Vale S.A.
Form 6-K
March 18, 2011

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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

For the quarterly period ended June 30, 2010

March 2011
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

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7))

(Check One) Yes o No þ

(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-___.)

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Ú THE CHALLENGES OF MINING

Mining is an essential foundation of the modern economy. Economic development is becoming ever more dependent on the availability of metals in adequate volumes and quality, which make the execution of structural development feasible for continued improvements in the wellbeing of billions of people around the world.

Mining operations require the application of sophisticated technical knowledge, continual investments in research and development and the allocation of considerable resources in order to promote sustainability.

Each mineral deposit requires the employment of a specific technology and/or different nuances of existing technologies. The necessity to continuously conciliate long-term production planning with the volatility of short-term demands, the complex large-scale logistics operations for the transportation of hundreds of millions of tons of material, the intensive nature of business capital and the creation of opportunities for economic and social upward mobility in the remote communities where the operations take place, are just some of the challenges that a mining company like Vale has to overcome.

Vale has managed to cope with the numerous challenges that have presented themselves over the years with a high degree of success, whilst at the same creating substantial value for its shareholders and for the society in general. As the survey conducted by the renowned magazine Barron s confirms, Vale is one of the 100 most respected companies in the world and the most respected in Latin America.

Ú A YEAR OF EXTRAORDINARY PERFORMANCE

2009 was a period of transition, marked by lower operating and financial performance inferior, but nonetheless quite robust, to the previous two years.

2010 was a year of strong recovery and extraordinary performance resulting from the convergence of actions by two main factors. On one hand, the initiatives developed in 2009 in response to the global economic downturn, which were focused on structural transformations, started to present returns. On the other, the global economy, led by the emerging economies, which make up the main source for the expansion in demand of ore and metals, presented exceptional growth.

As a result, the past year registered the best financial performance in the company s history, with record revenues, operating profit, operating margins, cash flow and profit. The quality of the financial performance is emphasized by the record value of investments, which have constructed new platforms to sustain growth in the long term.

From the operating perspective, the production of iron ore in 2010, totaling 308 million tons, constituted a new record, with Carajás surpassing the 100 million ton mark for the first time. With this level of production, equal to 1.67 times the second largest global producer of iron ore, Vale has consolidated its position as world leader.[1]

[1] Source: production reports of mining companies.

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Records were also broken in the production of pellets, at 49 million tons; bauxite, 14 million tons; and coal, both metallurgical and thermal grade, at 6.9 million tons; proving that excellence in operation is one of the main hallmarks of Vale.

The strong cash flow and rigorous discipline in the allocation of capital, combined with the high quality of our assets, has enabled us to overcome the three classic challenges with which expanding companies are confronted: financing for growth, maintaining a healthy balance sheet and meeting the expectations of shareholders for short term gains.

Vale invested USD 12,7 billion in supporting existing operations, in research and development and in the execution of projects, which represented 99% of the investment budgeted for 2010. The value invested by Vale in 2010 was the highest among mining companies anywhere in the world.

We invested an additional USD 6,7 billion in the acquisition of several assets, the most prominent among them being the purchase of USD 5,8 billion in fertilizer phosphate mines and operations in Brazil. Vale took control of Vale Fertilizantes, nee Fosfértil, acquiring 99.8% of the voting stock. Vale Fertilizantes incorporated the fertilizer assets it acquired from Bunge.

The acquisition of assets in Brazil, together with the conclusion of the Bayóvar phosphate rock mining project, in Peru, are part of the implementation strategy of Vale, which aims to become one of the largest global players in the fertilizer market over the next few years.

We also acquired 51% of the Simandou project in West Africa, the best as-yet untapped iron ore deposit in the world, given the quantity and quality of its estimated reserves.

USD 5.0 billion was returned to shareholders, including USD 3.0 billion with the distribution of dividends and capital payout, and USD 2.0 billion through the execution of a share buy-back program.

After spending almost USD 25 billion on investments and cash returns to shareholders, we even managed to reduce the leverage on our balance sheets, ending the year with a total debt/EBITDA ratio of just 1.0.

In the last 10 years, from 2001 to 2010, Vale created a total value of USD 154.5 billion for its shareholders and distributed USD 17.4 billion in dividends and capital payouts, standing out as one of the leading companies in terms of value creation in the world.

As a global agent of sustainability, we invested USD 737 million in the preservation and protection of the environment and USD 399 million in social actions, thus increasing expenditures to USD 1.136 billion in corporate social responsibility. This value is the highest in the history of the company, having increased by 45.5% compared to 2009.

