

Vale S.A.
Form 6-K
October 02, 2017
[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

September 2017

Vale S.A.

**Avenida das Américas, No. 700 Bloco 8, Sala 218
22640-100 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.)

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(Check One) Form 20-F ☒ Form 40-F ☐

(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 ☐ No ☒

(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 ☐ No ☒

(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 ☐ No ☒

(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
Signature Page

3
119

Table of Contents

PUBLICLY HELD COMPANY

National Corporate Taxpayer Number (*Cadastro Nacional de Pessoas Jurídicas* - CNPJ) 33.592.510/0001-54

EXTRAORDINARY SHAREHOLDERS MEETING

NOTICE OF MEETING

The Shareholders of Vale S.A. (Vale or the Company) are invited to meet in an Extraordinary Shareholders Meeting, to be held on October 18, 2017, at 10 a.m., at the address Avenida das Américas n. 700, 2nd floor, room 218 (auditorium), Città America, Barra da Tijuca, in this City, in order to vote on the following items on the Agenda:

I. Amend Vale s By-laws to implement certain adjustments and improvements described below, namely:

1. Amend the head paragraph of Art. 5 to reflect the composition of the Company s capital stock after the corporate restructuring;
2. Modify the head paragraph of Art. 9, to set forth that the Secretary of the Meeting will henceforth be appointed by the Chairman of the Meeting;
3. Amend the Sole Paragraph of Art. 9 which becomes §1, in order to set forth that any person appointed by the Chairman of the Board of Directors may preside over the Meeting, in cases of absence or temporary impediment of the Chairman or Vice-Chairman of the Board of Directors or their respective alternates;

4. Include §2 to Art. 9 to establish that the minutes of the meetings will be drawn up in the form of summary and that they will be signed by enough shareholders needed to constitute the quorum necessary for approval of the items;
5. Amend Art. 14, item XVIII, to set forth that the secretary of governance shall be appointed by the Board of Directors, and, as a result, exclude §15 of Art. 11 and §2 of Art. 13 that mentioned the Secretary of the Board of Directors;
6. Modify Art. 14, item XXVI, to clarify the wording on the provision of guarantees in general by the Company;
7. Include §3 in Art. 14 in order to establish that Vale and its subsidiaries are prohibited from contributing to political parties, and to their representatives or candidates;

Table of Contents

8. Amend the head paragraph of Art. 15 to create the Financial Committee, Personnel Committee, Compliance and Risk Committee, Audit Committee and Sustainability Committee;
 9. Adapt the wording of §1 of Art. 18 on the appointment of members of Vale's Advisory Committees (Committees);
 10. Amend the title and head paragraph of Art. 19 to determine that the working and responsibilities of the Committees shall be defined by the Board of Directors in the internal rules of each of the Committees;
 11. Due to the amendment above, exclude Subsection IV, Arts. 20 to 25, with the consequent renumbering of the other articles of the By-laws and updating of the cross references mentioned in the current Arts. 14, XVII; 31, §1; 33, V and VI; 34, IV; 46; 49, I; 51, §§ 5th, 6th and 8th; 53; 54; 55 and 56;
 12. Include §3 in Art.19 to set forth that it is the Board of Directors' duty, within its legal limits, to determine that certain responsibilities of the Fiscal Council will henceforth be exercised, exclusively, by the Audit Committee; and
 13. Include a cross reference in §1 of Art. 39 to set forth that certain additional responsibilities of the Fiscal Council will henceforth be exercised by the Audit Committee;
- II. Proposal for conversion of all class A preferred shares issued by the Company into common shares at the ratio of 0.9342 common shares to each class A preferred share; and
- III. Election of two independent members of the Board of Directors in order to fill vacant positions until the end of the management term of the current Board of Directors.

The effectiveness of the vote made with regard to item II of the Agenda shall be subject to prior approval of the item by holders of more than half of the class A preferred shares, meeting in a Special Shareholders' Meeting, to be held on the same date, pursuant to §1 of Art. 136 of Law No. 6,404/1976 and amendments.

All the relevant documentation regarding the items to be voted on in the Shareholders' Meeting are available to the shareholders at Vale's head office, on its website (<http://www.vale.com>) and on the websites of the Brazilian Securities and Exchange Commission (*Comissão de Valores*

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Mobiliários) (www.cvm.gov.br), the B3 Brazilian Stock Exchange (*B3 S.A. Brasil, Bolsa, Balcão*) (www.b3.com.br) and the Securities and Exchange Commission (www.sec.gov).

The shareholder may participate in the Meeting in person or through a duly established proxy, observing the terms of §1 of Art. 126 of Law 6,404/76. In this case, the proxy must have been established within one (1) year and be a shareholder, administrator, lawyer registered with the Brazilian Bar Association or a financial institution. As provided in Circular Letter/CVM/SEP/No.01/2017, legal entity shareholders may be represented at the Meeting through their legal representatives or through duly constituted agents, in

Table of Contents

accordance with the company's formation documents and under the rules of the Brazilian Civil Code, and in this specific case there is no need for the agent to be a shareholder, an administrator of the company or a lawyer. Similarly, the shareholders that are investment funds, as decided by the CVM Board in the scope of CVM Administrative Procedure No. RJ-2014-3578, may be represented at the Meeting through legal representatives or through agents duly established by their manager or administrator, as provided under their by-laws.

We inform that the shareholder should appear at the Meeting providing proof of ownership of Vale shares issued within four (4) business days prior to the date of the Meeting, by the depository financial institution or custodian, as well as: **(a)** in the case of an individual shareholder, valid photo I.D. or, if applicable, the I.D. of the shareholder's proxy and respective power of attorney; **(b)** in the case of a legal entity shareholder, the valid photo I.D. of the legal representative and the documents proving representation, including the proxy appointment and copy of the formation documents and of the minutes of the election of the administrators, and, **(c)** in the case of investment fund, the valid photo I.D. of the legal representative and the documents proving representation, including the proxy appointment and copy of the fund by-laws in force, of the formation documents of its administrator or manager, as the case may be, and minutes of the election of the administrators of the administrator or manager. If such documents are in a foreign language, they must be translated into Portuguese by a sworn translator, and notarization and consularization shall not be necessary. It should be noted that documents in English and Spanish do not need to be translated.

