

# VALE: ROADMAP TO A TRUE CORPORATION

May 2017



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Disclaimer

The purpose of this presentation is to present the proposed corporate restructuring to transform Vale into a company without defined control and enable the Company to be listed on the “*Novo Mercado*” special listing segment of the BM&FBOVESPA S.A. – *Bolsa de Valores Mercadorias e Futuros* stock exchange (“Proposal”). The Proposal is binding to the Shareholders, in accordance with the terms of the Valepar Shareholders’ Agreement, and is comprised of a series of inseparable and interdependent events in which the effectiveness of each is conditional on the successful implementation of the rest.

Disclaimer

1

**Proposed transaction**

# Proposed corporate transaction structure

The proposed transaction consists of a series of indivisible and interdependent components, with the effectiveness of each individual component subject to the successful performance of all other components

1

**Voluntary Conversion  
of Preferred Shares  
into Common Shares**

- Conversion rate of 0.9342 ON for each PN, based on the last 30 days' VWAP before announcement (February 20<sup>th</sup>, 2017)

2

**Change of Vale's  
Bylaws**

- In line with the rules of BM&FBovespa's *Novo Mercado* listing segment

3

**Valepar Merge into  
Vale**

- Valepar Shareholders to become direct shareholders of Vale
- Increase in the number of shares held by Valepar Shareholders by 10% (dilution of approximately 3% for other shareholders)

# Market views on the proposed corporate transaction

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- **May-07-2015** – “Time to rethink the VALE3/5 spread [...] [on Bradespar discount to NAV] **we calculate this discount is worth above R\$3bn**, which essentially prices that **Bradespar will either increase its stake in Vale at a huge premium, sell its assets at a big discount, or a combination.**” (BTG Pactual)
  - **Apr-15-2016** – ““What is at stake in this negotiation, in the market view, is the definition of a “control premium“ a goodwill, which can be paid to pension funds ... There are estimates that [...] the goodwill on the shares in a transaction like this **would hardly come out for less than 25%**. In the past, sources say, Mitsui paid significantly to enter Vale's control block after privatization in 1997.“ (Valor Econômico)
  - **Jan-16-2017** – “Dissolving the Valepar structure and unifying Vale’s share classes (ON/PN) may also be part of the renewal negotiations, but are not embedded in our base case. **Those would be major positives should they materialize, prompting a multiple rerating.** Other important aspects to be considered: Litel (a group of Brazilian pension funds) has an excess stake of 9% in Valepar – will pension funds want to sell that stake? In our view, most likely yes. And at what premium? **We think** no more than **15%**.” (Bradesco BBI)
  - **Feb-21-2017** – “Usually preferred shares trade more than common shares, and therefore, should have a liquidity premium . But Vale’s common shares have good liquidity, which reduces the “toll” to be paid” (Valor Econômico)
  - **Feb-22-2017** – “**Everyone gains from the changes:** the **current controlling group** (who will receive a 10% premium on Vale's merger with Vale); **Minority shareholders** (which, even if they are likely to suffer a 3% dilution, will be offset by the subsequent valuation of the asset); **The country** (a strengthened Vale must attract new investors and favor the development of the capital market) **and even the government** (a more efficient Vale will pay more taxes and increase its investment capacity, generating more income and employment). “ (Valor Econômico)

# Market reactions to the proposed transaction

## Analysts' quotes on the proposed transaction

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*"Both Vale and Embraer are "Brazil champions", they were both created and owned by the government and later privatized during the late 1990's, with an agreement among controlling shareholders and the government retaining golden shares. Our analysis of Embraer **trading volume and valuation, before and after the company moved to one share class, suggests there are tangible benefits from such a transition that might replicate in Vale's case.**"*

**Morgan Stanley**  
January 23<sup>th</sup>, 2017

*"The single share class structure is **definitively a step in the direction of improved governance and that is likely to translate into a re-rating of Vale's shares**, in our view. Finally, the structure was done in way (Vale incorporating Valepar) that the existing Valepar R\$3B goodwill will be incorporated in Vale. The benefits of this will be shared between all shareholders."*

