The following is the text of the consolidated financial statements of our Group for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 prepared in accordance with US GAAP. The consolidated financial statements of our Group for the three years ended 31 December 2007, 2008 and 2009 have been audited by PricewaterhouseCoopers Auditores Independentes in accordance with the standards of the Public Company Accounting Oversight Board (United States). The consolidated financial statements of our Group for the six months ended 30 June 2010 have been audited by PricewaterhouseCoopers Auditores Independentes in accordance with International Standards on Auditing and the condensed consolidated financial information of our Group for the six months ended 30 June 2009 have been reviewed by PricewaterhouseCoopers Auditores Independentes in accordance with the standards of the Public Company Accounting Oversight Board (United States).

I. CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2010

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Vale S.A.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Vale S.A. and subsidiaries (the "Company"), which comprise of the consolidated balance sheet as at June 30, 2010, and the consolidated statements of income, of comprehensive income, of cash flows and of changes in stockholders' equity for the six months period then ended and a summary of significant accounting policies and other explanatory notes.

Other matters

The consolidated financial statements of Vale S.A. and subsidiaries as of June 30, 2009, were not audited by us but were subject to review. A review engagement is substantially less in scope than an audit. We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our review report dated July 29, 2009, expressed an unqualified conclusion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the interim financial statements present fairly, in all material respects, the financial position of Vale S.A. and subsidiaries as of June 30, 2010, and of its financial performance and its cash flows for the six-month period then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers
Auditores Independentes

Rio de Janeiro, Brazil
December 2, 2010

CONSOLIDATED BALANCE SHEETS
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS

	June 30, 2010	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	6,235	7,293
Short-term investments	—	3,747
Accounts receivable		
Related parties	89	79
Unrelated parties	5,741	3,041
Loans and advances to related parties	14	107
Inventories	3,806	3,196
Deferred income tax	533	852
Unrealized gains on derivative instruments	21	105
Advances to suppliers	328	498
Recoverable taxes	1,303	1,511
Assets held for sale	6,124	—
Others	845	865
	25,039	**21,294**
Non-current assets		
Property, plant and equipment, net	**72,616**	**67,637**
Intangible assets	**1,133**	**1,173**
Investments in affiliated companies, joint ventures and others	**4,444**	**4,585**
Other assets		
Goodwill on acquisition of subsidiaries	3,017	2,313
Loans and advances		
Related parties	11	36
Unrelated parties	134	158
Prepaid pension cost	1,464	1,335
Prepaid expenses	230	235
Judicial deposits	1,410	1,143
Advances to suppliers — energy	—	511
Recoverable taxes	474	817
Unrealized gains on derivative instruments	638	865
Others	193	177
	7,571	**7,590**
TOTAL	**110,803**	**102,279**

CONSOLIDATED BALANCE SHEETS — (CONTINUED)
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS
(EXCEPT NUMBER OF SHARES)

	June 30, 2010	December 31, 2009
Liabilities and stockholders' equity		
Current liabilities		
Suppliers	2,950	2,309
Payroll and related charges	708	864
Current portion of long-term debt	3,958	2,933
Short-term debt	88	30
Loans from related parties	25	19
Provision for income taxes	144	173
Taxes payable and royalties	124	124
Employees postretirement benefits	198	144
Railway sub-concession agreement payable	300	285
Unrealized losses on derivative instruments	48	129
Provisions for asset retirement obligations	80	89
Minimum mandatory dividends payable	421	1,464
Liabilities associated with assets held for sale	2,532	—
Other	637	618
	12,213	**9,181**
Non-current liabilities		
Employees postretirement benefits	2,032	1,970
Long-term debt	19,125	19,898
Provisions for contingencies (Note 21 (b))	1,967	1,763
Unrealized losses on derivative instruments	148	9
Deferred income tax	7,180	5,755
Provisions for asset retirement obligations	1,082	1,027
Debentures	782	752
Other	1,854	1,427
	34,170	**32,601**
Redeemable noncontrolling interest	**724**	**731**
Commitments and contingencies (Note 21)		
Stockholders' equity		
Preferred class A stock — 7,200,000,000 no-par-value shares authorized and 2,108,579,618 (2009 — 2,108,579,618) issued	10,370	9,727
Common stock — 3,600,000,000 no-par-value shares authorized and 3,256,724,482 (2009 — 3,256,724,482) issued	16,016	15,262
Treasury stock — 51,451,871 (2009 — 77,581,904) preferred and 25,692,694 (2009 — 74,997,899) common shares	(660)	(1,150)
Additional paid-in capital	1,790	411
Mandatorily convertible notes — common shares	290	1,578
Mandatorily convertible notes — preferred shares	644	1,225
Other cumulative comprehensive loss	(3,559)	(1,808)
Undistributed retained earnings	26,086	28,508
Unappropriated retained earnings	9,234	3,182
Total Company stockholders' equity	**60,211**	**56,935**
Noncontrolling interests	**3,485**	**2,831**
Total stockholders' equity	**63,696**	**59,766**
TOTAL	**110,803**	**102,279**

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

CONSOLIDATED STATEMENTS OF INCOME
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS
(EXCEPT PER SHARE AMOUNTS)

	Six-month period ended	
	June 30, 2010	June 30, 2009
		(unaudited)
Operating revenues, net of discounts, returns and allowances		
Sales of ores and metals	14,095	8,539
Aluminum products	1,254	910
Revenues from logistic services	723	480
Fertilizer products	275	186
Other products and services	431	390
	16,778	**10,505**
Taxes on revenues	(516)	(233)
Net operating revenues	**16,262**	**10,272**
Operating costs and expenses		
Cost of ores and metals sold	(5,565)	(4,400)
Cost of aluminum products	(1,052)	(981)
Cost of logistic services	(492)	(343)
Cost of fertilizer products	(213)	(64)
Other	(339)	(247)
	(7,661)	**(6,035)**
Selling, general and administrative expenses	(636)	(463)
Research and development expenses	(361)	(454)
Other	(912)	(659)
	(9,570)	**(7,611)**
Operating income	**6,692**	**2,661**
Non-operating income (expenses)		
Financial income	117	218
Financial expenses	(979)	(580)
Gains (losses) on derivatives, net	(342)	891
Foreign exchange and indexation gains (losses), net(1)	36	539
Gain on sale of investments(2)	—	157
	(1,168)	**1,225**
Income before discontinued operations, income taxes and equity results	**5,524**	**3,886**
Income taxes		
Current	(858)	(1,971)
Deferred	436	41
	(422)	**(1,930)**
Equity in results of affiliates, joint ventures and other investments	379	207
Net income from continuing operations	**5,481**	**2,163**
Discontinued operations, net of tax	**(151)**	**—**
Net income	**5,330**	**2,163**
Net income attributable to noncontrolling interests	21	10
Net income attributable to the Company's stockholders	**5,309**	**2,153**
Basic and diluted earnings per share attributable to Company's stockholders		
Earnings per preferred share	0.99	0.39
Earnings per common share	0.99	0.39
Earnings per preferred share linked to mandatorily convertible notes(*)	1.79	1.16
Earnings per common share linked to mandatorily convertible notes(*)	3.48	1.25

(*) Basic earnings per share only, as dilution assumes conversion

(1) The aggregate foreign currency transaction gain or loss (both realised and unrealised) included in determining net income for the reporting period.

(2) The net realised gain or loss on investments sold during the period, which, for cash flow reporting, is a component of proceeds from investing activities.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS

	Six-month period ended	
	June 30, 2010	June 30, 2009 (unaudited)
Cash flows from operating activities:		
Net income	5,330	2,163
Adjustments to reconcile net income to cash from operations:		
Depreciation, depletion and amortization	1,491	1,202
Dividends received	249	143
Equity in results of affiliates, joint ventures and other investments	(379)	(207)
Deferred income taxes	(436)	(41)
Loss on disposal of property, plant and equipment	146	87
Loss on sale of investments	—	(157)
Discontinued operations, net of tax	151	—
Foreign exchange and indexation gains, net	(79)	(874)
Unrealized derivative losses (gains), net	466	(805)
Unrealized interest (income) expense, net	5	(51)
Others	101	(34)
Decrease (increase) in assets:		
Accounts receivable	(2,385)	662
Inventories	(388)	217
Recoverable taxes	(30)	1,171
Others	65	(85)
Increase (decrease) in liabilities:		
Suppliers	497	(330)
Payroll and related charges	(150)	(77)
Income taxes	311	(60)
Others	117	307
Net cash provided by operating activities	**5,082**	**3,231**
Cash flows from investing activities:		
Short term investments	3,747	(692)
Loans and advances receivable		
Related parties		
Loan proceeds	(28)	(61)
Repayments	1	7
Others	4	(10)
Judicial deposits	(163)	(53)
Investments	(51)	(429)
Additions to, property, plant and equipment	(4,053)	(3,696)
Proceeds from disposal of investments/property, plant and equipment	—	277
Acquisition of subsidiaries, net of cash acquired	(5,234)	(1,150)
Net cash used in investing activities	**(5,777)**	**(5,807)**

CONSOLIDATED STATEMENTS OF CASH FLOWS — (CONTINUED)
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS

	Six-month period ended June 30, 2010	Six-month period ended June 30, 2009 (unaudited)
Cash flows from financing activities:		
Short-term debt, additions	1,857	454
Short-term debt, repayments	(1,855)	(416)
Loans		
Related parties		
Loan proceeds	15	—
Repayments	(3)	(223)
Issuances of long-term debt		
Third parties	1,528	481
Repayments of long-term debt		
Third parties	(383)	(162)
Treasury stock	—	(10)
Dividends and interest attributed to Company's stockholders	(1,250)	(1,255)
Dividends and interest attributed to noncontrolling interest	(59)	—
Net cash used in financing activities	**(150)**	**(1,131)**
Increase (decrease) in cash and cash equivalents	(845)	(3,707)
Effect of exchange rate changes on cash and cash equivalents	(213)	1,568
Cash and cash equivalents, beginning of period	7,293	10,331
Cash and cash equivalents, end of period	**6,235**	**8,192**
Cash paid during the period for:		
Interest on short-term debt	(1)	—
Interest on long-term debt	(541)	(588)
Income tax	(167)	(228)
Non-cash transactions		
Interest capitalized	102	115
Conversion of mandatorily convertible notes using 75,435,238 treasury stock (see note 18).		

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS
(EXCEPT NUMBER OF SHARES)

	Six-month period ended	
	June 30, 2010	June 30, 2009
		(unaudited)
Preferred class A stock (including twelve golden shares)		
Beginning of the period	9,727	9,727
Transfer from undistributed retained earnings	643	—
End of the period	**10,370**	**9,727**
Common stock		
Beginning of the period	15,262	15,262
Transfer from undistributed retained earnings	754	—
End of the period	**16,016**	**15,262**
Treasury stock		
Beginning of the period	(1,150)	(1,141)
Acquisitions	490	(10)
End of the period	**(660)**	**(1,151)**
Additional paid-in capital		
Beginning of the period	411	393
Change in the period	1,379	—
End of the period	**1,790**	**393**
Mandatorily convertible notes — common shares		
Beginning of the period	1,578	1,288
Change in the period	(1,288)	—
End of the period	**290**	**1,288**
Mandatorily convertible notes — preferred shares		
Beginning of the period	1,225	581
Change in the period	(581)	—
End of the period	**644**	**581**
Other cumulative comprehensive income (deficit)		
Cumulative translation adjustments		
Beginning of the period	(1,772)	(11,493)
Change in the period	(1,845)	5,108
End of the period	**(3,617)**	**(6,385)**
Unrealized gain (loss) — available-for-sale securities, net of tax		
Beginning of the period	—	17
Change in the period	—	32
End of the period	**—**	**49**
Surplus (deficit) accrued pension plan		
Beginning of the period	(38)	(34)
Change in the period	(26)	109
End of the period	**(64)**	**75**

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (CONTINUED)
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS
(EXCEPT NUMBER OF SHARES)

	Six-month period ended June 30, 2010	Six-month period ended June 30, 2009 (unaudited)
Cash flow hedge		
Beginning of the period	2	—
Change in the period	120	1
End of the period	**122**	**1**
Total other cumulative comprehensive income (deficit)	**(3,559)**	**(6,260)**
Undistributed retained earnings		
Beginning of the period	28,508	18,340
Transfer from/to unappropriated retained earnings	(1,025)	3,590
Transfer to capitalized earnings	(1,397)	—
End of the period	**26,086**	**21,930**
Unappropriated retained earnings		
Beginning of the period	3,182	9,616
Net income attributable to the stockholders' Company	5,309	2,153
Interest on mandatorily convertible debt		
Preferred class A stock	(38)	(23)
Common stock	(46)	(49)
Dividends and interest attributed to stockholders' equity		
Preferred class A stock	(77)	—
Common stock	(121)	—
Appropriation from/to undistributed retained earnings	1,025	(3,590)
End of the period	**9,234**	**8,107**
Total Company stockholders' equity	**60,211**	**49,877**
Noncontrolling interests		
Beginning of the period	2,831	1,892
Disposals and (acquisitions) of noncontrolling interests	2,309	29
Cumulative translation adjustments	(22)	535
Cash flow hedge	35	—
Net income (loss) attributable to noncontrolling interests	21	10
Dividends and interest attributable to noncontrolling interests	(6)	(1)
Capitalization of stockholders advances	—	12
Assets and liabilities held for sale	(1,683)	—
End of the period	**3,485**	**2,477**
Total stockholders' equity	**63,696**	**52,354**
Number of shares:		
Preferred class A stock (including twelve golden shares)	2,108,579,618	2,108,590,250
Common stock	3,256,724,482	3,256,724,482
Buy-backs		
Beginning of the period	(152,579,803)	(151,792,203)
Acquisitions	—	(831,400)
Conversions	75,435,238	—
End of the period	**(77,144,565)**	**(152,623,603)**
	5,288,159,535	**5,212,691,129**

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

STATEMENTS OF COMPREHENSIVE INCOME (DEFICIT)
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS

	Six-month period ended June 30, 2010	Six-month period ended June 30, 2009 (unaudited)
Comprehensive income (deficit) is comprised as follows:		
Company's stockholders:		
Net income attributable to Company's stockholders	5,309	2,153
Cumulative translation adjustments	(1,845)	5,108
Unrealized gain (loss) — available-for-sale securities		
Gross balance as of the period/year end	4	22
Tax (expense) benefit	(4)	10
	—	**32**
Surplus (deficit) accrued pension plan		
Gross balance as of the period/year end	(91)	208
Tax (expense) benefit	65	(99)
	(26)	**109**
Cash flow hedge		
Gross balance as of the period/year end	154	1
Tax expense	(34)	—
	120	**1**
Total comprehensive income attributable to Company's stockholders	**3,558**	**7,403**
Noncontrolling interests:		
Net income attributable to noncontrolling interests	21	10
Cumulative translation adjustments	(22)	535
Cash flow hedge	35	—
Total comprehensive income attributable to Noncontrolling interests	**34**	**545**
Total comprehensive income	**3,592**	**7,948**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS, UNLESS OTHERWISE STATED

1 THE COMPANY AND ITS OPERATIONS

Vale S.A., ("Vale", the "Company" or "we") is a limited liability company incorporated in Brazil. Operations are carried out through Vale and our subsidiary companies, joint ventures and affiliates, and consist of bulk material, base metals, fertilizers, logistics and other activities.

At June 30, 2010, our principal consolidated operating subsidiaries are the following:

Subsidiary	% ownership	% voting capital	Location	Principal activity
Alumina do Norte do Brasil S.A. — Alunorte(*)	57.03	59.02	Brazil	Alumina
Alumínio Brasileiro S.A. — Albras(*)	51.00	51.00	Brazil	Aluminum
CVRD Overseas Ltd	100.00	100.00	Cayman Islands	Trading
Ferrovia Centro-Atlântica S. A	99.99	99.99	Brazil	Logistic
Ferrovia Norte Sul S.A	100.00	100.00	Brazil	Logistic
Fertilizantes Fosfatados S.A – Fosfértil	58.60	72.60	Brazil	Fertilizers
Mineração Corumbaense Reunidas S.A.	100.00	100.00	Brazil	Iron ore
PT International Nickel Indonesia Tbk	59.09	59.09	Indonesia	Nickel
Vale Australia Pty Ltd.	100.00	100.00	Australia	Coal
Vale Colombia Ltd	100.00	100.00	Colombia	Coal
Vale Fosfatados S.A	100.00	100.00	Brazil	Fertilizers
Vale Inco Limited	100.00	100.00	Canada	Nickel
Vale International S.A	100.00	100.00	Switzerland	Trading
Vale Manganése Norway	100.00	100.00	Norway	Ferroalloys
Vale Manganês S.A.	100.00	100.00	Brazil	Manganese and Ferroalloys
Vale Manganèse France	100.00	100.00	France	Ferroalloys
Vale Nouvelle-Caledonie SAS	74.00	74.00	New Caledonia	Nickel

(*) assets held for sale

2 BASIS OF CONSOLIDATION

All majority-owned subsidiaries in which we have both share and management control are consolidated. All significant intercompany accounts and transactions are eliminated. Our variable interest entities in which we are the primary beneficiary are consolidated. Investments in unconsolidated affiliates and joint ventures are accounted for under the equity method (Note 14).

We evaluate the carrying value of our equity accounted investments in relation to publicly quoted market prices when available. If the quoted market price is below book value, and such decline is considered other than temporary, we write-down our equity investments to quoted market value.

We define joint ventures as businesses in which we and a small group of other partners each participate actively in the overall entity management, based on a stockholders agreement. We define affiliates as businesses in which we participate as a noncontrolling interests but with significant influence over the operating and financial policies of the investee.

Our participation in hydroelectric projects is made via consortium contracts under which we have undivided interests in the assets and are liable for our proportionate share of liabilities and expenses, which are based on our proportionate share of power output. We do not have joint liability for any obligations. No separate legal or tax status is granted to consortia under Brazilian law. Accordingly, we recognize our proportionate share of costs and our undivided interest in assets relating to hydroelectric projects (Note 13).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, the selection of useful lives of property, plant and equipment, impairment, provisions necessary for contingent liabilities, fair values assigned to assets and liabilities acquired in business combinations, income tax valuation allowances, employee post retirement benefits and other similar evaluations. Actual results could differ from those estimated. In addition, the results of operations for the six-month period ended June 30, 2010, are not necessarily indicative of the actual results expected for the full fiscal year ending December 31, 2010.

a) Basis of presentation

We have prepared our consolidated financial statements in accordance with United States generally accepted accounting principles ("US GAAP"), which differ in certain respects from the accounting practices adopted in Brazil ("Brazilian GAAP") which are the basis for our statutory financial statements.

Since December 2007, significant modifications have been made to Brazilian GAAP as part of a convergence project with International Financial Reporting Standards (IFRS). The convergence project is expected to be completed by the end of 2010 and therefore our annual consolidated financial statements for 2010 prepared under Brazilian GAAP will be IFRS compliant. The Company does not expect to discontinue US GAAP reporting during 2010.

The Brazilian real is the parent Company's functional currency. We have selected the US dollar as our reporting currency.

All assets and liabilities have been translated to US dollars at the closing rate of exchange at each balance sheet date (or, if unavailable, the first available exchange rate). All statement of income accounts have been translated to US dollars at the average exchange rates prevailing during the respective periods. Capital accounts are recorded at historical exchange rates. Translation gains and losses are recorded in the Cumulative Translation Adjustments account ("CTA") in stockholders' equity.

The results of operations and financial position of our entities that have a functional currency other than the US dollar, have been translated into US dollars and adjustments to translate those statements into US dollars are recorded in the CTA in stockholders' equity.

The exchange rates used to translate the assets and liabilities of the Brazilian operations at June 30, 2010 and December 31, 2009, were R$1.8015 and R$1.7412, respectively.

The net transaction gain (loss) included in our statement of income ("Foreign exchange and indexation gains (losses), net") was US$3 and US$163 in the six-month period ended June 30, 2010 and 2009, respectively.

b) Cash equivalents and short-term investments

Cash flows from overnight investments and fundings are reported net. Short-term investments that have a ready market and original maturities of 90 days or less are classified as "Cash equivalents". The remaining investments, with between 91 days and 360 days maturities are stated at fair value and presented as "Short-term investments".

c) Long-term

Assets and liabilities that are realizable or due more than 12 months after the balance sheet date are classified as long-term.

d) Inventories

Inventories are recorded at the average cost of purchase or production, reduced to market value (net realizable value less a reasonable margin) when lower. Stockpiled inventories are accounted for as processed when they are removed from the mine. The cost of finished goods comprises depreciation and all direct costs necessary to convert stockpiled inventories into finished goods.

We classify proven and probable reserve quantities attributable to stockpiled inventories as inventories. These reserve quantities are not included in the total proven and probable reserve quantities used in the units of production, depreciation, depletion and amortization calculations.

We periodically assess our inventories to identify obsolete or slow moving inventories, and if needed we recognize definitive allowances for them.

e) Removal of waste materials to access mineral deposits

Stripping costs (the costs associated with the removal of overburden and other waste materials) incurred during the development of a mine, before production commences, are capitalized as part of the depreciable cost of developing the property. Such costs are subsequently amortized over the useful life of the mine based on proven and probable reserves.

Post-production stripping costs are included in the cost of the inventory produced (that is extracted), at each mine individually during the period that the stripping cost are incurred.

f) Property, plant and equipment and intangible assets

Property, plant and equipment are recorded at cost, including interest cost incurred during the construction of major new facilities. We compute depreciation on the straight-line method at annual average rates which take into consideration the useful lives of the assets, as follows: 3.73% for railroads, 1.5% for buildings, 4.23% for installations and 7.73% for other equipment. Expenditures for maintenance and repairs are charged to operating costs and expenses as incurred.

We capitalize the costs of developing major new ore bodies or expanding the capacity of operating mines and amortize these to operations on the unit-of-production method based on the total probable and proven quantity of ore to be recovered. Exploration costs are expensed. Once the economic viability of mining activities is established, subsequent development costs are capitalized.

Separately acquired intangible assets are shown at historical cost. Intangible assets acquired in a business combination are recognized at fair value at the acquisition date. All our intangible assets have definite useful lives and are carried at cost less accumulated amortization, which is calculated using the straight-line method over their estimated useful lives.

g) Business combinations

We adopt business combinations to record acquisitions of interests in other companies. This "purchase method", requires that we reasonably determine the fair value of the identifiable tangible and intangible assets and liabilities of acquired companies and segregate goodwill as an intangible asset.

We assign goodwill to reporting units and test each reporting unit's goodwill for impairment at least annually, and whenever circumstance indicating that recognized goodwill may not be fully recovered are identified. We perform the annual goodwill impairment tests during the last quarter of the year.

Goodwill is reviewed for impairment utilizing a two step process. In the first step, we compare a reporting unit's fair value with its carrying amount to identify any potential goodwill impairment loss. If the carrying amount of a reporting unit exceeds the unit's fair value, based on a discounted cash flow analysis, we carry out the second step of the impairment test, measuring and recording the amount, if any, of the unit's goodwill impairment loss.

h) Impairment of long-lived assets

All long-lived assets, are tested to determine if they are recoverable from operating earnings on an undiscounted cash flow basis over their useful lives whenever events or changes in circumstance indicate that the carrying value may not be recoverable.

When we determine that the carrying value of long-lived assets and definite-life intangible assets may not be recoverable, we measure any impairment loss based on a projected discounted cash flow method using a discount rate determined to be commensurate with the risk inherent in our current business model.

i) Available-for-sale equity securities

Equity securities classified as "available-for-sale" are recorded pursuant to accounting for certain investments in debt and equity securities. Accordingly, we classify unrealized holding gains and losses, net of taxes, as a separate component of stockholders' equity until realized.

j) Assets held for sale

We classified the assets held for sale in the noncurrent asset when its carrying amount is recoverable, mainly in case of a sale and when the realization of this sale is virtually certain. These are value at lower of book and fair value less costs to sell if the carrying value may be recoverable.

k) Compensated absences

The liability for future compensation for employee vacations is fully accrued as earned.

l) Derivatives and hedging activities

We apply accounting for derivative financial instruments and hedging activities, as amended. This standard requires that we recognize all derivative financial instruments as either assets or liabilities on our balance sheet and measure such instruments at fair value. Changes in the fair value of derivatives are recorded in each period in current earnings or in other comprehensive income, in the latter case depending on whether a transaction is designated as an effective hedge and has been effective during the period.

m) Asset retirement obligations

Our retirement obligations consist primarily of estimated closure costs, the initial measurement of which is recognized as a liability discounted to present value and subsequently accreted through earnings. An asset retirement cost equal to the initial liability is capitalized as part of the related asset's carrying value and depreciated over the asset's useful life.

n) Revenues and expenses

Revenues are recognized when title is transferred to the customer or services are rendered. Revenue from exported products is recognized when such products are loaded on board the ship. Revenue from products sold in the domestic market is recognized when delivery is made to the customer. Revenue from logistic services is recognized when the service order has been fulfilled. Expenses and costs are recognized on the accrual basis.

o) Income taxes

The deferred tax effects of tax loss carryforwards and temporary differences are recognized pursuant to accounting for income taxes. A valuation allowance is made when we believe that it is more likely than not that tax assets will not be fully recovered in the future.

p) Earnings per share

Earnings per share are computed by dividing net income by the weighted average number of common and preferred shares outstanding during the period.

q) Interest attributed to stockholders' equity (dividend)

Brazilian corporations are permitted to distribute interest attributable to stockholders' equity. The calculation is based on the stockholders' equity amounts as stated in the statutory accounting records and the interest rate applied may not exceed the long-term interest rate (TJLP) determined by the Brazilian Central Bank. Also, such interest may not exceed 50% of net income for the year nor 50% of retained earnings plus revenue reserves as determined by "Brazilian GAAP".

As the notional interest charge is tax deductible in Brazil, the benefit to us, as opposed to making a dividend payment, is a reduction in our income tax charge. Income tax of 15% is withheld on behalf of the stockholders relative to the interest distribution. Under Brazilian law, interest attributed to stockholders' equity is considered as part of the annual minimum mandatory dividend (Note 18). This notional interest distribution is treated for accounting purposes as a deduction from stockholders' equity in a manner similar to a dividend and the tax credit recorded in income.

r) Pension and other post retirement benefits

We sponsor private pensions and other post retirement benefits for our employees which are actuarially determined and recognized as an asset or liability or both depending on the funded or unfunded status of each plan in accordance with employees' accounting for defined benefit pension and other post retirement plans". The cost of our defined benefit and prior service costs or credits that arise during the period and are not components of net periodic benefit costs are recorded in other cumulative comprehensive income (deficit).

4 ACCOUNTING PRONOUNCEMENTS

a) Newly issued accounting pronouncements

Accounting Standards Update (ASU) number 2010-20 Receivables (Topic 310) improves the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. We are currently studying the future impact of this statement.

Accounting Standards Update (ASU) number 2010-18 Receivables (Topic 310) clarifies that modifications of loans that are accounted for within a pool under Subtopic 310-30, which provides guidance on accounting for acquired loans that have evidence of credit deterioration upon acquisition, do not result in the removal of those loans from the pool even if the modification would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The amendments do not affect the accounting for loans under the scope of Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within Subtopic 310-40. This Codification does not impact our financial position, results of operations or liquidity.

The Company understands that the other recently issued accounting pronouncements, that are not effective as of and for the year ending December 31, 2010, are not expected to be relevant for its consolidated financial statements.

b) Accounting standards adopted in 2010

Accounting Standards Update (ASU) number 2010-11 Derivatives and Hedging (Topic 815) clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. Only one form of embedded credit derivative qualifies for the exemption – one that is related only to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. This Codification does not impact our financial position, results of operations or liquidity.

Accounting Standards Update (ASU) number 2010-10 Consolidation (Topic 810) defers the effective date of the amendments to the consolidation requirements made by FASB Statement 167 to a reporting entity's interest in certain types of entities and clarify other aspects of the Statement 167 amendments. As a result of the deferral, a reporting entity will not be required to apply the Statement 167 amendments to the Subtopic 810-10 consolidation requirements to its interest in an entity that meets the criteria to qualify for the deferral. This Update also clarifies how a related party's interests in an entity should be considered when evaluating the criteria for determining whether a decision maker or service provider fee represents a variable interest. In addition, the Update also clarifies that a quantitative calculation should not be the sole basis for evaluating whether a decision maker's or service provider's fee is a variable interest. This Codification does not impact our financial position, results of operations or liquidity.

Accounting Standards Update No. 2010-09 Subsequent Events (Topic 855) addresses both the interaction of the requirements of Topic 855, Subsequent Events, with the SEC's reporting requirements and the intended breadth of the reissuance disclosures provision related to subsequent events (paragraph 855-10-50-4). The amendments in this Update have the potential to change reporting by both private and public entities, however, the nature of the change may vary depending on facts and circumstances. This Codification does not impact our financial position, results of operations or liquidity.

Accounting Standards Update (ASU) number 2010-06 Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 and are expected to provide more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The Company fully adopted this standard in 2010 with no impact on our financial position, results of operations or liquidity.

In June 2009, the Financial Accounting Standards Board ("FASB") issued an amendment to Interpretation No. 46® on the accounting and disclosure requirements for the consolidation of variable interest entities ("VIEs"). Subsequently, in December 2009, the Accounting Standards Update (ASU) number 2009-17 Amendments to FASB Interpretation No. 46® was issued. The amendments replace the quantitative-based risks and rewards calculation, for determining which reporting entity has a controlling financial interest in a VIE, with a qualitative analysis when determining whether or not it must consolidate a VIE. The newly required approach is focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. The amendments also require an enterprise to continuously reassess whether it must consolidate a VIE. Additionally, the amendments eliminated the scope exception on qualifying special-purpose entities ("QSPE") and require enhanced disclosures about: involvement with VIEs, significant changes in risk exposures, impacts on the financial statements, and, significant judgments and assumptions used to determine whether or not to consolidate a VIE. The Company adopted these amendments in 2010, with no impact on our financial position, results of operations or liquidity.

In June 2009, the "FASB" issued an amendment to the accounting and disclosure requirements for transfers of financial assets. Subsequently, in December 2009, the Accounting Standards Update (ASU) number 2009-16 Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140 was issued. The amendments improve financial reporting requiring greater transparency and additional disclosures for transfers of financial assets and the entity's continuing involvement with them and also change the requirements for derecognizing financial assets. In addition, the amendments eliminate the exceptions for QSPE from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. The Company adopted these amendments in 2010, with no impact on our financial position, results of operations or liquidity.

Accounting Standards Update (ASU) number 2009-08 Earning per share issued by the FASB provides additional guidance related to calculation of earnings per share. In particular, the effect on income available to common stockholders of redemption or induced conversion of preferred stock. This guidance amends ASC 260. This codification does not impact our financial position, results of operations or liquidity.

5 MAJOR ACQUISITIONS AND DISPOSALS

a) Fertilizers Businesses

In line with our strategy to become a leading global player in the fertilizer business, on May 27, 2010, we acquired 58.6% of the equity capital of Fertilizantes Fosfatados S.A. — Fosfertil (Fosfertil) and the Brazilian fertilizer assets of Bunge Participações e Investimentos S.A. (BPI), currently renamed Vale Fosfatados S.A for a total of US$ 4.7 billion in cash. As part of this acquisition, we have an option contract to acquire additional 20.27% stake in Fosfertil, for US$1.0 billion, which is expected to be exercised in the near future. Also, we will launch a mandatory offer to acquire the 0.19% of the common shares held by the noncontrolling stockholders.

Due to the recent closing of this transaction, information about the purchase price allocation presented below based on the fair values of identified assets acquired and liabilities assumed is preliminary. Such allocation, currently being performed internally by the Company, will be finalized during future periods, and accordingly, the preliminary purchase price allocation information set forth below is subject to revision, which may be material.

Purchase price	4,710
Noncontrolling interests consideration(*)	1,793
Book value of assets acquired and liabilities assumed, net	(2,382)
Adjustment to fair value of property, plant and equipment and mineral properties	(5,043)
Adjustment to fair value of inventories	(98)
Deferred taxes on the above adjustments	1,748
Goodwill	**728**

(*) Noncontrolling interests consideration is calculated based on the option contract and market prices for the remaining noncontrolling interest.

If the acquisition of these assets had been completed on January 1, 2010, our net income would have increased by US$44 and our net revenues would have increased by US$461.

The goodwill balance arises primarily due to the synergies between the acquired assets and the potash operations in Taquari-Vassouras, Caranalita, Rio Colorado and Neuquém and phosphates in is Bayóvar I and II, in Peru, and Evate, in Mozambique. The future development of our projects combined with the acquisition of the portfolio of fertilizer assets will allow Vale to be one of the top players in the world fertilizer business.

b) Other transactions

As part of our efforts to meet our future production targets, we acquired 51% interest on iron ore concession rights in Simandou South (Zogota), Guinea and iron ore exploration permits in Simandou North. From this amount, US$500 was paid and the remaining US$2 billion upon achievement of specific milestones. In connection with this acquisition we have also committed to renovate 660 km of the Trans-Guinea railway for passenger transportation and light commercial use.

In June 2010, we acquired an additional 24.5% stake in the Belvedere coal project (Belvedere) for US$92 (R$168) from AMCI Investments Pty Ltd (AMCI). As an outcome of this transaction, Vale increased its participation in Belvedere to 75.5% from 51.0%.

In May 2010, we entered into agreement with Oman Oil Company S.A.O.C. (OOC), a company wholly-owned by the Government of the Sultanate of Oman, to sell 30% of Vale Oman Pelletizing Company LLC (VOPC), for US$125. The transaction remains subject to the terms set forth in the definitive share purchase agreement to be signed after the fulfillment of precedent conditions.

On July 7, 2010, we concluded the sale of minority stakes in the Bayóvar project in Peru through the newly-formed company MVM Resources International B.V. (MVM). We sold 35% of the total capital of MVM to Mosaic for US$385 and 25% to Mitsui for US$275. Vale retains control of the Bayóvar project, holding a 40% stake of the total capital of the newly-formed company. The capital amount invested as at June 30, 2010, was approximately US$400. The gain on this transaction will be accounted for in equity in accordance with the accounting rules related to the gains/losses when control is retained.

We have entered into negotiations and agreements to sell our Kaolin, aluminum and alumina assets. For further details see note 12.

6 INCOME TAXES

Income taxes in Brazil comprise federal income tax and social contribution, which is an additional federal tax. The statutory composite enacted tax rate applicable in the periods presented is 34%. In other countries where we have operations, the applicable tax rates vary from 1.67% to 40%.

We analyze the potential tax impact associated with undistributed earnings by each of our subsidiaries. For those subsidiaries in which the undistributed earnings would be taxable when remitted to the parent company, no deferred tax is recognized, based on generally accepted accounting principles.

The amount reported as income tax expense in our consolidated financial statements is reconciled to the statutory rates as follows:

	June 30, 2010			Six-month period ended June 30, 2009 (unaudited)		
	Brazil	Foreign	Total	Brazil	Foreign	Total
Income before income taxes, equity results and noncontrolling interests	3,627	1,897	5,524	6,711	(2,825)	3,886
Exchange variation (not taxable) or not deductible	—	(600)	(600)	—	3,788	3,788
	3,627	1,297	4,924	6,711	963	7,674
Tax at Brazilian composite rate	**(1,233)**	**(441)**	**(1,674)**	**(2,282)**	**(327)**	**(2,609)**
Adjustments to derive effective tax rate:						
Tax benefit on interest attributed to stockholders	418	—	418	—	—	—
Difference on tax rates of foreign income	—	563	563	—	492	492
Tax incentives	229	—	229	77	—	77
Other non-taxable, income/non deductible expenses	(29)	71	42	102	8	110
Income taxes per consolidated statements of income	**(615)**	**193**	**(422)**	**(2,103)**	**173**	**(1,930)**

Vale and some related companies in Brazil were granted with a tax incentive that provides for a partial reduction of the income tax due related to certain regional operations of iron ore, railroad, manganese, copper, bauxite, alumina, aluminum, kaolin and potash. The tax benefit is calculated based on taxable profit adjusted by the tax incentive (so-called "exploration profit") taking into consideration the operational profit of the projects that benefit from the tax incentive during a fixed period. In general, such tax incentives expire in 2018. Part of the northern railroad and iron ore operations have been granted with tax incentives for a period of 10 years starting as from 2009. The tax saving must be registered in a special capital (profit) reserve in the net equity of the entity that benefits from the tax incentive and cannot be distributed as dividends to the stockholders.

We are also allowed to reinvest part of the tax savings in the acquisition of new equipment to be used in the operations that enjoy the tax benefit subject to subsequent approval from the Brazilian regulatory agencies Superintendência de Desenvolvimento da Amazônia — SUDAM and Superintendência de Desenvolvimento do Nordeste — SUDENE. When the reinvestment is approved, the corresponding tax benefit must also be accounted in a special profit reserve and is also subject to the same restrictions with respect to future dividend distributions to the stockholders.

We also have income tax incentives related to our Goro project under development in New Caledonia ("The Goro Project"). These incentives include an income tax holiday during the construction phase of the project and throughout a 15-year period commencing in the first year in which commercial production, as defined by the applicable legislation, is achieved followed by a five-year, 50 per cent income tax holiday. The Goro Project also qualifies for certain exemptions from indirect taxes such as import duties during the construction phase and throughout the commercial life of the project. Certain of these tax benefits, including the income tax holiday, are subject to an earlier phase out should the project achieve a specified cumulative rate of return. We are subject to a branch profit tax commencing in the first year in which commercial production is achieved, as defined by the applicable legislation. To date, we have not recorded any taxable income for New Caledonian tax purposes. The benefits of this legislation are expected to apply with respect to taxes payable once the Goro Project is in operation. We obtained tax incentives for its projects in Mozambique, Oman and Malaysia, that will take effects when those projects start their commercial operation.

We are subject to examination by the tax authorities for up to five years regarding our operations in Brazil, up to ten years for Indonesia, and up to seven years for Canada for income taxes.

Brazilian tax loss carryforwards have no expiration date, though offset is restricted to 30% of annual taxable income.

On January 1, 2007, Company adopted the provision Accounting for Uncertainty in Income Taxes.

The reconciliation of the beginning and ending amounts is as follows: (see note 21(b)) tax — related actions)

	June 30, 2010	Six-month period ended June 30, 2009 (unaudited)
Beginning and end of the period	**396**	**657**
Increase resulting from tax positions taken	4	21
Decrease resulting from tax positions taken	(25)	(1)
Cumulative translation adjustments	(6)	84
End of the period	**369**	**761**

There has been a reduction of US$421 due to the withdrawal of an action related to the compensation of tax carry forwards higher than 30% of our taxable income. This resulted in a reduction of the liability and the release of funds accounted for in judicial deposits.

Recognized deferred income tax assets and liabilities are composed as follows:

	June 30, 2010	December 31, 2009
Current deferred tax assets		
Accrued expenses deductible only when disbursed	533	852
Long-term deferred tax assets and liabilities		
Assets		
Employee postretirement benefits provision	441	384
Tax loss carryforwards	327	324
Other temporary differences	1,164	842
Asset retirement obligation	265	259
	2,197	**1,809**
Liabilities		
Unrealized tax indexation effects	(155)	(154)
Property, plant and equipment	(76)	(79)
Prepaid retirement benefit	(471)	(435)
Fair value adjustments in business combinations	(7,463)	(5,929)
Social contribution	(992)	(758)
Other temporary differences	(116)	(103)
	(9,273)	**(7,458)**
Valuation allowance		
Beginning balance	(106)	(122)
Translation adjustments	(1)	(25)
Change in allowance	3	41
Ending balance	**(104)**	**(106)**
Net long-term deferred tax liabilities	**(7,180)**	**(5,755)**

7 CASH AND CASH EQUIVALENTS

	June 30, 2010	December 31, 2009
Cash	1,423	728
Short-term investments	4,812	6,565
	6,235	**7,293**

All the above mentioned short-term investments are made through the use of low risk fixed income securities, in a way that: those denominated in Brazilian reais are concentrated in investments indexed to the CDI, and those denominated in US dollars are mainly time deposits, with the original due date less than three-month.

8 SHORT-TERM INVESTMENTS

	June 30, 2010	December 31, 2009
Time deposit	—	3,747

Represent low risk investments with original due date over three-month.

9 ACCOUNT RECEIVABLE

	June 30, 2010	December 31, 2009
Customers		
Denominated in Brazilian Reais	967	885
Denominated in other currencies, mainly US dollars	4,999	2,362
	5,966	**3,247**
Allowance for doubtful accounts	(136)	(127)
Total	**5,830**	**3,120**

Accounts receivable from customers in the steel industry represent 78.6% of receivables at June 30, 2010.

No single customer accounted for more than 10% of total revenues.

Additional allowances for doubtful accounts charged to the statement of income as expenses in June 30, 2010 and June 30, 2009 totaled US$17 and US$10, respectively. We wrote-off US$6 in June 30, 2010 and US$6 in June 30, 2009.

10 INVENTORIES

	June 30, 2010	December 31, 2009
Finished products		
Nickel (co-products and by-products)	1,545	1,083
Iron ore and pellets	635	677
Manganese and ferroalloys	163	164
Fertilizers	430	—
Aluminum products	—	135
Kaolin	—	42
Copper concentrate	28	35
Coal	66	51
Others	81	51
Spare parts and maintenance supplies	858	958
	3,806	**3,196**

On June 30, 2010 and December 31, 2009, there were no adjustments to reduce inventories to market values.

11 RECOVERABLE TAXES

	June 30, 2010	December 31, 2009
Income tax	530	908
Value-added tax — ICMS	358	290
PIS and COFINS	832	1,052
Others	57	78
Total	**1,777**	**2,328**
Current	1,303	1,511
Non-current	474	817
	1,777	**2,328**

12 ASSETS AND LIABILITIES HELD FOR SALE

- Aluminium

In connection with our strategy of active portfolio asset management, on May 2, 2010, we entered into an agreement with Norsk Hydro ASA (Hydro), to sell all of our stakes in Albras — Alumínio Brasileiro S.A. (Albras), Alunorte — Alumina do Norte do Brasil S.A. (Alunorte) and Companhia de Alumina do Pará (CAP), 60% of our Paragominas bauxite mine and all of our other Brazilian bauxite mineral rights ("Aluminum Business").

For these transactions we will receive US$ 1 billion in cash, and 22% of Hydro's share capital. In addition, Hydro will assume a net debt of US$700. In 2013 and 2015, we will sell the remaining 40% of Paragominas bauxite mine and other Brazilian bauxite mineral rights, for US$400. The sale is expected to be concluded in the near future.

The Company has assessed that the expected fair value of the transaction is higher than the net asset carrying value and accordingly has maintained the original amounts. Also, because of the significant influence the Company will hold on Hydro, aluminum was not considered a discontinued operation.

- Kaolin

As part of our portfolio management, we have entered into negotiations with the intention to sell our net assets linked to kaolin activities. We have measured these assets at fair value less costs to sell and recognized in first quarter, estimated losses in the amount of US$ 133.

At June 30, 2010, detailed amounts of these assets and liabilities classified as held for sale are included in the table below:

Assets held for sale	
Inventories	375
Property, plant and equipment	4,353
Advances to suppliers — energy	476
Recoverable taxes	538
Other assets	382
Total	**6,124**
Liabilities associated with assets held for sale	
Short — term debt	141
Long term debt	624
Noncontrolling interests	1,695
Other	72
Total	**2,532**

13 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

By type of assets:

	June 30, 2010			December 31, 2009		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land	288	—	288	284	—	284
Buildings	4,989	985	4,004	4,324	1,143	3,181
Installations	13,089	3,624	9,465	14,063	4,160	9,903
Equipment	9,240	3,458	5,782	7,499	2,380	5,119
Railroads	6,666	2,049	4,617	6,685	2,016	4,669
Mine development costs	29,075	3,559	25,516	20,205	2,957	17,248
Others	9,667	2,721	6,946	10,418	3,123	7,295
	73,014	**16,396**	**56,618**	**63,478**	**15,779**	**47,699**
Construction in progress	15,998	—	15,998	19,938	—	19,938
Total	**89,012**	**16,396**	**72,616**	**83,416**	**15,779**	**67,637**

Losses on disposal of property, plant and equipment totaled US$146 and US$87 in June 30, 2010 and 2009, respectively, mainly relating to losses on sales of ships and trucks, locomotives and other equipment, which were replaced in the normal course of business.