The representation documents will be checked to ensure they are in order before the Meeting is held.

To expedite the process of conducting the Meeting, we request that the shareholders who will be represented by proxy kindly deliver the documents proving representation, as mentioned above, at least 72 (seventy-two) hours prior to the Meeting.

The Company shall also allow its shareholders, for this Shareholders' Meeting, to exercise their voting rights through absentee ballot. In this case, by October 11, 2017 (inclusive), the shareholder must transmit instructions for completion, sending the respective absentee ballot to: 1) the depository of the Company's shares; 2) their respective custodians that render this service, in the case of shareholders holding shares deposited in the central depository; or 3) directly to the Company. For additional information, the shareholder shall comply with the rules set forth in CVM Instruction 481/2009 and the procedures described in the absentee ballot provided by the Company, as well as the respective Manual for Participation in the Meeting.

Rio de Janeiro, September 15, 2017.

Gueitiro Matsuo Genso

Chairman of the Board of Directors

Table of Contents

Manual for Participation

in the Vale S.A.

Extraordinary Shareholders Meeting

October 18, 2017

Table of Contents

Index

<u>I.</u>	<u>Notice of Meeting</u>	09
<u>II.</u>	<u>Procedures for Participation in the Shareholders' Meetings</u>	11
<u>2.1.</u>	<u>Participation in Person</u>	11
<u>2.2.</u>	<u>Representation by Proxy</u>	12
<u>2.3.</u>	<u>Participation of Holders of American Depositary Shares ("ADSs")</u>	13
<u>2.4.</u>	<u>Participation by Absentee Ballot</u>	13
<u>2.4.1.</u>	<u>Through instructions for completion transmitted to the Company's depository</u>	14
<u>2.4.2.</u>	<u>Through instructions for completion transmitted to their respective custodians</u>	15
<u>2.4.3.</u>	<u>Through sending the Ballot directly to the Company</u>	16
<u>III.</u>	<u>The Vote</u>	18
<u>3.1.</u>	<u>Voting Rights</u>	18
<u>IV.</u>	<u>Matters on the Agenda</u>	19
<u>4.1.</u>	<u>Amendment to Vale's By-Laws</u>	19
<u>4.2.</u>	<u>Conversion of Class "A" Preferred Shares into Common Shares</u>	19
<u>4.3.</u>	<u>Election of two independent members to the Board of Directors</u>	21
<u>V.</u>	<u>Additional Information</u>	24
<u>VI.</u>	<u>Proxy Vote Template</u>	25
EXHIBITS Documents Attached to the Manual		
Exhibit I Absentee Ballot		

Table of Contents

Exhibit II Information about the candidates to the two available positions on the Board of Directors, as set forth in Art. 10 of CVM Instruction 481/2009.

Exhibit III Report in table form, detailing the origin and justification of the amendments proposed to Vale's By-Laws, including any legal and economic effects, as well as the draft of Vale's By-Laws, highlighting the proposal for wording of each provisions of the by-laws to be changed, pursuant to article 11 of CVM Instruction 481/2009.

Exhibit IV Information required by article 17 of CVM Instruction 481/2009.

Exhibit V Information required by article 20 of CVM Instruction 481/2009.

Table of Contents

I. Notice of Meeting

The Shareholders of Vale S.A. (Vale or Company) are hereby called to the Extraordinary Shareholders Meeting which will be held on October 18, 2017, at 10 a.m., at the address Avenida das Américas no. 700, 2nd floor, Room 218 (auditorium), Città America, Barra da Tijuca, in the city of Rio de Janeiro, in order to vote on the following items on the Agenda:

- I. Amendment to Vale's By-Laws to implement certain adjustments and improvements described below, namely:
1. Amend the head paragraph of Art. 5 to reflect the composition of the Company's capital stock after the corporate restructuring;
 2. Modify the head paragraph of Art. 9, to set forth that the Secretary of the Meeting become to be appointed by the Chairman of the Meeting;
 3. Amend Sole Paragraph of Art. 9 which becomes §1, in order to provide that any person appointed by the Chairman of the Board of Directors presided over by the Meeting, in cases of absence or temporary impediment of the Chairman or vice-chairman of the Board of Directors of their respective alternates;
 4. Include §2 to Art. 9 to establish that the minutes of the meetings will be drawn up in the form of summary and that they will be signed by enough shareholders needed to constitute the quorum necessary for approval of the items;
 5. Amend Art. 14, item XVIII, to set forth that the secretary of governance shall be appointed by the Board of Directors, and, as a result, exclude §15 of Art. 11 and §2 of Art. 13 that mentioned the Secretary of the Board of Directors;

6. Modify Art. 14, item XXVI, to clarify the wording on the provision of guarantees in general by the Company;
7. Include §3 in Art. 14 in order to establish that Vale and its subsidiaries are prohibited from contributing to political parties, and to their representatives or candidates;
8. Amend the head paragraph of Art. 15 to organize the Financial Committee, Personnel Committee, Compliance and Risk Committee, Audit Committee and Sustainability Committee;
9. Adapt the wording of §1 of Art. 18 on the appointment of members of Vale's Advisory Committees (Committees);
10. Amend the title and head paragraph of Art. 19 to determine that the working and responsibilities of the Committees shall be defined by the Board of Directors in the internal rules of each of the Committees;

Table of Contents

11. Due to the amendment above, exclude Subsection IV, Arts. 20 to 25, with the consequent renumbering of the other articles of the By-laws and updating of the cross references mentioned in the current Arts. Arts. 14, XVII; 31, §1; 33, V and VI; 34, IV; 46; 49, I; 51, §§ 5th, 6th and 8th; 53; 54; 55 and 56;

12. Include §3 in Art.19 to set forth that it is the Board of Directors' duty, within its legal limits, to determine that certain responsibilities of the Fiscal Council will henceforth be exercised, exclusively, by the Audit Committee; and

13. Include a cross reference in §1 of Art. 39 to set forth that certain additional responsibilities of the Fiscal Council will henceforth be exercised by the Audit Committee;

II. Proposal for conversion of all class A preferred shares issued by the Company into common shares at the ratio of 0.9342 common shares to each class A preferred share; and

III. Election of two independent members of the Board of Directors in order to fill vacant positions until the end of the management term of the current Board of Directors.

