

that, the holder must seek to obtain its own electronic registration with the Central Bank under Law No. 4,131/1962 or Resolution No. 2,689/2000. Thereafter, unless the holder has registered its investment with the Central Bank, such holder may not convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distributions with respect to, such preferred shares or common shares.

Under Brazilian law, whenever there is a serious imbalance in Brazil's balance of payments or reasons to foresee a serious imbalance, the Brazilian government may impose temporary restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil, and on the conversion of Brazilian currency into foreign currencies. Such restrictions may hinder or prevent the custodian or holders who have exchanged ADSs for underlying preferred shares or common shares from converting distributions or the proceeds from any sale of such shares, as the case may be, into U.S. dollars and remitting such U.S. dollars abroad. In the event the custodian is prevented from converting and remitting amounts owed to foreign investors, the custodian will hold the *reais* it cannot convert for the account of the holders of American Depositary Receipts who have not been paid. The depositary will not invest the *reais* and will not be liable for interest on those amounts. Furthermore, any *reais* so held will be subject to devaluation risk against the U.S. dollar.

#### TAXATION

The following summary contains a description of the principal Brazilian and U.S. federal income tax consequences of the ownership and disposition of preferred shares, common shares or ADSs. You should know that this summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a holder of preferred shares, common shares or ADSs.

Holders of preferred shares, common shares, or ADSs should consult their own tax advisors to discuss the tax consequences of the purchase, ownership and disposition of preferred shares, common shares or ADSs, including, in particular, the effect of any state, local or other national tax laws.

Although there is at present no treaty to avoid double taxation between Brazil and the United States, but only a common understanding between the two countries according to which income taxes paid in one may be offset against taxes to be paid in the other, both countries' tax authorities have been having discussions that may result in the execution of such a treaty. In this regard, the two countries signed a Tax Information Exchange Agreement on March 20, 2007. We cannot predict whether or when such a treaty will enter into force or how, if entered into, such a treaty will affect the U.S. holders, as defined below, of preferred shares, common shares, or ADSs.

#### Brazilian tax considerations

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposition of preferred shares, common shares or ADSs by a holder not deemed to be domiciled in Brazil for purposes of Brazilian taxation ("Non-Brazilian Holder"). It is based on the tax laws of Brazil and regulations thereunder in effect on the date hereof, which are subject to change (possibly with retroactive effect). This discussion does not specifically address all of the Brazilian tax considerations applicable to any particular Non-Brazilian Holder. Therefore, each Non-Brazilian Holder should consult his or her own tax advisor concerning the Brazilian tax consequences of an investment in preferred shares, common shares, or ADSs.

#### Shareholder distributions

Brazilian corporations, such as us, classify for tax purposes distributions to shareholders as either dividends or interest on shareholders' equity.

*Dividends.* Amounts distributed as dividends, including distributions in kind, will generally not be subject to income tax withholding if the distribution is paid by us from profits of periods beginning on or after January 1, 1996 (1) to the depositary in respect of the preferred shares or common shares underlying the ADSs or (2) to a Non-Brazilian Holder in respect of preferred shares or common shares. Dividends paid from

profits generated before January 1, 1996 may be subject to Brazilian withholding income tax at varying rates depending on the year the profits were generated.

*Interest on shareholders' equity.* Amounts distributed as interest on shareholders' equity are generally subject to income tax withholding at the rate of 15%, except if:

- the beneficiary is exempt from tax in Brazil, in which case the distribution is free of Brazilian tax, or
- the beneficiary is located in a Tax Haven Jurisdiction (as defined below) (a "Tax Haven Holder"), in which case the applicable income tax withholding rate is 25%.