Assets given in guarantee of judicial processes totaled US$155 as at June 30, 2010.

Hydroelectric assets

We participate in several jointly-owned hydroelectric plants, already in operation or under construction, in which we record our undivided interest in these assets as Property, plant and equipment.

At June 30, 2010, the cost of hydroelectric plants in service totals US$1,355 (December 31, 2009 US$1,382) and the related depreciation in the period was US$389 (December 31, 2009 US$372). The cost of hydroelectric plant under construction at June 30, 2010, totals US$562 (December 31, 2009 US$521). Income and operating expenses for such plants are not material.

Intangibles

All of the intangible assets recognized in our financial statements were acquired from third parties, either directly or through a business combination and have definite useful lives from 6 to 30 years.

At June 30, 2010, the intangibles amount to US$1,133 (December 31, 2009 US$1,173), and are comprised of rights granted by the government — North-South Railroad of US$894 (December 31, 2009 US$924) and off take-agreements of US$239 (December 31, 2009 US$239).

14 INVESTMENTS IN AFFILIATED COMPANIES AND JOINT VENTURES

	June 30, 2010						Equity in earnings (losses) of investee adjustments		Dividends Received	
				Net income (loss)	Investments		Six-month period ended		Six-month period ended	
	Participation in capital (%)		Net equity	of the period	June 30, 2010	December 31, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	Voting	Total						(unaudited)		(unaudited)
Bulk Material										
Iron ore and pellets										
Companhia Nipo-Brasileira de Pelotização — NIBRASCO (1)	51.11	51.00	258	12	131	132	6	8	—	20
Companhia Hispano-Brasileira de Pelotização — HISPANOBRÁS (1)	51.00	50.89	168	10	86	83	5	(8)	25	—
Companhia Coreano-Brasileira de Pelotização — KOBRASCO (1)	50.00	50.00	114	19	57	59	9	14	—	—
Companhia Ítalo-Brasileira de Pelotização — ITABRASCO (1)	51.00	50.90	130	6	66	90	3	3	—	—
Minas da Serra Geral SA — MSG	50.00	50.00	58	2	30	31	1	1	—	—
SAMARCO Mineração SA — SAMARCO (2)	50.00	50.00	1,665	582	892	673	291	132	150	50
Baovale Mineração SA — BAOVALE	50.00	50.00	47	3	23	30	1	(4)	—	—
Zhuhai YPM Pellet e Co,Ltd — ZHUHAI	25.00	25.00	90	20	22	13	5	(2)	—	—
Tecnored Desenvolvimento Tecnológico SA	37.40	37.40	94	(27)	35	—	(10)	—	—	—
					1,342	**1,111**	**311**	**144**	**175**	**70**
Coal										
Henan Longyu Resources Co Ltd	25.00	25.00	801	155	200	250	39	31	39	—
Shandong Yankuang International Company Ltd	25.00	25.00	(55)	(28)	(14)	(7)	(8)	(12)	—	—
					186	**243**	**31**	**19**	**39**	**—**
Base Metals										
Bauxite										
Mineração Rio do Norte SA — MRN	40.00	40.00	348	4	140	143	2	12	—	30
					140	**143**	**2**	**12**	**—**	**30**
Copper										
Teal Minerals Incorporated	50.00	50.00	138	(26)	69	80	(14)	(9)	—	—
					69	**80**	**(14)**	**(9)**	**—**	**—**
Nickel										
Heron Resources Inc (cost US$24) — available-for-sale	—	—	—	—	5	8	—	—	—	—
Korea Nickel Corp	—	—	—	—	12	13	—	1	—	—
Others — available for sale	—	—	—	—	5	9	—	—	—	—
					22	**30**	**—**	**1**	**—**	**—**
Logistic										
LOG-IN Logística Intermodal SA	31.33	31.33	361	(1)	121	125	—	2	—	3
MRS Logística SA	37.86	41.50	1,172	83	486	468	34	43	35	33
					607	**593**	**34**	**45**	**35**	**36**
Others										
Steel										
California Steel Industries Inc — CSI	50.00	50.00	330	30	165	150	15	(12)	—	—
THYSSENKRUPP CSA Companhia Siderúrgica	26.87	26.87	6,362	(1)	1,709	2,049	—	—	—	—
Usinas Siderúrgicas de Minas Gerais SA — USIMINAS	—	—	—	—	—	—	—	7	—	7
					1,874	**2,199**	**15**	**(5)**	**—**	**7**

	June 30, 2010				Investments		Equity in earnings (losses) of investee adjustments		Dividends Received	
							Six-month period ended		Six-month period ended	
	Participation in capital (%)		Net equity	Net income (loss) of the period	June 30, 2010	December 31, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	Voting	Total						(unaudited)		(unaudited)
Other affiliates and joint ventures										
Vale Soluções em Energia	51.00	51.00	283	—	144	99	—	—	—	—
Others	—	—	—	—	60	87	—	—	—	—
					204	186	—	—	—	—
Total					4,444	4,585	379	207	249	143

(1) Although Vale held a majority of the voting interest of investees accounted for under the equity method, existing veto rights held by noncontrolling shareholders under shareholder agreements preclude consolidation;

(2) Investment includes goodwill of US$62 in December, 2009 and US$60 in June, 2010;

15 IMPAIRMENT OF GOODWILL AND LONG-LIVED ASSETS

As described in note 3(g), we test goodwill and long-lived assets for impairment when events or changes in circumstances indicate that they might be impaired. For impairment test purposes goodwill is allocated to reporting units, and are tested at least annually.

No triggering event was noted for the first six months ended June 30, 2010. The annual impairment test of goodwill be performance during the fourth quarter for 2010. No impairment charges were recognized in 2009 as a result of the annual goodwill impairment tests performed. In 2008, an impairment charge, related to nickel operations was recorded in operating results in the amount of US$950.

Management determined cash flows based on approved financial budgets. Gross margin projections were based on past performance and management's expectations of market developments. Information about sales prices are consistent with the forecasts included in industry reports, considering quoted prices when available and when appropriate. The discount rates used reflect specific risks relating to the relevant assets in each reporting unit, depending on their composition and location.

Recognition of additional goodwill impairment charges in the future would depend on several estimates including market conditions, recent actual results and management's forecasts. This information shall be obtained at the time when our assessment is to be updated. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

Other than US$728 from Fosfértil, there were no goodwill movements in the first six months ended June 30, 2010 and 2009, except for the cumulative translation adjustments.

16 SHORT-TERM DEBT

Short-term borrowings outstanding on June 30, 2010, are from commercial banks for export financing denominated in US dollars, with average annual interest rates of 1.56%.

17 LONG-TERM DEBT

	Current liabilities		Long-term liabilities	
	June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009
Foreign debt				
Loans and financing denominated in the following currencies:				
US dollars	2,718	1,543	2,915	4,332
Others	64	29	253	411
Fixed Rate Notes				
US dollars	—	—	8,496	8,481
EUR	—	—	918	—
Debt securities — export sales(*) — US dollar denominated	—	150	—	—
Perpetual notes	—	—	78	78
Accrued charges	185	198	—	—
	2,967	1,920	12,660	13,302
Brazilian debt				
Brazilian Reais indexed to Long-term Interest Rate — TJLP/CDI and General Price Index-Market (IGPM)	60	62	3,360	3,433
Basket of currencies	1	1	3	3
Non-convertible debentures	834	861	2,531	2,592
US dollars denominated	—	—	571	568
Accrued charges	96	89	—	—
	991	1,013	6,465	6,596
Total	3,958	2,933	19,125	19,898

(*) Secured by receivables from future export sales. Redeemed in January, 2010.

The long-term portion at June 30, 2010 falls due as follows:

2011	1,032
2012	1,055
2013	3,021
2014	857
2015 and thereafter	12,770
No due date (Perpetual notes and non-convertible debentures)	390
	19,125

At June 30, 2010 annual interest rates on long-term debt were as follows:

Up to 3%	6,295
3.1% to 5%(*)	1,011
5.1% to 7%	8,085
7.1% to 9%(**)	2,788
9.1% to 11%(**)	3,669
Over 11%(**)	1,153
Variable (Perpetual notes)	82
	23,083

(*) Includes Eurobonds. For this operation we have entered into derivative transactions at a cost of 4.71% per year in US dollars.

(**) Includes non-convertible debentures and other Brazilian Real denominated debt that bear interest at the Brazilian Interbank Certificate of Deposit (CDI) and Brazilian Government Long-term Interest Rates (TJLP) plus a spread. For these operations we have entered into derivative transactions to mitigate our exposure to the floating rate debt denominated in Brazilian Real, totaling US$6,375 of which US$6,130 has original interest rate above 7.1% per year. The average cost after taking into account the derivative transactions is 4.42% per year in dollars.

The average cost of all derivative transactions is 4.46% per year in US dollars.

Vale has non-convertible debentures at Brazilian Real denominated as follows:

Non Convertible Debentures	Quantity as of June 30, 2010		Maturity	Interest	Balance	
	Issued	Outstanding			June 30, 2010	December 31, 2009
1st Series	150,000	150,000	November 20, 2010	101.75% CDI	841	869
2nd Series	400,000	400,000	November 20, 2013	100% CDI + 0.25%	2,244	2,318
Tranche "B"	5	5	No due date	6.5% p.a + IGP-DI	312	295
					3,397	3,482
Short-term portion					834	861
Long-term portion					2,531	2,592
Accrued charges					32	29
					3,397	3,482

The indexation indices/rates applied to our debt were as follows (unaudited):

	Six-month period ended	
	June 30, 2010	June 30, 2009
TJLP — Long-Term Interest Rate (effective rate)	3.0	3.1
IGP-M — General Price Index — Market	5.7	(1.2)
Appreciation (devaluation) of Real against US dollar	(3.3)	19.8

In June 2010, we entered into a bilateral pre-export finance agreement with a local Brazilian bank in the amount of US$500 and final tenor of 10 years.

In March 2010, Vale issued EUR750, equivalent to US$1 billion, of 8-year euronotes at a price of 99.564% of the principal amount. These notes will mature in March 2018 and will bear a coupon of 4.375% per year, payable annually.

In January 2010, we redeemed all outstanding export receivables securitization 10-year notes issued in September 2000 at an interest rate of 8.926% per year and the notes issued in July 2003 at an interest rate of 4.43% per year. The outstanding principal amounts of those September 2010 notes were US$28 and for the July 2013 notes were US$122, totaling US$150 of debt redeemed.

Credit Lines

We have revolving credit lines available under which amounts can be drawn down and repaid at the option of the borrower. At June 30, 2010, the total amount available under revolving credit lines was US$1,600, of which US$850 was granted to Vale International and the balance to Vale Inco. As of June 30, 2010, neither Vale International nor Vale Inco had drawn any amounts under these facilities, but US$108 of letters of credit were issued and remained outstanding pursuant to Vale Inco's facility.

In May 2008, we entered into framework agreements with the Japan Bank for International Cooperation in the amount of US$3 billion and Nippon Export and Investment Insurance in the amount of US $2 billion for the financing of mining, logistics and power generation projects. In November, 2009, Vale has signed a US$300 export facility agreement, through its subsidiary PT International Nickel Indonesia Tbk (PTI), with Japanese financial institutions using credit insurance provided by Nippon Export and Investment Insurance — NEXI, to finance the construction of the Karebbe hydroelectric power plant on the Larona river, island of Sulawesi, Indonesia. Through June 30, 2010, PT International had drawn down US$150 on this facility.

In 2008, we established a credit line for R$7,300, or US$4 billion, with Banco Nacional de Desenvolvimento Econômico e Social — BNDES (the Brazilian National Development Bank) to help finance our investment program. As of June 30, 2010, we had drawn the equivalent of US$862 under this facility.

Guarantee

On June 30, 2010, US$5 (December 31, 2009 — US$753) of the total aggregate outstanding debt were secured, being US$2 (December 31, 2009 — US$34) guaranteed by the Brazilian Federal Government and US$3 (December 31, 2009 — US$567) guaranteed by others receivables. On December 31, 2009, US$152 was guaranteed by receivables from future export sales of CVRD Overseas Ltd, redeemed in January, 2010. The remaining outstanding debt in the amount of US$23,078 (December 31, 2009 — US$22,078) were unsecured.

Our principal covenants require us to maintain certain ratios, such as debt to EBITDA and interest coverage. We have not identified any events of noncompliance as of June 30, 2010.

18 STOCKHOLDERS' EQUITY

Each holder of common and preferred class A stock is entitled to one vote for each share on all matters brought before stockholders' meetings, except for the election of the Board of Directors, which is restricted to the holders of common stock. The Brazilian Government holds twelve preferred special shares which confer permanent veto rights over certain matters.

Both common and preferred stockholders are entitled to receive a mandatory minimum dividend of 25% of annual adjusted net income under Brazilian GAAP, once declared at the annual stockholders' meeting. In the case of preferred stockholders, this dividend cannot be less than 6% of the preferred capital as stated in the statutory accounting records or, if greater than, 3% of the Brazilian GAAP equity value per share.

In April 2010, we paid US$1,250 as a first installment of the dividend to stockholders. The distribution was made in the form of interest on stockholders' equity.

In June 2010, the notes series Rio and Rio P were converted into ADS and represent an aggregate of 49,305,205 common shares and 26,130,033 preferred class A shares respectively. The conversion was made using 75,435,238 treasury stocks held by the Company. The difference between the conversion amount and the treasury stocks book value of US$ 1,379 was accounted for in additional paid-in capital in the stockholder's equity.

The outstanding issued mandatory convertible notes on June 30, 2010, is as follows:

	Date		Value		
Headings	**Emission**	**Expiration**	**Gross**	**Net of charges**	**Coupon**
Tranches Vale and Vale P-2012	July/2009	June/2012	942	934	6.75% p.a.

The notes pay a coupon quarterly and are entitled to an additional remuneration equivalent to the cash distribution paid to ADS holders. These notes were classified as a capital instrument, mainly due to the fact that neither the Company nor the holders have the option to settle the operation, whether fully or partially, with cash, and the conversion is mandatory; consequently, they were recognized as a specific component of shareholders' equity, net of financial charges.

The funds linked to future mandatory conversion, net of charges are equivalent to the maximum of common shares and preferred shares, as follows. All the shares are currently held in treasury.

	Maximum amount of action		Value	
Headings	**Common**	**Preferred**	**Common**	**Preferred**
Tranches Vale and Vale P-2012	18,415,859	47,284,800	293	649

In April 2010, we paid to holders of mandatorily convertible notes additional interest: series RIO and RIO P, US$0.417690 and US$0.495742 per note, respectively and series VALE-2012 and VALE.P-2012, US$ 0.602336 and US$ 0.696668 per note, respectively.

On October 30, 2009, we paid additional interest to holders of the mandatorily convertible notes of series RIO and of series RIO P, equal to the US dollar equivalent of R$0.857161 and R$1.017334 per notes, respectively, and to the holders of the mandatorily convertible notes of series VALE-2012 and VALE.P-2012, equal to the US dollar equivalent of R$1.236080 and R$1.429662 per notes, respectively.

In April 2009, we paid to holders of the mandatorily convertible notes of series RIO and of series RIO P, the US dollar equivalent of US$0.490922 and US$0.582658, respectively.

Brazilian law permits the payment of cash dividends only from retained earnings as stated in the BR GAAP statutory records and such payments are made in Brazilian Reais. Pursuant to the Company's statutory books, undistributed retained earnings at June 30, 2010, total US$23,880, comprising the unrealized income and expansion reserves, which could be freely transferred to retained earnings and paid as dividends, if approved by the stockholders, after deducting of the minimum annual mandatory dividend.

No withholding tax is payable on distribution of profits earned except for distributions in the form of interest attributed to stockholders' equity (Note 3 (q)).

Brazilian laws and our By-laws require that certain appropriations be made from retained earnings to reserve accounts on an annual basis, all determined in accordance with amounts stated in the statutory accounting records, as detailed below:

	Six-month period ended	
	June 30, 2010	June 30, 2009 (unaudited)
Undistributed retained earnings		
Unrealized income reserve		
Beginning of the period	39	45
Transfer from (to) retained earnings	(1)	10
End of the period	**38**	**55**
Expansion reserve		
Beginning of the period	26,111	16,809
Transfer to capitalized earnings	(1,324)	—
Transfer from (to) retained earnings	(945)	3,286
End of the period	**23,842**	**20,095**
Legal reserve		
Beginning of the period	2,238	1,448
Transfer from (to) retained earnings	(75)	286
End of the period	**2,163**	**1,734**
Fiscal incentive investment reserve		
Beginning of the period	120	38
Transfer to capitalized earnings	(73)	—
Transfer from (to) retained earnings	(4)	8
End of the period	**43**	**46**
Total undistributed retained earnings	**26,086**	**21,930**

The purpose and basis of appropriation to such reserves is described below:

Unrealized income reserve — this represents principally our share of the earnings of affiliates and joint ventures, not yet received in the form of cash dividends.

Expansion reserve — this is a general reserve for expansion of our activities.

Legal reserve — this reserve is a requirement for all Brazilian corporations and represents the appropriation of 5% of annual net income up to a limit of 20% of capital stock all determined under Brazilian GAAP.

Fiscal incentive investment reserve — this reserve results from an option to designate a portion of income tax otherwise payable for investment in government approved projects and is recorded in the year following that in which the taxable income was earned. As from 2000, this reserve basically contemplates income tax incentives (Note 6).

Basic and diluted earnings per share

Basic and diluted earnings per share amounts have been calculated as follows:

	Six-month period ended	
	June 30, 2010	June 30, 2009
		(unaudited)
Net income from continuing operations attributable to Company's stockholders	**5,460**	**2,153**
Discontinued operations, net of tax	**(151)**	**—**
Net income attributable to Company's stockholders	**5,309**	**2,153**
Interest attributed to preferred convertible notes	(38)	(23)
Interest attributed to common convertible notes	(46)	(49)
Net income for the period adjusted	**5,225**	**2,081**
Basic and diluted earnings per share		
Income available to preferred stockholders	2,010	797
Income available to common stockholders	3,150	1,250
Income available to convertible notes linked to preferred shares	47	12
Income available to convertible notes linked to common shares	18	22
Weighted average number of shares outstanding (thousands of shares) — preferred shares	2,033,272	2,030,805
Weighted average number of shares outstanding (thousands of shares) — common shares	3,186,018	3,181,715
Treasury preferred shares linked to mandatorily convertible notes	47,285	30,295
Treasury common shares linked to mandatorily convertible notes	18,416	56,582
Total	**5,284,991**	**5,299,397**
Earnings per preferred share	0.99	0.39
Earnings per common share	0.99	0.39
Earnings per convertible notes linked to preferred share(*)	1.79	1.16
Earnings per convertible notes linked to common share(*)	3.48	1.25
Continuous operations		
Earnings per preferred share	1.02	—
Earnings per common share	1.02	—
Earnings per convertible notes linked to preferred share(*)	1.82	—
Earnings per convertible notes linked to common share(*)	3.53	—
Discontinued operations		
Earnings per preferred share	(0.03)	—
Earnings per common share	(0.03)	—
Earnings per convertible notes linked to preferred share(*)	(0.03)	—
Earnings per convertible notes linked to common share(*)	(0.05)	—

(*) Basic earnings per share only, as dilution assumes conversion

If the conversion of the convertible notes had been included in the calculation of diluted earnings per share they would have generated the following dilutive effect as shown below:

	Six-month period ended	
	June 30, 2010	June 30, 2009
		(unaudited)
Income available to preferred stockholders	2,095	832
Income available to common stockholders	3,214	1,321
Weighted average number of shares outstanding (thousands of shares) — preferred shares	2,080,557	2,061,100
Weighted average number of shares outstanding (thousands of shares) — common shares	3,204,434	3,238,297
Earnings per preferred share	1.01	0.40
Earnings per common share	1.00	0.40
Continuous operations		
Earnings per preferred share	1.04	—
Earnings per common share	1.03	—
Discontinued operations		
Earnings per preferred share	(0.03)	—
Earnings per common share	(0.03)	—

19 PENSION PLANS

Since 1973 we sponsor a supplementary social security plan with characteristics of a defined benefit plan (the "Old Plan") covering substantially all Brazilian employees, with benefits calculated based on years of service, age, contribution salary and supplementary social security benefits. This plan is administered by Fundação Vale do Rio Doce de Seguridade Social — VALIA and was funded by monthly contributions made by us and our employees, calculated based on periodic actuarial appraisals.

In May 2000, we implemented a new supplementary social security plan with characteristics of defined contribution, which complements the earnings of programmed retirements. The plan offers benefits to cover death, physical invalidity, and sickness, with defined benefit characteristics. Brazilian employees could opt to migrate to the "New Plan" (a Benefit Mix Plan — Vale Mais) which was taken up by over 98% of our employees. The Old Plan will continue in existence, covering almost exclusively retired participants and their beneficiaries.

Additionally we provide supplementary payments to a specific group of former Brazilian employees, in addition to the regular benefits from Valia. The plan provides postretirement health care, dental and pharmaceutical benefits.

Upon the acquisition of Inco, we assumed benefits through defined benefit pension plans that cover essentially all its employees and post retirement benefits other than pensions that also provide certain health care and life insurance benefits for retired employees.

The following information details the status of the defined benefit elements of all plans in accordance with employers' disclosure about pensions and other post retirement benefits" and employers' accounting for defined benefit pension and other postretirement plans", as amended.

We use a measurement date of June 30 and December 31 for our pension and post retirement benefit plans.

a) Change in benefit obligation

	June 30, 2010			December 31, 2009		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Benefit obligation at beginning of year	3,661	3,923	1,431	2,424	3,031	1,069
Liability recognized upon consolidation of Fosfertil	246	5	30	—	—	—
Transfers	—	7	(7)	—	—	—
Service cost	9	49	15	11	43	17
Interest cost	222	106	52	313	249	88
Plan amendment	3	—	—	—	—	—
Benefits paid	(181)	(156)	(37)	(226)	(279)	(65)
Effect of exchange rate changes	(1)	(53)	8	843	555	187
Actuarial loss (gain)	(10)	6	(5)	296	324	135
Benefit obligation at end of year	**3,949**	**3,887**	**1,487**	**3,661**	**3,923**	**1,431**

b) Change in plan assets

	June 30, 2010			December 31, 2009		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Fair value of plan assets at beginning of year	4,996	3,229	11	3,043	2,507	9
Asset recognized upon consolidation of Fosfertil	301	4	—	—	—	—
Plan amendment	3	32	—	—	—	—
Actual return on plan assets	381	58	—	1,121	402	1
Employer contributions	27	17	36	40	155	65
Benefits paid	(181)	(156)	(36)	(226)	(279)	(65)
Effect of exchange rate changes	(114)	(52)	1	1,018	444	1
Fair value of plan assets at end of year	**5,413**	**3,132**	**12**	**4,996**	**3,229**	**11**

Plan assets at June 30, 2010, included US$481 (US$587 at December 31, 2009) and US$67 (US$69 at December 31, 2009) of portfolio investments in our own shares and debentures, respectively, and US$68 (US$64 at December 31, 2009) of shares of related parties. They also included US$3,488 of Brazilian Federal Government securities (US$3,261 at December 31, 2009) and US$400 of Canada Federal Government securities (US$391 at December 31, 2009).

c) Funded Status and Financial Position

	June 30, 2010			December 31, 2009		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Non-current assets	1,464	—	—	1,335	—	—
Current liabilities	—	(104)	(94)	—	(62)	(82)
Non-current liabilities	—	(651)	(1,381)	—	(632)	(1,338)
Funded status	**1,464**	**(755)**	**(1,475)**	**1,335**	**(694)**	**(1,420)**

d) Assumptions used (nominal terms)

	Brazil					
	June 30, 2010			December 31, 2009		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Discount rate	11.08% p.a.	11.08% p.a.	11.08% p.a.	11.08% p.a.	11.08% p.a.	11.08% p.a.
Expected return on plan assets	12.00% p.a.	11.50% p.a.	—	12.00% p.a.	11.50% p.a.	—
Rate of compensation increase — up to 47 years	7.64% p.a.	7.64% p.a.	—	7.64% p.a.	7.64% p.a.	—
Rate of compensation increase — over 47 years	4.50% p.a.	4.50% p.a.	—	4.50% p.a.	4.50% p.a.	—
Inflation	4.50% p.a.	4.50% p.a.	4.50% p.a.	4.50% p.a.	4.50% p.a.	4.50% p.a.
Health care cost trend rate	—	—	7.63% p.a.	—	—	7.63% p.a.

	Foreign			
	June 30, 2010		December 31, 2009	
	Underfunded pension plans	Underfunded other benefits	Underfunded pension plans	Underfunded other benefits
Discount rate	6.21% p.a.	6.20% p.a.	6.21% p.a.	6.20% p.a.
Expected return on plan assets	7.00% p.a.	6.23% p.a.	7.00% p.a.	6.23% p.a.
Rate of compensation increase — up to 47 years	4.11% p.a.	3.58% p.a.	4.11% p.a.	3.58% p.a.
Rate of compensation increase — over 47 years	4.11% p.a.	3.58% p.a.	4.11% p.a.	3.58% p.a.
Inflation	2.00% p.a.	2.00% p.a.	2.00% p.a.	2.00% p.a.
Health care cost trend rate	—	6.04% p.a.	—	6.04% p.a.

Expected returns for all plans' assets are generated within the framework of a long term macroeconomic scenario provided by Tendências Consultoria and an ALM — Asset Liability Modelling study prepared by Mercer Consulting.

e) Pension costs

	Six-month period ended					
	June 30, 2010			June 30, 2009		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
					(unaudited)	
Service cost — benefits earned during the year	—	32	12	4	22	8
Interest cost on projected benefit obligation	140	178	48	115	114	38
Expected return on assets	(233)	(162)	—	(158)	(92)	—
Amortizations and (gain) / loss	—	—	—	5	1	—
Net deferral	—	—	—	—	8	(13)
Net periodic pension costs (credit)	**(93)**	**48**	**60**	**(34)**	**53**	**33**

f) Accumulated benefit obligation

	June 30, 2010			December 31, 2009		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Accumulated benefit obligation	3,940	3,793	1,508	3,645	3,826	1,431
Projected benefit obligation	3,142	3,875	1,487	3,661	3,923	1,431
Fair value of plan assets	(5,413)	(3,132)	(12)	(4,996)	(3,229)	(11)

g) Impact of 1% variation in assumed health care cost trend rate

	1% increase		1% decrease	
	June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009
	Overfunded pension plans	Underfunded pension plans	Overfunded pension plans	Underfunded pension plans
Accumulated postretirement benefit obligation (APBO)	207	199	(169)	(163)
Interest and service costs	11	18	(9)	(14)

h) Other Cumulative Comprehensive Income (Deficit)

	June 30, 2010			December 31, 2009		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Net transition (obligation)/asset	—	—	—	2	—	—
Net actuarial (loss)/gain	77	(382)	289	79	(338)	301
Effect of exchange rate changes	(86)	(4)	(2)	(91)	(7)	(4)
Deferred income tax	3	135	(94)	3	111	(94)
Amounts recognized in other cumulative comprehensive income (deficit)	**(6)**	**(251)**	**193**	**(7)**	**(234)**	**203**

i) Change in Other Cumulative Comprehensive Income (Deficit)

	June 30, 2010			December 31, 2009		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Net transition (obligation)/asset not yet recognized in NPPC at beginning of the year	(2)	—	—	(12)	—	—
Net actuarial (loss)/gain not yet recognized in NPPC at beginning of the year	12	345	(297)	(261)	(196)	406
Deferred income tax at beginning of the year	(3)	(111)	94	93	83	(147)
Effect of initial recognition of cumulative comprehensive Income (deficit)	**7**	**234**	**(203)**	**(180)**	**(113)**	**259**
Amortization of net transition (obligation)/asset	—	—	—	14	—	—
Amortization of net actuarial (loss)/gain	1	(2)	7	—	5	(19)
Total net actuarial (loss)/gain arising during the year	(88)	45	(8)	340	(112)	(142)
Effect of exchange rate changes	86	(2)	11	(91)	(42)	52
Deferred income tax	—	(24)	—	(90)	28	53
Total recognized in other cumulative comprehensive income (deficit)	**6**	**251**	**(193)**	**(7)**	**(234)**	**203**

j) Plan assets

Brazilian Plans

The Investment Policy Statements of pension plans sponsored for Brazilian employees are based on a long term macroeconomic scenario and expected returns built by Tendências Consultoria and an ALM — Asset Liability Modeling study prepared by Mercer Consulting. An Investment Policy Statement was established for each obligation by following results of this strategic asset allocation study (ALM) in the periods.

Plans asset allocations comply with pension funds local regulation issued by CMN — Conselho Monetário Nacional (Resolução CMN 3792/09). We are allowed to invest in six different asset classes, defined as Segments by the law, as follows: Fixed Income, Equity, Structured Investments (Alternative Investments and Infra-Structure Projects), International Investments, Real Estate and Loans to Participants.

The Investment Policy Statements are approved by the Board, the Executive Directors and two Investments Committees. The internal and external portfolio managers are allowed to exercise the investment discretion under the limitations imposed by the Board and the Investment Committees.

The pension fund has a risk management process with established policies that intend to identify measure and control all kind of risks faced by our plans, such as: market, liquidity, credit, operational, systemic and legal.

Foreign plans

The strategy for each of the pension plans sponsored by Vale Inco is based upon a combination of local practices and the specific characteristics of the pension plans in each country, including the structure of the liabilities, the risk versus reward trade-off between different asset classes and the liquidity required to meet benefit payments.

Overfunded pension plans

Brazilian Plans

The Defined Benefit Plan (the "Old Plan") has the majority of its assets allocated in fixed income, mainly in Brazilian government bonds (like TIPS) and corporate long term inflation linked bonds with the objective to reduce the asset-liability volatility. The target is 55% of the total assets. This LDI (Liability Driven Investments) strategy, when considered together with Loans to Participants segment, aims to hedge plan's liabilities against inflation risk and volatility. Other segments or asset classes have their targets, as follows: Equity — 28%; Structured Investments — 5%; International Investments — 2%; Real estate — 6% and Loans to Participants — 4%. Structured Investments segment has invested only in Private Equity Funds in an amount of US$84 and US$87 at the end of June 30, 2010 and December 31, 2009, respectively.

The Investment Policy has the objective to achieve the adequate diversification, current income and long term capital growth through the combination of all asset classes described above to fulfill its obligations with the adequate level of risk. This plan has an average nominal return of 21.3% p.a. in dollars terms in the last 10 years.

The Vale Mais Plan (the "New Plan") has obligations with characteristics of defined benefit and defined contribution plans, as mentioned. The majority of its investments is in fixed income. It was also implemented a LDI (Liability Driven Investments) strategy to reduce asset-liability volatility of the defined benefits plan's component by using inflation linked bonds (like TIPS). The target allocation is 60% in fixed income. Other segments or asset classes have their targets, as follows: Equity — 24%; Structured Investments — 2%; International Investments — 2%; Real estate — 3% and Loans to Participants — 10%. Structured Investments segment has invested only in Private Equity Funds in an amount of US$9 and US$10 at the end of June 30, 2010 and 2 December 31, 2009, respectively.

The Defined Contribution Vale Mais component offers three options of asset classes mix that can be chosen by participants. The options are: Fixed Income — 100%; 80% Fixed Income and 20% Equities and 65% Fixed Income and 35% Equities. Equity option is an indexed — fund that has the Bovespa Index as a benchmark.

The Investment Policy Statement has the objective to achieve the adequate diversification, current income and long term capital growth through the combination of all asset classes described above to fulfill its obligations and targets with the adequate level of risk. This plan has an average nominal return of 20% p.a. in dollars terms in the last 10 years.

- Fair value measurements by category — Overfunded Plans

	June 30, 2010				December 31, 2009			
Asset by category	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	—	—	—	—	1	1	—	—
Accounts Receivable	10	10	—	—	16	16	—	—
Equity securities — liquid	1,338	1,338	—	—	1,303	1,303	—	—
Equity securities — non-liquid	67	—	67	—	64	—	64	—
Debt securities — Corporate bonds	235	—	235	—	143	—	143	—
Debt securities — Financial Institutions	262	—	262	—	226	—	226	—
Debt securities — Government bonds	1,910	1,910	—	—	1,744	1,744	—	—
Investment funds — Fixed Income	2,098	1,823	275	—	2,037	2,037	—	—
Investment funds — Equity	470	470	—	—	577	577	—	—
International investments	26	26	—	—	—	—	—	—
Structured investments — Private Equity funds	93	—	—	93	97	—	—	97
Structured investments — Real estate funds	18	—	—	18	—	—	—	—
Real estate	253	—	—	253	249	—	—	249
Loans to Participants	293	—	—	293	282	—	—	282
Total	**7,073**	**5,577**	**839**	**657**	**6,739**	**5,678**	**433**	**628**
Funds not related to risk plans	(1,660)				(1,743)			
Fair value of plan assets at end of year	**5,413**				**4,996**			

- Fair value measurements using significant unobservable inputs — Level 3

	June 30, 2010					December 31, 2009			
	Private Equity Funds	Real State Funds	Real State	Loans to Participants	Total	Private Equity Funds	Real State Funds	Loans to Participants	Total
Beginning of the year	97	—	249	282	628	72	156	229	457
Actual return on plan assets	(12)	—	1	17	6	30	21	42	93
Initial recognized consolidation of Fosfertil	—	—	23	—	23	—	—	—	—
Assets sold during the year	(2)	(1)	(3)	(1)	(7)	(57)	(11)	(112)	(180)
Assets purchases, sales and settlements	13	—	11	4	28	28	29	45	102
Cumulative translations adjustment	(3)	(1)	(8)	(9)	(21)	24	54	78	156
Transfers in and/or out of level 3	—	19	(19)	—	—	—	—	—	—
End of the year	93	17	254	293	657	97	249	282	628

The return target for private equity assets in 2010 is 10.20%. The target allocation is 5%, ranging between 2% and 10%. These investments have a longer investment horizon and low liquidity that aim to profit from economic growth, especially in the infra-structure sector of the Brazilian economy. Usually non-liquid assets' fair value is established considering: acquisition cost or book value. Some private equity funds maybe, alternatively, apply the following methodologies: discounted cash flows analysis or analysis based on multiples.

The return target for loans to participants in 2010 is 11.90%. The fair value pricing of these assets includes provisions for non-paid loans, according to the local pension fund regulation.

The return target for real estate assets in 2010 is 9.90%. Fair value for these assets is considered book value. The pension fund hires companies specialized in real estate valuation that do not act in the market as brokers. All valuation techniques follow the local regulation.

Underfunded pension plans

Brazilian Obligation

This obligation has an exclusive allocation in fixed income. It was also used a LDI (Liability Driven Investments) strategy for this plan. Most of the resources were invested in long term government and corporate inflation linked bonds with the objective to minimize asset-liability volatility and reduce inflation risk.

The Investment Policy Statement has the objective to achieve the adequate diversification, current income and long term capital growth through the combination of all asset classes described above to fulfill its obligations with the adequate level of risk. This obligation has an average nominal return of 22.8% p.a. in dollars terms in the last 8 years.

Foreign plans

For all pension plans except PT Inco, this has resulted in a target asset allocation of 60% in equity investments and 40% in fixed income investments, with all securities being traded in the public markets. Fixed income investments are in domestic bonds for each plan's market and involve a mixture of government and corporate bonds. Equity investments are primarily global in nature and involve a mixture of large, mid and small capitalization companies with a modest explicit investment in domestic equities for each plan. The Canadian plans also use a currency hedging strategy (each developed currency's exposure is 50% hedged) due to the large exposure to foreign securities. For PT Inco, the target allocation is 20% equity investment and the remainder in fixed income, with the vast majority of these investments being made within the domestic market.

- Fair value measurements by category — Underfunded Pension Plans

Asset by category	June 30, 2010 Total	June 30, 2010 Level 1	June 30, 2010 Level 2	December 31, 2009 Total	December 31, 2009 Level 1	December 31, 2009 Level 2
Cash and cash equivalents	38	15	23	33	12	21
Equity securities — liquid	1,221	1,221	—	1,347	1,347	—
Debt securities — Corporate bonds	11	—	11	12	—	12
Debt securities — Financial Institutions	20	—	20	19	—	19
Debt securities — Government bonds	458	58	400	445	50	395
Investment funds — Fixed Income	1,027	291	736	988	287	701
Investment funds — Equity	357	79	278	409	87	322
Total	3,132	1,664	1,468	3,253	1,783	1,470
Funds not related to risk plans	—			(24)		
Fair value of plan assets at end of year	3,132			3,229		

Underfunded other benefits

- Fair value measurements by category — Other Benefits

Asset by category	June 30, 2010 Total	June 30, 2010 Level 1	December 31, 2009 Total	December 31, 2009 Level 1
Cash	12	12	11	11
Total	12	12	11	11

k) Cash flows contributions

Employer contributions expected for 2010 are US$256. As of June 30, 2010, total contributions of US117 had been made.

l) Estimated future benefit payments

The benefit payments, which reflect future service, are expected to be made as follows:

	June 30, 2010			
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Total
2010	345	308	89	742
2011	348	309	87	744
2012	353	306	92	751
2013	356	301	96	753
2014	360	295	99	754
2015 and thereafter	1,840	1,420	492	3,752

20 LONG-TERM INCENTIVE COMPENSATION PLAN

Under the terms of the plan, the participants, restricted to certain executives, may elect to allocate part of their annual bonus to the plan. The allocation is applied to purchase preferred shares of Vale, through a predefined financial institution, at market conditions and with no benefit provided by Vale.

The shares purchased by each executive are unrestricted and may, at the participant's discretion, be sold at any time. However, the shares must be held for a three-year period and the executive must be continually employed by Vale during that period. The participant then becomes entitled to receive from Vale a cash payment equivalent to the total amount of shares held, based on the market rates. The total shares linked to the plan at June 30, 2010 and December 31, 2009, is 2,896,038 and 1,809,117, respectively.

Additionally, as a long-term incentive certain eligible executives have the opportunity to receive at the end of the triennial cycle a certain number of shares at market rates, based on an evaluation of their career and performance factors measured as an indicator of total return to stockholders.

We account for the compensation cost provided to our executives under this long-term incentive compensation plan, following the requirements Accounting for Stock-Based Compensation. Liabilities are measured at each reporting date at fair value, based on market rates. Compensation costs incurred are recognized, over the defined three-year vesting period. At June 30, 2010 and December 31, 2009, we recognized a liability of US$75 and US$72, respectively, through the Statement of Income.

21 COMMITMENTS AND CONTINGENCIES

a) In connection with a tax-advantaged lease financing arrangement sponsored by the French Government, we provided certain guarantees on December 30, 2004 on behalf of Vale New Caledonia S.A.S. (VNC) pursuant to which we guaranteed payments due from VNC of up to a maximum amount of US$100 ("Maximum Amount") in connection with an indemnity. This guarantee was provided to BNP Paribas for the benefit of the tax investors of GniFi, the special purpose vehicle which owns a portion of the assets in our nickel cobalt processing plant in New Caledonia ("Girardin Assets"). We also provided an additional guarantee covering the payments due from VNC of (a) amounts exceeding the Maximum Amount in connection with the indemnity and (b) certain other amounts payable by VNC under a lease agreement covering the Girardin Assets. This guarantee was provided to BNP Paribas for the benefit of GniFi.

Another commitment incorporated in the tax — advantaged lease financing arrangement was that the Girardin Assets would be substantially complete by December 31, 2009. In light of the delay in the start up of VNC processing facilities the December 31, 2009, substantially complete date was not met. Management proposed an extension to the substantially complete date from December 31, 2009 to December 31, 2010. Both the French government authorities and the tax investors have agreed to this extension, although a signed waiver has not yet been received from the tax investors. The French tax authorities issued their signed extension on March 12, 2010. Accordingly the benefits of the financing structure are fully expected to be maintained and we anticipate that there will be no recapture of the tax advantages provided under this financing structure.

In 2009, two new bank guarantees totaling US$53 (€43) at June 30, 2010 were established by us on behalf of VNC in favor of the South Province of New Caledonia in order to guarantee the performance of VNC with respect to certain environmental obligations in relation to the metallurgical plant and the Kwe West residue storage facility.

Sumic Nickel Netherlands B.V. ("Sumic"), a 21% stockholder of VNC, has a put option to sell to us 25%, 50%, or 100% of the shares they own of VNC. The put option can be exercised if the defined cost of the initial nickel-cobalt development project, as measured by funding provided to VNC, in natural currencies and converted to U.S. dollars at specified rates of exchange, in the form of Girardin funding, shareholder loans and equity contributions by stockholders to VNC, exceeded $4.2 billion and an agreement cannot be reached on how to proceed with the project. On February 15, 2010, we formally amended our agreement with Sumic to increase the threshold to approximately $4.6 billion at specified rates of exchange. On May 27, 2010, the threshold was reached and we are currently discussing with Sumic an extension of the put option date into the first half of 2011.

We provided a guarantee covering certain termination payments due from VNC to the supplier under an electricity supply agreement ("ESA") entered into in October 2004, for the VNC project. The amount of the termination payments guaranteed depends upon a number of factors, including whether any termination of the ESA is a result of a default by VNC and the date on which an early termination of the ESA were to occur. During the first quarter of 2010, the supply of electricity under the ESA to the project began, and the guaranteed amount now decreases over the life of the ESA from its maximum amount. At June 30, 2010, the guarantee was US$160 (Euro 131).

In February 2009, we and our subsidiary, Vale Newfoundland and Labrador Limited ("VNL"), entered into a fourth amendment to the Voisey's Bay Development agreement with the Government of Newfoundland and Labrador, Canada, that permitted VNL to ship up to 55,000 metric tonnes of nickel concentrate from the Voisey's Bay area mines. As part of the agreement, VNL agreed to provide the Government of Newfoundland and Labrador financial assurance in the form of letters of credit each in the amount of Canadian US$16 (CAD$16) for each shipment of nickel concentrate shipped out of the province from January 1, 2009 to August 31, 2009. The amount of this financial assurance was Canadian US$110 (CAD$112) based on seven shipments of nickel concentrate and as of June 30, 2010, US$11 (CAD$11) remains outstanding.

At June 30, 2010, there was an additional US$108 in letters of credit issued and outstanding pursuant to our syndicate revolving credit facility, as well as an additional US$40 of letters of credit and US$42 in bank guarantees that were issued and outstanding. These are associated with environmental reclamation and other operating associated items such as insurance, electricity commitments and import and export duties.

b) We and our subsidiaries are defendants in numerous legal actions in the normal course of business. Based on the advice of our legal counsel, management believes that the amounts recognized are sufficient to cover probable losses in connection with such actions.

The provision for contingencies and the related judicial deposits are composed as follows:

	June 30, 2010		December 31, 2009	
	Provision for contingencies	Judicial deposits	Provision for contingencies	Judicial deposits
Labor and social security claims	703	713	657	657
Civil claims	646	363	582	307
Tax — related actions	595	328	489	175
Others	23	6	35	4
	1,967	1,410	1,763	1,143

Labor and social security — related actions principally comprise of claims by Brazilian employees and former employees for (i) payment of time spent traveling from their residences to the work-place, (ii) additional health and safety related payments and (iii) various other matters, often in connection with disputes about the amount of indemnities paid upon dismissal and the one-third extra holiday pay.

