

VALE EUROPE LIMITED
ANNUAL REPORT
YEAR ENDED 31 DECEMBER 2013



Registered number: 137114

VALE EUROPE LIMITED**YEAR ENDED 31 DECEMBER 2013****STRATEGIC REPORT**

The directors present their strategic report on the company for the year ended 31 December 2013.

BUSINESS REVIEW AND OUTLOOK**Products**

The Company produces and sells a variety of refined metal products, which can be summarized as follows:

Nickel – Pellets and Powders

Platinum Group Metals – Platinum, Palladium, other precious metals.

General Market Conditions**Nickel**

World primary nickel consumption increased to an estimated 1.83 million metric tons in 2013, up from an estimated 1.68 million metric tons in 2012. Nickel demand was supported by higher consumption in both stainless and non-stainless markets. The LME cash nickel price averaged US\$15,003 per metric ton in 2013, suffering a 14% decline from the 2012 level and the second consecutive year of decline. Prices trended lower throughout the year as nickel supply growth outpaced demand growth, leading to rising LME stocks.

World stainless steel production set a new annual record in 2013, increasing by 9% year-on-year to an estimated 38.7 million metric tons. Stainless steel production growth was driven primarily by higher output in China (+21% year-on-year). Meanwhile, stainless production outside of China has stagnated and remains well below 2006 peak levels, leaving room for further recovery.

Non-stainless nickel markets improved slightly in 2013 supported by broad-based demand in various sectors including aerospace, automotive and energy, although the performance was mixed across different regions, with Europe being notably weaker. Non-stainless nickel consumption increased by an estimated 4% year-on-year.

World nickel production grew strongly in 2013, rising by an estimated 12% year-on-year. This follows the strong increase in supply seen in 2012 (+7% year-on-year). Higher production was driven by the continued growth of Chinese nickel pig iron and ferronickel production, which is estimated to have set a new record of just over 490,000 metric tons.

The strong supply response kept the world nickel market in surplus in 2013. As a result, LME stocks were on a steady rise and ended the year at 261,468 metric tons compared to 141,690 metric tons at the end of 2012. Competition amongst nickel producers was intense and spot premiums were under pressure as the market remained well supplied with good availability of LME stocks.

Platinum Group Metals (PGMs)

The Precious Metals Complex posted significant gains at the start of 2013, but gradually lost momentum, resulting in the metals' prices retracting to much lower levels by the end of the year.

All commodities were affected by fears of tapering of Quantitative Easing (QE) in the USA amid the country's rising cash deficit, estimated to reach US\$ 4 Trillion by 2014. The lack of progress in resolving the Eurozone crisis, alongside a slowing Chinese economy further exasperated the negative sentiment in the PGM markets. The Eurozone slipped even deeper than expected into recession, with escalating debts and unemployment figures rising to over 12% across all of the Eurozone's countries.

Many investors were encouraged to divert funds out of commodities into the equity markets, and even Gold failed to secure its previously firmly held "safe haven" status, with the price dropping by the end of 2013. The loss of investor confidence in the PGM markets was one of the major factors behind the weak prices in 2013, as many of them liquidated their future net long speculative positions.

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On the automotive front, there were marked signs of improvement in demand for Platinum, Palladium and Rhodium. Stricter global emission controls and gradual economic progress in the US and China noted at year end brought renewed optimism for the future increase in the car sales in North America and China. Platinum autocatalyst demand in 2013 fell by 1.2% to 2.91 Moz due to a lower offtake in Europe. In contrast, Palladium autocatalyst demand rose to 3.3% to 6.27 Moz, aided by robust sales growth in the gasoline sector and substitution of Platinum for Palladium in the diesel vehicles.

Platinum suffered heavy price losses in 2013 in the aftermath of the South African strikes, slowing demand, weaker Gold and a reduction in global investment. Initially, by mid-February, the white metal reached a 16 month high of \$1740, spurred to the upside by anticipated cuts in the South African mining supplies, although the physical offtake remained rather sluggish, bringing bouts of liquidation to the Platinum market as the year rolled on.

A new low for Platinum of \$1357 was noted on 30th December, with investment flows in Platinum decreasing throughout the year. On the positive side, the newly launched South African ETF added 900,000 oz of the metal into their portfolio, giving some support. NYMEX inventories were also significantly higher at 2.08 Moz, compared with 1.1M oz reported in the previous year.

