

Vale S.A.
Form 6-K
July 25, 2012
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**United States
Securities and Exchange Commission**

Washington, D.C. 20549

FORM 6-K

**Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the
Securities Exchange Act of 1934**

For the month of

July, 2012

Vale S.A.

**Avenida Graça Aranha, No. 26
20030-900 Rio de Janeiro, RJ, Brazil**

(Address of principal executive office)

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

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(Check One) Form 20-F Form 40-F

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

(Check One) Yes No

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(Check One) Yes No

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

(Check One) Yes No

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

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Financial Statements

June 30, 2012

US GAAP

Filed at CVM, SEC and HKEx on

July 25, 2012

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**Report of independent registered
public accounting firm**

To the Board of Directors and Stockholders

Vale S.A.

We have reviewed the accompanying condensed consolidated balance sheet of Vale S.A. (the Company) and its subsidiaries as of June 30, 2012, and the related condensed consolidated statements of income, of comprehensive income, of cash flows and of changes in stockholders' equity, for the three-month periods ended June 30, 2012, March 31, 2012 and June 30, 2011 and for the six-month periods ended June 30, 2012 and June 30, 2011. This interim financial information is the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2011, and the related consolidated statements of income, of comprehensive income, of cash flows and of stockholders' equity for the year then ended (not presented herein), and in our report dated February 15, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2011, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers

Auditores Independentes

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Rio de Janeiro, Brazil

July 25, 2012

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Table of Contents**Condensed Consolidated Balance Sheets**

Expressed in millions of United States dollars

| | June 30, 2012 (unaudited) | December 31, 2011 |
|--|------------------------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 4,083 | 3,531 |
| Accounts receivable | | |
| Related parties | 159 | 288 |
| Unrelated parties | 6,866 | 8,217 |
| Loans and advances to related parties | 349 | 82 |
| Inventories | 5,281 | 5,251 |
| Deferred income tax | | 203 |
| Unrealized gains on derivative instruments | 322 | 595 |
| Advances to suppliers | 303 | 393 |
| Recoverable taxes | 2,167 | 2,230 |
| Assets held for sale | 187 | |
| Others | 1,070 | 946 |
| | 20,787 | 21,736 |
| Non-current assets | | |
| Property, plant and equipment, net | 90,103 | 88,895 |
| Intangible assets | 1,055 | 1,135 |
| Investments in affiliated companies, joint ventures and others investments | 8,173 | 8,093 |
| Other assets: | | |
| Goodwill on acquisition of subsidiaries | 2,948 | 3,026 |
| Loans and advances | | |
| Related parties | 428 | 509 |
| Unrelated parties | 218 | 210 |
| Prepaid pension cost | 1,939 | 1,666 |
| Prepaid expenses | 363 | 321 |
| Judicial deposits | 1,531 | 1,464 |
| Recoverable taxes | 617 | 587 |
| Deferred income tax | 977 | 594 |
| Unrealized gains on derivative instruments | | 60 |
| Deposit on incentive / reinvestment | 207 | 229 |
| Others | 210 | 203 |
| | 108,769 | 106,992 |
| Total | 129,556 | 128,728 |

Table of Contents**Condensed Consolidated Balance Sheets**

Expressed in millions of United States dollars

(Except number of shares)

| | June 30, 2012 (unaudited) | (Continued) | December 31, 2011 |
|--|------------------------------|-------------|-------------------|
| Liabilities and stockholders equity | | | |
| Current liabilities | | | |
| Suppliers | 4,481 | | 4,814 |
| Payroll and related charges | 994 | | 1,307 |
| Minimum annual remuneration attributed to stockholders | | | 1,181 |
| Current portion of long-term debt | 1,503 | | 1,495 |
| Short-term debt | 503 | | 22 |
| Loans from related parties | 19 | | 24 |
| Provision for income taxes | 141 | | 507 |
| Taxes payable and royalties | 282 | | 524 |
| Employees postretirement benefits | 110 | | 147 |
| Railway sub-concession agreement payable | 64 | | 66 |
| Unrealized losses on derivative instruments | 142 | | 73 |
| Provisions for asset retirement obligations | 41 | | 73 |
| Liabilities associated with assets held for sale | 32 | | |
| Others | 908 | | 810 |
| | 9,220 | | 11,043 |
| Non-current liabilities | | | |
| Employees postretirement benefits | 2,446 | | 2,446 |
| Loans from related parties | 81 | | 91 |
| Long-term debt | 23,432 | | 21,538 |
| Provisions for contingencies (Note 16 (b)) | 1,748 | | 1,686 |
| Unrealized losses on derivative instruments | 908 | | 663 |
| Deferred income tax | 4,271 | | 5,654 |
| Provisions for asset retirement obligations | 1,773 | | 1,697 |
| Debentures | 1,410 | | 1,336 |
| Others | 1,948 | | 2,460 |
| | 38,017 | | 37,571 |
| Redeemable noncontrolling interest | 412 | | 505 |
| Commitments and contingencies (Note 16) | | | |
| Stockholders equity | | | |
| Preferred class A stock - 7,200,000,000 no-par-value shares authorized and 2,108,579,618 (2011 - 2,108,579,618) issued | 16,728 | | 16,728 |
| | 25,837 | | 25,837 |

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| | | |
|--|----------------|----------------|
| Common stock - 3,600,000,000 no-par-value shares authorized and 3,256,724,482 (2011 - 3,256,724,482) issued | | |
| Treasury stock - 140,857,692 (2011 - 181,099,814) preferred and 71,071,482 (2011 - 86,911,207) common shares | (4,477) | (5,662) |
| Additional paid-in capital | (369) | (61) |
| Mandatorily convertible notes - common shares | | 290 |
| Mandatorily convertible notes - preferred shares | | 644 |
| Other cumulative comprehensive loss | (7,698) | (5,673) |
| Undistributed retained earnings | 39,300 | 41,130 |
| Unappropriated retained earnings | 10,973 | 4,482 |
| Total Company stockholders equity | 80,294 | 77,715 |
| Noncontrolling interests | 1,613 | 1,894 |
| Total stockholders equity | 81,907 | 79,609 |
| Total | 129,556 | 128,728 |

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

Table of Contents**Condensed Consolidated Statements of Income**

Expressed in millions of United States dollars

(Except per share amounts)

| | (unaudited) | | | | |
|---|----------------|--|----------------|---|-----------------|
| | June 30, 2012 | Three-month period ended March 31, 2012 | June 30, 2011 | Six-month period ended June 30, 2012 | June 30, 2011 |
| Operating revenues, net of discounts, returns and allowances | | | | | |
| Sales of ores and metals | 10,452 | 9,642 | 13,659 | 20,094 | 25,402 |
| Aluminum products | | | | | 383 |
| Revenues from logistic services | 408 | 403 | 476 | 811 | 804 |
| Fertilizer products | 923 | 830 | 867 | 1,753 | 1,654 |
| Others | 367 | 464 | 343 | 831 | 650 |
| | 12,150 | 11,339 | 15,345 | 23,489 | 28,893 |
| Taxes on revenues | (257) | (285) | (356) | (542) | (691) |
| Net operating revenues | 11,893 | 11,054 | 14,989 | 22,947 | 28,202 |
| Operating costs and expenses | | | | | |
| Cost of ores and metals sold | (4,568) | (4,256) | (4,361) | (8,824) | (8,462) |
| Cost of aluminum products | | | | | (289) |
| Cost of logistic services | (331) | (353) | (376) | (684) | (665) |
| Cost of fertilizer products | (734) | (666) | (676) | (1,400) | (1,321) |
| Others | (382) | (415) | (308) | (797) | (560) |
| | (6,015) | (5,690) | (5,721) | (11,705) | (11,297) |
| Selling, general and administrative expenses | (615) | (529) | (434) | (1,144) | (853) |
| Research and development expenses | (359) | (299) | (363) | (658) | (705) |
| Gain (loss) on sale of assets | (377) | | | (377) | 1,513 |
| Others | (604) | (686) | (724) | (1,290) | (1,144) |
| | (7,970) | (7,204) | (7,242) | (15,174) | (12,486) |
| Operating income | 3,923 | 3,850 | 7,747 | 7,773 | 15,716 |
| Non-operating income (expenses) | | | | | |
| Financial income | 120 | 119 | 226 | 239 | 391 |
| Financial expenses | (559) | (613) | (514) | (1,172) | (1,096) |
| Gains (losses) on derivatives, net | (416) | 296 | 358 | (120) | 597 |
| Foreign exchange gains (losses), net | (1,748) | 237 | 501 | (1,511) | 784 |
| Indexation gains (losses), net | 55 | 190 | 77 | 245 | (126) |
| | (2,548) | 229 | 648 | (2,319) | 550 |
| Income before discontinued operations, income taxes and | 1,375 | 4,079 | 8,395 | 5,454 | 16,266 |

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| equity results | | | | | |
|---|--------------|--------------|----------------|--------------|----------------|
| Income taxes | | | | | |
| Current | (25) | (813) | (1,719) | (838) | (3,312) |
| Deferred | | | | | |
| Deferred of period | (151) | 260 | (688) | 109 | (472) |
| Reversal of Deferred Income Tax liabilities (see note 5.a.) | 1,236 | | | 1,236 | |
| | 1,060 | (553) | (2,407) | 507 | (3,784) |
| Equity in results of affiliates, joint ventures and other investments | 158 | 243 | 406 | 401 | 686 |
| Net income | 2,593 | 3,769 | 6,394 | 6,362 | 13,168 |
| Losses attributable to noncontrolling interests | | | | | |
| | (69) | (58) | (58) | (127) | (110) |
| Net income attributable to the Company's stockholders | 2,662 | 3,827 | 6,452 | 6,489 | 13,278 |
| Earnings per share attributable to Company's stockholders: | | | | | |
| Earnings per preferred share | 0.51 | 0.74 | 1.21 | 1.26 | 2.50 |
| Earnings per common share | 0.51 | 0.74 | 1.21 | 1.26 | 2.50 |
| Earnings per convertible note linked to preferred share | | 0.97 | 1.71 | | 3.38 |
| Earnings per convertible note linked to common share | | 1.03 | 1.79 | | 3.53 |

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

Table of Contents**Condensed Consolidated Statements of Comprehensive Income (deficit)**

Expressed in millions of United States dollars

| | (unaudited) | | | | |
|--|---------------|--|---------------|---|---------------|
| | June 30, 2012 | Three-month period ended March 31, 2012 | June 30, 2011 | Six-month period ended June 30, 2012 | June 30, 2011 |
| Comprehensive income is comprised as follows: | | | | | |
| Company's stockholders: | | | | | |
| Net income attributable to Company's stockholders | 2,662 | 3,827 | 6,452 | 6,489 | 13,278 |
| Cumulative translation adjustments | (2,820) | 827 | 1,581 | (1,993) | 2,768 |
| Available-for-sale securities | | | | | |
| Gross balance as of the period/year end | (2) | | (13) | (2) | (14) |
| Tax (expense) benefit | | | 11 | | 11 |
| | (2) | | (2) | (2) | (3) |
| Surplus (deficit) accrued pension plan | | | | | |
| Gross balance as of the period/year end | (69) | 136 | (195) | 67 | (12) |
| Tax (expense) benefit | 50 | (44) | 63 | 6 | |
| | (19) | 92 | (132) | 73 | (12) |
| Cash flow hedge | | | | | |
| Gross balance as of the period | (142) | 24 | 138 | (118) | 152 |
| Tax (expense) benefit | 30 | (15) | 3 | 15 | (6) |
| | (112) | 9 | 141 | (103) | 146 |
| Total comprehensive income (deficit) attributable to Company's stockholders | (291) | 4,755 | 8,040 | 4,464 | 16,177 |
| Noncontrolling interests: | | | | | |
| Losses attributable to noncontrolling interests | (69) | (58) | (58) | (127) | (110) |
| Cumulative translation adjustments | 24 | 14 | 40 | 38 | (14) |
| Pension plan | | | 5 | | 5 |
| Cash flow hedge | | | | | 1 |
| Total comprehensive deficit attributable to Noncontrolling interests | (45) | (44) | (13) | (89) | (118) |
| Total comprehensive income | (336) | 4,711 | 8,027 | 4,375 | 16,059 |