Civil — actions principally related to claims made against us by contractors in Brazil in connection with losses alleged to have been incurred by them as a result of various past Government economic plans during which full inflation indexation of contracts was not permitted, as well, as for accidents and land appropriation disputes.

Tax — tax-related actions principally comprise of challenges initiated by us, on certain taxes on revenues and uncertain tax positions. We continue to vigorously pursue our interests in all the above actions but recognize that we probably will incur some losses in the final instance, for which we have made provisions.

Judicial deposits are made by us following the court requirements, in order to be entitled to either initiate or continue a legal action. These amounts are released to us, upon receipt of a final favorable outcome from the legal action; in the case of an unfavorable outcome, the deposits are transferred to the prevailing party.

Contingencies settled during the six-month periods ended June 30, 2010 and 2009, totaled US$61 and US$39, respectively. Provisions recognized in the six-month periods ended June 30, 2010 and 2009, totaled US$101 and US$73, respectively, classified as other operating expenses.

In addition to the contingencies for which we have made provisions, we are defendants in claims where in our opinion, and based on the advice of our legal counsel, the likelihood of loss is possible but not probable, in the total amount of US$3,984 at June 30, 2010, and for which no provision has been made (December 31, 2009 — US$4,190).

c) At the time of our privatization in 1997, the Company issued debentures to its then-existing stockholders, including the Brazilian Government. The terms of the debentures, were set to ensure that the pre-privatization stockholders, including the Brazilian Government would participate in possible future financial benefits that could be obtained from exploiting certain mineral resources.

A total of 388,559,056 Debentures were issued at a par value of R$0.01 (one cent), whose value will be restated in accordance with the variation in the General Market Price Index (IGP-M), as set forth in the Issue Deed.

The debentures holders has the right to receive premiums, paid semiannually, equivalent to a percentage of net revenues from specific mine resources as set forth in the indenture.

In April 2010, we paid remuneration on these debentures of US$5.

d) We are committed under a take-or-pay agreement to purchase approximately 27,071 thousand metric tons of bauxite from Mineração Rio do Norte S.A. — MRN at a formula driven price, calculated based on the current London Metal Exchange — LME quotation for aluminum. Based on a market price of US$23.10 per metric ton as of June 30, 2010, this arrangement represents the following total commitment per metric ton as of June 30, 2010:

2010	79
2011	134
2012	136
2013	138
2014	138
	625

e) Description of Leasing Arrangements

Part of our railroad operations include leased facilities. The 30-year lease, renewable for a further 30 years, expires in August, 2026 and is classified as an operating lease. At the end of the lease term, we are required to return the concession and the lease assets. In most cases, management expects that in the normal course of business, leases will be renewed.

The following is a schedule by year of future minimum rental payments required under the railroad operating leases that have initial or remaining non-cancelable lease terms in excess of one year.

2010	35
2011	69
2012	69
2013	69
2014 thereafter	846
Total minimum payments required	**1,088**

The total expenses of operating leases during on six-mouth period ended June 30, 2010, was US$34.

During 2008, we entered into operating lease agreements with our joint ventures Nibrasco, Itabrasco and Kobrasco, under which we leased four pellet plants. The lease terms are from 5 to 30 years.

The following is a schedule by year of future minimum rental payments required under the pellet plants operating leases that have initial or remaining non-cancelable lease terms in excess of one year:

2010	45
2011	100
2012	100
2013	100
2014 thereafter	1,020
Total	**1,365**

The total expenses of operating leases during on six-month period ended June 30, 2010 was US$55.

F) Assets retirement obligations

We use various judgments and assumptions when measuring our asset retirement obligations.

Changes in circumstances, law or technology may affect our estimates and we periodically review the amounts accrued and adjust them as necessary. Our accruals do not reflect unasserted claims because we are currently not aware of any such issues. Also the amounts provided are not reduced by any potential recoveries under cost sharing, insurance or indemnification arrangements because such recoveries are considered uncertain.

The changes in the provisions for asset retirement obligations are as follows:

	June 30, 2010	**December 31, 2009**
Beginning of period	**1,116**	**887**
Accretion expense	58	75
Liabilities settled in the current period	(10)	(46)
Revisions in estimated cash flows(*)	26	(23)
Cumulative translation adjustment	(28)	223
End of period	**1,162**	**1,116**
Current liabilities	80	89
Non-current liabilities	1,082	1,027
Total	**1,162**	**1,116**

(*) Includes $44 for the purchase of Fosfértil and Vale Fosfatados S.A.

22 OTHER EXPENSES

The line "Other operating expenses" totaled US$912 in June 30, 2010, mostly due to pre operational expenses and idle capacity and stoppage operations which comprised US$127 and US$359, respectively.

23 FAIR VALUE DISCLOSURE OF FINANCIAL ASSETS AND LIABILITIES

The Financial Accounting Standards Board, through Accounting Standards Codification and Accounting Standards Updates, define fair value, set out a framework for measuring fair value, which refers to valuation concepts and practices and require certain disclosures about fair value measurements.

a) Measurements

The pronouncements define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique.

These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company utilizes techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Under this standard, those inputs used to measure the fair value are required to be classified on three levels. Based on the characteristics of the inputs used in valuation techniques the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed as follows:

Level 1 — Unadjusted quoted prices on an active, liquid and visible market for identical assets or liabilities that are accessible at the measurement date;

Level 2 — Quoted prices for identical or similar assets or liabilities on active markets, inputs other than quoted prices that are observable, either directly or indirectly, for the term of the asset or liability;

Level 3 — Assets and liabilities, which quoted prices, do not exist, or those prices or valuation techniques are supported by little or no market activity, unobservable or illiquid. At this point fair market valuation becomes highly subjective.

b) Measurements on a recurring basis

The description of the valuation methodologies used for recurring assets and liabilities measured at fair value in the Company's Consolidated Balance Sheet at June 30, 2010 and December 31, 2009, are summarized below:

- **Available-for-sale securities**
  They are securities that are not classified either as held-for-trading or as held-to-maturity for strategic reasons and have readily available market prices. We evaluate the carrying value of some of our investments in relation to publicly quoted market prices when available. When there is no market value, we use inputs other than quoted prices.

- **Derivatives**
  The market approach is used for the swaps to estimate the fair value discounting their cash flows using the interest rate of the currency they are denominated. Also for the commodities contracts, since the fair value is computed by using forward curves for each commodities.

- **Debentures**
  The fair value is measured by the market approach method, and the reference price is available on the secondary market.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis as follows:

	As of June 30, 2010			
	Carry amount	Fair value	Level 1	Level 2
Available-for-sale securities	10	10	10	—
Unrealized gain on derivatives	463	463	—	463
Debentures	(782)	(782)	—	(782)

	As of December 31, 2009			
	Carry amount	Fair value	Level 1	Level 2
Available-for-sale securities	17	17	17	—
Unrealized gain on derivatives	832	832	—	832
Debentures	(752)	(752)	—	(752)

c) Measurements on a non-recurring basis

The Company also has assets under certain conditions that are subject to measurement at fair value on a non-recurring basis. These assets include goodwill and intangible assets. During the period ended June 30, 2010, we have not recognized any additional impairment loss for those items.

d) Financial Instruments

Long-term debt

The valuation method used to estimate the fair value of our debt is the market approach for the contracts that are quoted on the secondary market, such as bonds and debentures. The fair value of both fixed and floating rate debt is determined by discounting future cash flows of Libor and Vale's bonds curves (income approach).

Time deposits

The method used is the income approach, through the prices available on the active market. The fair value is close to the carrying amount due to the short-term maturities of the instruments.

Our long-term debt is reported at amortized cost, and the income of time deposits is accrued monthly according to the contract rate, however its estimated fair value measurement is disclosed as follows:

	June 30, 2010			
	Carry amount	Fair value	Level 1	Level 2
Long-term debt (less interests)(*)	(22,802)	(24,410)	(14,356)	(10,054)

(*) Less accrued charges US$281

	As of December 31, 2009			
	Carry amount	Fair value	Level 1	Level 2
Time deposits	3,747	3,747	—	3,747
Long-term debt (less interests)(*)	(22,544)	(23,344)	(12,424)	(10,920)

(*) Less accrued charges US$287

24 SEGMENT AND GEOGRAPHICAL INFORMATION

We adopt disclosures about segments of an enterprise and related information with respect to the information we present about our operating segments. The standard introduced a "management approach" concept for reporting segment information, whereby such information is required to be reported on the basis that the chief decision-maker uses internally for evaluating segment performance and deciding how to allocate resources to segments. Considering the new segment acquired, fertilizers and the related reorganization that occurred the operating segments are:

Bulk Material — comprised of iron ore mining and pellet production, as well as our Brazilian Northern and Southern transportation systems, including railroads, ports and terminals, as they pertain to mining operations. Manganese mining and ferroalloys are also included in this segment.

Base Metals — comprised of the production of non-ferrous minerals, including nickel (co-products and by-products), copper and aluminum — comprised of aluminum trading activities, alumina refining and aluminum metal smelting and investments in joint ventures and affiliates engaged in bauxite mining.

Fertilizers — comprised of the three important groups of nutrients: potash, phosphates and nitrogen. This business is being formed through a combination of acquisitions and organic growth. This is a new business segment reported by us from 2010 in connection with the recent transaction disclosured in note 5(a).

Logistic Services — comprised of our transportation systems as they pertain to the operation of our ships, ports and railroads for third-party cargos.

Others — comprised of our investments in joint ventures and affiliates engaged in other businesses.

Information presented to senior management with respect to the performance of each segment is generally derived directly from the accounting records maintained in accordance with accounting practices adopted in Brazil together with certain minor inter-segment allocations.

Results by segment — before eliminations (aggregated)

	Six-month period ended													
	June 30, 2010							June 30, 2009 (unaudited)						
	Bulk material	Base metals	Fertilizers	Logistic	Others	Elimination	Consolidated	Bulk material	Base metals	Fertilizers	Logistic	Others	Elimination	Consolidated
RESULTS														
Gross revenues — Foreign	18,908	4,154	—	12	11	(9,322)	13,763	11,314	3,738	—	16	39	(6,015)	9,092
Gross revenues — Domestic	1,943	358	286	797	209	(578)	3,015	596	337	186	479	103	(288)	1,413
Cost and expenses	(13,363)	(3,717)	(250)	(636)	(168)	9,900	(8,234)	(8,307)	(3,670)	(52)	(378)	(84)	6,303	(6,188)
Research and development	(116)	(100)	(12)	(22)	(111)	—	(361)	(115)	(117)	(18)	(27)	(177)	—	(454)
Depreciation, depletion and amortization	(738)	(655)	(24)	(73)	(1)	—	(1,491)	(478)	(657)	(10)	(53)	(4)	—	(1,202)
Operating income	**6,634**	**40**	—	**78**	**(60)**	—	**6,692**	**3,010**	**(369)**	**106**	**37**	**(123)**	—	**2,661**
Financial income	1,311	386	1	3	—	(1,584)	117	1,261	334	—	2	4	(1,383)	218
Financial expenses	(1,718)	(824)	(1)	(18)	(2)	1,584	(979)	(1,327)	(634)	—	—	(2)	1,383	(580)
Gains (losses) on derivatives, net	(356)	9	—	—	5	—	(342)	973	(82)	—	—	—	—	891
Foreign exchange and monetary gains (losses), net	66	(29)	2	(3)	—	—	36	235	247	—	(10)	67	—	539
Discontinued Operations, Net of tax	—	(151)	—	—	—	—	(151)	—	—	—	—	—	—	—
Gain on sale of investments	—	—	—	—	—	—	—	157	—	—	—	—	—	157
Equity in results of affiliates and joint ventures investments	308	7	—	35	29	—	379	144	12	—	44	7	—	207
Income taxes	(596)	141	3	9	21	—	(422)	(2,095)	179	—	(14)	—	—	(1,930)
Net income attributable to noncontrolling interests	2	(19)	—	—	(4)	—	(21)	22	(23)	—	—	(9)	—	(10)
Net income attributable to the Company's stockholders	**5,651**	**(440)**	**5**	**104**	**(11)**	—	**5,309**	**2,380**	**(336)**	**106**	**59**	**(56)**	—	**2,153**
Sales classified by geographic destination:														
Foreign market														
America, except United States	584	523	—	12	7	(404)	722	112	710	—	—	11	(233)	600
United States	13	309	—	—	2	(26)	298	24	417	—	—	19	(42)	418
Europe	5,482	1,450	—	—	2	(3,196)	3,738	2,542	1,104	—	—	8	(2,175)	1,479
Middle East/Africa/Oceania	940	104	—	—	—	(357)	687	496	125	—	—	—	(382)	239
Japan	2,466	602	—	—	—	(1,164)	1,904	965	316	—	—	1	(420)	862
China	8,007	374	—	—	—	(3,427)	4,954	6,236	466	—	16	—	(2,277)	4,441
Asia, other than Japan and China	1,416	792	—	—	—	(748)	1,460	939	600	—	—	—	(486)	1,053
	18,908	**4,154**	—	**12**	**11**	**(9,322)**	**13,763**	**11,314**	**3,738**	—	**16**	**39**	**(6,015)**	**9,092**
Domestic market	1,943	358	286	797	209	(578)	3,015	596	337	186	479	103	(288)	1,413
	20,851	**4,512**	**286**	**809**	**220**	**(9,900)**	**16,778**	**11,910**	**4,075**	**186**	**495**	**142**	**(6,303)**	**10,505**

Operating segment — after eliminations (disaggregated)

	Six-month period ended June 30, 2010											
	Revenue											
	Foreign	Domestic	Total	Value added tax	Net revenues	Cost and expenses	Operating profit	Depreciation, depletion and amortization	Operating income	Property, plant and equipment, net and intangible assets	Addition to property, plant and equipment and intangible	Investments
Bulk Material												
Iron ore	8,101	1,081	9,182	(157)	9,025	(3,107)	5,918	(622)	5,296	26,408	1,593	88
Pellets	1,808	585	2,393	(130)	2,263	(956)	1,307	(58)	1,249	1,698	129	1,254
Manganese	131	16	147	(6)	141	(62)	79	(5)	74	23	—	—
Ferroalloys	181	131	312	(32)	280	(151)	129	(17)	112	240	8	—
Coal	312	—	312	—	312	(378)	(66)	(31)	(97)	1,734	152	186
Pig iron	9	—	9	—	9	(4)	5	(5)	—	—	—	—
	10,542	**1,813**	**12,355**	**(325)**	**12,030**	**(4,658)**	**7,372**	**(738)**	**6,634**	**30,103**	**1,882**	**1,528**
Base Metals												
Nickel and other products(*)	1,617	4	1,621	—	1,621	(1,298)	323	(485)	(162)	27,471	708	22
Copper concentrate	361	26	387	(10)	377	(268)	109	(40)	69	2,662	531	69
Aluminum products	1,186	68	1,254	(13)	1,241	(978)	263	(122)	141	228	61	140
	3,164	**98**	**3,262**	**(23)**	**3,239**	**(2,544)**	**695**	**(647)**	**48**	**30,361**	**1,300**	**231**
Fertilizers												
Potash	—	120	120	(6)	114	(85)	29	(13)	16	1,889	7	—
Phosphates	—	155	155	(15)	140	(145)	(5)	(11)	(16)	7,153	44	—
	—	**275**	**275**	**(21)**	**254**	**(230)**	**24**	**(24)**	—	**9,042**	**51**	—
Logistics												
Railroads	—	537	537	(87)	450	(342)	108	(59)	49	1,944	46	486
Ports	13	168	181	(24)	157	(106)	51	(11)	40	245	3	—
Ships	5	—	5	—	5	(13)	(8)	(3)	(11)	—	—	121
	18	**705**	**723**	**(111)**	**612**	**(461)**	**151**	**(73)**	**78**	**2,189**	**49**	**607**
Others	39	124	163	(36)	127	(186)	(59)	(9)	(68)	2,054	771	2,078
	13,763	**3,015**	**16,778**	**(516)**	**16,262**	**(8,079)**	**8,183**	**(1,491)**	**6,692**	**73,749**	**4,053**	**4,444**

(*) Includes nickel co-products and by-products (copper, precious metals, cobalt and others).

Operating segment — after eliminations (disaggregated)

	Six-month period ended June 30, 2009											
	Revenue											
	Foreign	Domestic	Total	Value added tax	Net revenues	Cost and expenses	Operating profit	Depreciation, depletion and amortization	Operating income	Property, plant and equipment, net and intangible assets	Addition to property, plant and equipment and intangible	Investments
							(unaudited)					
Ferrous												
Iron ore	5,225	326	5,551	(62)	5,489	(2,012)	3,477	(424)	3,053	18,466	1,333	62
Pellets	353	99	452	(29)	423	(432)	(9)	(29)	(38)	645	84	940
Manganese	52	6	58	(1)	57	(41)	16	(4)	12	21	2	—
Ferroalloys	89	59	148	(15)	133	(142)	(9)	(4)	(13)	231	35	—
Coal	230	—	230	—	230	(216)	14	(17)	(3)	1,433	153	206
Pig iron	11	—	11	—	11	(13)	(2)	—	(2)	144	48	—
	5,960	**490**	**6,450**	**(107)**	**6,343**	**(2,856)**	**3,487**	**(478)**	**3,009**	**20,940**	**1,655**	**1,208**
Base Metals												
Nickel and other products(*)	1,966	6	1,972	—	1,972	(1,717)	255	(496)	(241)	22,504	704	88
Kaolin	62	19	81	(4)	77	(70)	7	(19)	(12)	188	27	—
Copper concentrate	240	37	277	(5)	272	(211)	61	(34)	27	3,831	374	—
Aluminum products	822	88	910	(17)	893	(920)	(27)	(108)	(135)	4,356	99	146
	3,090	**150**	**3,240**	**(26)**	**3,214**	**(2,918)**	**296**	**(657)**	**(361)**	**30,879**	**1,204**	**234**
Fertilizers												
Potash	—	186	186	(5)	181	(65)	116	(10)	106	159	—	—
	—	**186**	**186**	**(5)**	**181**	**(65)**	**116**	**(10)**	**106**	**159**	**—**	**—**
Logistics												
Railroads	—	381	381	(60)	321	(261)	60	(43)	17	1,733	41	372
Ports	—	99	99	(14)	85	(70)	15	(10)	5	1,441	106	—
Ships	—	—	—	—	—	—	—	—	—	638	267	112
	—	**480**	**480**	**(74)**	**406**	**(331)**	**75**	**(53)**	**22**	**3,812**	**414**	**484**
Others	42	107	149	(21)	128	(239)	(111)	(4)	(115)	3,506	423	1,042
	9,092	**1,413**	**10,505**	**(233)**	**10,272**	**(6,409)**	**3,863**	**(1,202)**	**2,661**	**59,296**	**3,696**	**2,968**

(*) Includes nickel co-products and by-products (copper, precious metals, cobalt and others).

25 RELATED PARTY TRANSACTIONS

Balances from transactions with major related parties are as follows:

	June 30, 2010		December 31, 2009	
	Assets	Liabilities	Assets	Liabilities
AFFILIATED COMPANIES AND JOINT VENTURES				
Companhia Hispano-Brasileira de Pelotização — HISPANOBRÁS	47	97	34	34
Companhia Ítalo-Brasileira de Pelotização — ITABRASCO	3	4	1	6
Companhia Nipo-Brasileira de Pelotização — NIBRASCO	—	40	—	22
Companhia Coreano-Brasileira de Pelotização — KOBRASCO	6	20	1	5
Baovale Mineração SA	4	26	2	22
Minas da Serra Geral SA — MSG	—	27	—	26
MRS Logística SA	14	358	10	418
Mineração Rio Norte SA	—	14	—	25
Samarco Mineração SA	40	—	55	—
Teal Minerals Incorporated	—	—	84	—
Korea Nickel Corporation	—	—	11	—
Mitsui & CO, LTD	—	—	—	26
Others	—	31	24	29
	114	617	222	613
Current	**103**	**518**	**186**	**496**
Long-term	**11**	**99**	**36**	**117**

These balances are included in the following balance sheet classifications:

	June 30, 2010		December 31, 2009	
	Assets	Liabilities	Assets	Liabilities
Current assets				
Accounts receivable	89	—	79	—
Loans and advances to related parties	14	—	107	—
Non-current assets				
Loans and advances to related parties	11	—	36	—
Current liabilities				
Suppliers	—	471	—	463
Loans from related parties	—	25	—	19
Others — Others related parties	—	22	—	14
Non-current liabilities				
Others — Long-term debt	—	99	—	117
	114	617	222	613

Income and expenses from the principal transactions and financial operations carried out with major related parties are as follows:

	Six-month period ended			
	June 30, 2010		June 30, 2009	
	Income	Expense	Income	Expense
			(unaudited)	
AFFILIATED COMPANIES AND JOINT VENTURES				
Companhia Nipo-Brasileira de Pelotização — NIBRASCO	—	23	29	26
Samarco Mineração SA	170	—	26	—
Companhia Ítalo-Brasileira de Pelotização — ITABRASCO	—	10	—	6
Companhia Hispano-Brasileira de Pelotização — HISPANOBRÁS	145	172	8	2
Companhia Coreano-Brasileira de Pelotização — KOBRASCO	—	20	—	29
Mineração Rio Norte SA	—	69	—	115
MRS Logística SA	8	276	4	183
Others	12	25	9	14
	335	595	76	375

(*) Sold in April 2009.

These amounts are included in the following statement of income line items:

	Six-month period ended			
	June 30, 2010		June 30, 2009	
	Income	Expense	Income	Expense
			(unaudited)	
Sales/Cost of iron ore and pellets	318	252	42	70
Revenues/expense from logistic services	12	264	10	183
Sales/Cost of aluminum products	—	69	—	115
Financial income/expenses	5	10	24	7
	335	595	76	375

Additionally we have loans payable to Banco Nacional de Desenvolvimento Social and BNDES Participações S.A in the amounts of US$1,657 and US$659, respectively, accruing interest at market rates, which fall due through 2029. The operations generated interest expenses of US$10. We also maintain cash equivalent balances with Banco Bradesco S.A. in the amount of US$148 it June 30, 2010. The effect of these operations in results was US$65.

26 DERIVATIVE FINANCIAL INSTRUMENTS

Risk management policy

Vale's risk management strategy encompasses an enterprise risk management approach where we evaluate not only market risk impacts on the business, but also the impacts arising from credit and operating risks.

Vale considers that the effective management of risk is a key objective to support its growth strategy and financial flexibility. The risk reduction on Vale's future cash flows contributes to a better perception of the Company's credit quality, improving its ability to access different markets. As a commitment to the risk management strategy, the Board of Directors has established an enterprise-wide risk management policy and a risk management committee.

The risk management policy determines that Vale should evaluate regularly its cash flow risks and potential risk mitigation strategies. Whenever considered necessary, mitigation strategies should be put in place to reduce cash flow volatility. The executive board is responsible for the evaluation and approval of long-term risk mitigation strategies recommended by the risk management committee.

The risk management committee assists our executive officers in overseeing and reviewing our enterprise risk management activities including the principles, policies, process, procedures and instruments employed to manage risk. The risk management committee reports periodically to the executive board on how risks have been monitored, what are the most important risks we are exposed to and their impact on cash flows.

The risk management policy and procedures, that complement the normative of risk management governance model, explicitly prohibit speculative transactions with derivatives and require the diversification of operations and counterparties.

Besides the risk management governance model, Vale has put in place a well defined corporate governance structure. The recommendation and execution of the derivative transactions are implemented by independent areas. The strategy and risk management department is responsible for defining and proposing to the risk management committee market risk mitigation strategies consistent with Vale's and its wholly owned subsidiaries corporate strategy. The finance department is responsible for the execution of the risk mitigation strategies through the use of derivatives. The independence of the areas guarantees an effective control on these operations.

When measuring our exposures, the correlations between market risk factors are taken into consideration once we must be able to evaluate the net impact on our cash flows from all main market variables. We are also able to identify a natural diversification of products and currencies in our portfolio and therefore a natural reduction of the overall risk of the Company.

The consolidated market risk exposure and the portfolio of derivatives are measured monthly and monitored in order to evaluate the financial results and market risk impacts on our cash flow, as well as to guarantee that the initial goals will be achieved. The mark-to-market of the derivatives portfolio is reported weekly to management.

Considering the nature of Vale's business and operations, the main market risk factors which the Company is exposed are:

- Interest rates;
- Foreign exchange;
- Product prices and input costs

Foreign exchange and interest rate risk

Vale's cash flows are exposed to volatility of several different currencies. While most of our product prices are indexed to the US dollars, most of our costs, disbursements and investments are indexed to currencies other than the US dollar, mainly the Brazilian real and Canadian dollar.

Derivative instruments may be used to reduce Vale's potential cash flow volatility arising from its currency mismatch. Vale's foreign exchange and interest rate derivative portfolio consists, basically, of interest rate swaps to convert floating cash flows in Brazilian real to fixed or floating US dollar cash flows, without any leverage.

Vale is also exposed to interest rate risks on loans and financings. Our floating rate debt consists mainly of loans including export pre-payments, commercial banks and multilateral organizations loans. In general, our US dollars floating rate debt is subject to changes in the LIBOR (London Interbank Offer Rate in US dollars). To mitigate the impact of the interest rate volatility on its cash flows, Vale takes advantage of natural hedges resulting from the correlation of metal prices and US dollar floating rates. When natural hedges are not present, we may opt to look for the same effect by using financial instruments.

Our Brazilian real denominated debt subject to floating interest rates refers to debentures, loans obtained from Banco Nacional de Desenvolvimento Econômico e Social (BNDES) and property and services acquisition financing in the Brazilian market. These debts are mainly linked to CDI and TJLP.

The swap transactions used to convert debt linked to Brazilian reais into U.S. Dollars have similar — and sometimes shorter — settlement dates than the final maturity of the debt instruments. Their amounts are similar to the principal and interest payments, subjected to liquidity market conditions. The swaps with shorter settlement date than the debts' final maturity are renegotiated through time so that their final maturity match — or become closer — to the debt final maturity. At each settlement date, the results on the swap transactions partially offset the impact of the foreign exchange rate in our obligations, contributing to stabilize the cash disbursements in U.S. Dollars for the interest and/or principal payment of our Brazilian Real denominated debt.

In the event of an appreciation (depreciation) of the Brazilian real against the US dollar, the negative (positive) impact on our Brazilian real denominated debt obligations (interest and/or principal payment) measured in US dollars will be partially offset by a positive (negative) effect from a swap transaction, regardless of the US dollar / Brazilian real exchange rate on the payment date.

We have other exposures associated with our outstanding debt portfolio. In order to reduce cash flow volatility associated with a financing from KFW (Kreditanstalt Für Wiederaufbau) indexed to Euribor, Vale entered into a swap contract where the cash flows in Euros are converted into cash flows in US dollars. We have also entered into a swap to convert the cash flow from a debt instrument issued originally in Euro into US dollars. In this derivative transaction, we receive fixed interest rates in Euros and pay fixed interest rates in US dollars.

In order to reduce the cash flows volatility associated with the foreign exchange exposure from some coal fixed price sales, Vale purchased forward Australian dollars.

Product price risk

Vale is also exposed to several market risks associated with commodities price volatilities. Currently, our derivative transactions include nickel, aluminum, coal, copper, bunker oil and maritime freight (FFA) derivatives and all have the same purpose of mitigating Vale's cash flow volatility.

Nickel — The Company has the following derivative instruments in this category:

- Strategic derivative program — in order to protect our cash flows in 2010 and 2011, we entered into derivative transactions where we fixed the prices of some of our nickel sales during the period.
- Fixed price sales program — we use to enter into nickel future contracts on the London Metal Exchange (LME) with the purpose of maintaining our exposure to nickel price variation, regarding the fact that, in some cases, the commodity is sold at a fixed price to some customers. Whenever the 'Strategic derivative program' is executed, the 'Fixed price sales program' is interrupted.
- Nickel purchase program — Vale has also sold nickel futures on the LME, in order to minimize the risk of mismatch between the pricing on the costs of intermediate products and finished goods.

Aluminum — In order to protect our cash flow in 2010, we entered into derivatives transactions where we fixed the prices of some of our aluminum sales during the period. Aluminum operations are available for sale since June 2010.

Coal — In order to protect our cash flow in 2010, we entered into derivatives transactions where we fixed the prices of some of our coal sales during the period.

Copper — We entered into derivatives transactions in order to reduce the cash flow volatility due to the quotation period mismatch between the pricing period of copper scrap purchase and the pricing period of final products sale to the clients.

Bunker Oil — In order to reduce the impact of bunker oil price fluctuation on Vale's freight hiring and, therefore, on Vale's cash flow, Vale implemented a derivative program that consists of forward purchases and swaps.

Maritime Freight — In order to reduce the impact of freight price fluctuations on the Company's cash flows, Vale implemented a derivative program that consists of purchasing Forward Freight Agreements (FFA).

Embedded derivatives — In addition to the contracts mentioned above, Vale Inco Ltd., Vale's wholly-owned subsidiary, has nickel concentrate and raw materials purchase agreements, where there are provisions based on the movement of nickel and copper prices. These provisions are considered embedded derivatives. There is also an embedded derivative related to energy purchase in our subsidiary Albras on which there is a premium that can be charged based on the movement of aluminum prices.

Under the Standard Accounting for Derivative Financial Instruments and Hedging Activities, all derivatives, whether designated in hedging relationships or not, are required to be recorded in the balance sheet at fair value and the gain or loss in fair value is included in current earnings, unless if qualified as hedge accounting. A derivative must be designated in a hedging relationship in order to qualify for hedge accounting. These requirements include a determination of what portions of hedges are deemed to be effective versus ineffective. In general, a hedging relationship is effective when a change in the fair value of the derivative is offset by an equal and opposite change in the fair value of the underlying hedged item. In accordance with these requirements, effectiveness tests are performed in order to assess effectiveness and quantify ineffectiveness for all designated hedges.

At June 30, 2010, we have outstanding positions designated as cash flow hedge and fair value hedge. A cash flow hedge is a hedge of the exposure to variability in expected future cash flows that is attributable to a particular risk, such as a forecasted purchase or sale. If a derivative is designated as cash flow hedge, the effective portion of the changes in the fair value of the derivative is recorded in other comprehensive income and recognized in earnings when the hedged item affects earnings. However, the ineffective portion of changes in the fair value of the derivatives designated as hedges is recognized in earnings. If a portion of a derivative contract is excluded for purposes of effectiveness testing, such as time value, the value of such excluded portion is included in earnings. A fair value hedge is a hedge of an exposure to the changes in the fair value of a recognized asset or liability that is attributable to a particular risk and will affect reported net income.

The assets and liabilities balances of derivatives measured at fair value and the effects of their recognition are shown in the following tables:

	Assets				Liabilities			
	June 30, 2010		December 31, 2009		June 30, 2010		December 31, 2009	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Derivatives not designated as hedge								
Foreign exchange and interest rate risk								
CDI & TJLP vs. floating & fixed swap	—	490	—	794	—	64	—	—
USD floating rate vs. fixed USD rate swap	—	—	—	1	—	—	—	—
EURO floating rate vs. USD floating rate swap	—	—	—	—	—	6	7	1
EuroBond Swap	—	—	—	—	—	78	—	—
AUD floating rate vs. fixed USD rate swap	2	—	—	9	—	—	—	—
	2	**490**	—	**804**	—	**148**	**7**	**1**
Commodities price risk								
Nickel								
Fixed price program	19	—	12	2	4	—	3	8
Strategic program	—	—	—	—	31	—	32	—
Aluminium	—	—	—	—	—	—	16	—
Bunker Oil Hedge	—	10	49	—	—	—	—	—
Coal	—	—	—	—	3	—	—	—
Maritime Freight Hiring Protection Program	—	—	29	—	10	—	—	—
	19	**10**	**90**	**2**	**48**	—	**51**	**8**
Derivatives designated as hedge								
Foreign exchange cash flow hedge	—	96	15	59	—	—	—	—
Strategic Nickel	—	42	—	—	—	—	—	—
Aluminium	—	—	—	—	—	—	71	—
	—	**138**	**15**	**59**	—	—	**71**	—
Total	**21**	**638**	**105**	**865**	**48**	**148**	**129**	**9**

The following table presents the effects of derivatives for the six-month periods ended:

	Amount of gain or (loss) recognized in financial income (expense)		Financial settlement		Amount of gain or (loss) recognized in OCI	
	June 30, 2010	June 30, 2009 (unaudited)	June 30, 2010	June 30, 2009 (unaudited)	June 30, 2010	June 30, 2009 (unaudited)
Derivatives not designated as hedge						
Foreign exchange and interest rate risk						
CDI & TJLP vs. USD fixed and floating rate swap	(241)	959	(104)	(121)	—	—
EURO floating rate vs. USD floating rate swap	(1)	(1)	—	(1)	—	—
USD floating rate vs. USD fixed rate swap	(1)	(1)	4	2	—	—
Swap Convertibles	37	—	(37)	—	—	—
Swap NDF	1	—	—	—	—	—
EuroBond Swap	(78)	—	—	—		
AUD floating rate vs. fixed USD rate swap	1	10	(7)	(1)	—	—
	(282)	**967**	**(144)**	**(121)**	—	—
Commodities price risk						
Nickel						
Fixed price program	9	24	1	30	—	—
Purchase program	—	(22)	—	25	—	—
Strategic program	(51)	(42)	50	—	—	—
Natural gas	—	(4)	—	4	—	—
Aluminum	—	—	16	—	—	—
Maritime Freight Hiring Protection Program	(19)	34	(19)	(5)	—	—
Coal	(3)	—	—	—	—	—
Bunker Oil Hedge	(13)	—	(23)	—	—	—
	(77)	**(10)**	**25**	**54**	—	—
Embedded derivatives:						
For nickel concentrate costumer sales	—	(16)	—	(18)	—	—
Customer raw material contracts	—	(63)	—	—	—	—
Energy — Aluminum options	—	—	—	—	—	—
	—	**(79)**	—	**(18)**	—	—
Derivatives designated as hedge						
Bunker Oil Hedge	—	13	—	(1)	—	—
Aluminum hedge	—	—	26	—	35	—
Strategic Nickel	(2)	—	—	—	41	—
Foreign exchange cash flow hedge	19	—	(31)	—	44	1
	17	**13**	**(5)**	**(1)**	**120**	**1**
	(342)	**891**	**(124)**	**(86)**	**120**	**1**

Unrealized gains (losses) in the period are included in our income statement under the caption of gains (losses) on derivatives, net.

Final maturity dates for the above instruments are as follows:

Interest rates/Currencies	December 2019
Aluminum	December 2010
Bunker Oil	December 2011
Freight	December 2010
Nickel	December 2011
Coal	December 2010
Copper	October 2010

II. CONSOLIDATED FINANCIAL STATEMENTS OF OUR GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2007, 2008 and 2009

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Vale S.A.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of comprehensive income, of cash flows and of changes in stockholders' equity present fairly, in all material respects, the financial position of Vale S.A. (formerly Companhia Vale do Rio Doce) and its subsidiaries ("Company") at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on internal control over financial reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers
Auditores Independentes

Rio de Janeiro, Brazil

February 10, 2010 (except with respect to our opinion on the consolidated financial statements insofar as it relates to the change in segment reporting discussed in Note 3(a), 13 and 23, as to which the date is December 2, 2010).

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Vale S.A. (Vale) is responsible for establishing and maintaining adequate internal control over financial reporting.

The company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, and that the degree of compliance with the policies or procedures may deteriorate.

Vale's management has assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2009 based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission - COSO. Based on such assessment and criteria, Vale's management has concluded that the company's internal control over financial reporting was effective as of December 31, 2009.

The effectiveness of the company's internal control over financial reporting as of December 31, 2009 has been audited by PricewaterhouseCoopers Auditores Independentes, an independent registered public accounting firm, as stated in their report which appears herein.

February 10, 2010

Roger Agnelli
Chief Executive Officer

Fábio de Oliveira Barbosa
Chief Financial Officer

CONSOLIDATED BALANCE SHEETS
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS

	As of December 31	
	2009	2008
Assets		
Current assets		
Cash and cash equivalents	7,293	10,331
Short-term investments	3,747	2,308
Accounts receivable		
Related parties	79	137
Unrelated parties	3,041	3,067
Loans and advances to related parties	107	53
Inventories	3,196	3,896
Deferred income tax	852	583
Unrealized gains on derivative instruments	105	—
Advances to suppliers	498	405
Recoverable taxes	1,511	1,993
Others	865	465
	21,294	**23,238**
Non-current assets		
Property, plant and equipment, net	**67,637**	**48,454**
Intangible assets	**1,173**	**875**
Investments in affiliated companies, joint ventures and others	**4,585**	**2,408**
Other assets		
Goodwill on acquisition of subsidiaries	2,313	1,898
Loans and advances		
Related parties	36	—
Unrelated parties	158	77
Prepaid pension cost	1,335	622
Prepaid expenses	235	223
Judicial deposits	1,143	1,141
Advances to suppliers — energy	511	408
Recoverable taxes	817	394
Unrealized gains on derivative instruments	865	93
Others	177	161
	7,590	**5,017**
TOTAL	**102,279**	**79,992**
Liabilities and stockholders' equity		
Current liabilities		
Suppliers	2,309	2,261
Payroll and related charges	864	591
Current portion of long-term debt	2,933	633
Short-term debt	30	—
Loans from related parties	19	77
Provision for income taxes	173	502
Taxes payable and royalties	124	55
Employees postretirement benefits	144	102
Railway sub-concession agreement payable	285	400
Unrealized losses on derivative instruments	129	—
Provisions for asset retirement obligations	89	48
Minimum mandatory dividends payable	1,464	2,068
Other	618	500
	9,181	**7,237**

CONSOLIDATED BALANCE SHEETS — (CONTINUED)
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS
(EXCEPT NUMBER OF SHARES)

	As of December 31	
	2009	2008
Non-current liabilities		
Employees postretirement benefits	1,970	1,485
Long-term debt	19,898	17,535
Provisions for contingencies (Note 20(b))	1,763	1,685
Unrealized losses on derivative instruments	9	634
Deferred income tax	5,755	4,005
Provisions for asset retirement obligations	1,027	839
Debentures	752	379
Other	1,427	1,146
	32,601	**27,708**
Redeemable noncontrolling interest (Note 4(b))	731	599
Commitments and contingencies (Note 20)		
Stockholders' equity		
Preferred class A stock — 7,200,000,000 no-par-value shares authorized and 2,108,579,618 (2008 — 2,108,579,618) issued	9,727	9,727
Common stock — 3,600,000,000 no-par-value shares authorized and 3,256,724,482 (2008 — 3,256,724,482) issued	15,262	15,262
Treasury stock — 77,581,904 (2008 — 76,854,304) preferred and 74,997,899 (2008 — 74,937,899) common shares	(1,150)	(1,141)
Additional paid-in capital	411	393
Mandatorily convertible notes — common shares	1,578	1,288
Mandatorily convertible notes — preferred shares	1,225	581
Other cumulative comprehensive loss	(1,808)	(11,510)
Undistributed retained earnings	28,508	18,340
Unappropriated retained earnings	3,182	9,616
Total Company stockholders' equity	**56,935**	**42,556**
Noncontrolling interests	**2,831**	**1,892**
Total stockholders' equity	**59,766**	**44,448**
TOTAL	**102,279**	**79,992**

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

CONSOLIDATED STATEMENTS OF INCOME
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS
(EXCEPT PER SHARE AMOUNTS)

	Year ended December 31,		
	2009	**2008**	**2007**
Operating revenues, net of discounts, returns and allowances			
Sales of ores and metals	19,502	32,484	28,263
Aluminum products	2,050	3,042	2,722
Revenues from logistic services	1,104	1,607	1,525
Fertilizers products	413	295	178
Other products and services	870	1,081	427
	23,939	**38,509**	**33,115**
Taxes on revenues	(628)	(1,083)	(873)
Net operating revenues	**23,311**	**37,426**	**32,242**
Operating costs and expenses			
Cost of ores and metals sold	(9,853)	(13,938)	(13,514)
Cost of aluminum products	(2,087)	(2,267)	(1,705)
Cost of logistic services	(779)	(930)	(853)
Cost of fertilizers products	(173)	(117)	(114)
Other	(729)	(389)	(277)
	(13,621)	(17,641)	(16,463)
Selling, general and administrative expenses	(1,130)	(1,748)	(1,245)
Research and development expenses	(981)	(1,085)	(733)
Impairment of goodwill	—	(950)	—
Other	(1,522)	(1,254)	(607)
	(17,254)	**(22,678)**	**(19,048)**
Operating income	**6,057**	**14,748**	**13,194**
Non-operating income (expenses)			
Financial income	381	602	295
Financial expenses	(1,558)	(1,765)	(2,517)
Gains (losses) on derivatives, net	1,528	(812)	931
Foreign exchange and indexation gains (losses), net(1)	675	364	2,553
Gain (loss) on sale of assets(2)	40	80	777
	1,066	**(1,531)**	**2,039**
Income before income taxes and equity results	**7,123**	**13,217**	**15,233**
Income taxes			
Current	(2,084)	(1,338)	(3,901)
Deferred	(16)	803	700
	(2,100)	**(535)**	**(3,201)**
Equity in results of affiliates, joint ventures and other investments	433	794	595
Net income	**5,456**	**13,476**	**12,627**
Net income attributable to noncontrolling interests	107	258	802
Net income attributable to the Company's stockholders	**5,349**	**13,218**	**11,825**
Basic and diluted earnings per share attributable to Company's stockholders			
Earnings per preferred share	0.97	2.58	2.41
Earnings per common share	0.97	2.58	2.41
Earnings per preferred share linked to mandatorily convertible notes(*)	1.71	4.09	3.30
Earnings per common share linked to mandatorily convertible notes(*)	2.21	4.29	3.51

(*) Basic earnings per share only, as dilution assumes conversion

(1) The aggregate foreign currency transaction gain or loss (both realised and unrealised) included in determining net income for the reporting period.