Palladium was a star performer in 2013, cocooned from the negative influences experienced by its sister metals by an increasing auto demand, fears of lack of supply from South Africa and investors' insatiable appetite. Chinese automotive production rebounded by 14% year-on-year, with car sales reaching 22 million units. In the US, the auto sales hit a six year high at 15.6 million vehicles, up 7.6% from 2012. New car registrations in the European Union fell in 2013 by 1.7% to 11.85 million units, led by the sales slump in Italy and France, but the decline was not as steep as the year before. Palladium price rally towards \$780 on 15th March was short lived when profit taking set in. The remainder of the year saw Palladium sold off each time it climbed towards \$750. This persistent liquidation finally pushed the price down to \$716 on 31st December. Overall the fundamentals for Palladium remained very strong, helped further by rumours of a near total depletion of the Russian over-ground stocks and a fall in output at Norilsk. The investor community remained net sellers in 2013, disinvesting 940,000 ounces, causing the combined NYMEX and TOCOM positions to drop by nearly 467,800 ounces, to around 2Moz at year end.

Gold's underperformance in 2013 was hard to ignore as its price fell 30% in dollar terms. The yellow metal's January highs of \$1694 were eroded as the year progressed to \$1204 on 31st December, affected by the threat of withdrawal of QE in North America by the Federal Reserve. As concerns over the financial meltdown were averted, the path was cleared for investors to reduce their long positions and take profits. Silver suffered the selling pressure throughout the year, falling from the highs of \$32.23 in January to a pitiful low of \$19.50 at year end. The industrial metal was negatively impacted by slowing Chinese demand and weakening investor sentiment.

Rhodium sank below \$1000 in 2013, for the first time since 2004. Although it started the year on a low note, at \$1080, it moved gradually higher to \$1265 in March. However, the remainder of the year saw a decline in industrial purchases in favour of the inventory drawdown. Prices fell sharply to end the year at \$970.

KEY PERFORMANCE INDICATORS ("KPI's")

The directors of Vale Europe Limited manage the company's business on a divisional platform, in line with strategic decisions that are made on a global basis by Vale Canada Limited. The directors of Vale Europe Limited provide input to the global decision making process.

Vale Europe Limited essentially acts as an intermediary for the group's global nickel and PGM activities. For this reason, the Company's directors believe that an in-depth analysis using key performance indicators is not necessary or appropriate for an understanding of the development, performance or position of the business of Vale Europe Limited.

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Notwithstanding the above, a key element of the performance of Vale Europe Limited relates to the levels of turnover and gross profit achieved within the geographical area under its remit and the year on year results are indicated below. Further details are set out in Note 2 under the section relating to Segmental Information:

	2013 £ m	2012 £ m
Turnover	309	245
Gross Profit	24	18

PRINCIPAL RISKS AND UNCERTAINTIES

From the perspective of the Company, the principal risks and uncertainties are largely integrated with the principal risks and uncertainties of the ultimate parent undertaking. However, from a UK perspective there are nevertheless certain risks that the Company is exposed to as a result of its operations.

Price Risk

Company revenues are exposed to commodity price risk. The directors monitor market movements in commodity prices (principally platinum group metals) on a regular basis but do not undertake any formal hedging arrangements.

Credit Risk

The Company has implemented policies that require appropriate credit checks on potential customers before sales are made as well as regularly reviewing existing customers creditworthiness.

Liquidity Risk

The Company actively maintains short-term debt finance that is designed to ensure the Company has sufficient funds for operations.

Health, Safety & Environment (HSE)

The Company operates two refineries in the UK and these operations are subject to numerous laws and regulations relating to health, safety and environment. Although we believe that our current operations are in compliance with current regulations, violations of such laws and regulations can lead to fines and penalties. The Company's operations are qualified to ISO 14001 (Environmental Management) and OHSAS 1800 (Occupational Health & Safety) Standard. The Company is committed to the highest standards of Health, Safety & Environmental practice and HSE Managers in each of the operations are tasked with ensuring such Practices are maintained. Specialist third party and internal auditors make regular site visits to ensure compliance with local regulations.

Future Developments

The company is confident as regards future outlook, and continuing to grow the business as part of the wider group.

By order of the Board
S.F. Rhodes
Director**Date:**

28/11/14

VALE EUROPE LIMITED**YEAR ENDED 31 DECEMBER 2013****REPORT OF THE DIRECTORS**

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

K.N. WILLIAMS	
K. STRONG	(Appointed 1 January 2013)
M.J. COX	
J.J. GOSSELIN	(Resigned 15 October 2013)
I.R. GUILLE	(Resigned 28 June 2013)
R.W. KENT	(Appointed 4 June 2014)
S.F. RHODES	(Appointed 16 October 2013)
L.A. LAWRY	(Appointed 16 October 2013)
	(Resigned 1 April 2014)

Secretary: **JORDAN COMPANY SECRETARIES LIMITED**

REPORT OF THE DIRECTORS**1. PRINCIPAL ACTIVITIES**

The principal activities of Vale Europe Limited ("the Company") during the year were the refining of nickel and the refining and selling of platinum group metals. The Company has historically sold Nickel based products, produced in the UK, to third party customers in Europe. The sale of Nickel based products to third party customers ceased in February 2011. The Company now acts solely as a refiner of Nickel Oxide.