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

Table of Contents**Condensed Consolidated Statements of Cash Flows**

Expressed in millions of United States dollars

| | (unaudited) | | | | |
|---|---------------|--|---------------|---|---------------|
| | June 30, 2012 | Three-month period ended March 31, 2012 | June 30, 2011 | Six-month period ended June 30, 2012 | June 30, 2011 |
| Cash flows from operating activities: | | | | | |
| Net income | 2,593 | 3,769 | 6,394 | 6,362 | 13,168 |
| Adjustments to reconcile net income to cash from operations: | | | | | |
| Depreciation, depletion and amortization | 1,084 | 1,055 | 979 | 2,139 | 1,936 |
| Dividends received | 112 | 60 | 343 | 172 | 593 |
| Equity in results of affiliates, joint ventures and other investments | (158) | (243) | (406) | (401) | (686) |
| Deferred income taxes | 151 | (260) | 688 | (109) | 472 |
| Reversal of deferred income tax | (1,236) | | | (1,236) | |
| Loss on disposal of property, plant and equipment | 207 | 44 | 19 | 251 | 191 |
| Loss (gain) on sale of assets available for sale | 377 | | | 377 | (1,513) |
| Foreign exchange and indexation gains, net | 82 | (182) | 257 | (100) | 153 |
| Unrealized derivative losses (gains), net | 642 | (114) | (230) | 528 | (442) |
| Unrealized interest (income) expense, net | (29) | 47 | (41) | 18 | (34) |
| Others | (73) | (38) | (41) | (111) | (78) |
| Decrease (increase) in assets: | | | | | |
| Accounts receivable | 425 | 645 | (658) | 1,070 | (547) |
| Inventories | 292 | (445) | (73) | (153) | (816) |
| Recoverable taxes | (287) | 355 | (79) | 68 | (191) |
| Others | (42) | (21) | (280) | (63) | (80) |
| Increase (decrease) in liabilities: | | | | | |
| Suppliers | 92 | (391) | 246 | (299) | 403 |
| Payroll and related charges | 284 | (601) | 204 | (317) | (152) |
| Income taxes | (166) | (472) | (24) | (638) | 452 |
| Others | 29 | 47 | (233) | 76 | 244 |
| Net cash provided by operating activities | 4,379 | 3,255 | 7,065 | 7,634 | 13,073 |
| Cash flows from investing activities: | | | | | |
| Short term investments | | | 540 | | 1,793 |
| Loans and advances receivable | | | | | |
| Related parties | | | | | |
| Others | 8 | (38) | (34) | (30) | (177) |
| Judicial deposits | (76) | (12) | (159) | (88) | (188) |
| Investments | (53) | (217) | (26) | (270) | (141) |
| Additions to property, plant and equipment | (3,228) | (2,961) | (3,480) | (6,189) | (6,293) |

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|--|----------------|----------------|----------------|----------------|----------------|
| Proceeds from disposal of investments | 366 | | | 366 | 1081 |
| Net cash used in investing activities | (2,983) | (3,228) | (3,159) | (6,211) | (3,925) |
| Cash flows from financing activities: | | | | | |
| Short-term debt | | | | | |
| Additions | 21 | 507 | 51 | 528 | 818 |
| Repayments | | (43) | (96) | (43) | (856) |
| Loans | | | | | |
| Related parties | | | | | |
| Proceeds | | | | | 19 |
| Repayments | | | | | (1) |
| Issuances of long-term debt | | | | | |
| Third parties | | | | | |
| Proceeds | 1,809 | 1,014 | 268 | 2,823 | 871 |
| Repayments | (502) | (63) | (419) | (565) | (1,770) |
| Transactions of noncontrolling interest | (427) | (76) | | (503) | |
| Dividends and interest attributed to Company's stockholders | (3,000) | | (2,000) | (3,000) | (3,000) |
| Dividends and interest attributed to noncontrolling interest | (35) | | (60) | (35) | (60) |
| Net cash provided by (used in) financing activities | (2,134) | 1,339 | (2,256) | (795) | (3,979) |
| Increase (decrease) in cash and cash equivalents | (738) | 1,366 | 1,650 | 628 | 5,169 |
| Effect of exchange rate changes on cash and cash equivalents | (101) | 25 | 306 | (76) | 474 |
| Cash and cash equivalents, beginning of period | 4,922 | 3,531 | 11,271 | 3,531 | 7,584 |
| Cash and cash equivalents, end of period | 4,083 | 4,922 | 13,227 | 4,083 | 13,227 |
| Cash paid during the period for: | | | | | |
| Interest on short-term debt | | (1) | (1) | (1) | (2) |
| Interest on long-term debt | (350) | (325) | (374) | (675) | (711) |
| Income tax | (282) | (656) | (1,171) | (938) | (2,136) |
| Non-cash transactions | | | | | |
| Interest capitalized | 70 | 56 | 69 | 126 | 102 |
| Conversion of mandatorily convertible notes using 56,081,560 treasury stock (see note 13). | | | | | |

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

Table of Contents**Condensed Consolidated Statements of Changes in Stockholders' Equity**

Expressed in millions of United States dollars

(Except number of shares)

| | (unaudited) | | | | |
|---|----------------|--|----------------|---|----------------|
| | June 30, 2012 | Three-month period ended March 31, 2012 | June 30, 2011 | Six-month period ended June 30, 2012 | June 30, 2011 |
| Preferred class A stock (including twelve golden shares) | | | | | |
| Beginning and end of the period | 16,728 | 16,728 | 10,370 | 16,728 | 10,370 |
| Capital increase | | | 6,358 | | 6,358 |
| End of the period | 16,728 | 16,728 | 16,728 | 16,728 | 16,728 |
| Common stock | | | | | |
| Beginning and end of the period | 25,837 | 25,837 | 16,016 | 25,837 | 16,016 |
| Capital increase | | | 9,821 | | 9,821 |
| End of the period | 25,837 | 25,837 | 25,837 | 25,837 | 25,837 |
| Treasury stock | | | | | |
| Beginning of the period | (5,662) | (5,662) | (2,660) | (5,662) | (2,660) |
| Sales (acquisitions) | 1,185 | | | 1,185 | |
| End of the period | (4,477) | (5,662) | (2,660) | (4,477) | (2,660) |
| Additional paid-in capital | | | | | |
| Beginning of the period | (71) | (61) | 2,188 | (61) | 2,188 |
| Change in the period | (298) | (10) | (1,870) | (308) | (1,870) |
| End of the period | (369) | (71) | 318 | (369) | 318 |
| Mandatorily convertible notes - common shares | | | | | |
| Beginning and end of the period | 290 | 290 | 290 | 290 | 290 |
| Change in the period | (290) | | | (290) | |
| End of the period | | 290 | 290 | | 290 |
| Mandatorily convertible notes - preferred shares | | | | | |
| Beginning and end of the period | 644 | 644 | 644 | 644 | 644 |
| Change in the period | (644) | | | (644) | |
| End of the period | | 644 | 644 | | 644 |
| Other cumulative comprehensive income (deficit) | | | | | |
| Cumulative translation adjustments | | | | | |
| Beginning of the period | (4,411) | (5,238) | 934 | (5,238) | (253) |
| Change in the period | (2,820) | 827 | 1,581 | (1,993) | 2,768 |
| End of the period | (7,231) | (4,411) | 2,515 | (7,231) | 2,515 |
| Unrealized gain (loss) - available-for-sale securities, net of tax | | | | | |
| Beginning of the period | 1 | 1 | 2 | 1 | 3 |
| Change in the period | (2) | | (2) | (2) | (3) |
| End of the period | (1) | 1 | | (1) | |
| Surplus (deficit) of accrued pension plan | | | | | |
| Beginning of the period | (475) | (567) | 61 | (567) | (59) |
| Change in the period | (19) | 92 | (132) | 73 | (12) |
| End of the period | (494) | (475) | (71) | (494) | (71) |
| Cash flow hedge | | | | | |

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|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Beginning of the period | 140 | 131 | (19) | 131 | (24) |
| Change in the period | (112) | 9 | 141 | (103) | 146 |
| End of the period | 28 | 140 | 122 | 28 | 122 |
| Total other cumulative comprehensive income (deficit) | (7,698) | (4,745) | 2,566 | (7,698) | 2,566 |
| Undistributed retained earnings | | | | | |
| Beginning of the period | 42,007 | 41,130 | 43,189 | 41,130 | 42,218 |
| Transfer from unappropriated retained earnings | (2,707) | 877 | 1,202 | (1,830) | 2,173 |
| Transfer to capitalized earnings | | | (14,309) | | (14,309) |
| End of the period | 39,300 | 42,007 | 30,082 | 39,300 | 30,082 |
| Unappropriated retained earnings | | | | | |
| Beginning of the period | 7,416 | 4,482 | 5,995 | 4,482 | 166 |
| Net income attributable to the Company's stockholders | 2,662 | 3,827 | 6,452 | 6,489 | 13,278 |
| Remuneration of mandatorily convertible notes | | | | | |
| Preferred class A stock | (33) | (11) | (24) | (44) | (42) |
| Common stock | (14) | (5) | (10) | (19) | (18) |
| Dividends and interest attributed to stockholders' equity | | | | | |
| Preferred class A stock | (722) | | | (722) | |
| Common stock | (1,043) | | | (1,043) | |
| Appropriation to undistributed retained earnings | 2,707 | (877) | (1,202) | 1,830 | (2,173) |
| End of the period | 10,973 | 7,416 | 11,211 | 10,973 | 11,211 |
| Total Company stockholders' equity | 80,294 | 82,444 | 85,016 | 80,294 | 85,016 |
| Noncontrolling interests | | | | | |
| Beginning of the period | 1,846 | 1,894 | 2,904 | 1,894 | 2,830 |
| Disposals (acquisitions) of noncontrolling interests | (205) | (62) | | (267) | 117 |
| Cumulative translation adjustments | 24 | 14 | 40 | 38 | (14) |
| Cash flow hedge | | | | | 1 |
| Losses attributable to noncontrolling interests | (69) | (58) | (58) | (127) | (110) |
| Net income attributable to redeemable noncontrolling interests | 42 | 51 | 65 | 93 | 133 |
| Dividends and interest attributable to noncontrolling interests | (35) | (4) | (59) | (39) | (65) |
| Capitalization of stockholders' advances | 10 | 11 | 8 | 21 | 8 |
| Pension plan | | | 5 | | 5 |
| End of the period | 1,613 | 1,846 | 2,905 | 1,613 | 2,905 |
| Total stockholders' equity | 81,907 | 84,290 | 87,921 | 81,907 | 87,921 |
| Number of shares issued and outstanding: | | | | | |
| Preferred class A stock (including twelve golden shares) | 2,108,579,618 | 2,108,579,618 | 2,108,579,618 | 2,108,579,618 | 2,108,579,618 |
| Common stock | 3,256,724,482 | 3,256,724,482 | 3,256,724,482 | 3,256,724,482 | 3,256,724,482 |
| Buy-backs | | | | | |
| Beginning of the period | (268,010,734) | (268,011,021) | (147,024,956) | (268,011,021) | (147,024,965) |
| Conversions | 56,081,560 | 287 | | 56,081,847 | 9 |
| End of the period | (211,929,174) | (268,010,734) | (147,024,956) | (211,929,174) | (147,024,956) |
| | 5,153,374,926 | 5,097,293,366 | 5,218,279,144 | 5,153,374,926 | 5,218,279,144 |

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

Table of Contents**Notes to the Condensed Consolidated Financial Statements**

Expressed in millions of United States dollars, unless otherwise stated

1 The Company and its operations

Vale S.A., (Vale , 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, basic metals production, fertilizers, logistics and steel activities.

