of defined benefit for 2014

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

7 – Expected cash flows

The Company expects to incur the following disbursements in 2014:

Company contributions	2,769
Benefits paid by the plan	864

8 - Actuarial assumptions

	2013	2012
Economic		
Discount rate	8.68 % per year	8.68 % per year
Salary growth rate	6.59 % per year	6.59 % per year
Inflation	4.50 % per year	4.50 % per year
Benefits growth	4.50 % per year	4.50 % per year
Return on non-current assets	12.04 % per year	8.68 % per year
Demographic		
Mortality table	AT-1983 (H)	AT-1983 (H)
Mortality table of disabled people	AT-1983 (H)	AT-1983 (H)
Disability rate table	Aggravated Álvaro Vindas of 3.0	Aggravated Álvaro Vindas of 3.0
Turnover rate	Nil	Nil
Retirement age	First age entitled to one of the benefits	First age entitled to one of the benefits
% of active participants married at retirement	95%	95%
Age difference between participant and spouse	Wives are 4 years younger than husbands	Wives are 4 years younger than husbands

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

9 – Summary of participants' data

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

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

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

14.2 Other employee benefits

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

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

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

	2014	2013
Compensation and charges	210,809	179,599
Social security charges	28,904	25,491
Retirement plan benefits	6,062	5,586
Meal vouchers	11,066	8,603
Medical assistance	4,933	7,031
Others	8,394	7,433
	270,168	**233,743**

The other employee benefits in the period ended June 30, 2014 was recognized in the captions "Cost of goods sold and services rendered", "Sales", "General and administrative" and "Other operating expenses", in the amounts of R$ 7,950 R$ 140 and R$ 304 (R$7,065, R$ 11,038, R$ 186 and R$ 182 – June 30, 2013), respectively.

14.3 Stock-based payments

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

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

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

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

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

	June 30, 2014	June 30, 2013
Value of the shares	94,61	94,28
Strike value	-	-
Projected volatility (average weighted volatility)	8,10%	13,75%
Dividends forecast	100%	0%
Risk-free interest rate (based on government bonds)	5,680%	5.675%

This plan's expenses were R$ 6,573 at June 30, 2014, (R$ 9,435 - June 30, 2013) and are classified as operating expenses related to employee benefits.

15. PAYROLL, PROVISIONS AND SOCIAL CONTRIBUTIONS

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

	June 30, 2014	December 31,2013
Provision for profit sharing	31,498	49,038
Vacations payable	30,403	29,338
Employees INSS	6,365	6,797
FGTS payable	2,008	3,352
Provision for share-based remuneration plan	4,877	1,878
Others	12,473	1,942
	87,624	**92,345**

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

16. TAXES PAYABLE

The balance of taxes payable is shown below:

		June 30, 2014	December 31,2013
ICMS Minas Gerais payable -taxes in instalments	(a)	83,616	162,409
REFIS – Tax recovery – taxes in instalments	(b)	12,667	12,053
ISS withheld		3,131	8,436
INSS retained from third parties payable		3,146	9,699
IRRF payable		4,536	7,409
INSS DIFAL payable		545	1,389
CFEM payable		3,382	2,406
COFINS withheld		1,200	2,102
TFRM payable		2,439	1,409
Others		1,774	1,206
		116,436	**208,518**

(a) Refers to 12 instalments of ICMS payable to the State of Minas Gerais (Note 17).

(b) Refers to 12 instalments deriving from accession to the REFIS IV Tax Financing Program (Note 19).

17. PROVISIONS FOR CONTINGENCIES

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

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

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

As of June 30, 2014 the balance of judicial deposits referring to the provisions for present obligations was R$ 31,825 (R$ 31,416 at December 31, 2013) and the balance of judicial deposits without provisions remained in the assets at the amount of R$ 553,387 (R$ 409,563 at December 31, 2013).
The changes in the Company's provisions for legal obligations are as follows:

	December 31, 2013	Additions	Reversals	Incurred	Charges	June 30,2014
Tax proceedings	52,538	118,832	-	-	333	171,703
(-) Judicial tax deposits	(27,987)	-	-	351	-	(27,636)
Civil claims	110,868	759	(42,188)	-	5,227	74,666
Labor claims	13,997	2,131	(646)	-	9,002	24,484
(-) Judicial labor deposits	(3,429)	(259)	36	-	(535)	(4,187)
Environmental proceedings	2	21	-	-	-	23
	145,989	**121,484**	**(42,798)**	**351**	**14,027**	**239,053**

The provisions are as follows:

		June 30, 2014			December 31,2013		
		Provision	Judicial deposits	Net	Provision	Judicial deposits	Net
Tax proceedings							
ECE - ES	(a.1)	15,089	(15,089)	-	15,089	(15,089)	-
ECE - MG	(a.1)	12,547	(12,547)	-	12,547	(12,547)	-
ICMS - Fine - Muniz Freire - ES	(a.2)	11,298	-	11,298	11,012	-	11,012
ICMS - DRAWBACK - MG	(a.3)	118,832	-	118,832	-	-	-
Attorneys' fees	(a.4)	11,192	-	11,192	11,189	-	11,189
Others		2,745	-	2,745	2,701	(351)	2,350
Total provision for tax proceedings		171,703	**(27,636)**	**144,067**	**52,538**	**(27,987)**	**24,551**
Others							
Civil claims	(a.5)	74,666	-	74,666	110,868	-	110,868
Labor claims		24,484	(4,189)	20,295	13,997	(3,429)	10,568
Environmental proceedings		25	-	25	2	-	2
		99,175	**(4,189)**	**94,986**	**124,867**	**(3,429)**	**121,438**
		270,878	**(31,825)**	**239,053**	**177,405**	**(31,416)**	**145,989**