2. FINANCIAL RESULTS AND DIVIDEND

The financial profit for the year ended 31 December 2013 was £16 million (2012: £11 million). Turnover was £309 million (2012: £245 million).

Dividends of £10 million were declared April 2013 and paid May 2013. In addition, dividends of £5m were declared and paid December 2013.

The retained profit for the year has been transferred to revenue reserves.

3. KEY PERFORMANCE INDICATORS, PRINCIPAL RISKS AND UNCERTAINTIES, AND FUTURE DEVELOPMENTS

These areas are all considered in the strategic report.

4. DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

5. RESEARCH AND DEVELOPMENT

The Company continues to be involved in research and development programmes within its various fields of activity, particularly in the development of new and improved production processes.

6. CHARITABLE AND POLITICAL CONTRIBUTIONS

Contributions to United Kingdom charitable, educational and scientific organisations in 2013 amounted to £16,800 (2012 £19,650). No political contributions were made.

7. EMPLOYEE PARTICIPATION

The Company continued to consult employees, to provide them systematically with information and to achieve a common awareness of economic and financial factors, by a variety of means including regular meetings between senior management and all employees, a network of consultative committees and the regular publication of financial and other information.

The Company has in place profit-sharing or bonus arrangements related to financial performance, in which all employees participate.

8. DISABLED PERSONS

It is the Company's policy to give full and fair consideration to applications for employment made by disabled persons, to continue whenever possible the employment of those who have become disabled and to provide equal opportunities for the training and career development of disabled employees. If members of staff become disabled the company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

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YEAR ENDED 31 DECEMBER 2013

REPORT OF THE DIRECTORS

9. STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and that each director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board



S.F. Rhodes
Director

Date:

28/11/14

Registered Office:
20-22 Bedford Row
London
WC1R 4JS

Independent auditors' report to the members of Vale Europe Limited

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by Vale Europe Limited, comprise:

- the balance sheet as at 31 December 2013;
- the profit and loss account and statement of total recognised gains and losses for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

VALE EUROPE LIMITED

Independent auditors' report to the members of Vale Europe Limited (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Ian Clarke (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Swansea

28 November 2014

VALE EUROPE LIMITED**(Registered number: 137114)****PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Notes	2013 <u>£'000</u>	2012 <u>£'000</u>
Turnover	2	309,019	245,260
Cost of sales		(285,405)	(227,590)
Gross profit		<u>23,614</u>	<u>17,670</u>
Distribution costs		(394)	(335)
Administrative expenses		(1,691)	(1,763)
Operating profit		<u>21,529</u>	<u>15,572</u>
Income from fixed asset investments		1,039	-
Profit on ordinary activities before interest		<u>22,568</u>	<u>15,572</u>
Interest receivable and similar income	3(a)	20	60
Interest payable and similar charges	3(b)	(1,291)	(1,261)
Profit on ordinary activities before taxation	4	<u>21,297</u>	<u>14,371</u>
Tax on profit on ordinary activities	5	(5,174)	(3,784)
Profit for the financial year	16	<u>16,123</u> =====	<u>10,587</u> =====

There is no difference between the profit on ordinary activities before taxation and the profit for the years stated above and their historical cost equivalents.

All results are from continuing operations.

The notes on pages 13 to 29 form an integral part of the financial statements.

VALE EUROPE LIMITED**(Registered number: 137114)****BALANCE SHEET AS AT 31 DECEMBER 2013**

	Notes	2013 <u>£'000</u>	2012 <u>£'000</u>
Fixed assets			
Tangible assets	7	121,614	29,870
Investments	8	215	215
		<u>121,829</u>	<u>30,085</u>
Current assets			
Stocks	9	4,012	4,069
Debtors (amounts falling due within one year)	10	34,084	28,778
Debtors (amounts falling due after one year)	11	8,923	-
Cash at bank and in hand		5,328	18,124
		<u>52,347</u>	<u>50,971</u>
Creditors (amounts falling due within one year)	12	(23,134)	(20,040)
Net current assets		<u>29,213</u>	<u>30,931</u>
Total assets less current liabilities		<u>151,042</u>	<u>61,016</u>
Accruals and deferred income	13	(11)	(49)
Provision for liabilities and charges	14	(93,496)	(2,487)
Net assets excluding pension liability		<u>57,535</u>	<u>58,480</u>
Pension liability	19	(12,059)	(19,417)
Net assets including pension liability		<u>45,476</u>	<u>39,063</u>
Capital and reserves			
Called up share capital	15	4,500	4,500
Share premium account	16	1,393	1,393
Profit and loss account	16	39,583	33,170
Total shareholders' funds	17	<u>45,476</u>	<u>39,063</u>

Approved by the Board on 28/11/14 and signed on its behalf by:



S.F. Rhodes
Director

The notes on pages 13 to 29 form an integral part of the financial statements.