Table of Contents

II. Procedures for Participation in the Meeting

The shareholders' participation in the Extraordinary Shareholders' Meeting (Meeting) is of utmost importance. For the Meeting to be held, the presence of at least 1/4 (one quarter) of the Company's capital stock with voting rights is necessary to vote on the issues set forth in items (ii) and (iii) of the Meeting's Agenda, and 2/3 (two thirds) of the Company's capital stock with voting rights is necessary to address the proposals of the amendments to the by-laws, item (i) of the Meeting's Agenda. If either of these quorums is not met, the Company will publish a new Notice of Meeting announcing the new date for the Meeting to be held at second call to address the pending subjects, which can be held with the presence of any number of shareholders.

Vale's shareholders may attend the Shareholders' Meeting **in person**, by a **duly constituted proxy**, or **by sending an absentee ballot, pursuant to CVM Instruction 481/2009** of the Brazilian Securities and Exchange Commission (*Comissão de Valores Mobiliários* - CVM), as amended (CVM Instruction 481/2009).

2.1. Participation in Person

The following documents are required for shareholders to participate in person in the Meeting:

Individual

- valid photo I.D. (original or certified copy) of the shareholder. The following documents may be submitted: (i) Identity Card (RG); (ii) Foreigner's Identity Card (RNE); (iii) Passport; (iv) Professional Association card accepted as identification for legal purposes (for example, OAB, CRM, CRC, CREA); or (v) Driver's License (CNH).
- proof of ownership of shares issued by Vale issued by the depository financial institution or custodian up to four (4) business days before the date of the Meeting.

Legal Entity

- valid photo I.D. of the legal representative (original or certified copy). The following documents may be submitted: (i) Identity Card (RG) or Foreigner's Identity Card (RNE); (ii) Passport; (iii) Professional Association card accepted as identification for legal purposes (for example, OAB, CRM, CRC, CREA); or (iv) Driver's License (CNH).
- documents proving representation, including the proxy appointment and copy of the formation documents and of the minutes of the election of

Table of Contents

the directors, and, in the case of investment fund, copies of (i) the fund by-laws in force, (ii) the formation documents of its director or manager, as the case may be, and (iii) the election of such directors. If such documents are in a foreign language, they must be translated into Portuguese by a sworn translator, and notarization and consularization shall not be necessary. It should be noted that documents in English and Spanish do not need to be translated either.

- proof of ownership of shares issued by Vale issued by the depository financial institution or custodian up to four (4) business days before the date of the Meeting.

We remind you that the documents will be checked to ensure they are in order before the beginning of the Meeting. For this reason, the shareholders are requested to kindly arrive in advance of the aforementioned Meeting so that the documents can be duly checked in a timely manner for their participation.

2.2. Participation by Proxy

Shareholder participation in the Meeting can be through a duly constituted proxy, observing the terms of Art. 126, §1 of Law no. 6,404 of December 15, 1976, as amended (Law 6,404/76). The proxy must have been nominated less than one (1) year previously, and be a shareholder, a manager, a lawyer registered with the Brazilian Bar Association (*Ordem de Advogados do Brasil* - OAB), or be a financial institution, and the members of investment funds must be represented by their fund management company.

Pursuant to the provisions set forth in Circular-Letter/CVM/SEP/no. 01/2017, shareholders that are **legal entities** may be represented in the shareholders' meeting by their legal representatives or by a duly constituted proxy in accordance with the provisions of their respective formation documents and the Brazilian Civil Code. In this specific case, it is not required that the proxy of the legal entity shareholder be qualified as a shareholder, a company manager or a lawyer. Accordingly, **investment fund** shareholders, pursuant to the decision of the CVM Board under CVM Administrative Proceeding no. RJ-2014-3578, may be represented in the shareholders' meeting through legal representatives or through proxies duly constituted by their manager or director, in accordance with their by-laws. In any case, it should be noted that **legal entity** shareholders and **investment fund** shareholders who wish to be represented in the Meeting by proxy must submit, in addition to the proxy appointment and proxy's I.D., all the documents mentioned in item 2.1 above.

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Any proxy written in a foreign language must be accompanied by the corporate documents, in the case of a legal entity, and the proxy instrument, all duly translated into Portuguese by a sworn translator, and notarization and consularization shall not be

Table of Contents

necessary. It should be noted that documents in English and Spanish do not need to be translated.

In item VI of this Manual, there is a proxy template for the shareholders' reference. Shareholders may also use proxies other than that suggested in this Manual, as long as they are in accordance with the provisions of Law 6,404/76 and the Brazilian Civil Code.

To expedite the process of conducting the Meeting, those shareholders represented through a power of attorney (proxy) may, at their sole and exclusive discretion, send the representation documents at least 72 (seventy-two) hours prior to aforementioned Meeting, to the following address:

Attn.: Investor Relations Officer

Avenida das Américas no. 700, bloco 8, 2 andar, sala 218

Barra da Tijuca - Rio de Janeiro - RJ

Despite the above-mentioned deadline, we point out that the shareholder who appears by the start of the Meeting with the required documents will be entitled to participate and vote, even if he or she has not submitted them to the Company in advance.

We remind you that the representation documents will be checked before the beginning of the Meeting to ensure they are in order. For this reason, shareholders are requested to kindly arrive in advance of the Meeting so that the documents necessary for their participation can be duly checked in timely manner for their participation.

2.3. Participation of Holders of American Depositary Shares (ADSs)

Holders of ADSs may attend the Meeting, in which they will be represented by Citibank N.A. (Citibank), as a depository financial institution, observing the terms and procedures set forth in the Deposit Agreement signed with Vale. Citibank will send the voting cards (proxies) to the ADS holders so that they may exercise their voting rights, and will be representing in the Meeting through its representative in Brazil, Banco Bradesco S.A.

2.4. Participation by Absentee Ballot

As set forth in art. 21-A and subsequent articles of CVM Instruction 481/2009, the Company's shareholders may send, as of this date, their voting instructions with respect to the matters addressed at the Meeting by completing and sending the absentee ballot (Ballot), attached as Exhibit I to this Manual. The content of the Ballot should reflect Exhibit 21-F of CVM Instruction 481/2009, which unites all the proposals for vote included in the Meeting's Agenda.

