Vale S.A.
Form 6-K
May 06, 2010

Table of Contents

United States
Securities and Exchange Commission
Washington, D.C. 20549
FORM 6-K
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the
Securities Exchange Act of 1934
For the month of
May 2010
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.)

(Check One) Form 20-F þ Form 40-F o

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

(Check One) Yes o No þ

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

(Check One) Yes o No þ

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

TABLE OF CONTENTS

Table of Contents

PRESS RELEASE

US GAAP
BM&F BOVESPA: VALE3, VALE5
NYSE: VALE, VALE.P
EURONEXT PARIS: VALE3, VALE5
LATIBEX: XVALO, XVALP

MOVING AHEAD

Performance of Vale in 1Q10

Rio de Janeiro, May 5, 2010 Vale S.A. (Vale) is reporting a solid performance in the first quarter of 2010 (1Q10). This reflects primarily our efforts to minimize costs and the strong recovery of the global demand for minerals and metals.

As a consequence of the structural changes in the global iron ore market, we have reached agreements, permanent or provisional, with all our iron ore clients around the globe to move existing contracts to index based prices[1]. The implementation of the new pricing system will begin to be reflected in our financial performance in 2Q10.

Our growth strategy encompasses a multilane road to sustainable value creation, entailing the development of a large and exciting pipeline of projects, strategic acquisitions of world-class assets and portfolio asset management, which is a very important option to optimize capital allocation and focus management attention.

We have taken a pro-active stance towards the optimization of our asset portfolio, entering into transactions involving mainly our aluminum assets, the acquisition of world-class Brazilian fertilizer assets, which gives Vale a strong regional operating base in one of the leading consumers in the globe, and Simandou, in West Africa, one of the best undeveloped iron ore deposits in the world, combining high quality with large scale. The availability of Carajás and Simandou allows us to have by far the best and the largest growth potential in the global iron ore industry.

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The main highlights of Vale s performance in 1Q10 were:

- Operating revenue of US$ 6.8 billion in 1Q10, 4.7% more than the US$ 6.5 billion in 4Q09.
- Operational income, as measured by adjusted EBIT[(a)] (earnings before interest and taxes), of US$ 2.1 billion in 1Q10, 86.9% above 4Q09.
- Operational margin, as measured by adjusted EBIT margin, recovered to 31.2%, from 17.4% in 4Q09.
- Cash generation, as measured by adjusted EBITDA[(b)] (earnings before interest, taxes, depreciation and amortization), rose to US$ 2.9 billion in 1Q10 from US$ 2.1 billion in 4Q09.
- Net earnings of US$ 1.6 billion, equal to US$ 0.30 per share on a fully diluted basis, against US$ 1.5 billion in 4Q09.
- Investments reached US$ 2.2 billion, with US$ 1.7 billion spent in organic growth and maintenance capex.

[1] On the new iron ore pricing system please see the box Iron ore pricing: towards a more efficient market , on page 8.

1Q10

1

Table of Contents

US GAAP

Acquisitions: we entered into agreements to acquire fertilizer assets in Brazil and iron ore assets in West Africa, involving US$ 8.2 billion, to be disbursed from 2Q10 onwards.

The first tranche of the minimum dividend for 2010, equal to US$ 1.25 billion or US$ 0.24 per share, was paid on April 30.

Strong financial position, supported by large cash holdings of US$ 11.1 billion, availability of significant medium and long-term credit lines and a low-risk debt portfolio.

Table 1 SELECTED FINANCIAL INDICATORS

US$ million	**1Q09 (A)**	**4Q09 (B)**	**1Q10 (C)**	**% (C/A)**	**% (C/B)**
Operating revenues	5,421	6,541	6,848	26.3	4.7
Adjusted EBIT	1,685	1,103	2,062	22.4	86.9
Adjusted EBIT margin (%)	31.6	17.4	31.2		
Adjusted EBITDA	2,281	2,145	2,855	25.2	33.1
Net earnings	1,363	1,519	1,604	17.7	5.6
Earnings per share fully diluted basis(US$/share)	0.26	0.28	0.30		
Total debt/ adjusted LTM EBITDA (x)	1.05	2.50	2.42		
Capex (excluding acquisitions)	1,714	3,049	2,158	25.9	(29.2)