VALE EUROPE LIMITED**(Registered number: 137114)****STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Notes	2013 <u>£'000</u>	2012 <u>£'000</u>
Profit for the financial year		16,123	10,587
Actuarial gain/ (loss) loss recognised in the pension scheme	18	6,696	(3,972)
Movement on deferred tax relating to pension liability	13	(1,406)	914
Total recognised gains for the year		<u>21,413</u> =====	<u>7,529</u> =====

The notes on pages 13 to 29 form an integral part of the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED 31 DECEMBER 2013

1. ACCOUNTING POLICIES**1.1 Basis of Accounting**

The financial statements are prepared on the going concern basis, under historical cost convention and in accordance with Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

1.2 Basis of Preparation

The financial statements contain information about Vale Europe Limited as an individual company and do not contain consolidated financial information as the intermediate parent of a group. The company is exempt under the provisions of S401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Vale S.A., a company incorporated in Brazil.

1.3 Cash Flow Statement and Related Party Transactions

Vale Europe Limited is a wholly owned subsidiary of Vale Inco Europe Holdings. Vale Inco Europe Holdings is wholly owned by Vale S.A., a company incorporated in Brazil. The cash flows of the business are included in the consolidated financial statements of Vale S.A. which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1. The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Vale S.A. group or investees of the Vale S.A. group.

1.4 Fixed Assets

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition. Land and buildings cost includes the impact of decommissioning and closure costs (see note 7).

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Land and buildings	2.5 - 10
Plant and machinery	4 - 20
Fixtures, Fittings, Tools and Equipment	4 - 14

Freehold land is not depreciated.

Assets in the course of construction include costs incurred in the design and planning of assets prior to the commencement of their construction, where the construction of the asset can be anticipated with reasonable certainty.

The directors undertake reviews of the carrying value of fixed assets when trigger events occur and make such provisions for impairment as they consider necessary.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) - YEAR ENDED 31 DECEMBER 2013

ACCOUNTING POLICIES (CONTINUED)**1.5 Impairment of Value**

In accordance with FRS 11 "Impairment of fixed assets and goodwill", tangible fixed assets and investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the relevant income generating unit, or disposal value if higher. The discount rate applied is based upon the Company's weighted average cost of capital with appropriate adjustments for the risks associated with the relevant unit. Where applicable, an appropriate discount rate has been used to calculate value in use, which represents an estimate of the risk free rate.

1.6 Government Grants

Government grants are credited to the profit and loss account in annual instalments over the estimated economic lives of the assets to which they relate.

1.7 Stocks

Stocks are valued at the lower of cost and net realisable value. Cost includes an appropriate share of production overheads.

1.8 Revenue Recognition

Turnover comprises revenue from the sale of refined precious metals, income from third party toll refining agreements and the net proceeds from back to back precious metal sales.

Sales of precious metal are recorded as revenue upon transfer of title. Revenue in respect of third party tolling agreements is recognised when the refining contract is substantially complete.

Revenue is recorded net of value added tax and net of any intra-group transfers.

1.9 Exchange Rates

Assets and liabilities in foreign currencies are translated into sterling at rates ruling at the year end. Exchange differences are taken to the profit and loss account.

1.10 Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxation profits against which to recover carried forward tax losses and/or from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) - YEAR ENDED 31 DECEMBER 2013

ACCOUNTING POLICIES (CONTINUED)**1.11 Pension Costs - Defined Benefit Schemes**

The Company operates a defined benefit scheme. Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. The difference between the market value of the assets of the scheme and the present value of the accrued pension liabilities is shown as a liability on the balance sheet net of deferred tax, and is presented separately after other net assets on the face of the balance sheet. The increase in the present value of the liabilities of the Company's defined benefit pension scheme expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses.

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of the related deferred tax.

1.12 Leases

Finance leases are included in fixed assets at the lower of discounted present value at the date of acquisition and equivalent purchase cost and are depreciated over the period of the lease. The deferred liability in respect of leases is included under creditors. Rentals under operating leases are charged against income in the period to which they relate.

1.13 Research

Research costs are charged to the profit and loss account as incurred.

1.14 Investments

Investments are stated at cost less any provision for impairment.

1.15 Provisions

Provisions are recognised only when there is a present obligation (legal or constructive) resulting from a past event, and it is probable that the settlement of this obligation will result in an outflow of resources, and the amount of the obligation can be reasonably estimated. Provisions are measured at the present value of the expenditure expected to be required to settle an obligation using a pre tax rate which reflects current market assessments of the time value of money and risks specific to the obligation.