Table of Contents

The Ballot must:

- be accessed, to be printed and completed in advance, under the banner AGE 10.18.2017 on the first page of the Company's website (www.vale.com), as well as on the website of the CVM; and
- be received at least seven (7) days prior to the Meeting date, i.e., by 10.11.2017 (inclusive). Any voting ballots received after this date will be disregarded.

The shareholder opting to exercise his or her vote through the Ballot must do so through one of the following options:

- (i) through instructions for completion transmitted to the Company's depository;
- (ii) through instructions for completion transmitted to their respective custodians, in the case of shareholders holding shares deposited in a central depository; or
- (iii) through sending the Ballot directly to the Company.

After the deadline for absentee voting, namely, as of 10.12.2017, the shareholders can no longer change the voting instructions sent, except at the Meeting, in person or through a duly constituted proxy, upon specific request to disregard the voting instructions sent by Ballot, before the respective matter is put up to vote.

2.4.1. Through instructions for completion transmitted to the Company's depository

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This option is exclusively for shareholders holding shares deposited with Banco Bradesco S.A. and that are not deposited in the central depository:

The shareholder holding shares that are not deposited in the central depository – namely, at the *B3 S.A. – Brasil, Bolsa, Balcão* (São Paulo Stock Exchange) (B3) – and who opts to exercise his or her right to absentee voting through providers of depository services of the Company's shares, Banco Bradesco S.A. (Bradesco), shall appear at any one of Bradesco's 5,300 branches at least 7 days before the Meeting date, during the local banking hours, and submit the completed Ballot, initialed and signed, as well as the documents identified in the table below, so that the information in the Ballot may be transferred to Bradesco's systems.

Table of Contents

Documents to be submitted at the Bradesco branch, together with the Ballot	Individual	Legal Entity	Investment Fund
CPF and Photo ID of the shareholder or legal representative *	X	X	X
Formation Documents, consolidated and updated **	O	X	X
Document proving powers of representation **	O	X	X
Consolidated and updated fund by-laws	O	O	X

* Types of I.D. accepted: RG, RNE, CNH, Passport and officially recognized professional association card.

** For investment funds, manager and/or administrator documents, observing the voting policy.

Under art. 21-B of CVM Instruction 481/2009, the shareholder must transmit the instructions for completing the Ballot to the depository agent at least seven (7) days before the Meeting is conducted, i.e., by 10.11.2017 (inclusive).

Shareholders with questions may contact Bradesco as follows:

Tel: 0800 701 1616

e-mail: 4010.acecustodia@bradesco.com.br

Bradesco informs that the information above was inserted solely so the shareholder can have a channel to ask any questions related to sending the ballot to the depository agent. However, Bradesco shall not accept the receipt of Ballots through electronic mail, and only ballots submitted through any Bradesco branch shall be considered, in the terms and conditions set forth in this Manual.

2.4.2. Through instructions for completion transmitted to their respective custodians

This option is exclusively for shareholders holding shares under custody of the central depository i.e., at B3. In this case, the absentee vote shall be exercised by shareholders in accordance with the procedures adopted by their respective custodians.

The shareholder holding the shares deposited in the Central Depository of B3 and who opts to exercise his or her right to absentee vote through

service providers must transmit their voting instructions to their respective custodians, observing the rules established by them, which, in turn, shall forward such voting intentions to the Central Depository of B3.

To do so, the shareholders should get in touch with their respective custodians and check the procedures established by them to issue the voting instructions through the Ballot, as well as the documents and information they require to exercise such right, in order to send the respective ballot in a timely manner for their participation.

Under art. 21-B of CVM Instruction 481/2009, the shareholder must transmit the instructions for completing the Ballot to their custodians at least seven days before the Meeting is conducted, i.e., by 10.11.2017 (inclusive), unless a different deadline, which must be before such date, is established by their custodians.

Please note that, as established by art. 21-S of CVM Instruction 481/2009, the Central Depository of B3, upon receiving voting instructions of shareholders through their respective custodians, will disregard any instructions differing from that same vote that

Table of Contents

may have been issued by the same CPF (Individual Taxpayer I.D.) or CNPJ (Corporate Taxpayer I.D.) number.

2.4.3. Through sending the Ballot directly to the Company

The shareholders may also, as an alternative to the procedures described in items 2.4.1 and 2.4.2 above, send their Ballots directly to the Company.

To do so, the shareholders must print the Ballot (attached as Exhibit I to this Manual), complete it, initial all the pages and sign it, noting that **the Company does not require certified signatures on Ballots issued in Brazil or notarization of those issued outside of Brazil.**

Then, the shareholders must send the Ballot, duly completed, initialed and signed, and with the signatory's signature certified or notarized, as applicable, to the following mailing address: Avenida das Américas no. 700, bloco 8, 2 andar, loja 218, Barra da Tijuca, in the city of Rio de Janeiro RJ, to the attention of the Investor Relations Office, together with a copy of the documents listed below:

Individuals

- valid photo I.D. of the shareholder. The following documents may be submitted: (i) Identity Card (RG); (ii) Foreigner's Identity Card (RNE); (iii) Passport; (iv) Professional Association card accepted as identification for legal purposes (for example, OAB, CRM, CRC, CREA); or (v) Driver's License (CNH).

Legal entities

- documents proving representation, including copy of the formation documents and of the minutes of the election of the directors, and, in the case of investment fund, copy (i) of fund by-laws in force, (ii) of the formation documents of its director or manager, as the case may be, and (iii) of the election of such directors. If such documents are in a foreign language, they must be translated into Portuguese by a sworn translator, and notarization and

consularization shall not be necessary. It should be noted that documents in English and Spanish do not need to be translated.

- valid photo I.D. of the legal representative. The following documents may be submitted: (i) Identity Card (RG) or Foreigner's Identity Card (RNE); (ii) Passport; (iii) Professional Association card accepted as identification for legal purposes (for example, OAB, CRM, CRC, CREA); or (iv) Driver's License (CNH).

The shareholder may also, if he or she prefers, send the documents to the Company in advance, by sending digitalized copies of the Ballot and the documents referred to above to the email address vale.ri@vale.com. **Either way, it is indispensable that the Company receives the original (physical) copy of the Ballot and copies of the**

Table of Contents

other documents sent before via email by the shareholder, within seven (7) days before the Meeting, i.e., by 10.11.2017 (inclusive), to the address mentioned above in this item 2.4.3.