Strikes at the Sudbury, Voisey s Bay and Port Colborne operations in Canada were resolved. The agreement reached contributes to the sustainability and expansion of our base metal business in Canada, with the introduction of a new pension plan including a defined contribution regime and changes in the old system of variable compensation, which started to enable greater productivity incentives to employees in our Canadian operations.

Taxes paid by Vale on its operations in Brazil amounted to BRL 12.467 billion in 2010, representing an increase of 25.7% over the previous year.

Vale exported USD 29.1 billion from Brazil to the rest of the world, thus becoming the largest Brazilian exporter. Our net exports exports minus imports amounted to USD 27.7 billion, thus surpassing the USD 7.4 billion surplus of the 2010 Brazilian commercial trade balance. Accordingly, our exports have enabled the creation of external resources for the financing of imports by other companies, which makes an increase in investments viable, creating jobs and income for the Brazilian society.

One of the most important consequences of the expansion of our activities is the creation of new jobs . In December 2010, Vale was responsible for 119,246 direct jobs, including 70,785 in-house positions and

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48,461 outsourced positions; representing an increase of 25,181 jobs compared to December of the previous year. Furthermore, 54,839 people worked on Vale projects, compared to 46,542 at the end of 2009. Using internationally accepted mining industry coefficients, the company generated a total of approximately 700,000 job postings through its activities.

Ú **FINANCIAL PERFORMANCE IN 2010**

Vale s operating revenue reached a record BRL 85.345 billion, represeting growth of 71.3% compared to 2009, with an annual average increase of 16.2% for the 2006-2010 period.

Ferrous ores iron ore, pellets, manganese ore and ferroalloys comprised 71.9% of the total revenue. Non-ferrous metals nickel, copper, aluminum products, cobalt, metals from the platinum group and others made up 17.0% of our revenue; fertilizers 3.7%; logistics services 3.8%; coal 1.6%; and the remaining 2.0% was originated from other products.

Sales to the Asian market accounted for 52.2% of trade volume; Europe 19.0%; South America 18.9%; North America 5.3%; and other regions, 4.6%. On a national level, China was the main buyer of our products, accounting for 32.3% of our revenue, followed by Brazil with 16.8%, Japan with 10.9% and Germany with 6.6%.

Our exports from Brazil to the rest of the world reached a record of USD 29.090 billion, making Vale the biggest exporter in Brazil. Net exports exports minus imports totaled USD 27.668 billion, equivalent to 136.5% of the Brazilian commercial trade surplus. In the last five years, Vale net exports reached USD 77.187 billion, making it the biggest contributor to the Brazilian foreign trade surplus.

Operating profit reached BRL 40.490 billion, constituting a new record, surpassing the previous level, recorded in 2008, by 35.7%. Operating margins were also record-breaking, at 48.7%, compared to 27.2% in 2009.

EBITDA, profit before interest, tax, depreciation and discharge of debts, reached BRL 46.378 billion, thus setting a new record, BRL 11.356 billion above the previous record from 2008.

Net profit, totaling BRL 30.070 billion and BRL 5.66 per share, was the highest in Vale s history. Calculated according to the BR GAAP criteria (the generally accepted accounting principles in Brazil), Vale s profit, totaling USD 17.264 billion, was the largest in the worldwide mining industry and also the largest in mining history.

SELECTED FINANCIAL INDICATORS

in BRL million	**2006**	**2007**	**2008**	**2009**	**2010**
Operating revenue	46,746	66,385	72,766	49,812	85,345
EBIT	20,089	29,315	29,847	13,173	40,490
EBIT margin (%)	44.4	45.3	42.3	27.2	48.7
EBITDA	22,759	33,619	35,022	18,641	46,378
Net profit	13,431	20,007	21,279	10,337	30,070
Net profit per share (BRL)	2.78	4.14	4.08	0.97	5.66
Exports (USD million)	9,656	12,492	17,606	13,719	29,090
Net exports (USD million)	8,784	11,533	16,203	12,999	27,668

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BRL billion
BRL billion
BRL billion

Ú **FINANCIAL SOLIDITY**

Vale enjoys a fairly healthy financial position, supported by a strong cash flow, broad liquidity and access to short- and long-term credit lines, as well as, a low-risk debt portfolio. This position grants us significant competitive advantages for investment projects and, consequently, sustained value aggregation, in a very capital-intensive activity that requires a high degree of long-term planning.