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

(a) Legal obligations provided for by the Company:

Note	Description	Status	Jun 2014	Dec 2013
(a.1)	Court proceeding filed to have declared the unconstitutionality and illegality of the requirement to pay charges and acquisition of emergency energy, due to technical defects when these requirements were introduced.	The case for Espírito Santo is pending a decision of the appeal Court (2nd judicial instance) and the case relating to Minas Gerais is pending decision of another appeals court (3rd judicial instance).	27,636	27,636
(a.2)	Assessments for ICMS due on the transfer of electricity from the Muniz Freire power plant, which it owns, for consumption at its industrial establishment in Ponta Ubu, Anchieta, ES, as well as a fine for failing to issue invoices on these transfers.	Pending decision at the lower court (1st judicial instance).	11,298	11,012
(a.3)	Assessment Notice issued by the State of Minas Gerais for ICMS on acquisitions of consumables, on the grounds that the permission awarded by the federal tax authorities for the drawback customs basis only applies to SAMARCO's establishment in the same state (Espírito Santo), so that imports made by the establishment in the State of Minas Gerais are not embraced by the ICMS suspension.	1 proceeding with a unfavorable decision pending judgment of the high court, 2 proceedings pending decision of the lower court and 2 proceedings awaiting judicial summons.	118,832	-
(a.4)	Provision is made for lawyers' fees referring to proceedings classified as having a remote chance of defeat.		11,192	11,189
Other	Proceedings related to the former Guilman-Amorim hydroelectric power plant, closed down as a result of a spin-off and subsequent merger, for IRPJ, CSLL Offsetting of tax losses, PIS and COFINS.	Proceedings pending decisions under administrative appeals and 1st and 2nd instance judicial decisions. Processes included in REFIS.	2,745	2,701
(a.5)	Provision made to cover potential losses on civil proceedings related to third-party compensation and proceedings entailing the intermediation of transferred ICMS credits.	Proceedings with the judicial courts at several stages.	74,666	110,868
Labor	Labor claims primarily related to the application of fines by the authorities, in addition to labor claims filed by employees and service providers.	Proceedings at the judicial and administrative courts at several stages.	24,484	13,997
Environmental	Assessment Notice 1284/10 issued by DNPM, for the alleged breach of Article 54 (V) of the mining code's regulations.	Pending analysis of the administrative defense submitted.	25	2
			270,878	**177,405**

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

(b) Possible contingencies:

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

Description	Status	Jun 2014	Dec 2013
Assessment Notices for the alleged non-payment of CSLL in 2008, 2009 and 2010.	Proceedings pending decisions under administrative appeals.	2,027,413	1,846,142
Assessment notices for 2000 to 2003 and 2007, 2008, 2009 and 2010, for allegedly incorrectly calculating the IRPJ as a result of using the rate of 18% over profit deriving from mineral exports instead of the general rate of 15% plus the 10% surcharge.	A favorable decision from the administrative appeals court has been obtained for the proceeding for the period 2007 and 2008. Pending preparation of appeal decision. Pending decisions of the administrative appeal.	1,617,146	1,578,203
Assessment Notice issued by the National Mining Production Department (DNPM) for alleged underpayment of the Financial Compensation for Exploration of Mineral Resources (CFEM). The city government of Mariana filed suit against the Company, based on the same legal grounds as those invoked by the DNPM in its assessments.	2 proceeding awaiting the decision of the 1st judicial court, 2 proceedings awaiting summons of the 1st judicial court and 1 proceedings awaiting the decision of the administrative appeal.	769,476	750,397
Tax enforcements regarding the timeliness and respective amounts of PIS paid on a semi-annual basis in the periods September 1989 to August 1994.	1 proceeding awaiting the decision of the 1st judicial court and 1 proceeding awaiting the decision of the 2nd judicial court.	23,368	23,103
Assessment Notice demanding social security contributions on payments made to insured employees as profit shares and "Field of Ideas" Premium, amongst other matters such as (i) social contributions allegedly due to the National Development Fund (FND) on payments; (ii) fine for failure to pay social contributions; and (iii) fine for submitting incomplete information in declaration forms known as GFIPs.	Pending decision of the administrative appeal. The proceedings up to 2008 that have not incurred the statute of limitations have been included in the REFIS program.	11,657	11,387
Disallowance of the offset of the negative balance of IRPJ and CSLL of the former Guilman-Amorim hydroelectric power plant (subject to the legally established 30% limit).	Pending administrative decision.	6,837	6,616
Disallowance of the offset of PIS and COFINS credits in the period April 2006 to December 2007 against monthly estimated IRPJ debits calculated in the same period, submitting the individual PER/DCOMPs by quarter and origin of credits (PIS and COFINS credits).	Pending decision of the administrative appeal.	179,257	173,680
This is addressing the constitutionality and legality of the fee introduced by the Minas Gerais government to inspect the survey, mining, exploration and use of mineral resource activities (TFRM). The Company obtained an unfound decision and the judicial decision authorizing the judicial deposit in order to stay the requirement to pay the tax. The judicial deposit at December 31, 2013 amounted to R$ 33,120 (R$ 33,120 in 2012). On December 26, 2013 the Company entered the Special Arrangement REGIME ESPECIAL/E-PTA Nº:45.000005700-79, which among other obligations stipulated	Awaiting the conversion of part of the judicial deposit into government income and the refund of the other part of the judicial deposit in favor of Samarco.	33,120	33,120