Interest on shareholders' equity is calculated as a percentage of shareholders' equity, as stated in the statutory accounting records. The interest rate applied may not exceed the TJLP, as determined by the Central Bank of Brazil from time to time. In addition, the amount of distributions classified as interest on shareholders' equity may not be more than the greater of (1) 50% of net income (after the deduction of the provision of social contribution on net profits but before taking into account such payment of interest and the provision of corporate income tax) for the period in respect of which the payment is made, or (2) 50% of the sum of retained earnings and profit reserves as of the date of the beginning of the fiscal year in respect of which the payment is made. Payments of interest on shareholders' equity are deductible for corporate income tax and social contribution on net profit purposes, to the extent of the limits described above. Therefore, the benefit to us, as opposed to making a distribution classified as a dividend payment, is a reduction in our corporate taxes charge equivalent to 34% of such amount.

*Taxation of capital gains.* Taxation of Non-Brazilian Holders for capital gains depends on the status of the holder as either:

- (1) not resident or domiciled in a Tax Haven Jurisdiction (as defined below) and registered with the Central Bank of Brazil and the CVM to invest in Brazil in accordance with Resolution No. 2,689, or a holder of ADSs; or
- (2) any other Non-Brazilian Holder whose investment is not registered with the Central Bank and Non-Brazilian Holders resident in a Tax Haven Jurisdiction (i.e., a jurisdiction that does not impose income tax or where the maximum income tax rate is lower than 20% or where internal legislation imposes restrictions on the disclosure of share or investment ownership).

Investors identified in item (1) are subject to favorable tax treatment, as described below.

According to Law No. 10,833, dated December 29, 2003, capital gains realized by a Non-Brazilian Holder from the disposition of "assets located in Brazil" are subject to taxation in Brazil.

Preferred shares and common shares qualify as assets located in Brazil, and the disposition of such assets by a Non-Brazilian Holder may be subject to income tax on the gains assessed, in accordance with the rules described below, regardless of where or with whom the transaction is carried out.

There is some uncertainty as to whether ADSs qualify as "assets located in Brazil" for purposes of Law No. 10,833/03. Arguably, ADSs do not constitute assets located in Brazil and therefore the gains realized by a Non-Brazilian Holder on the disposition of ADSs to another Non-Brazilian resident should not be subject to tax in Brazil. However, we cannot assure you that the Brazilian courts would uphold this interpretation of the definition of "assets located in Brazil" in connection with the taxation of gains realized by a Non-Brazilian Holder on the disposition of ADSs. Consequently, gains on a disposition of ADSs by a Non-Brazilian Holder (whether in a transaction carried out with another Non-Brazilian Holder or a person domiciled in Brazil) may be subject to income tax in Brazil in accordance with the rules applicable to a disposition of shares.

Although there are grounds to sustain otherwise, the deposit of preferred shares or common shares in exchange for ADSs may be subject to Brazilian income tax if the acquisition cost of the preferred shares or common shares is lower than the average price of such shares, which is calculated as either:

- (i) the average price per preferred share or common share on the Brazilian stock exchange in which the greatest number of such shares were sold on the day of deposit; or
- (ii) if no preferred shares or common shares were sold on that day, the average price on the Brazilian stock exchange in which the greatest number of preferred shares or common shares were sold in the 15 trading sessions immediately preceding such deposit.

The difference between the acquisition cost and the average price of the preferred shares or common shares calculated as described above will be considered to be a capital gain subject to taxation. There are grounds to sustain that such taxation is not applicable with respect to investors registered under the rules of Resolution No. 2,689/2000, provided these are not Tax Haven Holders.

The withdrawal of ADSs in exchange for preferred shares or common shares is not subject to Brazilian income tax, assuming compliance with applicable regulations regarding the registration of the investment with the Brazilian Central Bank.

For purposes of Brazilian taxation, the income tax rules on gains related to disposition of preferred shares or common shares vary depending on:

- the domicile of the Non-Brazilian Holder;
- the method by which such Non-Brazilian Holder has registered its investment with the Central Bank; and/or
- how the disposition is carried out, as described below.

The gain realized as a result of a transaction on a Brazilian stock, future and commodities exchange is the difference between: (i) the amount in Brazilian currency realized on the sale or disposition and (ii) the acquisition cost, without any adjustment for inflation, of the shares sold.