Our principal consolidated operating subsidiaries are the following:

| Subsidiary | % ownership | % voting capital | Location | Principal activity |
|--|--------------------|-------------------------|-----------------|---------------------------|
| Compañia Minera Miski Mayo S.A.C. | 40.00 | 51.00 | Peru | Fertilizer |
| Ferrovía Centro-Atlántica S. A. | 99.99 | 99.99 | Brazil | Logistics |
| Ferrovía Norte Sul S.A. | 100.00 | 100.00 | Brazil | Logistics |
| Mineração Corumbaense Reunida S.A. - MCR | 100.00 | 100.00 | Brazil | Iron Ore and Manganese |
| PT Vale Indonesia Tbk | 59.20 | 59.20 | Indonesia | Nickel |
| Sociedad Contractual Minera Tres Valles | 90.00 | 90.00 | Chile | Copper |
| Vale Australia Pty Ltd. | 100.00 | 100.00 | Australia | Coal |
| Vale International Holdings GMBH | 100.00 | 100.00 | Austria | Holding and Exploration |
| Vale Canada Limited | 100.00 | 100.00 | Canada | Nickel |
| Vale Coal Colombia Ltd. (see note 5) | 100.00 | 100.00 | Colombia | Coal |
| Vale Fertilizantes S.A | 100.00 | 100.00 | Brazil | Fertilizer |
| Vale International S.A | 100.00 | 100.00 | Switzerland | Trading |
| Vale Manganês S.A. | 100.00 | 100.00 | Brazil | Manganese and Ferroalloys |
| Vale Mina do Azul S. A. | 100.00 | 100.00 | Brazil | Manganese |
| Vale Moçambique S.A. | 95.00 | 95.00 | Mozambique | Coal |
| Vale Nouvelle-Calédonie SAS | 74.00 | 74.00 | New Caledonia | Nickel |
| Vale Oman Pelletizing Company LLC | 100.00 | 100.00 | Oman | Pellets |
| Vale Shipping Holding PTE Ltd. | 100.00 | 100.00 | Singapore | Logistics |

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. Subsidiaries over which control is achieved through other means, such as stockholders agreement, are also

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consolidated even if we hold less than 51% of voting capital. Our variable interest entities in which we are the primary beneficiary are consolidated. Investments in unconsolidated affiliates and joint ventures are accounted under the equity method (Note 10).

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

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

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

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3 Basis of presentation

Our condensed consolidated interim financial statements for the three-month periods ended June 30, 2012, March 31, 2012 and June 30, 2011 and six-month ended June 30, 2012 and 2011, prepared in accordance with accounting principles generally accepted in the United States of America (USGAAP), which differ in certain respects from the accounting practices adopted in Brazil (BRGAAP), and the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB), which are the basis for our annual statutory financial statements, are unaudited. However, in our opinion, these condensed consolidated financial statements includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for interim periods. The results of operations for the three-month periods ended June 30, 2012, and March 31, 2012 and the Six-month period ended June 30, 2012, are not necessarily indicative of the actual results expected for the full fiscal year ending December 31, 2012.

These condensed consolidated interim financial statement should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2011, prepared in accordance with US GAAP.

In preparing the condensed consolidated financial statements, 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 US dollar as our reporting currency.

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

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

The exchange rates used to translate the assets and liabilities of the Brazilian operations at June 30, 2012 and December 31, 2011, were R\$1.9893 and R\$1.8683, respectively.

4 Accounting pronouncements

Newly issued accounting pronouncements

The Company understands that the recently issued accounting pronouncements that are not effective as of and for the year ending December 31, 2012, are not expected to be relevant for its consolidated financial statements.

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5 Major acquisitions and Disposals

a) Fertilizer Business

In 2010, through our wholly owned subsidiary Mineração Naque S.A. (Naque), we acquired 78.92% of the total capital (being 99.83% the of voting capital) of Vale Fertilizantes S.A. and 100% of the total capital of Vale Fosfatados. In 2011 and beginning of 2012, we concluded several transactions including a public offer to acquire the free floating of Vale Fertilizantes and its delisting which resulted in the current ownership of 100% of the total capital of this subsidiary.

The purchase consideration of the business combination effected in 2010, when control was obtained, amounted to US\$5,795. The purchase price allocation exercise was concluded in 2011 and generated a deferred tax liability on the fair value adjustments, determined based on the temporary differences between the accounting basis of those assets and liabilities at fair values and their tax basis represented by the historical carrying values at the acquired entity. According to current Brazilian tax regulations, goodwill generated in connection with a business combination as well as the fair values of assets and liabilities acquired are only tax deductible post a legal merger between the acquirer and the acquiree.

In June 2012, we have decided to legally merge Naque and Vale Fertilizantes. As a result, the carrying amounts of acquired assets and liabilities accounted for at Naque s consolidated financial statements, represented by their amortized fair values from acquisition date, became their tax basis.

Therefore, upon concluding the merger, there are no longer differences between tax basis and carrying amounts of the net assets acquired, and consequently there is no longer deferred tax liability amount to be recognized. The outstanding balance of the initially recognized deferred tax liability (accounted for in connection with the purchase accounting) totaling US\$ 1,236 was entirely recycled through P&L for the six-month period ended June 30, 2012, in connection with the legal merger of Vale Fertilizantes into Naque.

In addition, Naque was then renamed as Vale Fertilizantes.

b) Sale of coal

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In June 2012, we have concluded the sale of our thermal coal operations in Colombia to CPC S.A.S., an affiliate of Colombian Natural Resources S.A.S. (CNR), a privately held company, which includes future compromises around of US\$ 121.

The thermal coal operations in Colombia constitute a fully-integrated mine-railway-port system consisting of a coal mine and a coal deposit; a coal port facility; and an equity participation in a railway connecting the coal mines to the port.

The loss on this transaction, of US\$355 was recorded in the income statement in the line Gain (Loss) on sale of assets

c) **Acquisition of EBM shares**

Continuing the process of optimization its corporate structure, during 2Q12 Vale acquired additional 10.46% of Empreendimentos Brasileiros de Mineração S. A. (EBM), whose main asset is the participation in Minerações Brasileiras Reunidas S. A., which owns mines sites Itabirito, Vargem Grande and Paraopeba. As a result of the acquisition, we increased our share of the capital of EBM to 96.7% and of MBR to 98.3%, and the amount of US\$62 are recognized as a result from operations with non-controlling interest in Stockholders Equity .

Table of Contents**6 Income taxes**

There were no changes in the rates of taxes in the countries where we operate in the period. The total amount presented as income tax and social contribution results in the financial statements is reconciled with the rates established by law, as follows:

| | | | | | | | | | |
|--|--------------|------------|--------------|--------------|-------------|--------------|----------------|--------------|----------------|
| Income before discontinued operations, income taxes, equity results and noncontrolling interests | 1,613 | (238) | 1,375 | 2,957 | 1,122 | 4,079 | 7,303 | 1,092 | 8,395 |
| Exchange variation (not taxable) or not deductible | | 368 | 368 | | (200) | (200) | | 71 | 71 |
| | 1,613 | 130 | 1,743 | 2,957 | 922 | 3,879 | 7,303 | 1,163 | 8,466 |
| Tax at Brazilian composite rate | (548) | (44) | (592) | (1,006) | (313) | (1,319) | (2,483) | (395) | (2,878) |
| Adjustments to derive effective tax rate: | | | | | | | | | |
| Tax benefit on interest attributed to stockholders | 341 | | 341 | 379 | | 379 | 258 | | 258 |
| Difference on tax rates of foreign income | | 164 | 164 | | 296 | 296 | | 219 | 219 |
| Tax incentives | | | | 90 | | 90 | 192 | | 192 |
| Reversal/Constitution of provisions for loss of tax loss carryforward | | | | | | | | (141) | (141) |
| Other non-taxable, income/non deductible expenses | (46) | (43) | (89) | 28 | (27) | 1 | (63) | 6 | (57) |
| | (253) | 77 | (176) | (509) | (44) | (553) | (2,096) | (311) | (2,407) |
| Reversal of deferred tax (see note 5.a) | 1,236 | | 1,236 | | | | | | |
| Income tax per consolidated statements of income | 983 | 77 | 1,060 | (509) | (44) | (553) | (2,096) | (311) | (2,407) |

| | Six-month period ended (unaudited) | | | | | | |
|--|------------------------------------|---------------|--|--------------|---------------|--------------|---------------|
| | Brazil | June 30, 2012 | | Total | June 30, 2011 | | |
| | | Foreign | | | Brazil | Foreign | Total |
| Income before discontinued operations, income taxes, equity results and noncontrolling interests | 4,570 | 884 | | 5,454 | 11,821 | 4,445 | 16,266 |
| Exchange variation (not taxable) or not deductible | | 168 | | 168 | | 118 | 118 |
| | 4,570 | 1,052 | | 5,622 | 11,821 | 4,563 | 16,384 |
| Tax at Brazilian composite rate | (1,554) | (358) | | (1,911) | (4,019) | (1,551) | (5,570) |

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Adjustments to derive effective tax rate:

| | | | | | | |
|---|--------------|-----------|--------------|----------------|--------------|----------------|
| Tax benefit on interest attributed to stockholders | 720 | | 720 | 694 | | 694 |
| Difference on tax rates of foreign income | | 460 | 460 | | 967 | 967 |
| Tax incentives | 90 | | 90 | 363 | | 363 |
| Other non-taxable, income/non deductible expenses | (18) | (70) | (88) | (50) | (188) | (238) |
| | (762) | 32 | (729) | (3,012) | (772) | (3,784) |
| Reversal of deferred tax (see note 5a) | 1,236 | | 1,236 | | | |
| Income tax per consolidated statements of income | 474 | 32 | 507 | (3,012) | (772) | (3,784) |

Whereas published on December 31, 2011, there were no changes in tax incentives received by the company.

The Company is subject to revision of income tax by tax authorities for up to five years in companies operating in Brazil, ten years for operations in Indonesia and up to seven years for companies with operations in Canada.

The reconciliation of the beginning and ending balances is as follows: (see note 16(b)) tax related actions)

| | June 30, 2012 | Three-month period ended | | (unaudited) | Six-month period ended | |
|---|---------------|--------------------------|----------------|---------------|------------------------|---------------|
| | | June 30, 2012 | March 31, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Beginning of the period | 272 | 263 | | 2,623 | 263 | 2,555 |
| Increase resulting from tax positions taken | 4 | 4 | | 1,065 | 8 | 1,074 |
| Decrease resulting from tax positions taken | | | | (3,315) | | (3,317) |
| Cumulative translation adjustments | (5) | 5 | | (1) | | 60 |
| End of the period | 271 | 272 | | 372 | 271 | 372 |

Table of Contents**7 Cash and cash equivalents**

| | June 30, 2012 (unaudited) | December 31, 2011 |
|------------------------|--------------------------------------|--------------------------|
| Cash | 1,038 | 945 |
| Short-term investments | 3,045 | 2,586 |
| | 4,083 | 3,531 |

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

The increase in cash equivalents during the 2012, is mainly related to the notes issued during the quarter ended June 30, 2012 (note 12).

8 Inventories

| | June 30, 2012 (unaudited) | December 31, 2011 |
|--------------------------------------|--------------------------------------|--------------------------|
| Products | | |
| Nickel (co-products and by-products) | 1,672 | 1,771 |
| Iron ore and pellets | 1,296 | 1,137 |
| Manganese and ferroalloys | 92 | 240 |
| Fertilizer | 493 | 387 |
| Copper concentrate | 139 | 72 |
| Coal | 268 | 277 |
| Others | 40 | 91 |
| Spare parts and maintenance supplies | 1,281 | 1,276 |
| | 5,281 | 5,251 |

On June 30, 2012 and December 31, 2011 the inventory includes provision for adjustment to market value for the products nickel and manganese in the amount of US\$ 14 and US\$ 9, respectively.

9 Assets and liabilities held for sale

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In July 2012 (subsequent event), we have signed a share purchase agreement to sell our manganese ferroalloys operations in Europe to subsidiaries of Glencore International Plc., a company listed on the London and Hong Kong Stock Exchanges, for US\$ 160 in cash, subject to the fulfillment of certain precedent conditions. We recognized a loss of US\$ 22 presented in our statement of income as Gain (Loss) on sale of assets .

