GOLDMAN SACHS GROUP INC
Form 424B2
December 27, 2018
Table of Contents

Filed Pursuant to Rule 424(b)(2)
Registration Number 333-219206

Subject to Completion. Dated December 26, 2018.

GS Finance Corp.

$

Buffered S&P 500® Index-Linked Notes due

guaranteed by

The Goldman Sachs Group, Inc.

The notes will not bear interest. The amount that you will be paid on your notes, if any, on the stated maturity date (expected to be January 15, 2020) is based on the performance of the S&P 500® Index as measured from the initial index level (set on the trade date, expected to be December 28, 2018) to each of the averaging dates (expected to be January 6, 7, 8, 9 and 10, 2020). If the index return (the percentage change in the final index level, which is the arithmetic average of the closing levels of the index on each of the averaging dates, from the initial index level) is positive, the return on your notes will be the index return, **subject to the maximum upside settlement amount of $1,100 for each $1,000 face amount of your notes**.

If the index return is negative and the final index level is *equal to* or *greater than* 84.95% of the initial index level, the return on your notes will be the absolute value of the index return (*e.g.,* if the index return is -10%, your return will be +10%).

If the final index level declines by more than 15.05% from the initial index level, the return on your notes will be negative, and you will lose approximately 1.1772% of the face amount of your notes for every 1% that the final index level has declined below 84.95% of the initial index level. See page PS-4. **You could lose a significant portion of the face amount of your notes.**

To determine your payment at maturity, we will calculate the index return, which is the percentage increase or decrease in the final index level from the initial index level. At maturity, for each $1,000 face amount of your notes, you will receive an amount in cash equal to:

- if the index return is *zero* or *positive* (the final index level is *equal to* or *greater than* the initial index level), the *sum* of (i) $1,000 *plus* (ii) the *product* of (a) $1,000 *times* (b) the index return, subject to the maximum upside settlement amount;
- if the index return is *negative* (the final index level is *less than* the initial index level) and the final index level is *equal to* or *greater than* 84.95% of the initial index level, the *sum* of (i) $1,000 *plus* (ii) the *product* of $1,000 *times* the absolute value of the index return; or
- if the index return is negative (the final index level is less than the initial index level) and the final index level is less than 84.95% of the initial index level, the sum of (i) $1,000 plus (ii) the product of (a) the buffer rate of approximately 117.72% (see page PS-4) times (b) the sum of the index return plus 15.05% times (c) $1,000. **You will receive less than the face amount of your notes.**

You should read the disclosure herein to better understand the terms and risks of your investment, including the credit risk of GS Finance Corp. and The Goldman Sachs Group, Inc. See page PS-11.

The estimated value of your notes at the time the terms of your notes are set on the trade date is expected to be between $960 and $990 per $1,000 face amount. For a discussion of the estimated value and the price at which Goldman Sachs & Co. LLC would initially buy or sell your notes, if it makes a market in the notes, see the following page.

Original issue date:	expected to be January 3, 2019	**Original issue price:**	100.00% of the face amount*
Underwriting discount:	% of the face amount*	**Net proceeds to the issuer:**	% of the face amount

*Accounts of certain national banks, acting as purchase agents for such accounts, have agreed with the purchase agents to pay a purchase price of % of the face amount, and as a result of such agreements, the agents with respect to sales to be made to such accounts will not receive any portion of the underwriting discount.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense. The notes are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency, nor are they obligations of, or guaranteed by, a bank.

Goldman Sachs & Co. LLC **JPMorgan**

Placement Agent

Pricing Supplement No. dated , 2018.

Table of Contents

The issue price, underwriting discount and net proceeds listed above relate to the notes we sell initially. We may decide to sell additional notes after the date of this pricing supplement, at issue prices and with underwriting discounts and net proceeds that differ from the amounts set forth above. The return (whether positive or negative) on your investment in notes will depend in part on the issue price you pay for such notes.

GS Finance Corp. may use this prospectus in the initial sale of the notes. In addition, Goldman Sachs & Co. LLC or any other affiliate of GS Finance Corp. may use this prospectus in a market-making transaction in a note after its initial sale. ***Unless GS Finance Corp. or its agent informs the purchaser otherwise in the confirmation of sale, this prospectus is being used in a market-making transaction.***

Estimated Value of Your Notes

The estimated value of your notes at the time the terms of your notes are set on the trade date (as determined by reference to pricing models used by Goldman Sachs & Co. LLC (GS&Co.) and taking into account our credit spreads) is expected to be between $960 and $990 per $1,000 face amount, which is less than the original issue price. The value of your notes at any time will reflect many factors and cannot be predicted; however, the price (not including GS&Co. s customary bid and ask spreads) at which GS&Co. would initially buy or sell notes (if it makes a market, which it is not obligated to do) and the value that GS&Co. will initially use for account statements and otherwise is equal to approximately the estimated value of your notes at the time of pricing, plus an additional amount (initially equal to $ per $1,000 face amount).

Prior to , the price (not including GS&Co. s customary bid and ask spreads) at which GS&Co. would buy or sell your notes (if it makes a market, which it is not obligated to do) will equal approximately the sum of (a) the then-current estimated value of your notes (as determined by reference to GS&Co. s pricing models) plus (b) any remaining additional amount (the additional amount will decline to zero on a straight-line basis from the time of pricing through). On and after , the price (not including GS&Co. s customary bid and ask spreads) at which GS&Co. would buy or sell your notes (if it makes a market) will equal approximately the then-current estimated value of your notes determined by reference to such pricing models.

About Your Prospectus

The notes are part of the Medium-Term Notes, Series E program of GS Finance Corp. and are fully and unconditionally guaranteed by The Goldman Sachs Group, Inc. This prospectus includes this pricing supplement and the accompanying documents listed below. This pricing supplement constitutes a supplement to the documents listed below and should be read in conjunction with such documents:

- General terms supplement no. 1,734 dated July 10, 2017

- Prospectus supplement dated July 10, 2017

- Prospectus dated July 10, 2017

The information in this pricing supplement supersedes any conflicting information in the documents listed above. In addition, some of the terms or features described in the listed documents may not apply to your notes.

Table of Contents

SUMMARY INFORMATION

We refer to the notes we are offering by this pricing supplement as the offered notes or the notes . Each of the offered notes has the terms described below. Please note that in this pricing supplement, references to GS Finance Corp. , we , our and us mean only GS Finance Corp. and do not include its subsidiaries or affiliates, references to The Goldman Sachs Group, Inc. , our parent company, mean only The Goldman Sachs Group, Inc. and do not include its subsidiaries or affiliates and references to Goldman Sachs mean The Goldman Sachs Group, Inc. together with its consolidated subsidiaries and affiliates, including us. Also, references to the accompanying prospectus mean the accompanying prospectus, dated July 10, 2017, references to the accompanying prospectus supplement mean the accompanying prospectus supplement, dated July 10, 2017, for Medium-Term Notes, Series E, and references to the accompanying general terms supplement no. 1,734 mean the accompanying general terms supplement no. 1,734, dated July 10, 2017, in each case of GS Finance Corp. and The Goldman Sachs Group, Inc. The notes will be issued under the senior debt indenture, dated as of October 10, 2008, as supplemented by the First Supplemental Indenture, dated as of February 20, 2015, each among us, as issuer, The Goldman Sachs Group, Inc., as guarantor, and The Bank of New York Mellon, as trustee. This indenture, as so supplemented and as further supplemented thereafter, is referred to as the GSFC 2008 indenture in the accompanying prospectus supplement.

This section is meant as a summary and should be read in conjunction with the section entitled Supplemental Terms of the Notes on page S-16 of the accompanying general terms supplement no. 1,734. Please note that certain features described in the accompanying general terms supplement no. 1,734 are not applicable to the notes. This pricing supplement supersedes any conflicting provisions of the accompanying general terms supplement no. 1,734.

Key Terms

Issuer:	GS Finance Corp.
Guarantor:	The Goldman Sachs Group, Inc.
Underlier:	the S&P 500® Index (Bloomberg symbol, SPX Index), as published by S&P Dow Jones Indices LLC
Specified currency:	U.S. dollars ($)
Face amount:	each note will have a face amount of $1,000; $ in the aggregate for all the offered notes; the aggregate face amount of the offered notes may be increased if the issuer, at its sole option, decides to sell an additional amount of the offered notes on a date subsequent to the date of this pricing supplement
Denominations:	$10,000 and integral multiples of $1,000 in excess thereof
Purchase at amount other than face amount:	the amount we will pay you at the stated maturity date for your notes will not be adjusted based on the issue price you pay for your notes, so if you acquire notes at a premium (or discount) to face amount and hold them to the stated maturity date, it could affect your investment in a number of ways. The return on your investment in such notes will be lower (or higher) than it would have been had you purchased the notes at face amount. Also, the stated buffer level would not offer the same measure

of protection to your investment as would be the case if you had purchased the notes at face amount. Additionally, the upside cap level would be triggered at a lower (or higher) percentage return than indicated below, relative to your initial investment. See Additional Risk Factors Specific to Your Notes If You Purchase Your Notes at a Premium to Face Amount, the Return on Your Investment Will Be Lower Than the Return on Notes Purchased at Face Amount and the Impact of Certain Key Terms of the Notes Will be Negatively Affected on page PS-13 of this pricing supplement

Supplemental discussion of U.S. federal income tax consequences:	you will be obligated pursuant to the terms of the notes in the absence of a change in law, an administrative determination or a judicial ruling to the contrary to characterize each note for all tax purposes as a pre-paid derivative contract in respect of the underlier, as described under

Table of Contents

Supplemental Discussion of U.S. Federal Income Tax Consequences herein. Pursuant to this approach, it is the opinion of Sidley Austin LLP that upon the sale, exchange or maturity of your notes, it would be reasonable for you to recognize capital gain or loss equal to the difference, if any, between the amount of cash you receive at such time and your tax basis in your notes.

Cash settlement amount (on the stated maturity date): for each $1,000 face amount of your notes, we will pay you on the stated maturity date an amount in cash equal to:

- if the final underlier level is *equal to* or *greater than* the initial underlier level, the *sum* of (i) $1,000 *plus* (ii) the *product* of (a) $1,000 *times* (b) the underlier return, subject to the maximum upside settlement amount; or

- if the final underlier level is *less than* the initial underlier level but *greater than* or *equal to* the buffer level, the *sum* of (i) $1,000 *plus* (ii) the *product* of $1,000 *times* the absolute underlier return; or

- if the final underlier level is *less than* the buffer level, the *sum* of (i) $1,000 *plus* (ii) the *product* of (a) $1,000 *times* (b) the buffer rate *times* (c) the *sum* of the underlier return *plus* the buffer amount.