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

US GAAP *1Q10*

INDEX

Table of Contents

US GAAP *1Q10*

BUSINESS OUTLOOK

As the global economic recovery is completing its first year in 2Q10, we expect the synchronized above-trend growth to continue over the next quarters. Two factors underlying the stronger than expected recovery financial conditions and the inventory cycle will continue to sustain growth during the near future while the monetary and fiscal stimuli will gradually diminish.

Debt and equity markets staged a comeback with asset prices and transactions rising, and spreads gradually narrowing, capital flows to emerging economies resurged and credit is expanding in many countries, thus generating a positive feedback loop on the real economy. Even in the US, where credit supply remained retrenched for a long time, conditions are starting to ease, albeit slowly, benefiting small and medium sized companies.

More recently, sovereign risk premia for small highly indebted European economies have been rising, reflecting concerns of default. Nevertheless, the potential for a disruption stemming from an eventual debt default by one of these countries is very limited compared to a failure of a large bank, since they lack the high degree of complex and widespread interconnections with financial markets such as those possessed by global financial institutions. Moreover, those sovereign problems are now beginning to be addressed in the context of an adjustment program supported by the European Union, the European Central Bank (ECB) and the IMF, thus mitigating the risks of negative spillovers. Conditionalities attached will determine the sustainability of such program.

A manufacturing boom is underway, giving rise to a strong demand for minerals and metals. Global industrial production has been growing at high rates since mid-2009 and the last reading of the global manufacturing PMI for April 2010 displayed its highest level since May 2004, when the global economy was expanding at a pace above 5% per year. It shows not only very rapid output expansion but indicates that it will continue to take place in the near future. Highlighting this expansionary environment, global vehicle production intensive in the consumption of steel, base metals and PGMs is bouncing back after a sharp fall in 2008 and 2009, and is likely to return to the peak levels of 2007.

After several quarters of running down inventories, when production lagged behind the pace of increase in final sales and inventories/sales ratios have declined continuously, there are signals that companies are starting to rebuild inventories. With the restocking cycle just beginning, it is ultimately a harbinger of the continuation of the strong global demand expansion for minerals and metals.

As the manufacturing boom matures, job creation and a rebound of investment are starting to follow, enhancing the fundamentals of a healthy recovery.

Employment is growing, strengthening consumer confidence and contributing to a final sales increase. In the US, the epicenter of the financial crisis, recent data are unveiling improvements in labor market conditions, with the commencement of a hiring trend, suggesting that the peak level of unemployment is well behind.

Reflecting strong business confidence, capital spending, usually the last leg of a cyclical recovery, is booming as suggested by the substantial increase of shipments from the three main producers/exporters of capital goods, the US, Germany and Japan. A strong demand for investment is arising not only from emerging economies, which are expanding production capacity, but also from developed economies, which, despite the existence of idle capacity, have an increasing need to spend in sustaining capex, given the sharp cuts during late 2008 and for the greater part of last year.

Confirming the broad historical regularity of deep recessions usually followed by steep recoveries, the US economy is recovering stronger than expected and faster than Japan and Europe, producing, among other effects, significant positive spillovers to the Canadian and Mexican economies. We expect this trend to go on for the remainder of the year, driven by the rebound in private sector investment and consumer spending.

Market flexibility, the strong balance sheet of non-financial companies, the surge in labor productivity and the early steps taken by the Federal Reserve Bank (Fed) to counteract the recession are proving to have been instrumental for the strength of the recovery.

4

Table of Contents

US GAAP ***1Q10***

Although the Eurozone and the UK economies were hit harder in the global recession than the US, their recoveries have so far been minimal. There are some reasons to expect that the growth pace in Europe, in particular in the Eurozone, will be sluggish.