The manganese ferroalloys operations in Europe consist of: (a) 100% of Vale Manganèse France SAS, located in Dunkerque, France; and (b) 100% of Vale Manganese Norway AS, located in Mo I Rana, Norway.

| | June 30, 2012 (unaudited) |
|--|---------------------------|
| Assets held for sale | |
| Accounts receivable | 46 |
| Recoverable taxes | 6 |
| Inventories | 91 |
| Property, plant and equipment | 42 |
| Other | 2 |
| Total | 187 |
| Liabilities related to assets held for sale | |
| Suppliers | 20 |
| Deferred income tax | 4 |
| Others | 8 |
| Total | 32 |

Table of Contents**10 Investments in affiliated companies and joint ventures**

| | June 30, 2012 (unaudited) | | Net income (loss) of the period | Investments June 30, 2012 (unaudited) | Equity in earnings (losses) of investee adjustments (unaudited) | | | | | |
|---|------------------------------------|-------------------|---------------------------------------|---|---|-------------------|--------------------------|---------------|------------------------|---------------|
| | Participation in capital Voting | % equity Total | | | June 30, 2012 (unaudited) | December 31, 2011 | Three-month period ended | | Six-month period ended | |
| | | | | | | June 30, 2012 | March 31, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Bulk Material | | | | | | | | | | |
| Iron ore and pellets | | | | | | | | | | |
| Companhia Nipo-Brasileira de Pelotização - NIBRASCO (1) | 51.11 | 51.00 | 333 | 17 | 170 | 173 | 3 | 6 | 15 | 9 |
| Companhia Hispano-Brasileira de Pelotização - HISPANOBRÁS (1) | 51.00 | 50.89 | 248 | 62 | 126 | 115 | 29 | 2 | 5 | 31 |
| Companhia Coreano-Brasileira de Pelotização - KOBRASCO (1) | 50.00 | 50.00 | 198 | 30 | 100 | 78 | 8 | 7 | 8 | 15 |
| Companhia Ítalo-Brasileira de Pelotização - ITABRASCO (1) | 51.00 | 50.90 | 119 | 14 | 61 | 80 | 1 | 6 | 15 | 7 |
| Minas da Serra Geral SA - MSG | 50.00 | 50.00 | 52 | 6 | 26 | 29 | (3) | 3 | (5) | |
| SAMARCO Mineração SA - SAMARCO (2) | 50.00 | 50.00 | 1,144 | 697 | 626 | 528 | 140 | 209 | 278 | 349 |
| Baovale Mineração SA - BAOVALE | 50.00 | 50.00 | 58 | 4 | 29 | 35 | 2 | | 2 | 2 |
| Zhuhai YPM Pellet e Co.,Ltd - ZHUHAI | 25.00 | 25.00 | 91 | 1 | 23 | 23 | | | 1 | |
| Tecnored Desenvolvimento Tecnológico SA | 43.04 | 43.04 | 115 | (18) | 51 | 48 | (7) | (2) | | (9) |
| | | | | | 1,212 | 1,109 | 173 | 231 | 319 | 404 |
| Coal | | | | | | | | | | |
| Henan Longyu Resources Co Ltd | 25.00 | 25.00 | 1,258 | 134 | 314 | 282 | 16 | 18 | 18 | 34 |
| Shandong Yankuang International Company Ltd | 25.00 | 25.00 | (195) | (26) | (49) | (43) | (3) | (4) | (4) | (7) |
| | | | | | 265 | 239 | 13 | 14 | 14 | 27 |
| Base Metals | | | | | | | | | | |
| Bauxite | | | | | | | | | | |
| Mineração Rio do Norte SA - MRN | 40.00 | 40.00 | 299 | 26 | 120 | 144 | 4 | 7 | 1 | 11 |

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| | | | | | 120 | 144 | 4 | 7 | 1 | 11 |
|---|-------|-------|--------|-------|--------------|--------------|-------------|-------------|------------|-------------|
| Copper | | | | | | | | | | |
| Teal Minerals Incorporated | | | | | | | | | | |
| | 50.00 | 50.00 | 467 | (6) | 233 | 234 | (2) | (1) | (2) | (3) |
| | | | | | 233 | 234 | (2) | (1) | (2) | (3) |
| Nickel | | | | | | | | | | |
| Heron Resources Inc (3) | | | | | | | | | | |
| | | | | | 6 | 6 | | | | |
| Korea Nickel Corp | 25.00 | 25.00 | 76 | 4 | 19 | 4 | 1 | | | 1 |
| Others (3) | | | | | | 1 | | | | |
| | | | | | 25 | 11 | 1 | | | 1 |
| Aluminium | | | | | | | | | | |
| Norsk Hydro ASA | | | | | | | | | | |
| | 22.00 | 22.00 | 14,418 | 127 | 3,172 | 3,227 | | 28 | 50 | 28 |
| | | | | | 3,172 | 3,227 | | 28 | 50 | 28 |
| Logistic | | | | | | | | | | |
| LOG-IN Logística Intermodal SA | | | | | | | | | | |
| | 31.33 | 31.33 | 278 | (42) | 93 | 114 | (4) | (10) | (2) | (14) |
| MRS Logística SA | 46.75 | 47.59 | 1,182 | 126 | 560 | 551 | 19 | 40 | 35 | 59 |
| | | | | | 653 | 665 | 15 | 30 | 33 | 45 |
| Others | | | | | | | | | | |
| Steel | | | | | | | | | | |
| California Steel Industries Inc - CSI | | | | | | | | | | |
| | 50.00 | 50.00 | 352 | 30 | 176 | 161 | 9 | 6 | 7 | 15 |
| CSP - Companhia Siderurgica do PECEM | | | | | | | | | | |
| | 50.00 | 50.00 | 903 | (3) | 452 | 267 | (1) | (1) | | (2) |
| THYSSENKRUPP CSA Companhia Siderúrgica do Atlântico | | | | | | | | | | |
| | 26.87 | 26.87 | 5,623 | (317) | 1,511 | 1,607 | (46) | (39) | (10) | (85) |
| | | | | | 2,139 | 2,035 | (38) | (34) | (3) | (72) |
| Other affiliates and joint ventures | | | | | | | | | | |
| Norte Energia S.A. | | | | | | | | | | |
| | 9.00 | 9.00 | 721 | (11) | 65 | 75 | (1) | | | (1) |
| Vale Soluções em Energia S.A.(1) | | | | | | | | | | |
| | 52.77 | 52.77 | 188 | (76) | 110 | 145 | (8) | (32) | (6) | (40) |
| Others | | | | | 179 | 209 | 1 | | | 1 |
| | | | | | 354 | 429 | (8) | (32) | (6) | (40) |
| Total | | | | | 8,173 | 8,093 | 158 | 243 | 406 | 401 |

(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.

(2) Investment includes goodwill of US\$ 54 in June 30, 2012 and US\$58 in December, 2011.

(3) Available for sale.

Table of Contents**11 Short-term debt**

Short-term borrowings outstanding on June 30, 2012 are from commercial banks for export financing denominated in US dollars with average annual interest rates of 2,03%.

12 Long-term debt

| | Current liabilities | | Non-current liabilities | |
|--|------------------------------|----------------------|------------------------------|----------------------|
| | June 30, 2012 (unaudited) | December 31, 2011 | June 30, 2012 (unaudited) | December 31, 2011 |
| Foreign debt | | | | |
| Loans and financing denominated in the following currencies: | | | | |
| US dollars | 788 | 496 | 3,588 | 2,693 |
| Others | 54 | 9 | 252 | 52 |
| Fixed Rate Notes | | | | |
| US dollars | | 410 | 11,378 | 10,073 |
| EUR | | | 944 | 970 |
| Accrued charges | 254 | 221 | | |
| | 1,096 | 1,136 | 16,162 | 13,788 |
| Brazilian debt | | | | |
| Brazilian Reais indexed to Long-Term Interest Rate - TJLP/CDI and General Price Index-Market (IGP-M) | 321 | 247 | 4,895 | 5,245 |
| Non-convertible debentures | | | 2,375 | 2,505 |
| US dollars denominated | | | | |
| Accrued charges | 85 | 112 | | |
| | 406 | 359 | 7,270 | 7,750 |
| Total | 1,502 | 1,495 | 23,432 | 21,538 |

The long-term portion at June 30, 2012 (unaudited) was as follows:

| | |
|----------------|--------|
| 2013 | 2,544 |
| 2014 | 1,237 |
| 2015 | 994 |
| 2016 | 1,650 |
| 2017 and after | 17,007 |
| | 23,432 |

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At June 30, 2012 (unaudited) annual interest rates on long-term debt were as follows:

| | |
|------------------|--------|
| Up to 3% | 4,979 |
| 3.1% to 5% (*) | 4,551 |
| 5.1% to 7% | 8,780 |
| 7.1% to 9% (**) | 4,991 |
| 9.1% to 11% (**) | 1,105 |
| Over 11% (**) | 529 |
| | 24,935 |

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

(**) Includes non-convertible debentures and other Brazilian Real denominated debt that bear interest at the Brazilian Interbank Certificate of Deposit (CDI) and Brazilian Government Long-term Interest Rates (TJLP) plus a spread. For these operations, we have entered into derivative transactions to mitigate our exposure to the floating rate debt denominated in Brazilian Real, totaling US\$ 5,879 of which US\$ 4,698 has an original interest rate above 7.1% per year. The average cost after taking into account the derivative transactions is 2.86% per year in US dollars.

The average cost of all derivative transactions is 3.12% per year in US dollars.

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

| Non Convertible Debentures | Quantity as of June 30, 2012 | | Maturity | Interest | Balance | |
|----------------------------|------------------------------|-------------|----------------------|----------------------|------------------------------|----------------------|
| | Issued | Outstanding | | | June 30, 2012 (unaudited) | December 31, 2011 |
| 2nd Series | 400,000 | 400,000 | November 20, 2013 | 100% CDI + 0.25% | 2,030 | 2,167 |
| Tranche B - Salobo | 5 | 5 | No date | 6.5% p.a + IGP-DI | 364 | 364 |
| | | | | | 2,394 | 2,531 |
| Long-term portion | | | | | 2,375 | 2,505 |
| Accrued charges | | | | | 19 | 26 |
| | | | | | 2,394 | 2,531 |

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

| | Three-month period ended | | June 30, 2011 | Six-month period ended | |
|---|--------------------------|-------------------|------------------|------------------------|------------------|
| | June 30, 2012 | March 31, 2012 | | June 30, 2012 | June 30, 2011 |
| TJLP - Long-Term Interest Rate (effective rate) | 1.5 | 1.5 | 1.5 | 3.0 | 3.0 |
| IGP-M - General Price Index - Market | 2.6 | 0.6 | 0.7 | 3.2 | 3.1 |
| Appreciation (devaluation) of Real against US dollar | (8.6) | 2.0 | 4.2 | (6.6) | 6.5 |

On July 10, 2012 (subsequent event) we received the amount related to the issue of 750 (US\$ 919) notes due 2023. These notes will bear a coupon of 3.75% per year, payable annually, at a price of 99.608% of the principal amount.

In April 2012, through our wholly-owned subsidiary Vale Overseas Limited, we received the amount related to the issue of US\$ 1,250 notes due 2022 that were priced in March at a price of 101.345% of the principal amount. The notes will bear a coupon of 4.375% per year, payable semi-annually and will be consolidated with, and form a single series with, Vale Overseas's US\$ 1 billion 4.375% notes due 2022 issued on January 2012. Those notes issued in January, 2012 were sold at a price of 98.804% of the principal amount.

Credit Lines

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In August 2011, we entered into an agreement with a syndicate of financial institutions to finance the acquisition of five large ore carriers and two capesize bulkers at two Korean shipyards. The agreement provides a credit line of up to US\$ 530. As of June 30, 2012, Vale had drawn US\$ 265 under the facility.

In October 2010, we signed an agreement with Export Development Canada (EDC) to finance our investment program. Under the agreement, EDC will provide a credit line of up to US\$ 1 billion. As of June 30, 2012, Vale had drawn US\$ 675.

In September 2010, Vale entered into agreements with The Export-Import Bank of China and the Bank of China Limited for the financing to build 12 very large ore carriers comprising a facility for an amount of up to US\$ 1,229. The financing has a 13-year total term to be repaid, and the funds will be disbursed during 3 years according to the construction schedule. As of June 30, 2012, we had drawn US\$ 712 under this facility.

In June 2010, Vale established certain facilities with Banco Nacional de Desenvolvimento Econômico Social (BNDES) for a total amount of R\$ 774, (US\$ 389), to finance the acquisition of domestic equipments. On March 31, 2011, Vale increased this facility through a new agreement with BNDES for R\$ 103 (US\$ 52). As of June 30, 2012, we had drawn R\$ 641 (US\$ 322) under these facilities.

In May 2008, the Company has signed agreements with Japanese long term financing credit agencies in the amount of US\$ 5 billion, being US\$ 3 billion with Japan Bank for International Cooperation (JBIC) and US\$ 2 billion with Nippon Export and Investment Insurance (NEXI), to finance mining projects, logistics and energy generation. Until June 30, 2012, Vale through its subsidiary PT Vale Indonesia Tbk (PTVI) withdrew US\$ 300, under the credit facility from NEXI to finance the construction of the hydroelectric plant of Karebbe, Indonesia.

In April 2008, Vale has signed a credit line in the amount of R\$ 7.3 billion (US\$ 4 billion) with BNDES to finance its investment program. As of June 30, 2012, Vale withdrew R\$ 2,849 (US\$ 1,432) in this line.