Initial underlier level (to be set on the trade date):

Final underlier level: the arithmetic average of the closing levels of the underlier on each of the averaging dates, except in the limited circumstances described under Supplemental Terms of the Notes Consequences of a Market Disruption Event or a Non-Trading Day on page S-23 of the accompanying general terms supplement no. 1,734 and subject to adjustment as provided under Supplemental Terms of the Notes Discontinuance or Modification of an Underlier on page S-27 of the accompanying general terms supplement no. 1,734

Underlier return: the *quotient* of (1) the final underlier level *minus* the initial underlier level *divided* by (2) the initial underlier level, expressed as a percentage

Absolute underlier return: the absolute value of the underlier return, expressed as a percentage (e.g., a -10% underlier return will equal a +10% absolute underlier return)

Upside cap level: 110% of the initial underlier level

Maximum upside settlement amount: $1,100

Buffer level: 84.95% of the initial underlier level

Buffer amount: 15.05%

Buffer rate:

	the *quotient* of the initial underlier level *divided* by the buffer level, which equals approximately 117.72%
Trade date:	expected to be December 28, 2018
Original issue date (settlement date) (to be set on the trade date):	expected to be January 3, 2019
Determination date (to be set on the trade date):	the final averaging date, expected to be January 10, 2020, subject to adjustment as described under Supplemental Terms of the Notes Averaging Dates on page S-18 of the accompanying general terms supplement no. 1,734

Table of Contents

Stated maturity date (to be set on the trade date):	expected to be January 15, 2020, subject to adjustment as described under Supplemental Terms of the Notes Stated Maturity Date on page S-16 of the accompanying general terms supplement no. 1,734
Averaging dates (to be set on the trade date):	expected to be January 6, 2020, January 7, 2020, January 8, 2020, January 9, 2020 and January 10, 2020, each subject to postponement as described under Supplemental Terms of the Notes Averaging Dates on page S-18 of the accompanying general terms supplement no. 1,734
No interest:	the offered notes will not bear interest
No listing:	the offered notes will not be listed on any securities exchange or interdealer quotation system
No redemption:	the offered notes will not be subject to redemption right or price dependent redemption right
Closing level:	as described under Supplemental Terms of the Notes Special Calculation Provisions Closing Level on page S-31 of the accompanying general terms supplement no. 1,734
Business day:	as described under Supplemental Terms of the Notes Special Calculation Provisions Business Day on page S-30 of the accompanying general terms supplement no. 1,734
Trading day:	as described under Supplemental Terms of the Notes Special Calculation Provisions Trading Day on page S-31 of the accompanying general terms supplement no. 1,734
Use of proceeds and hedging:	as described under Use of Proceeds and Hedging on page S-94 of the accompanying general terms supplement no. 1,734
ERISA:	as described under Employee Retirement Income Security Act on page S-95 of the accompanying general terms supplement no. 1,734
Supplemental plan of distribution; conflicts of interest:	as described under Supplemental Plan of Distribution on page S-96 of the accompanying general terms supplement no. 1,734 and Plan of Distribution Conflicts of Interest on page 78 of the accompanying prospectus; GS Finance Corp. estimates that its share of the total offering expenses, excluding underwriting discounts and commissions, will be approximately $. GS Finance Corp. expects to agree to sell to Goldman Sachs & Co. LLC (GS&Co.), and GS&Co. expects to agree to purchase from GS Finance Corp., the aggregate face amount of the offered notes specified on the front cover of this pricing supplement. GS&Co. proposes initially to offer the notes to the public at the original issue price set forth on the cover page of this pricing supplement, and to certain securities dealers at such price less a concession not in excess of % of the face amount. Accounts of certain national banks, acting as purchase agents for such accounts, have agreed with the purchase agents to pay a purchase price of % of the face amount, and as a result of such agreements, the agents with respect to sales to be made to such accounts will not receive any portion of the underwriting discount set forth on the front cover page of this pricing supplement from GS&Co. GS&Co. is an affiliate of GS Finance Corp. and The Goldman Sachs Group, Inc. and, as such, will have a conflict of interest in this offering of notes within the meaning of Financial Industry Regulatory Authority, Inc. (FINRA) Rule 5121. Consequently, this offering of notes will be conducted in compliance with the provisions of FINRA Rule 5121. GS&Co. will not be permitted to sell notes in this offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

We expect to deliver the notes against payment therefor in New York,

Table of Contents

	New York on January 3, 2019. Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes on any date prior to two business days before delivery will be required to specify alternative settlement arrangements to prevent a failed settlement. We have been advised by GS&Co. that it intends to make a market in the notes. However, neither GS&Co. nor any of our other affiliates that makes a market is obligated to do so and any of them may stop doing so at any time without notice. No assurance can be given as to the liquidity or trading market for the notes.
Calculation agent:	GS&Co.
CUSIP no.:	40056EPN2
ISIN no.:	US40056EPN21
FDIC:	the notes are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency, nor are they obligations of, or guaranteed by, a bank

Table of Contents

Additional Terms Specific to Your Notes

You should read this pricing supplement together with the prospectus dated July 10, 2017, the prospectus supplement dated July 10, 2017 and the general terms supplement no. 1,734 dated July 10, 2017. You may access these documents on the SEC website at sec.gov as follows (or if such address has changed, by reviewing our filings for the relevant date on the SEC website):

Prospectus dated July 10, 2017:

https://www.sec.gov/Archives/edgar/data/886982/000119312517224447/d356650d424b2.htm

Prospectus supplement dated July 10, 2017:

https://www.sec.gov/Archives/edgar/data/886982/000119312517224493/d393410d424b2.htm

General terms supplement no. 1,734 dated July 10, 2017:

https://www.sec.gov/Archives/edgar/data/886982/000119312517224511/d420249d424b2.htm

Table of Contents

HYPOTHETICAL EXAMPLES

The following examples are provided for purposes of illustration only. They should not be taken as an indication or prediction of future investment results and are intended merely to illustrate the impact that the various hypothetical underlier levels on the averaging dates could have on the cash settlement amount at maturity assuming all other variables remain constant.

The examples below are based on a range of final underlier levels that are entirely hypothetical; no one can predict what the underlier level will be on any day throughout the life of your notes, and no one can predict what the underlier level will be on any averaging date. The underlier has been highly volatile in the past meaning that the underlier level has changed considerably in relatively short periods and its performance cannot be predicted for any future period.

The information in the following examples reflects hypothetical rates of return on the offered notes assuming that they are purchased on the original issue date at the face amount and held to the stated maturity date. If you sell your notes in a secondary market prior to the stated maturity date, your return will depend upon the market value of your notes at the time of sale, which may be affected by a number of factors that are not reflected in the examples below such as interest rates, the volatility of the underlier the creditworthiness of GS Finance Corp., as issuer, and the creditworthiness of The Goldman Sachs Group, Inc., as guarantor. In addition, the estimated value of your notes at the time the terms of your notes are set on the trade date (as determined by reference to pricing models used by GS&Co.) is less than the original issue price of your notes. For more information on the estimated value of your notes, see Additional Risk Factors Specific to Your Notes The Estimated Value of Your Notes At the Time the Terms of Your Notes Are Set On the Trade Date (as Determined By Reference to Pricing Models Used By GS&Co.) Is Less Than the Original Issue Price Of Your Notes on page PS-11 of this pricing supplement. The information in the examples also reflects the key terms and assumptions in the box below.

Key Terms and Assumptions	
Face amount	$1,000
Upside cap level:	110% of the initial underlier level
Maximum upside settlement amount:	$1,100
Buffer level	84.95% of the initial underlier level
Buffer rate	approximately 117.72%
Buffer amount	15.05%
Neither a market disruption event nor a non-trading day occurs on any of the originally scheduled averaging dates	
No change in or affecting any of the underlier stocks or the method by which the underlier sponsor calculates the underlier	
Notes purchased on original issue date at the face amount and held to the stated maturity date	

Moreover, we have not yet set the initial underlier level that will serve as the baseline for determining the underlier return or the absolute underlier return, as applicable, and the amount that we will pay on your notes, if any, at maturity. We will not do so until the trade date. As a result, the actual initial underlier level may differ substantially from the underlier level prior to the trade date.

For these reasons, the actual performance of the underlier over the life of your notes, as well as the amount payable at maturity, if any, may bear little relation to the hypothetical examples shown below or to the historical underlier levels shown elsewhere in this pricing supplement. For information about the historical levels of the underlier during recent periods, see The Underlier Historical Closing Levels of the Underlier below. Before investing in the offered notes, you should consult publicly available information to determine the levels of the underlier between the date of this pricing supplement and the date of your purchase of the offered notes.

Table of Contents

Also, the hypothetical examples shown below do not take into account the effects of applicable taxes. Because of the U.S. tax treatment applicable to your notes, tax liabilities could affect the after-tax rate of return on your notes to a comparatively greater extent than the after-tax return on the underlier or the underlier stocks.

The levels in the left column of the table below represent hypothetical final underlier levels and are expressed as percentages of the initial underlier level. The amounts in the right column represent the hypothetical cash settlement amounts, based on the corresponding hypothetical final underlier level (expressed as a percentage of the initial underlier level), and are expressed as percentages of the face amount of a note (rounded to the nearest one-thousandth of a percent). Thus, a hypothetical cash settlement amount of 100.000% means that the value of the cash payment that we would deliver for each $1,000 of the outstanding face amount of the offered notes on the stated maturity date would equal 100.000% of the face amount of a note, based on the corresponding hypothetical final underlier level (expressed as a percentage of the initial underlier level) and the assumptions noted above.

Hypothetical Final Underlier Level (as Percentage of Initial Underlier Level)	**Hypothetical Cash Settlement Amount (as Percentage of Face Amount)**
150.000%	110.000%
140.000%	110.000%
125.000%	110.000%
110.000%	**110.000%**
106.000%	106.000%
103.000%	103.000%
100.000%	**100.000%**
95.000%	105.000%
90.000%	110.000%
84.950%	**115.050%**
75.000%	88.287%
50.000%	58.858%
25.000%	29.429%
0.000%	**0.000%**

If, for example, the final underlier level were determined to be 25.000% of the initial underlier level, the cash settlement amount that we would deliver on your notes at maturity would be approximately 29.429% of the face amount of your notes, as shown in the table above. As a result, if you purchased your notes on the original issue date at the face amount and held them to the stated maturity date, you would lose approximately 70.571% of your investment (if you purchased your notes at a premium to face amount you would lose a correspondingly higher percentage of your investment).

If, for example, the final underlier level were determined to be 95.000% of the initial underlier level, the absolute underlier return would be 5.000% and the cash settlement amount that we would deliver on your notes at maturity would be 105.000% of the face amount of your notes, as shown in the table above.

Table of Contents

If, for example, the final underlier level were determined to be 150.000% of the initial underlier level, the cash settlement amount that we would deliver on your notes at maturity would be capped at the maximum upside settlement amount (expressed as a percentage of the face amount), or 110.000% for each $1,000 face amount of your notes, as shown in the table above. As a result, if you held your notes to the stated maturity date, you would not benefit from any increase in the final underlier level over 110.000% of the initial underlier level.

The cash settlement amounts shown above are entirely hypothetical; they are based on market prices for the underlier stocks that may not be achieved on the averaging dates and on assumptions that may prove to be erroneous. The actual market value of your notes on the stated maturity date or at any other time, including any time you may wish to sell your notes, may bear little relation to the hypothetical cash settlement amounts shown above, and these amounts should not be viewed as an indication of the financial return on an investment in the offered notes. The hypothetical cash settlement amounts on notes held to the stated maturity date in the examples above assume you purchased your notes at their face amount and have not been adjusted to reflect the actual issue price you pay for your notes. The return on your investment (whether positive or negative) in your notes will be affected by the amount you pay for your notes. If you purchase your notes for a price other than the face amount, the return on your investment will differ from, and may be significantly lower than, the hypothetical returns suggested by the above examples. Please read Additional Risk Factors Specific to the Notes The Market Value of Your Notes May Be Influenced by Many Unpredictable Factors in the accompanying general terms supplement no. 1,734.