(2) The net realised gain or loss on investments sold during the period, which, for cash flow reporting, is a component of proceeds from investing activities.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS

	Year ended December 31,		
Cash flows from operating activities:	**2009**	**2008**	**2007**
Net income	5,456	13,476	12,627
Adjustments to reconcile net income to cash from operations:			
Depreciation, depletion and amortization	2,722	2,807	2,186
Dividends received	386	513	394
Equity in results of affiliates, joint ventures and other investments	(433)	(794)	(595)
Deferred income taxes	16	(803)	(700)
Impairment of goodwill	—	950	—
Loss on disposal of property, plant and equipment	293	376	168
(Gain)/Loss on sale of investments	(40)	(80)	(777)
Foreign exchange and indexation losses (gains), net	(1,095)	451	(2,827)
Unrealized derivative losses (gains), net	(1,382)	809	(917)
Unrealized interest (income) expense, net	(25)	116	102
Others	20	(3)	115
Decrease (increase) in assets:			
Accounts receivable	616	(466)	235
Inventories	530	(467)	(343)
Recoverable taxes	108	(263)	—
Others	(455)	21	(292)
Increase (decrease) in liabilities:			
Suppliers	121	703	998
Payroll and related charges	159	1	170
Income taxes	(234)	(140)	393
Others	373	(93)	75
Net cash provided by operating activities	**7,136**	**17,114**	**11,012**
Cash flows from investing activities:			
Short term investments	(1,439)	(2,308)	—
Loans and advances receivable			
Related parties			
Loan proceeds	(181)	(37)	(33)
Repayments	7	58	10
Others	(25)	(15)	1
Judicial deposits	(132)	(133)	(125)
Investments	(1,947)	(128)	(324)
Additions to, property, plant and equipment	(8,096)	(8,972)	(6,651)
Proceeds from disposal of investments/property, plant and equipment	606	134	1,042
Acquisition of subsidiaries, net of cash acquired	(1,952)	—	(2,926)
Net cash used in investing activities	**(13,159)**	**(11,401)**	**(9,006)**
Cash flows from financing activities:			
Short-term debt, additions	1,285	1,076	4,483
Short-term debt, repayments	(1,254)	(1,311)	(5,040)
Loans			
Related parties			
Loan proceeds	16	54	259
Repayments	(373)	(20)	(273)
Issuances of long-term debt			
Third parties	3,104	1,890	7,212
Repayments of long-term debt			
Third parties	(307)	(1,130)	(11,130)
Treasury stock	(9)	(752)	—
Mandatorily convertible notes	934	—	1,869
Capital increase	—	12,190	—
Dividends and interest attributed to Company's stockholders	(2,724)	(2,850)	(1,875)
Dividends and interest attributed to noncontrolling interest	(47)	(143)	(714)
Net cash provided by (used in) financing activities	**625**	**9,004**	**(5,209)**
Increase (decrease) in cash and cash equivalents	(5,398)	14,717	(3,203)
Effect of exchange rate changes on cash and cash equivalents	2,360	(5,432)	(199)
Cash and cash equivalents, beginning of period	10,331	1,046	4,448
Cash and cash equivalents, end of period	**7,293**	**10,331**	**1,046**
Cash paid during the period for:			
Interest on short-term debt	(1)	(11)	(49)
Interest on long-term debt	(1,113)	(1,255)	(1,289)
Income tax	(1,331)	(2,867)	(3,284)
Non-cash transactions			
Interest capitalized	266	230	78

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS (EXCEPT NUMBER OF SHARES)

	Year ended December 31,		
	2009	2008	2007
Preferred class A stock (including twelve special shares)			
Beginning of the period	9,727	4,953	4,702
Capital increase	—	4,774	—
Transfer from undistributed retained earnings	—	—	251
End of the period	**9,727**	**9,727**	**4,953**
Common stock			
Beginning of the period	15,262	7,742	3,806
Capital increase	—	7,520	—
Transfer from undistributed retained earnings	—	—	3,936
End of the period	**15,262**	**15,262**	**7,742**
Treasury stock			
Beginning of the period	(1,141)	(389)	(389)
Acquisitions	(9)	(752)	—
End of the period	**(1,150)**	**(1,141)**	**(389)**
Additional paid-in capital			
Beginning of the period	393	498	498
Change in the period	18	(105)	—
End of the period	**411**	**393**	**498**
Mandatorily convertible notes — common shares			
Beginning of the period	1,288	1,288	1,288
Change in the period	290	—	—
End of the period	**1,578**	**1,288**	**1,288**
Mandatorily convertible notes — preferred shares			
Beginning of the period	581	581	581
Change in the period	644	—	—
End of the period	**1,225**	**581**	**581**
Other cumulative comprehensive income (deficit)			
Cumulative translation adjustments			
Beginning of the period	(11,493)	1,340	(1,628)
Change in the period	9,721	(12,833)	2,968
End of the period	**(1,772)**	**(11,493)**	**1,340**
Unrealized gain (loss) — available-for-sale securities, net of tax			
Beginning of the period	17	211	271
Change in the period	(17)	(194)	(60)
End of the period	**—**	**17**	**211**
Surplus (deficit) accrued pension plan			
Beginning of the period	(34)	75	353
Change in the period	(4)	(109)	(278)
End of the period	**(38)**	**(34)**	**75**
Cash flow hedge			
Beginning of the period	—	29	—
Change in the period	2	(29)	29
End of the period	**2**	**—**	**29**
Total other cumulative comprehensive income (deficit)	**(1,808)**	**(11,510)**	**1,655**

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (CONTINUED)
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS
(EXCEPT NUMBER OF SHARES)

	Year ended December 31,		
	2009	2008	2007
Undistributed retained earnings			
Beginning of the period	18,340	15,317	9,555
Transfer from/to unappropriated retained earnings	10,168	3,023	9,949
Capitalized earnings	—	—	(4,187)
End of the period	**28,508**	**18,340**	**15,317**
Unappropriated retained earnings			
Beginning of the period	9,616	1,631	2,505
Net income attributable to the stockholders' Company	5,349	13,218	11,825
Interest on mandatorily convertible debt			
Preferred class A stock	(58)	(46)	(22)
Common stock	(93)	(96)	(45)
Dividends and interest attributed to stockholders' equity			
Preferred class A stock	(570)	(806)	(1,049)
Common stock	(894)	(1,262)	(1,634)
Appropriation from/to undistributed retained earnings	(10,168)	(3,023)	(9,949)
End of the period	**3,182**	**9,616**	**1,631**
Total Company stockholders' equity	**56,935**	**42,556**	**33,276**
Noncontrolling interests			
Beginning of the period	1,892	2,180	2,465
Disposals and (acquisitions) of noncontrolling interests	83	—	(817)
Cumulative translation adjustments	823	(445)	333
Cash flow hedge	(18)	(21)	21
Net income attributable to noncontrolling interests	107	258	802
Dividends and interest attributable to noncontrolling interests	(56)	(137)	(700)
Capitalization of stockholders advances	—	57	76
End of the period	**2,831**	**1,892**	**2,180**
Total stockholders' equity	**59,766**	**44,448**	**35,456**
Number of shares:			
Preferred class A stock (including twelve special shares)	2,108,579,618	2,108,579,618	1,919,516,400
Common stock	3,256,724,482	3,256,724,482	2,999,797,716
Buy-backs			
Beginning of the period	(151,792,203)	(86,923,184)	(86,927,072)
Acquisitions	(831,400)	(64,869,259)	—
Sales	43,800	240	3,888
End of the period	**(152,579,803)**	**(151,792,203)**	**(86,923,184)**
	5,212,724,297	**5,213,511,897**	**4,832,390,932**

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (DEFICIT)
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS

	Year ended December 31,		
	2009	2008	2007
Comprehensive income (deficit) is comprised as follows:			
Company's stockholders:			
Net income attributable to Company's stockholders	5,349	13,218	11,825
Cumulative translation adjustments	9,721	(12,833)	2,968
Unrealized gain (loss) — available-for-sale securities			
Gross balance as of the period/year end	(47)	(230)	(123)
Tax (expense) benefit	30	36	63
	(17)	**(194)**	**(60)**
Surplus (deficit) accrued pension plan			
Gross balance as of the period/year end	10	(194)	(410)
Tax (expense) benefit	(14)	85	132
	(4)	**(109)**	**(278)**
Cash flow hedge			
Gross balance as of the period/year end	11	(29)	29
Tax (expense) benefit	(9)	—	—
	2	**(29)**	**29**
Total comprehensive income (deficit) attributable to Company's stockholders	**15,051**	**53**	**14,484**
Noncontrolling interests:			
Net income attributable to noncontrolling interests	107	258	802
Cumulative translation adjustments	823	(445)	333
Cash flow hedge	(18)	(21)	21
Total comprehensive income (deficit) attributable to Noncontrolling interests	**912**	**(208)**	**1,156**
Total comprehensive income (deficit)	**15,963**	**(155)**	**15,640**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS, UNLESS OTHERWISE STATED

1 THE COMPANY AND ITS OPERATIONS

Vale S.A., formerly Companhia Vale do Rio Doce, ("Vale", the "Company" or "we") is a limited liability company incorporated in Brazil. Operations are carried out through Vale and our subsidiary companies, joint ventures and affiliates, and mainly consist of mining, base metals, production, fertilizers, logistics and steel activities.

At December 31, 2009, our principal consolidated operating subsidiaries are the following:

Subsidiary	% ownership	% voting capital	head office location	Principal activity
Alumina do Norte do Brasil S.A. — Alunorte	57.03	59.02	Brazil	Alumina
Alumínio Brasileiro S.A. — Albras	51.00	51.00	Brazil	Aluminum
CADAM S.A	61.48	100.00	Brazil	Kaolin
CVRD Overseas Ltd	100.00	100.00	Cayman Islands	Trading
Vale Colombia Ltd	100.00	100.00	Colombia	Coal
Ferrovia Centro-Atlântica S. A	99.99	99.99	Brazil	Logistic
Ferrovia Norte Sul S.A	100.00	100.00	Brazil	Logistic
Mineração Corumbá Reunidas S.A.	100.00	100.00	Brazil	Iron ore
Pará Pigmentos S.A.	86.17	85.57	Brazil	Kaolin
PT International Nickel Indonesia Tbk	59.09	59.09	Indonesia	Nickel
Vale Manganése Norway	100.00	100.00	Norway	Ferroalloys
Vale Manganês S.A.	100.00	100.00	Brazil	Manganese and Ferroalloys
Vale Manganèse France	100.00	100.00	France	Ferroalloys
Vale Australia Pty Ltd.	100.00	100.00	Australia	Coal
Vale Inco Limited	100.00	100.00	Canada	Nickel
Vale International S.A	100.00	100.00	Switzerland	Trading

2 BASIS OF CONSOLIDATION

All majority-owned subsidiaries in which we have both share and management control are consolidated. All significant intercompany accounts and transactions are eliminated. Our variable interest entities in which we are the primary beneficiary are consolidated. Investments in unconsolidated affiliates and joint ventures are accounted for under the equity method (Note 13).

We evaluate the carrying value of our equity accounted investments in relation to publicly quoted market prices when available. If the quoted market price is below book value, and such decline is considered other than temporary, we write-down our equity investments to quoted market value.

We define joint ventures as businesses in which we and a small group of other partners each participate actively in the overall entity management, based on a stockholders agreement. We define affiliates as businesses in which we participate as a minority stockholder but with significant influence over the operating and financial policies of the investee.

Our participation in hydroelectric projects is made via consortium contracts under which we have undivided interests in the assets and are liable for our proportionate share of liabilities and expenses, which are based on our proportionate share of power output. We do not have joint liability for any obligations. No separate legal or tax status is granted to consortia under Brazilian law. Accordingly, we recognize our proportionate share of costs and our undivided interest in assets relating to hydroelectric projects (Note 12).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, the selection of useful lives of property, plant and equipment, impairment, provisions necessary for contingent liabilities, fair values assigned to assets and liabilities acquired in business combinations, income tax valuation allowances, employee post retirement benefits and other similar evaluations. Actual results could differ from those estimated.

a) Basis of presentation

We have prepared our consolidated financial statements in accordance with United States generally accepted accounting principles ("US GAAP"), which differ in certain respects from the accounting practices adopted in Brazil ("Brazilian GAAP") which are the basis for our statutory financial statements.

These financial statements reflect the retrospective adoption of the new segment information as of December 31, 2009 and the three years then ended as shown in Note 23. The new segment information was set up during 2010 based on new acquisitions and project developments that matured along the year. The information disclosed under Note 13 and Note 23 retroactively reflects these changes for all periods covered by those financial statements.

These financial statements also reflect the retrospective adoption of the Noncontrolling Interests in Consolidated Financial Statements Standard, as of December 31, 2008 and the three years then ended. The noncontrolling interest standard, which clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements, as shown in the consolidated statements of changes in stockholders' equity and consolidated statements of comprehensive income (deficit). Noncontrolling interests that could be redeemed upon the occurrence of certain events outside the Company's control have been classified as redeemable noncontrolling interest using the mezzanine presentation on the balance sheet between liabilities and stockholders' equity, retroactively to all periods presented.

Since December 2007, significant modifications have been made to Brazilian GAAP as part of a convergence project with International Financial Reporting Standards (IFRS) and as from 2010, full year financial statements, the convergence will be completed and therefore the IFRS will be the accounting practice adopted in Brazil. The Company does not expect to discontinue the US GAAP reporting during 2010.

The Brazilian Real is the parent Company's functional currency. We have selected the US dollar as our reporting currency.

All assets and liabilities have been translated to US dollars at the closing rate of exchange at each balance sheet date (or, if unavailable, the first available exchange rate). All statement of income accounts have been translated to US dollars at the average exchange rates prevailing during the respective periods. Capital accounts are recorded at historical exchange rates. Translation gains and losses are recorded in the Cumulative Translation Adjustments account ("CTA") in stockholders' equity.

The results of operations and financial position of our entities that have a functional currency other than the US dollar, have been translated into US dollars and adjustments to translate those statements into US dollars are recorded in the CTA in stockholders' equity.

The exchange rates used to translate the assets and liabilities of the Brazilian operations at December 31, 2009 and 2008, were R$1.7412 and R$2.3370, respectively.

The net transaction gain (loss) included in our statement of income ("Foreign exchange and indexation gains (losses), net") was US$665, US$(1,011) and US$1,639 in the years ended December 31, 2009, 2008 and 2007, respectively.

The Company has performed an evaluation of subsequent events through February 10, 2010 which is the date the financial statements were issued.

b) Cash equivalents and short-term investments

Cash flows from overnight investments and fundings are reported net. Short-term investments that have a ready market and original maturities of 90 days or less are classified as "Cash equivalents". The remaining investments, between 91- to 360-day maturities are stated at fair value and presented as "Short-term investments".

c) Long-term

Assets and liabilities that are realizable or due more than 12 months after the balance sheet date are classified as long-term.

d) Inventories

Inventories are recorded at the average cost of purchase or production, reduced to market value (net realizable value less a reasonable margin) when lower. Stockpiled inventories are accounted for as processed when they are removed from the mine. The cost of finished goods comprises depreciation and all direct costs necessary to convert stockpiled inventories into finished goods.

We classify proven and probable reserve quantities attributable to stockpiled inventories as inventories. These reserve quantities are not included in the total proven and probable reserve quantities used in the units of production, depreciation, depletion and amortization calculations.

We periodically assess our inventories to identify obsolete or slow-moving inventories, and if needed we recognize definitive allowances for them.

e) Removal of waste materials to access mineral deposits

Stripping costs (the costs associated with the removal of overburdened and other waste materials) incurred during the development of a mine, before production commences, are capitalized as part of the depreciable cost of developing the property. Such costs are subsequently amortized over the useful life of the mine based on proven and probable reserves.

Post-production stripping costs are included in the cost of the inventory produced (that is extracted), at each mine individually during the period that stripping costs are incurred.

f) Property, plant and equipment and intangible assets

Property, plant and equipment are recorded as cost, including interest cost incurred during the construction of major new facilities. We compute depreciation on the straight-line method at annual average rates which take into consideration the useful lives of the assets, as follows: 3.73% for railroads, 1.5% for buildings, 4.23% for installations and 7.73% for other equipment. Expenditures for maintenance and repairs are charged to operating costs and expenses as incurred.

We capitalize the costs of developing major new ore bodies or expanding the capacity of operating mines and amortize these to operations on the unit-of-production method based on the total probable and proven quantity of ore to be recovered. Exploration costs are expensed. Once the economic viability of mining activities is established, subsequent development costs are capitalized.

Separately acquired intangible assets are shown at historical cost. Intangible assets acquired in a business combination are recognized at fair value at the acquisition date. All our intangible assets have definite useful lives and are carried at cost less accumulated amortization, which is calculated using the straight-line method over their estimated useful lives.

g) Business combinations

We adopt business combinations to record acquisitions of interests in other companies. This “purchase method”, requires that we reasonably determine the fair value of the identifiable tangible and intangible assets and liabilities of acquired companies and segregate goodwill as an intangible asset.

We assign goodwill to reporting units and test each reporting unit’s goodwill for impairment at least annually, and whenever circumstance indicating that recognized goodwill may not be fully recovered are identified. We perform the annual goodwill impairment tests during the last quarter of the year.

Goodwill is reviewed for impairment utilizing a two step process. In the first step, we compare a reporting unit’s fair value with its carrying amount to identify any potential goodwill impairment loss. If the carrying amount of a reporting unit exceeds the unit’s fair value, based on a discounted cash flow analysis, we carry out the second step of the impairment test, measuring and recording the amount, if any, of the unit’s goodwill impairment loss.

h) Impairment of long-lived assets

All long-lived assets, are tested to determine if they are recoverable from operating earnings on an undiscounted cash flow basis over their useful lives whenever events or changes in circumstance indicate that the carrying value may not be recoverable.

When we determine that the carrying value of long-lived assets and definite-life intangible assets may not be recoverable, we measure any impairment loss based on a projected discounted cash flow method using a discount rate determined to be commensurate with the risk inherent in our current business model.

i) Available-for-sale equity securities

Equity securities classified as “available-for-sale” are recorded pursuant to accounting for certain investments in debt and equity securities. Accordingly, we classify unrealized holding gains and losses, net of taxes, as a separate component of stockholders’ equity until realized.

j) Compensated absences

The liability for future compensation for employee vacations is fully accrued as earned.

k) *Derivatives and hedging activities*

We apply accounting for derivative financial instruments and hedging activities, as amended. This standard requires that we recognize all derivative financial instruments as either assets or liabilities on our balance sheet and measure such instruments at fair value. Changes in the fair value of derivatives are recorded in each period in current earnings or in other comprehensive income, in the latter case depending on whether a transaction is designated as an effective hedge and has been effective during the period.

l) *Asset retirement obligations*

Our retirement obligations consist primarily of estimated closure costs, the initial measurement of which is recognized as a liability discounted to present value and subsequently accreted through earnings. An asset retirement cost equal to the initial liability is capitalized as part of the related asset's carrying value and depreciated over the asset's useful life.

m) *Revenues and expenses*

Revenues are recognized when title is transferred to the customer or services are rendered. Revenue from exported products is recognized when such products are loaded on board the ship. Revenue from products sold in the domestic market is recognized when delivery is made to the customer. Revenue from logistic services is recognized when the service order has been fulfilled. Expenses and costs are recognized on the accrual basis.

n) *Income taxes*

The deferred tax effects of tax loss carryforwards and temporary differences are recognized pursuant to accounting for income taxes. A valuation allowance is made when we believe that it is more likely than not that tax assets will not be fully recovered in the future.

o) *Earnings per share*

Earnings per share are computed by dividing net income by the weighted average number of common and preferred shares outstanding during the period.

p) *Interest attributed to stockholders' equity (dividend)*

Brazilian corporations are permitted to distribute interest attributable to stockholders' equity. The calculation is based on the stockholders' equity amounts as stated in the statutory accounting records and the interest rate applied may not exceed the long-term interest rate (TJLP) determined by the Brazilian Central Bank.

Also, such interest may not exceed 50% of net income for the year nor 50% of retained earnings plus revenue reserves as determined by "Brazilian GAAP".

As the notional interest charge is tax deductible in Brazil, the benefit to us, as opposed to making a dividend payment, is a reduction in our income tax charge. Income tax of 15% is withheld on behalf of the stockholders relative to the interest distribution. Under Brazilian law, interest attributed to stockholders' equity is considered as part of the annual minimum mandatory dividend (Note 17). This notional interest distribution is treated for accounting purposes as a deduction from stockholders' equity in a manner similar to a dividend and the tax credit recorded in income.

q) *Pension and other post retirement benefits*

We sponsor private pensions and other post retirement benefits for our employees which are actuarially determined and recognized as an asset or liability or both depending on the funded or unfunded status of each plan in accordance with employees' accounting for defined benefit pension and other post retirement plans". The cost of our defined benefit and prior service costs or credits that arise during the period and are not components of net periodic benefit costs are recorded in other cumulative comprehensive income (deficit).

4 ACCOUNTING PRONOUNCEMENTS

a) *Newly issued accounting pronouncements*

Accounting Standards Update (ASU) number 2010-06 Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 and are expected to provide more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The Company will adopt this update in 2010 and does not expect relevant impacts on fair value information currently disclosed.

In June 2009, the Financial Accounting Standards Board ("FASB") issued an amendment to Interpretation No. 46(R) on the accounting and disclosure requirements for the consolidation of variable interest entities ("VIEs"). Subsequently, in December 2009, the Accounting Standards Update (ASU) number 2009-17 Amendments to FASB Interpretation No. 46(R) was issued. The amendments replace the quantitative-based risks and rewards calculation, for determining which reporting entity has a controlling financial interest in a VIE, with a qualitative analysis when determining whether or not it must consolidate a VIE. The newly required approach is focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. The amendments also require an enterprise to continuously reassess whether it must consolidate a VIE. Additionally, the amendments eliminated the scope exception on qualifying special-purpose entities ("QSPE") and require enhanced disclosures about: involvement with VIEs, significant changes in risk exposures, impacts on the financial statements, and, significant judgments and assumptions used to determine whether or not to consolidate a VIE. The Company will adopt these amendments in 2010. We are currently assessing the potential impacts of this pronouncement and do not expect major changes to the reported financial information.

In June 2009, the "FASB" issued an amendment to the accounting and disclosure requirements for transfers of financial assets. Subsequently, in December 2009, the Accounting Standards Update (ASU) number 2009-16 Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140 was issued. The amendments improve financial reporting requiring greater transparency and additional disclosures for transfers of financial assets and the entity's continuing involvement with them and also change the requirements for derecognizing financial assets. In addition, the amendments eliminate the exceptions for QSPE from the consolidation guidance and the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. The Company will adopt the amendments in 2010 and do not expect major effect to its financial statements.

Accounting Standards Update (ASU) number 2009-08 Earning per share issued by the FASB provides additional guidance related to calculation of earnings per share. This guidance amends ASC 260.

The Company understands that the other recently issued accounting pronouncements, that are not effective as of and for the year ended December 31, 2009, are not expected to be relevant for its consolidated financial statements.

b) Accounting standards adopted in 2009

Accounting Standards Update (ASU) number 2009-05 Fair value measurements and disclosures issued by the FASB provides additional guidance related to address the lack of observable market information to measure the fair value of a liability. This guidance amends ASC 820. It is effective after the issuance. The Company already adopts these statements.

In June 2009, the FASB issued the FASB Accounting Standards Codification (Codification). The Codification became the single source for all authoritative GAAP recognized by the FASB to be applied for financial statements issued for periods ending after September 15, 2009. The Codification does not change GAAP and does not have an affect on our financial position, results of operations or liquidity.

In June 2009, we adopted a newly issued accounting standard for accounting and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this statement sets forth (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The standard is effective for interim or annual periods ending after June 15, 2009. The Company already adopts this statement.

In June 2009, we adopted a newly issued accounting standard for fair value of financial instruments which requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This standard also requires these disclosures in summarized financial information at interim reporting periods. This standard shall be effective for interim reporting periods ending after June 15, 2009, and we have not opted for early adoption of this standard for the three-month period ended March 31, 2009. The application of this standard will expand the Company's disclosures regarding the use of fair value in interim periods. The required information is disclosed in Note 22 (d).

In January 2009, we adopted a newly issued accounting standard regarding disclosure of derivative instruments and hedging activities. As such, entities must now provide qualitative disclosure about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gain and losses on derivative instruments and disclosures about credit-risk related contingent features in derivative agreements on a quarterly basis regarding how and why the entity uses derivatives, how derivatives and related hedged items are accounted for under the new standard and how derivatives and related hedged items affect the entity's financial position, performance and cash flows. The required information is disclosed in Note 25. In addition, unrealized gains or losses on derivatives, previously reported net on balance sheet are presented gross as assets and liabilities. Comparative information for 2008 has been reclassified.

In January 2009, we adopted a newly issued accounting standard for noncontrolling interests. This new accounting standard clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and consolidated statements of changes in stockholders' equity. Noncontrolling interests that could be redeemed upon the occurrence of certain events outside the Company's control have been classified as redeemable noncontrolling interest using the mezzanine presentation on the balance sheet between liabilities and stockholders' equity, retroactive to all periods presented.

In January 2009, we adopted a newly issued accounting standard that applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

5 MAJOR ACQUISITIONS AND DISPOSALS

a) *Mineração Corumbá Reunidas S.A.*

In September 2009, we acquired from Rio Tinto Plc, Mineração Corumbá Reunidas S.A. (MCR). MCR is the owner of an iron ore mining operation with high iron content and a strategic importance to our product portfolio, adding a substantial volume of lump ore to our reserves.

The purchase price allocation for Mineração Corumbá Reunidas S.A. is as follows:

	Valuation
Total disbursements(*)	814
Cash acquired	(12)
Purchase price	**802**
Book value of assets acquired and liabilities assumed, net of cash acquired	(240)
Adjustment to fair value of inventory	(84)
Adjustment to fair value of property, plant and equipment	(754)
Adjustment to fair value of intangible assets	(14)
Deferred taxes on the above adjustments	290
Total fair value adjustment	**(562)**

(*) Including the payment related to working capital adjustment.

The acquired business contributed revenues of US$24 and net profit of US$(16) for the period from October 1, 2009 to December 31, 2009. If the acquisition had occurred on January 1, 2009, our revenue would have been US$52, and profit before tax would have been US$(88). These amounts have been calculated using the Company's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangibles assets applied from January 1, 2009.

b) *Diamond Coal Ltd*

In March 2009, we acquired 100% of Diamond Coal Ltd. that owns coal assets in Colombia for US$300, from Cement Argos. Cash payment was made during the quarter ending June 30, 2009.

The primary reason for the acquisition was that the coal assets are an important part of our growth strategy. Therefore, Vale is seeking to build a coal asset platform in Colombia, as it is the world's third largest exporter of high-quality thermal coal, given its low level of sulfur and high calorific value.

The purchase price allocation for Diamond Coal Ltd. is as follows:

	Valuation
Total disbursements	300
Adjustment to fair value of property, plant and equipment	(280)
Deferred taxes on above adjustments	92
Total adjustment	**(188)**

c) *Green Mineral Resources*

In February 2009, we acquired Green Mineral Resources that owns the Regina Project (Canada) and Colorado Project (Argentina) which are in development stage, from Rio Tinto, for US$850.

The acquisition of potash assets is aligned with Vale's strategy to become a large producer of fertilizers to benefit from the exposure to rising global consumption.

The purchase price allocation for Green Mineral Resources is as follows:

	Valuation
Total disbursements	857
Cash acquired	(7)
Purchase price	**850**
Book value of assets acquired and liabilities assumed, net of cash acquired	(97)
Adjustment to fair value of property, plant and equipment	(1,159)
Deferred taxes on above adjustments	406
Total adjustment	**(753)**

d) Other transactions

In September 2009, we concluded an agreement with ThyssenKrupp Steel AG signed in July, to increase our stake in ThyssenKrupp CSA Siderúrgica do Atlântico Ltda. (CSA) to 26.87%, through a capital subscription of US$1,424.

In April 2009, we concluded the sale of all common shares we held in, Usiminas Siderúrgicas de Minas Gerais S.A. — Usiminas, for US$273 generating a gain of US$153.

In March 2009, we acquired 50% of the joint venture with African Rainbow Minerals Limited of Teal Minerals Incorporated for US$60.

In February 2008, we sold our interest in Jubilee Mines N.L. (held through Vale Inco), representing 4.83% of its common shares, for US$134 generating a gain of US$80.

6 INCOME TAXES

Income taxes in Brazil comprise federal income tax and social contribution, which is an additional federal tax. The statutory composite enacted tax rate applicable in the periods presented is 34%. In other countries where we have operations, the applicable tax rates vary from 1.67% to 40%.

We analyze the potential tax impact associated with undistributed earnings by each of our subsidiaries. For those subsidiaries in which the undistributed earnings would be taxable when remitted to the parent company, but we meet the criteria in paragraph 12 of APB 23, no deferred tax is recognized.

The amount reported as income tax expense in our consolidated financial statements is reconciled to the statutory rates as follows:

	Year ended December 31,								
	2009			2008			2007		
	Brazil	Foreign	Total	Brazil	Foreign	Total	Brazil	Foreign	Total
Income before income taxes, equity results and noncontrolling interests	10,024	(2,901)	7,123	2,434	10,783	13,217	7,769	7,464	15,233
Exchange variation (not taxable) or not deductible	—	5,162	5,162	—	(2,887)	(2,887)	—	853	853
	10,024	**2,261**	**12,285**	**2,434**	**7,896**	**10,330**	**7,769**	**8,317**	**16,086**
Tax at Brazilian composite rate	(3,408)	(769)	(4,177)	(828)	(2,685)	(3,513)	(2,641)	(2,828)	(5,469)
Adjustments to derive effective tax rate:									
Tax benefit on interest attributed to stockholders	502	—	502	692	—	692	474	—	474
Difference on tax rates of foreign income	—	1,079	1,079	—	1,728	1,728	—	1,729	1,729
Tax incentives	148	—	148	53	—	53	173	—	173
Other non-taxable, income/non deductible expenses	100	248	348	287	218	505	80	(188)	(108)
Income taxes per consolidated statements of income	**(2,658)**	**558**	**(2,100)**	**204**	**(739)**	**(535)**	**(1,914)**	**(1,287)**	**(3,201)**

Vale and some related companies in Brazil were granted with a tax incentive that provides for a partial reduction of the income tax due related to certain regional operations of iron ore, railroad, manganese, copper, bauxite, alumina, aluminum, kaolin and potash. The tax benefit is calculated based on taxable profit adjusted by the tax incentive (so-called "exploration profit") taking into consideration the operational profit of the projects that benefit from the tax incentive during a fixed period. In general, such tax incentives expire in 2018. Part of the northern railroad and iron ore operations have been granted with tax incentives for a period of 10 years starting as from 2009. The tax savings must be registered in a special capital (profit) reserve in the net equity of the entity that benefits from the tax incentive and cannot be distributed as dividends to the stockholders.

We are also allowed to reinvest part of the tax savings in the acquisition of new equipment to be used in the operations that enjoy the tax benefit subject to subsequent approval from the Brazilian regulatory agencies Superintendência de Desenvolvimento da Amazônia — SUDAM and Superintendência de Desenvolvimento do Nordeste — SUDENE. When the reinvestment is approved, the corresponding tax benefit must also be accounted in a special profit reserve and is also subject to the same restrictions with respect to future dividend distributions to the stockholders.

We also have income tax incentives related to our Goro project under development in New Caledonia ("The Goro Project"). These incentives include an income tax holiday during the construction phase of the project and throughout a 15-year period commencing in the first year in which commercial production, as defined by the applicable legislation, is achieved followed by a five-year, 50% income tax holiday. The Goro Project also qualifies for certain exemptions from indirect taxes such as import duties during the construction phase and throughout the commercial life of the project. Certain of these tax benefits, including the income tax holiday, are subject to an earlier phase out should the project achieve a specified cumulative rate of return. We are subject to a branch profit tax commencing in the first year in which commercial production is achieved, as defined by the applicable legislation. To date, we have not recorded any taxable income for New Caledonian tax purposes. The benefits of this legislation are expected to apply with respect to taxes payable once the Goro Project is in operation. We obtained tax incentives for its projects in Mozambique, Oman and Malaysia, that will become effective when those projects start their commercial operation.

We are subject to examination by the tax authorities for up to five years regarding our operations in Brazil, up to ten years for Indonesia, and up to seven years for Canada for income taxes.

Brazilian tax loss carryforwards have no expiration date, though offset is restricted to 30% of annual taxable income.

On January 1, 2007, Company adopted the provisions Accounting for Uncertainty in Income Taxes.

The reconciliation of the beginning and ending amounts is as follows: (see note 20(b) tax — related actions)

	Year ended December 31,		
	2009	**2008**	**2007**
Beginning and end of the period	**657**	**1,046**	**663**
Increase resulting from tax positions taken	47	103	264
Decrease resulting from tax positions taken	(474)	(261)	(47)
Changes in tax legislation	—	2	29
Cumulative translation adjustments	166	(233)	137
End of the period	**396**	**657**	**1,046**

There has been write-off of values provisioned referring to discussion about compensation for taxes losses and negative basis of social contribution above 30% due to withdrawal of the action and therefore the extinction of process with release of funds deposited in escrow in favor of the Brazilian Unit.

Recognized deferred income tax assets and liabilities are composed as follows:

	As of December 31	
	2009	2008
Current deferred tax assets		
Accrued expenses deductible only when disbursed	852	583
Long-term deferred tax assets and liabilities		
Assets		
Employee postretirement benefits provision	384	171
Tax loss carryforwards	324	119
Other temporary differences	842	548
Asset retirement obligation	259	207
	1,809	1,045
Liabilities		
Unrealized tax indexation effects	(154)	(108)
Property, plant and equipment	(79)	(47)
Prepaid retirement benefit	(435)	(199)
Fair value adjustments in business combinations	(5,929)	(4,446)
Social contribution	(758)	—
Other temporary differences	(103)	(128)
	(7,458)	(4,928)
Valuation allowance		
Beginning balance	(122)	(104)
Translation adjustments	(25)	18
Change in allowance	41	(36)
Ending balance	(106)	(122)
Net long-term deferred tax liabilities	(5,755)	(4,005)

7 CASH AND CASH EQUIVALENTS

	As of December 31	
	2009	2008
Cash	728	767
Short-term investments	6,565	9,564
	7,293	10,331

All the above mentioned short-term investments are made through the use of low risk fixed income securities, in a way that: the ones denominated in Brazilian reais are concentrated in investments indexed to the CDI, and the ones denominated in US dollars are mainly time deposits, with the original due date less than three-months.

8 SHORT-TERM INVESTMENTS

	As of December 31	
	2009	2008
Time deposit	3,747	2,308

Represent low risk investments with original due date over three-months.

9 ACCOUNT RECEIVABLE

	As of December 31	
	2009	2008
Customers		
Denominated in Brazilian Reais	885	461
Denominated in other currencies, mainly US dollars	2,362	2,828
	3,247	3,289
Allowance for doubtful accounts	(127)	(85)
Total	3,120	3,204

Accounts receivable from customers in the steel industry represent 51.1% of receivables at December 31, 2009.

No single customer accounted for more than 10% of total revenues.

Additional allowances for doubtful accounts charged to the statement of income as expenses in 2009 and 2008 totaled US$48 and US$9, respectively. We wrote-off US$8 in 2009 and US$ nil in 2008.

10 INVENTORIES

	As of December 31	
	2009	2008
Finished products		
Nickel (co-products and by-products)	1,083	1,514
Iron ore and pellets	677	728
Manganese and ferroalloys	164	199
Aluminum products	135	150
Kaolin	42	40
Copper concentrate	35	26
Coal	51	43
Others	51	80
Spare parts and maintenance supplies	958	1,116
	3,196	**3,896**

In 2009, there were no adjustments to reduce inventories to the market value. In 2008 we recorded an adjustment to reduce nickel inventory, in an amount of US$77.

11 RECOVERABLE TAXES

	As of December 31	
	2009	2008
Income tax	908	1,646
Value-added tax — ICMS	290	258
PIS and COFINS	1,052	380
Others	78	103
Total	**2,328**	**2,387**
Current	1,511	1,993
Non-current	817	394
	2,328	**2,387**

12 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

By type of assets:

	As of December 31, 2009			As of December 31, 2008		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
Land	284	—	284	182	—	182
Buildings	4,324	1,143	3,181	3,742	905	2,837
Installations	14,063	4,160	9,903	9,990	2,748	7,242
Equipment	7,499	2,380	5,119	5,391	1,626	3,765
Railroads	6,685	2,016	4,669	5,830	1,358	4,472
Mine development costs	20,205	2,957	17,248	15,976	2,062	13,914
Others	10,418	3,123	7,295	4,974	1,639	3,335
	63,478	**15,779**	**47,699**	**46,085**	**10,338**	**35,747**
Construction in progress	19,938	—	19,938	12,707	—	12,707
Total	**83,416**	**15,779**	**67,637**	**58,792**	**10,338**	**48,454**

Losses on disposal of property, plant and equipment totaled US$293, US$376 and US$168 in 2009, 2008 and 2007, respectively. Mainly relate to losses on sales of ships and trucks, locomotives and other equipment, which were replaced in the normal course of business.

Assets given in guarantee of judicial processes totaled US$222 as of December 31, 2009.

Hydroelectric assets

We participate in several jointly-owned hydroelectric plants, already in operation or under construction, in which we record our undivided interest in these assets as property, plant and equipment.

At December 31, 2009 the cost of hydroelectric plants in service totaled US$1,382 (December 31, 2008 US$1,162) and the related depreciation in the year was US$372 (December 31, 2008 US$304). The cost of hydroelectric plant under construction at December 31, 2009 totaled US$521 (December 31, 2008 US$206). Income and operating expenses for such plants were not material.

Intangibles

All of the intangible assets recognized in our financial statements were acquired from third parties, either directly or through a business combination and have definite useful lives from 6 to 30 years.

At December 31, 2009 the intangible assets totaled US$1,173 (December 31, 2008 — US$875), and comprised of rights granted by the government — North-South Railroad of US$924 and off take-agreements of US$239.

13 INVESTMENTS IN AFFILIATED COMPANIES AND JOINT VENTURES

	December 31, 2009				Investments		Equity in earnings (losses) of investee adjustments			Dividends Received		
	Participation in capital (%)		Net equity	Net income (loss) of the period			Year ended December 31,			Year ended December 31,		
	Voting	Total			2009	2008	2009	2008	2007	2009	2008	2007
Bulk Materials												
Iron ore and pellets												
Companhia Nipo-Brasileira de Pelotização — NIBRASCO[1]	51.11	51.00	260	(25)	132	110	(12)	84	12	20	—	—
Companhia Hispano-Brasileira de Pelotização — HISPANOBRÁS[1]	51.00	50.89	164	(23)	83	73	(12)	59	9	—	6	16
Companhia Coreano-Brasileira de Pelotização — KOBRASCO[1]	50.00	50.00	118	(34)	59	55	(17)	44	19	—	13	21
Companhia Ítalo-Brasileira de Pelotização — ITABRASCO[1]	51.00	50.90	177	23	90	58	12	34	10	—	—	8
Minas da Serra Geral SA — MSG	50.00	50.00	61	3	31	21	2	1	3	—	—	—
SAMARCO Mineração SA — SAMARCO[2]	50.00	50.00	1,224	598	673	412	299	315	242	190	300	150
Baovale Mineração SA — BAOVALE	50.00	50.00	61	1	30	26	(3)	6	6	—	—	—
Zhuhai YPM Pellet Co., Ltd. — ZHUHAI	25.00	25.00	51	12	13	13	3	7	—	—	—	—
					1,111	**768**	**272**	**550**	**301**	**210**	**319**	**195**
Coal												
Henan Longyu Resources Co Ltd	25.00	25.00	999	295	250	176	74	79	46	—	27	42
Shandong Yankuang International Company Ltd	25.00	25.00	(27)	(71)	(7)	11	(18)	(17)	—	—	—	—
					243	**187**	**56**	**62**	**46**	—	**27**	**42**
Base Metals												
Bauxite												
Mineração Rio do Norte SA — MRN	40.00	40.00	356	(24)	143	140	(10)	62	84	42	99	64
					143	**140**	**(10)**	**62**	**84**	**42**	**99**	**64**
Copper												
Teal Minerals Incorporated[3]	50.00	50.00	160	(34)	80	—	(18)	—	—	—	—	—
					80	—	**(18)**	—	—	—	—	—
Nickel												
Heron Resources Inc (cost US$24) — available-for-sale	—	—	—	—	8	2	—	—	—	—	—	—
Mirabela Nickel Ltd — available-for-sale	—	—	—	—	—	8	—	—	—	—	—	—
Hudbay Minerals — available for sale	—	—	—	—	—	9	—	—	—	—	—	—
Korea Nickel Corp	—	—	—	—	13	21	—	—	—	—	—	—
Skye Resources	—	—	—	—	—	—	—	(38)	—	—	—	—
Others — available for sale	—	—	—	—	9	13	—	4	9	—	—	—
					30	**53**	—	**(34)**	**9**	—	—	—
Logistic												
LOG-IN Logística Intermodal SA	31.33	31.33	374	5	125	94	2	20	8	3	3	—
MRS Logística SA	37.86	41.50	1,126	340	468	326	141	113	117	124	34	51
					593	**420**	**143**	**133**	**125**	**127**	**37**	**51**
Others												
Steel												
California Steel Industries Inc — CSI	50.00	50.00	300	(21)	150	160	(10)	11	(1)	—	13	11
THYSSENKRUPP CSA Companhia Siderúrgica[5]	26.87	26.87	7,971	(6)	2,049	443	(6)	—	—	—	—	—
Usinas Siderúrgicas de Minas Gerais SA — USIMINAS[4]	—	—	—	—	—	164	8	18	31	7	18	31
					2,199	**767**	**(8)**	**29**	**30**	**7**	**31**	**42**
Other affiliates and joint ventures												
Vale Soluções em Energia	51.00	51.00	194	—	99	42	—	—	—	—	—	—
Others	—	—	—	—	87	31	(2)	(8)	—	—	—	—
					186	**73**	**(2)**	**(8)**	—	—	—	—
Total					**4,585**	**2,408**	**433**	**794**	**595**	**386**	**513**	**394**

(1) Although Vale held a majority of the voting interest of investees accounted for under the equity method, existing veto rights held by noncontrolling shareholders under shareholder agreements preclude consolidation;

(2) Investment includes goodwill of US$62 in December 2009 and US$46 in December 2008;
(3) Acquired in March 2009 (Note 5 (d));
(4) Classified as available-for-sale until investment was sold in April 2009. Equity refers to dividends received;
(5) See Note 5 (d).

14 IMPAIRMENT OF GOODWILL AND LONG-LIVED ASSETS

As described in note 3(g), we test goodwill and long-lived assets for impairment when events or changes in circumstances indicate that they might be impaired. For impairment test purposes goodwill is allocated to reporting units, and are tested at least annually.

No impairment charges were recognized in 2009 as a result of the annual goodwill impairment tests performed. In 2008, an impairment charge, related to nickel operations was recorded in operating results in the amount of US$950.

Management determined cash flows based on approved financial budgets. Gross margin projections were based on past performance and management's expectations of market developments. Information about sales prices are consistent with the forecasts included in industry reports, considering quoted prices when available and when appropriate. The discount rates used reflect specific risks relating to the relevant assets in each reporting unit, depending on their composition and location.

Recognition of additional goodwill impairment charges in the future would depend on several estimates including market conditions, recent actual results and management's forecasts. This information shall be obtained at the time when our assessment is to be updated. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

There were no goodwill movements in 2009, expect for the cumulative translation adjustments.

15 SHORT-TERM DEBT

Short-term borrowings outstanding on December 31, 2009 are from commercial banks for export financing denominated in US dollars, with average annual interest rates of 2.02%.

16 LONG-TERM DEBT

	Current liabilities		Long-term liabilities	
	2009	2008	2009	2008
Foreign debt				
Loans and financing denominated in the following currencies:				
US dollars	1,543	210	4,332	5,905
Others	29	23	411	167
Fixed Rate Notes — US dollar denominated	—	—	8,481	6,510
Debt securities — export sales(*) — US dollar denominated	150	55	—	149
Perpetual notes	—	—	78	83
Accrued charges	198	217	—	—
	1,920	505	13,302	12,814
Brazilian debt				
Brazilian Reais indexed to Long-term Interest Rate — TJLP/CDI and General Price Index-Market (IGPM)	62	33	3,433	1,990
Basket of currencies	1	1	3	4
Non-convertible debentures	861	—	2,592	2,562
US dollars denominated	—	—	568	165
Accrued charges	89	94	—	—
	1,013	128	6,596	4,721
Total	2,933	633	19,898	17,535

(*) Secured by receivables from future export sales. Redeemed in January, 2010.

The long-term portion at December 31, 2009 falls due as follows:

2011	2,623
2012	1,209
2013	3,250
2014	925
2015 and thereafter	11,518
No due date (Perpetual notes and non-convertible debentures)	373
	19,898

At December 31, 2009 annual interest rates on long-term debt were as follows:

Up to 3%	6,696
5.1% to 7%	8,148
7.1% to 9%	5,735
9.1% to 11%	978
Over 11%(*)	1,192
Variable (Perpetual notes)	82
	22,831

(*) Includes non-convertible debentures and other Brazilian Real denominated debt that bear interest at the Brazilian Interbank Certificate of Deposit (CDI) and Brazilian Government Long-term Interest Rates (TJLP) plus a spread. For these operations we have entered into derivative transactions to mitigate our exposure to the floating rate debt denominated in Brazilian Real, totaling US$6,675 of which US$3,949 has original interest rate between 7.1% and 9% per year the remaining amount has original interest rate above 9% per year. The average cost after taking into account the derivative transactions is 4.47% per year.