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Revolving credit lines

Vale has available revolving credit lines that can be disbursed and paid at any time, during its availability period. On June 30, 2012, the total amount available under the revolving credit lines was US\$3 billion, which can be drawn by Vale S.A., Vale Canada Limited and Vale International.

Guarantee

On June 30, 2012, US\$ 1,088 of the total aggregate outstanding debt was secured by property, plant and equipment and receivables.

Covenants

Our principal covenants require us to maintain certain ratios, such as debt to EBITDA and interest coverage. We have not identified any events of noncompliance as of June 30, 2012.

13 Stockholders equity

Stockholders

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

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

In April 2012, the Board of Directors approved the payment of interest on capital in the amount of US\$ 3 billion, corresponding to US\$ 0.588547644 per outstanding share, common or preferred shares, of Vale issuance.

In November 2011, as part of the share buy-back program approved in June 2011, we concluded the acquisition of 39,536,080 common shares, at an average price of US\$ 26.25 per share, and 81,451,900 preferred shares, at an average price of US\$ 24.09 per share (including shares of each class in the form of American Depositary Receipts), for a total aggregate purchase price of US\$ 3.0 billion.

Mandatorily convertible

In June 2012, the notes series VALE and VALE.P-2012 were converted into ADS and represent an aggregate of 15,839,592 common shares and 40,241,968 preferred class A shares respectively. The Conversion was made using 56,081,560 treasury stocks held by the Company. The difference between the conversion amount and the book value of the treasury stocks of US\$ (251) was accounted for in additional paid-in capital in the stockholder s equity.

In May 2012, Vale paid additional remuneration to holders of those mandatorily convertible notes, in the amount of US\$ 1.463648 and US\$ 1.692869 per note, respectively.

Table of Contents**Earnings per share**

Earnings per share amounts have been calculated as follows:

| | (unaudited) | | | | |
|--|------------------|--|------------------|---|------------------|
| | June 30, 2012 | Three-month period ended March 31, 2012 | June 30, 2011 | Six-month period ended June 30, 2012 | June 30, 2011 |
| Net income for the period | 2,662 | 3,827 | 6,452 | 6,489 | 13,278 |
| Remuneration attributed to preferred convertible notes | (33) | (11) | (24) | (44) | (42) |
| Remuneration attributed to common convertible notes | (14) | (5) | (10) | (19) | (19) |
| Net income for the period adjusted | 2,615 | 3,811 | 6,418 | 6,426 | 13,217 |
| Earnings per share | | | | | |
| Income available to preferred stockholders | 989 | 1,423 | 2,440 | 2,430 | 5,025 |
| Income available to common stockholders | 1,626 | 2,339 | 3,898 | 3,996 | 8,028 |
| Income available to convertible notes linked to preferred | | 35 | 57 | | 118 |
| Income available to convertible notes linked to common | | 14 | 23 | | 47 |
| | 2,615 | 3,811 | 6,418 | 6,426 | 13,218 |
| Weighted average number of shares outstanding (thousands of shares) - preferred shares | 1,928,076 | 1,927,480 | 2,008,930 | 1,927,627 | 2,008,930 |
| Weighted average number of shares outstanding (thousands of shares) - common shares | 3,170,048 | 3,169,813 | 3,209,349 | 3,169,871 | 3,209,349 |
| Total | 5,098,124 | 5,097,293 | 5,218,279 | 5,097,498 | 5,218,279 |
| Weighted average number of convertibles outstanding (thousands of shares) - linked to preferred shares | | 47,285 | 47,285 | | 47,285 |
| Weighted average number of convertibles outstanding (thousands of shares) - linked to common shares | | 18,416 | 18,416 | | 18,416 |
| Total | | 65,701 | 65,701 | | 65,701 |
| Total | | | | | |
| Earnings per preferred share | 0.51 | 0.74 | 1.21 | 1.26 | 2.50 |
| Earnings per common share | 0.51 | 0.74 | 1.21 | 1.26 | 2.50 |
| Earnings per convertible note linked to preferred | | 0.97 | 1.71 | | 3.38 |
| | | 1.03 | 1.79 | | 3.53 |

Earnings per convertible note linked to common share

The Company does not disclose a calculation for diluted earnings per share because the effect is anti-dilutive.

14 Pension plans

We previously disclosed in our consolidated financial statements for the year ended December 31, 2011, that we expected to contribute US\$262 to our defined benefit pension plan in 2012. As of June 30, 2012, total contributions of US\$ 151 had been made. We do not expect any significant change in our previous estimate.

| | Three-month period ended in June 30, 2012 (unaudited) | | |
|--|---|---------------------------|----------------------------|
| | Overfunded pension plans | Underfunded pension plans | Underfunded other benefits |
| Service cost - benefits earned during the period | 7 | 17 | 8 |
| Interest cost on projected benefit obligation | 114 | 63 | 25 |
| Expected return on assets | (203) | (63) | |
| Amortizations and (gain) / loss | | 12 | (2) |
| Net periodic pension cost (credit) | (82) | 29 | 31 |

| | Three-month period ended in March 31, 2012 (unaudited) | | |
|--|--|---------------------------|----------------------------|
| | Overfunded pension plans | Underfunded pension plans | Underfunded other benefits |
| Service cost - benefits earned during the period | 8 | 15 | 9 |
| Interest cost on projected benefit obligation | 129 | 65 | 27 |
| Expected return on assets | (229) | (65) | |
| Amortizations and (gain) / loss | | 10 | (2) |
| Net periodic pension cost (credit) | (92) | 25 | 34 |

| | Three-month period ended in June 30, 2011 (unaudited) | | |
|--|---|---------------------------|----------------------------|
| | Overfunded pension plans | Underfunded pension plans | Underfunded other benefits |
| Service cost - benefits earned during the period | | 19 | 8 |
| Interest cost on projected benefit obligation | 103 | 106 | 26 |
| Expected return on assets | (175) | (99) | |
| Amortizations and (gain) / loss | | 6 | (4) |
| Net deferral | | | (3) |
| Net periodic pension cost (credit) | (72) | 32 | 27 |

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| | Six-month period ended in June 30, 2012 (unaudited) | | |
|--|---|---------------------------|----------------------------|
| | Overfunded pension plans | Underfunded pension plans | Underfunded other benefits |
| Service cost - benefits earned during the period | 15 | 32 | 17 |
| Interest cost on projected benefit obligation | 243 | 128 | 52 |
| Expected return on assets | (432) | (128) | |
| Amortizations and (gain) / loss | | 22 | (4) |
| Net periodic pension cost (credit) | (174) | 54 | 65 |

| | six-month period ended in June 30, 2011 (unaudited) | | |
|--|---|---------------------------|----------------------------|
| | Overfunded pension plans | Underfunded pension plans | Underfunded other benefits |
| Service cost - benefits earned during the period | | 39 | 16 |
| Interest cost on projected benefit obligation | 201 | 210 | 51 |
| Expected return on assets | (341) | (192) | |
| Amortizations and (gain) / loss | | 15 | (8) |
| Net periodic pension cost (credit) | (140) | 72 | 59 |

15 Long-term incentive compensation plan

Under the terms of the long-term incentive compensation 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 if, the shares are held for a three-year period and the executive is continually employed by Vale during that period. The participant then becomes entitled to receive from Vale a cash payment equivalent to the total amount of shares held, based on the market rates, the total shares linked to the plan at June 30, 2012 and December 31, 2011, are 4,879,815 and 3,012,538, respectively.

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

We account for the compensation cost provided to our executives under this long-term incentive compensation plan, following the requirements for 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, 2012, December 31, 2011, we recognized a

liability of US\$66, US\$109, respectively.

16 Commitments and contingencies

In regards to the construction and installation of our nickel and cobalt processing plant in New Caledonia, we have provided significant guarantees in respect of our financing arrangements which are outlined below.

In connection with the Girardin Act tax - advantaged lease financing arrangement sponsored by the French government, we provided guarantees to BNP Paribas for the benefit of the tax investors regarding certain payments due from VNC, associated with the Girardin Act lease financing. We also committed that assets associated with the Girardin Act lease financing would be substantially complete by December 31, 2011. In light of the delay in the start-up of the VNC processing facilities, we proposed an extension to the previously agreed substantial completion date of December 31, 2011 to December 31, 2012. The French Government and tax investors have formally agreed to this extension. We believe the likelihood of the guarantee being called upon to be remote.

Sumic Nickel Netherlands B.V. (Sumic), a 21% stockholder of VNC, has a put option to sell to us 25%, 50%, or 100% of the shares they own of VNC if the defined cost of the initial nickel cobalt development project, as measured by funding provided to VNC, in natural currencies and converted to U.S. dollars at specified rates of exchange, in the form of Girardin Act lease financing, shareholder loans and equity contributions by shareholders to VNC, exceeded \$4.6 billion and an agreement cannot be reached on how to proceed with the project. On May 27, 2010 the threshold was reached. The put option discussion and decision period was extended to July 31, 2012. In light of the delay in ramping up the Project, we are currently in discussions with Sumic pertaining to a further extension of the put option.

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In addition, in the course of our operations we have provided letters of credit and guarantees in the amount of \$743 million that are associated with items such as environment reclamation, asset retirement obligation commitments, insurance, electricity commitments, post-retirement benefits, community service commitments and import and export duties.

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 is as follows:

| | June 30, 2012 (unaudited) | | December 31, 2011 | |
|----------------------------------|-----------------------------|-------------------|-----------------------------|-------------------|
| | Provision for contingencies | Judicial deposits | Provision for contingencies | Judicial deposits |
| Labor and social security claims | 791 | 900 | 751 | 895 |
| Civil claims | 267 | 199 | 248 | 151 |
| Tax - related actions | 656 | 427 | 654 | 413 |
| Others | 34 | 5 | 33 | 5 |
| | 1,748 | 1,531 | 1,686 | 1,464 |

Labor and social security related actions principally comprise claims by Brazilian current and former employees for (i) payment of time spent travelling 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 relate to claims made against us by contractors in Brazil in connection with losses alleged to have been incurred by them as a result of various past Government economic plans, during which full inflation indexation of contracts was not permitted, as well as for accidents and land appropriation disputes.

Tax related actions principally comprise challenges initiated by us, on certain taxes on revenues and uncertain tax positions. We continue to vigorously pursue our interests in all these 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 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, and 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, 2012, March 31, 2012 and June 30, 2011, totaled US\$ 27, US\$ 13 and US\$ 130, respectively. Provisions recognized in the three-month periods ended June 30, 2012, March 31, 2012 and June 30, 2011, totaled US\$ 224, US\$ 99 and US\$ 176, 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 reasonably possible but not probable, in the total amount of US\$ 21,318 at June 30, 2012, and for which no provision has been made (December 31, 2011 US\$22,449). The primary reasonably possible tax contingencies refers to tax assessments against us regarding the payment of Income Tax and Social Contribution calculated based on the equity method in foreign subsidiaries.

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

A total of 388,559,056 Debentures were issued at a par value of R\$ 0.01 (one cent), whose value will be restated in accordance with the variation in the General Market Price Index (IGP-M), as set forth in the Issue Deed. As at June 30, 2012 the total amount of these debentures was US\$ 1,410 (US\$ 1,336 in December 31, 2011).

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

In April 2012 we paid remuneration on these debentures of US\$ 6.

Table of Contents**Asset retirement obligations**

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

Changes in circumstances, law or technology may affect our cash flow 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:

| | (unaudited) | | | | |
|---|---------------|--|---------------|---|---------------|
| | June 30, 2012 | Three-month period ended March 31, 2012 | June 30, 2011 | Six-month period ended June 30, 2012 | June 30, 2011 |
| Beginning of period | 1,862 | 1,770 | 1,368 | 1,770 | 1,368 |
| Accretion expense | 49 | 34 | 30 | 83 | 71 |
| Liabilities settled in the current period | | (4) | (20) | (4) | (30) |
| Revisions in estimated cash flows | 3 | 29 | (10) | 32 | (73) |
| Cumulative translation adjustment | (100) | 33 | 42 | (67) | 74 |
| End of period | 1,814 | 1,862 | 1,410 | 1,814 | 1,410 |
| Current liabilities | 41 | 69 | 56 | 41 | 56 |
| Non-current liabilities | 1,773 | 1,793 | 1,354 | 1,773 | 1,354 |
| Total | 1,814 | 1,862 | 1,410 | 1,814 | 1,410 |

17 Other expenses

The income statement line Other operating expenses totaled in Three-month period ended US\$ 604 in June 30, 2012, US\$ 686 in March 31, 2012 and US\$ 724 in June 30, 2011 and Six-month period ended US\$ 1,290 in June 30, 2012 and 1,144 in June 30, 2011. It includes pre operational expenses US\$ 146 in June 30, 2012, US\$ 107 in March 31, 2012 and US\$ 143 in June 30, 2011 and Six-month period ended US\$ 253 in June 30, 2012 and US\$ 173 in June 30, 2011, loss of materials US\$ 26 in June 30, 2012, US\$ 21 in March 31, 2012 and US\$ 0 in June 30, 2011 and Six-month period ended US\$ 47 in June 30, 2012 and US\$ 34 June 30, 2011 and idle capacity and stoppage operations expenses US\$ 178 in June 30, 2012, US\$ 212 in March 31, 2012 and US\$ 202 in June 30, 2011 and Six-month period ended US\$ 390 in June 30, 2012 and US\$ 304 in June 30, 2011.