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

the payment of the TFRM, with the consequent withdrawal of the proceeding and conversion of part of the judicial deposit into government income.			
Assessments for ICMS due on the transfer of electricity from the Muniz Freire power plant, which it owns, for consumption at its industrial establishment in Ponta Ubu, Anchieta, ES, as well as a fine for failing to issue invoices on these transfers.	Pending decision at the lower court (1st judicial instance).	47,618	44,593
Assessment Notice issued by the State of Minas Gerais for ICMS on acquisitions of consumables, on the grounds that the permission awarded by the federal tax authorities for the drawback customs basis only applies to SAMARCO's establishment in the same state (Espírito Santo), so that imports made by the establishment in the State of Minas Gerais are not embraced by the ICMS suspension. In June 2014, the risk of loss in the case was reclassified from possible to probable.	1 proceeding with a favorable decision pending judgment of the appeal by appeal court, 2 proceedings pending decision by the lower court and 2 proceedings awaiting judicial summons.	-	76,025
Tax enforcement and assessment notice issued by the municipal government of Anchieta as it contests the area where Samarco's industrial plant is located in Ubu, which is subject to the tax, also demanding the tax on the area for which the ITR is paid. Following the expert report submitted to the case records in 2012, the risk of defeat in the case has been reclassified from remote to possible.	1 proceeding awaiting the decision of the 1st judicial court and 1 proceeding awaiting the administrative decision.	59,035	50,856
It is judicially contesting the legality of the levying of ICMS on the right to use electric power transmission lines. It also obtained a court decision staying the requirement to pay the tax, making a judicial deposit. The amount corresponding to the balance of the deposit made in the year is R$ 113,349 (R$ 111,415 in 2013)	Appeal court decision favorable to Samarco. Pending judgment of the high court.	113,349	111,415
Others		85,144	65,681
Civil proceedings primarily related to third-party compensation. According to the opinion of the Company's legal advisers, the probability of losing these cases is possible.	Proceedings with the judicial courts at several stages.	60,055	30,512
Labor claims primarily related to the application of fines by the authorities, in addition to labor claims filed by employees and service providers.	Proceedings with the judicial and administrative courts at several stages.	32,170	31,965
Proceedings involving environmental risks in the States of Minas Gerais and Espírito Santo, consisting of assessments from the inspection authorities.	Proceedings with the judicial and administrative courts at several stages.	52,228	36,478
		5,117,873	**4,870,173**

In addition to the above proceedings, the Company informs:

(i) The Company received a tax assessment and tax enforcement from the offices of the State Treasury Departments of Minas Gerais and Espírito Santo, respectively, relating to the alleged failure to pay ICMS on transfers of iron ore between its plants - from Germano (MG) to Ubu (ES), in the period January 2000 to December 2010. The Company obtained favorable decisions in the administrative sphere with respect to the demand for the fine and interest. On December 26, 2013 the Company entered the Special Arrangement REGIME ESPECIAL/E-PTA Nº:45.000005700-79, which among other obligations stipulated the payment of the amounts subject to the judicial dispute about the transfer of the concentrate, with the judicial proceedings consequently being withdrawn.

(ii) In 2013 it reclassified the risk of loss for the periods 1991 to 2007 to remote for proceedings related to CSLL, with the period 2008 to 2010 remaining as a possible risk of loss. As of June 30, 2014 the proceedings classified as remote amounted to R$ 1,983,993 (R$ 1,995,761 at December 31, 2013)

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

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

18. OTHER PROVISIONS

		June 30, 2014	December 31,2013
Current			
Provision for electricity	(a)	40,364	33,430
Provision for mining rights	(b)	81,942	27,314
Provision for purchase of iron ore	(c)	800	98
		123,106	**60,842**
Non-current			
Provision for asset retirement obligation	(d)	142,611	135,669
Provision for environmental rehabilitation	(e)	17,660	13,061
Provision for share-based payments (Note 16)		8,818	7,122
		169,089	**155,852**

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

(b) The Company pays its shareholder Vale for the assignment of mining rights to iron ore geological resources, at the rate of 4% on the dividends paid (Note 11).

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

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

	June 30, 2014	December 31,2013
Provision at the beginning of the period	135,669	121,786
Estimated revisions in cash flows	6,942	13,883
Provision at the end of the period	**142,611**	**135,669**

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

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

Based on the review of the planning in 2012, as mentioned above the increase in the provision is primarily due to the P4P facilities (third processing plant, third slurry pipeline, fourth pelletizing plant, Natividade tailings pile, Santa Bárbara water pipeline and the Germano transmission line).

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

(f) Provision for share-based payments (Note 14).

19. OTHER LIABILITIES

Other liabilities are as follows:

		June 30, 2014	December 31,2013
Current			
Demurrage payable	(a)	24,524	10,154
Amounts payable (material/services)	(b)	10,631	1,670
Consórcio UHE Guilman Amorim (Note 2)		2,463	2,283
Clients advance		60,423	594
Others		6,599	4,350
		104,640	**19,051**
Non-current			
REFIS - Tax recovery	(c)	169,953	167,732
Others		512	513
		170,465	**168,245**

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

(a) Amount owed by Samarco for the extra time used on unloading or loading the product at the port.