Payments on the notes are economically equivalent to the amounts that would be paid on a combination of other instruments. For example, payments on the notes are economically equivalent to a combination of an interest-bearing bond bought by the holder and one or more options entered into between the holder and us (with one or more implicit option premiums paid over time). The discussion in this paragraph does not modify or affect the terms of the notes or the U.S. federal income tax treatment of the notes, as described elsewhere in this pricing supplement.

We cannot predict the actual final underlier level or what the market value of your notes will be on any particular trading day, nor can we predict the relationship between the underlier level and the market value of your notes at any time prior to the stated maturity date. The actual amount that you will receive, if any, at maturity and the rate of return on the offered notes will depend on the actual initial underlier level, which we will set on the trade date, and the actual final underlier level determined by the calculation agent as described above. Moreover, the assumptions on which the hypothetical returns are based may turn out to be inaccurate. Consequently, the amount of cash to be paid in respect of your notes, if any, on the stated maturity date may be very different from the information reflected in the examples above.

	(1,255)		(1,250)	(1,255)	(1,250)
Dividends and interest attributed to noncontrolling interest			(87)	(10)	(87)
Net cash provided by (used in) financing activities	**(1,157)**	**26**	**(1,987)**	**(1,131)**	**(617)**
Increase (decrease) in cash and cash equivalents	(2,282)	(1,425)	(57)	(3,707)	1,208
Effect of exchange rate changes on cash and cash equivalents	1,477	91	(53)	1,568	(100)
Cash and cash equivalents, beginning of period	8,997	10,331	2,264	10,331	1,046
Cash and cash equivalents, end of period	**8,192**	**8,997**	**2,154**	**8,192**	**2,154**
Cash paid during the period for:					
Interest on short-term debt			(5)		(10)
Interest on long-term debt	(311)	(277)	(357)	(588)	(636)
Income tax	(85)	(143)	(320)	(228)	(1,992)
Non-cash transactions					
Interest capitalized	50	65	14	115	31

The accompanying notes are an integral part of this condensed consolidated financial information.

Table of Contents

Condensed Consolidated Statements of Changes in Stockholders Equity
Expressed in millions of United States Dollars
(Except number of shares and per-share amounts)

	Three-month period ended (unaudited)			Six-month period ended (unaudited)	
	June 30, 2009	**March 31, 2009**	**June 30, 2008**	**June 30, 2009**	**June 30, 2008**
Preferred class A stock (including twelve special shares)					
Beginning and end of the period	**9,727**	**9,727**	**4,953**	**9,727**	**4,953**
Common stock					
Beginning and end of the period	**15,262**	**15,262**	**7,742**	**15,262**	**7,742**
Treasury stock					
Beginning of the period	(1,151)	(1,141)	(389)	(1,141)	(389)
Acquisitions		(10)		(10)	
End of the period	**(1,151)**	**(1,151)**	**(389)**	**(1,151)**	**(389)**
Additional paid-in capital					
Beginning and end of the period	**393**	**393**	**498**	**393**	**498**
Mandatorily convertible notes common shares					
Beginning and end of the period	**1,288**	**1,288**	**1,288**	**1,288**	**1,288**
Mandatorily convertible notes preferred shares					
Beginning and end of the period	**581**	**581**	**581**	**581**	**581**
Other cumulative comprehensive (deficit) income					
Cumulative translation adjustments					
Beginning of the period	(11,597)	(11,493)	1,135	(11,493)	1,340
Change in the period	5,212	(104)	1,707	5,108	1,502
End of the period	**(6,385)**	**(11,597)**	**2,842**	**(6,385)**	**2,842**

Unrealized gain (loss) available-for-sale securities, net of tax					
Beginning of the period	113	17	205	17	211
Change in the period	(64)	96	(94)	32	(100)
End of the period	**49**	**113**	**111**	**49**	**111**
Surplus (deficit) accrued pension plan					
Beginning of the period	(82)	(34)	60	(34)	75
Change in the period	157	(48)	104	109	89
End of the period	**75**	**(82)**	**164**	**75**	**164**
Cash flow hedge					
Beginning of the period			2		29
Change in the period	1		6	1	(21)
End of the period	**1**		**8**	**1**	**8**
Total other cumulative comprehensive (deficit) income	**(6,260)**	**(11,566)**	**3,125**	**(6,260)**	**3,125**
Undistributed retained earnings					
Beginning of the period	18,513	18,340	15,508	18,340	15,317
Transfer from unappropriated retained earnings	3,417	173	1,513	3,590	1,704
End of the period	**21,930**	**18,513**	**17,021**	**21,930**	**17,021**
Unappropriated retained earnings					
Beginning of the period	10,780	9,616	3,435	9,616	1,631
Net income attributable to Company s stockholders	790	1,363	5,009	2,153	7,030
Interest on mandatorily convertible debt					
Preferred class A stock	(15)	(8)	(15)	(23)	(23)
Common stock	(31)	(18)	(30)	(49)	(48)
Appropriation to undistributed retained earnings	(3,417)	(173)	(1,513)	(3,590)	(1,704)
End of the period	**8,107**	**10,780**	**6,886**	**8,107**	**6,886**
Total Company stockholders equity	**49,877**	**43,827**	**41,705**	**49,877**	**41,705**

Noncontrolling interests					
Beginning of the period	2,085	1,892	2,140	**1,892**	**2,180**
Disposals and (acquisitions) of noncontrolling interests	29			29	
Cumulative translation adjustments	313	222	286	**535**	**235**
Cash flow hedge			6		**(16)**
Net income (loss) attributable to noncontrolling interests	50	(40)	147	**10**	**171**
Dividends and interest attributable to noncontrolling interests		(1)	(110)	**(1)**	**(110)**
Capitalization of stockholders advances		12	23	**12**	**32**
End of the period	**2,477**	**2,085**	**2,492**	**2,477**	**2,492**
Total stockholders equity	**52,354**	**45,912**	**44,197**	**52,354**	**44,197**
Number of shares:					
Preferred class A stock (including twelve special shares)	2,108,590,250	2,108,579,618	1,919,516,400	2,108,590,250	1,919,516,400
Common stock	3,256,724,482	3,256,724,482	2,999,797,716	3,256,724,482	2,999,797,716
Buy-backs					
Beginning of the period	(152,623,603)	(151,792,203)	(86,923,052)	(151,792,203)	(86,923,184)
Acquisitions		(831,400)		(831,400)	
Sales					132
End of the period	(152,623,603)	(152,623,603)	(86,923,052)	(152,623,603)	(86,923,052)
	5,212,691,129	5,212,680,497	4,832,391,064	5,212,691,129	4,832,391,064

The accompanying notes are an integral part of this condensed consolidated financial information.

8

Table of Contents

Notes to the Condensed Consolidated Financial Information
Expressed in millions of United States Dollars, unless otherwise stated

1 The Company and its operation

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, non-ferrous metal production, logistics and steel activities.

At June 30, 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 (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
Diamond Coal Ltd.	100.00	100.00	Colombia	Coal
Ferrovia Centro-Atlântica S. A.	100.00	100.00	Brazil	Logistics
Pará Pigmentos S.A. (PPSA)	86.17	85.57	Brazil	Kaolin
PT International Nickel Indonesia Tbk (PT Inco)	61.16	61.16	Indonesia	Nickel
Rio Doce Manganése Norway RDMN	100.00	100.00	Norway	Ferroalloys
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
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

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 10).

We evaluate the carrying value of some of our 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 stockholder 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.

3 Basis of presentation

Our condensed consolidated interim financial information for the three-month periods ended June 30, 2009, March 31, 2009 and June 30, 2008 and for the six-month periods ended June 30, 2009 and 2008, prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), are unaudited. However, in our opinion, such condensed consolidated financial information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results for interim periods. The results of operations for the three-month and six-month periods ended June 30, 2009, are not necessarily indicative of the actual results expected for the full fiscal year ending December 31, 2009.

Table of Contents

This condensed consolidated financial information should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2008, prepared in accordance with U.S. GAAP.

In preparing the condensed consolidated financial information, we are required to use estimates to account for certain assets, liabilities, revenues and expenses. Our condensed consolidated financial statements therefore include various estimates concerning the selection of useful lives of property, plant and equipment, impairment, provisions necessary for contingent liabilities, fair values assigned to assets and liabilities acquired and assumed in business combinations, income tax uncertainties, employee post-retirement benefits and other similar evaluations. Actual results may vary from our estimates.
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 (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 June 30, 2009 and December 31, 2008, were R$1.9516 and R$2.3370, respectively.

The Company has performed an evaluation of subsequent events through July 29, 2009 which is the date the financial statements were issued.

4 Accounting pronouncements

(a) New accounting standards

In June 2009, the FASB issued SFAS 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167). SFAS 167 changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009. Early application is not permitted. We are currently studying the effects of this pronouncement.

In June 2009, the FASB issued SFAS 166, Accounting for Transfers of Financial Assets , the Board s objective in issuing this Statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets. This Statement shall be effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. We are currently assessing the potential impact, if any, on our condensed financial statements.

Table of Contents

(b) Accounting standards recently adopted

From 2009, we fully adopted the accounting standards addressed by the following pronouncements:
SFAS 165, Subsequent Events (SFAS 165). This statement establishes general standards of accounting for 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. SFAS 165 is effective for interim or annual periods ending after June 15, 2009. The Company already adopts this statement.

FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. This FSP shall be effective for interim reporting periods ending after June 15, 2009, we have not early adopted this pronouncement for the three-month period ended March 31, 2009. The application of FSP FAS 107 1 and APB 28 1 will expand the Company s disclosures regarding the use of fair value in interim periods. The required information is disclosed in Note 18 (d).

SFAS 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement 133 (SFAS 161). SFAS 161 expands the current disclosure requirements of SFAS 133, Accounting for Derivative Instruments and Hedging Activities, such that 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 SFAS 133 and how derivatives and related hedged items affect the entity s financial position, performance and cash flow. The required information is disclosed in Note 20.

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 showed on Note 14 and condensed 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.

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.

5 Major acquisitions and disposals

(a) Diamond Coal Ltd

In March 2009, we acquired 100% of the company 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.

Due to the recent conclusion of the transaction, we are still in the process of identifying assets acquired and liabilities assumed.

Table of Contents

As a result, the condensed information presented below reflects our preliminary analysis of the expected purchase price allocation:

	Preliminary Valuation
Purchase price	300
Book value of assets acquired	(112)
Adjustment to fair value of property, plant and equipment	**188**

The final accounting is pending conclusion of all identified assets and liabilities which is being internally carried out by us.

Such purchase price allocation will be finalized during next periods, and accordingly the preliminary information presented above is subject to revisions, which may be material.

(b) Green Mineral Resources

In February 2009, we concluded the acquisition of Green Mineral Resources that owns Regina Project (Canada) and Colorado Project (Argentina), 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.

Also 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 next periods, and accordingly, the preliminary purchase price allocation information set forth below are subject to revision, which may be material.

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

	Preliminary Valuation
Total disbursements	857
Cash acquired	(7)
Purchase price	850
Book value of assets acquired, net of cash acquired	(105)
Book value of liabilities assumed	8
Adjustment to fair value of property, plant and equipment	**753**

The final accounting is pending conclusion of all identified assets and liabilities which is being internally carried out by us.