On 31st of December 2010, our total debt was at USD 25,343 billion, with quite a long-term average, of 9.6 years. This goes hand-in-hand with minimal refinancing risks, an extremely important precaution, considering that, for example, one of the fundamental causes of the economic crisis in the peripheral economies of the Euro zone is exactly the great concentration of short-term debt.

The average cost of our debt is 4.85% a year, compatible with our objective of minimizing the cost of debt. On the 31st of December 2010, our cash position was USD 9,377 billion, with a net debt of USD 15,966 billion.

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Leveraging, measured by the total debt/EBITDA ratio, fell to 1.0 compared to 2.5 in December 2009, when the effects of the global economic downturn were still being felt in our cash flow. The total debt/enterprise value ratio decreased also, from 14.4% on the 31st of December 2009, to 13.2% in December 2010.

The rate of interest coverage, measured by the EBITDA/interest payment ratio, rose to 23.8 times, compared to 8.2 times on 31 December 2009.

Considering the hedge positions, 33% of the total debt on the 31st of December 2010 was linked to floating interest rates and 67% to fixed rates, while 96% of the debt was in U.S. dollars and the rest in other currencies.

Consistent with our debt management strategy, we seek to exploit fund-raising opportunities on the global capital markets. Vale made its debut on the debt market in Euros, with the issue of bonds to the value of EUR 750 million, with an 8-year timeframe, due in March 2018, with a fixed rate of 4.375% per annum, paid annually.

We issued bonuses in United States dollars in the third quarter of 2010, to the value of USD 1 billion, due in 2020 and at a fixed rate of 4.65% per annum; and at the same time we reopened the issue of bonuses due in 2039 at a fixed rate of 6.875% per annum, thus raising USD 750 million, at a 6.074% return for investors.

We entered into agreements with official credit institutions in several different countries in order to raise lines of financing, with timeframes and costs suitable for the financing of our projects: (a) Export-Import Bank of China and Bank of China, credit line of up to USD 1.229 billion, destined to finance ship building operations; (b) Export Development Canada (EDC), a credit line of USD 1 billion, for the financing of export projects to Canada and purchases from Canadian companies; (c) Servizi Assicurati Del Commercio Estero (SACE), of Italy, a guarantee of a USD 300 million credit line from commercial banks, due in 10 years.

In November 2010, securities issued on the Brazilian market in 2006, with four-year deadlines, were cashed in, with the payment of USD 870 million.

In June 2010, bonds obligatorily converted into shares, issued in June 2007, were exchanged for ADRs, representative of Vale s class A preferred and common shares. The conversion affected 49,305,205 common shares and 26,130,333 class A preferred shares, representing, at the time, 1.5% and 1.3%, of the total number of shares in circulation for each class, respectively.

In the context of the management strategy for financial liabilities, we cashed in the full amount of the securitization bonds of export receivables, issued in September 2000 and July 2003, early, thus totaling USD150 million.

DEBT INDICATORS [2]

in USD million	**2006**	**2007**	**2008**	**2009**	**2010**
Gross debt	22,581	19,030	18,245	22,880	25,343
Net debt	18,133	17,984	5,606	11,840	15,966
Gross debt / EBITDA (x)	2.5	1.2	1.0	2.5	1.0
EBITDA / interest payments (x)	15.94	11.79	15.02	8.23	23.8
Gross debt / EV (x)	25.7%	11.2%	27.0%	14.4%	13.2

EV = *market capitalization + net debt*

2 data calculated in accordance with the U.S. generally accepted accounting principles (USGAAP)

Ú **COORPORATE SOCIAL RESPONSIBILITY**

Vale investments in corporate social responsibility in 2010 amounted to USD 1.136 billion, totaling USD 2.827 billion in the 2008-2010 three-year period. The budget for 2011 foresees investments of USD

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1.194 billion, including USD 886 million for environmental protection and conservation and USD 308 million for social projects.

The promotion of global sustainability covers several complexities. For example, the benefits that arise from activities that emit excessive amounts of carbon are immediate and highly concentrated, whilst the gains in avoiding emissions tend to be long-term and are diluted among a large number of beneficiaries. At the same time, it is an activity that requires coordination in the global sphere, in a world in which the perception of costs and benefits is not uniform among countries.

Vale understands that, as a global company, it can dedicate resources and conciliate different interests, in order to be active as an agent of global sustainability, in a manner consistent with its corporate mission of transforming mineral resources into wealth and sustainable development.

Accordingly, we have developed technological solutions for mining that conciliate the interests of our shareholders with the maximization of value with social sustainability objectives.

