Companhia Vale do Rio Doce
Form 6-K
May 11, 2009

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United States
Securities and Exchange Commission
Washington, D.C. 20549
FORM 6-K
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the
Securities Exchange Act of 1934
For the month of

May 2009
Companhia Vale do Rio Doce
Avenida Graça Aranha, No. 26
20030-900 Rio de Janeiro, RJ, Brazil
(Address of principal executive office)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

(Check One) Form 20-F þ Form 40-F o

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1))

(Check One) Yes o No þ

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7))

(Check One) Yes o No þ

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

(Check One) Yes o No þ

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b). 82-____.)

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BOVESPA: VALE3, VALE5
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WEATHERING THE STORM
Performance of Vale in 1Q09

Rio de Janeiro, May 06, 2009 Companhia Vale do Rio Doce (Vale) reports a solid financial performance in 1Q09 in face of the most severe global economic downturn in the post-World War period.

To weather the recessionary environment we have been focusing on financial and operational flexibility, seeking to maximizing efficiency, minimizing costs and contributing to rebalance the markets where we operate.

Our endowment of world-class, low-cost assets, financial strength and the rapid response to the dynamics of the recession, have enabled us to continue to generate value across the cycle.

The main highlights of Vale s performance in 1Q09 were:

Gross revenue of US$ 5.4 billion, 27.2% less than the US$ 7.4 billion in 4Q08.

Operational profit, as measured by adjusted EBIT[a] (earnings before interest and taxes), of US$ 1.7 billion, 16.3% below 4Q08.

Operational margin, as measured by adjusted EBIT margin, of 31.6%, against 27.7% in 4Q08.

Cash generation, as measured by adjusted EBITDA[b] (earnings before interest, taxes, depreciation and amortization), of US$ 2.3 billion in 1Q09, compared to US$ 2.7 billion in 4Q08.

Net earnings of US$ 1.4 billion, equal to US$ 0.26 per share on a fully diluted basis, the same level as reached in 4Q08.

Investment excluding acquisitions of US$ 1.7 billion against US$ 3.5 billion in the previous quarter.

Dividend distribution of US$ 1.25 billion US$ 0.24 per common or preferred share paid on April 30, 2009, corresponding to the first installment of the minimum dividend for 2009.

Strong financial position, supported by large cash holdings of US$ 12.2 billion, availability of significant medium and long-term credit lines and a low-risk debt portfolio.

Except where otherwise indicated the operational and financial information in this release is based on the consolidated figures in accordance with US GAAP and, with the exception of information on investments and behavior of markets, quarterly financial statements are reviewed by the company s independent auditors. The main subsidiaries that are consolidated are the following: Vale Inco, MBR, Cadam, PPSA, Alunorte, Albras, Valesul, Vale Manganês S.A., Vale Manganèse France, Vale Manganese Norway AS, Urucum Mineração S.A., Ferrovia Centro-Atlântica (FCA), Vale Australia, Vale International and Vale Overseas.

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Table 1 SELECTED FINANCIAL INDICATORS

in US$ million	**1Q08 (A)**	**4Q08 (B)**	**1Q09 (C)**	**% (C/A)**	**% (C/B)**
Gross revenues	8,048	7,442	5,421	-32.6	-27.2
Adjusted EBIT	2,915	2,013	1,685	-42.2	-16.3
Adjusted EBIT margin (%)	37.2	27.7	31.6		
Adjusted EBITDA	3,729	2,697	2,281	-38.8	-15.4
Net earnings[1]	2,021	1,367	1,363	-32.6	-0.3
Earnings per share (US$)	0.42	0.26	0.26		
Earnings per share fully diluted basis(US$)	0.41	0.26	0.26		
ROE (%)[2]	33.2	31.1	28.7		
Total debt/ adjusted LTM EBITDA (x)	1.3	1.0	1.0		
Capex (excluding acquisitions)	1,695	3,466	1,714	1.1	-50.5

1 The net earnings figure for 4Q08 US$ 1.367 billion , includes a non-cash extraordinary charge of US$ 950 million derived from the regular annual impairment review for goodwill. For a full description of the impairment test, please see the box Impairment test , on our 4Q08 earnings release.

2 Return on equity

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BUSINESS OUTLOOK

The global economy is experiencing the deepest downturn for the last 60 years, as the financial crisis spread around the world and adverse feedback loops between the financial and real sector took place.