(c) Other transactions

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 January 2009, we entered into a purchase and sale agreement with Rio Tinto Plc to acquire iron ore (in Brazil) assets, for an amount of US$750, this acquisition has not been finalized yet, and it subject to the approval of Administrative Council for Economic Defense.

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.

Table of Contents

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%.

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

	Three-month period ended (unaudited)								
	June 30, 2009			March 31, 2009			June 30, 2008		
	Brazil	**Foreign**	**Total**	**Brazil**	**Foreign**	**Total**	**Brazil**	**Foreign**	**Total**
Income before income taxes, equity results and noncontrolling interests	**5,302**	**(2,973)**	**2,329**	**1,409**	**148**	**1,557**	**4,067**	**2,335**	**6,402**
Tax at Brazilian composite rate	(1,803)	1,011	(792)	(479)	(50)	(529)	(1,383)	(794)	(2,177)
Adjustments to derive effective tax rate:									
Tax benefit on interest attributed to stockholders							7		7
Difference on tax rates of foreign income		338	338		154	154		602	602
Exchange gains/losses not taxable		(1,279)	(1,279)		(9)	(9)		(287)	(287)
Tax incentives	59		59	18		18	72		72
Tax deductible amortization of goodwill	23		23	20		20			
Other non-taxable, income/non deductible expenses	62	(35)	27	(3)	43	40	358	(81)	277
Income taxes per consolidated statements of income	**(1,659)**	**35**	**(1,624)**	**(444)**	**138**	**(306)**	**(946)**	**(560)**	**(1,506)**

	Six-month period ended (unaudited)					
	June 30, 2009			June 30, 2008		
	Brazil	**Foreign**	**Total**	**Brazil**	**Foreign**	**Total**
Income before income taxes, equity results and noncontrolling interests	**6,711**	**(2,825)**	**3,886**	**4,589**	**4,097**	**8,686**
Tax at Brazilian composite rate	(2,282)	961	(1,321)	(1,560)	(1,393)	(2,953)
Adjustments to derive effective tax rate:						
Tax benefit on interest attributed to stockholders				176		176
Difference on tax rates of foreign income		492	492		860	860
Exchange gains/losses not taxable		(1,288)	(1,288)		(307)	(307)

Tax incentives	77		77	87		87
Tax deductible amortization of goodwill	43		43	53		53
Other non-taxable, income/non deductible expenses	59	8	67	246	(26)	220
Income taxes per consolidated statements of income	**(2,103)**	**173**	**(1,930)**	**(998)**	**(866)**	**(1,864)**

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.

Table of Contents

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 48, Accounting for Uncertainty in Income Taxes .

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

	June 30, 2009 (unaudited)	December 31, 2008
Beginning of the period	**657**	**1,046**
Increase resulting from tax positions taken	21	103
Decrease resulting from tax positions taken	(1)	(261)
Changes in tax legislation		2
Cumulative translation adjustments	84	(233)
End of the period	**761**	**657**

7 Cash and cash equivalents

	June 30, 2009 (unaudited)	December 31, 2008
Cash	503	767
Short-term investments	7,689	9,564
	8,192	**10,331**

All the above mentioned short term investments are done through the use of low risk fixed income securities, in a way that: the ones denominated in Brazilian Reais are concentrated on investments indexed to CDI, and the ones denominated in US dollars are mainly time deposits.

8 Short-term investments

	June 30, 2009 (unaudited)	December 31, 2008
Time deposit (*)	3,000	2,308

(*) Also represent low risk investments with original due date over 90 days.

9 Inventories

	June 30, 2009 (unaudited)	December 31, 2008
Finished products		
Nickel (co-products and by-products)	1,448	1,514
Iron ore and pellets	838	728
Manganese and ferroalloys	158	199
Aluminum products	129	150
Kaolin	35	40
Copper concentrate	18	26
Coal	57	43
Others	146	80
Spare parts and maintenance supplies	1,206	1,116
	4,035	**3,896**

At June 30, 2009, no adjustments were required, to reduce inventories to its market values (US$77 were adjusted in December 31, 2008).

Table of Contents

10 Investments in affiliated companies and joint ventures

	June 30, 2009				Investments		Equity in earnings (losses) of investee adjustments					Dividends re		
							Three-month period ended (unaudited)			Six-month period ended (unaudited)		Three-month period ended (unaudited)		
	Participation in capital (%) Voting	Total	Net equity	Net income (loss) for the period	June 30, 2009 (unaudited)	December 31, 2008	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	March 31, 2009	June 30, 2008
Nipo-Brasileira de Pelotização (1)	51.11	51.00	273	15	139	110	3	5	34	8	30		20	
Hispano Brasileira de Pelotização RÁS (1)	51.00	50.89	104	(15)	53	73	(5)	(3)	33	(8)	35			
Coreano-Brasileira de Pelotização O (1)	50.00	50.00	162	29	81	55	3	11	19	14	21			
talo Brasileira de Pelotização O (1)	51.00	50.90	143	6	73	58		3	1	3	2			
ra Geral S.A. MSG	50.00	50.00	53	2	26	21	1			1	1			
Mineração S.A. SAMARCO (2)	50.00	50.00	1,076	264	593	412	90	42	148	132	196	50		138
eração S.A. BAOVALE	50.00	50.00	53		26	26	(1)	(3)	1	(4)	3			
Pellet e Co.,Ltd. ZHUHAI	25.00	25.00	42	(6)	11	13	2	(4)		(2)				
					1,002	**768**	**93**	**51**	**236**	**144**	**288**	**50**	**20**	**138**
ística Intermodal S.A.	31.33	31.33	333	5	112	94		2	6	2	11	3		3
ca S.A.	37.86	41.50	898	104	372	326	24	19	(47)	43	(18)	33		34
					484	**420**	**24**	**21**	**(41)**	**45**	**(7)**	**36**		**37**
eel Industries Inc. CSI	50.00	50.00	296	(24)	148	160	(1)	(11)	22	(12)	28			
RUPP CSA Companhia Cost $595) (5)	10.53	10.53			682	443								
úrgicas de Minas Gerais S.A. (4)						164	7		10	7	10	7		10
					830	**767**	**6**	**(11)**	**32**	**(5)**	**38**	**7**		**10**

io do Norte S.A. MRN	40.00	40.00	362	31	146	140	13	(1)	8	12	22	13	17	38
					146	**140**	**13**	**(1)**	**8**	**12**	**22**	**13**	**17**	**38**
yu Resources Co. Ltd	25.00	25.00	829	125	207	176	13	18	19	31	36			
ankuang International Company	25.00	25.00	(2)	(46)	(1)	11	(5)	(7)	1	(12)				
					206	**187**	**8**	**11**	**20**	**19**	**36**			
s Incorpored (3)	50.00	50.00	177	(18)	88		(9)			(9)				
					88		**(9)**			**(9)**				
rces Inc (cost $24) -sale					3	2								
ckel Ltd (cost $25) -sale					24	8								
erals (cost $17) available for sale					23	9								
l Corp					21	21		1		1				
iable-for-sale					17	13								
					88	**53**		**1**		**1**				
tes and joint ventures					**124**	**73**			**5**		**2**			
					124	**73**			**5**		**2**			
					1,482	**1,220**	**18**		**65**	**18**	**98**	**20**	**17**	**48**
					2,968	**2,408**	**135**	**72**	**260**	**207**	**379**	**106**	**37**	**223**

(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$55 in June, 2009 and US$46 in December, 2008;

(3) Acquired in March, 2009 (Note 5);

(4) Sold in April, 2009, equity refers to dividends received;

(5) See Note 21

Table of Contents

11 Short-term debt

Short-term borrowings outstanding on June 30, 2009 are from commercial banks for export financing denominated in U.S. Dollars, with average annual interest rates of 0.81%.

12 Long-term debt

	Current liabilities		Long-term liabilities	
Foreign debt	**June 30, 2009 (unaudited)**	**December 31, 2008**	**June 30, 2009 (unaudited)**	**December 31, 2008**
Loans and financing denominated in the following currencies:				
U.S. Dollars	204	210	5,809	5,905
Others	25	23	185	167
Fixed Rate Notes U.S. Dollar denominated			6,501	6,510
Debt securities export sales (*) U.S. Dollar denominated	56	55	122	149
Perpetual notes			83	83
Accrued charges	180	217		
	465	**505**	**12,700**	**12,814**
Brazilian debt				
Brazilian Reais indexed to Long-Term Interest Rate				
TJLP/CDI and General Price Index-Market (IGPM)	52	33	2,653	1,990
Basket of currencies	2	1	4	4
Non-convertible debentures			3,075	2,562
U.S. Dollars Denominated			394	165
Accrued charges	91	94		
	145	**128**	**6,126**	**4,721**
Total	**610**	**633**	**18,826**	**17,535**

(*) Secured by receivables from future export sales.

The long-term portion at June 30, 2009 falls due as follows:

2010	2,280
2011	2,636
2012	1,175
2013	2,957
2014 and thereafter	9,438
No due date (Perpetual notes and non-convertible debentures)	340

	18,826

At June 30, 2009 annual interest rates on long-term debt were as follows:

Up to 3%	6,125
3.1% to 5%	353
5.1% to 7% (*)	5,816
7.1% to 9% (*)	2,520
9.1% to 11%	3,466
Over 11% (*)	1,072
Variable (Perpetual notes)	84
	19,436

(*) Includes non-convertible debentures and other Brazilian Real-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 to the floating rate debt denominated in Brazilian Real, totaling US$5,406 of which US$4,363 has original interest rate above 9%. The average cost after taking into account the derivative

transactions is
4.72%.

Table of Contents

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

	Three-month period ended		
	June 30, 2009	March 31, 2009	June 30, 2008
TJLP Long-Term Interest Rate (effective rate)	1.6	1.5	1.5
IGP-M General Price Index Market	(0.3)	(0.9)	4.3
Appreciation (Devaluation) of Real against U.S. Dollar	18.6	0.9	9.9

In January 2008 we entered into a trade finance agreement with a Brazilian bank in the amount of US$1,024 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. Through June 30, 2009, Vale had drawn down US$587 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 June 30, 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 June 30, 2009, neither Vale International nor Vale Inco had drawn any amounts under these facilities.

Through June 30, 2009, Vale Inco had drawn down US$91 of letters of credit.

At June 30, 2009 the U.S. Dollar denominated fixed rate notes of US$6,501 (December 31, 2008 US$6,510) and other debt of US$12,436 (December 31, 2008 US$11,102) are unsecured. The export securitization of US$180 (December 31, 2008 US$204) represents debt securities collateralized by receivables from future export sales of CVRD Overseas Ltd. Loans from international lenders of US$46 (December 31, 2008 US$57) are guaranteed by the Brazilian Federal Government, to which we have provided like counter guarantees. The remaining long-term debt of US$273 (December 31, 2008 US$295) 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 June 30, 2009 and December 31, 2008.

13 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 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.

Table of Contents

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 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 2009, we announced that the ticker symbols of its ADR will change from Rio and Rio PR to Vale and Vale P. The new ticker symbols were effective at the starting of trading on Monday, May 4, 2009.

In April 2009 we paid to holders of the mandatorily convertible notes of series Vale (formely RIO) and of series Vale (formely RIO P), the U.S. Dollar equivalent of US$0.490922 and US$0.582658, respectively.