In our iron ore mining operations at Carajás, we have implemented a dry process, which uses the natural humidity of iron ore. This reduces the consumption of water and energy viable, restricting the emission of carbon whilst simultaneously reducing operating and investment costs.

For the Serra Sul S11D project, in Carajás, Vale has developed a truck-less mining technology, which replaces the use of off-road trucks with a system of transportation conveyors; thus, also resulting in an expressive economy in fuel consumption, as well as, reduced carbon emissions, protection of native forests and reduced risk of occupational accidents.

Vale is developing initiatives to build a cleaner energy grid, with increased use of renewable fuels. In this context, at the beginning of 2011, we took over Biopalma S.A., a producer of palm oil, a raw material for the production of biodiesel, for USD 173,5.

Biopalma is starting to produce palm oil in 2011, with the expectation of reaching an annual production of 500,000 tons in 2019. Its main destination will be the production of biodiesel to fuel the fleet of trains, machines and large-scale machinery used in Vale s operations in Brazil, with the use of B20, a 20%/80% mixture of biodiesel and diesel, respectively.

Support for social and economic development in regions where Vale operates is carried out through the Vale Foundation, one of the largest corporate foundations in the world. The Vale Foundation establishes partnerships with governments, non-governmental organizations and private companies, promoting structuring initiatives in the areas of urban infrastructure, strengthening of public administration and human and economic development. Besides Brazil, the Vale Foundation, also operates in Colombia and Mozambique.

The Vale Foundation has been implementing Knowledge Stations, which consist of human and economic development centers. There are already ten units operating in Brazil and four under construction. The La Loma Knowledge Station, in Colombia, has already been launched, and two others are being implemented, one in Ciénaga, in Colombia, and the other in Tetê, in Mozambique.

In 2010, Vale joined two share-price indexes of the BM&F Bovespa linked to sustainability: the ISE company sustainability index and the ICO2 carbon-adjusted index.

Our commitment to excellence in health and safety in our operations is one of our strategic priorities, with strict yearly goals, which also have an impact on the variable compensation of our executives. In 2010, we continued to reduce the rate of accidents. In our operations in Brazil, the rate of accidents with days lost, in number of accidents per million man-hours worked, was 0.85, a reduction of 6.6% compared to 2009. The rate of total frequency of personal accidents, in number of accidents per million man-hours worked, was 3.05, a reduction of 11.6%, compared to 2009.

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Ú PROMOTING GROWTH

In the last five years, Vale invested USD 44,358 billion in maintaining its operations, research and development (R&D) and project implementation. Of this total, resources amounting to USD 29,923 billion were invested in Brazil. In 2010, investments excluding takeovers amounted to USD 12.705 billion, with USD 8.239 billion destined to project development, USD 1,136 billion to R&D and USD 3,330 billion to maintaining existing operations.

In 2010, six projects were concluded: (a) An additional 20 Mtpa at the Brownfield project of high quality/low cost iron ore at Carajás; (b) Bayovar, a phosphate rock mine in Peru, with a capacity of 3.9 Mtpa; (c) Tres Valles, a copper mine in Chile, with a production capacity of 18,500 tons annually; (d) Onça Puma, a ferrous nickel operation in the Brazilian state of Pará, with annual production capacity of 58,000 tons; (e) Oman, a pelletizing operation in the Middle East, with capacity of 9 Mtpa; (f) TKCSA, a production plant for steel sheeting in the state of Rio de Janeiro, with a capacity of 5Mtpa, in which Vale has a capital participation of 26.9%.

Expenditures with takeovers amounted to USD 6,707 billion in 2010. In a series of transactions throughout 2010, we acquired the Bunge fertilizing operations in Brazil, for USD 5,829 billion, and the control of Fosfértil. These assets, the phosphate rock mine and processing plants have been incorporated into Vale Fertilizantes, a publicly-traded company listed on the BM& F Bovespa. Vale has 99.83% of voting rights and 68.2% of the preferred stock in Vale Fertilizantes.

Aiming to establish a world-class asset base in Africa, we ve acquired 51% of the Simandou project, in Guinea, the best untapped iron ore deposit in the world, whose quality is similar to that of Carajás. Initially, USD 500 million was paid, with a further USD 2 billion to be paid over time subject to meeting specific milestones.

In order to initiate the development of the logistics infrastructure to support our coal operation in Mozambique, Vale acquired 51% of the SDCN (Sociedade de Desenvolvimento do Corredor Norte S.A.) railroad company, for USD 21 million. Our objective is to link the Moatize coal mine to the maritime terminal that we intend to build at Nacala, in the north of the country.

