



Moody's Investors Service

Rating Action: **Moody's assigns Baa2 rating to Vale S.A.'s note issue**

Global Credit Research - 11 Mar 2010

New York, March 11, 2010 -- Moody's Investors Service (Moody's) assigned a Baa2 senior unsecured foreign currency rating to Vale S.A.'s (Vale) Euro note issue. At the same time, Moody's affirmed Vale's Baa2 global local currency rating, its (P) Baa2 senior unsecured rating under its well known seasoned issuer shelf registration, its Aaa.br Brazilian national scale rating and the Baa2 ratings on the foreign currency debt issues of Vale Overseas (guaranteed by Vale). Moody's also affirmed the Baa2 senior unsecured ratings of Vale Inco Ltd (Vale Inco). The rating outlook is stable

Vale's Baa2 global local currency rating reflects the company's diversified product base (due to organic growth and acquisition), competitive cost position, and substantive portfolio of long lived assets. The rating also considers the ability of the company to perform well, given its asset base, in a down market environment and maintain ratios generally in line with its rating. Moody's acknowledges the more diversified geographic position of the company following its 2006 acquisition of Inco (now Vale Inco Ltd.) along with recent acquisitions, but believes that Vale's earnings and cash flow generating ability continue to be driven by its Brazilian based iron ore operations and its major position in the seaborne iron ore markets (roughly 30% share, with Vale, Rio Tinto and BHP Billiton combined having an approximate 75% market share).

However, the rating considers the challenges that will continue to impact the company's operating cost profile, particularly as volumes increase and prices of key input materials rise, as we expect will be the case as the global economy recovers. Additionally, the company remains sensitive to exchange rates, particularly the US dollar relative to the Brazilian Real and Canadian dollar. The rating also contemplates the company's aggressive growth strategy given the significant capital expenditures anticipated over the next several years, as well as its substantive dividend payout levels. While the rating acknowledges the company's equity raising in 2008 to support growth objectives, Moody's expects that Vale will continue to use debt as well to meet its strategic objectives for organic and inorganic growth, such as increases in its copper or coal operating platforms, investments in fertilizers, ships and new steel mills, as well as energy resources to support its energy consumption requirements.

Although Vale does not guarantee the debt at Vale Inco, the equalization of Vale Inco's rating to that of its parent reflects the strategic importance of this subsidiary's position in the global nickel market.

The stable outlook reflects Moody's expectation that Vale will continue to exhibit solid debt protection coverage ratios and acceptable earnings performance, despite continued softness in certain end markets for its products. However, iron ore performance is expected to be more robust in 2010 and amply cover a slower recovery in other segments. The outlook also anticipates that Vale will continue to evidence balance between its investments and its cash generating capacity and absolute levels of debt incurred.

Assignments:

..Issuer: Vale S.A.

....Senior Unsecured Regular Bond/Debenture, Assigned Baa2

The last rating action was on November 3, 2009 when a Baa2 senior unsecured foreign currency rating was assigned to Vale Overseas Limited's note issue due 2039 and a (P) Baa2 senior unsecured foreign currency rating was assigned to Vale S.A. and Vale Overseas Limited's well known seasoned issuer shelf registration. The principal methodology used in rating Vale S.A. and Vale Overseas Limited was Moody's Global Mining Industry rating methodology published in May 2009 and available on www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Headquartered in Rio de Janeiro, Brazil, Vale is one of the largest mining enterprises in the world, with substantive positions in iron ore, nickel, alumina and aluminum, copper, and coal, as well as supplemental positions in energy production and logistics. Vale is the largest global supplier of iron ore, with a nominal capacity of approximately 300 million metric tons per year, and the second largest global producer of nickel, with a nominal capacity of around 270,000 metric tons per year. The company's principal mining operations are located in Brazil, Canada, and Indonesia. Net operating revenues in 2009 were \$23.3 billion.

Headquartered in Toronto, Canada, Vale Inco is a principal operating subsidiary of Brazilian-based Vale, operating the majority of Vale's nickel assets. Vale Inco controls a leading market share within the global nickel market, holding significant reserves within three of the world's key nickel producing regions: Canada, Indonesia, and New Caledonia. Operating revenues generated by Vale's nickel segment (principally Vale Inco) in 2009 were approximately \$3.3 billion.

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