Table of Contents

Basic and diluted earnings per share

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

	Three-month period ended (unaudited)			Six-month period ended (unaudited)	
	June 30, 2009	**March 31, 2009**	**June 30, 2008**	**June 30, 2009**	**June 30, 2008**
Net income attributable to Company s stockholders	**790**	**1,363**	**5,009**	**2,153**	**7,030**
Interest attributed to preferred convertible notes	(15)	(8)	(15)	(23)	(23)
Interest attributed to common convertible notes	(31)	(18)	(30)	(49)	(48)
Net income for the period adjusted	744	1,337	4,964	2,081	6,959
Basic and diluted earnings per share					
Income available to preferred stockholders	285	512	1,906	797	2,672
Income available to common stockholders	447	803	2,970	1,250	4,163
Income available to convertible notes linked to preferred shares	4	8	31	12	43
Income available to convertible notes linked to common shares	8	14	57	22	81
Weighted average number of shares outstanding (thousands of shares) preferred shares	2,030,954	2,031,027	1,889,175	2,030,805	1,889,173
Weighted average number of shares outstanding (thousands of shares) common shares	3,181,727	3,181,732	2,943,216	3,181,715	2,943,216
Treasury preferred shares linked to mandatorily convertible notes	30,295	30,295	30,295	30,295	30,295
Treasury common shares linked to mandatorily convertible notes	56,582	56,582	56,582	56,582	56,582
Total	**5,299,558**	**5,299,636**	**4,919,268**	**5,299,397**	**4,919,266**
Earnings per preferred share	0.14	0.25	1.01	0.39	1.41
Earnings per common share	0.14	0.25	1.01	0.39	1.41
Earnings per convertible notes linked to preferred share (*)	0.63	0.53	1.52	1.16	2.18
Earnings per convertible notes linked to common share (*)	0.69	0.57	1.54	1.25	2.28

(*) 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:

	Three-month period ended (unaudited)			Six-month period ended (unaudited)	
	June 30, 2009	**March 31, 2009**	**June 30, 2008**	**June 30, 2009**	**June 30, 2008**
Income available to preferred stockholders	304	528	1,952	832	2,738
Income available to common stockholders	486	835	3,057	1,321	4,292
Weighted average number of shares outstanding (thousands of shares) preferred shares	2,061,249	2,061,322	1,919,470	2,061,100	1,919,468
Weighted average number of shares outstanding (thousands of shares) common shares	3,238,309	3,238,314	2,999,798	3,238,297	2,999,798
Earnings per preferred share	0.15	0.26	1.02	0.40	1.43
Earnings per common share	0.15	0.26	1.02	0.40	1.43

Table of Contents

14 Other cumulative comprehensive income (deficit)

	Three-month period ended (unaudited)			Six-month period ended (unaudited)	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Comprehensive income (deficit) is comprised as follows:					
Net income attributable to Company s stockholders	790	1,363	5,009	2,153	7,030
Cumulative translation adjustments	5,212	(104)	1,707	5,108	1,502
Unrealized gain (loss) available-for-sale securities, net of tax	(64)	96	(94)	32	(100)
Surplus (deficit) accrued pension plan	157	(48)	104	109	89
Cash flow hedge	1		6	1	(21)
Noncontrolling interests:					
Disposals and (acquisitions) of noncontrolling interests	29			29	
Cumulative translation adjustments	313	222	286	535	235
Cash flow hedge			6		(16)
Net income (loss) attributable to noncontrolling interests	50	(40)	147	10	171
Dividends and interest attributable to noncontrolling interests		(1)	(110)	(1)	(110)
Capitalization of stockholders advances		12	23	12	32
Total comprehensive income (deficit)	**6,488**	**1,500**	**7,084**	**7,988**	**8,812**
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	64	173	152	64	152
Tax (expense) benefit	(15)	(60)	(41)	(15)	(41)
Net balance as of the period end	49	113	111	49	111
Surplus accrued pension plan					
Gross balance as of the period end	143	(93)	289	143	289
Tax (expense) benefit	(68)	11	(125)	(68)	(125)
Net balance as of the period end	75	(82)	164	75	164

15 Pension cost

We previously disclosed in our consolidated financial statements for the year ended December 31, 2008, that we expected to contribute US$338 to our defined benefit pension plan in 2009. As of June 30, 2009, total contributions of US$153 had been made. We do not expect any significant change in our previous estimate.

	Three-month period ended (unaudited) June 30, 2009		
	Overfunded pension plans	**Underfunded pension plans**	**Underfunded other benefits**
Service cost benefits earned during the period	3	11	4
Interest cost on projected benefit obligation	71	60	20
Expected return on assets	(98)	(49)	
Amortization of initial transition obligation	3		
Net deferral		1	(6)
Net periodic pension cost	**(21)**	**23**	**18**

	Three-month period ended (unaudited) March 31, 2009		
	Overfunded pension plans	**Underfunded pension plans**	**Underfunded other benefits**
Service cost benefits earned during the period	1	11	4
Interest cost on projected benefit obligation	44	54	18
Expected return on assets	(60)	(43)	
Amortization of initial transition obligation	2	7	
Net deferral		1	(7)
Net periodic pension cost	**(13)**	**30**	**15**

Table of Contents

	Three-month period ended (unaudited) June 30, 2008		
	Overfunded pension plans	Underfunded pension plans	Underfunded other benefits
Service cost benefits earned during the period	3	16	8
Interest cost on projected benefit obligation	82	66	20
Expected return on assets	(137)	(68)	
Amortization of initial transition obligation	4		(3)
Net deferral	(1)		
Net periodic pension cost	**(49)**	**14**	**25**

	Six-month period ended (unaudited)					
	June 30, 2009			June 30, 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 period	4	22	8	5	32	14
Interest cost on projected benefit obligation	115	114	38	136	128	43
Expected return on assets	(158)	(92)		(227)	(133)	
Amortization of initial transition obligation	5	1		7		(4)
Net deferral		8	(13)	(2)		
Net periodic pension cost	**(34)**	**53**	**33**	**(81)**	**27**	**53**

16 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 the their market rates. The total shares linked to the plan at June 30, 2009 and December 31, 2008, is 1,809,117 and 711,005, respectively.

Additionally, as 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 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 June 30, 2009 and December 31, 2008, we recognized a liability of US$35 and US$7, respectively, through the Statement of Income.

Table of Contents

17 Commitments and contingencies

(a) We provided guarantees related to revolving agreement to our affiliate TEAL, in the amount of US$43, the denominated currency U.S. Dollar with final maturity at August 31, 2009.

(b) We provided certain guarantees on behalf of The *Goro* Project (*Goro*) 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.

(c) 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, 2009 (unaudited)		**December 31, 2008**	
	Provision for contingencies	**Judicial deposits**	**Provision for contingencies**	**Judicial deposits**
Labor and social security claims	558	500	458	378
Civil claims	474	279	386	242
Tax related actions	888	580	828	518
Others	18	4	13	3
	1,938	**1,363**	**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 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 during the three-month periods ended June 30, 2009, March 31, 2009 and June 30, 2008 totaled US$39, US$18, US$569, respectively. Provisions recognized in the three-month periods ended June 30, 2009, March 31, 2009 and June 30, 2008, totaled US$73, US$49, 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$3,241 at June 30, 2009, and for which no provision has been made (December 31, 2008 US$2,476).

(d) 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 April 2009 we paid remuneration on these debentures of US$3.

(e) 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:

	Three-month period ended (unaudited)			**Six-month period ended (unaudited)**	
	June 30, 2009	**March 31, 2009**	**June 30, 2008**	**June 30, 2009**	**June 30, 2008**
Beginning of period	**877**	**887**	**975**	**887**	**975**
Accretion expense	15	6	53	21	69
Liabilities settled in the current period	(15)	(3)	(2)	(18)	(5)
Revisions in estimated cash flows		(9)	9	(9)	(2)
Cumulative translation adjustment	122	(4)	66	118	64
End of period	**999**	**877**	**1,101**	**999**	**1,101**

Current liabilities	31	38	68	31	68
Long-term liabilities	968	839	1,033	968	1,033
Total	**999**	**877**	**1,101**	**999**	**1,101**

Table of Contents

18 Fair value disclosure of financial assets and liabilities

In September 2006, the Financial Accounting Standards Board (FASB), issued SFAS 157, Fair Value Measurements, which changes the current practice used to measure the fair value, establishing a framework for measuring according to the generally accepted accounting principles, 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 No. 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. As of June 30, 2009, the Company has not made any fair value elections with respect to that statement.

(a) Measurements

SFAS 157 defines 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 SFAS 157, 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 in 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 in 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, whose 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.

Table of Contents

(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, 2009 and December 31, 2008 are summarized below:

Available-for-sale securities

They are securities neither classified as held-for-trading nor held-to-maturity for strategic reasons and have a readily available market price. 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 shareholder 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 of June 30, 2009 and December 31, 2008.

	As of June 30, 2009			
	Carrying amount	Fair value	Level 1	Level 2
Available-for-sale securities	749	749	67	682
Unrealized losses on derivatives	213	213		213
Other financial liabilities	(417)	(417)		(417)

	As of December 31, 2008			
	Carrying 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 are subject to measurement at fair value on a non-recurring basis. These assets include goodwill and intangible assets. As of June 30, 2009 we have no impairment for those items.

Table of Contents

(d) Financial Instruments (SFAS 107 Disclosures)

Issued in December 1991, the SFAS 107, Disclosures about Fair Value Measurements (SFAS 107), requires quantitative and qualitative disclosures which comprise the valuation techniques, methods, changes in methods and significant assumptions used to estimate the fair value of financial instruments for which is practicable to estimate that value.