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

(c) On December 20, 2013 Samarco entered the REFIS IV Financing Program introduced by Law 12865/13. The first instalment was paid at the time of accession. The total amount financed was R$ 180,789, to be paid in 180 installments. The amount of, R$ 167,732 refers to 167 long-term installments (Note 17).

20. SHAREHOLDERS' EQUITY

(a) Capital

At June 30,2014 and December 31, 2013 the Company's authorized share capital consists of 5,243,306 shares, of which 5,243,298 are common shares and 8 preferred shares, with no par value. All issued shares have been fully paid up. The Company's capital is owned as follows:

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

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

(b) Dividends

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

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

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

Dividends are as follows:

	June 30, 2014	December 31,2013
Net income for the period	1,757,563	2,731,397
Net income available for distribution	**1,757,563**	**2,731,397**
Minimum mandatory dividends - 25%	**-**	**(682,850)**
Dividends proposed on net income for the period	-	2,731,397
	-	**2,731,397**
Total dividends proposed	**-**	**2,731,397**
Percentage over calculation base	0%	100%

(c) Revenue reserves

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

- Legal reserve

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

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

- Profit retention reserve

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

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

(d) Proposed dividends

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

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

On December 31, 2013 the Company recognized additional proposed dividends in a specific account of shareholders' equity of R$ 2,048,548. On April, 2014 it was approved by shareholders and was recordes in current liability as a present obligation.

(e) Accumulated translation adjustments

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

	June 30, 2014	December 31,2013
Inventories	19,437	49,559
Property, plant and equipment	1,442,293	2,236,813
Intangible assets	7,101	9,668
Cost	144,646	106,322
Idle capacity	125	125
Statement of income	(1,105,915)	(1,272,371)
Others	(10,414)	(14,664)
Accumulated translation adjustments	**497,273**	**1,115,452**

21. REVENUE

The Company operates in the mining sector, deriving its revenue from the sale of two types of iron ore pellets: PDR – Pellets for direct reduction and PBF – Pellets for the blast furnace. The surplus production of iron ore concentrate is sold as fines (pellet feed).

In June 30, 2014, the Company held overseas sales of 100%, maintaining the essential characteristic of an exporting company, selling its products and in countries of the Americas, Asia, Africa and Europe.

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

In addition to product revenue, in June 30, 2014 the Company obtained revenues from sales of surplus electricity, which were recorded in "other products and services."

Details of the operating revenue are shown below.

Gross revenue	June 30, 2014	June 30, 2013
Pellets		
Country	-	110.978
Overseas	3.323.963	3.174.277
Fines		
Overseas	95.731	53.926
Other goods and services	196.014	32.422
Total	**3.615.708**	**3.371.603**
Deduction from gross revenue		
Sales taxes	(18.695)	(26.990)
Freight on sales	(8.094)	-
Net revenue	**3.588.919**	**3.344.613**

22. COST OF GOODS SOLD

The costs of goods sold are as follows:

	June 30, 2014	June 30, 2013
Mine	(385,606)	(321,234)
Processing	(322,906)	(317,960)
Ore pipeline	(46,915)	(41,061)
Filtration	(92,095)	(85,900)
Pelletizing	(361,383)	(360,528)
Total	**(1,208,905)**	**(1,126,683)**
Depreciation and amortization	(110,619)	(100,345)
Financial Compensation for Exploration of Mineral Resources (CFEM)	(31,781)	(8.770)
Other costs	(28,285)	(4,033)
Cost of goods sold	**(1,379,590)**	**(1,239,831)**

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

23. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	June 30, 2014	June 30, 2013
Sales expenses		
Outsourced services	(17,149)	(21,499)
Personnel expenses	(11,170)	(11,038)
Depreciation and amortization	(7,393)	(5,155)
Auxiliary supplies	(5,049)	(6,603)
Shipment expenses	(27,518)	(8,167)
Allowance (reversal of allowance) for doubtful accounts	495	2,130
Sales expenses of subsidiaries	(10,382)	(7,445)
General expenses	(5,099)	(5,016)
Total	**(83,265)**	**(62,793)**
General and administrative expenses		
Outsourced services	(6,558)	(6,600)
Personnel expenses	(20,674)	(17,417)
Depreciation and amortization	(466)	(213)
Auxiliary supplies	(76)	(34)
General expenses	(2,404)	(2,294)
Total	**(30,178)**	**(26,558)**

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

24. OTHER NET OPERATING EXPENSES

Details of other net operating expenses are shown below:

		June 30, 2014	June 30, 2013
Taxes		(7.058)	(65.132)
Provision for ICMS losses - ES and MG (Note 7)		(111.875)	(181.117)
Provisions for contingencies (Note 18)		(102.975)	41.506
Investments and social projects		(3.882)	(4.528)
Employees profit sharing	(a)	(66.522)	(55.054)
Research expenses (Note 11)		(38.230)	(19.076)
Mining rights (Note 9)		(81.941)	(79.389)
Others, net		(48.181)	(26.168)
Total		**(460.664)**	**(388.958)**

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

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

25. FINANCIAL RESULT

The Company's financial result is as follows:

	June 30, 2014	June 30, 2013
Financial income		
Earnings on investments	1,304	360
Discounts obtained	63	461
Other financial revenue	8,891	2,074
	10,258	**2,895**
Financial costs		
Arrears and tax fines	(15,022)	-
Charges on borrowings and financing	(75,526)	(24,096)
Financial expenses on exchange contract	-	(1,559)
Commission and bank interest	(14,646)	(8,909)
IOF - Tax on financial transactions	(144)	(175)
Other financial expenses	(8,445)	(25,452)
	(113,783)	**(60,191)**
Net financial costs (income)	**(103,525)**	**(57,296)**

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

The balance of the exchange variance is as follows:

	June 30, 2014	June 30, 2013
Cash	(8)	6,211
Trade accounts receivable	26	(2,237)
Recoverable taxes	111,692	(132,657)
Property, plant and equipment	(2)	-
Trade payables	(19,093)	2,284
Payroll, provisions and social contributions	(2,509)	2,906
Taxes payable	(13,542)	1,946
Dividends	186,696	393,649
Contingency	(13,771)	3,100
Others	18,175	(8,646)
Net exchange variance	**267,664**	**266,556**

26. INCOME TAX

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

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

26.1 Income tax payable

See below the changes in income tax payable:

	June 30,2014	December 31,2013
Balance at the beginning of the period	**-**	**81,917**
Provisions in the period	432,042	432,039
Payments	(137,983)	(177,105)
Offsetting with PIS and COFINS credits	(127,506)	(334,696)
Offsetting of recoverable tax (prepayment)	-	49,904
Offsetting of the negative balance of return from prior period	(45,373)	(48,572)
Recognition of negative balance of prior period	-	6,107
Proceedings related to REFIS	-	(9,594)
Transfer pricing adjustment	(11,688)	-
Balance at the end of the period	**109,492**	**-**

26.2 Deferred income tax

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

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

	Note	June 30, 2014			December 31, 2013		
Amounts recorded at the rate of:		**25%**	**18%**	**Total**	**25%**	**18%**	**Total**
Non-current assets							
Provision for ICMS losses - ES	7	279,265	-	279,265	251,296	-	251,296
Provision IRPJ - Transfer of ICMS - ES Credits		-	464	464	-	464	464
Provision for profit sharing	15	7,657	-	7,657	11,753	-	11,753
Provision for asset retirement obligation	18	18,008	-	18,008	16,272	-	16,272
Provision for attorneys' fees	17	2,798	-	2,798	2,797	-	2,797
Estimated allowances for doubtful accounts	5	90	-	90	129	-	129
Provision for losses - AIRE		1,058	-	1,058	1,058	-	1,058
Provision for electricity	18	10,091	-	10,091	8,358	-	8,358
Provision for loss of tax losses		2,767	-	2,767	2,767	-	2,767
Provision for civil claims	17	18,666	-	18,666	27,717	-	27,717
Provision for mining rights	18	20,485	-	20,485	6,828	-	6,828
Provision for unrealized profit		5,483	-	5,483	-	-	-
Provision for labor contingencies		6,121	-	6,121	3,499	-	3,499
Provison for ICMS DRAWBACK - MG		29,708	-	29,708	-	-	-
Provision for UGHASA - DCOMP (Years 1995 to 2001)		-	464	464	-	458	458
Provision for ICMS fine - ES	17	2,824	-	2,824	2,753	-	2,753
Others		12,310	30	12,340	1,342	29	1,371
Total consolidated assets		**417,331**	**958**	**418,289**	**336,569**	**951**	**337,520**
Effects resulting from changes to accounting practices Law 11638/07 (a)		-	(226,036)	(226,036)	-	(585,724)	(585,724)
Fiscal depreciation		-	(213,237)	(213,237)	-	(171,319)	(171,319)
Total consolidated liabilities		**-**	**(439,273)**	**(439,273)**	**-**	**(757,043)**	**(757,043)**
Consolidated net total		417,331	(438,315)	(20,984)	336,569	(756,092)	(419,523)

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

(a) Deferred income tax on non-monetary items

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

The expected realization of deferred income tax is shown below:

	Up to 1 year	1 to 3 years	3 to 5 years	5 to 8 years	8 to 10 years	Over 10 years	Total Jun 2014
Tax proceedings	9,117	-	-	18,687	3,840	8,484	40,128
Labor claims	36	4,632	1,453	-	-	-	6,121
Environmental proceedings	-	-	6	-	-	-	6
Civil proceedings	-	17,866	800	-	-	-	18,666
Provision for ICMS losses - ES	-	-	-	-	-	279,265	279,265
Adjustments for compliance with CPCs	(226,036)	-	-	-	-	-	(226,036)
Fiscal depreciation	-	-	-	-	-	(213,237)	(213,237)
Others	56,095	-	-	-	-	18,008	74,103
	(160,788)	**22,498**	**2,259**	**18,687**	**3,840**	**92,520**	**(20,984)**