18 Fair value disclosure of financial assets and liabilities

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

a) Measurements

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

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

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

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

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

b) Measurements on a recurring basis

The description of the valuation methodologies used for recurring assets and liabilities measured at fair value in the Company's Consolidated Balance Sheet at June 30, 2012 and December 31, 2011 are summarized below:

- **Available-for-sale securities**

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

- **Derivatives**

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

- **Debentures**

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

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

| | Carrying amount | June 30, 2012 (unaudited) | | |
|--------------------------------|-----------------|---------------------------|---------|---------|
| | | Fair value | Level 1 | Level 2 |
| Available-for-sale securities | 6 | 6 | 6 | |
| Unrealized gain on derivatives | (728) | (728) | | (728) |
| Debentures | (1,410) | (1,410) | | (1,410) |

| | Carrying amount | December 31, 2011 | | |
|----------------------------------|-----------------|-------------------|---------|---------|
| | | Fair value | Level 1 | Level 2 |
| Available-for-sale securities | 7 | 7 | 7 | |
| Unrealized losses on derivatives | (81) | (81) | | (81) |
| Debentures | (1,336) | (1,336) | | (1,336) |

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c) **Measurements on a non-recurring basis**

The Company also has assets under certain conditions that are subject to measurement at fair value on a non-recurring basis. These assets include goodwill and assets acquired and liabilities assumed in business combinations. During the three-month period ended June 30, 2012, we have not recognized any impairment for those items.

d) **Financial Instruments**

Long-term debt

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

Time deposits

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

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

| | June 30, 2012 | | | |
|-------------------------------------|------------------------|-------------------|----------------|----------------|
| | Carrying amount | Fair value | Level 1 | Level 2 |
| Long-term debt (less interests) (a) | (24,594) | (26,724) | (20,155) | (6,569) |
| Perpetual Notes (b) | (81) | (81) | | (81) |

| | December 31, 2011 | | | |
|--|--------------------------|-------------------|----------------|----------------|
| | Carrying amount | Fair value | Level 1 | Level 2 |

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| | | | | |
|-------------------------------------|----------|----------|----------|---------|
| Long-term debt (less interests) (a) | (22,700) | (24,312) | (18,181) | (6,131) |
| Perpetual Notes (b) | (80) | (80) | | (80) |

(a) Less accrued charges of US\$ 341 and US\$ 333 as of June 30, 2012 and December 31, 2011, respectively.

(b) Classified on LT Loans and related parties (Non current liabilities).

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The information presented to the Executive Board with the respective performance of each segment are usually derived from the accounting records maintained in accordance with the best accounting practices, with some reallocation between segments.

Consolidated net income and principal assets are reconciled as follows:

Results by segment

| | June 30, 2012 | | | | | | Three-month period ended (unaudited) March 31, 2012 | | | | | |
|---|---------------|--------------|--------------|-------------|--------------|--------------|--|-------------|-------------|-------------|--------------|--------------|
| | Bulk Material | Base Metals | Fertilizers | Logistic | Others | Consolidated | Bulk Material | Base Metals | Fertilizers | Logistic | Others | Consolidated |
| RESULTS | | | | | | | | | | | | |
| Gross revenues | 8,934 | 1,781 | 923 | 408 | 104 | 12,150 | 8,240 | 1,775 | 829 | 403 | 92 | 11,339 |
| Cost and expenses | (3,509) | (1,573) | (740) | (394) | (191) | (6,407) | (3,455) | (1,359) | (660) | (411) | (250) | (6,135) |
| Research and development | (170) | (122) | (23) | (2) | (42) | (359) | (139) | (96) | (15) | (1) | (48) | (291) |
| Depreciation, depletion and amortization | (508) | (402) | (114) | (57) | (3) | (1,084) | (506) | (374) | (109) | (64) | (2) | (1,055) |
| Loss on sale of assets | (377) | | | | | (377) | | | | | | |
| Operating income | 4,370 | (316) | 46 | (45) | (132) | 3,923 | 4,140 | (54) | 45 | (73) | (208) | 3,850 |
| Financial Result | (2,504) | 41 | (57) | (21) | (7) | (2,548) | 220 | 5 | 4 | (9) | 9 | 222 |
| Equity in results of affiliates and joint ventures and others | | | | | | | | | | | | |
| investments | 186 | 3 | | 15 | (46) | 158 | 245 | 34 | | 30 | (66) | 246 |
| Income taxes | (164) | 14 | 1,209 | 3 | (2) | 1,060 | (504) | (15) | (11) | (19) | (4) | (553) |
| Noncontrolling interests | 24 | 54 | (25) | | 16 | 69 | 14 | 59 | (18) | | 3 | 59 |
| Net income attributable to the Company's stockholders | 1,912 | (204) | 1,173 | (48) | (171) | 2,662 | 4,115 | 29 | 20 | (71) | (266) | 3,820 |
| Sales classified by geographic destination: | | | | | | | | | | | | |
| Foreign market | | | | | | | | | | | | |
| America, except United States | 207 | 256 | 17 | | 4 | 484 | 183 | 254 | 13 | 36 | 11 | 491 |
| United States | 54 | 344 | 12 | | | 410 | 29 | 356 | 22 | | 1 | 402 |
| Europe | 1,799 | 475 | 37 | | 10 | 2,321 | 1,357 | 475 | 44 | | 13 | 1,889 |

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| | | | | | | | | | | | | | |
|---------------------|--------------|--------------|------------|------------|------------|---------------|--------------|--------------|------------|------------|-----------|---|--------------|
| Middle | | | | | | | | | | | | | |
| East/Africa/Oceania | 373 | 19 | 1 | | | 393 | 315 | 52 | | | | | 36 |
| Japan | 1,067 | 202 | | | 4 | 1,273 | 1,183 | 150 | | | | 2 | 1,33 |
| China | 3,538 | 264 | | | | 3,802 | 3,395 | 156 | | | | | 3,55 |
| Asia, other than | | | | | | | | | | | | | |
| Japan and China | 921 | 219 | 15 | | | 1,155 | 660 | 263 | 16 | | | 2 | 94 |
| Brazil | 975 | 2 | 841 | 408 | 86 | 2,312 | 1,118 | 69 | 734 | 367 | 63 | | 2,35 |
| | 8,934 | 1,781 | 923 | 408 | 104 | 12,150 | 8,240 | 1,775 | 829 | 403 | 92 | | 11,33 |

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| | Six-month period ended (unaudited) | | | | | | Six-month period ended (unaudited) | | | | | |
|---|------------------------------------|--------------|--------------|---------------|--------------|---------------|------------------------------------|--------------|--------------|---------------|--------------|---------------|
| | June 30, 2012 | | | June 30, 2011 | | | June 30, 2012 | | | June 30, 2011 | | |
| | Bulk Material | Base Metals | Fertilizers | Logistic | Others | Consolidated | Bulk Material | Base Metals | Fertilizers | Logistic | Others | Consolidated |
| RESULTS | | | | | | | | | | | | |
| Gross revenues | 17,174 | 3,556 | 1,752 | 811 | 196 | 23,489 | 21,201 | 4,979 | 1,654 | 804 | 255 | 28,895 |
| Cost and expenses | (6,964) | (2,932) | (1,400) | (805) | (441) | (12,542) | (6,483) | (3,062) | (1,302) | (686) | (516) | (12,449) |
| Research and development | (309) | (218) | (38) | (3) | (90) | (658) | (242) | (172) | (34) | (51) | (206) | (703) |
| Depreciation, depletion and amortization | (1,014) | (776) | (223) | (121) | (5) | (2,139) | (872) | (707) | (246) | (104) | (7) | (2,966) |
| Loss on sale of assets | (377) | | | | | (377) | | 1,513 | | | | 1,136 |
| Operating income | 8,510 | (370) | 91 | (118) | (340) | 7,773 | 13,604 | 2,551 | 72 | (37) | (474) | 15,686 |
| Financial Result | (2,284) | 46 | (53) | (30) | 2 | (2,319) | 805 | (237) | 44 | (36) | (26) | 1,239 |
| Equity in results of affiliates and joint ventures and others | | | | | | | | | | | | |
| investments | 431 | 37 | | 45 | (112) | 401 | 597 | (5) | | 69 | 25 | 1,087 |
| Income taxes | (668) | (1) | 1,198 | (16) | (6) | 507 | (3,101) | (629) | (54) | | | (3,890) |
| Noncontrolling interests | 38 | 113 | (43) | | 19 | 127 | 3 | 47 | 3 | | 57 | 247 |
| Net income attributable to the Company's stockholders | 6,027 | (175) | 1,193 | (119) | (437) | 6,489 | 11,908 | 1,727 | 65 | (4) | (418) | 13,265 |
| Sales classified by geographic destination: | | | | | | | | | | | | |
| Foreign market | | | | | | | | | | | | |
| America, except | | | | | | | | | | | | |
| United States | 390 | 510 | 30 | 36 | 15 | 981 | 545 | 720 | 20 | | | 1,236 |
| United States | 83 | 700 | 34 | | 1 | 818 | 10 | 869 | 1 | | 2 | 1,690 |
| Europe | 3,156 | 950 | 81 | | 23 | 4,210 | 4,440 | 1,174 | 60 | | 29 | 5,713 |
| Middle | | | | | | | | | | | | |
| East/Africa/Oceania | 688 | 71 | 1 | | | 760 | 798 | 73 | | | 1 | 1,632 |
| Japan | 2,250 | 352 | | | 6 | 2,608 | 2,620 | 674 | | | 4 | 3,296 |
| China | 6,933 | 420 | | | | 7,353 | 8,338 | 656 | | | 35 | 9,029 |
| Asia, other than | | | | | | | | | | | | |
| Japan and China | 1,581 | 482 | 31 | | 2 | 2,096 | 1,670 | 695 | 16 | | 1 | 2,388 |
| Brazil | 2,093 | 71 | 1,575 | 775 | 149 | 4,663 | 2,780 | 118 | 1,557 | 804 | 183 | 5,342 |
| | 17,174 | 3,556 | 1,752 | 811 | 196 | 23,489 | 21,201 | 4,979 | 1,654 | 804 | 255 | 28,895 |