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 in 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 are reported at amortized cost, and the income of time deposits are accrued monthly according to the contract rate, however its estimated fair value measurement at June 30, 2009 and December 31, 2008 are disclosed as follows:

	As of June 30, 2009			
	Carrying amount	Fair value	Level 1	Level 2
Time deposits	3,000	3,022		3,022
Long-term debt (less interests) (*)	(19,165)	(18,477)	(9,088)	(9,389)

(*) Less accrued charges US$271

	As of December 31, 2008			
	Carrying 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

Table of Contents

19 Segment and geographical information

We adopt SFAS 131 Disclosures about Segments of an Enterprise and Related Information with respect to the information we present about our operating segments. SFAS 131 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. We analyze our segment information on aggregated and disaggregated basis as follows:

Results by segment before eliminations (aggregated)

						Three-month period ended (unaudited)									
June 30, 2009						March 31, 2009							Jun		
Non rous	Aluminum	Logistics	Others	Eliminations	Consolidated	Ferrous	(*) Non ferrous	Aluminum	Logistics	Others	Eliminations	Consolidated	Ferrous	(*) Non ferrous	Aluminu
,424	664	11	115	(3,028)	4,282	5,988	1,051	599	5	154	(2,987)	4,810	8,674	2,939	934
146	141	278	45	(152)	802	252	107	129	201	58	(136)	611	1,176	196	217
,130)	(844)	(201)	(140)	3,180	(3,200)	(4,048)	(1,028)	(720)	(177)	(138)	3,123	(2,988)	(5,677)	(1,454)	(951)
(67)		(11)	(136)		(265)	(42)	(68)		(16)	(63)		(189)	(89)	(76)	
(279)	(59)	(29)	(12)		(643)	(197)	(280)	(49)	(24)	(9)		(559)	(292)	(382)	(44)
94	**(98)**	**48**	**(128)**		**976**	**1,953**	**(218)**	**(41)**	**(11)**	**2**		**1,685**	**3,792**	**1,223**	**156**
167	1	1	3	(680)	93	660	163	3	1	1	(703)	125	577	196	5
(314)	(8)	6	(14)	680	(293)	(664)	(298)	(14)	(6)	(8)	703	(287)	(712)	(383)	(10)
(66)					873	34	(16)					18	600	51	4
43	210	(9)	71		523	29	(16)	10	(1)	(6)		16	723	9	97
					157										
	13	23	9		135	54		(1)	21	(2)		72	236		8
55	(49)	(10)	(5)		(1,624)	(466)	154	19	(4)	(9)		(306)	(1,007)	(424)	(75)
(13)	(43)		(6)		(50)	10	18	15		(3)		40	10	(61)	(85)
(34)	**26**	**59**	**(70)**		**790**	**1,610**	**(213)**	**(9)**		**(25)**		**1,363**	**4,219**	**611**	**100**

194	237		5	(149)	352	44	120	159		9	(84)	248	546	378	302
166	32		11	(24)	198	11	182	37		8	(18)	220	211	541	107
321	258		8	(1,291)	665	1,169	246	279		4	(884)	814	2,903	710	330
6	47		14	(153)	115	281	38	34			(229)	124	516	91	22
89	77		30	(162)	378	511	73	77		81	(258)	484	985	399	164
254	13	11	15	(1,009)	2,018	3,483	186	13	5	4	(1,268)	2,423	2,703	218	
394			32	(240)	556	489	206			48	(246)	497	810	602	9
,424	**664**	**11**	**115**	**(3,028)**	**4,282**	**5,988**	**1,051**	**599**	**5**	**154**	**(2,987)**	**4,810**	**8,674**	**2,939**	**934**
146	141	278	45	(152)	802	252	107	129	201	58	(136)	611	1,176	196	217
,570	**805**	**289**	**160**	**(3,180)**	**5,084**	**6,240**	**1,158**	**728**	**206**	**212**	**(3,123)**	**5,421**	**9,850**	**3,135**	**1,151**

(*) Other than Aluminum.

27

Table of Contents

Operating segment after eliminations (disaggregated)

As of and for the three-month period ended (unaudited) June 30, 2009

	Revenues											
	Foreign	**Domestic**	**Total**	**Value added tax**	**Net revenues**	**Cost and expenses**	**Net**	**Depreciation, depletion and amortization**	**Operating income**	**Property, plant and equipment, net and intangible assets**	**Addition to property, plant and equipment and intangible**	**Investments**
Ferrous												
Iron ore	2,261	161	2,422	(30)	2,392	(1,014)	1,378	(243)	1,135	18,466	597	62
Pellets	112	67	179	(21)	158	(213)	(55)	(19)	(74)	645	57	940
Manganese	39	4	43	(1)	42	(23)	19	(2)	17	21	1	
Ferroalloys	38	32	70	(8)	62	(82)	(20)	(2)	(22)	231	17	
Pig iron										144	32	
	2,450	**264**	**2,714**	**(60)**	**2,654**	**(1,332)**	**1,322**	**(266)**	**1,056**	**19,507**	**704**	**1,002**
Non ferrous												
Nickel and other products (*)	1,106	3	1,109		1,109	(884)	225	(243)	(18)	22,504	279	88
Potash		121	121	(2)	119	(37)	82	(7)	75	159		
Kaolin	32	10	42	(2)	40	(36)	4	(13)	(9)	188	27	
Copper concentrate	161	9	170		170	(105)	65	(17)	48	3,831	185	
Aluminum products	414	54	468	(9)	459	(494)	(35)	(58)	(93)	4,356	58	146
	1,713	**197**	**1,910**	**(13)**	**1,897**	**(1,556)**	**341**	**(338)**	**3**	**31,038**	**549**	**234**
Logistics												
Railroads		224	224	(38)	186	(136)	50	(22)	28	1,733	20	372
Ports		57	57	(8)	49	(36)	13	(5)	8	1,441	69	
Ships										638	267	112
		281	**281**	**(46)**	**235**	**(172)**	**63**	**(27)**	**36**	**3,812**	**356**	**484**
Others	119	60	179	(17)	162	(269)	(107)	(12)	(119)	4,939	399	1,248
	4,282	**802**	**5,084**	**(136)**	**4,948**	**(3,329)**	**1,619**	**(643)**	**976**	**59,296**	**2,008**	**2,968**

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

Table of Contents

Operating segment after eliminations (disaggregated)

As of and for the three-month period ended (unaudited) March 31, 2009

	Revenues										Addition to	
	Foreign	Domestic	Total	Value added tax	Net revenues	Cost and expenses	Net	Depreciation, depletion and amortization	Operating income	Property, plant and equipment, net and intangible assets	property, plant and equipment and intangible	Investments
Ferrous												
Iron ore	2,964	165	3,129	(32)	3,097	(998)	2,099	(181)	1,918	15,044	736	44
Pellets	241	32	273	(8)	265	(219)	46	(10)	36	645	27	756
Manganese	13	2	15		15	(18)	(3)	(2)	(5)	18	1	
Ferroalloys	51	27	78	(7)	71	(60)	11	(2)	9	189	18	
Pig iron	11		11		11	(13)	(2)		(2)	144	16	
	3,280	**226**	**3,506**	**(47)**	**3,459**	**(1,308)**	**2,151**	**(195)**	**1,956**	**16,040**	**798**	**800**
Non ferrous												
Nickel and other products (*)	860	3	863		863	(833)	30	(253)	(223)	21,420	425	71
Potash		65	65	(2)	63	(28)	35	(3)	32	159		
Kaolin	30	9	39	(2)	37	(34)	3	(6)	(3)	209		
Copper concentrate	79	28	107	(6)	101	(106)	(5)	(17)	(22)	3,609	189	
Aluminum products	408	34	442	(8)	434	(426)	8	(50)	(42)	3,837	41	110
	1,377	**139**	**1,516**	**(18)**	**1,498**	**(1,427)**	**71**	**(329)**	**(258)**	**29,234**	**655**	**181**
Logistics												
Railroads		157	157	(22)	135	(125)	10	(21)	(11)	1,457	21	347
Ports		42	42	(6)	36	(34)	2	(5)	(3)	1,441	37	
Ships										373		97
		199	**199**	**(28)**	**171**	**(159)**	**12**	**(26)**	**(14)**	**3,271**	**58**	**444**
Others	153	47	200	(4)	196	(186)	10	(9)	1	3,229	177	1,309
	4,810	**611**	**5,421**	**(97)**	**5,324**	**(3,080)**	**2,244**	**(559)**	**1,685**	**51,774**	**1,688**	**2,734**

(*)

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

Table of Contents

Operating segment after eliminations (disaggregated)

As of and for the three-month period ended (unaudited)
June 30, 2008

	Revenues										Addition to	
	Foreign	Domestic	Total	Value added tax	Net revenues	Cost and expenses	Net	Depreciation, depletion and amortization	Operating income	Property, plant and equipment, net and intangible assets	property, plant and equipment and intangible	Investments
Ferrous												
Iron ore	4,242	706	4,948	(85)	4,863	(1,508)	3,355	(245)	3,110	18,825	913	69
Pellets	966	216	1,182	(49)	1,133	(656)	477	(39)	438	1,455	41	982
Manganese	70	13	83	(3)	80	(20)	60	(3)	57	84		
Ferroalloys	223	159	382	(40)	342	(123)	219	(9)	210	171	1	
Pig iron	57		57		57	(32)	25	(1)	24	209	1	
	5,558	**1,094**	**6,652**	**(177)**	**6,475**	**(2,339)**	**4,136**	**(297)**	**3,839**	**20,744**	**956**	**1,051**
Non ferrous												
Nickel and other products (*)	2,363	12	2,375		2,375	(1,040)	1,335	(342)	993	23,733	544	151
Potash		105	105	(5)	100	(40)	60	(6)	54	162	3	
Kaolin	44	10	54	(3)	51	(61)	(10)	(9)	(19)	286	2	
Copper concentrate	248	69	317	(15)	302	(139)	163	(21)	142	2,204	69	
Aluminum products	640	88	728	(21)	707	(560)	147	(43)	104	5,294	197	107
	3,295	**284**	**3,579**	**(44)**	**3,535**	**(1,840)**	**1,695**	**(421)**	**1,274**	**31,679**	**815**	**258**
Logistics												
Railroads		381	381	(64)	317	(218)	99	(30)	69	2,012	23	297
Ports		81	81	(10)	71	(47)	24	(7)	17	1,912	41	
Ships										33		127
		462	**462**	**(74)**	**388**	**(265)**	**123**	**(37)**	**86**	**3,957**	**64**	**424**
Others	153	51	204	(2)	202	(161)	41	(5)	36	3,602	270	1,391
	9,006	**1,891**	**10,897**	**(297)**	**10,600**	**(4,605)**	**5,995**	**(760)**	**5,235**	**59,982**	**2,105**	**3,124**

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

Table of Contents

Results by segment before eliminations (aggregated)

	Six-month period ended (unaudited)													
	June 30, 2009							June 30, 2008						
	Ferrous	(*) Non ferrous	Aluminum	Logistics	Others	Eliminations	Consolidated	Ferrous	(*) Non ferrous	Aluminum	Logistics	Others	Eliminations	Cons
LTS														
revenues n	11,084	2,475	1,263	16	269	(6,015)	9,092	14,252	5,800	1,793	31	173	(6,379)	1
revenues stic	596	253	270	479	103	(288)	1,413	2,056	287	410	846	115	(439)	
nd expenses	(8,113)	(2,158)	(1,564)	(378)	(278)	6,303	(6,188)	(10,177)	(2,756)	(1,876)	(552)	(267)	6,818	(
rch and pment	(93)	(135)		(27)	(199)		(454)	(139)	(146)		(53)	(121)		
ciation, on and zation	(461)	(559)	(108)	(53)	(21)		(1,202)	(580)	(781)	(86)	(68)	(11)		(
ting income	**3,013**	**(124)**	**(139)**	**37**	**(126)**		**2,661**	**5,412**	**2,404**	**241**	**204**	**(111)**		
cial income	1,261	330	4	2	4	(1,383)	218	1,242	413	8	4		(1,589)	
cial expenses	(1,307)	(612)	(22)		(22)	1,383	(580)	(1,700)	(762)	(30)	(4)	(2)	1,589	
(losses) on tives, net	973	(82)					891	554	(72)	(121)				
n exchange dexation gains), net	237	27	220	(10)	65		539	835	(19)	115	(3)	(2)		
n sale of ments	157						157		80					
in results of es and joint es and change vision for on equity ments	144		12	44	7		207	288		22	(7)	76		
e taxes	(2,081)	209	(30)	(14)	(14)		(1,930)	(1,028)	(755)	(92)		11		(
come attributable to ntrolling ts	22	5	(28)		(9)		(10)	12	(107)	(65)		(11)		
come table to any s olders	**2,419**	**(247)**	**17**	**59**	**(95)**		**2,153**	**5,615**	**1,182**	**78**	**194**	**(39)**		

classified by aphic

ation:													
n market													
ca, except													
l States	109	314	396		14	(233)	600	869	719	494	1		(498)
l States	24	348	69		19	(42)	418	291	1,124	211	1		(167)
e	2,538	567	537		12	(2,175)	1,479	4,786	1,399	703	16	1	(2,361)
e													
frica/Oceania	482	44	81		14	(382)	239	756	149	66		39	(345)
	855	162	154		111	(420)	862	1,603	740	300	1	73	(642)
	6,217	440	26	16	19	(2,277)	4,441	4,577	514	10	11		(1,843)
other than													
and China	859	600			80	(486)	1,053	1,370	1,155	9	1	60	(523)
	11,084	**2,475**	**1,263**	**16**	**269**	**(6,015)**	**9,092**	**14,252**	**5,800**	**1,793**	**31**	**173**	**(6,379)**
stic market	596	253	270	479	103	(288)	1,413	2,056	287	410	846	115	(439)
	11,680	**2,728**	**1,533**	**495**	**372**	**(6,303)**	**10,505**	**16,308**	**6,087**	**2,203**	**877**	**288**	**(6,818)**