According to the IMF, global GDP is estimated to have contracted by 6.25% in 4Q08 and to have fallen almost as fast in 1Q09. Most of the developed countries are suffering severe recessions.

The US economy, the epicenter of the financial crisis, was directly impacted by the intensified financial shock and the continued fall in housing. The acceleration of recession that began in December 2007 resulted in a sequential GDP plunge of 6.3% and 6.1%, respectively, in 4Q08 and 1Q09. On the positive side, there was a swing in consumer spending, from a 4.3% decrease in 4Q08 to an increase of 2.2% in 1Q09, and a good deal of the GDP drop came from inventory consumption, which leaves room for a demand recovery in the coming quarters.

Europe and Japan were hit by the collapse in exports as well as by their own financial problems including housing crises in some European countries. In the case of Japan, where exports are a key driver of the aggregate demand, weakness is reinforced by the yen s strength. Given the rigidities of the European labor and product markets and the slow reaction of the European Central Bank, we expect the recession there to last longer than in other regions.

The performance of emerging economies has been damaged through trade and financial channels. Some of the Asian emerging economies are highly exposed to the decline in external demand for autos, electronic and investment goods. Latin American economies, where there are some of the world s natural resources powerhouses, were hit by a powerful combination of a terms of trade shock, weak export demand and the sudden stop of credit. Emerging Europe is the most affected group of emerging economies primarily due its high dependence on external financing.

The best performers are China and India, given the small contribution of net exports to demand and the more resilient domestic demand.

Global industrial production, the most volatile and cyclical component of GDP, has been plummeting at an estimated annualized rate of more than 20% at the margin. As a consequence, the demand for minerals and metals has been experiencing an unprecedented contraction.

In addition to its depth, the current recession involves the perverse combination of a substantial financial crisis with a synchronized global downturn. History tells us that recessions with such rare characteristics have been longer and more severe while recoveries are usually sluggish. On the other hand, history also tells us that monetary policy has played an important role in ending recessions and strengthening recoveries.

There has been an aggressive monetary policy response to the current recession. The main central banks have intervened massively to provide liquidity to the financial system through conventional and non-conventional monetary policy tools and have implemented zero or near zero policy interest rates.

Quantitative easing is underway and purchases of corporate and government securities by central banks are expanding money supply as well as reducing yields and compressing spreads. In addition, there is a relatively good degree of international cooperation whilst major moves towards increasing trade, labor and financial protectionism have been avoided so far.

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The return to sustainable economic growth depends fundamentally on restoring the health of confidence in the financial institutions. Increased bank lending is the key to a steady recovery. Households and businesses that cannot obtain credit are unable to spend and to invest, creating a drag on aggregate demand and GDP. One of the main reasons banks are unwilling to lend is the lack of confidence in the value of the assets they carry in their books, and therefore lack of confidence in whether they have enough capital to avoid insolvency.

In the current environment, aggressive monetary and fiscal policies are catalysts to spur a fast recovery. However, the continuing weakness in real estate markets, the prevailing uncertainty about the health of financial institutions and the crowding out of private savings stemming from rising public sector borrowing requirements are catalysts for a more protracted recovery. One of the byproducts of financial crises is substantial increases in budget deficits arising from the fall in government tax revenues as well as drastic increases in automatic and discretionary fiscal spending.

In the last few days, an outbreak of A/H1N1 flu has arisen. The World Health Organization has issued alerts, warning about the likelihood of an imminent global pandemic.

Given the huge advances in medicine, information technology and logistics, especially over the last decades, it is unlikely that the current episode will cause another shock on the global economy. However, it is a reason for concern, adding more uncertainty to the performance of economic activity.

In the short-term, the data flow is unveiling some signals of stabilization, producing the sensation of the end of the free fall . The arrival of this news stimulated a rally in equity prices, a decrease in financial asset price volatility, and contributed to lessen risk aversion, which led to a slight depreciation of the US dollar against some currencies including the Brazilian real, the Canadian dollar, the Australian dollar and the Indonesian rupiah. Needless to say, even though the stock market usually anticipates recoveries, price rallies followed by sharp corrections are not an unusual event during prolonged economic downturns.

While recent currency price changes are not positive for mining companies, there are some positive signals on the demand side originating in large part from China.