The fact that the ECB was still tightening monetary policy in July 2008 while the Fed was already in a loosening cycle, has contributed to make the recovery in Europe fall behind the US, given the long lags involved in the monetary policy effects on economic activity. At the same time, the rigidity of labor and product markets always makes cyclical recoveries in the Eurozone less buoyant than in the US, another element that contributes to de-synchronize the US and European recoveries.

Moreover, there are structural problems in achieving the adjustments needed for economic recovery. Within the Eurozone, nominal exchange rates are fixed by the common currency, the Euro. However, there are some countries that have overvalued real exchange rates relative to the area as a whole, thus facing a difficult process of relative domestic cost deflation to regain competitiveness. Due to several factors, growth potential has been losing steam in the Eurozone over the last decades and in this expansion cycle is expected to remain well below the long-term growth trend for the US economy.

Japan s recovery has been helped by the good performance of exports driven by the powerful resurgence of world trade, in particular the vigorous expansion of its Asian trading partners. The response of its industrial production to external demand has been strong, growing at two-digit annual rates since 2Q09. However, the spillover to private domestic demand has so far been limited, although more recently consumer confidence has improved and final sales are increasing. Capital spending is also expected to bounce back in light of the current depressed levels.

Brazil has been able to sustain a strong recovery, supported by FDI and portfolio investment inflows, credit expansion and gains in terms of trade. Domestic demand is expanding vigorously, in particular capital spending.

Terms of trade gains, produced by commodity price rises and more recently by the higher iron ore prices, are contributing to foster fixed capital formation, which, as mentioned, is increasing at high rates. During the last cycle, between 2002 and 2008, simultaneously to terms of trade gains and real exchange rate appreciation, the pace of manufacturing output growth held steady above the GDP rate of expansion, supported by productivity increases primarily caused by investment in modern imported equipment.

Despite the less accommodative monetary policy, we expect GDP expansion to continue, albeit at a more moderate pace and converging to Brazil s long-term growth trend.

Recent experience has demonstrated once again that China can achieve fast growth through domestic expansion. Since 2Q09, GDP has expanded on a seasonally adjusted basis at an estimated annual rate of 12.2%, and data for 1Q10 show that consumption contributed with 52% of the expansion of aggregate demand, its highest contribution since 1993. Although we expect a more moderate pace of expansion to follow, the Chinese economy tends to stay on a high-growth path on the basis of rising domestic demand, fueled by both investment and consumer spending.

The rapid recovery of China s economy has raised concerns that excessive lending is leading to excess capacity and/or to a property bubble.

As a matter of fact, the adoption of an easy credit policy resulted in a massive increase in bank lending in the first half of 2009. However, the authorities initiated steps to slow lending growth as early as mid-2009 through the reinstatement of mandatory lending quotas, hikes in required reserve ratios and higher bank equity requirements. After a spike in January 2010, banking lending activity has moderated significantly. Actually, the supply of new loans did not slow down, but there was an interesting shift in its composition, with sharply curtailed short-term financing being more than offset by the increase in medium and long-term loans.

The stimulus package of November 2008 had a substantial consumption component resulting as we saw in a sharp rise of its contribution to growth to 52% from a past average of 40% and focused on investment in infrastructure rather than expanding capacity in industries such as steel, which tends to contribute to generate productivity gains and to the sustainability of long-term growth.

5

In a high-growth, high-investment economy like China s, some sectors tend to have temporary excess capacity. However, differently from a low-growth mature economy, this is usually absorbed in a short-time span. For instance, in 2009 the soaring apparent steel consumption in China is likely to have absorbed the hypothetical excess production capacity of its carbon steel industry.

Chinese consumption of steel per GDP is relatively high, and it is also highly sensitive to industrial production and income growth. On the other hand, consumption per capita is still low, being less than 50% of the peak levels reached in the past by developed economies and other Asian economies. This means that there is a lot of room for increase and, as a matter of fact, as China is in the midst of the largest urbanization process in world history and is investing a massive amount of resources in infrastructure and housing to deal with the migration flows, there is still a great potential for steel consumption growth.

Following the disclosure of the data flow on 1Q10 macroeconomic performance, the State Council of China issued several measures to cool the property market whereas it reiterated existing policies to substantially increase the supply of new housing, especially in the low-end market.