A third and final payment for the concession of the North-South Railroad in the order of USD 265 million was made, amounting to a total expenditure of USD 893 million. We have increased our participation in the Belvedere coal project, in Australia, acquiring an additional 24.5% of the share capital for USD 92 million. Accordingly, Vale s stakes in Belvedere reached 75.5%.

Divestitures to the total value of USD 890,2 million were also carried out: (a) Valesul assets for USD 31,2 million; (b) 86.2% participation in PPSA, a kaolin producer, for USD 74 million; (c) 49% of the Bayóvar project, for USD 660 million; (d) 30% participation in the Oman pelletizing operation, for USD 125 million.

In the second quarter of 2010, a transaction was agreed with Norsk Hydro, an aluminum producer in Norway, to transfer our Albrás, Alunorte and CAP holdings, as well as, the Paragominas bauxite mine. The operation shall be completed by the end of the first quarter of 2011, and Vale will receive USD 1.4 billion over time; in addition to acquiring stakes of approximately 22% of Norsk Hydro s capital and transferring its net debt of USD 700 million.

The 2011 budget foresees investments of USD 24 billion, from which USD 17,535 billion shall be destined to project implementation, USD 1,986 billion to research and development and USD 4,479 billion to supporting existing operations USD 15.318 billion shall be destined to investments on our projects and operations in Brazil.

Investments of USD 8,522 billion on ferrous minerals are foreseen, mainly in iron ore and pellets; USD 5.014 billion in logistics; USD 4.310 billion in basic metals; USD 2,505 billion in fertilizers; USD 1,588 billion in coal; and USD 794 million in energy production and natural gas exploitation.

INVESTMENT MADE PER CATEGORY

million USD	**2006**	**2007**	**2008**	**2009**	**2010**
Organic growth	**3,464**	**5,423**	**7,519**	**6,855**	**9,375**
Projects	2,988	4,682	6,457	5,845	8,239
R&D	476	741	1,063	1,010	1,136
Supporting existing operations	**1,360**	**2,202**	**2,671**	**2,157**	**3,330**
Total	**4,824**	**7,625**	**10,191**	**9,013**	**12,705**

INVESTMENT MADE PER BUSINESS AREA

million USD	**2006**	**2007**	**2008**	**2009**	**2010**
Bulk materials	**2,077**	**1,915**	**2,563**	**2,687**	**4,441**
Ferrous minerals	1,994	1,747	2,171	2,124	3,474
Coal	83	168	392	564	967
Non-ferrous minerals	**1,637**	**3,990**	**4,615**	**3,053**	**2,973**
Fertilizers	**0**	**0**	**0**	**91**	**843**
Logistics	**649**	**977**	**1,952**	**1,985**	**2,852**
Energy	**92**	**165**	**406**	**688**	**656**
Steel	**114**	**278**	**145**	**184**	**186**
Other	**255**	**300**	**511**	**324**	**755**
Total	**4,824**	**7,625**	**10,191**	**9,013**	**12,705**

Ú VALUE CREATION TO SHAREHOLDERS

In the last five years, from 2006 to 2010, Vale has been the diverse mining company which has created the most value to shareholders; with average yearly total shareholder return (TSR) of 33.2%. Similarly, Vale has also been ahead of its peers in creating value to its shareholders for the last 10 years, - 2001-2010 with TSR of 38.2%.

According to a recent study by the Boston Consulting Group, namely Mining value creators report , from February 2011, Vale has recorded the highest TSR among the largest mining companies worldwide for the period comprising 2000-2009 35.7%.

Vale s market value has increased from USD 146.9 billion at the end of 2009 to USD 176.3 billion on the 31st of December, 2010. Vale s shares display ongoing liquidity in the stock markets where they are listed, with average daily trading of USD 1.4 billion.

In 2010, Vale s ADRs were the most traded of ADRs listed for trading in the U.S. stock exchange; comprising issuers from over 20 countries and a total of 2,222 programs.

In December 2010, Vale s shares were traded in the Hong Kong Stock Exchange (HKEx) through HDRs (Hong Kong Depositary Receipts), representative of common and class A preferred shares, with tags 6210 and 6230, respectively. Vale was the first company to use the HDR instrument similar to ADRs - and was also the first large company from the Americas to have its shares listed in Hong Kong.

Investors will be able to negotiate Vale s shares almost 24 hours a day, in the Americas, in Europe, and in Asia, choosing between different currencies. This consolidates Vale s positioning as a global company.

On January 31st, 2011, Vale paid extraordinary dividends to its shareholders, as interest on own capital, totaling USD 1 billion.