VALE EUROPE LIMITED**(Registered number: 137114)****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) - YEAR ENDED 31 DECEMBER 2013**

2. SEGMENTAL INFORMATION

	Turnover		Profit Before Taxation	
	2013 <u>£'000</u>	2012 <u>£'000</u>	2013 <u>£'000</u>	2012 <u>£'000</u>
BY CLASS OF BUSINESS				
Nickel, platinum group metals, copper	309,019	245,260	22,568	15,572
	-----	-----	-----	-----
	309,019	245,260	22,568	15,572
	=====	=====		
Net interest income/ (expense)			(232)	(1,201)
			-----	-----
Profit before taxation			22,336	14,371
			=====	=====
BY ORIGIN				
Europe	309,019	245,260	22,568	15,572
	=====	=====		
Net interest income/ (expense)			(232)	(1,201)
			-----	-----
Profit before taxation			22,336	14,371
			=====	=====
BY DESTINATION				
Europe	161,450	123,685		
Americas	145,554	118,657		
Asia	1,815	2,600		
Other	200	318		
	-----	-----		
	309,019	245,260		
	=====	=====		

Net Assets

BY CLASS OF BUSINESS		
Nickel, platinum group metals, copper	45,476	48,905
	-----	-----
Non-interest bearing	45,476	48,905
	-----	-----
Interest bearing assets and liabilities	-	(9,842)
	-----	-----
	45,476	39,063
	=====	=====

VALE EUROPE LIMITED**(Registered number: 137114)****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) - YEAR ENDED 31 DECEMBER 2013**

3. (a) INTEREST RECEIVABLE AND SIMILAR INCOME

	2013	2012
	<u>£'000</u>	<u>£'000</u>
Interest receivable from third parties	20	60
	-----	-----
	20	60
	=====	=====

3. (b) INTEREST PAYABLE AND SIMILAR CHARGES

	2013	2012
	<u>£'000</u>	<u>£'000</u>
Other similar charges	1,291	1,261
	-----	-----
	1,291	1,261
	=====	=====

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging/(crediting) the following amounts:

	2013	2012
	<u>£'000</u>	<u>£'000</u>
Depreciation (owned assets)	2,699	2,502
Hire of plant and machinery	551	581
Foreign exchange (gain)/loss on operating activities	723	638
Grant income recognised	(38)	(37)
Services provided by the Company's auditor:		
Fees for audit services (statutory audit)	112	109
Fees for audit of UK pension scheme	15	15

VALE EUROPE LIMITED**(Registered number: 137114)****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) - YEAR ENDED 31 DECEMBER 2013**

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2013 £'000	2012 £'000
Current tax:		
Current year tax charge	4,117	2,629
Adjustment in respect of prior years	(27)	(968)
Total current tax	<u>4,090</u>	<u>1,661</u>
Deferred tax:		
Accelerated capital allowances and other timing differences	(105)	588
Pension obligations	1,189	1,535
Total deferred tax (Note 13)	<u>1,084</u>	<u>2,123</u>
Tax on profit on ordinary activities	<u>5,174</u>	<u>3,784</u>

The tax assessed for the year is lower (2012: lower) than the standard rate of corporation tax in the UK (23%).

Factors affecting the tax charge are set out below:

	2013 £'000	2012 £'000
Profit on ordinary activities before taxation	21,297	14,371
Profit on ordinary activities multiplied by standard rate in the UK 23% (2012: 24%)	<u>4,898</u>	<u>3,449</u>
Effects of:		
Items not recognised for tax purposes	(561)	51
Accelerated capital allowances and other timing differences	(220)	(125)
Pension cost relief in excess of pension cost charge	-	(746)
Adjustments to charge in respect of previous periods	(27)	(968)
Total current tax charge	<u>4,090</u>	<u>1,661</u>

VALE EUROPE LIMITED**(Registered number: 137114)****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) - YEAR ENDED 31 DECEMBER 2013**

6. DIVIDENDS

	2013 £'000	2012 £'000
Dividends of £1.67 per share (2012: £2.22 per share)	15,000 =====	20,000 =====

7. TANGIBLE ASSETS

	<u>Freehold Land and Buildings</u> £'000	<u>Plant and Machinery</u> £'000	<u>Fixtures Fittings Tools and Equipment</u> £'000	<u>Assets in Course of Construction</u> £'000	<u>Total</u> £'000
Cost					
At 1 January 2013	16,107	83,446	2,393	1,188	103,134
Additions	91,114	32	34	3,683	94,863
Transfers	555	70	757	(1,382)	-
Disposals	-	(112)	-	(420)	(532)
At 31 December 2013	107,776 -----	83,436 -----	3,184 -----	3,069 -----	197,465 -----
Accumulated depreciation					
At 1 January 2013	12,840	58,256	2,168	-	73,264
Charge for the year	249	2,306	144	-	2,699
Transfers	-	130	(130)	-	-
Disposals	-	(112)	-	-	(112)
At 31 December 2013	13,089 -----	60,580 -----	2,182 -----	- -----	75,851 -----
Net book value at 31 December 2013	94,687 =====	22,856 =====	1,002 =====	3,069 =====	121,614 =====
Net book value at 31 December 2012	3,267 =====	25,190 =====	225 =====	1,188 =====	29,870 =====

As part of a global Vale project, the company commissioned a detailed review in the year to provide a reliable estimate of its obligations in determining a decommissioning and closure provision. This resulted in an increase of £91m in land and buildings included in fixed assets, and an equivalent increase in provisions for liabilities and charges (note 14).