Within three (3) days after receipt of such documents, the Company shall contact the shareholder, via the email address listed in item 2.1 of the Ballot, to confirm its receipt and acceptance.

If the Ballot is not properly completed or accompanied by the documents of proof described above, it will be disregarded and such fact shall be informed to the shareholder via digital communication sent to the email address listed in item 2.1 of the Ballot, which will indicate the need to resend the Ballot or the accompanying documents (provided there is sufficient time), describing the procedures and deadlines needed to correct the absentee vote.

During the voting period, the shareholder may send new voting instructions to the Company, if he or she understands it is necessary, and the voting map of the Company shall consider the last voting instruction submitted.

If there are differences between the Ballot received directly by the Company and the voting instruction contained in the voting map provided by the depository for the same CPF or CNPJ number, the voting instruction of the depository shall prevail, pursuant to the provisions of article 21-W, §2 of CVM Instruction 481/2009.

Vale stresses that:

- Ballots sent by shareholders who are not eligible to vote in the Meeting or in the respective vote shall not be considered for purposes of vote calculation;
- for the purposes of vote calculation, only the shares held by each shareholder on the date the Meeting is conducted will be considered, regardless of the date the respective Ballot is sent, and if the shareholder sells shares between the date the respective Ballot is sent and the date the Annual Shareholders Meeting is conducted, the votes related to the shares sold will be disregarded;

- voting instructions from a certain CPF or CNPJ shall be attributed to all the shares held by that CPF or CNPJ, according to the shareholding positions provided by the depository, on the date of the Meeting.

Table of Contents

III. The Vote

3.1. Voting Rights

Pursuant to Article 5 of Vale's By-Laws, each common share, each class A preferred share, and each special class preferred share allows for one vote in the resolutions of the Meeting. Class A and special preferred shares do not give the right to vote in resolutions regarding the election of members of the Board of Directors, except as provided in §2 and §3 of Article 11 of the By-Laws.

Thus, shareholders holding common shares may vote in all matters on the Meeting's agenda. Shareholders holding preferred shares, on their turn, may vote in all matters on the Meeting's agenda, except for the election of Board of Directors members, provided however, the possibility of separate election by shareholders of preferred shares together with shareholders of common shares, as the case may be. For further information, please see item 4.3 below.

The exercise of the right to elect a member of the Board of Directors in separate election may only be exercised upon evidence by the shareholders of unremitting title of the equity interest as required by the By-Laws and the applicable legislation during three (3) months, at least, immediately prior to the Meeting.

Table of Contents

IV. Matters on the Agenda

All documents regarding the agenda of the Vale Shareholders Meeting are available to the shareholders at the main offices of Vale, on its website (www.vale.com) and on the websites of the CVM (www.cvm.gov.br), the B3 (www.b3.com.br), and the Securities and Exchange Commission (www.sec.gov).

4.1 Amendment to Vale's By-Laws.

To vote on this matter, the following documents are made available to the shareholders: the report in the form of table, detailing the origin and justification of the proposed amendments, including their possible legal and economic effects, as well as the draft By-Laws of Vale, highlighting the proposed text for each provision of the by-laws to be amended, as set forth in art. 11 of CVM Instruction 481/2009.

4.2. Proposal to convert the remaining class A preferred shares issued by the Company into common shares.

On 08.11.2017 the term to adhere to the voluntary conversion of class A preferred shares issued by Vale into common shares has expired (the Voluntary Conversion), one of the steps of the corporate restructuring approved in the Extraordinary Shareholders Meeting held on 06.27.2017, with the purpose of transforming Vale into a company without a defined controlling shareholder and of allowing its listing in B3's special listing segment, *Novo Mercado*.

As per the material fact notice disclosed on such date, 1,660,581,830 class A preferred shares (including preferred shares represented by preferred ADSs), corresponding to 84.4% of the outstanding preferred shares (excluding shares held in treasury), were delivered by its holders to be converted or exchanged, as the case may be.

The Company sought to identify the main reasons for the non-conversion of the residual portion of the class A preferred shares, having verified that the reasons for which a great number of shareholders kept preferred shares were (a) that they were passive investment funds that have the purpose of following reference index; (b) that they were natural persons that do not actively participate of the market and that, despite the Company's efforts to disseminate information regarding the conversion, did not learn of the process within the timeframe to request the conversion or that are unable to take such measures because of not knowing their condition as shareholders or due to restrictions of other natures; or (c) operational pitfalls that prevented their manifestation within the term for conversion.

Due to the significant conversion of class A preferred shares and in the Company's and its shareholders' best interest, the Company intends to anticipate the unification of the types of class A preferred shares and common shares into one single type, which would not only allow the complete alignment of all of the Company's shareholders but would

Table of Contents

also permit the anticipation of the adhesion to B3's *Novo Mercado*, together with the clear and proven benefits resulting thereto.

In order to allow the remaining shareholders of class A preferred shares to convert their shares, and, simultaneously, anticipate the effects of the migration of Vale to B3's *Novo Mercado*, the proposal for conversion of the remaining shares to be deliberated at the Meeting establishes that the conversion shall be carried out in the same ratio as the Voluntary Conversion, that is, 0.9342 common share for each class A preferred share (the Conversion of Remaining Shares).

The approval of the Conversion of Remaining Shares requires the favorable vote of shareholders representing, at least, fifty percent (50%) of the voting shares.

The Conversion of Remaining Shares shall also be subject to the approval by holders of class A preferred shares in a Special Meeting.

In case of approval, the shareholders of preferred shares dissenting from the deliberation approving the Conversion of Remaining Shares shall have the right to withdraw from the Company, pursuant the provisions of art. 137 of Law 6,404/76, for the corresponding equity value of the shares. The withdrawal right shall be exercised within thirty (30) days as of the date of publication of the minutes of the Special Meeting that approves the Conversion of Remaining Shares.

Only dissenting shareholders that hold, uninterruptedly, title of their preferred shares from closing of the trading on 08.18.2017 until the date of the actual exercise of the right to withdraw shall have the withdrawal right. Shares purchased, including through lease of shares, as of 08.21.2017, including, shall not entitle their holders to the withdrawal right in connection with the Conversion of Remaining Shares.