On January 31st 2011, in line with its Shareholder Dividend Policy, Vale announced a Proposal from the Board of Directors to the Administrative Board, for minimum shareholder dividends of USD 4.0 billion, to be paid between April and October 2011.

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05/16/2008 Historic Record USD 200.5 billion
01,/31/2011 USD 178.8
Jan-06; Jun-06; Nov-06, Apr-07; Sep-07; Feb-08; Jul-08; Dec-08; May-09; Oct-09; Mar-10; Aug-10; Jan-11

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Ú BUSINESS PERSPECTIVES

The global economy is gaining momentum faster than expected, and 2011 is bound to be another year of growth above the long term 4% yearly trend.

After slowing down in the late summer, global industrial production regained momentum in the 4Q10 and continued to grow in the beginning of this year. This indicates that the pace of restocking has decreased significantly and that companies are responding to a strong demand for goods. Following subsequent falls in April to December 2010, the Global Manufacturing PMI, recorded by JP Morgan, displayed the fourth consecutive monthly increase in January 2011. Simultaneously, the rate of new orders and the orders over stock ratio two key leading indicators have been increasing and resuming prevailing levels recorded in the 1Q10. This suggests increase in industrial production over the coming months.

In light of the widespread dynamic recovery from recession, we do not expect industrial production to fall back to the 2-digit growth rate observed in the first twelve months of global recovery. Instead, we foresee robust expansion of production, capable of supporting strong demand for minerals and metals.

At present, the scope of global economic growth comprises more industries and geographic regions than seen in the first stages of the recovery from the Great Recession from 2008/2009.

For the first time since mid 2003, the global GDP has peaked above 5% a year, industrial and services segments are gaining momentum, and final demand is showing signs of strong recovery; thus, promoting growth sustainability. The recovery of the services sector is particularly important, due to its potential for job creation; which, in turn, promotes increased consumption expenditure.

Following increases in several segments, there are improvements in the geographic distribution of the global economic activity. Growth rate changes have spread across countries, and acted as an additional force promoting recovery. While the U.S. takes the leading role in promoting global re-growth, main countries in the Euro zone seem to be experiencing strong expansion.

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Despite the risks posed by financial turmoil in the periphery of the Euro zone, markets are bound to behave as before, when they dealt with the turmoil of December 2010 within the region, not affecting other countries. Despite the potential for further integration within the Euro zone, peripheral economies present unsynchronized business cycles in relation to central economies, and we expect this to continue in the short term.

The faster expansion of global economic activity is promoted by certain important factors.

The monetary policies of the central banks of developed economies remain expansionist, which has been essential in supporting recovery.

Companies with excellent profit margins and solid cash flows have been abandoning their defensive posture, which prevailed until mid 2010, and seeking more aggressive capital expenditure increases. As an example, this year global investments in mining, led by Vale with USD 24 billion, are very likely to surpass the record of USD 120 billion from 2008. Expenditures in durable consumer goods, which are restircted to developed economies, have been increasing in the U.S. and Japan since the end of last year.

Financial conditions have been supporting growth. In addition to the high liquidity and low volatility in global market prices of capital; regarding bank credit, Senior Lending Officer Surveys for the U.S., Japan, the Euro zone and the United Kingdom have been revealing significant improvements, both in the supply (maturities and credit standards) and demand for corporate loans. This can be viewed as positive feedback of economic recovery.

For the first time since the 3Q07, surveys have been indicating growth in credit demand, which has been more prominent in the U.S. and Germany. Additionally, banks have been promoting easier maturities and standards for loans to grant credit to consumers, including credit cards and car financing; whereas, consumer demand has stabilized after a long period of decrease in 2006.

Industrial production and investments in fixed capital have been regaining momentum in the second half of 2010 in China. Regarding GDB increase, the Chinese economy has had great performance in the last quarter of 2010, with 12% increase in the previous quarter, annualized, seasonally adjusted. This was the greatest increase since the 2Q09, when the Chinese economy was recovering from the global financial shock.

We expect China s growth to continue above 10% in the first half of 2011, mainly due to the good performance seen in internal demand. This shall be followed by a period of moderate growth in the second semester. The demand for minerals and metals is expected to remain high, not only due to the rapid economic growth, but also due to restocking.

Since mid July 2010, iron ore prices in the cash market have been increasing, having reached almost USD 200 per metric ton higher than the post-crisis peak of USD 186 in the last April. Such price increases results from a combination of high global demand led by China -, and limited offer.