The measures are aimed at curbing property speculation and affect the demand for investment in second and additional residential property rather than increasing costs for developers from the supply side. The central government asked local governments to increase land supply, while it is increasing the supply of public housing by accelerating construction plans and the distribution of subsidies.

Therefore, there is a wide difference between the measures taken in 2007 and now. In the past, credit in general was restricted and more specifically lending to developers was significantly curtailed, leading to a slowdown in the property sector in 2H08. This time the Chinese government has placed a greater emphasis on increasing the supply of housing, and is not imposing major restrictions on lending to developers.

Demand from end-users is expected to remain strong, underpinned by high income growth and continued urbanization. Additionally, the priority of the Chinese government on public housing contributes to offset the potential slowdown in the high-end of the property market, thereby neutralizing its negative impact on steel consumption.

Asset price bubbles are caused by investment booms fueled by excessive financial leverage. That is not the case of China. If eventually there is a housing price correction in the high-end of the property market the negative impact on economic activity will tend to be very limited, given that the low leverage of Chinese households and companies minimizes the probability of default.

The global economic recovery set in motion a substantial expansion in steel consumption. Steel prices have been rising from trough to peak prices of billets traded on the LME increased by 135.7 % and global crude steel output returned in March 2010 to the all-time high level of June 2008, at 1.4 billion metric tons, on a seasonally annualized basis. Reflecting the strong demand pressure, the market for iron ore has been very tight, with rising spot prices and a decreasing stock/consumption ratio in China, despite the price stimulus to local high-cost producers.

There is very limited additional supply expected to come on stream this year and in 2011. Vale returned to full capacity operation both in iron ore mining and pellet production and our low-cost high-quality Carajás Additional 20 Mtpy started up at the end of March. However, it will have a minimal impact on Vale s supply of iron ore in 2010, as it will be chiefly dedicated to offsetting some losses in our production capacity.

Going forward, we expect the iron ore market to remain tight for an extended period of time.

After falling for three years in a row, global stainless steel output is rebounding strongly, growing at an annual seasonally adjusted rate of 34.3% in 1Q10, when it reached the highest level at 7.7 Mt since the quarterly peak achieved in 4Q06, of 7.8 Mt. Simultaneously, the demand for nickel for non-stainless steel applications continues to recover, driven by various industries, mainly aerospace, oil and gas, automotive and batteries.

Given the strong demand in the face of a tight market for scrap, nickel inventories have been declining and prices increasing since early February 2010. In response to higher prices which had surpassed the level of US$ 11 per pound by the end of March and are currently hovering around US$ 12 there are indications that nickel pig iron ore production in China is expanding significantly.

We have been taking steps to resume production at the Sudbury and Voisey s Bay operations, both shut down due to the labor strike since 3Q09. As already announced, up to now we have managed to partially re-start operations in both sites.

We continue to foresee a very promising scenario for the metals and mining industry in the short as well as in the long-term. Guided by this view we have been pursuing our growth strategy, prioritizing organic growth but employing acquisitions and portfolio management as additional sources of shareholder value maximization.

IRON ORE PRICING: TOWARDS A MORE EFFICIENT MARKET

We have reached agreements, permanent or provisional, with all our iron ore clients around the globe involving 100% of the sales volumes under contracts to move existing contracts to index based prices.

Although large recessions, such as the one the world economy endured in 2008/2009, are cyclical events, they have the potential to trigger and/or to accelerate changes with deep long-term implications.

During the last decades of the twentieth century, the iron ore industry faced sluggish growth and sizable idle capacity. From 1980 to 1999, economic growth slowed as global GDP increased at an annual average rate of 3.0%, and was driven by mature developed economies. Emerging market economies underperformed advanced economies as they underwent persistent high inflation and several debt and foreign exchange crises.

In this scenario, demand for steel remained weak, and iron ore seaborne trade expanded at only 1.8% per annum.