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

26.3 Income tax in the statement of income

	Consolidated	
	June 30,2014	June 30,2013
Net income before income tax	1,799,361	1,835,733
Effects resulting from changes to accounting practices Law 11638/07	208,885	(696,870)
Fiscal depreciation	(228,431)	(189,966)
Net income after the adjustments to the transitional taxation scheme	1,779,815	948,898
Permanent differences:		
Equity in net income of subsidiaries	2,233	(6,057)
Overseas profits	2,226	7,299
Non-deductible tax fines	140	13,828
Non-deductible donations	2,420	2,667
Other additions (exclusions)	4,309	(10,992)
Profit deriving from subsidized exports	(1,384,553)	(859,985)
Calculation basis	406,590	95,658
Statutory rate	25%	25%
Income tax calculated	101,647	23,914
Income tax on subsidized exports 18%	249,219	154,797
Tax incentive (PAT)	(3,561)	(3,095)
Tax paid by companies overseas	575	479
Transfer pricing adjustment	11,688	-
Deferred income tax adjustment	-	(84)
Deferred income tax due to the exchange impact over nonmonetary items	(317,770)	242.563
Income tax in the statement of income	**41,798**	**418,574**

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

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

	June 30,2014	June 30,2013
Current income tax	(432,041)	(228,629)
Deferred income tax on temporary differences	72,473	52,618
Deferred income tax on non-monetary items	317,770	(242,563)
Current and deferred income tax expenses	**(41,798)**	**(418,574)**

27. COMMITMENTS

The Company is party to long-term contracts as from 2014 for the supply of raw materials and services and the acquisition of real estate, as shown below:

	Up to 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total June 30, 2014
Capital expenditure for expansion and overhaul of property, plant and equipment	161,245	-	-	-	-	161,245
Services and others	577,174	706,115	306,404	93,044	2,529	1,685,266
Iron ore acquisition	502,212	439,783	411,322	791,464	909,614	3,054,395
Supply of power and raw materials	696,550	665,241	632,584	940,403	1,060,314	3,995,092
Freight and logistics costs	3,651	-	-	-	-	3,651
	1,940,832	**1,811,139**	**1,350,310**	**1,824,911**	**1,972,457**	**8,899,649**

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

28. FINANCIAL INSTRUMENTS

28.1 Financial Risk Management

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

These instruments are managed through operating strategies and internal controls, aimed at liquidity, profitability and security.

The use of financial instruments for hedging purposes is made through a periodic analysis of the risk exposure that the management intends to mitigate (exchange, interest rate, etc.).The policy and strategies are formulated by the management and approved by the due Corporate governance instances.

The Company and its subsidiaries do not invest in derivatives or any other risky assets on a speculative basis.

28.2 Financial instruments by category

The financial instruments have been classified below:

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

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

Financial assets consist of:

(a) Cash, cash equivalents, restricted short-term investments

	June 30, 2014	December 31,2013
Cash and cash equivalents	1.256.780	436,858
Restricted short-term investments	588	117,942
	1,257,368	**554,800**

- Cash and cash equivalents

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

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

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

- Restricted cash held in specific collection accounts as a result of certain financing transactions.

(b) Accounts receivable

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

	June 30, 2014	December 31,2013
Accounts receivable	887,256	856,980

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

Financial liabilities consist of:

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

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

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

	June 30, 2014	December 31,2013
Brazil	1.81%	1.79%
USA	83.01%	80.52%
Japan	15.18%	17.69%

28.3 Financial risk factors

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

(a) Credit risk

The Company's sales policy is governed by the Customer Credit Policy determined by management, and are aimed at minimizing any losses resulting from payment default by its customers. The Company drives credit analyses on its customers once a year, in order to mitigate risks of non-payment for outstanding sales and future sales. The main purpose of it is to evaluate customer payment capacity. The Company offers to its customers the following means of payment: letter of credit and collection (at sight and/or at term) through bank account credit.

Gross sales revenue amounted to R$ 3.615 billion in June 30, 2014 (R$ 7.240 billion in 2013), while the allowance for doubtful accounts made in June 30, 2014 was R$ 123 (R$ 618 in 2013). 63.1% of the outstanding accounts receivable is secured by letters of credit or export credit insurance in June 30, 2014 (31.37% in 2013).

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

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

The receivables' exposure is well distributed globally in terms of credit risk. They are dispersed across the regions, as follows:

	June 30, 2014	December 31,2013
Middle East / Africa	23%	29%
China	11%	15%
Asia (except China)	24%	22%
Europe	20%	20%
Americas	22%	14%

The maximum exposure to credit risk at the balance sheet date is the carrying value of each class of receivable.

(b) Market risk

(i) Price risk

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

(ii) Interest rate risk

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

Most of the Company's borrowings and financings at June 30, 2014 are denominated in United States Dollars, with approximately R$ 3,877 billion bearing interest at fixed rates and R$ 5.399 billion at floating rates corresponding to the variance in the LIBOR plus a contractual spread. The Company has no hedge against LIBOR variance, in accordance with its related internal policy and its shareholders' guidelines. Interest-rate risk also derives from the small amount of debt referenced to the IGP-DI price index and short-term investments referenced to CDI.