As per art. 137, §3rd of Law 6,404/76, if the Conversion of Remaining Shares is approved, the management bodies may, within ten (10) days as of the end of the term for exercise of the withdrawal right, call a shareholders meeting to reconsider the deliberation due to the volume of exercised withdrawal.

Accordingly, the actual payment of the withdrawal amount, pursuant to art. 137, §3rd of Law 6,404/76, shall be subject and can only be requested after (a) the end of the 10-day term following the end of the term for exercising the withdrawal right, if management bodies do not exercise their right to call a shareholders meeting to ratify or reconsider the deliberation, or, (b) as the case may be, the ratification or

Table of Contents

reconsideration by the shareholders' meeting to be duly called by the management bodies.

To vote on this subject, the shareholders are provided with the information required by Exhibits 17 and 20 of CVM Instruction 481/2009.

4.3. Election of independent members of the Board of Directors

In accordance with art. 11 of Vale's current By-Laws, the Board of Directors is comprised by twelve (12) principal members and their respective alternates, one of which shall be elected and removed, in separate voting, by the group of employees of the Company, pursuant to §5th of such article. The unified term of office of the members of the Board of Directors is of two (2) years, reelection being permitted. Therefore, the members of the Board of Directors to be elected to perform their duties until the Ordinary Shareholders Meeting of 2019. The election of the members of the Board of Directors shall observe the provisions of the applicable legislation and Vale's By-Laws.

In the Ordinary Shareholders' Meeting held on 04.20.2017 ten (10) principal members and their respective alternates were elected to the Board of Directors, all for a term of office ending on the 2019's Ordinary Shareholders' Meeting, one chair remaining empty for an principal member and his/her alternate.

In the Extraordinary Shareholders' Meeting held on 06.27.2017, among other matters, the amendment to Vale's By-Laws was approved in order to have it adapted, to the extent possible, to B3's *Novo Mercado*'s rules, as well as to implement certain adjustments and improvements. Such amendments came into force on 08.14.2017.

Among the new provisions of the By-Laws are the increase of the number of Board Members from eleven (11) to twelve (12) principal members and same number of alternates, and the obligation that, at least, twenty percent (20%) of the elected directors (and respective alternates) be Independent Directors (as defined below), expressly declared as such in the General Shareholders' Meeting that has elected them, being that members elected pursuant to the right established in §§2nd and 3rd of art. 11 of the By-Laws shall also be deemed as independent director.

Independent Director means a member of the board of directors that: (i) has no ties to the company, other than an equity interest; (ii) is not a Controlling Shareholder, spouse or close family member (to the second degree) of a Controlling Shareholder, and neither has, nor has had in the

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three (3) previous years, any ties to any company or entity related to a Controlling Shareholder (excluding persons with ties to public education or government research entities); (iii) in the three (3) previous years has not been an employee or officer of the company, or of the Controlling Shareholder or of a subsidiary of the company; (iv) is not a direct or indirect provider, supplier or buyer of goods and/or services, to an extent that would imply loss of independence; (v) is not an employee or senior manager of any company or entity that is offering or requesting services and/or products to and from the company to an extent that would imply loss of independence; (vi) is not a spouse or close family member (to the second degree) of

Table of Contents

any senior manager of the company; and (vii) is not entitled to any payment by the company other than the consideration earned as director (excluding cash distributions received in the capacity of an equity holder).

In order to be considered as an Independent Director, before the voting, the candidates shall present a justified statement confirming that they conform to the indecency criteria above.

Thus, currently there are two vacant positions of principal members and their alternates for Vale's Board of Directors, which shall be filled in the Meeting.

Pursuant to Law 6,404/76, non-controlling shareholders holding (i) common shares that represent, at least, 15% of the voting capital, and (ii) preferred shares without voting rights or restricted voting rights that represent, at least, 10% of the capital stock, are entitled to, in separate voting process elect one member of the Board of Directors and his/her respective alternate. Considering that, as a result of the Voluntary Conversion less than 6% of Vale's capital stock is represented by outstanding preferred shares, such shareholders will not, severally, be entitled to elect one member through the separate voting process pursuant to Law 6,404/76.

Nonetheless, if the holders of common shares do not reach the quorum of 15% of the total common shares issued by Vale, they shall be entitled to aggregate their shares with the shares held by shareholders of preferred shares to elect one member through the separate election process set forth in art. 141, §5th of Law 6,404/76, as long as these groups of shareholders represent, together, at least, 10% of the capital stock.

The exercise of the right to elect through the separate election process shall only be granted to shareholders that prove title of their shares for three (3) uninterrupted months, provided however, that the Company shall consider, for such purposes, the common shares resulting from the Voluntary Conversion as being held uninterruptedly by its holders.

If the shareholders elect one member of the Board of Directors through the separate election process, they will not be able to participate of the majority election process for the remaining position with the shares cast in the separate election process, such that voting twice with a share is avoided. Likewise, shares cast in the majority election process cannot be used in the separate election process.

The candidates appointed as principal and alternate members of the Board of Directors shall be elected in a majority election process in which only shareholders of common shares issued by Vale are entitled to vote, as per Vale's By-Laws. The two principal candidates the receive the

higher number of votes in the Meeting shall be elected, together with their alternates, to comprise the Board of Directors, provided that, in case

Table of Contents

there is a separate voting, as per the paragraphs above, only one member and his/her respective alternate may be appointed in the majority election process.

Pursuant to the Press Release of 09.06.2017, the Company was informed by the shareholders signatories of Vale's Shareholders' Agreement, executed on 08.14.2017, that such shareholders do not intend to appoint any member to the 2 vacant positions of the Board of Directors.

Attached hereto is the information of the appointed candidates for the vacant positions as principal and alternate members of the Board of Directors, in accordance to items 12.5 and 12.10 of the Reference Form, pursuant to Exhibit A of Instruction CVM n. 552/2014, by virtue of Circular Letter/CVM/SEP/N. 01/2017.

Table of Contents

v. ADDITIONAL INFORMATION

Any questions or clarifications on the matters listed in the Meeting Agenda can be resolved or obtained, as the case may be, through contact with the Investor Relations Office, including through email at vale.ri@vale.com.