Since the late nineties a dramatic change started to take place. Emerging economies, those which are involved in structural changes and consequently large metals-intensive expansion in manufacturing, housing and infrastructure, took the lead on a rapid global economic growth path. In particular, China, a high-growth economy, acquired the critical mass to promote significant changes in the global demand for minerals and metals.

The new global growth pattern produced a major change in the dynamics of the iron ore market. Reflecting the structural change in the demand for metals, iron ore seaborne trade grew by an annual average rate of 7.7% well above the pace of 4.0% per annum for global GDP growth and China s share increased to 68% in 2009 from only 2.5% in 1985 and 12% in 1999.

Transactions on a cost and freight basis increased and a spot market for iron ore developed, expanding continuously and reaching an estimated share of 40% of global seaborne trade in 2009. It now stands at about US$ 40 billion, twice the size of the global nickel market.

Differently from the past, in a fast growth environment the old benchmark price system, based on annual bilateral negotiations, has shown that it no longer serves the best interests of both steelmakers and mining companies.

Market determined prices tend to reflect the flow of information into the marketplace, possessing the capacity to promote very rapid market rebalancing and issuing continuous important signals for the decision-making process of market participants. In sharp contrast, bilaterally negotiated prices remain muted for a long time and are not able to accommodate the dynamics of supply and demand behavior.

Price flexibility tends to facilitate and thus to enhance healthy business relationships. In contrast, in the presence of fast changing market conditions price rigidity embedded in the benchmark system contributes to undermine these relationships as conflict becomes an alternative for solving problems arising from different views.

Protracted price negotiations made price discovery too costly, as it monopolized the efforts of groups of executives from both steel and mining for several months, which otherwise could be focused on other important business issues.

The coexistence of two price systems, spot and benchmark pricing, gave rise to serious distortions, epitomized by large systematic price differentials between the two markets and the pricing of low-quality products above the levels for high value-in-use iron ores. These distortions created disincentives to investment, and stimulated inefficiency and financial speculation, which in the long run are detrimental to both steelmakers and miners.

From a capital markets standpoint, the natural non-transparency of bilateral negotiations became a source of rumors and speculation, hence giving rise to abnormal equity price volatility, in another negative outcome for the shareholders of steel and mining companies.

Table of Contents

The great recession of 2008/2009 evidenced the flaws of the benchmark price system as very clearly it was unable to deal with the sudden changes caused by the powerful demand shock stemming from the financial crisis. In the past, similar drivers were the trigger to make base metals and oil markets move from bilaterally fixed prices to market based pricing.

It became clear that it was time to change iron ore pricing.

The new system, as agreed with our clients, smooth the natural daily spot price volatility as it establishes a quarterly iron ore price based on a three-month average of price indices for the period ending one month before the onset of the new quarter. While retaining flexibility, the system allows steel companies to know beforehand the price to be paid in the following quarter, thus facilitating cost control and inventory management.

Consistent with the requirements of a modern economy, the price system proposed by Vale minimizes the cost of price discovery, eliminating one important source of inefficiency.

One of the key features of a price system is the ability to recognize product quality differences. More valuable products must command a price premium over the price of more basic products in order to deliver the right signals to the marketplace. Similarly to what is already practiced by the spot market, the new system recognizes at least partially the superior value-in-use of iron ores, through a price premium for higher iron content. Accordingly, lump ores, blast furnace and direct reduction pellets will earn price premia over the price for iron ore fines.

As prices are based on a landed equivalent basis, they will recognize also differences in geographical distance to our operations. In this respect, Vale is building a low-cost portfolio of maritime freight, entailing among other things the launch of a new and more efficient class of ore carriers, the so called VLOCs or Chinamax vessels, in order to reduce the level of freight prices and to mitigate freight price volatility to clients.

Last but not least, transparency, one of our most highly valued principles, will prevail. Prices are based on indices, which are easily accessed on a daily basis, contributing to eliminate a source of equity price volatility for steel and mining companies.

The introduction of a new pricing regime is part of the structural changes in the iron ore market unleashed by the economic development of emerging economies, which is releasing from poverty hundreds of millions of people around the world.