Although substantially below the no-change mark of 50, the April 2009 Global Manufacturing PMI rose for the four month in a row. It surged 4.5 points to 41.8 in April, by far the biggest sequential gain in the 12-year history of the survey, suggesting that the worst of the global manufacturing recession may have passed. Simultaneously to a continuous decrease in inventories, new orders are resuming growth. This is a movement that bodes well for the evolution of the demand for minerals and metals as long as the orders/inventory ratio is a leading indicator of industrial production.

In China, contemporaneous and leading indicators of economic activity are also issuing more favorable signals. After a likely zero sequential growth in 4Q08, we estimate China s GDP to have shown a seasonally adjusted annualized increase of 5% in 1Q09, manufacturing PMI climbed to the +50 region in March registering its fourth consecutive month of growth, new bank lending is surging, passenger car sales were up 10.3% yoy, industrial production rebounded, and fixed asset investment (FAI) strengthened to 28.6% year-on-year in March.

While we believe infrastructure investment is the main driver of FAI acceleration, the strong increase in bank loans to the property sector and the various incentives to housing underlie the rebound in property investment growth to around 7% yoy in March, which is consistent with the sharp recovery in housing sales earlier this year.

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A sustained recovery in housing sales is a key condition for the performance of Chinese demand for iron ore, as the property sector is responsible for almost 40% of the country s steel consumption.

Despite the drag on GDP from the weak external demand, we expect an improving performance of China s economy over the next three quarters bolstered by the strengthening in domestic demand growth, resulting from credit easing and the aggressive government-led infrastructure investment.

As one of the few economies in the world with an expanding economic activity, China s demand for minerals and metals is recovering from the depressed levels of the last quarter of 2008. To meet its rising demand, Chinese consumers are taking advantage of the buying opportunities created by the lower prices caused by the collapse in global demand. Thus, imports boomed driven by the increased demand as well as by the substitution of high-cost low-quality domestic material.

This is the case of iron ore, where imports reached 131.5 million metric tons in 1Q09, increasing 18.8% yoy. China s April imports reached 54.3 million metric tons. Given the sharp fall in iron ore spot prices since July 2008, we estimate that a substantial part of the local production capacity is not economically feasible.

In the world ex-China, the demand for iron ore remains extremely weak, with Japan, the world s second importer, reducing its purchases by 34.4% yoy in 1Q09.

This reflects the large share of carbon steel capacity being kept idle, averaging 50% in the Americas, Europe, and Japan. In 1Q09, global steel output declined 22.8% yoy and 36.9% if we exclude China. The worst performers were North America with a 52.1% yoy drop, Europe with 43.8%, Japan 42.9% and Brazil 42.1%.

Besides discontinuing the production of lower grade iron ore production, Vale has speeded up the implementation of its new marketing policy strategy.

Our iron ore output is under a structural shift with the onset of a trend towards a rising share of the low-cost high-quality Carajás ores, boosting our competitiveness in the global arena. The increasing supply of low quality ores by competitors should help Vale to maximize the capture of the value-in-use of its high quality ores, sold at a price premium over the other products.

The maritime shuttle service initiative initially involving the order of 12 very large ore carriers and contracts of affreightment (COAs) for 6 new large vessels all of them scheduled to sail from 2011 onwards is being executed in the short-term through COAs and the acquisition of old ships. As a consequence, we are also selling our iron ore on C&F basis aiming to smooth price volatility to our clients and to increase our competitiveness.

We are enlarging our customer base in China, entering into contracts with midsized steelmakers, which is facilitated by the use of our ships (owned and under COAs) to carry iron ore.

We have been adopting a more flexible stance to iron ore pricing, employing different options in our marketing efforts, including provisional pricing. As a matter of fact, moving forward iron ore products will be priced according to a variety of alternatives, ultimately reflecting the preferences of our clients.

The global demand for nickel is showing some limited signals of improvement.

In the case of stainless steel, despite some structural differences, there is a scenario similar to the one shown by the carbon steel industry. Chinese and Taiwanese production levels are improving with better order books as re-stocking takes place. In contrast, in Europe, in the US and in Japan, mills are continuing to run at low operating rates.

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Scrap prices returned to their historical level of 90-95% of primary nickel prices due to the lower availability combined with the rising demand from China and Taiwan.

The demand for nickel from non-stainless steel applications remains weak with only a few exceptions. In Japan, plating and powder markets are starting to stabilize and are expected to improve in the near future. Demand for plating in China is also improving.