Capital gains realized by a Non-Brazilian Holder on a sale or disposition of preferred shares or common shares carried out on a Brazilian stock exchange (which includes the transactions carried out on the organized over-the-counter market) are:

- exempt from income tax when the Non-Brazilian Holder (i) has registered its investment in Brazil with the Central Bank in accordance with Resolution No. 2,689/2000 (a "2,689 holder") and (ii) is not a Tax Haven Holder; or
- in all other cases, subject to income tax at a 15% rate. In these cases, a withholding income tax at a rate of 0.005% of the sale value is levied on the transaction and can be offset with the eventual income tax due on the capital gain.

Any other gains assessed on a sale or disposition of preferred shares or common shares that is not carried out on a Brazilian stock exchange are subject to income tax at a 15% rate – except for gains realized by Tax Haven Holders, which are subject to income tax at a 25% rate.

With respect to transactions conducted on the Brazilian non-organized over-the-counter market, with brokerage, a withholding income tax at a rate of 0.005% on the sale value is also levied on the transaction and can be offset against the eventual income tax due on the capital gain. There can be no assurance that the current favorable treatment of 2,689 holders will continue in the future.

In the case of a redemption of preferred shares, common shares, or ADSs or a capital reduction by a Brazilian corporation, the positive difference between the amount received by the Non-Brazilian Holder and

the acquisition cost of the preferred shares, common shares or ADSs redeemed is treated as capital gain derived from the sale or exchange of shares not carried out on a Brazilian stock exchange market and is therefore generally subject to income tax at the rate of 15%, while the 25% rate applies to Tax Haven Holders.

Any exercise of preemptive rights relating to the preferred shares or common shares will not be subject to Brazilian taxation. Any gains realized by a Non-Brazilian Holder on the disposition of preemptive rights relating to preferred shares or common shares in Brazil will be subject to Brazilian income taxation in accordance with the same rules applicable to the sale or disposition of preferred shares or common shares.

#### **Tax on foreign exchange and financial transactions**

*Foreign exchange transactions.* Brazilian law imposes a tax on foreign exchange transactions, or the IOF/Exchange Tax. The IOF/Exchange Tax applies to the conversion of *reals* into foreign currency and to the conversion of foreign currency into *reals*. Currently, for most foreign currency exchange transactions, the IOF/Exchange Tax is assessed at a rate of 0.38%, although other rates may apply to particular operations. Starting March 17, 2008, certain foreign exchange transactions are not subject to the IOF/Exchange Tax, namely those relating to share transactions carried out on a stock exchange or in a public offering registered with the CVM, or for the underwriting of shares, provided that the issuer is authorized to trade its shares at the stock exchange and, as long as supported by Decree No 6,391 of the National Monetary Council. The same applies for dividends and interest on shareholders' equity. The Brazilian government may increase the rate at any time up to 25% of the foreign exchange transaction amount. However, any increase in rates cannot be applied retroactively.

*Transactions involving bonds and securities.* Brazilian law imposes a tax on transactions involving bonds and securities, or the IOF/Bonds Tax, including those carried out on a Brazilian stock exchange. The rate of IOF/Bonds Tax applicable to transactions involving preferred shares, common shares or ADSs is currently zero. The Brazilian government may increase such rate at any time up to 1.5% of the transaction amount per day, but the tax cannot be applied retroactively.

*Temporary contribution on financial transactions.* Until December 31, 2007, as a general rule, transactions carried out in Brazil that resulted in the transfer of funds from an account maintained with a Brazilian financial institution were subject to the temporary contribution on financial transactions, or the CPMF Tax, which was levied at a rate of 0.38% on any bank account withdrawals.

However, as of January 1, 2008, the CPMF Tax is no longer in force and is not applicable to any transaction carried out after that date.

*Other Brazilian taxes.* There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of preferred shares, common shares or ADSs by a Non-Brazilian Holder, except for gift and inheritance taxes which are levied by some states of Brazil on gifts made or inheritances bestowed by a Non-Brazilian Holder to individuals or entities resident or domiciled within such states in Brazil. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of preferred shares or common shares or ADSs.