31

Table of Contents

Operating segment after eliminations (disaggregated)

Six-month period ended (unaudited)
June 30, 2009

	Revenues										Addition to property, plant and equipment and	
	Foreign	**Domestic**	**Total**	**Value added tax**	**Net revenues**	**Cost and expenses**	**Net**	**Depreciation, depletion and amortization**	**Operating income**	**Property, plant and equipment, net and intangible assets**	**intangible**	**Investments**
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	
Pig iron	11		11		11	(13)	(2)		(2)	144	48	
	5,730	**490**	**6,220**	**(107)**	**6,113**	**(2,640)**	**3,473**	**(461)**	**3,012**	**19,507**	**1,502**	**1,002**
Non ferrous												
Nickel and other products (*)	1,966	6	1,972		1,972	(1,717)	255	(496)	(241)	22,504	704	88
Potash		186	186	(5)	181	(65)	116	(10)	106	159		
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	**336**	**3,426**	**(31)**	**3,395**	**(2,983)**	**412**	**(667)**	**(255)**	**31,038**	**1,204**	**234**
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	272	107	379	(21)	358	(455)	(97)	(21)	(118)	4,939	576	1,248
	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).

Table of Contents

Operating segment after eliminations (disaggregated)

	Six-month period ended (unaudited) June 30, 2008											
	Revenues											
	Foreign	Domestic	Total	Value added tax	Net revenues	Cost and expenses	Net	Depreciation, depletion and amortization	Operating income	Property, plant and equipment, net and intangible assets	Addition to property, plant and equipment and intangible	Investments
Ferrous												
Iron ore	6,848	1,216	8,064	(158)	7,906	(2,975)	4,931	(490)	4,441	18,825	1,577	69
Pellets	1,472	389	1,861	(89)	1,772	(1,126)	646	(68)	578	1,455	53	982
Manganese	101	22	123	(5)	118	(40)	78	(4)	74	84	1	
Ferroalloys	400	272	672	(68)	604	(247)	357	(15)	342	171	3	
Pig iron	86		86		86	(46)	40	(3)	37	209	1	
	8,907	**1,899**	**10,806**	**(320)**	**10,486**	**(4,434)**	**6,052**	**(580)**	**5,472**	**20,744**	**1,635**	**1,051**
Non ferrous												
Nickel and other products (*)	4,741	25	4,766		4,766	(2,020)	2,746	(714)	2,032	23,733	1,025	151
Potash		169	169	(9)	160	(69)	91	(13)	78	162	6	
Kaolin	86	21	107	(5)	102	(117)	(15)	(16)	(31)	286	9	
Copper concentrate	470	70	540	(15)	525	(245)	280	(38)	242	2,204	121	
Aluminum products	1,201	173	1,374	(38)	1,336	(1,070)	266	(85)	181	5,294	301	107
	6,498	**458**	**6,956**	**(67)**	**6,889**	**(3,521)**	**3,368**	**(866)**	**2,502**	**31,679**	**1,462**	**258**
Logistics												
Railroads		677	677	(101)	576	(390)	186	(55)	131	2,012	36	297
Ports	11	136	147	(15)	132	(92)	40	(13)	27	1,912	85	
Ships										33		127
	11	**813**	**824**	**(116)**	**708**	**(482)**	**226**	**(68)**	**158**	**3,957**	**121**	**424**
Others	254	105	359	(10)	349	(319)	30	(12)	18	3,602	512	1,391
	15,670	**3,275**	**18,945**	**(513)**	**18,432**	**(8,756)**	**9,676**	**(1,526)**	**8,150**	**59,982**	**3,730**	**3,124**

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

Table of Contents

20 Derivative financial instruments

Risk management policy

Vale 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 once 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 in 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 flow 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 in 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 responsibility of the risk management department to define and propose to the risk management committee market risk mitigation strategies consistent with Vale s and it s 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 monthly measured and monitored in order to evaluate the financial results and market risk impacts in 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.

Table of Contents

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

- Interest rates;
- Foreign exchange;
- Products 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 U.S. Dollars, most of our costs, disbursements and investments are indexed to currencies other than the U.S. Dollar, mainly Brazilian Real and Canadian Dollars.

Derivative instruments may be used in order 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 Real to fixed or floating U.S. 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 U.S. Dollars floating rate debt is subject to changes in the LIBOR (London Interbank Offer Rate in U.S. 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 U.S. Dollar floating rates. When natural hedges are not present, we may opt to realize 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 interests 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 U.S. Dollar / Brazilian Real exchange rate in our obligations, contributing to a stable flow of cash disbursements in U.S. 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 U.S. Dollar, the negative (positive) impact on our Brazilian Real denominated debt obligations (interest and/or principal payment) measured in U.S. Dollars will be partially offset by a positive (negative) effect from any existing swap transaction, regardless of the U.S. 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 U.S. Dollars.

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

Table of Contents

Product price risk

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

Currently, our derivative transactions include nickel, copper, natural gas, 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 derivatives instruments in this category:

Strategic derivative program in order to protect our cash flow in 2009, we entered into derivatives transactions where we fixed the prices of some of our revenues during the year.

Fixed price sales program we use to enter into nickel future contracts in 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 for the year 2009 after the decision of the strategic derivative program for the year.

Nickel purchase program 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.

Copper Vale Inco Ltd., Vale s wholly-owned subsidiary, makes use of derivatives 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.

Natural gas Vale uses natural gas swap contracts to minimize the impact of price fluctuation of this input cost in the cash flow.

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 fluctuation on the Company s cash flow, 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 nickel and copper 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 or loss as of June 30, 2009 and December 31, 2008.

Table of Contents

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

	June 30, 2009 (unaudited)		December 31, 2008	
Outstanding Balances Assets	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedge under SFAS 133				
Foreign exchange and interest rate risk				
CDI vs. USD fixed rate swap	long-term	153		
CDI vs. USD floating rate swap	long-term	15		
TJLP vs. USD fixed rate swap	long-term	39		
TJLP vs. USD floating rate swap	long-term	12		
EURO floating rate vs. USD floating rate swap	long-term	2	long-term	2
AUD floating rate vs. fixed USD rate swap	long-term	8		
		229		**2**
Commodities price risk				
Nickel				
Fixed price program	short-term	2		
Fixed price program	long-term	2		
Bunker Oil Hedge	long-term	12		
Maritime Freight Hiring Protection Program	short-term	30		
		46		
Embedded derivatives:				
For nickel concentrate costumer sales	short-term	5	long-term	69
Customer raw material contracts			long-term	22
		5		**91**
Derivatives designated as hedge under SFAS 133				
Foreign cash flow hedge	long-term	3		
		3		
Total Assets		**283**		**93**

	June 30, 2009 (unaudited)		December 31, 2008	
Outstanding Balances Liabilities	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value

Derivatives not designated as hedge under SFAS 133				
Foreign exchange and interest rate risk				
CDI vs. USD fixed rate swap			long-term	(373)
CDI vs. USD floating rate swap			long-term	(95)
TJLP vs. USD fixed rate swap			long-term	(62)
TJLP vs. USD floating rate swap			long-term	(30)
USD floating rate vs. USD fixed rate swap	long-term	(11)	long-term	(14)
		(11)		**(574)**
Commodities price risk				
Nickel				
Fixed price program			long-term	(50)
Purchase program	short-term	(4)	long-term	(7)
Strategic program	short-term	(42)		
		(46)		**(57)**
Embedded derivatives:				
Customer raw material contracts	short-term	(12)		
Natural gas hedge	short-term	(2)	long-term	(2)
		(14)		**(2)**
Total Liabilities		**(71)**		**(633)**

37

Table of Contents

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

	Amount of gain or (loss) recognized in financial income (expense)					Financial Settlement					Amount of gain or (loss) recognized in OCI			
	Three-month period ended (unaudited)			Six-month period ended (unaudited)		Three-month period ended (unaudited)			Six-month period ended (unaudited)		Three-month period ended (unaudited)		Six-month period ended (unaudited)	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Derivatives not designated as hedge under SFAS 133														
Foreign exchange and interest rate risk														
Swap BRL denominated Brazilian payrol into USD			50		64			(34)		(62)				
CDI & TJLP vs. USD fixed and floating rate swap	927	32	591	959	563	(101)	(20)	(102)	(121)	(102)				
EURO floating rate vs. USD floating rate swap		(1)	(1)	(1)		(1)			(1)					
USD floating rate vs. USD fixed rate swap		(1)	5	(1)	(2)	2			2					
AUD floating rate vs. fixed USD rate swap	7	3		10		(1)			(1)					
	934	**33**	**645**	**967**	**625**	**(101)**	**(20)**	**(136)**	**(121)**	**(164)**				
Commodities price risk														
Nickel														
Fixed price program	42	(18)	(50)	24	(24)	9	21	12	30	20				
Purchase program	(32)	10	22	(22)	12	27	(2)	(20)	25	(24)				
Strategic program	(42)			(42)										
Copper														
Purchased scrap protection program			6		(66)			69		130				
Strategic hedging program					(45)			7		7				
Platinum			(1)		(17)			11		20				
Gold			4		(4)			10		21				
Natural gas	(1)	(3)	9	(4)	19	2	2	(1)	4					
Aluminum			(68)		(147)			63		88				
Maritime Freight Hiring Protection Program	34			34		(5)			(5)					
	1	**(11)**	**(78)**	**(10)**	**(272)**	**33**	**21**	**151**	**54**	**262**				
Embedded derivatives:														
For nickel concentrate costumer sales	(18)	2	36	(16)		5	(23)		(18)					
Customer raw material contracts	(57)	(6)	37	(63)	21			(7)		(11)				
Energy Aluminum options			15		(13)									

	(75)	**(4)**	**88**	**(79)**	**8**	**5**	**(23)**	**(7)**	**(18)**	**(11)**				
Derivatives designated as hedge under SFAS 133														
Aluminum												6		(21)
Bunker Oil Hedge	13			13		(1)			(1)					
Foreign exchange cash flow hedge											1		1	
	13			**13**		**(1)**			**(1)**		**1**	**6**	**1**	**(21)**
	873	**18**	**655**	**891**	**361**	**(64)**	**(22)**	**8**	**(86)**	**87**	**1**	**6**	**1**	**(21)**

Table of Contents

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
Bunker Oil	April 2010
Natural Gas	October 2009
Freight	September 2009
Copper	July 2009
Nickel	May 2011

Under SFAS 133 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, 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. On the three-month period ended at June 30, 2009, March 31, 2009 and June 30, 2008 and on the six-month period ended at June 30, 2009 and 2008, the unrealized net gains in respect of derivative instruments which were not qualified for hedge accounting amounted to US$860, US$18, US$655, US$878 and US$361 respectively.