Chinese nickel imports rose by 33% yoy in 1Q09, reaching 60,700 metric tons. There was a marked change in its mix, arising from a sharp decrease in laterite ores and a surge in ferronickel and finished nickel. Laterite ores are contributing with less than 10% of Ni contained imports against 30% one year ago. However, stocks of the ore at the ports are still increasing, reflecting the low activity of nickel pig iron producers.

Since July 2008 nickel inventories at the LME warehouses have been climbing, reaching 114,426 metric tons on April 29, 2009, the highest level since April 25, 1995. Although a major part of this inventory build-up reflects excess supply, this is also influenced by the upward sloping curve of nickel futures, given that futures prices are good predictors of the direction of spot price changes. This contango situation implies that expected future prices are higher than current prices, and the associated returns from price appreciation provide incentives for inventory accumulation.

We estimate that 20% of global nickel capacity is currently idle. Due to the relatively long production cycle involving a complex flow of materials, production cutbacks are transformed into effective supply reductions with a lag of three to four months.

As announced before, we have been taking several steps to curtail our own supply of nickel. In addition to the temporary closure of the CC South mine, the one-month stoppage of Voisey s Bay operations and the shutdown of the part of the Sorowako production which is fuel-fired, we have decided to slow down the conclusion of Onça Puma for at least one year and the ramp up of Goro, while shutting down Sudbury for a period of eight weeks following a one-month period of previously planned maintenance. These moves will contribute to consume excess inventories, to cut costs and to help rebalance the global nickel market.

Among base metals, demand for aluminum tends to respond most strongly to GDP variations, with income elasticity exceeding 1. As a consequence, global consumption has contracted significantly and prices have been lower than cash costs for the majority of the smelters around the world.

China s Strategic Reserve Bureau (SRB) purchases have raised the Shanghai Futures Exchange (SHFE)-LME price differential, which stimulated China to become a net importer of aluminum for the first time over the last five years. Price has shown a slight recovery from its trough of US$ 1,264 per metric ton in mid-February but stocks continue to climb, and are estimated to represent about 120 days of consumption against 40 days one year ago. Therefore, there is a strong need for more discipline on the supply side in order to minimize losses and to pursue a correction of the current disequilibrium.

Copper prices have been recovering simultaneously to a decrease in inventories. Chinese demand has been instrumental to this process as imports have increased by 33% yoy. Although part of this expansion is due to the SRB purchases, we expect that the recovery in domestic economic activity is also playing a role in import growth.

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Following past cyclical patterns, the impact of the global slowdown on agricultural commodities tends to be milder than for energy and metals, given the lower income elasticity of underlying demand. Thus, prices of potash, a key fertilizer for grains and sugar cane, experienced only a moderate decrease relatively to the peak reached in 3Q08. Given the supply discipline stimulated by industry consolidation, the market for potash is expected to remain tight.

The main factors underlying rising prices for minerals and metals over the last few years rapid demand increases from emerging market economies coupled with geological and institutional restrictions to supply expansion are expected to reemerge in the context of a sustained global recovery of economic activity.

We estimate that metals and mining projects involving a total investment of US$ 200 billion were postponed or cancelled. For 2009, we expect global mining capex to decline US$ 60 billion from the US$ 110 billion of last year. The current investment curtailment and the much more restricted supply of funding for investment expected to prevail in the future will contribute to a tighter market situation for minerals and metals in the medium term.

Despite our expectation of a U-shaped recovery of the global economy, we remain optimistic about the long-term fundamentals of the markets for minerals and metals. Moreover, we strongly believe that Vale, given its world-class long-lived low-cost assets, exciting large pipeline of projects and financial strength, will continue to generate substantial value for its shareholders across the cycles.

REVENUES

In 1Q09, our gross operating revenues totaled US$ 5.421 billion, 27.2% less than the US$ 7.442 billion reached in 4Q08.

The performance of our revenues was negatively affected by the fall of both prices (US$ 1.178 billion) and volumes (US$ 843 million), contributing 58.3% and 41.7%, respectively, to the decrease relatively to 4Q08.

The drop in shipments has produced a more severe negative impact on revenues from sales of pellets, US$ 694 million, and finished nickel, US$ 154 million. Price declines played a more important role in the revenues of iron ore, causing a reduction of US$ 555 million.

As mentioned before, we have been employing a more flexible stance towards the pricing of iron ore in light of the change in market conditions that followed the intensification of the global financial stress. In this respect, we have accrued 80% of the 2008 benchmark price for the sales of 28.8 million metric tons made at the above-mentioned 2008 benchmark price. Once the benchmark prices for 2009/2010 are settled, adjustments in our revenues can be made.