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

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

Assets	June 30, 2014	December 31,2013
Current		
Cash and cash equivalents	47	5,776
Domestic accounts receivable	3,796	7,635
Recoverable taxes	174,309	277,759
Prepaid expenses	21,355	4,937
Other assets	31,478	31,523
Non-current		
Judicial deposits	553,387	409,563
Recoverable taxes	22,557	31,393
Other assets	35,608	36,238
Liabilities		
Current		
Trade payables	(183,784)	(272,967)
Domestic borrowings and financing	(3,537)	(3,403)
Financial charges payable in Brazil	(2,593)	(1,831)
Payroll, provisions and social contributions	(87,624)	(92,345)
Taxes payable	(116,436)	(208,518)
Provision for income tax	(109,492)	-
Other provisions	(41,165)	(60,842)
Other liabilities	(19,692)	(7,962)
Non-current		
Domestic borrowings and financing	(164,836)	(159,707)
Financial charges payable in Brazil	(318)	(438)
Provision for legal obligations	(239,053)	(145,989)
Deferred income tax	(20,984)	(419,523)

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

Other provisions	(169,089)	(155,852)
Other liabilities	(170,464)	(168,245)
Net exposure recorded in the balance sheet	**(486,530)**	**(892,798)**

Liabilities not recorded in the balance sheet

Tax proceedings		
Chance of loss remote	(2,092,741)	(2,102,598)
Chance of loss possible	(4,432,576)	(4,374,143)
Labor claims		
Chance of loss remote	(9,521)	(6,024)
Chance of loss possible	(32,170)	(31,965)
Civil claims		
Chance of loss remote	(15,531)	(9,118)
Chance of loss possible	(60,055)	(30,512)
Environmental proceedings		
Chance of loss remote	(43)	(18)
Chance of loss possible	(52,228)	(36,478)
Exposure not recorded in the balance sheet	**(6,694,865)**	**(6,590,856)**
Total net exposure	**(7,181,395)**	**(7,483,654)**

The Company only has transactions denominated in Reais or Dollar"

The Company does not conduct any operations to hedge its assets and liabilities in Reais, in accordance with the internal guidelines of management and shareholders.

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$ 2.2019 at June 30, 2014 (US$ 1.00 equal to R$ 2.3420 at December 31, 2013).

(c) Liquidity risk

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

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

Management believes the Company has a low liquidity risk due to its cash generation capacity and the possibility to borrow funds in advance if necessary, thereby enabling it to perform its scheduled commitments and obligations. Credit lines related to those kind of potential borrowing advances are constantly monitored by the Company.

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

	June 30,2013		
	Amount	Up to 12 months	1 - 10 years
Trade payables	206,370	206,370	-
Borrowings, financings and ACCs	9,276,319	832,318	3,935,479
Financial charges payable	48,072	47,754	318

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

Financial liabilities	Book amount	Contractual cash flow	June 30, 2014	2015	2016	2017	2018 - 2023
			0 - 6 months				
Trade payables	206,370	206,370	206,304	66	-	-	-
Borrowings, financings and ACCs	9,276,318	9,276,318	746,546	1,059,026	188,217	193,827	7,088,702
Financial charges	48,072	1,969,758	139,530	260,969	243,581	240,253	1,085,425
Total	**9,530,760**	**11,452,446**	**1,092,380**	**1,320,061**	**431,798**	**434,080**	**8,174,127**

Bank sureties

The Company has bank sureties issued for an indefinite term to guarantee the suspension of amounts demanded under tax enforcements amounting to a restated total at June 30, 2014 of R$ 2,166,826 thousand; the total amount originally contracted is R$ 1,538,027 thousand. The Company also has fixed-term sureties used to guarantee the payment of electricity purchases and full performance of obligations required in the transmission system usage agreements amounting to a restated total at June 30, 2014 of R$ 25,159 thousand; the original amount contracted was R$ 24,375 thousand. No losses are expected on these guarantees.

The Company has a committed line for surety transactions in the total amount of R$ 2 billion to support forthcoming demands with indefinite term.

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

Bank	Amount secured	Restated amount	Index	Term
Bradesco	1,032,157	1,297,330	Selic	Indefinite
Bradesco	64,648	81,801	VRTE	Indefinite
Votorantim	111,042	291,888	Selic	Indefinite
Itaú	303,926	456,056	Selic	Indefinite
Safra	26,254	39,751	INPC	Indefinite
	1,538,027	**2,166,826**		
Itaú	17,287	18,071	Selic	Determined
Itaú	6,710	6,710	-	Determined
Sumitomo	378	378	-	Determined
	24,375	**25,159**		
Total	**1,562,402**	**2,191,985**	-	-

28.4 Capital management

The Company manages its capital with a view to safeguarding liquidity while yielding sustainable returns for shareholders and benefits for other stakeholders, in addition to maintaining an ideal capital structure, which can further optimize cost.

In order to maintain or adjust the Company's capital structure, Management constantly monitors its debt levels, aligned with its dividends policy, which in turn follows shareholder guidelines.

The Company and its subsidiaries permanently monitor and manage their level of indebtedness in accordance with market standards, its strategy and covenants established in borrowings and financing contracts, primarily measured by the ratio Net Debt / EBITDA. EBITDA is measured through the Company's cash generation and Net debt, in turn, corresponds to total borrowings (including short- and long-term borrowings, as demonstrated in the consolidated balance sheet), minus cash and cash equivalents.

In 2014 the Company's strategy, which remained unchanged in relation to 2013, is to maintain its classification of credit as investment grade (currently “BBB-” on the scale of Standard and Poor's and “BBB” on the scale of Fitch Ratings).