Vale has non-convertible debentures in Brazilian Reais as follows:

Non-Convertible Debentures	Quantity as of December 31, 2009 Issued	Outstanding	Maturity	Interest	Balance 2009	2008
1st Series	150,000	150,000	November 20, 2010	101.75% CDI	869	651
2nd Series	400,000	400,000	November 20, 2013	100% CDI + 0.25%	2,318	1,736
Tranche 'B'	5	5	No due date	6.5% p.a + IGP-DI	295	209
					3,482	2,596
Short-term portion					861	—
Long-term portion					2,592	2,562
Accrued charges					29	34
					3,482	2,596

The indexation indices/ rates applied to our debt were as follows (unaudited):

	Year ended December 31, 2009	2008
TJLP — Long-Term Interest Rate (effective rate)	6.2	6.3
IGP-M — General Price Index — Market	(1.7)	9.8
Appreciation (devaluation) of Real against US dollar	34.2	(24.2)

In November, 2009, Vale issued US$1 billion of 30-year notes through its wholly-owned subsidiary Vale Overseas, fully and unconditionally guaranteed by Vale. These notes will mature in November 2039 and will bear a coupon of 6.875% per year, payable semi-annually, at a price of 98.564% of the principal amount.

In September, 2009, Vale issued US$1 billion of 10-year notes through its wholly-owned subsidiary Vale Overseas, fully and unconditionally guaranteed by Vale. These notes will mature in September 2019 and will bear a coupon of 5.625% per year, payable semi-annually, at a price of 99.232% of the principal amount.

In January 2008 we entered into a trade finance agreement with a Brazilian bank in the amount of US$1,147 with final maturity in 2018.

Credit Lines

In November, 2009, Vale has signed a US$300 export facility agreement, through its subsidiary PT International Nickel Indonesia Tbk (PTI), with Japanese financial institutions using credit insurance provided by Nippon Export and Investment Insurance — NEXI, to finance the construction of the Karebbe hydroelectric power plant on the Larona river, island of Sulawesi, Indonesia. Through December 31, 2009, PT International had drawn down US$150 this facility.

During 2008, we entered into agreements with Banco Nacional de Desenvolvimento Econômico e Social — BNDES, (the Brazilian National Development Bank) in the amount of US$4 billion and with Japanese financing agencies in the amount of US$5 billion, of which US$3 billion with Japan Bank for International Cooperation — JBIC and US$2 billion with Nippon Export and Investment Insurance — NEXI related to future lines of credit to finance mining, logistics and power generation projects as part of our investment program for 2008-2012. Through December 31, 2009, Vale had drawn down US$892 of the committed credit facility with BNDES.

Additionally, we have revolving credit lines available under which amounts can be drawn down and repaid at the option of the borrower. At December 31, 2009, the total amount available under revolving credit lines was US$1,900, of which US$1,150 was granted to Vale International and the balance to Vale Inco. As of December 31, 2009, neither Vale International nor Vale Inco had drawn any amounts under these facilities, but US$115 of letters of credit were issued and remained outstanding pursuant to Vale Inco's facility.

Guarantee

On December 31, 2009, US$753 (December 31, 2008 — US$556) of the total aggregate outstanding debt were secured, being US$152 (December 31, 2008 — US$204) guaranteed by receivables from future export sales of CVRD Overseas Ltd., US$34 (December 31, 2008 — US$57) guaranteed by the Brazilian Federal Government and US$567 (December 31, 2008 — US$295) guaranteed by other receivables. The remaining outstanding debt in the amount of US$22,078 (December 31, 2008 — US$17,612) was unsecured.

Our principal covenants require us to maintain certain ratios, such as debt to EBITDA and interest coverage. We have not identified any events of default as of December 31, 2009.

17 STOCKHOLDERS' EQUITY

Each holder of common and preferred class A stock is entitled to one vote for each share on all matters brought before stockholders' meetings, except for the election of the Board of Directors, which is restricted to the holders of common stock. The Brazilian Government holds twelve preferred special shares which confer permanent veto rights over certain matters.

Both common and preferred stockholders are entitled to receive a mandatory minimum dividend of 25% of annual adjusted net income under Brazilian GAAP, once declared at the annual stockholders' meeting. In the case of preferred stockholders, this dividend cannot be less than 6% of the preferred capital as stated in the statutory accounting records or, if greater, 3% of the Brazilian GAAP equity value per share.

In October 2009 the Board of Directors approved the payment of the second tranche of the minimum dividend, and an amount of additional dividends to be distributed, totaling US$1, 500, corresponding to US$0.28775711 per common or preferred share in circulation.

In April 2009, we paid US$1,250 as a first installment of the dividend to stockholders. The distribution was made in the form of dividends.

In July 2008, we issued 80,079,223 common ADS, 176,847,543 common shares, 63,506,751 preferred ADS and 100,896,048 preferred shares through a global equity offering. Our capital increased by US$11,666, upon subscription of preferred stock of US$4,146 corresponding to 164,402,799 shares and common stock of US$7,520 corresponding to 256,926,766 shares. In August 2008, we issued an additional 24,660,419 preferred shares, representing an increase of US$628. After the closing of the operation, our capital stock increased by US$12,294 in 2008; the transaction costs of US$105 were recorded as a reduction of the additional paid-in capital account.

Vale issued mandatory convertible notes, as follows:

	Date		Value		
Headings	Emission	Expiration	Gross	Net of charges	Coupon
Tranches Rio and Rio P	June/2007	June/2010	1,880	1,869	5.50% p.a.
Tranches Vale and Vale P - 2012	July/2009	June/2012	942	934	6.75% p.a.

The notes pay a coupon quarterly and are entitled to an additional remuneration equivalent to the cash distribution paid to ADS holders. These notes were classified as a capital instrument, mainly due to the fact that neither the Company nor the holders have the option to settle the operation, whether fully or partially, with cash, and the conversion is mandatory; consequently, they were recognized as a specific component of shareholders' equity, net of financial charges.

The funds linked to future mandatory conversion, net of charges are equivalent to the maximum of common shares and preferred shares, as follows. All the shares are currently held in treasury.

	Maximum amount of action		Value	
Headings	**Common**	**Preferred**	**Common**	**Preferred**
Tranches Rio and Rio P	56,582,040	30,295,456	1,296	584
Tranches Vale and Vale P - 2012	18,415,859	47,284,800	293	649

On October 30, 2009, we paid additional interest to holders of the mandatorily convertible notes of series RIO and series RIO P, equal to the US dollar equivalent of R$0.857161 and R$1.017334 per notes, respectively, and to the holders of the mandatorily convertible notes of series VALE-2012 and VALE.P-2012, equal to the US dollar equivalent of R$1.236080 and R$1.429662 per notes, respectively.

In April 2009 we paid to holders of the mandatorily convertible notes of series RIO and series RIO P, the US dollar equivalent of US$0.490922 and US$0.582658, respectively.

Brazilian law permits the payment of cash dividends only from retained earnings as stated in BR GAAP statutory records and such payments are made in Brazilian Reais. Pursuant to the Company's statutory books, undistributed retained earnings at December 31, 2009, totaled US$26,150, comprising the unrealized income and expansion reserves, which could be freely transferred to retained earnings and paid as dividends, if approved by the stockholders, after deducting the minimum annual mandatory dividend.

No withholding tax is payable on distribution of profits earned except for distributions in the form of interest attributed to stockholders' equity (Note 3 (p)).

Brazilian laws and our bylaws require that certain appropriations be made from retained earnings to reserve accounts on an annual basis, all determined in accordance with amounts stated in the statutory accounting records, as detailed below:

	Year ended December 31,		
	2009	**2008**	**2007**
Undistributed retained earnings			
Unrealized income reserve			
Beginning of the period	45	73	57
Transfer from (to) retained earnings	(6)	(28)	16
End of the period	**39**	**45**	**73**
Expansion reserve			
Beginning of the period	16,809	13,881	8,485
Transfer to capital stock	—	—	(3,776)
Transfer from (to) retained earnings	9,302	2,928	9,172
End of the period	**26,111**	**16,809**	**13,881**
Legal reserve			
Beginning of the period	1,448	1,310	970
Transfer to capital stock	—	—	(370)
Transfer from (to) retained earnings	790	138	710
End of the period	**2,238**	**1,448**	**1,310**
Fiscal incentive investment reserve			
Beginning of the period	38	53	43
Transfer to capital stock	—	—	(41)
Transfer from (to) retained earnings	82	(15)	51
End of the period	**120**	**38**	**53**
Total undistributed retained earnings	**28,508**	**18,340**	**15,317**

The purpose and basis of appropriation to such reserves is described below:

Unrealized income reserve — this represents principally our share of the earnings of affiliates and joint ventures, not yet received in the form of cash dividends.

Expansion reserve — this is a general reserve for expansion of our activities.

Legal reserve — this reserve is a requirement for all Brazilian corporations and represents the appropriation of 5% of annual net income up to a limit of 20% of capital stock all determined under Brazilian GAAP.

Fiscal incentive investment reserve — this reserve results from an option to designate a portion of income tax otherwise payable for investment in government approved projects and is recorded in the year following that in which the taxable income was earned. As from 2000, this reserve basically contemplates income tax incentives (Note 6).

Basic and diluted earnings per share

Basic and diluted earnings per share amounts have been calculated as follows:

	Year ended December 31,		
	2009	**2008**	**2007**
Net income attributable to Company's stockholders	**5,349**	**13,218**	**11,825**
Interest attributed to preferred convertible notes	(58)	(46)	(16)
Interest attributed to common convertible notes	(93)	(96)	(37)
Net income for the period adjusted	**5,198**	**13,076**	**11,772**
Basic and diluted earnings per share			
Income available to preferred stockholders	1,967	5,027	4,552
Income available to common stockholders	3,083	7,823	7,092
Income available to convertible notes linked to preferred shares	75	78	45
Income available to convertible notes linked to common shares	73	148	83
Weighted average number of shares outstanding (thousands of shares) — preferred shares	2,030,700	1,946,454	1,889,171
Weighted average number of shares outstanding (thousands of shares) — common shares	3,181,706	3,028,817	2,943,216
Treasury preferred shares linked to mandatorily convertible notes	77,580	30,295	18,478
Treasury common shares linked to mandatorily convertible notes	74,998	56,582	34,510
Total	**5,364,984**	**5,062,148**	**4,885,375**
Earnings per preferred share	0.97	2.58	2.41
Earnings per common share	0.97	2.58	2.41
Earnings per convertible notes linked to preferred share(*)	1.71	4.09	3.30
Earnings per convertible notes linked to common share(*)	2.21	4.29	3.51

(*) Basic earnings per share only, as dilution assumes conversion

If the conversion of the convertible notes had been included in the calculation of diluted earnings per share they would have generated the following dilutive effect as shown below:

	Year ended December 31,		
	2009	**2008**	**2007**
Income available to preferred stockholders	2,100	5,151	4,613
Income available to common stockholders	3,249	8,067	7,212
Weighted average number of shares outstanding (thousands of shares) — preferred shares	2,108,280	1,976,749	1,907,649
Weighted average number of shares outstanding (thousands of shares) — common shares	3,256,704	3,085,399	2,977,726
Earnings per preferred share	1.00	2.61	2.42
Earnings per common share	1.00	2.61	2.42

18 PENSION PLANS

Since 1973 we sponsor a supplementary social security plan with characteristics of a defined benefit plan (the "Old Plan") covering substantially all Brazilian employees, with benefits calculated based on years of service, age, contribution salary and supplementary social security benefits. This plan is administered by Fundação Vale do Rio Doce de Seguridade Social — VALIA ("Valia") and was funded by monthly contributions made by us and our employees, calculated based on periodic actuarial appraisals.

In May 2000, we implemented a new supplementary social security plan with characteristics of defined contribution, which complements the earnings of programmed retirements. The plan offers benefits to cover death, physical invalidity, and sickness, with defined benefit characteristics. Brazilian employees could opt to migrate to the "New Plan" (a Benefit Mix Plan — Vale Mais) which was taken up by over 98% of our employees. The Old Plan will continue in existence, covering almost exclusively retired participants and their beneficiaries.

Additionally we provide supplementary payments to a specific group of former Brazilian employees, in addition to the regular benefits from Valia. The plan provides postretirement health care, dental and pharmaceutical benefits.

Upon the acquisition of Inco, we assumed benefits through defined benefit pension plans that cover essentially all its employees and post retirement benefits other than pensions that also provide certain health care and life insurance benefits for retired employees.

The following information details the status of the defined benefit elements of all plans in accordance with "employers' disclosure about pensions and other post retirement benefits" and "employers' accounting for defined benefit pension and other postretirement plans", as amended.

We use a measurement date of December 31 for our pension and post retirement benefit plans.

a) Change in Benefit Obligation

	As of December 31					
	2009			2008		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Benefit obligation at beginning of year	2,424	3,031	1,069	3,178	4,436	1,671
Service cost	11	43	17	11	60	25
Interest cost	313	249	88	309	245	85
Plan amendment	—	—	—	—	16	—
Benefits paid	(226)	(279)	(65)	(283)	(291)	(70)
Effect of exchange rate changes	843	555	187	(779)	(775)	(272)
Actuarial loss (gain)	296	324	135	(12)	(660)	(370)
Benefit obligation at end of year	**3,661**	**3,923**	**1,431**	**2,424**	**3,031**	**1,069**

b) Change in Plan Assets

	As of December 31					
	2009			2008		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Fair value of plan assets at beginning of year	3,043	2,507	9	4,187	3,762	10
Actual return on plan assets	1,121	402	1	57	(603)	1
Employer contributions	40	155	65	41	272	70
Benefits paid	(226)	(279)	(65)	(283)	(291)	(70)
Effect of exchange rate changes	1,018	444	1	(959)	(633)	(2)
Fair value of plan assets at end of year	**4,996**	**3,229**	**11**	**3,043**	**2,507**	**9**

Plan assets at December 31, 2009 included US$587 (US$188 at December 31, 2008) and US$69 (US$53 at December 31, 2008) of portfolio investments in our own shares and debentures, respectively, and US$64 (US$44 at December 31, 2008) of shares of related parties. They also included US$3,261 of Brazilian Federal Government securities (US$2,472 at December 31, 2008) and US$391 of Canada Federal Government securities (US$347 at December 31, 2008).

c) Funded Status and Financial Position

	As of December 31					
	2009			2008		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Other assets	1,335	—	—	619	—	3
Current liabilities	—	62	82	—	38	64
Non-current liabilities	—	632	1,338	—	486	999
Funded status	**1,335**	**694**	**1,420**	**619**	**524**	**1,060**

d) Assumptions Used (Nominal Terms)

	Brazil As of December 31					
	2009			2008		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Discount rate	11.08% p.a.	11.08% p.a.	11.08% p.a.	11.28% p.a.	11.28% p.a.	11.28% p.a.
Expected return on plan assets	12.00% p.a.	11.50% p.a.	—	12.22% p.a.	13.00% p.a.	—
Rate of compensation increase — up to 47 years	7.64% p.a.	7.64% p.a.	—	7.12% p.a.	—	—
Rate of compensation increase — over 47 years	4.50% p.a.	4.50% p.a.	—	4.00% p.a.	—	—
Inflation	4.50% p.a.	4.50% p.a.	4.50% p.a.	4.00% p.a.	4.00% p.a.	4.00% p.a.
Health care cost trend rate	—	—	7.63% p.a.	—	—	7.12% p.a.

	Foreign As of December 31			
	2009		2008	
	Underfunded pension plans	Underfunded other benefits	Underfunded pension plans	Underfunded other benefits
Discount rate	6.21% p.a.	6.20% p.a.	5.58% p.a.	7.32% p.a.
Expected return on plan assets	7.00% p.a.	6.23% p.a.	6.99% p.a.	7.35% p.a.
Rate of compensation increase — up to 47 years	4.11% p.a.	3.58% p.a.	4.12% p.a.	3.58% p.a.
Rate of compensation increase — over 47 years	4.11% p.a.	3.58% p.a.	4.12% p.a.	3.58% p.a.
Inflation	2.00% p.a.	2.00% p.a.	2.00% p.a.	2.00% p.a.
Health care cost trend rate	—	6.04% p.a.	—	6.19% p.a.

Expected returns for all plans' assets are generated within the framework of a long term macroeconomic scenario provided by Tendencias Consultoria and an ALM — Asset Liability Modelling study prepared by Mercer Consulting.

e) Pension Costs

	As of December 31					
	2009			2008		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Service cost — benefits earned during the year	11	43	17	11	60	25
Interest cost on projected benefit obligation	313	255	88	309	245	85
Expected return on assets	(431)	(202)	(1)	(515)	(253)	(5)
Amortizations and (gain)/loss	14	3	(19)	15	—	—
Net deferral	—	14	(14)	(5)	11	(2)
Net periodic pension cost (credit)	**(93)**	**113**	**71**	**(185)**	**63**	**103**

f) Accumulated Benefit Obligation

	2009			2008		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Accumulated benefit obligation	3,645	3,826	1,431	2,415	2,955	1,069
Projected benefit obligation	3,661	3,923	1,431	2,424	3,031	1,069
Fair value of plan assets	(4,996)	(3,229)	(11)	(3,043)	(2,507)	(9)

g) Impact of 1% Variation in Assumed Health Care Cost Trend Rate

	1% increase		1% decrease	
	2009	2008	2009	2008
	Overfunded pension plans	Underfunded pension plans	Overfunded pension plans	Underfunded pension plans
Accumulated postretirement benefit obligation (APBO)	199	134	(163)	(110)
Interest and service costs	18	18	(14)	(14)

h) Other Cumulative Comprehensive Income (Deficit)

	As of December 31					
	2009			2008		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Net transition (obligation)/asset	2	—	—	(16)	—	—
Net actuarial (loss)/gain	79	(338)	301	(240)	(206)	402
Effect of exchange rate changes	(91)	(7)	(4)	(18)	10	3
Deferred income tax	3	111	(94)	94	83	(146)
Amounts recognized in other cumulative comprehensive income (deficit)	**(7)**	**(234)**	**203**	**(180)**	**(113)**	**259**

i) Change in Other Cumulative Comprehensive Income (Deficit)

	As of December 31					
	2009			2008		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Net transition (obligation)/asset not yet recognized in NPPC at beginning of the year	(12)	—	—	(31)	—	—
Net actuarial (loss)/gain not yet recognized in NPPC at beginning of the year	(261)	(196)	406	94	(41)	95
Deferred income tax at beginning of the year	93	83	(147)	(21)	14	(35)
Effect of initial recognition of cumulative comprehensive Income (deficit)	**(180)**	**(113)**	**259**	**42**	**(27)**	**60**
Amortization of net transition (obligation)/asset	14	—	—	15	—	—
Amortization of net actuarial (loss)/gain	—	5	(19)	(6)	—	—
Total net actuarial (loss)/gain arising during the year	340	(112)	(142)	(328)	(165)	307
Effect of exchange rate changes	(91)	(42)	52	(18)	10	3
Deferred income tax	(90)	28	53	115	69	(111)
Total recognized in other cumulative comprehensive income (deficit)	**(7)**	**(234)**	**203**	**(180)**	**(113)**	**259**

j) Plan Assets

Brazilian Plans

The Investment Policy Statements of pension plans sponsored for Brazilian employees are based on a long term macroeconomic scenario and expected returns built by Tendências Consultoria and an ALM — Asset Liability Modeling study prepared by Mercer Consulting. An Investment Policy Statement was established for each obligation by following results of this strategic asset allocation study (ALM) in 2009.

Plans asset allocations comply with pension funds local regulation issued by CMN — Conselho Monetário Nacional (Resolução CMN 3792/09). We are allowed to invest in six different asset classes, defined as segments by the law, as follows: Fixed Income, Equity, Structured Investments (Alternative Investments and Infra-Structure Projects), International Investments, Real Estate and Loans to Participants.

The Investment Policy Statements are approved by the Board, the Executive Directors and two Investments Committees. The internal and external portfolio managers are allowed to exercise the investment discretion under the limitations imposed by the Board and the Investment Committees.

The pension fund has a risk management process with established policies that intend to identify measure and control all kinds of risks faced by our plans, such as: market, liquidity, credit, operational, systemic and legal.

Foreign plans

The strategy for each of the pension plans sponsored by Vale Inco is based upon a combination of local practices and the specific characteristics of the pension plans in each country, including the structure of the liabilities, the risk versus reward trade-off between different asset classes and the liquidity required to meet benefit payments.

Overfunded pension plans

Brazilian Plans

The Defined Benefit Plan (the "Old Plan") has the majority of its assets allocated in fixed income, mainly in Brazilian government bonds (like TIPS) and corporate long term inflation linked bonds with the objective to reduce the asset-liability volatility. The target is 55% of the total assets. This LDI (Liability Driven Investments) strategy, when considered together with Loans to Participants segment, aims to hedge plan's liabilities against inflation risk and volatility. Other segments or asset classes have their targets, as follows: Equity — 28%; Structured Investments — 5%; International Investments — 2%; Real estate — 6% and Loans to Participants — 4%. Structured Investments segment has invested only in Private Equity Funds in an amount of US$87 and US$67 at the end of December 31, 2009 and 2008, respectively.

The Investment Policy has the objective to achieve the adequate diversification, current income and long term capital growth through the combination of all asset classes described above to fulfill its obligations with the adequate level of risk. This plan has an average nominal return of 21.3% p.a. in dollars terms in the last 10 years.

The Vale Mais Plan (the "New Plan") has obligations with characteristics of defined benefit and defined contribution plans, as mentioned. The majority of its investments is in fixed income. It was also implemented a LDI (Liability Driven Investments) strategy to reduce asset-liability volatility of the defined benefits plan's component by using inflation linked bonds (like TIPS). The target allocation is 60% in fixed income. Other segments or asset classes have their targets, as follows: Equity — 24%; Structured Investments — 2%; International Investments — 2%; Real estate — 3% and Loans to Participants — 10%. Structured Investments segment has invested only in Private Equity Funds in an amount of US$10 and US$5 at the end of December 31, 2009 and 2008, respectively.

The Defined Contribution Vale Mais component offers three options of asset classes mix that can be chosen by participants. The options are: Fixed Income — 100%; 80% Fixed Income and 20% Equities and 65% Fixed Income and 35% Equities. Equity option is an indexed- fund that has the Bovespa Index as a benchmark.

The Investment Policy Statement has the objective to achieve the adequate diversification, current income and long term capital growth through the combination of all asset classes described above to fulfill its obligations and targets with the adequate level of risk. This plan has an average nominal return of 20% p.a. in dollars terms in the last 10 years.

- Fair value measurements by category — Overfunded Plans

	As of December 31							
	2009				2008			
Asset by category	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	1	1	—	—	1	1	—	—
Accounts Receivable	16	16	—	—	—	—	—	—
Equity securities – liquid	1,303	1,303	—	—	461	461	—	—
Equity securities – non-liquid	64	—	64	—	120	—	120	—
Debt securities – Corporate bonds	143	—	143	—	151	—	151	—
Debt securities – Financial Institutions	226	—	226	—	147	—	147	—
Debt securities — Government bonds	1,744	1,744	—	—	1,109	1,109	—	—
Investment funds – Fixed Income	2,037	2,037	—	—	1,361	1,361	—	—
Investment funds – Equity	577	577	—	—	220	220	—	—
Investment funds – Private Equity	97	—	—	97	71	—	—	71
Real estate	249	—	—	249	156	—	—	156
Loans to Participants	282	—	—	282	229	—	—	229
Total	**6,739**	**5,678**	**433**	**628**	**4,026**	**3,152**	**418**	**456**
Funds not related to risk plans	(1,743)				(983)			
Fair value of plan assets at end of year	**4,996**				**3,043**			

- Fair value measurements using significant unobservable inputs — Level 3

	As of December 31							
	2009				2008			
	Private Equity Funds	**Real State**	**Loans to Participants**	**Total**	**Private Equity Funds**	**Real State**	**Loans to Participants**	**Total**
Beginning of the year	72	156	229	457	77	183	198	458
Actual return on plan assets	30	21	42	93	5	24	34	63
Assets sold during the year	(57)	(11)	(112)	(180)	(17)	(6)	—	(23)
Assets purchased, sales and settlements	28	29	45	102	25	—	45	70
Cumulative translations adjustment	24	54	78	156	(18)	(45)	(48)	(111)
End of the year	**97**	**249**	**282**	**628**	**72**	**156**	**229**	**457**

The return target for private equity assets in 2010 is 10.20%. The target allocation is 5%, ranging between 2% and 10%. These investments have a longer investment horizon and low liquidity that aim to profit from economic growth, especially in the infra-structure sector of the Brazilian economy. Usually non-liquid assets' fair value is established considering: acquisition cost or book value. Some private equity funds may, alternatively, apply the following methodologies: discounted cash flows analysis or analysis based on multiples.

The return target for loans to participants in 2010 is 11.90%. The fair value pricing of these assets includes provisions for non-paid loans, according to the local pension fund regulation.

The return target for real estate assets in 2010 is 9.90%. Fair value for these assets is considered book value. The pension fund hires companies specialized in real estate valuation that do not act in the market as brokers. All valuation techniques follow the local regulation.

Underfunded pension plans

Brazilian Obligation

This obligation has an exclusive allocation in fixed income. It was also used a LDI (Liability Driven Investments) strategy for this plan. Most of the resources were invested in long term government and corporate inflation linked bonds with the objective to minimize asset-liability volatility and reduce inflation risk.

The Investment Policy Statement has the objective to achieve the adequate diversification, current income and long term capital growth through the combination of all asset classes described above to fulfill its obligations with the adequate level of risk. This obligation has an average nominal return of 22.8% p.a. in dollars terms in the last 8 years.

Foreign plans

For all pension plans except PT Inco, this has resulted in a target asset allocation of 60% in equity investments and 40% in fixed income investments, with all securities being traded in the public markets. Fixed income investments are in domestic bonds for each plan's market and involve a mixture of government and corporate bonds. Equity investments are primarily global in nature and involve a mixture of large, mid and small capitalization companies with a modest explicit investment in domestic equities for each plan. The Canadian plans also use a currency hedging strategy (each developed currency's exposure is 50% hedged) due to the large exposure to foreign securities. For PT Inco, the target allocation is 20% equity investment and the remainder in fixed income, with the vast majority of these investments being made within the domestic market.

- Fair value measurements by category — Underfunded Pension Plans

	As of December 31					
	2009			2008		
Asset by category	**Total**	**Level 1**	**Level 2**	**Total**	**Level 1**	**Level 2**
Cash and cash equivalents	33	12	21	36	14	22
Equity securities – liquid	1,347	1,347	—	—	—	—
Equity securities – non-liquid	—	—	—	836	836	—
Debt securities – Corporate bonds	12	—	12	—	—	—
Debt securities – Financial Institutions	19	—	19	10	1	9
Debt securities – Government bonds	445	50	395	13	—	13
Investment funds – Fixed Income	988	287	701	391	41	350
Investment funds – Equity	409	87	322	839	179	660
Investment funds – Private Equity	—	—	—	404	62	342
Total	**3,253**	**1,783**	**1,470**	**2,529**	**1,133**	**1,396**
Funds not related to risk plans	(24)			(22)		
Fair value of plan assets at end of year	3,229			2,507		

Underfunded other benefits

- Fair value measurements by category — Other Benefits

	As of December 31			
	2009		2008	
Asset by category	**Total**	**Level 1**	**Total**	**Level 1**
Cash	11	11	9	9
Total	**11**	**11**	**9**	**9**

k) Cash flows contributions

Employer contributions expected for 2010 are US$240.

l) Estimated future benefit payments

The benefit payments, which reflect future service, are expected to be made as follows:

	As of December 31, 2009			
	Overfunded pension plans	**Underfunded pension plans**	**Underfunded other benefits**	**Total**
2010	277	311	82	670
2011	280	313	87	680
2012	282	311	91	684
2013	284	308	94	686
2014	285	302	97	684
2015 and thereafter	1,434	1,454	479	3,367

19 LONG-TERM INCENTIVE COMPENSATION PLAN

Since 2008, a long-term incentive compensation plan, was implemented.

Under the terms of the plan, the participants, restricted to certain executives, may elect to allocate part of their annual bonus to the plan. The allocation is applied to purchase preferred shares of Vale, through a predefined financial institution, at market conditions and with no benefit provided by Vale.

The shares purchased by each executive are unrestricted and may, at the participant's discretion, be sold at any time. However, the shares must be held for a three-year period and the executive must be continually employed by Vale during that period. The participant then becomes entitled to receive from Vale a cash payment equivalent to the total amount of shares held, based on their market rates. The total shares linked to the plan at December 31, 2009 and 2008, were 1,809,117 and 711,005, respectively.

Additionally, as a long-term incentive certain eligible executives have the opportunity to receive at the end of the three-year cycle a certain number of shares at market rates, based on an evaluation of their career and performance factors measured as an indicator of total return to stockholders.

We account for the compensation cost provided to our executives under this long-term incentive compensation plan, following the requirements Accounting for Stock-Based Compensation. Liabilities are measured at each reporting date at fair value, based on market rates. Compensation costs incurred are recognized, over the defined three-year vesting period. At December 31, 2009 and 2008, we recognized a liability of US$72 and US$7, respectively, through the Statement of Income.

20 COMMITMENTS AND CONTINGENCIES

a) In connection with a tax-advantaged lease financing arrangement sponsored by the French Government, we provided certain guarantees on behalf of Vale Inco New Caledônia (VINC) pursuant to which we guaranteed payments due from VINC of up to a maximum amount of US$100 ("Maximum Amount") in connection with an indemnity. We also provided an additional guarantee covering the payments due from VINC of (a) amounts exceeding the Maximum Amount in connection with the indemnity and (b) certain other amounts payable by VINC under a lease agreement covering certain assets.

During the second quarter two new bank guarantees totaling US$62 (€43) were established by us on behalf of VINC in favour of the South Province of New Caledonia in order to guarantee the performance of VINC with respect to certain environmental obligations in relation to the metallurgical plant and the Kwe West residue storage facility.

Sumic Nickel Netherlands B.V., a 21% stockholder of VINC, has a put option to sell us 25%, 50%, or 100% of the shares they own of VINC. The put option can be exercised if the defined cost of the nickel-cobalt development project exceeds a value agreed between the shareholders at project rates and an agreement cannot be reached on how to proceed with the project.

We provided a guarantee covering certain termination payments due from VINC to the supplier under an electricity supply agreement ("ESA") entered into in October 2004 for the VINC project. The amount of the termination payments guaranteed depends upon a number of factors, including whether any termination of the ESA is a result of a default by VINC and the date on which an early termination of the ESA were to occur. If VINC defaults under the ESA prior to the anticipated start date for supply of electricity to the project, the termination payment, which currently is at its maximum, would be US$209 (€145). Once the supply of electricity under the ESA to the project begins, the guaranteed amounts will decrease over the life of the ESA.

In February 2009, we and our subsidiary, Vale Inco Newfoundland and Labrador Limited ("VINL"), entered into a fourth amendment to the Voisey's Bay Development agreement with the Government of Newfoundland and Labrador, Canada, that permitted VINL to ship up to 55,000 metric tons of nickel concentrate from the Voisey's Bay area mines. As part of the agreement, VINL agreed to provide the Government of Newfoundland and Labrador financial assurance in the form of letters of credit each in the amount of Canadian US$17 (CAD$16) for each shipment of nickel concentrate shipped out of the province from January 1, 2009 to August 31, 2009. The amount of this financial assurance was Canadian US$118 (CAD$112) based on seven shipments of nickel concentrate and as of December 31, 2009, US$65 (CAD$62) remains outstanding.

As of December 31, 2009, there was an additional US$154 of letters of credit issued and outstanding as US$47 in additional bank guarantees. These are associated with environmental reclamation and other operating associated items such as insurance, electricity commitments and import and export duties.

b) We and our subsidiaries are defendants in numerous legal actions in the normal course of business. Based on the advice of our legal counsel, management believes that the amounts recognized are sufficient to cover probable losses in connection with such actions.

The provision for contingencies and the related judicial deposits are composed as follows:

	2009		2008	
	Provision for contingencies	Judicial deposits	Provision for contingencies	Judicial deposits
Labor and social security claims	657	657	458	378
Civil claims	582	307	386	242
Tax — related actions	489	175	828	518
Others	35	4	13	3
	1,763	**1,143**	**1,685**	**1,141**

Labor and social security — related actions principally comprise claims by Brazilian employees and former employees for (i) payment of time spent traveling from their residence to the work-place, (ii) additional health and safety related payments and (iii) various other matters, often in connection with disputes about the amount of indemnities paid upon dismissal and the one-third extra holiday pay.

Civil — actions principally related to claims made against us by contractors in Brazil in connection with losses alleged to have been incurred by them as a result of various past Government economic plans during which full inflation indexation of contracts was not permitted, as well, as for accidents and land appropriation disputes.

Tax — tax-related actions principally comprise challenges initiated by us, on certain taxes on revenues and uncertain tax positions. We continue to vigorously pursue our interests in all the above actions but recognize that we probably will incur some losses in the final instance, for which we have made provisions.

Judicial deposits are made by us following the court requirements, in order to be entitled to either initiate or continue a legal action. These amounts are released to us, upon receipt of a final favorable outcome from the legal action; in the case of an unfavorable outcome, the deposits are transferred to the prevailing party.

Contingencies settled during the years ended December 31, 2009, 2008 and 2007, totaled US$236, US$148 and US$331, respectively. Provisions recognized in the years ended December 31, 2009, 2008 and 2007, totaled US$294, US$213 and US$364, respectively, classified as other operating expenses.

In addition to the contingencies for which we have made provisions we are defendants in claims where in our opinion, and based on the advice of our legal counsel, the likelihood of loss is possible but not probable, in the total amount of US$4,190 at December 31, 2009, and for which no provision has been made (December 31, 2008 — US$2,476).

c) At the time of our privatization in 1997, the Company issued debentures to its then-existing stockholders, including the Brazilian Government. The terms of the debentures, were set to ensure that the pre-privatization stockholders, including the Brazilian Government would participate in possible future financial benefits that could be obtained from exploiting certain mineral resources.

A total of 388,559,056 debentures were issued at a par value of R$0.01 (one cent), whose value will be restated in accordance with the variation in the General Market Price Index (IGP-M), as set forth in the Issue Deed.

The debentures holders have the right to receive premiums, paid semiannually, equivalent to a percentage of net revenues from specific mine resources as set forth in the indenture.

In September and April 2009 we paid remuneration on these debentures of US$4 and US$3, respectively. During 2009, we paid a total of US$7.

d) We are committed under a take-or-pay agreement to purchase approximately 30,425 thousand metric tons of bauxite from Mineração Rio do Norte S.A. — MRN at a formula driven price, calculated based on the current London Metal Exchange — LME quotation for aluminum. Based on a market price of US$28.71 per metric ton as of December 31, 2009, this arrangement represented the following total commitment per metric ton as of December 31, 2009:

2010	195
2011	166
2012	169
2013	172
2014	172
	874

e) Description of Leasing Arrangements

Part of our railroad operations include leased facilities. The 30-year lease, renewable for a further 30 years, expires in August, 2026 and is classified as an operating lease. At the end of the lease term, we are required to return the concession and the lease assets. In most cases, management expects that in the normal course of business, leases will be renewed.

The following is a schedule by year of future minimum rental payments required under the railroad operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2009.

2010	80
2011	80
2012	80
2013	80
2014 thereafter	1,018
Total minimum payments required	**1,338**

The total expenses of operating leases for the years ended December 31, 2009, 2008 and 2007 was US$80, US$53 and US$62, respectively.

During 2008, we entered into operating lease agreements with our joint ventures Nibrasco, Itabrasco and Kobrasco, under which we leased four pellet plants. The lease terms are from 5 to 30 years.

The following is a schedule by year of future minimum rental payments required under the pellet plants operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2009:

2010	114
2011	114
2012	114
2013	114
2014 thereafter	1,313
Total	**1,769**

The total expenses of operating leases for the years ended December 31, 2009 and 2008 was US$114 and US$49, respectively.

f) Assets retirement obligations

We use various judgments and assumptions when measuring our asset retirement obligations.

Changes in circumstances, law or technology may affect our estimates and we periodically review the amounts accrued and adjust them as necessary. Our accruals do not reflect unasserted claims because we are currently not aware of any such issues. Also the amounts provided are not reduced by any potential recoveries under cost sharing, insurance or indemnification arrangements because such recoveries are considered uncertain.

The changes in the provisions for asset retirement obligations are as follows:

	Year ended December 31,		
	2009	**2008**	**2007**
Beginning of period	**887**	**975**	**676**
Accretion expense	75	164	84
Liabilities settled in the current period	(46)	(7)	(15)
Revisions in estimated cash flows	(23)	(47)	83
Cumulative translation adjustment	223	(198)	147
End of period	**1,116**	**887**	**975**
Current liabilities	89	48	64
Non-current liabilities	1,027	839	911
Total	**1,116**	**887**	**975**

21 OTHER EXPENSES

The line "Other operating expenses" totaled US$1,522 in 2009 (US$1,254 in 2008). The expenses of approximately US$880 related to idle capacity and stoppage of operations during the downturn period in the economy is the most significant item recorded in 2009.

22 FAIR VALUE DISCLOSURE OF FINANCIAL ASSETS AND LIABILITIES

The Financial Accounting Standards Board, through Accounting Standards Codification and Accounting Standards Updates, define fair value, set out a framework for measuring fair value, which refers to valuation concepts and practices and require certain disclosures about fair value measurements.

a) Measurements

The pronouncements define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique.

These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company utilizes techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Under this standard, those inputs used to measure the fair value are required to be classified on three levels. Based on the characteristics of the inputs used in valuation techniques the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed as follows:

Level 1 — Unadjusted quoted prices on an active, liquid and visible market for identical assets or liabilities that are accessible at the measurement date;

Level 2 — Quoted prices for identical or similar assets or liabilities on active markets, inputs other than quoted prices that are observable, either directly or indirectly, for the term of the asset or liability;

Level 3 — Assets and liabilities, which quoted prices, do not exist, or those prices or valuation techniques are supported by little or no market activity, unobservable or illiquid. At this point fair market valuation becomes highly subjective.

b) Measurements on a recurring basis

The description of the valuation methodologies used for recurring assets and liabilities measured at fair value in the Company's Consolidated Balance Sheet at December 31, 2009 and 2008 are summarized below:

- **Available-for-sale securities**

  They are securities that are not classified either as held-for-trading or as held-to-maturity for strategic reasons and have readily available market prices. We evaluate the carrying value of some of our investments in relation to publicly quoted market prices when available. When there is no market value, we use inputs other than quoted prices.

- **Derivatives**

  The market approach is used for the swaps to estimate the fair value discounting their cash flows using the interest rate of the currency they are denominated. Also for the commodities contracts, since the fair value is computed by using forward curves for each commodities.

- **Other Financial Liabilities**

  Comprise stockholder's debentures, which have their fair value measured by the market approach method, and their reference price is available on the secondary market.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis as follows:

	As of December 31, 2009			
	Carry amount	Fair value	Level 1	Level 2
Available-for-sale securities	17	17	17	—
Unrealized gain on derivatives	832	832	—	832
Other financial liabilities	(750)	(750)	—	(750)

	As of December 31, 2008			
	Carry amount	Fair value	Level 1	Level 2
Available-for-sale securities	639	639	196	443
Unrealized losses on derivatives	(539)	(539)	—	(539)
Other financial liabilities	(380)	(380)	—	(380)

c) Measurements on a non-recurring basis

The Company also has assets under certain conditions that are subject to measurement at fair value on a non-recurring basis. These assets include goodwill and intangible assets. During the year ended December 31, 2009 we have not recognized any additional impairment losses for those items.

d) Financial Instruments

Long-term debt

The valuation method used to estimate the fair value of our debt is the market approach for the contracts that are quoted on the secondary market, such as bonds and debentures. The fair value of both fixed and floating rate debt is determined by discounting future cash flows of LIBOR and Vale's bond curves (income approach).

Time deposits

The method used is the income approach, through the prices available on the active market. The fair value is close to the carrying amount due to the short-term maturities of the instruments.

Our long-term debt is reported at amortized cost, and the income of time deposits is accrued monthly according to the contract rate, however its estimated fair value measurement is disclosed as follows:

	As of December 31, 2009			
	Carry amount	Fair value	Level 1	Level 2
Time deposits	3,747	3,747	—	3,747
Long-term debt (less interests)(*)	(22,544)	(23,344)	(12,424)	(10,920)

(*) Less accrued charges US$287

	As of December 31, 2008			
	Carry amount	Fair value	Level 1	Level 2
Time deposits	2,308	2,308	—	2,308
Long-term debt (less interests)(*)	(17,857)	(16,635)	(7,833)	(8,802)

(*) Less accrued charges US$311

23 SEGMENT AND GEOGRAPHICAL INFORMATION

We adopt disclosures about segments of an enterprise and related information with respect to the information we present about our operating segments. The relevant standard requiring such disclosures introduced a "management approach" concept for reporting segment information, whereby such information is required to be reported on the basis that the chief decision-maker uses internally for evaluating segment performance and deciding how to allocate resources to segments. In line with our strategy to become a leading global player in the fertilizer business, on May 27, 2010 we acquired 58.6% of the equity capital of Fertilizantes Fosfatados S.A. — Fosfertil (Fosfertil) and the Brazilian fertilizer assets of Bunge Participações e Investimentos S.A. (BPI), currently renamed Vale Fosfatados S.A.. Considering this new segment acquisition, fertilizers, and the related reorganization that occurred the operating segments are:

Bulk Material — comprised of iron ore mining and pellet production, as well as our Brazilian Northern and Southern transportation systems, including railroads, ports and terminals, as they pertain to mining operations. Manganese mining and ferroalloys are also included in this segment.

Base Metals — comprised of the production of non-ferrous minerals, including nickel (co-products and by-products), copper and aluminum — comprised of aluminum trading activities, alumina refining and aluminum metal smelting and investments in joint ventures and affiliates engaged in bauxite mining.

Fertilizers — comprised of the three important groups of nutrients: potash, phosphates and nitrogen. This business is being formed through a combination of acquisitions and organic growth.

Logistic Services — comprised of our transportation systems as they pertain to the operation of our ships, ports and railroads for third-party cargos.

Others — comprised of our investments in joint ventures and affiliates engaged in other businesses.

Information presented to senior management with respect to the performance of each segment is generally derived directly from the accounting records maintained in accordance with accounting practices adopted in Brazil together with certain minor inter-segment allocations.