The share of ferrous minerals in total sales revenues increased to 64.7%, with a significant change compared to the 42.0% reached two years ago, in 1Q07. Non-ferrous minerals represented 27.9%, logistics 3.7%, coal 2.5% and others 1.3%.

The distribution of our sales by geographical destination also suffered a major change due to the performance of Chinese demand for minerals and metals. In 1Q09, Asia expanded its share to 63.3% from 43.2% in the previous quarter, while the Americas share shrank to 19.9% from 26.7%, and Europe to 15.0% from 25.4%.

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On a country basis, China was the main market for our products (44.7%), followed by Brazil (11.3%), Japan (8.9%), South Korea (4.7%) and the United States (4.1%).

Table 2 GROSS REVENUE BY PRODUCT

in US$ million	1Q08	%	4Q08	%	1Q09	%
Ferrous minerals	**4,154**	**51.6**	**4,764**	**64.0**	**3,505**	**64.7**
Iron ore	3,116	38.7	3,537	47.5	3,129	57.7
Pellets	655	8.1	1,024	13.8	269	5.0
Manganese ore	40	0.5	24	0.3	15	0.3
Ferroalloys	259	3.2	138	1.9	77	1.4
Pellet plant operation services	24	0.3	4	0.1	4	0.1
Others	60	0.7	37	0.5	11	0.2
Non-ferrous minerals	**3,378**	**42.0**	**2,068**	**27.8**	**1,515**	**27.9**
Nickel	1,891	23.5	851	11.4	639	11.8
Copper	506	6.3	272	3.7	236	4.4
Kaolin	54	0.7	45	0.6	39	0.7
Potash	64	0.8	23	0.3	65	1.2
PGMs	126	1.6	39	0.5	53	1.0
Precious metals	30	0.4	22	0.3	29	0.5
Cobalt	61	0.8	37	0.5	13	0.2
Aluminum	362	4.5	332	4.5	194	3.6
Alumina	278	3.5	438	5.9	245	4.5
Bauxite	6	0.1	9	0.1	2	0.0
Coal	**72**	**0.9**	**199**	**2.7**	**134**	**2.5**
Logistics services	**362**	**4.5**	**310**	**4.2**	**199**	**3.7**
Railroads	295	3.7	240	3.2	157	2.9
Ports	67	0.8	70	0.9	42	0.8
Others	**82**	**1.0**	**102**	**1.4**	**68**	**1.3**
Total	**8,048**	**100.0**	**7,442**	**100.0**	**5,421**	**100.0**

Table 3 GROSS REVENUE BY DESTINATION

in US$ million	1Q08	%	4Q08	%	1Q09	%
North America	**1,164**	**14.5**	**685**	**9.2**	**434**	**8.0**
USA	693	8.6	349	4.7	220	4.1
Canada	413	5.1	280	3.8	214	3.9
Others	58	0.7	56	0.8		
South America	**1,569**	**19.5**	**1,300**	**17.5**	**645**	**11.9**
Brazil	1,385	17.2	1,108	14.9	611	11.3
Others	184	2.3	192	2.6	34	0.6
Asia	**3,251**	**40.4**	**3,215**	**43.2**	**3,434**	**63.3**
China	1,385	17.2	955	12.8	2,423	44.7
Japan	875	10.9	1,352	18.2	484	8.9
South Korea	272	3.4	456	6.1	254	4.7
Taiwan	262	3.3	120	1.6	133	2.5
Others	457	5.7	332	4.5	139	2.6
Europe	**1,895**	**23.5**	**1,891**	**25.4**	**814**	**15.0**
Germany	528	6.6	523	7.0	207	3.8
Belgium	180	2.2	177	2.4	73	1.3

France	150	1.9	126	1.7	39	0.7
UK	293	3.6	184	2.5	176	3.3
Italy	182	2.3	254	3.4	77	1.4
Others	562	7.0	627	8.4	242	4.5
Rest of the World	**169**	**2.1**	**351**	**4.7**	**95**	**1.7**
Total	**8,048**	**100.0**	**7,442**	**100.0**	**5,421**	**100.0**

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COSTS

As described in the 4Q08 press release, we have been developing relentless efforts to minimize costs. While some of the expected effects of these initiatives are already reflected in our 1Q09 financial performance, most of them are yet to be materialized.