#### **U.S. federal income tax considerations**

This summary does not purport to be a comprehensive description of all the U.S. federal income tax consequences of the acquisition, holding or disposition of the preferred shares, common shares or ADSs. This summary applies to U.S. holders, as defined below, who hold their preferred shares, common shares or ADSs as capital assets and does not apply to special classes of holders, such as:

- certain financial institutions,
- insurance companies,

- dealers in securities or foreign currencies,
- tax-exempt organizations,
- securities traders who elect to account for their investment in preferred shares, common shares or American Depositary Shares on a mark-to-market basis,
- persons holding preferred shares, common shares or ADSs as part of hedge, straddle, conversion or other integrated financial transaction for tax purposes,
- holders whose functional currency for U.S. federal income tax purposes is not the U.S. dollar,
- partnerships or other holders treated as “pass-through entities” for U.S. federal income tax purposes,
- persons subject to the alternative minimum tax, or
- persons owning, actually or constructively, 10% or more of our voting shares.

This discussion is based on the Internal Revenue Code of 1986, as amended to the date hereof, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, all as in effect on the date hereof. These authorities are subject to differing interpretations and may be changed, perhaps retroactively, so as to result in U.S. federal income tax consequences different from those discussed below. There can be no assurance that the U.S. Internal Revenue Service (the “IRS”) will not challenge one or more of the tax consequences discussed herein or that a court will not sustain such a challenge in the event of litigation. This summary does not address any aspect of state, local or non-U.S. tax law.

**HOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH REGARD TO THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES ARISING UNDER THE LAWS OF ANY STATE, LOCAL OR NON-U.S. TAXING JURISDICTION.**

This discussion is also based, in part, on representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

As used herein, the term “U.S. holder” means a beneficial owner of preferred shares, common shares, or ADSs that is, for U.S. federal income tax purposes:

- a citizen or resident alien individual of the United States,
- a corporation created or organized in or under the laws of the United States or of any political subdivision thereof, or
- otherwise subject to U.S. federal income taxation on a net income basis with respect to the preferred shares, common shares, or ADSs.

The term U.S. holder also includes certain former citizens of the United States.

The U.S. federal income tax treatment of a partner in a partnership (or any other entity classified as a “pass through entity” for U.S. federal income tax purposes) that holds preferred shares, common shares or ADSs generally will depend on such partner’s particular circumstances and on the activities of the partnership. Partners in such partnerships (or other pass-through entities) should consult their own tax advisors.

In general, for U.S. federal income tax purposes, holders of American depositary receipts evidencing ADSs will be treated as the beneficial owners of the preferred shares or common shares represented by those ADSs. Deposits and withdrawals of preferred shares or common shares by holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

### Taxation of dividends

The gross amount of a distribution paid on ADSs, preferred shares or common shares, including distributions paid in the form of payments of interest on capital for Brazilian tax purposes, out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) will be taxable to you as foreign source dividend income and will not be eligible for the dividends-received deduction allowed to corporate shareholders under U.S. federal income tax law. The amount of any such distribution will include the amount of Brazilian withholding taxes, if any, withheld on the amount distributed. To the extent that a distribution exceeds our current and accumulated earnings and profits, such distribution will be treated as a nontaxable return of capital to the extent of your basis in the ADSs, preferred shares or common shares, as the case may be, with respect to which such distribution is made, and thereafter as a capital gain.

You will be required to include dividends paid in *reais* in income in an amount equal to their U.S. dollar value calculated by reference to an exchange rate in effect on the date such distribution is received by the depository, in the case of ADSs, or by you, in the case of common shares or preferred shares. If the depository or you do not convert such *reais* into U.S. dollars on the date they are received, it is possible that you will recognize foreign currency loss or gain, which would be ordinary loss or gain, when the *reais* are converted into U.S. dollars. If you hold ADSs, you will be considered to receive a dividend when the dividend is received by the depository.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by certain noncorporate taxpayers, including individuals, prior to January 1, 2011 with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends." Dividends paid on the ADSs will be treated as qualified dividends if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) the company was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company ("PFIC"). The ADSs are listed on the New York Stock Exchange and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on Vale's audited financial statements and relevant market and shareholder data, Vale believes that it was not treated as a PFIC for U.S. federal income tax purposes with respect to its 2007 or 2008 taxable year. In addition, based on Vale's audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market and shareholder data, Vale does not anticipate becoming a PFIC for its 2009 taxable year.