Table of Contents**Operating segment**

| | Three-month period ended in June 30, 2012 (unaudited) | | | | | | | | | | |
|-------------------------------|---|-----------------|---------------|-------------------|------------------|--|------------------|-------------------------------|--|-------------|--|
| | Revenue | Value added tax | Net revenues | Cost and expenses | Operating profit | Depreciation, depletion and amortization | Operating income | Property, plant and equipment | Additions to property, plant and equipment | Investment | |
| Bulk Material | | | | | | | | | | | |
| Iron ore | 6,505 | (58) | 6,447 | (2,272) | 4,175 | (383) | 3,792 | 33,757 | 1,163 | 10 | |
| Pellets | 1,961 | (56) | 1,905 | (724) | 1,181 | (65) | 1,116 | 2,099 | 163 | 1,10 | |
| Manganese | 63 | (1) | 62 | (57) | 5 | (3) | 2 | 77 | 6 | | |
| Ferrous alloys | 129 | (12) | 117 | (97) | 20 | (16) | 4 | 173 | 116 | | |
| Coal | 276 | | 276 | (402) | (126) | (41) | (167) | 4,115 | 442 | 26 | |
| | 8,934 | (127) | 8,807 | (3,552) | 5,255 | (508) | 4,747 | 40,221 | 1,890 | 1,47 | |
| Base Metals | | | | | | | | | | | |
| Nickel and other products (a) | 1,544 | | 1,544 | (1,472) | 72 | (385) | (313) | 29,498 | 675 | 2 | |
| Copper (b) | 237 | (2) | 235 | (221) | 14 | (17) | (3) | 4,374 | 291 | 23 | |
| Aluminum products | | | | | | | | | | 3,29 | |
| | 1,781 | (2) | 1,779 | (1,693) | 86 | (402) | (316) | 33,872 | 966 | 3,55 | |
| Fertilizers | | | | | | | | | | | |
| Potash | 81 | (6) | 75 | (67) | 8 | (9) | (1) | 1,425 | 43 | | |
| Phosphates | 630 | (20) | 610 | (508) | 102 | (83) | 19 | 7,536 | 20 | | |
| Nitrogen | 193 | (26) | 167 | (134) | 33 | (22) | 11 | 532 | | | |
| Others fertilizers products | 19 | (2) | 17 | | 17 | | 17 | 338 | | | |
| | 923 | (54) | 869 | (709) | 160 | (114) | 46 | 9,831 | 63 | | |
| Logistics | | | | | | | | | | | |
| Railroads | 294 | (43) | 251 | (270) | (19) | (44) | (63) | 1,340 | 13 | 56 | |
| Ports | 114 | (11) | 103 | (72) | 31 | (13) | 18 | 594 | 15 | 9 | |
| Ships | | | | | | | | 2,345 | 128 | | |
| | 408 | (54) | 354 | (342) | 12 | (57) | (45) | 4,279 | 156 | 65 | |
| Others | 104 | (20) | 84 | (213) | (129) | (3) | (132) | 1,900 | 153 | 2,49 | |
| Loss on sale of assets | | | | (377) | (377) | | (377) | | | | |
| | 12,150 | (257) | 11,893 | (6,886) | 5,007 | (1,084) | 3,923 | 90,103 | 3,228 | 8,17 | |

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

(b) Includes copper concentrate.

Table of Contents**Operating segment**

| | Three-month period ended in March 31, 2012 (unaudited) | | | | | | | | | | |
|-----------------------------|--|-----------------|---------------|-------------------|------------------|--|------------------|-------------------------------|--|-------------|--|
| | Revenue | Value added tax | Net revenues | Cost and expenses | Operating profit | Depreciation, depletion and amortization | Operating income | Property, plant and equipment | Additions to property, plant and equipment | Investment | |
| Bulk Material | | | | | | | | | | | |
| Iron ore | 5,987 | (78) | 5,909 | (2,147) | 3,762 | (373) | 3,389 | 34,950 | 1,678 | 11 | |
| Pellets | 1,698 | (71) | 1,627 | (745) | 882 | (55) | 827 | 2,100 | 97 | 1,26 | |
| Manganese | 42 | (2) | 40 | (32) | 8 | (4) | 4 | 85 | | | |
| Ferrous alloys | 124 | (12) | 112 | (110) | 2 | (15) | (13) | 257 | | | |
| Coal | 389 | | 389 | (397) | (8) | (59) | (67) | 4,470 | 108 | 25 | |
| | 8,240 | (163) | 8,077 | (3,431) | 4,646 | (506) | 4,140 | 41,862 | 1,883 | 1,63 | |
| Base Metals | | | | | | | | | | | |
| Nickel and other products | | | | | | | | | | | |
| (a) | 1,555 | | 1,555 | (1,242) | 313 | (355) | (42) | 29,742 | 552 | 2 | |
| Copper (b) | 220 | | 220 | (213) | 7 | (19) | (12) | 4,418 | 235 | 23 | |
| Aluminum products | | | | | | | | | | 3,57 | |
| | 1,775 | | 1,775 | (1,455) | 320 | (374) | (54) | 34,160 | 787 | 3,83 | |
| Fertilizers | | | | | | | | | | | |
| Potash | 70 | (4) | 66 | (52) | 14 | (6) | 8 | 2,369 | 20 | | |
| Phosphates | 548 | (18) | 530 | (409) | 121 | (74) | 47 | 7,043 | 73 | | |
| Nitrogen | 192 | (24) | 168 | (165) | 3 | (29) | (26) | 447 | 7 | | |
| Others fertilizers products | 19 | (3) | 16 | | 16 | | 16 | 315 | 1 | | |
| | 829 | (49) | 780 | (626) | 154 | (109) | 45 | 10,174 | 101 | | |
| Logistics | | | | | | | | | | | |
| Railroads | 265 | (52) | 213 | (239) | (26) | (48) | (74) | 1,395 | 20 | 60 | |
| Ports | 138 | (15) | 123 | (106) | 17 | (16) | 1 | 621 | 46 | 10 | |
| Ships | | | | | | | | 2,163 | | | |
| | 403 | (67) | 336 | (345) | (9) | (64) | (73) | 4,179 | 66 | 70 | |
| Others | 92 | (6) | 86 | (292) | (206) | (2) | (208) | 2,156 | 124 | 2,59 | |
| | 11,339 | (285) | 11,054 | (6,149) | 4,905 | (1,055) | 3,850 | 92,531 | 2,961 | 8,76 | |

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

(b) Includes copper concentrate.

Table of Contents**Operating segment**

| | Three-month period ended in June 30, 2011 (unaudited) | | | | | | | | | | |
|-----------------------------|---|-----------------|---------------|-------------------|------------------|--|------------------|-------------------------------|--|-------------|--|
| | Revenue | Value added tax | Net revenues | Cost and expenses | Operating profit | Depreciation, depletion and amortization | Operating income | Property, plant and equipment | Additions to property, plant and equipment | Investment | |
| Bulk Material | | | | | | | | | | | |
| Iron ore | 9,102 | (134) | 8,968 | (2,157) | 6,811 | (347) | 6,464 | 33,602 | 1,259 | 12 | |
| Pellets | 2,122 | (73) | 2,049 | (778) | 1,271 | (31) | 1,240 | 2,678 | | 1,09 | |
| Manganese | 52 | (2) | 50 | (48) | 2 | (4) | (2) | 25 | 1 | | |
| Ferroalloys | 150 | (15) | 135 | (96) | 39 | (16) | 23 | 321 | 10 | | |
| Coal | 256 | | 256 | (276) | (20) | (40) | (60) | 3,686 | 218 | 26 | |
| | 11,682 | (224) | 11,458 | (3,355) | 8,103 | (438) | 7,665 | 40,312 | 1,488 | 1,47 | |
| Base Metals | | | | | | | | | | | |
| Nickel and other products | | | | | | | | | | | |
| (a) | 1,966 | | 1,966 | (1,411) | 555 | (326) | 229 | 29,801 | 613 | 1 | |
| Copper (b) | 264 | (1) | 263 | (214) | 49 | (24) | 25 | 4,206 | 348 | 13 | |
| Aluminum products | | | | | | | | | | 3,68 | |
| | 2,230 | (1) | 2,229 | (1,625) | 604 | (350) | 254 | 34,007 | 961 | 3,83 | |
| Fertilizers | | | | | | | | | | | |
| Potash | 68 | (3) | 65 | (66) | (1) | (18) | (19) | 1,846 | 293 | | |
| Phosphates | 586 | (22) | 564 | (404) | 160 | (62) | 98 | 7,132 | 96 | | |
| Nitrogen | 194 | (25) | 169 | (151) | 18 | (49) | (31) | 1,592 | 45 | | |
| Others fertilizers products | 19 | (3) | 16 | | 16 | | 16 | | | | |
| | 867 | (53) | 814 | (621) | 193 | (129) | 64 | 10,570 | 434 | | |
| Logistics | | | | | | | | | | | |
| Railroads | 357 | (54) | 303 | (277) | 26 | (45) | (19) | 1,464 | 66 | 56 | |
| Ports | 119 | (14) | 105 | (81) | 24 | (15) | 9 | 739 | 23 | | |
| Ships | | | | | | | | 1,482 | 140 | 14 | |
| | 476 | (68) | 408 | (358) | 50 | (60) | (10) | 3,685 | 229 | 70 | |
| Others | 90 | (10) | 80 | (304) | (224) | (2) | (226) | 3,103 | 368 | 2,53 | |
| | 15,345 | (356) | 14,989 | (6,263) | 8,726 | (979) | 7,747 | 91,677 | 3,480 | 8,55 | |

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

(b) Includes copper concentrate.

Table of Contents**Operating segment**

| | Six-month period ended in June 30, 2012 (unaudited) | | | | | | | | | | |
|-------------------------------|---|-----------------|---------------|-------------------|------------------|--|------------------|-------------------------------|--|-------------|-------------|
| | Revenue | Value added tax | Net revenues | Cost and expenses | Operating profit | Depreciation, depletion and amortization | Operating income | Property, plant and equipment | Additions to property, plant and equipment | Investment | |
| Bulk Material | | | | | | | | | | | |
| Iron ore | 12,492 | (136) | 12,356 | (4,419) | 7,937 | (756) | 7,181 | 33,757 | 2,841 | 10 | |
| Pellets | 3,659 | (127) | 3,532 | (1,469) | 2,063 | (120) | 1,943 | 2,099 | 260 | 1,10 | |
| Manganese | 105 | (3) | 102 | (89) | 13 | (7) | 6 | 77 | 6 | | |
| Ferroalloys | 253 | (24) | 229 | (207) | 22 | (31) | (9) | 173 | 116 | | |
| Coal | 665 | | 665 | (799) | (134) | (100) | (234) | 4,115 | 550 | 26 | |
| | 17,174 | (290) | 16,884 | (6,983) | 9,901 | (1,014) | 8,887 | 40,221 | 3,773 | 1,47 | |
| Base Metals | | | | | | | | | | | |
| Nickel and other products | | | | | | | | | | | |
| (a) | 3,099 | | 3,099 | (2,714) | 385 | (740) | (355) | 29,498 | 1,227 | 2 | |
| Copper (b) | 457 | (2) | 455 | (434) | 21 | (36) | (15) | 4,374 | 526 | 23 | |
| Aluminum products | | | | | | | | | | | |
| | 3,556 | (2) | 3,554 | (3,148) | 406 | (776) | (370) | 33,872 | 1,753 | 3,29 | 3,55 |
| Fertilizers | | | | | | | | | | | |
| Potash | 151 | (10) | 141 | (119) | 22 | (15) | 7 | 1,425 | 63 | | |
| Phosphates | 1,178 | (38) | 1,140 | (917) | 223 | (157) | 66 | 7,536 | 93 | | |
| Nitrogen | 385 | (50) | 335 | (299) | 36 | (51) | (15) | 532 | 7 | | |
| Others fertilizers products | | | | | | | | | | | |
| | 38 | (5) | 33 | | 33 | | 33 | 338 | 1 | | |
| | 1,752 | (103) | 1,649 | (1,335) | 314 | (223) | 91 | 9,831 | 164 | | |
| Logistics | | | | | | | | | | | |
| Railroads | 559 | (95) | 464 | (509) | (45) | (92) | (137) | 1,340 | 33 | 56 | |
| Ports | 252 | (26) | 226 | (178) | 48 | (29) | 19 | 594 | 61 | 9 | |
| Ships | | | | | | | | 2,345 | 128 | | |
| | 811 | (121) | 690 | (687) | 3 | (121) | (118) | 4,279 | 222 | 65 | 65 |
| Others | | | | | | | | | | | |
| | 196 | (26) | 170 | (505) | (377) | (5) | (340) | 1,900 | 277 | 2,49 | |
| Loss on sale of assets | | | | | | | | | | | |
| | | | | (377) | (377) | | (377) | | | | |
| | 23,489 | (542) | 22,947 | (13,035) | 9,912 | (2,139) | 7,773 | 90,103 | 6,189 | 8,17 | |

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

(b) Includes copper concentrate.