After the acquisition of Inco Ltd. in October 2006, our focus was to ramp up production to exploit the booming demand for nickel at that time. In order to reach that goal we had to scale up maintenance investments in Sudbury and Thompson to allow operation at nominal capacity. At the same time, we had to concentrate our attentions on solving the problems that were hampering the full development of the Goro project, a world-class asset.

Given the cyclical change and the onset of the commissioning of Goro, we turned our focus to cost minimization of the nickel operations. In addition to the production adjustments in the Canadian and Indonesian operations, we have been taking steps to increase labor productivity across all operations and corporate offices, cut administrative costs, optimize labor and plant utilization, save energy costs, rationalize mineral exploration and R&D, replace a number of contractors with our own workforce and re-tender major contracts.

In Indonesia, for instance, we managed to reduce unit cash costs by 26.7% in 1Q09 relative to 1Q08, primarily due to the shutdown of the thermal generators. Another example is the initiative to lower mining cash costs in Canada by at least 20%, a goal to be achieved during this year.

Cost of goods sold (COGS) totaled US$ 2.900 billion in 1Q09, showing a 17.6% decrease relatively to 4Q08, at US$ 3.520 billion, and 31.6% lower than in 1Q08, at US$ 4.242 billion. For accounting reasons, costs of the operations which were kept idle mainly depreciation charges, personnel and maintenance in 1Q09 were booked as other operating expenses instead of COGS.

Lower sales volumes were responsible for US$ 480 million of the US$ 620 million drop in COGS relatively to 4Q08 while currency price changes contributed with only US$ 46 million[3]. Lower input prices and other cost cutting measures reduced COGS by US$ 94 million.

In 1Q09, the cost of materials was the main item in COGS, accounting for 19.3% and amounting to US$ 560 million, against US$ 590 million in 4Q08. Given the reduced level of production activity, regular maintenance was anticipated in some operations, leading to a US$ 11 million additional cost in spare parts and conveyor belts in this quarter. This fact partially offset the effect of lower sales volume US$ 63 million on this cost item.

Additionally, in alumina production we are facing a higher consumption level of caustic soda required by the higher silica content in bauxite. This led to an increase of US$ 26 million in input costs compared with the previous quarter.

The main materials items were: spare parts and maintenance equipment, US$ 172 million (vs. US$ 167 million in 4Q08), inputs, US$ 174 million (vs. US$ 169 million in 4Q08), tires and conveyor belts, US$ 33 million (vs. US$ 31 million in 4Q08).

[3] COGS currency exposure in 1Q09 was made up as follows: 55% in Brazilian reais, 23% in Canadian dollars, 17% in US dollars, 2% in Indonesian rupiah and 3% in other currencies.

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Personnel expenses reached US$ 443 million, representing 15.3% of COGS. The decrease of US$ 44 million relatively to 4Q08 reflected lower sales volume (US$ 44 million) and the effect of exchange rate changes (US$ 8 million). On the other hand, the 7% wage increase in November 2008, as part of the two-year agreement with Brazilian employees in November 2007, contributed to add US$ 8 million to personnel expenses compared to 4Q08.

Costs for outsourced services, making up 14.6% of COGS, totaled US$ 424 million in 1Q09, compared to US$ 591 million in 4Q08. The cost reduction was caused by lower sales volumes (US$ 106 million), lower average prices (US$ 52 million), and the US dollar appreciation (US$ 9 million).

The main outsourced services are: (a) cargo freight, which accounted for US$ 132 million (vs. US$ 173 million in 4Q08); (b) maintenance of equipment and facilities, US$ 85 million (vs. US$ 137 million in 4Q08); and (c) operational services, US$ 135 million (vs. US$ 176 million in 4Q08), which include US$ 34 million for ore and waste removal.

Expenses with railroad freight dropped to US$ 72 million, showing a 28.0% reduction relatively to the previous quarter, at US$ 100 million, and 50.3% lower than the same quarter last year, at US$ 145 million. A major part of the cutback in iron ore production was made in the Southern System mines, where transportation to our maritime terminals is performed by the MRS railroad, a non-consolidated affiliated company.

Costs with maritime freight services mainly involving the shipping of bauxite from Trombetas to Barcarena totaled US$ 35 million and expenses with truck transportation services amounted to US$ 25 million 40.9% lower than in 4Q08, mainly due to lower sales volume of nickel products which use this service.