Based on existing guidance, it is not entirely clear whether dividends received with respect to the preferred shares and common shares will be treated as qualified dividends (and therefore whether such dividends will qualify for the maximum rate of taxation of 15%), because the preferred shares and common shares are not themselves listed on a U.S. exchange. In addition, the U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of ADSs, preferred shares or common stock and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, it is unclear whether we will be able to comply with them. Holders of ADSs, preferred shares and common shares should consult their own tax advisors regarding the availability of the reduced dividend tax rate in the light of their own particular circumstances.

Subject to generally applicable limitations and restrictions, you will be entitled to a credit against your United States federal income tax liability, or a deduction in computing your U.S. federal taxable income, for Brazilian income taxes withheld by us. You must satisfy minimum holding period requirements to be eligible to claim a foreign tax credit for Brazilian taxes withheld on dividends. The limitation on foreign taxes eligible for credit is calculated separately for specific classes of income. For this purpose dividends paid by us on our shares will generally constitute "passive income". Foreign tax credits may not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities or in respect of arrangements in which a U.S. holder's expected economic profit is insubstantial. U.S. holders should consult their own tax advisors concerning the implications of these rules in light of their particular circumstances.

**Taxation of capital gains**

Upon a sale or exchange of preferred shares, common shares or ADSs, you will recognize a capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realized on the sale or exchange and your adjusted tax basis in the preferred shares, common shares or ADSs. This gain or loss will be long-term capital gain or loss if your holding period in the preferred shares, common shares or ADSs exceeds one year. The net amount of long-term capital gain recognized by individual U.S. holders prior to January 1, 2011 generally is subject to taxation at a maximum rate of 15%. Your ability to use capital losses to offset income is subject to limitations.

Any gain or loss will be U.S. source gain or loss for U.S. foreign tax credit purposes. Consequently, if a Brazilian withholding tax is imposed on the sale or disposition of ADSs, preferred shares or common shares, and you do not receive significant foreign source income from other sources you may not be able to derive effective U.S. foreign tax credit benefits in respect of such Brazilian withholding tax. You should consult your own tax advisor regarding the application of the foreign tax credit rules to your investment in, and disposition of, ADSs, preferred shares or common shares.

If a Brazilian tax is withheld on the sale or disposition of shares, the amount realized by a U.S. holder will include the gross amount of the proceeds of such sale or disposition before deduction of the Brazilian tax. See *Item 10. Additional Information—Taxation—Brazilian tax considerations*.

**Information reporting and backup withholding**

Information returns may be filed with the Internal Revenue Service in connection with distributions on the preferred shares, common shares or ADSs and the proceeds from their sale or other disposition. You may be subject to United States backup withholding tax on these payments if you fail to provide your taxpayer identification number or comply with certain certification procedures or otherwise establish an exemption from backup withholding. If you are required to make such a certification or to establish such an exemption, you generally must do so on IRS Form W-9.

The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

**DOCUMENTS ON DISPLAY**

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended, and accordingly file reports and other information with the SEC. Reports and other information filed by us with the SEC may be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can obtain further information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also inspect Vale's reports and other information at the offices of the New York Stock Exchange, 11 Wall Street, New York, New York 10005, on which Vale's ADSs are listed. Our SEC filings are also available to the public from the SEC's website at <http://www.sec.gov>. For further information on obtaining copies of Vale's public filings at the New York Stock Exchange, you should call (212) 656-5060. We also file financial statements and other periodic reports with the CVM.