Table of Contents**Operating segment**

| | Six-month period ended in June 30, 2011 (unaudited) | | | | | | | | | | |
|-------------------------------|---|-----------------|---------------|-------------------|------------------|--|------------------|-------------------------------|--|-------------|--|
| | Revenue | Value added tax | Net revenues | Cost and expenses | Operating profit | Depreciation, depletion and amortization | Operating income | Property, plant and equipment | Additions to property, plant and equipment | Investment | |
| Bulk Material | | | | | | | | | | | |
| Iron ore | 16,389 | (244) | 16,145 | (3,893) | 12,252 | (704) | 11,548 | 33,602 | 2,436 | 12 | |
| Pellets | 4,000 | (134) | 3,866 | (1,618) | 2,248 | (67) | 2,181 | 2,678 | 353 | 1,09 | |
| Manganese | 95 | (4) | 91 | (69) | 22 | (9) | 13 | 25 | 1 | | |
| Ferrous alloys | 307 | (27) | 280 | (207) | 73 | (27) | 46 | 321 | 21 | | |
| Coal | 410 | | 410 | (529) | (119) | (65) | (184) | 3,686 | 606 | 26 | |
| | 21,201 | (409) | 20,792 | (6,316) | 14,476 | (872) | 13,604 | 40,312 | 3,417 | 1,47 | |
| Base Metals | | | | | | | | | | | |
| Nickel and other products | | | | | | | | | | | |
| (a) | 4,081 | | 4,081 | (2,561) | 1,520 | (664) | 856 | 29,801 | 984 | 1 | |
| Copper (b) | 515 | (18) | 497 | (346) | 151 | (42) | 109 | 4,206 | 518 | 13 | |
| Aluminum products | | | | | | | | | | | |
| | 383 | (5) | 378 | (304) | 74 | (1) | 73 | | 16 | 3,68 | |
| | 4,979 | (23) | 4,956 | (3,211) | 1,745 | (707) | 1,038 | 34,007 | 1,518 | 3,83 | |
| Fertilizers | | | | | | | | | | | |
| Potash | 130 | (7) | 123 | (135) | (12) | (25) | (37) | 1,846 | 300 | | |
| Phosphates | 1,122 | (50) | 1,072 | (812) | 260 | (149) | 111 | 7,132 | 223 | | |
| Nitrogen | 366 | (48) | 318 | (278) | 40 | (72) | (32) | 1,592 | 45 | | |
| Others fertilizers products | | | | | | | | | | | |
| | 36 | (6) | 30 | | 30 | | 30 | | | | |
| | 1,654 | (111) | 1,543 | (1,225) | 318 | (246) | 72 | 10,570 | 568 | | |
| Logistics | | | | | | | | | | | |
| Railroads | 607 | (99) | 508 | (474) | 34 | (82) | (48) | 1,464 | 102 | 56 | |
| Ports | 197 | (23) | 174 | (141) | 33 | (22) | 11 | 739 | 60 | | |
| Ships | | | | | | | | | | | |
| | | | | | | | | 1,482 | 163 | 14 | |
| | 804 | (122) | 682 | (615) | 67 | (104) | (37) | 3,685 | 325 | 70 | |
| Others | 255 | (26) | 229 | (696) | (467) | (7) | (474) | 3,103 | 465 | 2,53 | |
| Gain on sale of assets | | | | | | | | | | | |
| | | | 1,513 | | 1,513 | | 1,513 | | | | |
| | 28,893 | (691) | 28,202 | (10,550) | 17,652 | (1,936) | 15,716 | 91,677 | 6,293 | 8,55 | |

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

(b) Includes copper concentrate.

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20 Derivative financial instruments

Risk management policy

Vale considers that the effective management of risks is a key objective to support its growth strategy, strategic planning and financial flexibility. Therefore, Vale has developed its risk management strategy in order to provide an integrated approach of the risks the Company is exposed to. To do that, Vale evaluates not only the impact of market risk factors in the business results (market risk), but also the risk arising from third party obligations with Vale (credit risk), those inherent to inadequate or failed internal processes, people, systems or external events (operational risk), those arising from liquidity risk, among others.

The Board of Directors established the corporate risk management policy in order to support the growth strategy, strategic planning and business continuity of the Company, strengthening its capital structure and asset management, ensure flexibility and consistency on the financial management and strengthen corporate governance practices.

The corporate risk management policy determines that Vale measures and monitors its corporate risk on a consolidated approach in order to guarantee that the overall risk level of the Company remains aligned with the guidelines defined by the Board of Directors and the Executive Board.

The Executive Risk Management Committee, created by the Board of Directors, is responsible for supporting the Executive Board in the risk analysis and for issuing opinion regarding the Company's risk management. It is also responsible for the supervision and revision of the principles and instruments of corporate risk management.

The Executive Board is responsible for the approval of the policy deployment into norms, rules and responsibilities and for reporting to the Board of Directors about such procedures.

The risk management norms and instructions complement the corporate risk management policy and define practices, processes, controls, roles and responsibilities in the Company regarding risk management.

The Company may, when necessary, allocate specific risk limits to management activities that need them, including but not limited to, market risk limit, corporate and sovereign credit limit, in accordance with the acceptable corporate risk limit.

Market Risk Management

Vale is exposed to the behavior of various market risk factors that can impact its cash flow. The assessment of this potential impact arising from the volatility of risk factors and their correlations is performed periodically to support the decision making process and the growth strategy of the Company, ensure its financial flexibility and monitor the volatility of future cash flows.

When necessary, market risk mitigation strategies are evaluated and implemented in line with these objectives. Some strategies may incorporate financial instruments, including derivatives. The portfolios of the financial instruments are monitored on a monthly basis, enabling financial results surveillance and its impact on cash flow, and ensuring strategies adherence to the proposed objectives.

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

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

Foreign exchange rate and interest rate risk

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

Derivative instruments may be used to reduce Vale's potential cash flow volatility arising from its currency mismatch.

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For hedging revenues, costs, expenses and investment cash flows, the main risk mitigation strategies used are currency forward transactions and swaps.

Vale implemented hedge transactions to protect its cash flow against the market risks that arises from its debt obligations – mainly currency volatility. We use swap transactions to convert debt linked to Brazilian real into US dollar that have similar - or sometimes shorter - settlement dates than the final maturity of the debt instruments. Their notional amounts are similar to the principal and interest payments, subjected to liquidity market conditions.

Swaps with shorter settlement dates are renegotiated through time so that their final maturity matches - or becomes closer - to the debts' final maturity. At each settlement date, the results of the swap transactions partially offset the impact of the foreign exchange rate in Vale's obligations, contributing to stabilize the cash disbursements in US dollar.

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

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

Product price and Input Cost risk

Vale is also exposed to several market risks associated with commodities prices volatility. In line with the risk management policy, risk mitigation strategies involving commodities can also be used to adjust its risk profile and reduce the volatility of cash flow. In these cases, the mitigation strategies used are primarily forward transactions, futures contracts or zero-cost collars.

Embedded derivatives

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The cash flow of the Company is also exposed to market risks associated with contracts that contain embedded derivatives or behave as derivatives. The derivatives may be embedded in, but are not limited to, commercial contracts, purchase agreements, leases, bonds, insurance policies and loans.

Vale's wholly-owned subsidiary Vale Canada limited has nickel concentrate and raw materials purchase agreements, in which there are provisions based on the movement of nickel and copper prices. These provisions are considered embedded derivatives.

Table of Contents**Hedge Accounting**

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

At June 30, 2012, Vale had outstanding positions designated as cash flow hedge. A cash flow hedge is a hedge of the exposure to variability in expected future cash flows that is attributable to a particular risk, such as a forecasted purchase or sale. If a derivative is designated as cash flow hedge, the effective portion of the changes in the fair value of the derivative is recorded in other comprehensive income and recognized in earnings when the hedged item affects earnings. However, the ineffective portion of changes in the fair value of the derivatives designated as hedges is recognized in earnings. If a portion of a derivative contract is excluded for purposes of effectiveness testing, the value of such excluded portion is included in earnings.

| | Assets | | | | Liabilities | | | |
|---|---------------------------|-----------|-------------------|-----------|---------------------------|------------|-------------------|------------|
| | June 30, 2012 (unaudited) | | December 31, 2011 | | June 30, 2012 (unaudited) | | December 31, 2011 | |
| | Short-term | Long-term | Short-term | Long-term | Short-term | Long-term | Short-term | Long-term |
| <u>Derivatives not designated as hedge</u> | | | | | | | | |
| <u>Foreign exchange and interest rate risk</u> | | | | | | | | |
| CDI & TJLP vs. USD fixed and floating rate swap | 205 | | 410 | 60 | 85 | 793 | 49 | 590 |
| EuroBond Swap | | | | | 5 | 45 | 4 | 32 |
| Pre Dollar Swap | 17 | | 19 | | | 50 | | 41 |
| Treasury future | | | | | | | 5 | |
| | 222 | | 429 | 60 | 90 | 888 | 58 | 663 |
| <u>Commodities price risk</u> | | | | | | | | |
| Nickel | | | | | | | | |
| Fixed price program | 4 | | 1 | | | | 1 | |
| Bunker Oil Hedge | | | 4 | | | | | |
| | 4 | | 5 | | | | 1 | |
| <u>Embedded derivatives: Derivatives designated as hedge</u> | | | | | | | | |
| Bunker Oil Hedge | | | | | 13 | | | |
| Strategic Nickel | 96 | | 161 | | 8 | 20 | | |
| Foreign exchange cash flow hedge | | | | | | | 14 | |
| | 96 | | 161 | | 52 | 20 | 14 | |
| Total | 322 | | 595 | 60 | 142 | 908 | 73 | 663 |

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| | Amount of gain or (loss) recognized as financial income (expense) | | | | | Financial settlement (Inflows)/ Outflows | | | | |
|--|---|----------------|------------------------|---------------|---------------|--|----------------|------------------------|---------------|---------------|
| | Three-month period ended (unaudited) | | Six-month period ended | | | Three-month period ended (unaudited) | | Six-month period ended | | |
| | June 30, 2012 | March 31, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 | June 30, 2012 | March 31, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| <u>Derivatives</u> | | | | | | | | | | |
| <u>not</u> | | | | | | | | | | |
| <u>designated</u> | | | | | | | | | | |
| <u>as hedge</u> | | | | | | | | | | |
| <u>Foreign</u> | | | | | | | | | | |
| <u>exchange</u> | | | | | | | | | | |
| <u>and interest</u> | | | | | | | | | | |
| <u>rate risk</u> | | | | | | | | | | |
| CDI & TJLP vs. USD fixed and floating rate swap | (407) | 208 | 389 | (199) | 564 | (180) | (129) | (112) | (309) | (1) |
| USD floating rate vs. fixed USD rate swap | | | | | | | | 1 | | |
| EuroBond Swap | (36) | 19 | 11 | (17) | 53 | | 4 | | 4 | |
| Pre Dollar Swap | (16) | 12 | 6 | (4) | 8 | (5) | (4) | | (9) | |
| Swap USD fixed rate vs. CDI | | | (47) | | (47) | | | | | |
| South African Rande Forward | | | 2 | | 2 | | | | | |
| AUD floating rate vs. fixed USD rate swap | | | | | | | | | | |
| Treasury Future | (459) | 9 | 361 | (211) | 580 | (185) | (3) | (111) | (317) | (3) |
| <u>Commodities</u> | | | | | | | | | | |
| <u>price risk</u> | | | | | | | | | | |
| Nickel Fixed price program | 8 | (4) | 12 | 4 | 25 | (5) | 6 | (19) | 1 | |
| Strategic program | | | | | 15 | | | | | |
| Aluminum Bunker Oil Hedge | | | 2 | | 34 | | (4) | (15) | (4) | |
| Coal Maritime Freight Hiring Protection Program | 8 | (4) | 14 | 4 | 74 | (5) | 2 | (34) | (3) | |
| <u>Embedded</u> | | | | | | | | | | |
| <u>derivatives:</u> | | | | | | | | | | |

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Energy -
Aluminum
options

(7)
(7)

**Derivatives
designated
as hedge**

Bunker Oil
Hedge

Aluminum

Strategic

Nickel

35

52

(17)

87

(50)

(36)

(52)

17

(88)

Foreign
exchange
cash flow
hedge

35

52

(17)

87

(50)

(36)

(52)

17

(88)

Total

(416)

296

358

(120)

597

(226)

(182)

(128)

(408)

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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 | December 2012 |
| Nickel | December 2012 |

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

BOARD OF DIRECTORS

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Luciano Galvão Coutinho
Nelson Henrique Barbosa Filho
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Robson Rocha

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Eduardo de Oliveira Rodrigues Filho
Luciana Freitas Rodrigues
Luiz Maurício Leuzinger

Gerd Peter Poppinga
Executive Director, Base Metals and IT

Marcus Vinicius Dias Severini
Chief Officer of Accounting and Control Department

Vera Lucia de Almeida Pereira Elias
Chief Accountant
CRC-RJ - 043059/O-8

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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 25, 2012

By:

/s/ Roberto Castello Branco
Roberto Castello Branco
Director of Investor Relations