**J.P. Morgan**  
February 20<sup>th</sup>, 2017

*"There are **multiple angles of value creation here: re-rating of shares, lower discount rates, higher liquidity, reduced perception of governmental interference, removal of an overhang.**"*

**BTG Pactual**  
February 20<sup>th</sup>, 2017

*"The proposed reorganization will likely lead to the unification of share classes, listing in the Novo Mercado and a transformation into a true corporation. **The proposed deal could, in our view, mitigate corporate governance risks because future changes in Vale's management will be decided by all shareholders.**"*

**Itaú BBA**  
February 24<sup>th</sup>, 2017

# Amec's<sup>1</sup> endorsement



## Amec's positioning

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*(...) On March 15th, Amec's Technical Commission analyzed the operation suggested on February 20th by Vale's controlling shareholders, which ultimate objective is the unification of all classes of shares and the eventual migration to BM&F Bovespa's Novo Mercado special listing segment.*

*Notwithstanding the merit of these objectives – in line with Amec's view that a structure with only one class of shares is the one that best leads to good corporate governance practices –, they are not enough, for themselves, to ensure a properly structured operation, as we have already learned from previous experiences.*

*In Amec's opinion, the operation suggested has very important characteristics, namely:*

- The consultation to the company's preferred and common minority shareholders in a specific meeting;*
- The prior announcement by the controlling shareholder that it will refrain from voting in the two stages of the operation;*
- The voluntary nature of the conversion;*

*These characteristics build legality into the operation, dissociating it from the hostile operations we have been witnessing in recent years. With them, **the decision becomes an arms-length negotiation, providing minority shareholders with the opportunity of "buying" a governance structure different from today's.** The operation also illustrates that different classes of shares have different values, reiterating the importance of investors exercising care when offered the opportunity to buy assets with limited political rights, especially along the lines of specific innovations being attempted in Brazil and abroad.*

*Importantly, **it's up to Vale's minority shareholders to analyze the "price" offered, with certainty that, in Amec's opinion, they are dealing with a correct operation from the procedural point of view. In fact, it can eventually become an important benchmark for the Brazilian capital market.***

*However, Amec reiterates that it makes no voting recommendation and does not intend to judge whether the offered exchange ratio deserves the votes of its members.*

# Precedent conditions and transaction timetable

## Precedent conditions

1

### Approval of the proposed transaction by Vale's and Valepar's shareholders

- In accordance with the applicable legislation, Valepar's shareholders will not exercise their voting rights in Vale's Shareholders' Meeting

2

### Minimum take-up of preferred shareholders to the voluntary conversion of shares

- Take-up of at least 54% of preferred shareholders will result in a corporate structure in which Valepar's shareholders hold, by the end of the transaction, less than 50% of the Company's ON shares