Global steel production has followed a very similar path to global industrial production. After strong recovery in the summer 2009, steel production reached its peak in April in 2010 and followed by a backward trend. However, a it began to show signs of recovery in the 4Q10, and steel production in 2010 reached a historic maximum of 1.47 billion metric tons, annualized and seasonally adjusted. This has been translating in increasing pressures in their demand for iron ore and metallurgical coke.

From the perspective of supply, India, which until recently was China s biggest supplier, has been losing territory, as it was overcome by Brazil in 2007. India s share in Chinese imports has been continuously decreasing; since it reached a peak of 25% in 2005 it has dropped to 15.6% in 2010.

India has been allocating increasing volumes of iron ore for its own blast furnaces, given the high demand for steel, prompted by the rapid economic growth. This has been stimulating steel production to increase at average yearly rate of 11.7%, from 2005 to 2010.

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Thus, India s 11% decrease in exports last year, the first in the last ten years, is far from being a single event. It is probably part of a trend, as India will need an increasing volume of iron ore to foment its industrialization process and the necessary investments on infrastructure.

The quality of Chinese iron ore has been decreasing continuously, leading to an increasing demand for run-of-the-mine minerals to produce the same volume of iron ore to be used in blast furnaces; thus, failing to accelerate production as originally planned. A clear indication of the limitations of the global iron ore is the fact that, to meet the increasing demand for imports, China has been expanding its supplier base; including non-traditional, lower scale producers, who embark the ore overland, since traditional suppliers in the transoceanic market Brazil, Australia and India - have not been able to meet the Chinese appetite for raw materials.

The prices of metallurgical coke have been increasing since the 2Q10 due to demand pressures and the abrupt decrease in offer caused by rain and inundation in the State of Queensland, Australia, an important global producer and exporter; and tend to remain at high levels, with positive implications for the iron ore market. Increasing coal prices tend to stimulate more intensive use of high quality iron ore to enable economies in the consumption of coke in blast furnaces in steel mills; which adds pressure to the premium for our ores.

By eliminating cyclical influences and short-term price volatility, real iron ore prices appear to have entered a long-term rising trend, similar to the one experienced from the Second World War to the early 70s. This trend reflects the increase in premium due to the relative scarcity, since, despite price incentives, the expansion of productive capacity has not been enough to keep pace with demand, mainly due to geological and institutional constraints. A fact that is often overlooked when forecasting future production levels is the extent of investment demand for replacement, which requires relatively large volumes of iron ore to replace lost capacity.

In this scenario of increasing scarcity, Vale s immense high quality iron ore reserves and its proven ability to design and deliver large scale projects, supported by strong cash generation, constitute relevant competitive advantages for value creation for shareholders.

After three years in decline, global stainless steel production accountable for almost two thirds of global nickel consumption increased by 23.4% in 2010, the biggest high of all times. Following the seasonally adjusted annual expansion of 10% in the 4Q10, stainless steel production has continued to grow; plants are operating at full capacity, due to increased demand. Stainless steel 304 prices continue to increase, but are still 30% below the 2007 peak. Nickel demand for applications other than stainless steel production, a market led by Vale, has been performing well and tends to increase due to projects in the aerospace, petrochemical, oil and gas industries.

Demand was high enough to overcome the potential of the negative pressures of production levels over prices in 2010. For example, as a result of the normalization of Canadian operations in the 2Q10, our nickel production has increased by 55.7% in relation to the 1Q10. After correction caused by financial stress in 2Q10 in Continental Europe, nickel prices, due to the strength in fundamentals and the influence of co-movement of commodity prices, have recently reached nearly USD 30,000 per metric ton, having increased from USD 18,000 in early June. Nickel stocks, which had been gradually increasing from August 2010 until the end of the year due to price increase expectations, started to decline in January 2011, reflecting an imbalance between supply and demand.

Nickel market fundamentals are expected to remain favorable in the near future.

Stainless steel consumption is strongly correlated with family consumer spending and oscillation in relation to income growth. This helps explaining why nickel consumption rates, measured as consumption per USD from the GDP, is still lower in emerging economies than in more advanced economies; unlike other metals, such as steel and copper. Emerging economies are expected to keep the momentum of rapid increase in individual income, as in previous years, leading the expansion of

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consumer spending worldwide; this implies significant growth potential for nickel demand in the medium term.

In the short term, supply is not expected to react substantially to prices. One of the two blast furnaces of our smelter at Copper Cliff, in Sudbury, shall remain inoperable for a period of at least 16 weeks, which will resuls in loss of production of 15,000 metric tons of refined nickel. Moreover, most increases in global production from forthcoming projects will be realized only in the second half of the year.