Table of Contents

VI. PROXY VOTE TEMPLATE

25

Table of Contents

[ACIONISTA], [Qualificação] (Outorgante), neste ato nomeia e constitui como seu procurador o(a) Sr(a) [NOME], [NACIONALIDADE], [ESTADO CIVIL], [PROFISSÃO], com carteira de identidade nº [] e inscrito no CPF/MF sob o nº [], residente e domiciliado [ENDEREÇO], na Cidade [], Estado [] (Outorgado), ao qual confere poderes para representar o(a) Outorgante na Assembleia Geral Extraordinária da Vale S.A., a ser realizada, em primeira convocação no dia 18 de outubro de 2017, às 10h, e, se necessário, em segunda convocação em data a ser informada oportunamente, para assinar o Livro de Registro de Presença de Acionistas da Vale S.A. e a ata dessa Assembleia Geral, e apreciar, discutir e votar os assuntos constantes da respectiva ordem do dia, em conformidade com as orientações estabelecidas abaixo:

Ordem do dia:

1) Alteração do Estatuto Social da Vale:

o a favor o contra o abstenção

2) Conversão das Ações Preferenciais Classe A em Ordinárias:

o a favor o contra o abstenção

3) Eleição de dois membros independentes do Conselho de Administração:

Este instrumento é válido por [], a partir da data de sua assinatura.

[Local], [Data].

[Acionista]

[SHAREHOLDER], [Identification] (the Grantor), hereby appoints and designates [NAME], [CITIZENSHIP], [MARITAL STATUS], [PROFESSION], with ID no. [] and CPF/MF no. [], resident and domiciled at [ADDRESS], in the City of [], State of [] (the Grantee), as true and lawful attorney-in-fact to represent the Grantor at Extraordinary Shareholders Meetings to be held on first call on October 18, 2017, at 10 a.m., and, if necessary, on second call on a date to be duly informed, with powers to sign the Attendance Book of Vale S.A. Shareholders and the corresponding minutes of such Shareholders Meeting, and evaluate, discuss and vote on matters included in the agenda, in accordance with the voting instructions below:

Agenda:

1) Amendment to Vale By-Laws:

o in favor o against o abstain

2) Conversion of Class A Preferred Shares into Common Shares:

o in favor o against o abstain

3) Election of two independent members for the Board of Directors:

This power of attorney shall remain in effect for [] as of the date it is signed.

[Place], [Date].

[Shareholder]

Table of Contents

Exhibit I Absentee Ballot related to Extraordinary Shareholders Meeting

1. **Name or business name of the shareholder (without abbreviations)**
2. **CNPJ or CPF of the shareholder** 2.1. **Email address for the Company to send the shareholder confirmation of receipt of the ballot**
3. **Guidelines for completion**

Shareholders opting to exercise their absentee voting rights, under articles 21-A and following of CVM Instruction 481/2009, as amended (CVM Instruction 481/2009), must complete this Absentee Ballot (Ballot), which shall only be considered valid and the votes cast herein shall only be counted in the quorum for the Extraordinary Shareholders Meeting (Meeting) of Vale S.A. (Vale or Company) if the following instructions are observed:

- (i) the shareholder must note above his or her name (or business name), as well as its CPF or CNPJ, as applicable, as well as an email address for any contact (to be completed in the appropriate field at the end of this Ballot);
- (ii) all the fields must be duly completed;
- (iii) all the pages must be initialed; and
- (iv) the last page must be signed by the shareholder or its legal representative(s), as applicable and under prevailing law.

The Company does not require certified signatures on Ballots issued in Brazil or notarization of those issued outside of Brazil.

Please note that 10.11.2017 is the last day for RECEIPT of the Ballot through one of the three forms to be listed in item 4 below, and not the last day for it to be sent. If it is received after 10.11.2017, the votes will not be counted.

Shareholders opting to exercise their right to vote through the Ballot must alert to itens 3.1 and 4.3 of the Manual for Participation in the Meeting and observe the other rules and formalities described in the Manual for Participation in the Extraordinary Shareholders Meeting and in item 12.2 of the Company's Reference Form (Rules, policies and practices related to shareholders meetings), available on the CVM's website (www.cvm.gov.br).

Table of Contents

4. Delivery guidelines, indicating the ability to send it directly to the Company or send instructions for completion to the depository or custodian

So that this Ballot is considered delivered, the Ballot and other required documents as mentioned below must be received at least seven days prior to the Meeting, i.e., by 10.11.2017 (inclusive). The shareholder opting to vote absentee must send the documents through one of the following alternatives:

- 1) **Send to Depository**: the shareholder should transmit the instructions for completion of this Ballot to the depository of the Company's issued shares (Banco Bradesco S.A.), only in the case of shares that are not deposited in the central depository, observing the procedures established and the documents required by the depository.
- 2) **Send to custodian**: the shareholder should transmit the instructions for completion of this Ballot to the custodian of its shares, observing the procedures established and documents required by the respective custodian.
- 3) **Send directly to the Company**: the shareholder may send this Ballot to the mailing address shown below, along with the documents required by the Company, as detailed in the Manual to the Meeting. The shareholder may also, if it prefers, send the documents to the Company in advance, by sending digitalized copies of the Ballot and the documents referred to above to the email address vale.ri@vale.com. **Either way, it is indispensable that the Company receives the original (physical) copy of the Ballot and copies of the other documents sent before via email by the shareholder, by 10.11.2017.**

For more clarifications, access the Manual for participation in the Meeting, available on the websites of the Company (www.vale.com), the *Comissão de Valores Mobiliários* (www.cvm.gov.br) and the B3 S.A. *Brasil, Bolsa, Balcão* (www.b3.com.br) on the internet. If you have questions, contact the Investor Relations Office at the phone number +55 21 3485-3900 or by email at vale.ri@vale.com.