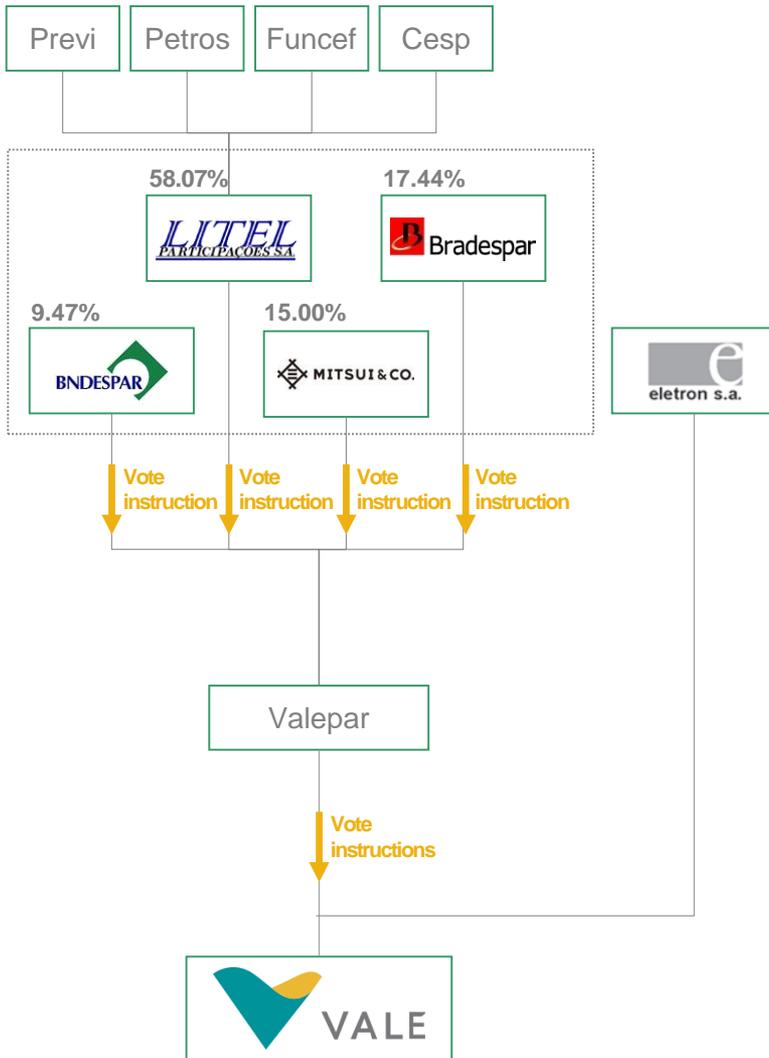
## Indicative Transaction Timetable



2

**Proposed  
governance  
and benefits**

# How does Vale's corporate governance work today?

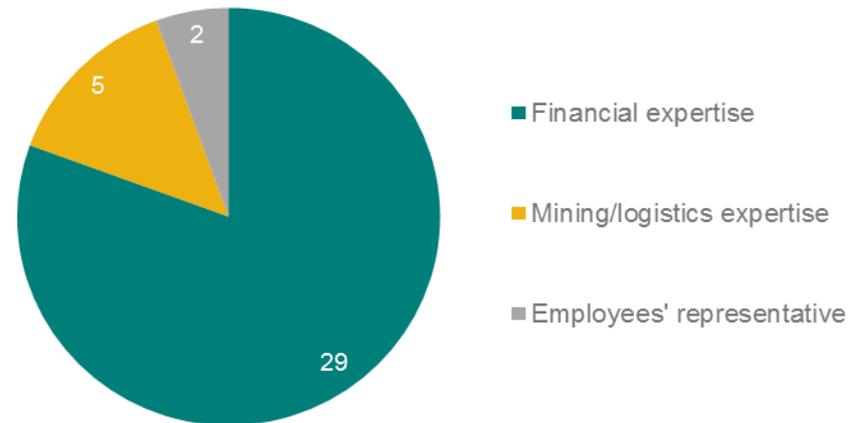


## Vote instructions process

Who	When	What
1 Vale Executive Directors	Executive Board Meeting	Recommends deliberations to shareholders
2 Board of Valepar	Previous Shareholders Meetings	Vote instructions and decision about Vale
3 Board of Directors	Board Meeting	Validate previous Shareholder Meeting decisions

## Qualification of the Boards of Shareholders

Total of 36 individuals, members and alternates on all boards



# Proposed Vale's corporate governance: transition to a true corporation

Immediately after the transaction	First full Board election after Valepar's incorporation	After expiration of Vale's new shareholder agreement
August, 2017	April, 2019	November, 2020
<ul style="list-style-type: none"><li>• Valepar is incorporated into Vale and ceases to exist</li><li>• Minimum of 2 independent Board members</li><li>• New Vale shareholder agreement with a 3 year term</li><li>• Preliminary shareholders' meeting no longer mandatory</li><li>• Only 20% of shares bound on Vale's new shareholder agreement</li></ul>	<ul style="list-style-type: none"><li>• Multiple votes can be requested by minority shareholders with higher chances to elect independent board members</li><li>• Public float potentially can get organized and elect the majority of the board</li></ul>	<ul style="list-style-type: none"><li>• True corporation with no controlling group</li><li>• Diversification of shareholder base</li><li>• No shareholders' agreement</li><li>• Board can be 100% independent</li><li>• More independency of Vale's management team</li></ul>

# Main advantages of the new bylaws

The change in the corporate bylaws will enable the listing of Vale on BM&FBovespa's *Novo Mercado* special segment, making Vale a company without defined control, and also expand important rights to shareholders, including:

1

Increase in the number of independent members in the Board

- Compliance with BM&FBovespa's *Novo Mercado* requirements of at least 20% independent Board members

2

100% tag along - mandatory public offering

- Equal treatment ensured to all common shares through a mandatory public offering to acquire all outstanding shares of the Company in the event of transfer of control

3

Poison pill

- Mandatory public offering to acquire all shares of the Company should any shareholder hold an interest stake equal or higher than 25% of the outstanding common shares or the total shares issued by the Company

4

Dispute resolution

- Disputes to be settled by arbitration procedures conducted by BM&FBovespa's Arbitration Chamber

# Novo Mercado listing segment

Empirical evidence shows that companies with higher corporate governance present better market performance

- According to a study published by AMEC and the CFA Society Brazil, there is a correlation between the level of corporate governance and market performance
- The IGCNM (*Novo Mercado* firms) presented better returns than the IBOV (top companies)

## Stock Index Performance – Novo Mercado vs. Other Firms

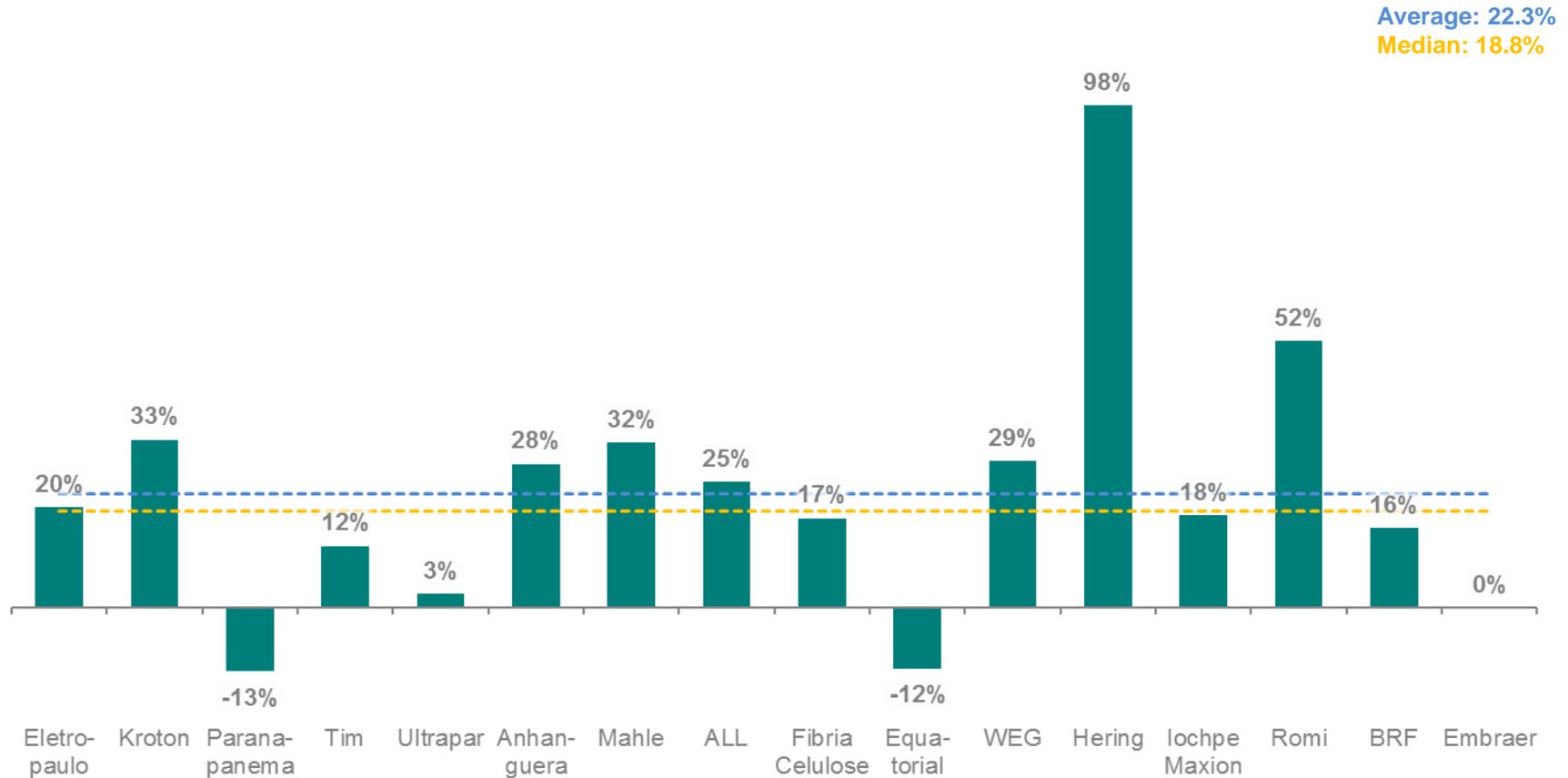


Annual Return (%)

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>IGCNM</b>	<b>+42.4%</b>	<b>(53.3%)</b>	<b>+98.7%</b>	<b>+23.7%</b>	<b>(0.7%)</b>	<b>+15.5%</b>	<b>(2.4%)</b>	<b>+15.3%</b>	<b>(0.7%)</b>	<b>+23.7%</b>
<b>IBOV</b>	<b>+43.1%</b>	<b>(36.9%)</b>	<b>+74.5%</b>	<b>+6.0%</b>	<b>(14.8%)</b>	<b>(3.4%)</b>	<b>(13.8%)</b>	<b>+5.0%</b>	<b>(7.6%)</b>	<b>+49.1%</b>

# Migrations to *Novo Mercado* have historically benefitted share price

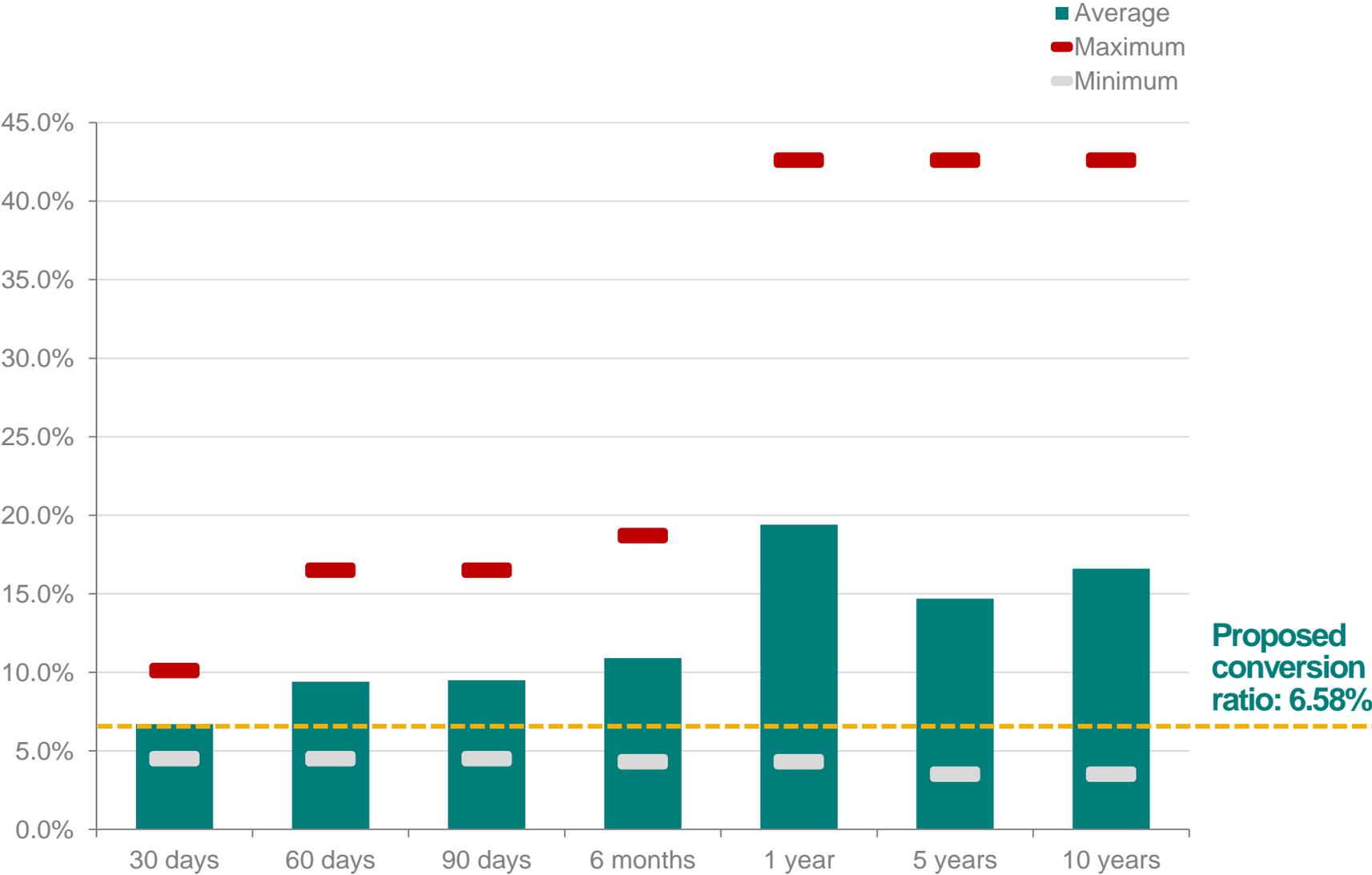
Share price appreciation – 60 days after the transaction announcement