Our proposal has several major advantages over the annual price negotiations. It produces significant efficiency gains, saving costs and providing the right stimulus to investment, brings flexibility with cost predictability, and enhances transparency. We strongly believe that it will be mutually beneficial to steel and mining companies, boosting their contribution to global economic and social prosperity.

Table of Contents

US GAAP *1Q10*

REVENUES

In the first quarter of 2010, our operating revenues totaled US$ 6.848 billion, with an increase of 4.7% from the level of US$ 6.541 billion in 4Q09. Higher sales prices produced a positive effect of US$ 775 million on operating revenues, which was partially offset by the negative impact of lower volumes of US$ 468 million.

The strike in two of the Canadian nickel operations, the rainy season in the Southern Hemisphere and operational problems at iron ore maritime terminals contributed to hinder the performance of shipments.

Revenues generated from the sales of ferrous minerals accounted for 69.0% of 1Q10 operating revenues, thus returning to the levels prevailing in early 2006. Non-ferrous minerals contributed 23.9% to the revenues, logistics services 4.5%, coal 1.8% and other products 0.8%.

Sales to Asia represented 51.6% of total revenues, while sales to the Americas accounted for 25.2%, to Europe 19.8% and the rest of the world 3.3%.

Table 2 OPERATING REVENUE BREAKDOWN

US$ million	**1Q09**	**%**	**4Q09**	**%**	**1Q10**	**%**
Ferrous minerals	**3,505**	**64.7**	**4,154**	**63.5**	**4,722**	**69.0**
Iron ore	3,129	57.7	3,458	52.9	3,748	54.7
Pellets	269	5.0	476	7.3	769	11.2
Manganese ore	15	0.3	64	1.0	58	0.8
Ferroalloys	77	1.4	114	1.7	131	1.9
Pellet plant operation services	4	0.1	7	0.1	5	0.1
Others	11	0.2	36	0.6	11	0.2
Non-ferrous minerals	**1,515**	**27.9**	**1,847**	**28.2**	**1,635**	**23.9**
Nickel	639	11.8	741	11.3	687	10.0
Copper	236	4.4	328	5.0	227	3.3
Kaolin	39	0.7	48	0.7	44	0.6
Potash	65	1.2	108	1.7	65	0.9
PGMs	53	1.0	1		1	
Precious metals	29	0.5	3		8	0.1
Cobalt	13	0.2	6	0.1	5	0.1
Aluminum	194	3.6	261	4.0	262	3.8
Alumina	245	4.5	347	5.3	331	4.8
Bauxite	2		4	0.1	6	0.1
Coal	**134**	**2.5**	**137**	**2.1**	**127**	**1.8**
Logistics services	**199**	**3.7**	**304**	**4.6**	**311**	**4.5**
Railroads	157	2.9	218	3.3	236	3.4
Ports	42	0.8	86	1.3	75	1.1
Others	**68**	**1.3**	**99**	**1.5**	**53**	**0.8**
Total	**5,421**	**100.0**	**6,541**	**100.0**	**6,848**	**100.0**

Table of Contents

US GAAP *1Q10*

Table 3 OPERATING REVENUE BY DESTINATION

US$ million	1Q09	%	4Q09	%	1Q10	%
North America	**434**	**8.0**	**345**	**5.3**	**348**	**5.1**
USA	220	4.1	161	2.5	135	2.0
Canada	214	3.9	165	2.5	207	3.0
Others			19	0.3	7	0.1
South America	**645**	**11.9**	**1,298**	**19.8**	**1,378**	**20.1**
Brazil	611	11.3	1,174	18.0	1,258	18.4
Others	34	0.6	124	1.9	120	1.8
Asia	**3,434**	**63.3**	**3,362**	**51.4**	**3,536**	**51.6**
China	2,423	44.7	1,987	30.4	2,160	31.5
Japan	484	8.9	876	13.4	832	12.2
South Korea	254	4.7	203	3.1	232	3.4
Taiwan	133	2.5	163	2.5	178	2.6
Others	139	2.6	133	2.0	133	1.9
Europe	**814**	**15.0**	**1,335**	**20.4**	**1,357**	**19.8**
Germany	207	3.8	457	7.0	424	6.2
Belgium	73	1.3	104	1.6	33	0.5
France	39	0.7	127	1.9	81	1.2
UK	176	3.3	83	1.3	140	2.0
Italy	77	1.4	146	2.2	138	2.0
Others	242	4.5	418	6.4	541	7.9
Rest of the World	**95**	**1.7**	**201**	**3.1**	**229**	**3.3**
Total	**5,421**	**100.0**	**6,541**	**100.0**	**6,848**	**100.0**