Limonitic nickel laterite projects the most abundant type of nickel ore reserves in the world - have been struggling to meet expectations for the ramp up term and for its forecast annual capacity. Such difficulties could potentially hold global supply back in the long term.

In addition to high demand, copper supply restrictions have continued to exert high pressure over prices. Additionally to specific events, such as strikes, struggling to maintain production levels in older mines where levels are progressively decreasing is a key component of supply limitation. A hot market and, marginally, the contribution of the co-movement of commodity prices, increased the price of copper to approximately USD 10,000 per metric ton earlier this month a 64% increase above the low of USD 6,100 in the beginning of June 2010.

The increasing availability of scrap, spurred by the movement of copper prices, and the potential threat of substitution, given the widening of the spread in relation to the price of aluminum - which leapt to USD 7,500 in February 2011, compared to USD 1,275 per ton in January 2009 may lead to moderate prices.

Currently, the Tres Valles project, in Chile, with capacity for 18,500 metric tons of copper, is in ramp up. The first phase of the Salobo project, with capacity of 100,000 metric tons of copper in concentrate per year, is expected to begin operations in the 2H11.

The fertilizer market has been positively influenced by farmers increased profitability, due to increases grain prices, the favorable financial conditions and stock consumption throughout 2009 and 2010.

Most of our production is destined for the Brazilian market, which is the fourth largest consumer in the world, and where consumption increased by 6% per annum in the last two decades, well above the global expansion. The demand is seasonally low in the first half of the year, increasing thereafter to meet the main harvest season in Brazil, from September to November.

The prices of phosphate rock and phosphates, such as MAP and DAP, began to rise from early 2010 and should remain stable throughout this year. As stock consumption extended over a longer period, prices for potash began to recover only towards the end of 2010 and have reached a higher level in 2011. In the beginning of this year, several price increases have been announced, confirming the optimistic predictions for its development.

Despite the operating and market risks to which mining companies are typically exposed, we expect Vale s performance in 2011 to continue to promote the sustainability of the process of creating value for our shareholders.

Ú **AWARDS**

Vale has once more been included in the top 100 list of most respected companies in the world, according to a survey conducted by Barron s magazine one of the most prominent publications in capital markets in the U.S.

According to Barron s survey, Vale is the most respected company in Latin America.

Vale has been awarded several prizes:

(a) Global Reporting Initiative (GRI), Reader s Choice Awards

(b) ILOS de Logística *ILOS of Logistics* Instituto de Logística e Supply Chain *Logistics and Supply Chain Institute*

(c) IQC, International Quality & Productivity Center

(d) Prêmio Época de mudanças climáticas *Época Climate Change Award*

(e) Boldness in Business, Financial Times

(f) IR Magazine Awards, Brazil, best investor relations program, best website and best annual report;

(g) Institutional Investor Latin America Investor Relations Perception Study, mining best investor relations executives and best investor relations team in Latin America;

(h) Euromoney Best Managed Companies in Latin America best managed company, most transparent financial statements, and most coherent and convincing strategy in the mining industry in Brazil;

(i) Troféu Transparência 2010 *Transparency Trophey 2010* ANEFAC, Associação Nacional dos Executivos de Finanças, Administração e Contabilidade *Brazilian Association of Financing, Management and Accounting Executives* ;

Ú INDEPENDENT AUDITORS RELATIONS POLICY

Vale has developed and formalized specific pre-approval rules and procedures for the services provided by external auditors. These are aimed at avoiding conflicts of interest, and preventing our independent external auditors from losing objectivity.

Vale s policy for Independent Auditors, when providing services not related to external audits, is based on principles which preserve their independence. In line with the best corporate governance practices, all of the services provided by our independent auditors are pre-approved by the Board of Auditors.

According to CVM Instruction 381/2003, services to be provided by the Company s external auditors, PricewaterhouseCoopers Auditores Independents, for a three-year period from June 2009, for the fiscal year 2010 to Valle and its subsidiaries were as follows:

thousand BRL	**Vale and subsidiaries**	**Shared control company**	**Total**
Accounting Audit	17,047.59	384.23	17,431.81
Audit Sarbanes Oxley Law	2,795.79		2,795.79
Services related to the Audit[1]	2,788.18	67.47	2,855.65
Tax Services		235.60	235.60
Other	36.89	654.99	691.88
Total services	22,668.45	1,342.28	24,010.73

[1] Services primarily related to Vale s listing in the Hong Kong Stock Exchange.

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