3

**Transaction  
benchmark**

# Vale's ON/PN historical spread



# Control premium in Brazil

## Brazilian change of control precedent transactions – publicly listed targets<sup>1</sup>



<sup>1</sup> Considers transactions with targets with ADTV>R\$1MM within 60 days prior to the announcement

<sup>2</sup> Assumes unaffected share prices (i.e. prior to the announcement / rumors)

<sup>3</sup> Based on 60-day average price prior to the announcement

<sup>4</sup> Percentage of voting Shares

# Understanding shareholder dilution

## Initial shareholding position (pre corporate transaction)

(million shares)

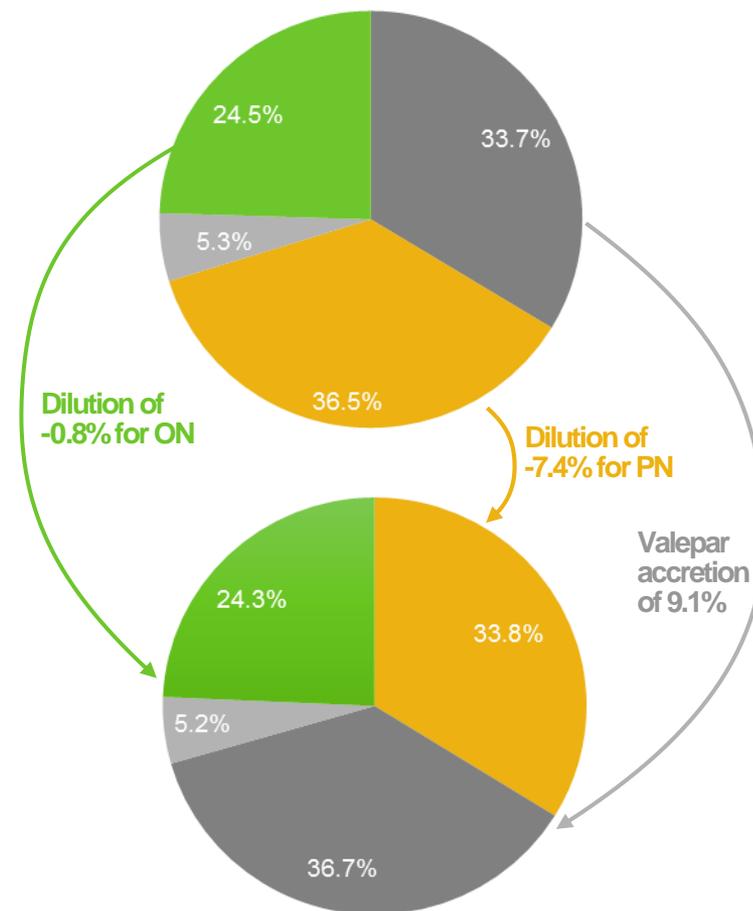
	Common	Preferred	Total
Valepar	1,716	20	1,736
BNDESPAR	206	66	272
Minority	1,263	1,881	3,144
Total	3,185	1,967	5,152