COSTS

Cost of goods sold (COGS) totaled US$ 3.539 billion in 1Q10, showing a 11.4% decrease relatively to 4Q09, at US$ 3.995 billion.

The performance of COGS reflects our efforts to shift the costs downwards. Savings of US$ 265 million, representing 58.1% of the cost decrease on a quarter-on-quarter basis, were due to cost cutting efforts. In addition, the better performance of COGS was determined by the appreciation of the US dollar against the Brazilian real[2], US$ 93 million, and by the effect of lower shipments, US$ 98 million.

In 1Q10, the cost of materials accounted for 17.8% of COGS, being its largest contributor. These expenses amounted to US$ 629 million, against US$ 709 million in 4Q09. Lower input prices, lower sales volumes and currency price changes contributed to decrease costs by US$ 28 million, US$ 32 million and US$ 20 million, respectively.

The main materials items were: spare parts and maintenance equipment, US$ 281 million (vs. US$ 325 million in 4Q09), inputs, US$ 188 million (vs. US$ 240 million in 4Q09), and tires and conveyor belts, US$ 57 million (vs. US$ 44 million in 4Q09).

Expenses with energy consumption reached US$ 617 million, accounting for 17.4% of COGS. These expenses showed a reduction of US$ 38 million compared to 4Q09.

[2] COGS currency exposure in 1Q10 was made up as follows: 72% in

Brazilian reais, 6% in Canadian dollars, 17% in US dollars, 2% in Indonesian rupiah and 2% in other currencies. The temporary shutdown of a large part of our Canadian operations continued to contribute to a fall in the share of our costs denominated in Canadian dollars to 5-10% from the historical 20-25% range. In 1Q10 the US$ dollar appreciated against the Brazilian real but depreciated against the Canadian dollar and the Indonesian rupiah.

US GAAP ***1Q10***

Fuel and gases costs reached US$ 387 million, similar to the levels of 4Q09. The increase of US$ 12 million due to higher fuel and gases prices was more than offset by reductions of US$ 11 million related to the appreciation of the US dollar and US$ 4 million to the lower level of our activities.

The cost of electricity was US$ 230 million against US$ 266 million in 4Q09, implying a 13.5% quarter-on-quarter reduction, caused by lower average tariffs (US$ 26 million), currency price changes (US$ 6 million), and sales volumes (US$ 4 million).

Costs for outsourced services, making up 15.1% of COGS, totaled US$ 534 million in 1Q10, compared to US$ 732 million in 4Q09. In addition to the effects of lower sales volumes (US$ 43 million) and the US dollar appreciation (US$ 19 million), there was a reduction of US$ 136 million in spending with outsourced operational and maintenance services, which had surged in 4Q09 due to the preparation for return to full capacity operation in iron ore mining and pellet production.

The main outsourced services were: (a) cargo freight, which accounted for US$ 165 million (vs. US$ 184 million in 4Q09); (b) operational services, US$ 129 million (vs. US$ 250 million in 4Q09), which includes US$ 58 million for ore and waste removal; and (c) maintenance of equipment and facilities, US$ 127 million (vs. US$ 153 million in 4Q09).

Expenses with railroad freight decreased to US$ 114 million from US$ 138 million in 4Q09, due to lower iron ore shipments from the Southern System mines. Differently than the Northern and Southeastern Systems where Vale owns and operates an integrated mine-railroad-port structure, in the Southern System iron ore and pellets are carried to our wholly-owned and operated maritime terminals of Guaíba Island and Itaguaí by MRS, a non-consolidated affiliated logistics company. On the other hand, in 1Q10 MRS contributed US$ 13 million to our net earnings via equity income.