Expenses with energy reached US$ 409 million, accounting for 14.1% of COGS. These costs decreased by US$ 201 million compared to 4Q08, being again the largest contributor to the COGS decrease.

Fuel and gases costs reached US$ 238 million, showing a US$ 141 million, 37.2%, decline compared to 4Q08. Of this, US$ 87 million was due to the reduction of our activities, US$ 48 million to lower prices, and US$ 6 million to the appreciation of the US dollar.

The cost of electricity was US$ 171 million, with a reduction of US$ 60 million, 26.0%, relative to the previous quarter. Lower consumption contributed with US$ 33 million, lower tariffs with US$ 24 million and currency price changes with US$ 3 million.

The cost of purchasing products from third parties amounted to US$ 200 million 6.9% of COGS - against US$ 372 million in 4Q08 and US$ 555 million in 1Q08. This reduction was mainly determined by the lower purchase volumes of iron ore and pellets and lower average price of nickel products.

The purchase of iron ore and pellets was US$ 43 million, against US$ 206 million in the previous quarter. The volume of iron ore purchased came to 962,000 metric tons in 1Q09 compared with 2.110 million metric tons in 4Q08, while there was no acquisition of pellets from joint ventures in this quarter against 582,000 metric tons in 4Q08.

The purchase of nickel products reached US$ 83 million, against US$ 84 million in 4Q08.

Depreciation and amortization 18.0% of COGS amounted to US$ 523 million, against US$ 541 million in 4Q08, being positively impacted by the effect of exchange rate variation.

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Other operational costs reached US$ 283 million, the same amount recorded in 4Q08, reflecting the lower expenses with the lease of the Tubarão pellet plants, mining royalties and demurrage costs related to the more moderate pace of our activities.

In 1Q09, demurrage costs   fines paid for delays in loading ships at our maritime terminals - totaled only US$ 4 million, equivalent to US$ 0.09 per metric ton of iron ore shipped.

Sales, general and administrative expenses (SG&A) came to US$ 233 million, against US$ 708 million in 4Q08, which was inflated by a charge of US$ 316 million related to the MAMA copper pricing system. Discounting this factor, the SG&A decrease was primarily determined by reduced expenses with services (US$ 61 million), advertising and publicity (US$ 27 million), and personnel (US$ 22 million).

Research and development (R&D) amounted to US$ 189 million[4] in the quarter, compared to US$ 295 million invested in 4Q08 and US$ 190 million in 1Q08.

Other operational expenses reached US$ 317 million, against US$ 719 million in 4Q08, which was negatively impacted by US$ 500 million of provisions, contingencies and one-off events.

In this quarter, there were costs totaling US$ 149 million related to stoppages and idle capacity in our operations, severance expenses of US$ 39 million, and a further negative charge of US$ 26 million generated by the fair value assessment of nickel inventories.

Table 4 COST OF GOODS SOLD

in US$ million	**1Q08**	%	**4Q08**	%	**1Q09**	%
Outsourced services	**690**	**16.3**	**591**	**16.8**	**424**	**14.6**
Material	**710**	**16.7**	**590**	**16.8**	**560**	**19.3**
Energy	**674**	**15.9**	**610**	**17.3**	**409**	**14.1**
Fuels	427	10.1	379	10.8	238	8.2
Electric energy	247	5.8	231	6.6	171	5.9
Acquisition of products	**555**	**13.1**	**372**	**10.6**	**200**	**6.9**
Iron ore and pellets	272	6.4	206	5.9	43	1.5
Aluminum products	68	1.6	77	2.2	71	2.4
Nickel products	177	4.2	84	2.4	83	2.9
Other products	38	0.9	5	0.2	3	0.1
Personnel	**522**	**12.3**	**487**	**13.8**	**443**	**15.3**
Depreciation and exhaustion	**724**	**17.1**	**541**	**15.4**	**523**	**18.0**
Shared services	**50**	**1.2**	**46**	**1.3**	**58**	**2.0**
Others	**317**	**7.5**	**283**	**8.0**	**283**	**9.8**
Total	**4,242**	**100.0**	**3,520**	**100.0**	**2,900**	**100.0**

OPERATING PROFIT

In 1Q09, operating profit, as measured by adjusted EBIT, totaled US$ 1.685 billion, down 16.3% in comparison with the US$ 2.013 billion registered in 4Q08.

Adjusted EBIT margin was 31.6%, 390 basis points above the figure for 4Q08, an improvement explained mostly by cost reduction.

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