VALE EUROPE LIMITED**(Registered number: 137114)****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) - YEAR ENDED 31 DECEMBER 2013**

8. INVESTMENTS

	<u>Subsidiary Undertakings</u> £'000
Investment in subsidiary undertakings:	
Cost and net book value at 31 December 2013	215 =====

At 31 December 2013 the Company's investment in subsidiary undertakings comprised the following:

	<u>Country of Incorporation</u>	<u>Business Activity</u>	<u>Ordinary Shares</u> %	Net Assets at <u>31.12.13</u> £'000	Profit Year to <u>31.12.13</u> £'000
Vale Taiwan Ltd	Taiwan	Nickel Refining	100	711	400

The directors believe that the carrying value of the investments is supported by their underlying net assets.

9. STOCKS

	<u>2013</u> £'000	<u>2012</u> £'000
Raw materials and consumables	4,012 =====	4,069 =====

In the opinion of the directors there is no material difference between the stated amount of stocks and their replacement value.

10. DEBTORS (AMOUNTS FALLING DUE WITHIN ONE YEAR)

	<u>2013</u> £'000	<u>2012</u> £'000
Trade debtors	26,236	13,385
Amounts owed by group undertakings	1,283	1,932
Other debtors	5,871	12,845
Prepayments and accrued income	694	616
	----- 34,084 =====	----- 28,778 =====

VALE EUROPE LIMITED**(Registered number: 137114)****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) - YEAR ENDED 31 DECEMBER 2013**

11. DEBTORS (AMOUNTS FALLING DUE AFTER ONE YEAR)

	2013	2012
	<u>£'000</u>	<u>£'000</u>
Other debtors	8,923	-
	=====	=====

12. CREDITORS (AMOUNTS FALLING DUE WITHIN ONE YEAR)

	2013	2012
	<u>£'000</u>	<u>£'000</u>
Bank loans and overdrafts (unsecured)	-	2
Trade creditors	8,595	5,465
Amounts owed to group undertakings	8,629	10,344
Other creditors	3,394	2,892
Other taxation and social security	482	481
Corporation tax	1,994	778
Accruals and deferred income	40	78
	-----	-----
	23,134	20,040
	=====	=====

13. ACCRUALS AND DEFERRED INCOME

	2013
	<u>£'000</u>
Government grants	
As at 1 January 2013	49
Credited to the Profit and Loss Account	(38)

As at 31 December 2013	11
	===

14. PROVISION FOR LIABILITIES AND CHARGES

	<u>£'000</u>
Deferred tax	2,382
Decommissioning and closure	91,114

At 31 December 2013	93,496
	=====

VALE EUROPE LIMITED**(Registered number: 137114)****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) - YEAR ENDED 31 DECEMBER 2013**

The provision for liabilities and charges relates to deferred tax and decommissioning and closure. The provision relating to deferred tax can be analysed as follows:

	Accelerated Allowances and Other Timing Differences <u>£'000</u>
At 1 January 2013	2,487
Credit to the Profit and Loss account during the year	(105)

At 31 December 2013	2,382
	=====

The provision relating to decommissioning and closure can be analysed as follows:

	<u>£'000</u>
At 31 December 2013	91,114
	=====

In accordance with Vale S.A group policy and the accounting policy note on page 15, discount rates used in discounting the decommissioning and closure provision to its present value, amount to between 6.39% to 6.56% depending on the timing of the cashflow.

The movement on deferred tax asset in relation to the pension liability is set out below:

	Deferred Tax on Pension Liability <u>£'000</u>
At 1 January 2013	(5,800)
Charged to the Profit and Loss account during the year	1,189
Charged to the Statement of Recognised Gains and Losses	1,406

At 31 December 2013	(3,205)
	=====

15. CALLED UP SHARE CAPITAL

	2013 <u>£'000</u>	2012 <u>£'000</u>
Allotted, called up and fully paid: 9,000,000 (2012: 9,000,000) Ordinary shares of 50p each	4,500 =====	4,500 =====

VALE EUROPE LIMITED**(Registered number: 137114)****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) - YEAR ENDED 31 DECEMBER 2013**