## Shareholding position after voluntary conversion

(million shares)

	Common	Converted Preferred	Total
Valepar	1,888	21	1,908
BNDESPAR	206	62	268
Minority	1,263	1,757	3,020
Total	3,357	1,839	5,196

■ Valepar ON + PN      ■ Minority PN  
■ BNDESPAR ON + PN      ■ Minority ON



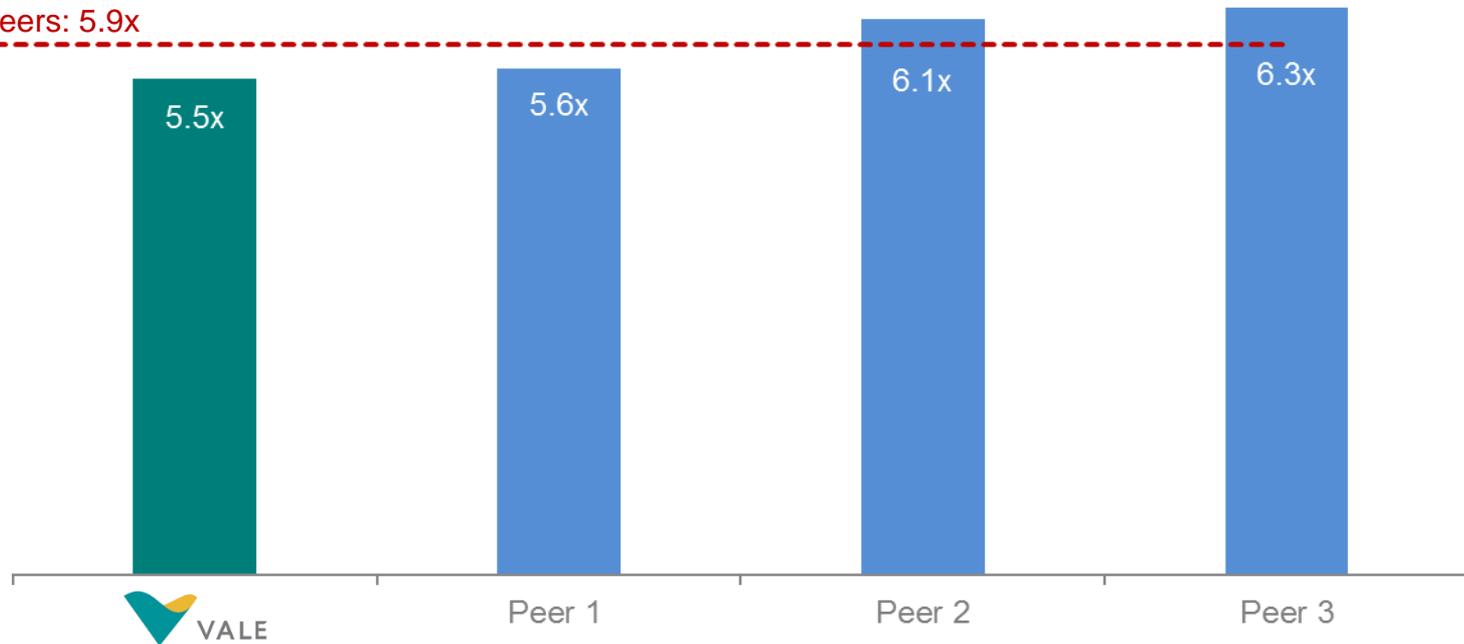
Other minority shareholders will have their **PN shares** reduced from 36.5% to 33.8%, **a dilution of 7.4%** whilst their **ON shares** will be reduced from 24.5% to 24.3%, **a dilution of 0.8%**

# Vale has a valuation gap as compared to its global peers...

The transaction will improve governance to global best practices

2018E EV/EBITDA multiple

Median of Peers: 5.9x



...how much can be attributed to governance?



**VALE**