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

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

	June 30, 2014	December 31, 2013
Total borrowings and financing	9,324,391	9,030,113
(-) Cash, cash equivalents, restricted short-term investments	(1,257,368)	(554,800)
Net debt	8,067,024	8,475,313
Total shareholders' equity	2,848,886	3,758,049
Total capital	10,915,909	12,233,362
Financial leverage index	74%	69%

28.5 Fair value hierarchy

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

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

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

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

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

	Balance at June 30, 2014	Fair value hierarchy		
		Level 1	Level 2	Level 3
Cash and cash equivalents	1,256,780	-	1,256,780	-
Restricted short-term investments	588	-	588	-

28.6 Sensitivity analysis

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

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

In order to identify the sensitivity of the index in the short-term investments to which the Company was exposed at June 30, 2013, three different scenarios were determined. Based on market projections and the official interest rate (Selic) in force at that date, the Company defined as reasonable to use the rate of 10.90% p.a. of CDI for the sensitivity analysis, a rate defined as the probable scenario. Based on the rate established for the probable scenario, two other additional 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	10.90% p.a.	8.18% p.a.	5.45% p.a.
Yields as of June 30, 2014	-	10.4	10.1	9.8

The sensitivity analysis was simulated over the following 12 months (amounts corresponding to the yields obtained in the period, based on the rates used in the evaluated scenarios at June 30, 2014).

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

In order to identify the sensitivity of the index in the long-term financing to which the Company was exposed at June 30, 2014, three different scenarios were determined, in order to involve the following 12 months. Based on the accumulated IGP-DI price index and Libor rate in valid for 12 months, ruling at June 30, 2014, the Company determined a probable scenario and two other additional scenarios based on the senarios II and III previously mentioned, but considering increases of 25% and 50% respectively.

	Risk	Probable scenario I	Scenario II	Scenario III
Overseas financing	Libor	0.3268% p.a.	0.4085% p.a.	0.4902% p.a.
Interest at June 30, 2014	-	17.938	22.423	26.907
Domestic financing	IGP-DI	2.75% p.a.	3.44% p.a.	4.12% p.a.
Interest at June 30, 2014	-	249	312	374

Amounts corresponding to the indexes and rates specified over the total long-term debt in USD, indexed to floating interest rates, at June 30, 2014, with repayment at the end of the period only (effect of simulation).

In order to identify the sensitivity of the changes in foreign currency to which the Company was exposed at June 30, 2014, three different scenarios were determined, where scenarios II and III consider an exchange-rate decrease of 25% and 50% respectively, based on the first, called probable scenario I.

Financial liabilities	Exposure (R$)	Scenario Probable I (USD)	Scenario II (USD)	Scenario III (USD)
Exchange rate - (Risk - R$ / USD)	-	2.2019	1.6514	1.1010
Total Assets	842,538	382,641	510,188	765,282
Total liabilities	(1,329,067)	(603,600)	(804,800)	(1,207,200)
Net exposure in Reais recorded in the balance sheet	(486,529)	(220,959)	(294,612)	(441,918)

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

29. Credit quality of financial assets

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

Cash and cash equivalents

	June 30, 2014	December 31,2013
Current Account and Short-term Bank Deposits		
Investment Grade	1,257,368	554,800
Non-investment Grade	-	-
	1,257,368	**554,800**

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

Trade accounts receivables

	June 30, 2014	December 31,2013
Counterparties with independent credit rating (S&P)		
Investment Grade	169,309	213,806
Non-Investment Grade	250,761	186,560
Counterparties without independent credit rating (S&P)		
Group 1	49,892	87,193
Group 2	209,507	130,983
Group 3	204,237	231,430
Group 4	3,673	7,626
	887,379	**857,598**

Group 1 - customers with relationship of up to 5 years
Group 2 - customers with relationship of more than 5 years without history of default;
Group 3 - customers with relationship of more than 5 years with little history of default/payment delay *(Any and all default/*payment delay *situations were completely resolved)*;
Group 4 - domestic clients not purchasing iron ore.

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

30. STATEMENT OF VALUE ADDED

The state taxes are as follows:

		Consolidated	
		June 30, 2014	June 30, 2013
State tax expenses	(a)	124,099	212,394
State tax credits	(b)	(181,602)	(156,621)
Total state taxes		(57,503)	55,773

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

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

		Consolidated	
		June 30, 2014	June 30, 2013
Federal tax expenses	(a)	93,773	505,133
Federal tax credits	(b)	(134,266)	(164,947)
Total federal taxes		(40,493)	340,186

(a) Federal tax expense consist of income tax, PIS and COFINS payable on domestic iron ore sales, logistics services and other items.

(b) Federal tax credits consist of PIS and COFINS credits on acquisitions of materials, consumables and property, plant and equipment.

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

31. INSURANCE COVERAGE

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

The assets covered amount to R$14,261,304 as of June 30, 2014 (R$5,972,045 as of December 31, 2013) and the indemnification ceiling is R$1,315,761 as of June 30,2014 (R$1,361,007 as of December 31, 2013).

32. LAW 12,973, ISSUED May 13, 2014

Law 12,973 Law 627 was issued on May 13, 2014 (conversion of Provisional Law 627/2013) repeal the Transitional Taxation Scheme (RTT) and introduced other measures.

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

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

SAMARCO MINERAÇÃO S.A.

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Helio Cabral Moreira

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Marcelo Botelho Rodrigues
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Chief Commercial Officer

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Chief Project Implementation Officer

Kleber Luiz de Mendonça Terra
Chief Operations and Infrastructure Officer

Eduardo Bahia Martins Costa
CFO and Supplies Officer

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

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