Consolidated net income and principal assets are reconciled as follows:

Results by segment — before eliminations (aggregated)

Year ended December 31, 2009

	Bulk materials	Base metals	Fertilizers	Logistic	Others	Elimination	Consolidated
RESULTS							
Gross revenues — Foreign	24,161	8,151	—	67	57	(12,152)	20,284
Gross revenues — Domestic	1,779	735	413	1,101	389	(762)	3,655
Cost and expenses	(17,880)	(7,769)	(158)	(876)	(410)	12,914	(14,179)
Research and development	(235)	(207)	(46)	(57)	(436)	—	(981)
Depreciation, depletion and amortization	(1,205)	(1,356)	(29)	(126)	(6)	—	(2,722)
Impairment of goodwill	—	—	—	—	—	—	—
Operating income	**6,620**	**(446)**	**180**	**109**	**(406)**	—	**6,057**
Financial income	2,439	12	—	8	711	(2,789)	381
Financial expenses	(2,982)	(653)	—	(17)	(695)	2,789	(1,558)
Gains (losses) on derivatives, net	1,647	(119)	—	—	—	—	1,528
Foreign exchange and monetary gains (losses), net	173	445	—	(11)	68	—	675
Gain on sale of investments	87	(108)	—	—	61	—	40
Equity in results of affiliates and joint ventures and change in provision for losses on equity investments	328	(28)	—	143	(10)	—	433
Income taxes	(2,613)	525	—	(11)	(1)	—	(2,100)
Minority interests	17	(121)	—	—	(3)	—	(107)
Net income attributable to the Company's stockholders	**5,716**	**(493)**	**180**	**221**	**(275)**	—	**5,349**
Sales classified by geographic destination:							
Foreign market							
America, except United States	466	1,368	—	4	10	(596)	1,252
United States	35	824	—	—	35	(62)	832
Europe	6,136	2,618	—	—	8	(4,726)	4,036
Middle East/Africa/Oceania	1,005	233	—	—	—	(707)	531
Japan	2,552	972	—	—	4	(1,116)	2,412
China	12,084	878	—	63	—	(4,022)	9,003
Asia, other than Japan and China	1,883	1,258	—	—	—	(923)	2,218
	24,161	**8,151**	—	**67**	**57**	**(12,152)**	**20,284**
Domestic market	1,779	735	413	1,101	389	(762)	3,655
	25,940	**8,886**	**413**	**1,168**	**446**	**(12,914)**	**23,939**

Year ended December 31, 2008

	Bulk materials	Base metals	Fertilizers	Logistic	Others	Elimination	Consolidated
RESULTS							
Gross revenues — Foreign	33,946	13,668	—	51	11	(15,842)	31,834
Gross revenues — Domestic	4,342	1,046	295	1,640	234	(882)	6,675
Cost and expenses	(24,542)	(9,658)	(128)	(1,097)	(218)	16,724	(18,919)
Research and development	(380)	(372)	(8)	(101)	(224)	—	(1,085)
Depreciation, depletion and amortization	(1,054)	(1,604)	(19)	(128)	(2)	—	(2,807)
Impairment of goodwill	—	(950)	—	—	—	—	(950)
Operating income	**12,312**	**2,130**	**140**	**365**	**(199)**	—	**14,748**
Financial income	3,048	798	—	10	1	(3,255)	602
Financial expenses	(3,515)	(1,490)	—	(15)	—	3,255	(1,765)
Gains (losses) on derivatives, net	(719)	(93)	—	—	—	—	(812)
Foreign exchange and monetary gains (losses), net	764	(265)	—	(32)	(103)	—	364
Gain on sale of investments	—	80	—	—	—	—	80
Equity in results of affiliates and joint ventures and change in provision for losses on equity investments	612	28	—	133	21	—	794
Income taxes	143	(697)	—	23	(4)	—	(535)
Minority interests	(8)	(256)	—	—	6	—	(258)
Net income attributable to the Company's stockholders	**12,637**	**235**	**140**	**484**	**(278)**	—	**13,218**
Sales classified by geographic destination:							
Foreign market							
America, except United States	1,805	2,215	—	1	—	(1,201)	2,820
United States	648	2,201	—	1	9	(392)	2,467
Europe	11,224	4,132	—	26	—	(5,933)	9,449
Middle East/Africa/Oceania	2,058	394	—	—	—	(952)	1,500
Japan	4,761	1,893	—	1	—	(1,918)	4,737
China	9,747	887	—	21	—	(3,949)	6,706
Asia, other than Japan and China	3,703	1,946	—	1	2	(1,497)	4,155
	33,946	**13,668**	—	**51**	**11**	**(15,842)**	**31,834**
Domestic market	4,342	1,046	295	1,640	234	(882)	6,675
	38,288	**14,714**	**295**	**1,691**	**245**	**(16,724)**	**38,509**

Year ended December 31, 2007

	Bulk materials	Base metals	Fertilizers	Logistic	Others	Elimination	Consolidated
RESULTS							
Gross revenues — Foreign	21,287	16,844	—	61	81	(10,437)	27,836
Gross revenues — Domestic	3,865	1,060	178	1,519	1	(1,344)	5,279
Cost and expenses	(17,111)	(10,505)	(103)	(983)	(81)	11,781	(17,002)
Research and development	(193)	(314)	(15)	(39)	(172)	—	(733)
Depreciation, depletion and amortization	(928)	(1,126)	(23)	(103)	(6)	—	(2,186)
Impairment of goodwill	—	—	—	—	—	—	—
Operating income	**6,920**	**5,959**	**37**	**455**	**(177)**	—	**13,194**
Financial income	2,514	595	—	9	25	(2,848)	295
Financial expenses	(4,020)	(1,318)	—	(17)	(2)	2,848	(2,509)
Gains (losses) on derivatives, net	854	63	—	—	—	—	917
Foreign exchange and monetary gains (losses), net	2,297	274	—	(15)	3	—	2,559
Gain on sale of investments	—	81	—	237	459	—	777
Equity in results of affiliates and joint ventures and change in provision for losses on equity investments	347	93	—	125	30	—	595
Income taxes	(1,947)	(1,236)	—	(16)	(2)	—	(3,201)
Minority interests	(31)	(770)	—	(1)	—	—	(802)
Net income attributable to the Company's stockholders	**6,934**	**3,741**	**37**	**777**	**336**	—	**11,825**
Sales classified by geographic destination:							
Foreign market							
America, except United States	1,449	2,405	—	23	—	(1,026)	2,851
United States	432	2,770	—	—	81	(318)	2,965
Europe	6,823	4,195	—	33	—	(3,716)	7,335
Middle East/Africa/Oceania	988	538	—	—	—	(412)	1,114
Japan	2,131	2,625	—	—	—	(929)	3,827
China	7,570	1,457	—	4	—	(3,168)	5,863
Asia, other than Japan and China	1,894	2,854	—	1	—	(868)	3,881
	21,287	**16,844**	—	**61**	**81**	**(10,437)**	**27,836**
Domestic market	3,865	1,060	178	1,519	1	(1,344)	5,279
	25,152	**17,904**	**178**	**1,580**	**82**	**(11,781)**	**33,115**

Operating segment — after eliminations (disaggregated)

	As of and for the year ended December 31, 2009											
	Revenue											
	Foreign	Domestic	Total	Value added tax	Net revenues	Cost and expenses	Operating profit	Depreciation, depletion and amortization	Operating income	Property, plant and equipment, net and intangible assets	Addition to property, plant and equipment and intangible	Investments
Bulk Materials												
Iron ore	11,797	1,034	12,831	(172)	12,659	(4,957)	7,702	(1,043)	6,659	21,736	3,361	74
Pellets	1,015	337	1,352	(92)	1,260	(1,165)	95	(76)	19	947	84	1,037
Manganese	118	27	145	(2)	143	(103)	40	(9)	31	25	4	—
Ferroalloys	190	182	372	(45)	327	(278)	49	(15)	34	261	112	—
Coal	505	—	505	—	505	(549)	(44)	(61)	(105)	1,723	362	243
Pig iron	45	—	45	—	45	(63)	(18)	—	(18)	144	48	—
	13,670	**1,580**	**15,250**	**(311)**	**14,939**	**(7,115)**	**7,824**	**(1,204)**	**6,620**	**24,836**	**3,971**	**1,354**
Base Metals												
Nickel and other products(*)	3,937	10	3,947	—	3,947	(3,292)	655	(1,016)	(361)	24,206	1,464	30
Kaolin	138	35	173	(9)	164	(146)	18	(34)	(16)	190	53	—
Copper concentrate	597	85	682	(19)	663	(462)	201	(72)	129	4,127	558	80
Aluminum products	1,869	181	2,050	(37)	2,013	(1,969)	44	(235)	(191)	4,663	143	143
	6,541	**311**	**6,852**	**(65)**	**6,787**	**(5,869)**	**918**	**(1,357)**	**(439)**	**33,186**	**2,218**	**253**
Fertilizers												
Potash	—	413	413	(17)	396	(187)	209	(29)	180	159	—	—
	—	**413**	**413**	**(17)**	**396**	**(187)**	**209**	**(29)**	**180**	**159**	—	—
Logistics												
Railroads	—	838	838	(137)	701	(539)	162	(97)	65	1,979	96	468
Ports	—	264	264	(38)	226	(161)	65	(29)	36	1,441	106	—
Ships	2	—	2	—	2	(9)	(7)	—	(7)	1,104	738	125
	2	**1,102**	**1,104**	**(175)**	**929**	**(709)**	**220**	**(126)**	**94**	**4,524**	**940**	**593**
Others	71	249	320	(60)	260	(652)	(392)	(6)	(398)	6,105	967	2,385
	20,284	**3,655**	**23,939**	**(628)**	**23,311**	**(14,532)**	**8,779**	**(2,722)**	**6,057**	**68,810**	**8,096**	**4,585**

(*) Includes nickel co-products and by-products (copper, precious metals, cobalt and others).

Operating segment — after eliminations (disaggregated)

	As of and for the year ended December 31, 2008												
	Revenue			Value added tax	Net revenues	Cost and expenses	Operating profit	Depreciation, depletion and amortization	Impairment of goodwill	Operating income	Property, plant and equipment, net and intangible assets	Addition to property, plant and equipment and intangible	Investments
	Foreign	Domestic	Total										
Bulk Materials													
Iron ore	15,102	2,673	17,775	(364)	17,411	(6,547)	10,864	(876)	—	9,988	14,595	3,645	47
Pellets	3,481	820	4,301	(189)	4,112	(2,394)	1,718	(112)	—	1,606	645	127	721
Manganese	221	45	266	(15)	251	(77)	174	(5)	—	169	18	3	—
Ferroalloys	704	507	1,211	(128)	1,083	(457)	626	(22)	—	604	166	32	—
Coal	577	—	577	—	577	(441)	136	(33)	—	103	826	144	187
Pig iron	146	—	146	—	146	(67)	79	(3)	—	76	144	122	—
	20,231	**4,045**	**24,276**	**(696)**	**23,580**	**(9,983)**	**13,597**	**(1,051)**	**—**	**12,546**	**16,394**	**4,073**	**955**
Base Metals													
Nickel and other products(*)	7,785	44	7,829	—	7,829	(4,425)	3,404	(1,323)	(950)	1,131	21,729	2,813	53
Kaolin	167	42	209	(9)	200	(213)	(13)	(32)	—	(45)	199	6	—
Copper concentrate	787	106	893	(22)	871	(683)	188	(77)	—	111	3,543	283	—
Aluminum products	2,681	361	3,042	(66)	2,976	(2,288)	688	(172)	—	516	3,831	440	140
	11,420	**553**	**11,973**	**(97)**	**11,876**	**(7,609)**	**4,267**	**(1,604)**	**(950)**	**1,713**	**29,302**	**3,542**	**193**
Fertilizers													
Potash	—	295	295	(16)	279	(120)	159	(19)	—	140	159	43	—
	—	**295**	**295**	**(16)**	**279**	**(120)**	**159**	**(19)**	**—**	**140**	**159**	**43**	**—**
Logistics													
Railroads	—	1,303	1,303	(205)	1,098	(749)	349	(103)	—	246	1,431	121	326
Ports	11	293	304	(39)	265	(198)	67	(26)	—	41	1,441	242	—
Ships	—	—	—	—	—	—	—	—	—	—	374	343	94
	11	**1,596**	**1,607**	**(244)**	**1,363**	**(947)**	**416**	**(129)**	**—**	**287**	**3,246**	**706**	**420**
Others	172	186	358	(30)	328	(262)	66	(4)	—	62	228	608	840
	31,834	**6,675**	**38,509**	**(1,083)**	**37,426**	**(18,921)**	**18,505**	**(2,807)**	**(950)**	**14,748**	**49,329**	**8,972**	**2,408**

(*) Includes nickel co-products and by-products (copper, precious metals, cobalt and others).

Operating segment — after eliminations (disaggregated)

As of and for the year ended December 31, 2007

	Revenue											
	Foreign	Domestic	Total	Value added tax	Net revenues	Cost and expenses	Operating profit	Depreciation, depletion and amortization	Operating income	Property, plant and equipment, net and intangible assets	Addition to property, plant and equipment and intangible	Investments
Bulk Materials												
Iron ore	9,873	2,035	11,908	(286)	11,622	(4,520)	7,102	(777)	6,325	17,031	2,496	60
Pellets	2,151	587	2,738	(132)	2,606	(1,860)	746	(87)	659	754	92	741
Manganese	48	21	69	(5)	64	(66)	(2)	(7)	(9)	79	2	—
Ferroalloys	445	274	719	(70)	649	(442)	207	(25)	182	168	22	—
Coal	161	—	161	—	161	(247)	(86)	(11)	(97)	911	90	138
Pig iron	81	—	81	—	81	(57)	24	(5)	19	198	34	—
	12,759	**2,917**	**15,676**	**(493)**	**15,183**	**(7,192)**	**7,991**	**(912)**	**7,079**	**19,141**	**2,736**	**939**
Base Metals												
Nickel and other products(*)	11,664	125	11,789	—	11,789	(6,077)	5,712	(927)	4,785	23,668	2,088	299
Kaolin	202	36	238	(9)	229	(228)	1	(33)	(32)	295	33	—
Copper concentrate	663	139	802	(30)	772	(456)	316	(64)	252	1,841	197	—
Aluminum products	2,418	304	2,722	(66)	2,656	(1,717)	939	(111)	828	4,448	856	184
	14,947	**604**	**15,551**	**(105)**	**15,446**	**(8,478)**	**6,968**	**(1,135)**	**5,833**	**30,252**	**3,174**	**483**
Fertilizers												
Potash	—	178	178	(10)	168	(108)	60	(23)	37	218	19	—
	—	**178**	**178**	**(10)**	**168**	**(108)**	**60**	**(23)**	**37**	**218**	**19**	—
Logistics												
Railroads	—	1,220	1,220	(199)	1,021	(636)	385	(88)	297	1,735	491	342
Ports	13	254	267	(46)	221	(177)	44	(22)	22	1,371	102	—
Ships	17	21	38	(3)	35	(44)	(9)	(3)	(12)	36	12	107
	30	**1,495**	**1,525**	**(248)**	**1,277**	**(857)**	**420**	**(113)**	**307**	**3,142**	**605**	**449**
Others	100	85	185	(17)	168	(227)	(59)	(3)	(62)	1,872	117	1,051
	27,836	**5,279**	**33,115**	**(873)**	**32,242**	**(16,862)**	**15,380**	**(2,186)**	**13,194**	**54,625**	**6,651**	**2,922**

(*) Includes nickel co-products and by-products (copper, precious metals, cobalt and others).

24 RELATED PARTY TRANSACTIONS

Balances from transactions with major related parties are as follows:

	As of December 31			
	2009		2008	
	Assets	Liabilities	Assets	Liabilities
AFFILIATED COMPANIES AND JOINT VENTURES				
Companhia Hispano-Brasileira de Pelotização — HISPANOBRÁS	34	34	7	34
Companhia Ítalo-Brasileira de Pelotização — ITABRASCO	1	6	37	64
Companhia Nipo-Brasileira de Pelotização — NIBRASCO	—	22	29	71
Companhia Coreano-Brasileira de Pelotização — KOBRASCO	1	5	1	22
Baovale Mineração SA	2	22	2	20
Usinas Siderúrgicas de Minas Gerais SA — USIMINAS(*)	—	—	18	—
Minas da Serra Geral SA — MSG	—	26	—	13
MRS Logística SA	10	418	8	219
Mineração Rio Norte SA	—	25	8	38
Samarco Mineração SA	55	—	10	—
Teal Minerals Incorporated	84	—	—	—
Korea Nickel Corporation	11	—	38	—
Mitsui & CO, LTD	—	26	—	—
Others	24	29	32	24
	222	613	190	505
Current	**186**	**496**	**190**	**414**
Long-term	**36**	**117**	**—**	**91**

(*) Sold in April 2009

These balances are included in the following balance sheet classifications:

	As of December 31			
	2009		2008	
	Assets	Liabilities	Assets	Liabilities
Current assets				
Accounts receivable	79	—	137	—
Loans and advances to related parties	107	—	53	—
Non-current assets				
Loans and advances to related parties	36	—	—	—
Current liabilities				
Suppliers	—	463	—	302
Loans from related parties	—	19	—	77
Others — others related parties	—	14	—	35
Non-current liabilities				
Others — Long-term debt	—	117	—	91
	222	613	190	505

Income and expenses from the principal transactions and financial operations carried out with major related parties are as follows:

	Year ended December 31,					
	2009		2008		2007	
	Income	Expense	Income	Expense	Income	Expense
AFFILIATED COMPANIES AND JOINT VENTURES						
Companhia Nipo-Brasileira de Pelotização — NIBRASCO	29	47	105	393	386	328
Samarco Mineração SA	97	—	259	—	117	—
Companhia Ítalo-Brasileira de Pelotização — ITABRASCO	—	18	240	163	233	163
Companhia Hispano-Brasileira de Pelotização — HISPANOBRÁS	85	75	342	378	247	195
Companhia Coreano-Brasileira de Pelotização — KOBRASCO	—	29	101	234	220	270
Usinas Siderúrgicas de Minas Gerais SA — USIMINAS(*)	46	—	651	—	442	—
Mineração Rio Norte SA	—	210	—	249	—	232
MRS Logística SA	12	484	9	829	17	593
Others	19	29	34	34	30	29
	288	892	1,741	2,280	1,692	1,810

(*) Sold in April 2009.

These amounts are included in the following statement of income line items:

	Year ended December 31,					
	2009		2008		2007	
	Income	Expense	Income	Expense	Income	Expense
Sales/Cost of iron ore and pellets	233	193	1,698	1,369	1,649	960
Revenues/expense from logistic services	26	457	25	624	17	593
Sales/Cost of aluminum products	—	210	—	249	—	232
Financial income/expenses	29	32	18	38	26	24
Others	—	—	—	—	—	1
	288	892	1,741	2,280	1,692	1,810

Additionally we have loans payable to Banco Nacional de Desenvolvimento Social and BNDES Participações S.A in the amounts of US$1,691 and US$662 respectively, accruing interest at market rates, which fall due through 2029. The operations generated interest expenses of US$94. We also maintained cash equivalent balances with Banco Bradesco S.A. in the amount of US$53 as of December 31, 2009. The effect of these operations in results was US$39.

25 DERIVATIVE FINANCIAL INSTRUMENTS

Risk management policy

Vale's risk management strategy encompasses an enterprise risk management approach where we evaluate not only market risk impacts on the business, but also the impacts arising from credit and operating risks.

An enterprise wide risk management approach is considered by us to be mandatory for Vale as traditional market risk measures, such as VaR (Value at Risk), are not sufficient to evaluate the group exposures since our main goal is to avoid a possible lack of cash to fulfill our future obligations and needs.

We also consider the correlations between different market risk factors when evaluating our exposures. By doing so, we are able to evaluate the net impact on our cash flows from all main market variables. Using this framework we also identified a natural diversification of products and currencies in our portfolio. This diversification benefit implies in a natural reduction of the overall risk of the Company. Additionally, we are constantly working to implement risk mitigation strategies that significantly contribute to reduce the volatility in our cash flows beyond the levels initially observed and to acceptable levels of risk.

Vale considers that the effective management of risk is a key objective to support its growth strategy and financial flexibility. The risk reduction on Vale's future cash flows contributes to a better perception of the Company's credit quality, improving its ability to access different markets. As a commitment to the risk management strategy, the Board of Directors has established an enterprise-wide risk management policy and a risk management committee.

The risk management policy determines that Vale should evaluate regularly its cash flow risks and potential risk mitigation strategies. Whenever considered necessary, mitigation strategies should be put in place to reduce cash flow volatility. The executive board is responsible for the evaluation and approval of long-term risk mitigation strategies recommended by the risk management committee.

The risk management committee assists our executive officers in overseeing and reviewing our enterprise risk management activities including the principles, policies, process, procedures and instruments employed to manage risk. The risk management committee reports periodically to the executive board on how risks have been monitored, what are the most important risks we are exposed to and their impact on cash flows.

The risk management policy and the risk management procedures, that complement the normative of risk management governance model, explicitly prohibit speculative transactions with derivatives and require the diversification of operations and counterparties.

Besides the risk management governance model, Vale has put in place a well defined corporate governance structure. The recommendation and execution of the derivative transactions are implemented by different and independent areas. It is the responsibility of the risk management department to define and propose to the risk management committee market risk mitigation strategies consistent with Vale's and its wholly owned subsidiaries corporate strategy. It is the responsibility of the finance department the execution of the risk mitigation strategies through the use of derivatives. The independence of the areas guarantees an effective control on these operations.

The consolidated market risk exposure and the portfolio of derivatives are measured monthly and monitored in order to evaluate the financial results and market risk impacts on our cash flow, as well as to guarantee that the initial goals will be achieved. The mark-to-market of the derivatives portfolio is reported weekly to management.

Considering the nature of Vale's business and operations, the main market risk factors which the Company is exposed are:

- Interest rates;
- Foreign exchange; and
- Product prices and input costs.

Foreign exchange and interest rate risk

Vale's cash flows are exposed to volatility of several different currencies. While most of our product prices are indexed to the US dollars, most of our costs, disbursements and investments are indexed to currencies other than the US dollar, mainly the Brazilian Real and Canadian dollar.

Derivative instruments may be used to reduce Vale's potential cash flow volatility arising from the currency mismatch between our debt and our revenues. Vale's foreign exchange and interest rate derivative portfolio consists, basically, of interest rate swaps to convert floating cash flows in Brazilian Reais to fixed or floating US dollar cash flows, without any leverage.

Vale is also exposed to interest rate risks on loans and financings. Our floating rate debt consists mainly of loans including export pre-payments, commercial banks and multilateral organizations loans. In general, our US dollar floating rate debt is subject to changes in the LIBOR (London Interbank Offer Rate in US dollars). To mitigate the impact of the interest rate volatility on its cash flows, Vale takes advantage of natural hedges resulting from the correlation of metal prices and US dollar floating rates. When natural hedges are not present, we may opt to look for the same effect by using financial instruments.

Our Brazilian Real denominated debt subject to floating interest rates are debentures, loans obtained from Banco Nacional de Desenvolvimento Econômico e Social (BNDES) and property and services acquisition financing in the Brazilian market. These debts are mainly linked to CDI and TJLP.

The swap transactions have similar settlement dates to the debt interest and principal payment dates, taking into account the liquidity restrictions of the market. At each settlement date, the results on the swap transactions partially offset the impact of the US dollar / Brazilian Real exchange rate in our obligations, contributing to a stable flow of cash disbursements in US dollars for interest and/or principal payment of our Brazilian Real denominated debt.

In the event of an appreciation (depreciation) of the Brazilian Real against the US dollar, the negative (positive) impact on our Brazilian Real denominated debt obligations (interest and/or principal payment) measured in US dollars will be partially offset by a positive (negative) effect from any existing swap transaction, regardless of the US dollar / Brazilian Real exchange rate on the payment date.

We have other exposures associated with our outstanding debt portfolio. In order to reduce cash flow volatility associated with a financing from KFW (Kreditanstalt Für Wiederaufbau) indexed to Euribor, Vale entered into a swap contract where cash flows in Euros are converted into cash flows in US dollars.

In order to reduce the cash flows volatility associated with the foreign exchange exposure from coal fixed price sales, Vale purchased forward Australian dollars.

Product price risk

Vale is also exposed to several market risks associated with global commodities price volatilities.

Currently, our derivative transactions include nickel, aluminum, bunker oil and maritime freight (FFA) derivatives and all have the same purpose of mitigating Vale's cash flow volatility.

Nickel — The Company has the following derivative instruments in this category:

- Strategic derivative program — in order to protect our cash flows in 2009 and 2010, we entered into derivative transactions where we fixed the prices of some of our nickel sales during the period.
- Fixed price sales program — we use to enter into nickel future contracts on the London Metal Exchange (LME) with the purpose of maintaining our exposure to nickel price variation, regarding the fact that, in some cases, the commodity is sold at a fixed price to some customers. This program was interrupted after the decision of the strategic derivative program.
- Nickel purchase program — Vale has also sold nickel futures on the LME, in order to minimize the risk of mismatch between the pricing on the costs of intermediate products and finished goods.

Aluminum — in order to protect our cash flow in 2009 and 2010, we entered into derivatives transactions where we fixed the prices of some of our aluminum sales during the period.

Bunker Oil — In order to reduce the impact of bunker oil price fluctuation on Vale's freight hiring and consequently on Vale's cash flow, Vale implemented a derivative program that consists of forward purchases and swaps.

Maritime Freight — In order to reduce the impact of freight price fluctuations on the Company's cash flows, Vale implemented a derivative program that consists of purchasing Forward Freight Agreements (FFA).

Embedded derivatives — In addition to the contracts mentioned above, Vale Inco Ltd., Vale's wholly-owned subsidiary, has nickel concentrate and raw materials purchase agreements, where there are provisions based on the movement of nickel and copper prices. These provisions are considered embedded derivatives. There is also an embedded derivative related to energy purchase in our subsidiary Albras on which there is a premium that can be charged based on the movement of aluminum prices.

Under the standard Accounting for Derivative Financial Instruments and Hedging Activities, all derivatives, whether designated in hedging relationships or not, are required to be recorded in the balance sheet at fair value and the gain or loss in fair value is included in current earnings, unless if qualified as hedge accounting. A derivative must be designated in a hedging relationship in order to qualify for hedge accounting. These requirements include a determination of what portions of hedges are deemed to be effective versus ineffective. In general, a hedging relationship is effective when a change in the fair value of the derivative is offset by an equal and opposite change in the fair value of the underlying hedged item. In accordance with these requirements, effectiveness tests are performed in order to assess effectiveness and quantify ineffectiveness for all designated hedges.

At December 31, 2009, we had outstanding cash flow hedges. A cash flow hedge is a hedge of the exposure to variability in expected future cash flows that is attributable to a particular risk such as a forecasted purchase or sale. If a derivative is designated as a cash flow hedge, the effective portions of the changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in earnings when the hedged item affects earnings. Ineffective portions of changes in the fair value of the derivatives designated as hedges are recognized in earnings. If a portion of a derivative contract is excluded for purposes of effectiveness testing, such as time value, the value of such excluded portion is included in earnings.

The assets and liabilities balances of derivatives measured at fair value and the effects of their recognition are shown in the following tables:

	Assets			Liabilities		
	As of December 31			As of December 31		
	2009		2008	2009		2008
	Short-term	Long-term	Long-term	Short-term	Long-term	Long-term
Derivatives not designated as hedge						
Foreign exchange and interest rate risk						
CDI & TJLP vs. floating & fixed swap	—	794	—	—	—	(561)
USD floating rate vs. fixed USD rate swap	—	—	—	(7)	(1)	(14)
EURO floating rate vs. USD floating rate swap	—	1	2	—	—	—
AUD floating rate vs. fixed USD rate swap	—	9	—	—	—	—
	—	**804**	**2**	**(7)**	**(1)**	**(575)**
Commodities price risk						
Nickel						
Fixed price program	12	2	—	(3)	(8)	(50)
Purchase program	—	—	—	—	—	(7)
Strategic program	—	—	—	(32)	—	—
Aluminium	—	—	—	(16)	—	—
Bunker Oil Hedge	49	—	—	—	—	—
Maritime Freight Hiring Protection Program	29	—	—	—	—	—
	90	**2**	—	**(51)**	**(8)**	**(57)**
Embedded derivatives:						
For nickel fixed price sale	—	—	69	—	—	—
Customer raw material contracts	—	—	22	—	—	—
Natural gas hedge	—	—	—	—	—	(2)
	—	—	**91**	—	—	**(2)**
Derivatives designated as hedge						
Foreign exchange cash flow hedge	15	59	—	—	—	—
Aluminium	—	—	—	(71)	—	—
	15	**59**	—	**(71)**	—	—
Total	**105**	**865**	**93**	**(129)**	**(9)**	**(634)**

The following table presents the effects of derivatives for the years ended:

	Amount of gain or (loss) recognized in financial income (expense)			Financial settlement			Amount of gain or (loss) recognized in Oci		
	Year ended December 31,			Year ended December 31,			Year ended December 31,		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Derivatives not designated as hedge									
Foreign exchange and interest rate risk									
Swap BRL denominated Brazilian payroll into USD	—	82	—	—	(198)	—	—	—	—
CDI & TJLP vs. USD fixed and floating rate swap	1,598	(34)	934	(243)	(199)	(293)	—	—	—
EURO floating rate vs. USD floating rate swap	—	(684)	—	(1)	1	—	—	—	—
USD floating rate vs. USD fixed rate swap	(2)	7	—	8	—	—	—	—	—
AUD floating rate vs. fixed USD rate swap	14	—	—	(5)	—	—	—	—	—
	1,610	**(629)**	**934**	**(241)**	**(396)**	**(293)**	—	—	—
Commodities price risk									
Nickel									
Fixed price program	40	(102)	63	22	102	(38)	—	—	—
Purchase program	(35)	21	—	57	(54)	—	—	—	—
Strategic program	(95)	(3)	—	73	—	—	—	—	—
Purchased scrap protection program	—	(23)	—	—	202	—	—	—	—
Strategic hedging program	—	(6)	(129)	—	(30)	240	—	—	—
Platinum	—	(5)	(17)	—	26	13	—	—	—
Gold	—	(30)	(16)	—	42	33	—	—	—
Natural gas	(4)	4	(9)	6	—	3	—	—	—
Aluminum	—	(68)	46	—	122	112	—	—	—
Maritime Freight Hiring Protection Program	66	—	—	(37)	—	—	—	—	—
Bunker Oil Hedge	50	(17)	—	(16)	—	—	—	—	—
	22	**(229)**	**(62)**	**105**	**410**	**363**	—	—	—
Embedded derivatives:									
For nickel concentrate costumer sales	(25)	29	—	(14)	—	—	—	—	—
Customer raw material contracts	(76)	10	—	—	(10)	—	—	—	—
Energy — Aluminum options	—	13	59	—	—	—	—	—	—
	(101)	**52**	**59**	**(14)**	**(10)**	—	—	—	—
Derivatives designated as hedge									
Aluminum hedge	(16)	(6)	—	4	—	—	(36)	(29)	29
Bunker Oil Hedge	13	—	—	—	—	—	—	—	—
Foreign exchange cash flow hedge	—	—	—	—	—	—	38	—	—
	(3)	**(6)**	—	**4**	—	—	**2**	**(29)**	**29**
	1,528	**(812)**	**931**	**(146)**	**4**	**70**	**2**	**(29)**	**29**

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Vale S.A.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in stockholders' equity present fairly, in all material respects, the financial position of Vale S.A. (formerly Companhia Vale do Rio Doce) and its subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for the years than ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on internal control over financial reporting (not presented herein) appearing under item 15 of the Company 2008 Annual Report on Form 20-F. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As discussed in Note 3 (a) to the consolidated financial statements, the Company changed its method of accounting for minority interest (now termed non controlling interests) to conform to SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements — an amendment of

ARB No. 51 ("SFAS No. 160") effective January 1, 2009 and, retrospectively, adjusted the financial statements as of December 31, 2008 and 2007 and for the years than ended.

PricewaterhouseCoopers
Auditores Independentes

Rio de Janeiro, Brazil

February 19, 2009 (except with respect to our opinion on the consolidated financial statements insofar as it relates (i) to the retrospective application of SFAS No. 160, as to which the date is June 26, 2009 and (ii) relates to the change in segment reporting discussed in Note 3 (a), 12 and 23, as to which the date is December 2, 2010).

CONSOLIDATED BALANCE SHEETS
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS

	As of December 31, 2008	2007
Assets		
Current assets		
Cash and cash equivalents	10,331	1,046
Short term investments	2,308	—
Accounts receivable		
Related parties	137	281
Unrelated parties	3,067	3,671
Loans and advances to related parties	53	64
Inventories	3,896	3,859
Deferred income tax	583	603
Recoverable taxes	1,993	1,159
Other	870	697
	23,238	**11,380**
Property, plant and equipment, net, and intangible assets	**49,329**	**54,625**
Investments in affiliated companies, joint ventures and other investments	**2,408**	**2,922**
Other assets		
Goodwill on acquisition of subsidiaries	1,898	3,791
Loans and advances		
Related parties	—	3
Unrelated parties	77	127
Prepaid pension cost	622	1,009
Prepaid expenses	223	200
Judicial deposits	1,141	1,124
Advances to suppliers — energy	408	574
Recoverable taxes	394	199
Unrealized gains on derivative instruments	32	673
Other	161	90
	4,956	**7,790**
TOTAL	**79,931**	**76,717**
Liabilities and stockholders' equity		
Current liabilities		
Suppliers	2,261	2,430
Payroll and related charges	591	734
Current portion of long-term debt	633	1,249
Short-term debt	—	167
Loans from related parties	77	6
Provision for income taxes	502	1,198
Taxes payable and royalties	55	322
Employees postretirement benefits	102	131
Railway sub-concession agreement payable	400	210
Unrealized losses on derivative instruments	—	346
Provisions for asset retirement obligations	48	64
Minimum mandatory dividends payable	2,068	2,683
Other	500	543
	7,237	**10,083**

CONSOLIDATED BALANCE SHEETS — (CONTINUED)
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS
(EXCEPT NUMBER OF SHARES)

	As of December 31, 2008	2007
Long-term liabilities		
Employees postretirement benefits	1,485	2,204
Long-term debt	17,535	17,608
Provisions for contingencies (Note 20(b))	1,685	2,453
Unrealized losses on derivative instruments	573	5
Deferred income tax	4,005	5,725
Provisions for asset retirement obligations	839	911
Railway sub-concession agreement payable	—	210
Other	1,525	1,687
	27,647	**30,803**
Redeemable noncontrolling interest (Note 3(a))	599	375
Commitments and contingencies (Note 20)		
Stockholders' equity		
Preferred class A stock — 7,200,000,000 no-par-value shares authorized and 2,108,579,618 (2007 — 1,919,516,400) issued	9,727	4,953
Common stock — 3,600,000,000 no-par-value shares authorized and 3,256,724,482 (2007 — 2,999,797,716) issued	15,262	7,742
Treasury stock — 76,854,304 (2007 — 30,341,144) preferred and 74,937,899 (2007 — 56,582,040) common shares	(1,141)	(389)
Additional paid-in capital	393	498
Mandatorily convertible notes- common shares	1,288	1,288
Mandatorily convertible notes- preferred shares	581	581
Other cumulative comprehensive income (loss)	(11,510)	1,655
Undistributed retained earnings	18,340	15,317
Unappropriated retained earnings	9,616	1,631
Total Company stockholders' equity	**42,556**	**33,276**
Noncontrolling interest	**1,892**	**2,180**
Total stockholders' equity	**44,448**	**35,456**
TOTAL	**79,931**	**76,717**

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

CONSOLIDATED STATEMENTS OF INCOME
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS
(EXCEPT PER SHARE AMOUNTS)

	Year ended of December, 31	
	2008	**2007**
Operating revenues, net of discounts, returns and allowances		
Sales of ores and metals	32,779	28,441
Aluminum products	3,042	2,722
Revenues from logistic services	1,607	1,525
Other products and services	1,081	427
	38,509	**33,115**
Taxes on revenues	(1,083)	(873)
Net operating revenues	**37,426**	**32,242**
Operating costs and expenses		
Cost of ores and metals sold	(14,055)	(13,628)
Cost of aluminum products	(2,267)	(1,705)
Cost of logistic services	(930)	(853)
Other	(389)	(277)
	(17,641)	**(16,463)**
Selling, general and administrative expenses	(1,748)	(1,245)
Research and development expenses	(1,085)	(733)
Impairment of goodwill	(950)	—
Other	(1,254)	(607)
	(22,678)	**(19,048)**
Operating income	**14,748**	**13,194**
Non-operating income (expenses)		
Financial income	602	295
Financial expenses	(1,765)	(2,517)
Gains (losses) on derivatives, net	(812)	931
Foreign exchange and indexation gains, net	364	2,553
Gain on sale of investments	80	777
	(1,531)	**2,039**
Income before income taxes and equity results	**13,217**	**15,233**
Income taxes		
Current	(1,338)	(3,901)
Deferred	803	700
	(535)	**(3,201)**
Equity in results of affiliates, joint ventures and other investments	794	595
Net income	**13,476**	**12,627**
Net income attributable to noncontrolling interests	258	802
Net income attributable to Company's stockholders	**13,218**	**11,825**
Basic and diluted earnings per share		
Earnings per preferred share	2.58	2.41
Earnings per common share	2.58	2.41
Earnings per preferred share linked to convertible mandatorily notes(*)	**4.09**	3.30
Earnings per common share linked to convertible mandatorily notes(*)	**4.29**	3.51

(*) Basic earnings per share only, as dilution assumes conversion.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS

	Year ended of December, 31	
	2008	**2007**
Cash flows from operating activities:		
Net income	13,476	12,627
Adjustments to reconcile net income to cash from operations:		
Depreciation, depletion and amortization	2,807	2,186
Dividends received	513	394
Equity in results of affiliates, joint ventures and other investments	(794)	(595)
Deferred income taxes	(803)	(700)
Impairment of goodwill	950	—
Loss on disposal of property, plant and equipment	376	168
Gain on sale of investments	(80)	(777)
Foreign exchange and indexation losses (gains), net	451	(2,827)
Unrealized derivative losses (gains), net	812	(917)
Unrealized interest expense, net	116	102
Others	(3)	115
Decrease (increase) in assets:		
Accounts receivable	(466)	235
Inventories	(467)	(343)
Others	(242)	(292)
Increase (decrease) in liabilities:		
Suppliers	703	998
Payroll and related charges	1	170
Income taxes	(140)	393
Others	(96)	75
Net cash provided by operating activities	**17,114**	**11,012**
Cash flows from investing activities:		
Short term investments	(2,308)	—
Loans and advances receivable		
Related parties		
Loan proceeds	(37)	(33)
Repayments	58	10
Others	(15)	1
Judicial deposits	(133)	(125)
Investments	(128)	(324)
Additions to property, plant and equipment	(8,972)	(6,651)
Proceeds from disposal of investments	134	1,042
Acquisition of subsidiaries, net of cash acquired	—	(2,926)
Net cash used in investing activities	**(11,401)**	**(9,006)**
Cash flows from financing activities:		
Short-term debt, additions	1,076	4,483
Short-term debt, repayments	(1,311)	(5,040)
Loans		
Related parties		
Loan proceeds	54	259
Repayments	(20)	(273)
Issuances of long-term debt		
Others	1,890	7,212
Repayments of long-term debt		
Others	(1,130)	(11,130)
Treasury stock	(752)	—
Mandatorily convertible notes	—	1,869
Capital increase	12,190	—
Dividends and interest attributed to Company's stockholders	(2,850)	(1,875)
Dividends to noncontrolling interest	(143)	(714)
Net cash provided by (used in) financing activities	**9,004**	**(5,209)**
Increase (decrease) in cash and cash equivalents	14,717	(3,203)
Effect of exchange rate changes on cash and cash equivalents	(5,432)	(199)
Cash and cash equivalents, beginning of period	1,046	4,448
Cash and cash equivalents, end of period	**10,331**	**1,046**
Cash paid during the period for:		
Interest on short-term debt	(11)	(49)
Interest on long-term debt	(1,255)	(1,289)
income tax	(2,867)	(3,284)
Non-cash transactions		
interest capitalized	230	78

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS (EXCEPT NUMBER OF SHARES AND PER-SHARE AMOUNTS)

	Year ended of December, 31	
	2008	2007
Preferred class A stock (including twelve special shares)		
Beginning of the period	4,953	4,702
Capital increase	4,774	—
Transfer from undistributed retained earnings	—	251
End of the period	**9,727**	**4,953**
Common stock		
Beginning of the period	7,742	3,806
Capital increase	7,520	—
Transfer from undistributed retained earnings	—	3,936
End of the period	**15,262**	**7,742**
Treasury stock		
Beginning of the period	(389)	(389)
Acquisitions	(752)	—
End of the period	**(1,141)**	**(389)**
Additional paid-in capital		
Beginning of the period	498	498
Change in the period	(105)	—
End of the period	**393**	**498**
Mandatorily convertible notes — common shares		
Beginning and end of the period	1,288	1,288
Mandatorily convertible notes — preferred shares		
Beginning and end of the period	581	581
Other cumulative comprehensive income (deficit)		
Cumulative translation adjustments		
Beginning of the period	1,340	(1,628)
Change in the period	(12,833)	2,968
End of the period	**(11,493)**	**1,340**
Unrealized gain (loss) — available-for-sale securities, net of tax		
Beginning of the period	211	271
Change in the period	(194)	(60)
End of the period	**17**	**211**
Surplus (deficit) accrued pension plan		
Beginning of the period	75	353
Change in the period	(109)	(278)
End of the period	**(34)**	**75**
Cash flow hedge		
Beginning of the period	29	—
Change in the period	(29)	29
End of the period	**—**	**29**
Total other cumulative comprehensive income (deficit)	**(11,510)**	**1,655**
Undistributed retained earnings		
Beginning of the period	15,317	9,555
Transfer from/to unappropriated retained earnings	3,023	9,949
Capitalized earnings	—	(4,187)
End of the period	**18,340**	**15,317**

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY — (CONTINUED)
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS
(EXCEPT NUMBER OF SHARES AND PER-SHARE AMOUNTS)

	Year ended of December, 31	
	2008	2007
Unappropriated retained earnings		
Beginning of the period	1,631	2,505
Net income attributable to Company's stockholders	13,218	11,825
Interest on mandatorily convertible debt		
Preferred class A stock	(46)	(22)
Common stock	(96)	(45)
Dividends and interest attributed to Company's stockholders		
Preferred class A stock	(806)	(1,049)
Common stock	(1,262)	(1,634)
Appropriation from/to undistributed retained earnings	(3,023)	(9,949)
End of the period	**9,616**	**1,631**
Total Company stockholders' equity	**42,556**	**33,276**
Non controlling interests		
Beginning of the period	2,180	2,465
Increase due to business combinations	—	4
Acquisitions of noncontrolling interests	—	(821)
Cumulative translation adjustments	(463)	320
Cash flow hedge	(21)	21
Net income attributable to noncontrolling interests	276	815
Dividends and interest attributable to noncontrolling interests	(137)	(700)
Capitalization of stockholders advances	57	76
End of the period	**1,892**	**2,1 80**
Total stockholders' equity	**44,448**	**35,456**
Number of shares:		
Preferred class A stock (including twelve special shares)	2,108,579,618	1,919,516,400
Common stock	3,256,724,482	2,999,797,716
Buy-backs		
Beginning of the period	(86,923,184)	(86,927,072)
Acquisitions	(64,869,259)	—
Sales	240	3,888
End of the period	**(151,792,203)**	**(86,923,184)**
	5,213,511 ,897	**4,832,390,932**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
EXPRESSED IN MILLIONS OF UNITED STATES DOLLARS, UNLESS OTHERWISE STATED

1 THE COMPANY AND ITS OPERATION

Vale S.A. (formerly known as Companhia Vale do Rio Doce) ("Vale", the "Company" or "we") is a limited liability company incorporated in Brazil. Operations are carried out through Vale and our subsidiary companies, joint ventures and affiliates, and mainly consist of mining, base metals production, fertilizers, logistics and steel activities.

At December 31, 2008, our principal consolidated operating subsidiaries are the following:

Subsidiary	% ownership	% voting capital	Head office location	Principal activity
Alumina do Norte do Brasil S.A. — Alunorte ("Alunorte")	57.03	59.02	Brazil	Alumina
Alumínio Brasileiro S.A. — Albras ("Albras")	51.00	51.00	Brazil	Aluminum
CADAM S.A (CADAM)	61.48	100.00	Brazil	Kaolin
CVRD Overseas Ltd.	100.00	100.00	Cayman Islands	Trading
Ferrovia Centro-Atlântica S.A.	99.99	100.00	Brazil	Logistics
Minerações Brasileiras Reunidas S.A. — MBR	92.99	92.99	Brazil	Iron ore
Pará Pigmentos S.A. ("PPSA")	86.17	85.57	Brazil	Kaolin
PT International Nickel Indonesia Tbk ("PT Inco")	61.16	61.16	Indonesia	Nickel
Vale Manganês S.A. (formely Rio Doce Manganês S.A.)	100.00	100.00	Brazil	Manganese and Ferroalloys
Vale Manganèse France (formely Rio Doce Manganèse Europe — RDME)	100.00	100.00	France	Ferroalloys
Rio Doce Manganese Norway — RDMN	100.00	100.00	Norway	Ferroalloys
Vale Australia Pty Ltd.	100.00	100.00	Australia	Coal
Vale Inco Limited	100.00	100.00	Canada	Nickel
Vale International S.A (formerly CVRD International S.A)	100.00	100.00	Switzerland	Trading
Valesul Aumínio S.A.	100.00	100.00	Brazil	Aluminum

2 BASIS OF CONSOLIDATION

All majority-owned subsidiaries in which we have both share and management control are consolidated. All significant intercompany accounts and transactions are eliminated. Our variable interest entities in which we are the primary beneficiary are consolidated. Investments in unconsolidated affiliates and joint ventures are accounted for under the equity method (Note 12).