16. RESERVES

	Share Premium Account £'000	Profit and Loss Account £'000
At 1 January 2013	1,393	33,170
Profit for the financial year	-	16,123
Dividends paid amount to: £1.67 per share (2012: £2.22 per share)	-	(15,000)
Actuarial gain recognised in the pension scheme	-	6,696
Movement in deferred tax relating to pension liability	-	(1,406)
At 31 December 2013	1,393	39,583

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2013 £'000	2012 £'000
Opening shareholders' funds at 1 January	39,063	51,534
Profit for the financial year	16,123	10,587
Dividends paid amount to: £1.67 per share (2012: £2.22 per share)	(15,000)	(20,000)
Actuarial gain/ (loss) recognised in the pension scheme (Note 18)	6,696	(3,972)
Movement in deferred tax relating to pension liability	(1,406)	914
Total shareholders' funds at 31 December	45,476	39,063

VALE EUROPE LIMITED**(Registered number: 137114)****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) - YEAR ENDED 31 DECEMBER 2013**

18. EMPLOYEES**17.1 Staff costs:**

	2013 <u>£'000</u>	2012 <u>£'000</u>
Wages and salaries	13,232	14,420
Social security costs	1,783	1,823
Other pension costs	2,617	2,705
	<u>17,632</u> =====	<u>18,948</u> =====

17.2 Average number of employees:

The average number of persons, including directors, employed by the company during the year was:

	<u>2013</u>	<u>2012</u>
Class of business:		
Nickel, platinum group metals, copper	312 ===	322 ===

17.3 Directors' emoluments:

	<u>2013</u> <u>£</u>	<u>2012</u> <u>£</u>
Directors' emoluments	264,947 =====	314,657 =====

The highest paid director's emoluments for 2013 were £264,947 (2012 £314,657).

The amount of the accrued pension benefit at the end of the period for the highest paid director was £72,336 (2012 £64,712).

VALE EUROPE LIMITED**(Registered number: 137114)****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) - YEAR ENDED 31 DECEMBER 2013**

19. PENSION COMMITMENTS

	2013	2012
	<u>£'000</u>	<u>£'000</u>
Pension deficit	15,264	25,217
Deferred tax on pension deficit	(3,205)	(5,800)
Net pension liability	12,059	19,417
	=====	=====

The Company sponsors a defined benefit pension scheme (the Vale Europe Pension Plan) for its employees in the UK. The scheme is funded by payment of contributions from the Company to a trustee administered fund. Benefits were built up in the Scheme during the year on a "final earnings" basis, whereby the associated pension benefits are calculated with reference to a member's Final Pensionable Earnings at retirement or on leaving the Scheme, if earlier.

On leaving the Scheme the benefits allow for revaluation to retirement in line with price inflation as measured by the Retail Prices Index, subject to a maximum of 5% per annum compound. In addition to the benefits under the Plan, the Company pays directly to certain pensioner's discretionary pension increases. The present values of these discretionary pensions are included in these disclosures, as are the payments and corresponding company contributions.

Principal Assumptions

The principal actuarial assumptions at the balance sheet date were:

	2013	2012
Discount rate	4.65%	4.10%
Expected return on Scheme assets	5.36%	4.55%
Inflation (RPI)	3.55%	3.00%
Inflation (CPI)	2.75%	2.20%
Rate of increase in salaries	3.00%	3.75%
Rate of increase in pensions in payment		
Fixed	0.00%	0.00%
LPI (max 5%)	3.45%	2.95%
LPI (max 2.5%)	2.30%	1.95%
Pre-retirement mortality	S1 PA YOB, CMI 2012 Projections with a long term Rate of improvement of 1.0% Pa for males and 0.5% pa for females	S1 PA YOB, medium cohort improvements subject to change to a minimum of 1%pa
Post retirement mortality	S1 PA YOB, CMI 2012 Projections with a long term Rate of improvement of 1.0% Pa for males and 0.5% pa for females	S1 PA YOB, medium cohort improvements subject to change to a minimum of 1%pa
Withdrawals	Scheme scale	Scheme scale
Cash commutation	Members are assumed to commute pension benefits at retirement for cash lump sums equal to 33% of the Maximum permitted	20% of maximum permitted

VALE EUROPE LIMITED**(Registered number: 137114)****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) - YEAR ENDED 31 DECEMBER 2013**

Principal Assumptions (continued)

Life expectancy of male aged 65 now	22.2	21.4
Life expectancy of male aged 65 in 20 years	23.6	23.3
Life expectancy of female aged 65 now	23.9	24.0
Life expectancy of female aged 65 in 20 years	24.7	25.9

Asset Breakdown

The major categories of Scheme assets as a percentage of total Scheme assets are:

	2013	2012
	<u>£'000</u>	<u>£'000</u>
Equities	43.5%	50.9%
Fixed Interest Gilts	18.5%	10.0%
Corporate bonds	37.9%	39.1%
Cash	0.1%	0.0%
	-----	-----
Total	100.0%	100.0%
	=====	=====

Employee Benefit Obligations

The amounts recognised in the balance sheet are as follows:

	2013	2012
	<u>£'000</u>	<u>£'000</u>
Fair value of Scheme assets	(112,986)	(107,403)
Present value of funded obligations	128,250	132,620
	-----	-----
Deficit	15,264	25,217
	=====	=====

The total expense recognised in profit or loss:

	2013	2012
	<u>£'000</u>	<u>£'000</u>
Current service cost	2,530	2,618
Interest on obligation	5,408	5,681
Expected return on pension Scheme assets	(4,171)	(4,469)
	-----	-----
Total	3,767	3,830
	=====	=====

VALE EUROPE LIMITED**(Registered number: 137114)****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) - YEAR ENDED 31 DECEMBER 2013**

Changes in the present value of the defined benefit obligations:

	2013 £'000	2012 £'000
Opening defined benefit obligations	132,620	122,742
Service cost	2,530	2,618
Interest cost	5,408	5,681
Actuarial (gains) and losses	(5,410)	8,325
Benefits paid	(6,898)	(6,746)
	-----	-----
Closing defined benefit obligations	128,250	132,620
	=====	=====

Changes in the fair value of scheme assets:

	2013 £'000	2012 £'000
Opening fair value of Scheme assets	107,403	98,045
Expected return	4,171	4,469
Actuarial gains and (losses)	1,286	(4,353)
Contributions by employer	7,024	7,282
Benefits paid	(6,898)	(6,746)
	-----	-----
Closing fair values of Scheme assets	112,986	107,403
	=====	=====
Actual return on Scheme assets	5,457	8,822
	=====	=====

Statement of total recognised gains and losses (STRGL)

	2013 £'000	2012 £'000
Actuarial gains/ (losses)	6,696	(3,972)
Cumulative amount of actuarial losses recognised in the STRGL	(79,817)	(86,513)

VALE EUROPE LIMITED**(Registered number: 137114)****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) - YEAR ENDED 31 DECEMBER 2013**

Movements over previous five year period

	2013	2012	2011	2010	2009
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Defined benefit obligation	(128,250)	(132,620)	(122,742)	(111,206)	(106,441)
Scheme assets	112,986	107,403	98,045	91,880	85,872
Deficit	<u>(15,264)</u>	<u>(25,217)</u>	<u>(24,697)</u>	<u>(19,326)</u>	<u>(20,569)</u>
Experience gain/(loss) on Scheme liabilities	<u>(1,715)</u>	<u>(1,481)</u>	<u>(1,025)</u>	<u>(2,006)</u>	<u>769</u>
Gain/ (loss) from changes in the assumptions for value of scheme liabilities	<u>7,125</u>	<u>(6,845)</u>	<u>(8,497)</u>	<u>(1,277)</u>	<u>(11,636)</u>
Experience gain/(loss) on Scheme assets	<u>1,286</u>	<u>4,353</u>	<u>(2,597)</u>	<u>2,406</u>	<u>4,322</u>

20. COMMITMENTS

At 31 December 2013 the Company has non-cancellable, operating lease agreements in respect of leases expiring:

	Other	
	2013	2012
	<u>£'000</u>	<u>£'000</u>
Within one year	574	310
Within two to five years	267	162
	<u>841</u>	<u>472</u>
	===	===

Future capital expenditure not provided in financial statements:

	2013	2012
	<u>£'000</u>	<u>£'000</u>
Contracts placed	6,691	1,048
	====	====

VALE EUROPE LIMITED

(Registered number: 137114)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) - YEAR ENDED 31 DECEMBER 2013

21. CONTINGENT LIABILITIES

HMRC have raised assessments totalling £8.9m to recover input tax that has been reclaimed on certain purchases.

The claim relates to purchases transacted during the period from January 2008 to April 2010.

The company is vigorously disputing the claim and based on professional advice no provision has been made in these financial statements. Clearly, if the claim should prove successful, the company would be impacted by the extent of the claim and any penalties applied.

22. IMMEDIATE AND ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is Vale Inco Europe Holdings. The ultimate parent undertaking and controlling party is Vale S.A, a company incorporated in Brazil.

Vale S.A is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2013. The consolidated financial statements of Vale S.A can be obtained from Vale S.A, Av. Graça Aranha, Rio de Janeiro, Brazil.

Vale Canada Ltd is the parent undertaking of the smallest group of undertakings to consolidate these financial statement. The consolidated financial statements of Vale Canada Ltd can be obtained from Vale Canada Ltd, 200 Bay Street, Royal Bank Plaza, Suite 1600, North Tower, Toronto M5J 2K2.