Costs with maritime freight services mainly involving the shipping of bauxite from Trombetas to Barcarena totaled US$ 29 million and expenses with truck transportation services amounted to US$ 21 million. It is worthwhile noting that these costs do not include freight expenses with iron ore shipping to Asia on a CFR basis, which in accordance with accounting practices are deducted from gross revenues.

Personnel expenses reached US$ 424 million, representing 12.0% of COGS. The decrease of US$ 126 million on a quarter-on-quarter basis reflected the effect of one-off events in 4Q09 (US$ 77 million), lower sales volume (US$ 38 million) and exchange rate changes (US$ 11 million).

The cost of purchasing products from third parties amounted to US$ 302 million 8.5% of COGS against US$ 238 million in 4Q09.

The cost of purchasing iron ore and pellets was US$ 121 million, against US$ 75 million in 4Q09. The volume of iron ore bought from smaller miners came to 937,000 metric tons in 1Q10, compared with 1.2 Mt in 4Q09. The acquisition of pellets from joint ventures amounted to 765,000 metric tons in this quarter against 740,000 in 4Q09.

The purchase of nickel products reached US$ 91 million, against US$ 78 million in 4Q09. Given the effect of the labor strike in Sudbury and Voisey Bay in our production and the lack of inventories, we continued to increase the purchases of both intermediate and finished nickel products to meet contractual obligations with clients.

Purchases of aluminum products totaled US$ 19 million in 1Q10, against US$ 22 million in 4Q09, involving ingots and scrap used as inputs to feed the production of billets for extrusion by our wholly-owned subsidiary Valesul Alumínio S.A. (Valesul). In January 2010, Valesul entered into an agreement to sell its aluminum assets and as a result of this transaction the purchases of ingots and scrap ceased after April 30, 2010.

Costs with shared services, which reflect the cost of our shared services organization to provide services to the company, reached US$ 61 million, decreasing 13.2% over the 4Q09 level of US$ 70 million. The reduction was caused by lower input prices and the appreciation of the US dollar against the Brazilian real.

Table of Contents

US GAAP *1Q10*

Other operational costs reached US$ 339 million, compared to US$ 402 million in 4Q09. Among other items, the main sources of this change were the provision for profit sharing and the impacts of the appreciation of the US dollar against the Brazilian real.

In 1Q10, demurrage costs fines paid for delays in loading ships at our maritime terminals reduced to US$ 19 million, equivalent to US$ 0.33 per metric ton of iron ore shipped, against US$ 40 million in the previous quarter, or US$ 0.68 per metric ton.

Depreciation and amortization 17.9% of COGS amounted to US$ 633 million, against US$ 639 million in 4Q09.

Sales, general and administrative expenses (SG&A) came to US$ 293 million, against US$ 378 million in 4Q09. The lower SG&A expenses are mainly explained by a reduction in discretionary spending and personnel costs and the adjustment of copper under the MAMA pricing system for copper concentrates.

Research and development (R&D) expenses, which reflect our investment to create long-term growth platforms, amounted to US$ 172 million[3] in the quarter, compared to US$ 296 million invested in 4Q09.

Other operational expenses reached US$ 538 million, against US$ 561 million in 4Q09.

Expenses related to idle capacity and stoppage of operations totaled US$ 210 million against US$ 245 million in 4Q09. US$ 205 million of the 1Q10 expenses were due to the idling of two of our Canadian nickel operations, compared to US$ 236 million in 4Q09. The restart of the São Luis and Fabrica pellet plants and partial resumption of operations at Sudbury and Voisey Bay were the main factors underlying the US$ 35 million drop in those expenses.

Table 4 COGS BREAKDOWN

US$ million	**1Q09**	*%*	**4Q09**	*%*	**1Q10**	*%*
Outsourced services	**424**	**14.6**	**732**	**18.3**	**534**	**15.1**
Material	**560**	**19.3**	**709**			