We evaluate the carrying value of our equity accounted investments in relation to publicly quoted market prices when available. If the quoted market price is below book value, and such decline is considered other than temporary, we write-down our equity investments to quoted market value.

We define joint ventures as businesses in which we and a small group of other partners each participate actively in the overall entity management, based on a shareholders agreement. We define affiliates as businesses in which we participate as a noncontrolling interests but with significant influence over the operating and financial policies of the investee.

Our participation in hydroelectric projects are made via consortium contracts under which we have undivided interests in the assets and are liable for our proportionate share of liabilities and expenses, which are based on our proportionate share of power output. We do not have joint liability for any obligations. No separate legal or tax status is granted to consortia under Brazilian law. Accordingly, we recognize our proportionate share of costs and our undivided interest in assets relating to hydroelectric projects (Note 11).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, the selection of useful lives of property, plant and equipment, impairment, provisions necessary for contingent liabilities, fair values assigned to assets and liabilities acquired in business combinations, income tax valuation allowances, employee post retirement benefits and other similar evaluations. Actual results could differ from those estimates.

(a) Basis of presentation

We have prepared our consolidated financial statements in accordance with United States generally accepted accounting principles ("US GAAP"), which differ in certain respects from the accounting practices adopted in "Brazilian GAAP" which are the basis for our statutory financial statements.

These financial statements reflect the retrospective adoption of SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51" ("SFAS 160") as of December 31, 2008 and the two years then ended. SFAS 160, which clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements, as shown in the consolidated statements of changes in stockholders' equity and in Note 17 — other cumulative comprehensive income (deficit). Noncontrolling interests that could be redeemed upon the occurrence of certain events outside the Company's control have been classified as redeemable noncontrolling interest using the mezzanine presentation on the balance sheet between liabilities and stockholders' equity, retroactively to all periods presented.

In December 2007, significant modifications were made to Brazilian GAAP as part of a convergence project with International Financial Reporting Standards (IFRS). Such changes became effective for the fiscal year ended December 31, 2008, whereas other changes will be introduced subsequently.

The Brazilian Real is the parent Company's functional currency. We have selected the U.S. Dollar as our reporting currency. The financial statements have been translated in accordance with the criteria set forth in Statement of Financial Accounting Standards No. ("SFAS") 52 — "Foreign Currency Translation".

All assets and liabilities have been translated to U.S. Dollars at the closing rate of exchange at each balance sheet date (or, if unavailable, the first available exchange rate). All statement of income accounts have been translated to U.S. Dollars at the average exchange rates prevailing during the respective periods. Capital accounts are recorded at historical exchange rates. Translation gains and losses are recorded in the Cumulative Translation Adjustments account ("CTA") in stockholders' equity. The results of operations and financial position of our entities that have a functional currency other than the U.S. Dollar, have been translated in accordance with SFAS 52.

The exchange rates used to translate the assets and liabilities of the Brazilian operations at December 31, 2008 and December 31, 2007, were R$2.3370 and R$1.7713, respectively.

The net transaction gain (loss) included in our statement of income ("Foreign exchange and indexation gains (losses), net") was US$(1,011) and US$1,639 in the year ended December 31, 2008 and 2007, respectively.

(b) Cash equivalents and short-tem investment

Cash flows from overnight investments and fundings are reported net. Short-term investments that have a ready market and original maturities of 90 days or less are classified as "Cash equivalents". The remaining investments, with longer maturities are stated at fair value and presented as "Short-term investments".

(c) Long-term

Assets and liabilities that are realizable or due more than 12 months after the balance sheet date are classified as long-term.

(d) Inventories

Inventory is recorded at the average cost of purchase or production, reduced to market value (net realizable value less a reasonable margin) when lower.

We classify proven and probable reserve quantities attributable to stockpiled inventories as inventories and account for them as processed when they are removed from the mine. These reserve quantities are not included in the total proven and probable reserve quantities used in the units of production, depreciation, depletion and amortization calculations.

We periodically assess our inventories to identify obsolescence or slow moving and if needed, we recognize definitive allowances for slow movement or obsolete inventories.

(e) Removal of waste materials to access mineral deposits

Stripping costs (the costs associated with the removal of overburden and other waste materials) incurred during the development of a mine, before production commences, are capitalized as part of the depreciable cost of developing the property. Such costs are subsequently amortized over the useful life of the mine based on proven and probable reserves.

Post-production stripping costs are included in the cost of the inventory produced (that is extracted), at each mine individually during the period that the stripping cost are incurred.

(f) Property, plant and equipment and Intangible Assets

Property, plant and equipment are recorded at cost, including interest cost incurred during the construction of major new facilities. We compute depreciation on the straight-line basis at annual average rates which take into consideration the useful lives of the assets, as follows: 3.03% for railroads, 3.65% for buildings, 3.78% for installations and 7.30% for other equipment. Expenditures for maintenance and repairs are charged to operating costs and expenses as incurred.

We capitalize the costs of developing major new ore bodies or expanding the capacity of operating mines and amortize these to operations on the unit-of-production method based on the total probable and proven quantity of ore to be recovered. Exploration costs are expensed. Once the economic viability of mining activities is established, subsequent development costs are capitalized.

Separately acquired intangible assets are shown at historical cost. Intangible assets acquired in a business combination are recognized at fair value at the acquisition date. All our intangible assets have definite useful lives and are carried at cost less accumulated amortization, which is calculated using the straight-line method over their estimated useful lives.

(g) Business combinations

We adopt SFAS 141 "Business Combinations" to record acquisitions of interests in other companies. This "purchase method", requires that we reasonably determine the fair value of the identifiable tangible and intangible assets and liabilities of acquired companies and segregate goodwill as an intangible asset.

We assign goodwill to reporting units and test each reporting unit's goodwill for impairment at least annually, and whenever circumstance indicating that recognized goodwill may not be fully recovered are identified. We perform the annual goodwill impairment tests during the last quarter of the year using September 30 as our base date.

Goodwill is reviewed for impairment utilizing a two step process. In the first step, we compare a reporting unit's fair value with its carrying amount to identify any potential goodwill impairment loss. If the carrying amount of a reporting unit exceeds the unit's fair value, based on a discounted cash flow analysis, we carry out the second step of the impairment test, measuring and recording the amount, if any, of the unit's goodwill impairment loss.

(h) Impairment of long-lived assets

All long-lived assets, are tested to determine if they are recoverable from operating earnings on an undiscounted cash flow basis over their useful lives whenever events or changes in circumstance indicate that the carrying value may not be recoverable.

When we determine that the carrying value of long-lived assets and definite-life intangible assets may not be recoverable, we measure any impairment loss based on a projected discounted cash flow method using a discount rate determined to be commensurate with the risk inherent in our current business model.

(i) Available-for-sale equity securities

Equity securities classified as "available-for-sale" are recorded pursuant to SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities". Accordingly, we classify unrealized holding gains and losses, net of taxes, as a separate component of stockholders' equity until realized.

(j) Compensated absences

The liability for future compensation for employee vacations is fully accrued as earned.

(k) Derivatives and hedging activities

We apply SFAS 133 "Accounting for Derivative Financial Instruments and Hedging Activities", as amended. This standard requires that we recognize all derivative financial instruments as either assets or liabilities on our balance sheet and measure such instruments at fair value. Changes in the fair value of derivatives are recorded in each period in current earnings or in other comprehensive income, in the latter case depending on whether a transaction is designated as an effective hedge and has been effective during the period.

(l) Asset retirement obligations

Our retirement obligations consist primarily of estimated closure costs, the initial measurement of which is recognized as a liability discounted to present value and subsequently accreted through earnings. An asset retirement cost equal to the initial liability is capitalized as part of the related asset's carrying value and depreciated over the asset's useful life.

(m) Revenues and expenses

Revenues are recognized when title is transferred to the customer or services are rendered. Revenue from exported products is recognized when such products are loaded on board the ship. Revenue from products sold in the domestic market is recognized when delivery is made to the customer. Revenue from logistic services is recognized when the service order has been fulfilled. Expenses and costs are recognized on the accrual basis.

(n) Income taxes

The deferred tax effects of tax loss carryforwards and temporary differences are recognized pursuant to SFAS 109 "Accounting for Income Taxes". A valuation allowance is made when we believe that it is more likely than not that tax assets will not be fully recovered in the future.

(o) Earnings per share

Earnings per share are computed by dividing net income by the weighted average number of common and preferred shares outstanding during the period.

(p) Interest attributed to stockholders' equity (dividend)

Brazilian corporations are permitted to distribute interest attributable to stockholders' equity. The calculation is based on the stockholders' equity amounts as stated in the statutory accounting records and the interest rate applied may not exceed the long-term interest rate (TJLP) determined by the Brazilian Central Bank. Also, such interest may not exceed 50% of net income for the year nor 50% of retained earnings plus revenue reserves as determined by "Brazilian GAAP".

As the notional interest charge is tax deductible in Brazil, the benefit to us, as opposed to making a dividend payment, is a reduction in our income tax charge. Income tax of 15% is withheld on behalf of the stockholders relative to the interest distribution. Under Brazilian law, interest attributed to stockholders' equity is considered as part of the annual minimum mandatory dividend (Note 16). This notional interest distribution is treated for accounting purposes as a deduction from stockholders' equity in a manner similar to a dividend and the tax credit recorded in income.

(q) Comprehensive income

We present comprehensive income as part of the Statement of Changes in Stockholders' Equity, in compliance with SFAS 130 "Reporting Comprehensive Income", net of taxes.

(r) Pension and other post retirement benefits

We sponsor private pension and other post retirement benefits for our employees which are actuarially determined and recognized as an asset or liability or both depending on the funded or unfunded status of each plan in accordance with SFAS 158 "Employees' Accounting for Defined Benefit Pension and Other Post retirement Plans". The cost of our defined benefit and prior service costs or credits that arise during the period and are not components of net periodic benefit costs are recorded in other cumulative comprehensive income (deficit).

4 RECENTLY-ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2009, the Financial Accounting Standards Board ("FASB") issued EITF 99-20-1 "Amendments to the Impairment Guidance of EITF Issue No. 99-20", to achieve more consistent determination of whether an other-than-temporary impairment has occurred. It is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. We are currently studying the effects of this pronouncement.

In December 2008, the FASB issued Staff Position No. FAS 132(R)-1, "Employers' Disclosures about Post Retirement Benefit Plan Assets". It is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2009. We are currently studying the effects of this pronouncement.

In November 2008, the FASB issued EITF 08-08, "Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount That is Based on the Stock of an Entity's Consolidated Subsidiary", which addresses the fair value of an outstanding instrument and its presentation. It is effective for fiscal years and interim periods beginning after December 15, 2008. We are currently studying the effects of this pronouncement.

In November 2008, the FASB issued EITF 08-06, "Equity Method Investment Accounting Considerations", which clarifies the accounting for certain transactions and impairment considerations involving equity method investments. It is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. We are currently studying the effects of this pronouncement.

In October 2008, the FASB issued Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset in a Market That Is Not Active" (FSP 157-3), which clarifies the application of SFAS 157 when the market for a financial asset is inactive. Specifically, FSP 157-3 clarifies how (1) management's internal assumptions should be considered in measuring fair value when observable data are not present, (2) observable market information from an inactive market should be taken into account, and (3) the use of broker quotes or pricing services should be considered in assessing the relevance of observable and unobservable data to measure fair value. The guidance in FSP 157-3 was effective immediately upon issuance and did not generate impact on our Financial Statements.

In June 2008, the FASB issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities". The FSP provides that instruments granted in share-based payment transactions that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, Earnings per Share. It is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early application is not permitted. We are currently studying the effects of this pronouncement.

In May 2008, the FASB issued FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)". According to this FSP these debt instruments are not addressed by paragraph 12 of APB Opinion No. 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants. Additionally, it specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008. We are currently studying the effects of this pronouncement.

In May 2008, the FASB issued FAS 162, "The Hierarchy of Generally Accepted Accounting Principles". The objective of this Statement is to identify the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with US GAAP (the GAAP hierarchy). This Statement shall be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. There are no specific disclosure requirements with this statement. We are currently assessing the effects of this Statement and believe that it will not have a material impact on our Consolidation Financial Statements.

In April 2008, the FASB issued FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets". The objective of this FSP is to address situations of renewing or extending the useful life of a recognized intangible asset. It is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early application is not permitted. We are currently studying the effects of this pronouncement.

In December 2007, the FASB issued SFAS 141(R), that applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (that is, in the case of Vale, January 1, 2009).

5 MAJOR ACQUISITIONS AND DISPOSALS

In February 2008, we sold our interest in Jubilee Mines N.L. (held through Vale Inco), representing 4.83% of its common shares, for US$134 generating a gain of US$80.

In October, 2007 we were awarded, in a public auction, a 30-year sub-concession agreement to operate the Ferrovia Norte Sul S.A. — FNS railway for R$1,482 million equivalent to US$837 at the exchange rate in effect on that date, payable in three installments. The first installment, equivalent to US$ 412 and corresponding to 50% was paid in December 2007. The second and third installments, each representing 25% of the total amount, are to be paid upon the completion of the railroad. The outstanding installments are indexed to the general price index (IGP-DI) and accrue interest of 12% p.a. This sub-concession right has been accounted for as an intangible asset (Note 11).

In July 2007, we sold our interest in Lion Ore Mining International Ltd. (held through Vale Inco), representing 1.80% of its common shares for US$105, generating a gain of US$80.

In June 2007, we sold 25,213,664 common shares, representing 57.84% of the total capital of our subsidiary Log-In Logística Intermodal S.A. ("Log-In") for US$179, recording a gain of US$155. In July 2007, we sold an additional 5.10% stake in Log-In for US$24 recording a gain of US$21. At December 31, 2008, we held 31.33% of the voting and total capital of this entity, which is accounted for under the equity method.

In May 2007, we sold part (12.43%) of our stockholding in Usinas Siderúrgicas de Minas Gerais S.A. — USIMINAS, an available-for-sale investee, for US$728, recording a gain of US$456. We have retained 5.89% of the ordinary shares the minimum number of shares required to participate in the current shareholders agreement of the investee, representing 2.93% of the total capital.

In May 2007, we acquired a further 6.25% of the total share capital of Empreendimentos Brasileiros de Mineração S.A. — EBM, whose main asset is its interest in MBR, for US$231 and as a result, our direct and indirect stake in MBR increased to 92.99% of total and voting capital. We simultaneously entered into an usufruct agreement with noncontrolling interests whereby they transferred to us all rights and obligations with respect to their shares, including rights to dividends for the next 30 years, for which we will make an initial payment of US$61 plus an annual fee of US$48 for each of the next 29 years. The present value of the future obligation is recorded as a liability and the corresponding charge recorded to noncontrolling interests in the balance sheet.

In April 2007, we concluded the acquisition of 100% of Vale Australia (formerly AMCI Holdings Australia Pty — AMCI HA), a private company based in Australia, which owns and operates coal mines in that country, for US$656.

6 INCOME TAXES

Income taxes in Brazil comprise federal income tax and social contribution, which is an additional federal tax. The statutory composite enacted tax rate applicable in the periods presented is 34%. In other countries where we have operations, we are subject to various taxes rates depending on the jurisdiction.

The amount reported as income tax expense in our consolidated financial statements is reconciled to the statutory rates as follows:

	Year ended of December, 31					
	2008			2007		
	Brazil	Foreign	Total	Brazil	Foreign	Total
Income before income taxes, equity results and noncontrolling interests	**2,434**	**10,783**	**13,217**	**7,769**	**7,464**	**15,233**
Tax at Brazilian composite rate	(828)	(3,667)	(4,495)	(2,641)	(2,538)	(5,179)
Adjustments to derive effective tax rate:						
Tax benefit on interest attributed to stockholders	692	—	692	474	—	474
Difference on tax rates of foreign income	—	1,728	1,728	—	1,729	1,729
Exchange variation — not taxable	—	982	982	—	(290)	(290)
Tax incentives	53	—	53	173	—	173
Valuation allowance reversal (provision)	—	—	—	16	—	16
Other non-taxable gains (losses)	287	218	505	64	(188)	(124)
Income taxes per consolidated statements of income	**204**	**(739)**	**(535)**	**(1,914)**	**(1,287)**	**(3,201)**

We have certain Brazilian income tax incentives relating to our manganese operations in Carajás, our potash operations in Rosario do Catete, our alumina and aluminum operations in Barcarena and our kaolin operations in Ipixuna and Mazagão. The incentives relating to manganese, aluminum and kaolin comprise partial exemption up to 2013. The incentive relating to alumina and potash comprise full income tax exemption on defined production levels, which expires in 2009 and 2013, respectively. An amount equal to the tax saving is appropriated from retained earnings to a reserve account within stockholders' equity and may not be distributed in the form of cash dividends.

We also have income tax incentives related to our Goro Project under development in New Caledonia ("The Goro Project"). These incentives include an income tax holiday during the construction phase of the project and throughout a 15-year period commencing in the first year in which commercial production, as defined by the applicable legislation, is achieved followed by a five-year, 50 per cent income tax holiday. The Goro Project also qualifies for certain exemptions from indirect taxes such as import duties during the construction phase and throughout the commercial life of the project. Certain of these tax benefits, including the income tax holiday, are subject to an earlier phase out should the project achieve a specified cumulative rate of return. We are subject to a branch profit tax commencing in the first year in which commercial production is achieved, as defined by the applicable legislation. To date, we have not recorded any taxable income for New Caledonian tax purposes. The benefits of this legislation are expected to apply with respect to taxes payable once the Goro project is in operation.

We are subject to examination by the tax authorities for up to five years regarding our operations in Brazil, ten years for Indonesia, and five and six years for Canada, except for Newfoundland which has no limit.

Brazilian tax loss carryforwards have no expiration date though offset is restricted to 30% of annual taxable income.

Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes".

The reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

	As of December 31,	
	2008	2007
Beginning of the period	**1,046**	**663**
Increase resulting from tax positions taken	103	264
Decrease resulting from tax positions taken	(261)	(47)
Changes in tax legislation	2	29
Cumulative translation adjustments	(233)	137
End of the period	**657**	**1,046**

Recognized deferred income tax assets and liabilities are composed as follows:

	As of December 31,	
	2008	2007
Current deferred tax assets		
Accrued expenses deductible only when disbursed	**583**	**603**
Long-term deferred tax assets and liabilities		
Assets		
Employee postretirement benefits provision	171	461
Tax loss carryforwards	119	348
Other temporary differences	548	—
Asset retirement obligation	207	195
	1,045	**1,004**
Liabilities		
Fair value of financial instruments	(326)	(173)
Unrealized tax indexation effects	(108)	(138)
Property, plant and equipment	(47)	(150)
Prepaid retirement benefit	(199)	(203)
Fair value adjustments in business combinations	(4,446)	(5,770)
Other temporary differences	198	(191)
	(4,928)	**(6,625)**
Valuation allowance		
Beginning balance	(104)	(113)
Translation adjustments	18	(20)
Change in allowance	(36)	29
Ending balance	**(122)**	**(104)**
Net long-term deferred tax liabilities	**(4,005)**	**(5,725)**

7 CASH AND CASH EQUIVALENTS

	As of December 31,	
	2008	2007
Cash	767	424
Short-term investments denominated in Brazilian Reais	7,548	123
Short-term investments denominated in other currencies, mainly U.S. dollars	2,016	499
	10,331	**1,046**

The increase in cash and cash equivalents corresponds mainly to the proceeds received from the Global equity offering (Note 16).

8 ACCOUNTS RECEIVABLE

	As of December 31, 2008	As of December 31, 2007
Customers		
Denominated in Brazilian Reais	461	750
Denominated in other currencies, mainly U.S. Dollars	2,828	3,311
	3,289	**4,061**
Allowance for doubtful accounts	(85)	(100)
Allowance for ore weight credits	—	(9)
Total	**3,204**	**3,952**

Accounts receivable from customers in the steel industry represent 47% of receivables at December 31, 2008.

No single customer accounted for more than 10% of total revenues.

Additional allowances for doubtful accounts charged to the statement of income as expenses in 2008 and 2007 totaled US$9 and US$31, respectively. We wrote-off US$ nil in 2008 and US$6 in 2007.

9 INVENTORIES

	As of December 31, 2008	As of December 31, 2007
Finished products		
Nickel (co-products and by-products)	1,514	1,812
Iron ore and pellets	728	588
Manganese and ferroalloys	199	176
Aluminum products	150	106
Kaolin	40	42
Copper concentrate	26	15
Coal	43	38
Others	80	36
Spare parts and maintenance supplies	1,116	1,046
	3,896	3,859

At December 31, 2008, we recorded an adjustment of US$ 77, to reduce nickel inventory to its market value (nil in 2007).

10 RECOVERABLE TAXES

	As of December 31, 2008	As of December 31, 2007
Income tax	1,646	643
Value-added tax — ICMS	258	294
PIS and COFINS	380	354
Others	103	67
Total	**2,387**	**1,358**
Current	1,993	1,159
Non-current	394	199
	2,387	**1,358**

11 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

By type of assets:

	As of December 31, 2008			As of December 31, 2007		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land	182	—	182	110	—	110
Buildings	3,742	905	2,837	4,086	842	3,244
Installations	9,990	2,748	7,242	10,974	2,889	8,085
Equipment	5,391	1,626	3,765	5,703	1,709	3,994
Railroads	5,830	1,358	4,472	5,819	1,614	4,205
Mine development costs	15,976	2,062	13,914	19,270	1,632	17,638
Others	4,974	1,639	3,335	7,146	1,813	5,333
	46,085	**10,338**	**35,747**	**53,108**	**10,499**	**42,609**
Construction in progress	13,582	—	13,582	12,016	—	12,016
Total	**59,667**	**10,338**	**49,329**	**65,124**	**10,499**	**54,625**

Losses on disposal of property, plant and equipment totaled US$376 and US$168 in 2008 and 2007, respectively. Mainly relate to losses on sales of ships and trucks, locomotives and other equipment, which were replaced in the normal course of business.

Assets given in guarantee of judicial processes totaled US$141.

Hydroelectric assets

We participate in several jointly-owned hydroelectric plants, already in operation or under construction, in which we record our undivided interest in these assets as property, plant and equipment.

At December 31, 2008 the cost of hydroelectric plants in service totaled US$1,162 (2007 US$803) and the related depreciation in the year was US$304 (2007 US$68). The cost of hydroelectric plant under construction at December 31, 2008 totaled US$206 (2007 US$735). Income and operating expenses for such plants were not material.

Intangibles

All of the intangible assets recognized in our financial statements were acquired from third parties, either directly or through a business combination and have definite useful lives from 6 to 30 years.

At December 31, 2008 the intangibles amount to US$875 (December 31, 2007 — US$1,113), and are comprised of rights granted by the government — North-South Railroad of US$671 and off take-agreements of US$204.

12 INVESTMENTS IN AFFILIATED COMPANIES AND JOINT VENTURES

	December 31, 2008						Equity in earnings (losses) of investee adjustments		Dividends received	
	Participation in capital (%)		Net equity	Net income (loss) for the year	Investments		Year ended of December, 31		Year ended of December, 31	
	Voting	Total			2008	2007	2008	2007	2008	2007
Bulk Materials										
Iron ore and pellets										
Companhia Nipo-Brasileira de Pelotização — NIBRASCO[1]	51.11	51.00	215	166	110	61	84	12	—	—
Companhia Hispano-Brasileira de Pelotização — HISPANOBRÁS[1]	51.00	50.89	143	117	73	43	59	9	6	16
Companhia Coreano-Brasileira de Pelotização — KOBRASCO[1]	50.00	50.00	109	88	55	45	44	19	13	21
Companhia Ítalo-Brasileira de Pelotização — ITABRASCO[1]	51.00	50.90	114	66	58	46	34	10	—	8
Minas da Serra Geral S.A. — MSG	50.00	50.00	42	3	21	30	1	3	—	—
SAMARCO Mineração S.A. — SAMARCO[2]	50.00	50.00	732	629	412	546	315	242	300	150
Others	—	—	—	—	26	30	6	6	—	—
					755	**801**	**543**	**301**	**319**	**195**
Coal										
Henan Longyu Resources Co. Ltd	25.00	25.00	703	315	176	115	79	46	27	42
Shandong Yankuang International Company Ltd	25.00	25.00	44	(66)	11	23	(17)	—	—	—
					187	**138**	**62**	**46**	**27**	**42**
Base Metals										
Bauxite										
Mineração Rio do Norte S.A. — MRN	40.00	40.00	347	156	140	184	62	84	99	64
Nickel										
Heron Resources Inc (cost $25) — available-for-sale	—	—	—	—	2	34	—	—	—	—
Jubilee Mines N.L (cost $5)[4] — available-for-sale	—	—	—	—	—	126	—	—	—	—
Mirabela Nickel Ltd (cost $24) — available-for-sale	—	—	—	—	8	72	—	—	—	—
Hudbay Minerals (cost $31) available for sale	—	—	—	—	9	—	—	—	—	—
Corea Nickel Corp	—	—	—	—	21	—	—	—	—	—
Skye Resources[6]					—	44	(38)	—	—	—
Others	—	—	—	—	13	23	4	9	—	—
					53	**299**	**(34)**	**9**	**—**	**—**
Logistics										
LOG-IN Logística Intermodal S.A.[3]	31.33	31.33	282	37	94	107	20	8	3	—
MRS Logística S.A.	37.86	41.50	786	273	326	342	113	117	34	51
					420	**449**	**133**	**125**	**37**	**51**
Others										
Steel										
California Steel Industries Inc. — CSI	50.00	50.00	320	21	160	163	11	(1)	13	11
THYSSENKRUPP CSA Companhia Siderúrgica (Cost $431) — available-for-sale	10.46	10.46	—	—	443	388	—	—	—	—
Usinas Siderúrgicas de Minas Gerais S.A. — USIMINAS (cost $180) — available-for-sale[5]	—	—	—	—	164	465	18	31	18	31
					767	**1,016**	**29**	**30**	**31**	**42**
Other affiliates and joint ventures										
Others	—	—	—	—	86	35	(1)	—	—	—
Total					2,408	2,922	794	595	513	394

(1) Although Vale held a majority of the voting interest of investees accounted for under the equity method, existing veto rights held by noncontrolling interests under shareholder agreements preclude consolidation.

(2) Investment includes goodwill of US$ 46 in 2008 and US$ 61 in 2007.

(3) Consolidation discontinued from June, 2007.

(4) Sold in February, 2008 (Note 5).

(5) Equity in results of affilites refers to dividends received.

(6) Losses considered other than temporary.

13 IMPAIRMENT OF GOODWILL

As described in Note 3 (g), we test goodwill and long-lived assets for impairment at least annually, or more frequently when events or changes in circumstances indicate that they might be impaired. For impairment test purposes goodwill is allocated to reporting units.

Following the downturn in the economy, which contributed to the decline in the prices of certain commodities produced by us during the last quarter of 2008, we updated our impairment test based on forecasted discounted cash flows. As a result, we determined that the goodwill associated with the acquisition of Vale Inco, included within the reportable segment "Base Metals — nickel" was partially impaired. In the case of Vale Inco, goodwill has been allocated by us to the finished products and intermediate products reporting units. The impairment charge recorded in operating results in the fourth quarter of 2008 was US$950.

Management determined discounted cash flows based on approved financial budgets. Gross margin projections were based on past performance and management's expectations of market developments. Information about sales prices are consistent with the forecasts included in industry reports, considering quoted prices when available and when appropriate. The discount rates used reflect specific risks relating to the relevant assets in each reporting unit, depending on their composition and location.

Recognition of additional goodwill impairment charges in the future would depend on several estimates including market conditions, recent actual results and management's forecasts. This information shall be obtained at the time when our assessment is to be updated. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

14 SHORT-TERM DEBT

Short-term borrowings outstanding on December 31, 2007, mainly from commercial banks for export financing denominated in U.S. Dollar, with average annual interest rates of 5.5%.

15 LONG-TERM DEBT

	Current liabilities		Long-term liabilities	
	2008	2007	2008	2007
Foreign debt				
Loans and financing denominated in the following currencies:				
U.S. Dollars	210	212	5,905	5,927
Others	**23**	64	167	214
Fixed Rate Notes — U.S. Dollar denominated	—	—	6,510	6,680
Debt securities — export sales(*) — U.S. Dollar denominated	55	53	149	205
Perpetual notes	—	—	83	87
Accrued charges	217	282	—	—
	505	**611**	**12,814**	**13,113**
Brazilian debt				
Brazilian Reais indexed to Long-Term Interest Rate — TJLP/CDI	33	586	1,989	1,148
Brazilian Reais indexed to General Price Index-Market (IGPM)	—	1	1	1
Basket of currencies	**1**	2	4	6
Non-convertible debentures	—	—	2,562	3,340
U.S. Dollar Denominated	—	—	165	—
Accrued charges	94	49	—	—
	128	**638**	**4,721**	**4,495**
Total	**633**	**1,249**	**17,535**	**17,608**

(*) Secured by receivables from future export sales.

The long-term portion at December 31, 2008 falls due as follows:

2010	2,304
2011	2,618
2012	1,137
2013	2,556
2014 and thereafter	8,628
No due date (Perpetual notes and non-convertible debentures)	292
	17,535

At December 31, 2008 annual interest rates on long-term debt were as follows:

Up to 3%	690
3.1% to 5%	5,845
5.1%to 7%(*)	5,596
7.1%to 9%(*)	2,136
9.1%to 11%	87
Over 11%(*)	3,729
Variable (Perpetual notes)	85
	18,168

(*) Includes non-convertible debentures and other Brazilian Reais-denominated debt that bear interest at CDI (Brazilian interbank certificate of deposit) and TJLP (Brazilian government long-term interest) rates plus a spread. For these operations we have entered into derivative transactions to mitigate our exposure on the floating rate debt denominated in Brazilian Reais, totaling US$4,169 of which US$3,522 has original interest rate above 11%. The average cost after taking into account the derivative transactions is 4.9%.

The indexation indices/ rates applied to our debt were as follows (unaudited):

	Year ended of December, 31	
	2008	**2007**
TJLP — Long-Term Interest Rate (effective rate)	6.3	6.4
IGP-M — General Price Index — Market	9.8	7.8
Appreciation (Devaluation) of Real against U.S. Dollar	(24.2)	20.7

In January 2008 we entered into a trade finance agreement with a Brazilian bank in the amount of US$1,100 with final maturity in 2018.

During 2008, we entered into agreements with Banco Nacional de Desenvolvimento Econômico e Social — BNDES, (the Brazilian National Development Bank) and with long-term Japanese financing agencies, Japan Bank for International Cooperation — JBIC and Nippon Export and Investment Insurance — NEXI related to future lines of credit to finance mining, logistics and power generation projects as part of our investment program for 2008-2012.

Additionally, we have revolving credit lines available under which amounts can be drawn down and repaid at the option of the borrower. At December 31, 2008, the total amount available under revolving credit lines was of US$1,900, of which US$1,150 was granted to Vale International and the balance to Vale Inco. As of December 31, 2008, neither Vale International nor Vale Inco had drawn any amounts under these facilities.

Vale Inco had drawn down US$101 by way of letters of credit.

At December 31, 2008 the US Dollar denominated Fixed Rate Notes of US$6,510 (December 31, 2007 — US$6,680) and other debt of US$11,102 (December 31, 2007 — US$11,511) were unsecured. The export securitization of US$204 (December 31, 2007 — US$258) represents debt securities collateralized by receivables from future export sales of CVRD Overseas Ltd. Loans from international lenders of US$57 (December 31, 2007 — US$82) are guaranteed by the Brazilian Federal Government, to which we have provided like counter guarantees. The remaining long-term debt of US$295 (December 31, 2007 — US$326) is collateralized mainly by receivables.

Our principal covenants require us to maintain certain ratios, such as debt to EBITDA and interest coverage. We were in full compliance with our financial covenants as of December 31, 2008 and 2007.

16 STOCKHOLDERS' EQUITY

Each holder of common and preferred class A stock is entitled to one vote for each share on all matters brought before stockholders' meetings, except for the election of the Board of Directors, which is restricted to the holders of common stock. The Brazilian Government holds twelve preferred special shares which confer permanent veto rights over certain matters.

Both common and preferred stockholders are entitled to receive a mandatory minimum dividend of 25% of annual adjusted net income under Brazilian GAAP, once declared at the annual stockholders' meeting. In the case of preferred stockholders, this dividend cannot be less than 6% of the preferred capital as stated in the statutory accounting records or, if greater, 3% of the Brazilian GAAP equity value per share. For the year ended December 31, 2008, this dividend corresponds to US$2,068, provided against stockholders' equity.

In July 2008, we issued 80,079,223 common ADS, 176,847,543 common shares, 63,506,751 preferred ADS and 100,896,048 preferred shares through a global equity offering. Our capital increased by US$11,666, upon subscription of preferred stock of US$4,146 corresponding to 164,402,799 shares and common stock of US$7,520 corresponding to 256,926,766 shares. In August, 2008, we issued an additional 24,660,419 preferred shares, representing an increase of

US$628. After the closing of the operation, our capital stock increased by US$12,294 in 2008; the transaction costs of US$105 were recorded as a reduction of the additional paid-in capital account.

In September 2007, a stock split was effected whereby each existing common and preferred share was split into two shares. After the split our capital comprises 4,919,314,116 shares, of which 1,919,516,400 are preferred class A shares and 2,999,797,716 are common shares, including twelve special class shares without par value ("Golden Shares"). All references to numbers of share and per share amounts included herein reflect retroactive application of the stock split.

In June 2007, we issued US$1,880 Mandatorily Convertible Notes due June 15, 2010 for total proceeds of US$1,869, net of commissions. The Notes bear interest at 5.50% per year payable quarterly and additional interest which will be payable based on the net amount of cash distribution paid to ADS holders. A tranche of US$1,296 Notes are mandatorily convertible into an aggregate maximum of 56,582,040 common shares and a tranche of US$584 Notes are mandatorily convertible into an aggregate maximum of 30,295,456 preferred class A shares. On the maturity date (whether at stated maturity or upon acceleration following an event of default), the Series RIO Notes will automatically convert into ADSs, each ADS representing one common share of Vale, and the Series RIO P Notes will automatically convert into ADSs, each ADS representing one preferred class A share of Vale. We currently hold the shares to be issued on conversion in treasury. The Notes are not repayable in cash. Holders of notes will have no voting rights. We will pay to the holders of our Series RIO Notes or RIO P Notes additional interest in the event that Vale makes cash distributions to all holders of RIO ADSs or RIO P ADSs, respectively. We determined, using a statistical model, that the potential variability in the number of shares to be converted is not a predominant feature of this hybrid financial instrument and thus classified it as an equity instrument within stockholders' equity. Other than during the cash acquisition conversion period, holders of the notes have the right to convert their notes, in whole or in part, at any time prior to maturity in the case of the Series RIO Notes, into RIO ADSs at the minimum conversion rate of 0.8664 RIO ADSs per Series RIO Note, and in the case of Series RIO P Notes, into RIO P ADSs at the minimum conversion rate of 1.0283 RIO P ADSs per Series RIO P Note.

In April 2007, at an Extraordinary Shareholders' Meeting, paid-up capital was increased by US$4,187 through transfer of reserves, without issuance of shares, to US$12,695.

Brazilian law permits the payment of cash dividends only from retained earnings as stated in the BR GAAP statutory records and such payments are made in Brazilian Reais. Pursuant to the Company's statutory books, undistributed retained earnings at December 31, 2008 totaled US$16,854, comprising the unrealized income and expansion reserves, which could be freely transferred to retained earnings and paid as dividends, if approved by the stockholders, after deducting of the minimum annual mandatory dividend.

No withholding tax is payable on distribution of profits earned except for distributions in the form of interest attributed to stockholders' equity (Note 3 (p)).

Brazilian laws and our bylaws require that certain appropriations be made from retained earnings to reserve accounts on an annual basis, all determined in accordance with amounts stated in the statutory accounting records, as detailed below:

	Year ended of December, 31	
	2008	**2007**
Undistributed retained earnings		
Unrealized income reserve		
Beginning of the period	73	57
Transfer from (to) retained earnings	(28)	16
End of the period	**45**	**73**
Expansion reserve		
Beginning of the period	13,881	8,485
Transfer to capital stock	—	(3,776)
Transfer from (to) retained earnings	2,928	9,172
End of the period	**16,809**	**13,881**
Legal reserve		
Beginning of the period	1,310	970
Transfer to capital stock	—	(370)
Transfer from (to) retained earnings	138	710
End of the period	**1,448**	**1,310**
Fiscal incentive investment reserve		
Beginning of the period	53	43
Transfer to capital stock	—	(41)
Transfer from (to) retained earnings	(15)	51
End of the period	38	53
Total undistributed retained earnings	**18,340**	**15,317**

The purpose and basis of appropriation to such reserves is described below:

Unrealized income reserve — this represents principally our share of the earnings of affiliates and joint ventures, not yet received in the form of cash dividends.

Expansion reserve — this is a general reserve for expansion of our activities.

Legal reserve — this reserve is a requirement for all Brazilian corporations and represents the appropriation of 5% of annual net income up to a limit of 20% of capital stock all determined under Brazilian GAAP.

Fiscal incentive investment reserve — this reserve results from an option to designate a portion of income tax otherwise payable for investment in government approved projects and is recorded in the year following that in which the taxable income was earned. As from 2000, this reserve basically contemplates income tax incentives (Note 6).

Basic and diluted earnings per share

Basic and diluted earnings per share amounts have been calculated as follows:

	As of December 31,	
	2008	2007
Net income attributable to Company's stockholders	13,218	11,825
Interest attributed to preferred convertible notes	(46)	(16)
Interest attributed to common convertible notes	(96)	(37)
Net income for the period adjusted	13,076	11,772
Basic and diluted earnings per share		
Income available to preferred stockholders	5,027	4,552
Income available to common stockholders	7,823	7,092
Income available to convertible notes linked to preferred shares	78	45
Income available to convertible notes linked to common shares	148	83
Weighted average number of shares outstanding (thousands of shares) — preferred shares	1,946,454	1,889,171
Weighted average number of shares outstanding (thousands of shares) — common shares	3,028,817	2,943,216
Treasury preferred shares linked to mandatorily convertible notes	30,295	18,478
Treasury common shares linked to mandatorily convertible notes	56,582	34,510
Total	5,062,148	4,885,375
Earnings per preferred share	2.58	2.41
Earnings per common share	2.58	2.41
Earnings per convertible notes linked to preferred share (*)	4.09	3.30
Earnings per convertible notes linked to common share (*)	4.29	3.51

(*) Basic earnings per share only, as dilution assumes conversion.

Had the conversion of the convertible notes been included in the calculation of diluted earnings per share they would have generated the following dilutive effect as shown below:

	As of December 31,	
	2008	2007
Income available to preferred stockholders	5,151	4,613
Income available to common stockholders	8,067	7,212
Weighted average number of shares outstanding (thousands of shares) — preferred shares	1,976,749	1,907,649
Weighted average number of shares outstanding (thousands of shares) — common shares	3,085,399	2,977,726
Earnings per preferred share	2.61	2.42
Earnings per common share	2.61	2.42

17 OTHER CUMULATIVE COMPREHENSIVE INCOME (DEFICIT)

	As of December 31,	
	2008	2007
Comprehensive income (deficit) is comprised as follows:		
Net income attributable to Company's stockholders	13,218	11,825
Cumulative translation adjustments	(12,833)	2,968
Unrealized gain (loss) — available-for-sale securities, net of tax	(194)	(60)
Deficit accrued pension plan	(109)	(278)
Cash flow hedge	(29)	29
Noncontrolling interests:		
Increase due to business combinations	—	4
Acquisitions of noncontrolling interests	—	(821)
Cumulative translation adjustments	(463)	320
Cash flow hedge	(21)	21
Net income attributable to noncontrolling interests	276	815
Dividends and interest attributable to noncontrolling interests	(137)	(700)
Capitalization of stockholders advances	57	76
Total comprehensive income (deficit)	**(235)**	**14,199**
Tax effect on other comprehensive income allocated to each component		
Unrealized gain (loss) — available-for-sale securities, net of tax		
Gross balance as of the period end	42	271
Tax (expense) benefit	(25)	(60)
Net balance as of the period end	17	211
Surplus (deficit) accrued pension plan		
Gross balance as of the period end	(63)	134
Tax (expense) benefit	29	(59)
Net balance as of the period end	(34)	75

18 PENSION PLANS

Since 1973 we sponsor a supplementary social security plan with characteristics of a defined benefit plan (the "Old Plan") covering substantially all Brazilian employees, with benefits calculated based on years of service, age, contribution salary and supplementary social security benefits. This plan is administered by Fundação Vale do Rio Doce de Seguridade Social — VALIA and was funded by monthly contributions made by us and our employees, calculated based on periodic actuarial appraisals.

In May 2000, we implemented a new supplementary social security plan with characteristics of defined contribution, which complements the earnings of programmed retirements. The plan offers benefits to cover death, physical invalidity, and sickness, with defined benefit characteristics. Brazilian employees could opt to migrate to the "New Plan" (a Benefit Mix Plan — Vale Mais) which was taken up by over 98% of our employees. The Old Plan will continue in existence, covering almost exclusively retired participants and their beneficiaries.

Additionally we provide supplementary payments to a specific group of former Brazilian employees, in addition to the regular benefits from Valia. The plan provides represents a postretirement health care, dental and pharmaceutical benefits.

Upon the acquisition of Inco, we assumed benefits through defined benefit pension plans that cover essentially all its employees and post retirement benefits other than pensions that also provide certain health care and life insurance benefits for retired employees.

The following information details the status of the defined benefit elements of all plans in accordance with SFAS 132 "Employers' Disclosure about Pensions and Other Post retirement Benefits" and SFAS 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", as amended.

(a) Change in Benefit Obligation

	As of December 31,					
	2008			2007		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Benefit obligation at beginning of year	3,178	4,436	1,671	2,531	3,743	1,287
Liability recognized upon consolidation of Inco	—	—	—	—	100	213
Service cost	11	60	25	9	61	20
Interest cost	309	245	85	306	229	78
Plan amendment	—	16	—	—	4	—
Benefits paid	(283)	(291)	(70)	(301)	(279)	(63)
Effect of exchange rate changes	(779)	(775)	(272)	526	607	215
Actuarial loss (gain)	(12)	(660)	(370)	107	(29)	(79)
Benefit obligation at end of year	**2,424**	**3,031**	**1,069**	**3,178**	**4,436**	**1,671**

We use a measurement date of December 31 for our pension and post retirement benefit plans.

(b) Change in Plan Assets

	As of December 31,					
	2008			2007		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Fair value of plan assets at beginning of year	4,187	3,762	10	3,508	3,078	4
Actual return on plan assets	57	(603)	1	250	85	1
Employer contributions	41	272	70	33	372	67
Benefits paid	(283)	(291)	(70)	(301)	(279)	(63)
Effect of exchange rate changes	(959)	(633)	(2)	697	506	1
Fair value of plan assets at end of year	**3,043**	**2,507**	**9**	**4,187**	**3,762**	**10**

Plan assets at December 31, 2008 include US$188 (US$693 at December 31, 2007) and US$53 (US$73 at December 31, 2007) of portfolio investments in our own shares and debentures, respectively, and US$44 (US$48 at December 31, 2007) and US$ nil (US$ nil at December 31, 2007) of shares of related parties and debentures, as well. They also include US$2,472 of Brazilian Federal Government securities (US$1,116 at December 31, 2007) and US$347 of Canada Federal Government securities (US$475 at December 31, 2007).