21 Subsequent events

On July 07, 2009, we issued US$942 Mandatorily Convertible Notes due 2012 for total proceeds of US$936, net of commissions. The Notes bear interest at 6.75% per year payable quarterly and additional interest which will be payable based on the net amount of cash distribution paid to ADS holders.

In July, 2009 we signed a definitive agreement with Suzano Papel e Celulose to sale part of our forest assets to Suzano, a total area of 84.7 thousand hectares, including preservation areas and eucalyptus plantation in Maranhão (Brazil), for approximately US$120.

In July 2009, we signed an agreement with ThyssenKrupp Steel AG to increase its stake in ThyssenKrupp CSA Siderúrgica do Atlântico Ltda. (CSA) to 26.87%, from its current 10% interest, through a capital infusion of EUR$965 (approximately US$1.4 billion). This investment decision is still subject to, among other conditions, the approval of the Board of Directors of both Vale and ThyssenKrupp.

Table of Contents

Supplemental Financial Information (unaudited)

The following unaudited information provides additional details in relation to certain financial ratios.

EBITDA Earnings Before Financial Income (Expenses), Noncontrolling Interests, Gain on Sale of Investments, Foreign Exchange and Indexation Gains (Losses), Equity in Results of Affiliates and Joint Ventures and Change in Provision for Losses on Equity Investments, Income Taxes, Depreciation and Amortization

(a) EBITDA represents operating income plus depreciation, amortization and depletion plus impairment plus dividends received from equity investees.

(b) EBITDA is not a U.S. GAAP measure and does not represent cash flow for the periods presented and should not be considered as an alternative to net income (loss), as an indicator of our operating performance or as an alternative to cash flow as a source of liquidity.

(c) Our definition of EBITDA may not be comparable with EBITDA as defined by other companies.

(d) Although EBITDA, as defined above, does not provide a U.S. GAAP measure of operating cash flows, our management uses it to measure our operating performance and financial analysts in evaluating our business commonly use it.

Selected financial indicators for the main affiliates and joint ventures are available on our website, www.vale.com, under investor relations

Table of Contents

Indexes on Vale s Consolidated Debt (Supplemental information unaudited)

	Three-month period ended			Six-month period ended	
	June 30, 2009	**March 31, 2009**	**June 30, 2008**	**June 30, 2009**	**June 30, 2008**
Current debt					
Current portion of long-term debt unrelated parties	610	650	730	610	730
Short-term debt	38	48	46	38	46
Loans from related parties	19	68	36	19	36
	667	**766**	**812**	**667**	**812**
Long-term debt					
Long-term debt unrelated parties	18,826	17,648	19,560	18,826	19,560
Gross debt (current plus long-term debt)	**19,493**	**18,414**	**20,372**	**19,493**	**20,372**
Interest paid over:					
Short-term debt			(5)		(10)
Long-term debt	(311)	(277)	(357)	(588)	(636)
Interest paid	**(311)**	**(277)**	**(362)**	**(588)**	**(646)**
EBITDA	**1,725**	**2,281**	**6,218**	**4,006**	**9,947**
Company stockholders equity	**49,877**	**43,827**	**41,705**	**49,877**	**41,705**
LTM (1) EBITDA / LTM (1) Interest paid	**10.83**	**13.96**	**13.04**	**10.83**	**13.04**
Gross Debt / LTM (1) EBITDA	**1.49**	**1.05**	**1.17**	**1.49**	**1.17**
Gross debt / Equity Capitalization (%)	**28**	**30**	**33**	**28**	**33**
Financial expenses					
Interest expense	**(213)**	**(239)**	**(254)**	**(452)**	**(567)**
Labor and civil claims and tax-related actions	(14)	(16)	(8)	(30)	(53)
Tax on financial transactions CPMF					(3)
Others	(66)	(32)	(87)	(98)	(286)
	(293)	**(287)**	**(349)**	**(580)**	**(909)**
Financial income					
Cash and cash equivalents	91	114	22	205	51
Others	2	11	1	13	27

	93	**125**	**23**	**218**	**78**
Derivatives	**873**	**18**	**655**	**891**	**361**
Financial income (expenses), net	**673**	**(144)**	**329**	**529**	**(470)**
Foreign exchange and indexation gain (losses), net					
Cash and cash equivalents	**(1,026)**	**(69)**	**(67)**	**(1,095)**	**(74)**
Loans	**2,105**	**113**	**1,169**	**2,218**	**1,333**
Others	**(556)**	**(28)**	**(264)**	**(584)**	**(333)**
	523	**16**	**838**	**539**	**926**
Financial result, net	**1,196**	**(128)**	**1,167**	**1,068**	**456**

(1) Last twelve months

Table of Contents

Calculation of EBITDA (Supplemental information unaudited)

	Three-month period ended			Six-month period ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Operating income	976	1,685	5,235	2,661	8,150
Depreciation	643	559	760	1,202	1,526
	1,619	**2,244**	**5,995**	**3,863**	**9,676**
Dividends received	106	37	223	143	271
EBITDA	**1,725**	**2,281**	**6,218**	**4,006**	**9,947**
Net operating revenues	4,948	5,324	10,600	10,272	18,432
Margin EBITDA	**34.9%**	**42.8%**	**58.7%**	**39.0%**	**54.0%**

Adjusted EBITDA x Operating Cash Flows (Supplemental information unaudited)

	Three-month period ended					
	June 30, 2009		March 31, 2009		June 30, 2008	
	EBITDA	Operating cash flows	EBITDA	Operating cash flows	EBITDA	Operating cash flows
Net income attributable to Company s stockholders	790	790	1,363	1,363	5,009	5,009
Income tax deferred	130	130	(171)	(171)	333	333
Income tax current	1,494		477		1,173	
Equity in results of affiliates and joint ventures and other investments	(135)	(135)	(72)	(72)	(260)	(260)
Foreign exchange and indexation gains, net	(523)	(817)	(16)	(57)	(838)	(1,300)
Financial expenses, net	(673)	(54)	144	3	(329)	(45)
Noncontrolling interests	50	50	(40)	(40)	147	147
Gain on sale of investments	(157)	(157)				
Net working capital		1,355		536		(214)
Others		(845)		7		(572)
Operating income	**976**	**317**	**1,685**	**1,569**	**5,235**	**3,098**
Depreciation, depletion and amortization	643	643	559	559	760	760
Dividends received	106	106	37	37	223	223
	1,725	**1,066**	**2,281**	**2,165**	**6,218**	**4,081**
Operating cash flows		**1,066**		**2,165**		**4,081**
Income tax		1,494		477		1,173

Foreign exchange and indexation gains (losses)	294	41	462
Financial expenses	(619)	141	(284)
Net working capital	(1,355)	(536)	214
Others	845	(7)	572
EBITDA	**1,725**	**2,281**	**6,218**

Table of Contents

	Six-month period ended			
	June 30, 2009		June 30, 2008	
	EBITDA	Operating cash flows	EBITDA	Operating cash flows
Net income attributable to Company s stockholders	2,153	2,153	7,030	7,030
Income tax deferred	(41)	(41)	37	37
Income tax current	1,971		1,827	
Equity in results of affiliates and joint ventures and other investments	(207)	(207)	(379)	(379)
Foreign exchange and indexation gains, net	(539)	(874)	(881)	(1,377)
Financial expenses, net	(529)	(51)	425	36
Noncontrolling interests	10	10	171	171
Gain on sale of investments	(157)	(157)	(80)	(80)
Net working capital		1,891		(1,442)
Others		(838)		(304)
Operating income	**2,661**	**1,886**	**8,150**	**3,692**
Depreciation, depletion and amortization	1,202	1,202	1,526	1,526
Dividends received	143	143	271	271
	4,006	**3,231**	**9,947**	**5,489**
Operating cash flows		**3,231**		**5,489**
Income tax		1,971		1,827
Foreign exchange and indexation gains (losses)		335		496
Financial expenses		(478)		389
Net working capital		(1,891)		1,442
Others		838		304
EBITDA		**4,006**		**9,947**

43

Table of Contents

Board of Directors, Fiscal Council, Advisory committees and Executive Officers

Board of Directors

Sérgio Ricardo Silva Rosa
Chairman

Mário da Silveira Teixeira Júnior
Vice-President

Eduardo Fernando Jardim Pinto
Francisco Augusto da Costa e Silva
Jorge Luiz Pacheco
José Ricardo Sasseron
Ken Abe
Luciano Galvão Coutinho
Oscar Augusto de Camargo Filho
Renato da Cruz Gomes
Sandro Kohler Marcondes

Alternate

Deli Soares Pereira
Hidehiro Takahashi
João Moisés de Oliveira
Luiz Augusto Ckless Silva
Luiz Carlos de Freitas
Luiz Felix Freitas
Paulo Sérgio Moreira da Fonseca
Raimundo Nonato Alves Amorim
Rita de Cássia Paz Andrade Robles
Wanderlei Viçoso Fagundes

Advisory Committees of the Board of Directors

Controlling Committee
Luiz Carlos de Freitas
Paulo Ricardo Ultra Soares
Paulo Roberto Ferreira de Medeiros

Executive Development Committee
João Moisés de Oliveira
José Ricardo Sasseron
Oscar Augusto de Camargo Filho

Strategic Committee
Roger Agnelli
Luciano Galvão Coutinho

Governance and Sustainability Committee
Jorge Luiz Pacheco
Renato da Cruz Gomes
Ricardo Simonsen

Fiscal Council

Marcelo Amaral Moraes
Chairman

Aníbal Moreira dos Santos
Antônio José de Figueiredo Ferreira
Bernard Appy

Alternate
Cícero da Silva
Marcus Pereira Aucélio
Oswaldo Mário Pêgo de Amorim Azevedo

Executive Officers

Roger Agnelli
Chief Executive Officer

Carla Grasso
Executive Officer for Human Resources and Corporate Services

Eduardo de Salles Bartolomeo
Executive Officer for Logistics, Project Management and Sustainability

Fabio de Oliveira Barbosa
Chief Financial Officer and Investor Relations

José Carlos Martins
Executive Officer for Ferrous Minerals

Tito Botelho Martins
Executive Officer for Non Ferrous

Marcus Vinícius Dias Severini
Chief Officer of Accounting and Control Department

Mário da Silveira Teixeira Júnior
Oscar Augusto de Camargo Filho
Sérgio Ricardo Silva Rosa

Finance Committee
Fabio de Oliveira Barbosa
Ivan Luiz Modesto Schara
Luiz Maurício Leuzinger
Wanderlei Viçoso Fagundes

Vera Lúcia de Almeida Pereira Elias
Chief Accountant

CRC-RJ 043059/O-8

Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Vale S.A.
(Registrant)

Date: July 29, 2009

By: /s/ Roberto Castello Branco

Roberto Castello Branco
Director of Investor Relations