(c) Funded Status and Financial Position

	As of December 31,					
	2008			2007		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Other assets	619	—	3	1,009	—	—
Current liabilities	—	38	64	—	54	77
Long-term liabilities	—	486	999	—	620	1,584
Funded status	**619**	**524**	**1,060**	**1,009**	**674**	**1,661**

(d) Assumptions Used (Nominal Terms)

	Brazil					
	2008			2007		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Discount rate	11.28% p.a.	11.28% p.a.	11.28% p.a.	10.24% p.a.	10.24% p.a.	10.24% p.a.
Expected return on plan assets	12.22% p.a.	13.00% p.a.	—	12.78% p.a.	11.70% p.a.	—
Rate of compensation increase — up to 47 years	7.12% p.a.	—	—	7.12% p.a.	—	—
Rate of compensation increase — over 47 years	4.00% p.a.	—	—	4.00% p.a.	—	—
Inflation	4.00% p.a.	4.00% p.a.	4.00% p.a.	4.00% p.a.	4.00% p.a.	4.00% p.a.
Health care cost trend rate	—	—	7.12% p.a.	—	—	7.64% p.a.

	Foreign					
	2008			2007		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Discount rate	—	5.58% p.a.	7.32% p.a.	—	5.21% p.a.	5.55% p.a.
Expected return on plan assets	—	6.99% p.a.	7.35% p.a.	—	7.18% p.a.	7.50% p.a.
Rate of compensation increase — up to 47 years	—	4.12% p.a.	3.58% p.a.	—	4.01% p.a.	3.58% p.a.
Rate of compensation increase — over 47 years	—	4.12% p.a.	3.58% p.a.	—	4.01% p.a.	3.58% p.a.
Inflation	—	2.00% p.a.	2.00% p.a.	—	2.00% p.a.	2.00% p.a.
Health care cost trend rate	—	—	6.19% p.a.	—	—	6.35% p.a.

(e) Investment Targets and Composition of Plan Assets

- **Overfunded pension plans**

The fair value of the Brazil overfunded pension plan assets is US$3,043 and US$4,187 at December 31, 2008 and 2007, respectively. There are no foreign overfunded pension plans assets at the period end. The asset allocation for these plans at December 31, 2008 and 2007, and the target allocation for 2009, by asset category, follows:

	Percentage of plan assets Brazil		
	Target for 2009	At December 31,	
	(Unaudited)	2008	2007
Equity securities	26%	20%	29%
Real estate	6%	4%	4%
Loans	7%	6%	4%
Fixed Income	61%	70%	63%
Total	100%	100%	100%

- **Underfunded pension plans**

The fair value of the underfunded pension plan assets is US$146 and US$146 at the end of 2008 and 2007, respectively, for Brazilian plans and US$2,361 and US$3,616 at the end of 2008 and 2007, respectively, for foreign plans. The asset allocation for these plans at the end of 2008 (Brazil and foreign) and 2007 (Brazil and foreign), and the target allocation for 2009, by asset category, follows:

	Percentage of plan assets Brazil		
	Target for 2009	At December 31,	
	(Unaudited)	2008	2007
Loans	0%	0%	5%
Fixed Income	100%	100%	95%
Total	**100%**	**100%**	**100%**

	Percentage of plan assets Foreign		
	Target for 2009	At December 31,	
		2008	2007
Equity securities	61%	54%	61%
Fixed Income	39%	46%	39%
Total	**100%**	**100%**	**100%**

The asset allocation policy follows the asset class targets determined by our ALM — Asset Allocation Modeling. The fixed income asset allocation target for the Brazilian plans was established in order to surpass the benefit obligation and to be used for the payment of short-term plans. The proposal for 2009 is to increase the investments in inflation-indexed bonds.

The target for equity securities of these plans reflects the expected appreciation of the Brazilian stock markets and its expected long term return.

The asset allocation policy for the foreign plans of 39% fixed income and 61% equity securities, approximates the policy mix through a rebalancing policy.

- **Underfunded other benefits**

  The fair value of the foreign underfunded other benefit assets is US$9 and US$10 at the end of 2008 and 2007, respectively. There are no Brazilian underfunded other benefit assets in our postretirement benefit other than pensions at the period end.

The asset allocation for these benefits at the end of 2008 and target allocation for 2009, by asset category, follows:

	Percentage of plan assets Foreign		
	Target for 2009	At December 31,	
	(Unaudited)	2008	2007
Equity securities	61%	61%	61%
Fixed Income	39%	39%	39%
Total	**100%**	**100%**	**100%**

The asset allocation policy is the same for the foreign underfunded pension plan.

(f) Pension Costs

	As of December 31,					
	2008			2007		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Service cost – benefits earned during the period	11	60	25	9	61	20
Interest cost on projected benefit obligation	309	245	85	306	229	78
Expected return on assets	(515)	(253)	(5)	(570)	(247)	(4)
Amortization of initial transition obligation	15	—	—	14	—	—
Net deferral	(5)	11	(2)	(17)	—	—
Net periodic pension cost	**(185)**	**63**	**103**	**(258)**	**43**	**94**

(g) Expected Contributions and Benefits

Employer contributions expected for 2009 are US$338.

The benefit payments, which reflect future service, are expected to be made as follows:

	2008			
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Total
2009	195	262	68	525
2010	197	263	72	532
2011	199	261	76	536
2012	200	260	79	539
2013	201	256	82	539
2014 and thereafter	1,011	1,265	412	2,688

(h) Accumulated Benefit Obligation

	2008			2007		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Accumulated benefit obligation	2,415	2,955	1,069	3,166	4,293	1,671
Projected benefit obligation	2,424	3,031	1,069	3,178	4,436	1,671
Fair value of plan assets	(3,043)	(2,507)	(9)	(4,187)	(3,762)	(10)

(i) Impact of 1% Variation in Assumed Health Care Cost Trend Rate

	1% increase		1% decrease	
	2008	2007	2008	2007
Accumulated postretirement benefit obligation (APBO)	134	261	(110)	(201)
Interest and service costs	18	15	(14)	(12)

(j) Other Cumulative Comprehensive Income (Deficit)

	As of December 31,					
	2008			2007		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Net transition assets	(16)	—	—	(24)	—	—
Net actuarial loss/(gain)	(240)	(206)	402	(6)	(34)	97
Effect of exchange rate changes	(18)	10	3	94	(7)	(2)
Deferred income tax	94	83	(146)	(22)	14	(35)
Amounts recognized in other cumulative comprehensive income (deficit)	**(180)**	**(113)**	**259**	**42**	**(27)**	**60**

(k) Change in Other Cumulative Comprehensive Income (Deficit)

	As of December 31,					
	2008			2007		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Net transition obligation/(asset) not yet recognized in NPPC at beginning of period	(31)	—	—	(38)	—	—
Net actuarial loss/(gain) not yet recognized in NPPC at beginning of period	94	(41)	95	491	(33)	(11)
Deferred income tax at beginning of period	(21)	14	(35)	(154)	11	4
Effect of initial recognition of cumulative comprehensive Income (deficit)	42	(27)	60	299	(22)	(7)
Change in the period						
Amortization of net transition obligation/(asset)	15	—	—	14	—	—
Amortization of net actuarial loss/(gain)	(6)	—	—	(17)	—	—
Total net actuarial loss/(gain) arising during period	(328)	(165)	307	(480)	(1)	108
Effect of exchange rate changes	(18)	10	3	94	(7)	(2)
Deferred income tax	115	69	(111)	132	3	(39)
Total recognized in other cumulative comprehensive income (deficit)	**(180)**	**(113)**	**259**	**42**	**(27)**	**60**

(l) Net periodic pension cost for 2009

	As of December 31,		
	2009		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Service cost	9	41	17
Interest cost	263	240	85
Expected return on plan assets	(362)	(195)	(1)
Net transition obligation/(asset) amortization	12	—	—
Net prior service cost/(credit) amortization	—	3	—
Net actuarial loss/(gain) amortization	—	1	(23)
	(78)	**90**	**78**

19 LONG-TERM INCENTIVE COMPENSATION PLAN

In 2008, the Board of Directors approved a long-term incentive compensation plan, which was implemented in April 2008, over a three-year cycle (2008 to 2010).

Under the terms of the plan, the participants, restricted to certain executives, may elect to allocate part of their annual bonus to the plan. The allocation is applied to purchase preferred shares of Vale, through a predefined financial institution, at market conditions and with no benefit provided by Vale.

The shares purchased by each executive are unrestricted and may, at the participant's discretion, be sold at any time. However, the shares must be held for a three-year period and the executive must be continually employed by Vale during that period. The participant then becomes entitled to receive from Vale, a cash payment equivalent to the total amount of shares held, based on market rates.

We account for the compensation cost provided to our executives under this long-term incentive compensation plan, following the requirements of FAS 123(R) "Accounting for Stock-Based Compensation". Liabilities are measured at each reporting date at fair value, based on market rates. Compensation costs incurred are recognized, over the defined three-year vesting period. At December, 2008, we recognized a long-term liability of US$7, relating to 711,005 shares, through the Statements of Income.

20 COMMITMENTS AND CONTINGENCIES

(a) We provided certain guarantees on behalf of the Goro Project pursuant to which we guaranteed payments due from Goro of up to a maximum amount of US$100 ("Maximum Amount") in connection with an indemnity. We also provided additional guarantees covering the amounts payable by Goro regarding (a) amounts exceeding the Maximum Amount in connection with the indemnity and (b) certain other amounts under lease agreements.

Sumic Nickel Netherlands B.V. — Sumic, a 21% shareholder of Goro, has a put option to sell to Vale Inco 25%, 50%, or 100% of its share in Goro. The put option can be exercised if the defined cost of the initial Goro project exceeds US$4,200 at project rates and an agreement cannot be reached on how to proceed with the project.

We provided guarantees covering certain termination payments by Goro to a supplier under an electricity supply agreement ("ESA") entered into in October 2004 for the Goro nickel-cobalt project. The amount of the termination payments guaranteed depends upon a number of factors, including whether any termination of the ESA occurs as a result of a default by Goro and the date of such early termination. If Goro defaults under the ESA prior to the anticipated start date for electricity supply, the termination payment, which currently is at its maximum amount, would be €$145 million. Once the supply of electricity under the ESA to the project begins, the guaranteed amounts will decrease over the life of the ESA.

(b) We and our subsidiaries are defendants in numerous legal actions in the normal course of business. Based on the advice of our legal counsel, management believes that the amounts recognized are sufficient to cover probable losses in connection with such actions.

The provision for contingencies and the related judicial deposits are composed as follows:

	As of December 31,			
	2008		2007	
	Provision for contingencies	Judicial deposits	Provision for contingencies	Judicial deposits
Labor and social security claims	458	378	519	372
Civil claims	386	242	311	135
Tax — related actions	828	518	1,605	613
Others	13	3	18	4
	1,685	1,141	2,453	1,124

Labor and social security — related actions principally comprise claims by Brazilian employees and former employees for (i) payment of time spent traveling from their residences to the work-place, (ii) additional health and safety related payments and (iii) various other matters, often in connection with disputes about the amount of indemnities paid upon dismissal and the one-third extra holiday pay.

Civil — actions principally related to claims made against us by contractors in Brazil in connection with losses alleged to have been incurred by them as a result of various past Government economic plans during which full inflation indexation of contracts was not permitted, as well, as for accidents and land appropriations disputes.

Tax — tax-related actions principally comprise challenges initiated by us, on certain taxes on revenues and value added taxes and uncertain tax positions. We continue to vigorously pursue our interests in all the above actions but recognize that we probably will incur some losses in the final instance, for which we have made provisions.

Judicial deposits are made by us following the court requirements, in order to be entitled to either initiate or continue a legal action. These amounts are released to us, upon receipt of a final favorable outcome from the legal action; in the case of an unfavorable outcome, the deposits are transferred to the prevailing party.

Contingencies settled in 2008 and 2007 totaled US$148 and US$331, respectively. Provisions recognized in the years ended December 31, 2008 and 2007, totaled US$213 and US$364, respectively, classified as other operating expenses. During 2008, we reversed a provision of US$300 previously recognized, in connection with a favorable decision obtained for a process regarding income tax.

In addition to the contingencies for which we have made provisions we are defendants in claims where in our opinion, and based on the advice of our legal counsel, the likelihood of loss is possible but not probable, in the total amount of US$2,476 at December 31, 2008, and for which no provision has been made (2007 — US$2,381).

(c) At the time of our privatization in 1997, we issued shareholder revenue interest instruments known in Brazil as "debentures participativas" (debentures) to our then-existing shareholders, including the Brazilian Government. The terms of the debentures, were set to ensure that our pre-privatization shareholders, including the Brazilian Government, would participate alongside us in potential future financial benefits that we could be able to derive from exploiting our mineral resources.

In preparation for the issuance of the debentures, we issued series B preferred shares on a one-for-one basis to all holders of our common shares and series A preferred shares. We then exchanged all of the series B shares for the debentures at par value. The debentures are not redeemable or convertible, and do not trade on a stapled basis or otherwise with our common or preferred shares. During 2002 we registered the debentures with the Brazilian Securities Commissions "CVM" in order to permit trading.

Under the terms of the debentures, holders will have the right to receive semi-annual payments equal to an agreed percentage of our net revenues (revenues less value added tax) from certain identified mineral resources that we owned as of May 1997, to the extent that we exceed defined threshold production volumes of these resources, and from the sale of mineral rights that we owned as of May 1997. Our obligation to make payments to the holders will cease when the relevant mineral resources are exhausted at which time we are required to repay the original par value plus accrued interest.

The table below summarizes the amounts we will be required to pay under the debentures based on the net revenues we earn from the identified mineral resources and the sale of mineral rights.

Area	Mineral	Required Payments by CVRD
Southeastern System	Iron ore	1.8% of net revenue, after total sales from May 1997 exceeds 1.7 billion tons.
Northern System	Iron ore	1.8% of net revenue, after total sales from May 1997 exceeds 1.2 billion tons.
Pojuca, Andorinhas, Liberdade and Sossego	Gold and copper	2.5% of net revenue from the beginning of commercialization.
Igarapé Bahia and Alemão	Gold and copper	2.5% of net revenue, after total sales from May 1997 exceeds 70 tons of gold.
Other areas, excluding Carajás/ Serra Leste	Gold	2.5% of net revenue.
Other areas owned as of May 1997	Other minerals	1% of net revenue, 4 years after the beginning of the commercialization.
All areas	Sale of mineral rights owned as of May 1997	1% of the sales price.

In September 2008 and April 2008 we paid remuneration on these debentures of US$6 and US$5, respectively. During 2007 we paid a total of US$11.

(d) We are committed under a take-or-pay agreement to purchase approximately 32,300 metric tons of bauxite from Mineração Rio do Norte S.A. — MRN at a formula driven price, calculated based on the current London Metal Exchange — LME quotation for aluminum. Based on a market price of US$32.26 per metric ton as of December 31, 2008, this arrangement represents the following total commitment per metric ton as of December 31, 2008:

2009	281
2010	191
2011	187
2012	190
2013	192
	1,041

(e) Description of Leasing Arrangements

Part of our railroad operations includes leased facilities. The 30-year lease, renewable for a further 30 years, expires in August, 2026 and is classified as an operating lease. At the end of the lease term, we are required to return the concession and the lease assets. In most cases, management expects that in the normal course of business, leases will be renewed.

The following is a schedule by year of future minimum rental payments required under the railroad operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2008:

Year ending December 31:	
2009	53
2010	53
2011	53
2012	54
2013 thereafter	714
Total minimum payments required	**927**

The total expenses of operating leases for the years ended December 31, 2008 and 2007 was US$53 and US$62, respectively.

During 2008, we entered into operating lease agreements with our joint ventures Nibrasco, Itabrasco and Kobrasco, under wich we leased four pellet plants. The lease terms are from 5 to 30 years.

The following is a schedule by year of future minimum rental payments required under the pellet plant operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2008:

Year ending December 31:	
2009	81
2010	81
2011	81
2012	81
2013 thereafter	987
Total	**1,311**

(f) Asset retirement obligations:

We use various judgments and assumptions when measuring our asset retirement obligations.

Changes in circumstances, law or technology may affect our estimates and we periodically review the amounts accrued and adjust them as necessary. Our accruals do not reflect unasserted claims because we are currently not aware of any such issues. Also the amounts provided are not reduced by any potential recoveries under cost sharing, insurance or indemnification arrangements because such recoveries are considered uncertain.

The changes in the provisions for asset retirement obligations are as follows:

	As of December 31,	
	2008	**2007**
Beginning of period	**975**	**676**
Accretion expense	164	84
Liabilities settled in the current period	(7)	(15)
Revisions in estimated cash flows	(47)	83
Cumulative translation adjustment	(198)	147
End of period	**887**	**975**

21 OTHER EXPENSES

The line item "Other operating expenses" totaled US$1,254 in 2008 (US$607 in 2007). During the last quarter of 2008 we recognized certain expenses considered to be one off events which substantially caused the increase in 2008 as compared to 2007. The most significant items recognized during the last quarter of 2008 in this respect were: (i) a US$204 expense relating to additional payment relating to tax assessments on transportation services, (ii) inventory market value write-down of US$77, and (iii) write-off of intangible asset (patent right) in the amount of US$65.

22 FAIR VALUE DISCLOSURE OF FINANCIAL ASSETS AND LIABILITIES

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement 115". SFAS 159 permits the choice of measuring financial instruments and certain other items at fair value. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007.

On January 1, 2008, the Company adopted SFAS 159 and elected not to apply the provisions of SFAS 159 to its eligible financial assets and financial liabilities on the date of adoption. Accordingly, the initial application of both SFAS 157 and SFAS 159 had no effect on the Company.

Under SFAS 157, the inputs used to measure fair value must be classified into one of three levels as follows:

Level 1 — Quoted prices in an active market for identical assets or liabilities;

Level 2 — Observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and

Level 3 — Assets and liabilities whose significant value drivers are unobservable.

The valuation of assets measured at fair value in the Company's Consolidated Balance Sheet at December 31, 2008 is summarized below:

			Fair Value Measurements	
	Carry amount	Fair value December 31, 2008	Quoted prices in active markets for identical assets or liabilities, (Level 1)	Significant Other Observable Inputs (Level 2)
Available-for-sale securities	639	639	196	443
Unrealized losses on derivatives	(539)	(539)	—	(539)
Other financial liabilities	(380)	(380)	—	(380)

Our long-term debt is reported at amortized cost, however its fair value measurement at December 31, 2008 is as follows:

	Carrying amount	Fair Value	Level 1	Level 2
Time deposits	2,308	2,308	—	2,380
Long-term debt (less interests)	17,857	16,635	7,833	8,802

The carrying amount of our current financial instruments generally approximates fair market value because of the short-term maturity or frequent repricing of these instruments.

The market value of our listed long-term investments, where available, is disclosed in Note 12.

23 SEGMENT AND GEOGRAPHICAL INFORMATION

We adopt disclosures about segments of an enterprise and related information with respect to the information we present about our operating segments. The relevant standard requiring such disclosures introduced a "management approach" concept for reporting segment information, whereby such information is required to be reported on the basis that the chief decision-maker uses internally for evaluating segment performance and deciding how to allocate resources to segments. In line with our strategy to become a leading global player in the fertilizer business, on May 27, 2010 we acquired 58.6% of the equity capital of Fertilizantes Fosfatados S.A. — Fosfertil (Fosfertil) and the Brazilian fertilizer assets of Bunge Participações e Investimentos S.A. (BPI), currently renamed Vale Fosfatados S.A.. Considering this new segment acquisition, fertilizers, and the related reorganization that occurred the operating segments are:

Bulk Material — comprised of iron ore mining and pellet production, as well as our Brazilian Northern and Southern transportation systems, including railroads, ports and terminals, as they pertain to mining operations. Manganese mining and ferroalloys are also included in this segment.

Base Metals — comprised of the production of non-ferrous minerals, including nickel (co-products and by-products), copper and aluminum — comprised of aluminum trading activities, alumina refining and aluminum metal smelting and investments in joint ventures and affiliates engaged in bauxite mining.

Fertilizers — comprised of the three important groups of nutrients: potash, phosphates and nitrogen. This business is being formed through a combination of acquisitions and organic growth.

Logistic Services — comprised of our transportation systems as they pertain to the operation of our ships, ports and railroads for third-party cargos.

Others — comprised of our investments in joint ventures and affiliates engaged in other businesses.

Information presented to senior management with respect to the performance of each segment is generally derived directly from the accounting records maintained in accordance with accounting practices adopted in Brazil together with certain minor inter-segment allocations.

Consolidated net income and principal assets are reconciled as follows:

Results by segment — before eliminations (aggregated)

As of and for the year ended December 31,	2008 Bulk Materials	2008 Base Metals	2008 Fertilizers	2008 Logistics	2008 Others	2008 Eliminations	2008 Consolidated	2007 Bulk Materials	2007 Base Metals	2007 Fertilizers	2007 Logistics	2007 Others	2007 Eliminations	2007 Consolidated
RESULTS														
Gross revenues — Foreign	33,946	13,668	—	51	11	(15,842)	31,834	21,287	16,844	—	61	81	(10,437)	27,836
Gross revenues — Domestic	4,342	1,046	295	1,640	234	(882)	6,675	3,865	1,060	178	1,519	1	(1,344)	5,279
Cost and expenses	(24,542)	(9,658)	(128)	(1,097)	(218)	16,724	(18,919)	(17,111)	(10,505)	(103)	(983)	(81)	11,781	(17,002)
Research and development	(380)	(372)	(8)	(101)	(224)	—	(1,085)	(193)	(314)	(15)	(39)	(172)	—	(733)
Depreciation, depletion and amortization	(1,054)	(1,604)	(19)	(128)	(2)	—	(2,807)	(928)	(1,126)	(23)	(103)	(6)	—	(2,186)
Impairment	—	(950)	—	—	—	—	(950)	—	—	—	—	—	—	—
Operating income	**12,312**	**2,130**	**140**	**365**	**(199)**	**—**	**14,748**	**6,920**	**5,959**	**37**	**455**	**(177)**	**—**	**13,194**
Financial income	3,048	798	—	10	1	(3,255)	602	2,514	595	—	9	25	(2,848)	295
Financial expenses	(3,515)	(1,490)	—	(15)	—	3,255	(1,765)	(4,020)	(1,318)	—	(17)	(2)	2,848	(2,509)
Gains (losses) on derivatives, net	(719)	(93)	—	—	—	—	(812)	854	63	—	—	—	—	917
Foreign exchange and monetary gains (losses), net	764	(265)	—	(32)	(103)	—	364	2,297	274	—	(15)	3	—	2,559
Gain on sale of investments	—	80	—	—	—	—	80	—	81	—	237	459	—	777
Equity in results of affiliates and joint ventures and change in provision for losses on equity investments	612	28	—	133	21	—	794	347	93	—	125	30	—	595
Income taxes	143	(697)	—	23	(4)	—	(535)	(1,947)	(1,236)	—	(16)	(2)	—	(3,201)
Noncontrolling interests	(8)	(256)	—	—	6	—	(258)	(31)	(770)	—	(1)	—	—	(802)
Net income	**12,637**	**235**	**140**	**484**	**(278)**	**—**	**13,218**	**6,934**	**3,741**	**37**	**777**	**336**	**—**	**11,825**
Sales classified by geographic destination:														
Foreign market														
America, except United States	1,805	2,215	—	1	—	(1,201)	2,820	1,449	2,405	—	23	—	(1,026)	2,851
United States	648	2,201	—	1	9	(392)	2,467	432	2,770	—	—	81	(318)	2,965
Europe	11,224	4,132	—	26	—	(5,933)	9,449	6,823	4,195	—	33	—	(3,716)	7,335
Middle East/Africa/Oceania	2,058	394	—	—	—	(952)	1,500	988	538	—	—	—	(412)	1,114
Japan	4,761	1,893	—	1	—	(1,918)	4,737	2,131	2,625	—	—	—	(929)	3,827
China	9,747	887	—	21	—	(3,949)	6,706	7,570	1,457	—	4	—	(3,168)	5,863
Asia, other than Japan and China	3,703	1,946	—	1	2	(1,497)	4,155	1,894	2,854	—	1	—	(868)	3,881
	33,946	**13,668**	**—**	**51**	**11**	**(15,842)**	**31,834**	**21,287**	**16,844**	**—**	**61**	**81**	**(10,437)**	**27,836**
Domestic market	4,342	1,046	295	1,640	234	(882)	6,675	3,865	1,060	178	1,519	1	(1,344)	5,279
	38,288	**14,714**	**295**	**1,691**	**245**	**(16,724)**	**38,509**	**25,152**	**17,904**	**178**	**1,580**	**82**	**(11,781)**	**33,115**

Operating segment — after eliminations (disaggregated)

	As of and for the year ended December 31, 2008												
	Revenues												
	Foreign	Domestic	Total	Value added tax	Net revenues	Cost and expenses	Operating profit	Depreciation, depletion and amortization	Impairment of goodwill	Operating income	Property, plant and equipment, net and intangible assets	Addition to property, plant and equipment and intangible	Investments
Bulk Materials													
Iron ore	15,102	2,673	17,775	(364)	17,411	(6,547)	10,864	(876)	—	9,988	14,595	3,645	47
Pellets	3,481	820	4,301	(189)	4,112	(2,394)	1,718	(112)	—	1,606	645	127	721
Manganese	221	45	266	(15)	251	(77)	174	(5)	—	169	18	3	—
Ferroalloys	704	507	1,211	(128)	1,083	(457)	626	(22)	—	604	166	32	—
Coal	577	—	577	—	577	(441)	136	(33)	—	103	826	144	187
Pig iron	146	—	146	—	146	(67)	79	(3)	—	76	144	122	—
	20,231	**4,045**	**24,276**	**(696)**	**23,580**	**(9,983)**	**13,597**	**(1,051)**	**—**	**12,546**	**16,394**	**4,073**	**955**
Base Metals													
Nickel and other products(*)	7,785	44	7,829	—	7,829	(4,425)	3,404	(1,323)	(950)	1,131	21,729	2,813	53
Kaolin	167	42	209	(9)	200	(213)	(13)	(32)	—	(45)	199	6	—
Copper concentrate	787	106	893	(22)	871	(683)	188	(77)	—	111	3,543	283	—
Aluminum products	2,681	361	3,042	(66)	2,976	(2,288)	688	(172)	—	516	3,831	440	140
	11,420	**553**	**11,973**	**(97)**	**11,876**	**(7,609)**	**4,267**	**(1,604)**	**(950)**	**1,713**	**29,302**	**3,542**	**193**
Fertilizers													
Potash	—	295	295	(16)	279	(120)	159	(19)	—	140	159	43	—
	—	**295**	**295**	**(16)**	**279**	**(120)**	**159**	**(19)**	**—**	**140**	**159**	**43**	**—**
Logistics													
Railroads	—	1,303	1,303	(205)	1,098	(749)	349	(103)	—	246	1,431	121	326
Ports	11	293	304	(39)	265	(198)	67	(26)	—	41	1,441	242	—
Ships	—	—	—	—	—	—	—	—	—	—	374	343	94
	11	**1,596**	**1,607**	**(244)**	**1,363**	**(947)**	**416**	**(129)**	**—**	**287**	**3,246**	**706**	**420**
Others	172	186	358	(30)	328	(262)	66	(4)	—	62	228	608	840
	31,834	**6,675**	**38,509**	**(1,083)**	**37,426**	**(18,921)**	**18,505**	**(2,807)**	**(950)**	**14,748**	**49,329**	**8,972**	**2,408**

(*) Includes nickel co-products and by-products (copper, precious metals, cobalt and others).

Operating segment — after eliminations (disaggregated)

	As of and for the year ended December 31, 2007											
	Revenues											
	Foreign	Domestic	Total	Value added tax	Net revenues	Cost and expenses	Operating profit	Depreciation, depletion and amortization	Operating income	Property, plant and equipment, net and intangible assets	Addition to property, plant and equipment and intangible	Investments
Bulk Materials												
Iron ore	9,873	2,035	11,908	(286)	11,622	(4,520)	7,102	(777)	6,325	17,031	2,496	60
Pellets	2,151	587	2,738	(132)	2,606	(1,860)	746	(87)	659	754	92	741
Manganese	48	21	69	(5)	64	(66)	(2)	(7)	(9)	79	2	—
Ferroalloys	445	274	719	(70)	649	(442)	207	(25)	182	168	22	—
Coal	161	—	161	—	161	(247)	(86)	(11)	(97)	911	90	138
Pig iron	81	—	81	—	81	(57)	24	(5)	19	198	34	—
	12,759	**2,917**	**15,676**	**(493)**	**15,183**	**(7,192)**	**7,991**	**(912)**	**7,079**	**19,141**	**2,736**	**939**
Base Metals												
Nickel and other products(*)	11,664	125	11,789	—	11,789	(6,077)	5,712	(927)	4,785	23,668	2,088	299
Kaolin	202	36	238	(9)	229	(228)	1	(33)	(32)	295	33	—
Copper concentrate	663	139	802	(30)	772	(456)	316	(64)	252	1,841	197	—
Aluminum products	2,418	304	2,722	(66)	2,656	(1,717)	939	(111)	828	4,448	856	184
	14,947	**604**	**15,551**	**(105)**	**15,446**	**(8,478)**	**6,968**	**(1,135)**	**5,833**	**30,252**	**3,174**	**483**
Fertilizers												
Potash	—	178	178	(10)	168	(108)	60	(23)	37	218	19	—
	—	**178**	**178**	**(10)**	**168**	**(108)**	**60**	**(23)**	**37**	**218**	**19**	**—**
Logistics												
Railroads	—	1,220	1,220	(199)	1,021	(636)	385	(88)	297	1,735	491	342
Ports	13	254	267	(46)	221	(177)	44	(22)	22	1,371	102	—
Ships	17	21	38	(3)	35	(44)	(9)	(3)	(12)	36	12	107
	30	**1,495**	**1,525**	**(248)**	**1,277**	**(857)**	**420**	**(113)**	**307**	**3,142**	**605**	**449**
Others	100	85	185	(17)	168	(227)	(59)	(3)	(62)	1,872	117	1,051
	27,836	**5,279**	**33,115**	**(873)**	**32,242**	**(16,862)**	**15,380**	**(2,186)**	**13,194**	**54,625**	**6,651**	**2,922**

(*) Includes nickel co-products and by-products (copper, precious metals, cobalt and others).

24 RELATED PARTY TRANSACTIONS

Balances from transactions with major related parties are as follows:

	As of December 31,			
	2008		2007	
	Assets	Liabilities	Assets	Liabilities
AFFILIATED COMPANIES AND JOINT VENTURES				
Companhia Hispano-Brasileira de Pelotização — HISPANOBRÁS	7	34	59	46
Companhia Ítalo-Brasileira de Pelotização — ITABRASCO	37	64	53	49
Companhia Nipo-Brasileira de Pelotização — NIBRASCO	29	71	108	30
Companhia Coreano-Brasileira de Pelotização — KOBRASCO	1	22	24	13
Baovale Mineração S.A.	2	20	16	41
Usinas Siderúrgicas de Minas Gerais S.A. — USIMINAS	18	—	34	—
Minas da Serra Geral S.A. — MSG	—	13	—	14
MRS Logística S.A.	8	219	11	35
Mineração Rio Norte S.A.	8	38	—	29
Samarco Mineração S.A.	10	—	10	0
Korea Nickel Corporation	38	—	9	—
Mitsui & CO, LTD	—	—	—	21
Others	32	24	24	10
	190	**505**	**348**	**288**
Current	**190**	**414**	**345**	**287**
Long-term	**—**	**91**	**3**	**1**

These balances are included in the following balance sheet classifications:

	As of December 31,			
	2008		2007	
	Assets	Liabilities	Assets	Liabilities
Current assets				
Accounts receivable	137	—	281	—
Loans and advances to related parties	53	—	64	—
Non-current assets				
Loans and advances to related parties	—	—	3	—
Current liabilities				
Suppliers	—	302	—	281
Loans from related parties	—	77	—	6
Others — others related parties	—	35	—	—
Non-current liabilities				
Long-term debt	—	91	—	1
	190	**505**	**348**	**288**

Income and expenses from the principal transactions and financial operations carried out with major related parties are as follows:

	Year ended of December, 31			
	2008		2007	
	Income	Expense	Income	Expense
AFFILIATED COMPANIES AND JOINT VENTURES				
Companhia Nipo-Brasileira de Pelotização — NIBRASCO	105	393	386	328
Samarco Mineração S.A.	259	—	117	—
Companhia Ítalo-Brasileira de Pelotização — ITABRASCO	240	163	233	163
Companhia Hispano-Brasileira de Pelotização — HISPANOBRÁS	342	378	247	195
Companhia Coreano-Brasileira de Pelotização — KOBRASCO	101	234	220	270
Usinas Siderúrgicas de Minas Gerais S.A. — USIMINAS	651	—	442	—
Mineração Rio Norte S.A.	—	249	—	232
MRS Logística S.A.	9	829	17	593
Others	34	34	30	29
	1,741	**2,280**	**1,692**	**1,810**

These amounts are included in the following statement of income line items:

	2008		2007	
	Income	Expense	Income	Expense
Sales/Cost of iron ore and pellets	1,698	1,369	1,649	960
Revenues/expense from logistic services	25	624	17	593
Sales/Cost of aluminum products	—	249	—	232
Financial income/expenses	18	38	26	24
Others	—	—	—	1
	1,741	2,280	1,692	1,810

Additionally we have loans payable to Mitsui & Co, Ltd, Banco Nacional de Desenvolvimento Social and BNDES Participações S.A in the amounts of US$4, US$604 and US$305, accruing with interest at market rates, which fall due through 2013. We also maintain cash equivalent balances with Banco Bradesco S.A. in the amount of US$18 at December 31, 2008.

25 DERIVATIVE FINANCIAL INSTRUMENTS

Risk management policy

Vale's risk management strategy encompasses an enterprise risk management approach where we evaluate not only market risk impacts on the business, but also the impacts arising from credit and operating risks.

An enterprise wide risk management approach is considered by us to be mandatory for Vale as traditional market risk measures, such as VaR (Value at Risk), are not sufficient to evaluate the group exposures since our main goal is to avoid a possible lack of cash to fulfill our future obligations and needs.

We also consider the correlations between different market risk factors when evaluating our exposures. By doing so, we are able to evaluate the net impact on our cash flows from all main market variables. Using this framework we also identified a natural diversification of products and currencies in our portfolio. This diversification benefit implies in a natural reduction of the overall risk of the Company. Additionally, we are constantly working to implement risk mitigation strategies that significantly contribute to reduce the volatility in our cash flows beyond the levels initially observed and to acceptable levels of risk.

Vale considers that the effective management of risk is a key objective to support its growth strategy and financial flexibility. The risk reduction on Vale's future cash flows contributes to a better perception of the Company's credit quality, improving its ability to access different markets. As a commitment to the risk management strategy, the Board of Directors has established an enterprise-wide risk management policy and a risk management committee.

The risk management policy determines that Vale should evaluate regularly its cash flow risks and potential risk mitigation strategies. Whenever considered necessary, mitigation strategies should be put in place to reduce cash flow volatility. The executive board is responsible for the evaluation and approval of long-term risk mitigation strategies recommended by the risk management committee.

The risk management committee assists our executive officers in overseeing and reviewing our enterprise risk management activities including the principles, policies, process, procedures and instruments employed to manage risk. The risk management committee reports periodically to the executive board on how risks have been monitored, what are the most important risks we are exposed to and their impact on cash flows.

The risk management policy and the risk management procedures, that complement the normative of risk management governance model, explicitly prohibit speculative transactions with derivatives and require the diversification of operations and counterparties.

Besides the risk management governance model, Vale has put in place a well defined corporate governance structure. The recommendation and execution of the derivative transactions are implemented by different and independent areas. It is the responsibility of the risk management department to define and propose to the risk management committee market risk mitigation strategies consistent with Vale's and its wholly owned subsidiaries corporate strategy. It is the responsibility of the finance department the execution of the risk mitigation strategies through the use of derivatives. The independence of the areas guarantees an effective control on these operations.

The consolidated market risk exposure and the portfolio of derivatives are measured monthly and monitored in order to evaluate the financial results and market risk impacts on our cash flow, as well as to guarantee that the initial goals will be achieved. The mark-to-market of the derivatives portfolio is reported weekly to management.

Considering the nature of Vale's business and operations, the main market risk factors which the Company is exposed are:

- Interest rates;
- Foreign exchange; and
- Product prices and input costs.

Foreign exchange and interest rate risk

Vale's cash flows are exposed to volatility of several different currencies. While most of our product prices are indexed to the US dollars, most of our costs, disbursements and investments are indexed to currencies other than the US dollar, mainly the Brazilian Real and Canadian dollar.

Derivative instruments may be used to reduce Vale's potential cash flow volatility arising from the currency mismatch between our debt and our revenues. Vale's foreign exchange and interest rate derivative portfolio consists, basically, of interest rate swaps to convert floating cash flows in Brazilian Reais to fixed or floating US dollar cash flows, without any leverage.

Vale is also exposed to interest rate risks on loans and financings. Our floating rate debt consists mainly of loans including export pre-payments, commercial banks and multilateral organizations loans. In general, our US dollar floating rate debt is subject to changes in the LIBOR (London Interbank Offer Rate in US dollars). To mitigate the impact of the interest rate volatility on its cash flows, Vale takes advantage of natural hedges resulting from the correlation of metal prices and US dollar floating rates. When natural hedges are not present, we may opt to look for the same effect by using financial instruments.

Our Brazilian Real denominated debt subject to floating interest rates are debentures, loans obtained from Banco Nacional de Desenvolvimento Econômico e Social (BNDES) and property and services acquisition financing in the Brazilian market. These debts are mainly linked to CDI and TJLP.

The swap transactions have similar settlement dates to the debt interest and principal payment dates, taking into account the liquidity restrictions of the market. At each settlement date, the results on the swap transactions partially offset the impact of the US dollar / Brazilian Real exchange rate in our obligations, contributing to a stable flow of cash disbursements in US dollars for interest and/or principal payment of our Brazilian Real denominated debt.

In the event of an appreciation (depreciation) of the Brazilian Real against the US dollar, the negative (positive) impact on our Brazilian Real denominated debt obligations (interest and/or principal payment) measured in US dollars will be partially offset by a positive (negative) effect from any existing swap transaction, regardless of the US dollar/Brazilian Real exchange rate on the payment date.

We have other exposures associated with our outstanding debt portfolio. In order to reduce cash flow volatility associated with a financing from KFW (Kreditanstalt Für Wiederaufbau) indexed to Euribor, Vale entered into a swap contract where cash flows in Euros are converted into cash flows in US dollars.

In order to reduce the cash flows volatility associated with the foreign exchange exposure from coal fixed price sales, Vale purchased forward Australian dollars.

Product Price Risk

Vale is also exposed to several market risks associated with global commodities prices volatilities.

Currently, derivative transactions entered into related to commodities prices are nickel, aluminum, copper, gold platinum and natural gas derivatives and all have the same purpose of mitigating Vale's cash flow volatility.

Nickel — The Company has purchased nickel future contracts in the London Metal Exchange (LME), with the purpose of maintaining its exposure to nickel price variation, regarding the fact that, in some cases, the commodity is sold at a fixed price to some customers. Vale has also sold nickel futures in the LME, in order to minimize the risk of mismatch between the pricing on the costs of intermediate products and finished goods.

Aluminum — In order to reduce cash flow volatility after Inco's acquisition when Vale increased its leverage, we entered in aluminum hedging operations, which matured in December 2008.

Copper — Vale Inco Ltd., Vale's wholly-owned subsidiary, makes use of hedging to protect the price mismatch between the date of copper scrap purchase and the date of selling the finished good.

PGMs and other precious metals — Transactions regarding gold and platinum are executed in order to manage the risk associated with the volatility of these commodities prices. Platinum and gold hedging transactions matured in December 2008.

Natural gas — Vale uses natural gas swap contracts to minimize the impact of price fluctuation of this input cost in the cash flow.

Platinum-group metals — n addition to the contracts mentioned above, Vale IncoLtd., Vale's wholly-owned subsidiary, has nickel concentrate and raw materials purchase agreements, where there are provisions based on nickel and copper future prices behavior. These provisions are considered embedded derivatives.

There is also an embedded derivative related to energy in our subsidiary Albras on which we have no unrealized gain as of December 31, 2008 and US$17 as of December 31, 2007.

The asset (liability) balances and the change in fair value of derivative financial instruments are as follows (the quarterly information is unaudited):

	Interest rates (LIBOR)/ Currencies	Gold	Products of aluminum area	Copper	Nickel	Platinum	Total
Unrealized gains (losses) at January 1, 2008	626	(36)	(98)	(188)	42	(24)	322
Financial settlement	(394)	41	120	173	38	27	5
Unrealized losses in the period	(682)	(30)	(18)	(29)	(46)	(6)	(811)
Effect of exchange rate changes	(123)	25	(4)	44	(2)	3	(57)
Unrealized gains (losses) at December 31, 2008	**(573)**	—	—	—	**32**	—	**(541)**
Unrealized gains (losses) at January 1, 2007	(10)	(53)	(318)	(298)	16	(20)	(683)
Financial settlement	(290)	33	112	240	(38)	13	70
Unrealized gains (losses) in the period	854	(7)	153	(129)	63	(17)	917
Effect of exchange rate changes	72	(9)	(45)	(1)	1	—	18
Unrealized gains (losses) at December 31, 2007(*)	**626**	**(36)**	**(98)**	**(188)**	**42**	**(24)**	**322**

(*) At December 31, 2007, US$5 was recorded in long-term liabilities.

Unrealized gains (losses) in the period are included in our income statement under the caption of Financial expenses and Foreign exchange and monetary gains (losses), net.

Final maturity dates for the above instruments are as follows:

Cross currency interest rate swaps	December 2019
Copper concentrate	March 2009
Nickel	March 2011

Under SFAS 133, all derivatives, whether designated in hedging relationships or not, are required to be recorded in the balance sheet at fair value. A derivative must be designated in a hedging relationship in order to qualify for hedge accounting. These requirements include a determination of what portions of hedges are deemed to be effective versus ineffective. In general, a hedging relationship is effective when a change in the fair value of the derivative is offset by an equal and opposite change in the fair value of the underlying hedged item. In accordance with these requirements, effectiveness tests are performed in order to assess effectiveness and quantify ineffectiveness for all designated hedges.

At December 31, 2008, we had no outstanding cash flow hedges. A cash flow hedge is a hedge of the exposure to variability in expected future cash flows that is attributable to a particular risk such as a forecasted purchase or sale. If a derivative is designated as a cash flow hedge, the effective portions of the changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in earnings when the hedged item affects earnings.

Ineffective portions of changes in the fair value of the derivatives designated as hedges are recognized in earnings. If a portion of a derivative contract is excluded for purposes of effectiveness testing, such as time value, the value of such excluded portion is included in earnings. At December 31, 2008, unrealized net losses in respect of derivative instruments which were not qualified for hedge accounting amounted to US$811. The unrealized net gain as of December 31, 2007 amounted to US$869.

26 SUBSEQUENT EVENTS

On January 30, 2009 we entered into a purchase and sale agreement with Rio Tinto Plc to acquire iron ore (in Brazil) and potash (in Argentina and Canada) assets. The price to be paid for the iron assets amounts to US$750, while the potash deposits will be acquired for US$850.