5. Mailing address and e-mail for sending the absentee ballot, in case the shareholder wishes to send the document directly to the Company

Attn: Departamento de Relações com Investidores

Address: Avenida das Américas n. 700, bloco 8, 2 andar, loja 218, Barra da Tijuca, Rio de Janeiro RJ, CEP 22640-100, to the care of the Investor Relations Office.

email: vale.ri@vale.com

Table of Contents

6. Recommendation of the institution hired by the Company to render services of securities depository, with name, physical address and e-mail address and telephone number for contact

Banco Bradesco S.A. (Bradesco)

Telephone number for contact: 0800 701 1616

e-mail: 4010.acecustodia@bradesco.com.br

As informed in the Manual of the Meeting, Bradesco informs that the information above was inserted solely so the shareholder can have a channel to ask any questions related to sending the ballot to the depository agent. However, Bradesco will not accept the receipt of Ballots through electronic mail, and only ballots submitted through any Bradesco branch shall be considered, in the terms and conditions set forth in the Manual of the Meeting.

Resolutions

Simple Resolution

7. Amendment to Vale's By-Laws:

☐ Approve ☐ Reject ☐ Abstain

Simple Resolution

8. Conversion of all class A preferred shares issued by Vale into common shares in the ratio of 0.9342 common share for each class A preferred share:

☐ Approve ☐ Reject ☐ Abstain

Election of members to the Board of Directors per candidate limit of positions to be filled: 2

9. Election of members to the Board of Directors (the shareholder can vote on many candidates as the number of positions to be filled in the election):

Candidate 1: Isabella Saboya, as effective member

☐ Approve ☐ Reject ☐ Abstain

Candidate 2: Ricardo Reisen de Pinho, as effective member, and Marcio Guedes

Table of Contents

Pereira Junior, as alternate
o Approve o Reject o Abstain

In case of adoption of election through cumulative voting system voting, do you wish to distribute your vote in percentages per candidates?
(NOT APPLICABLE)

o Yes o No

Display of all candidates to indicate the % (percentage) of votes to be distributed:
(NOT APPLICABLE)

Candidate 1 - [] % percentage of votes to be distributed to this candidate

Candidate 2 - [] % percentage of votes to be distributed to this candidate

Candidate 3 - [] % percentage of votes to be distributed to this candidate

Separate election process for members of the Board of Directors by non-controlling shareholders of common shares

10. Shareholders may only fill in this item in case he/she did not fill in item 9 above and have held, uninterrupted, his/her voting shares during the 3 months immediately before this meeting] Election, in separate election process, of member of the board of directors by non-controlling shareholders of common shares:

Candidate 1: Sandra Guerra, as effective member

o Approve o Reject o Abstain

Candidate 2: Marcelo Gasparino da Silva, as effective member, e Bruno C. H. Bastit, as alternate
o Approve o Reject o Abstain

If it is found that neither the holders of shares with voting rights nor the holders of preferred shares without voting rights or with restricted votes made up, respectively, the quorum required in items I and II of paragraph 4 of art. 141 of Law No. 6,404 of 1976, do you want your vote to be aggregated to the votes of the preferred shares in order to elect to the board of directors the candidate with the highest number of votes among all of those who, included in this ballot, stand for a separate election?

o Yes o No

Separate election process for members of the Board of Directors by directors by non-controlling shareholders of preferred shares.
[There is no separate election process exclusively by holders of preferred shares since they do not reach the quorum required by Law.]

Table of Contents

11. [Shareholders may only fill in this item in case they have held, uninterruptedly, his/her voting shares during the 3 months immediately before this meeting]

Election, in separate election process, of member of the board of directors by non-controlling shareholders of preferred shares:

Candidate 1: Sandra Guerra, as effective member

☐ Approve ☐ Reject ☐ Abstain

Candidate 2: Marcelo Gasparino da Silva, as effective member, e Bruno C. H. Bastit, as alternate

☐ Approve ☐ Reject ☐ Abstain

If it is found that neither the holders of shares with voting rights nor the holders of preferred shares without voting rights or with restricted votes made up, respectively, the quorum required in items I and II of paragraph 4 of art. 141 of Law No. 6,404 of 1976, do you want your vote to be aggregated to the votes of the common shares in order to elect to the board of directors the candidate with the highest number of votes among all of those who, included in this ballot, stand for a separate election?

☐ Yes ☐ No

[City], [date]

Name and signature of Shareholder

Table of Contents

Exhibit II Information about the candidates to the two available positions on the Board of Directors, as set forth in Art. 10 of CVM Instruction 481/2009.

Please refer to the pages at the end of the document

Table of Contents

Exhibit III Report in table form, detailing the origin and justification of the amendments proposed to Vale s By-Laws, including any legal and economic effects, as well as the draft of Vale s By-Laws, highlighting the proposal for wording of each provisions of the by-laws to be changed, pursuant to article 11 of CVM Instruction 481/2009

Table of Contents

Exhibit IV- Information required pursuant to art. 17 of Instruction CVM n. 481/2009

1. In case of creation of preferred shares or new class of preferred shares:

Not applicable.

2. In case of alteration of the preferences, advantages or conditions for redemption or amortization of preferred shares

(A) Describe, in detail, the proposed alterations

The proposal involves the conversion of the remaining class A preferred shares into common shares issued by the Company in the ratio of 0.9342 common share for each class A preferred share (Conversion of Remaining Shares), in the same the conversion ratio of the voluntary conversion of class A preferred shares issued by Vale into common shares on 08.11.2017 (the Voluntary Conversion).

(B) Justify, in detail, the proposed alterations

On 08.11.2017 the term to adhere to the voluntary conversion of class A preferred shares issued by Vale into common shares has expired (the Voluntary Conversion), one of the steps of the corporate restructuring approved in the Extraordinary Shareholders Meeting held on 06.27.2017, with the purpose of transforming Vale into a company without a defined controlling shareholder and of allowing its listing in B3's special listing segment, *Novo Mercado*.

As per the material fact notice disclosed on such date, 1,660,581,830 preferred shares (including preferred shares represented by preferred ADSs), corresponding to 84.4% of the outstanding preferred shares (excluding shares held in treasury), were delivered by its holders to be converted or exchanged, as the case may be.

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The Company sought to identify the main reasons for the non-conversion of the residual portion of the preferred shares, having verified that the reasons for which a great number of shareholders kept preferred shares were (a) that they were passive investment funds that have the purpose of following reference index; (b) that they were natural persons that do not actively participate of the market and that, despite the Company's efforts to disseminate information regarding the conversion, did not learn of the process within the timeframe to request the conversion or that are unable to take such measures because of not knowing their condition as shareholders or due to restrictions of other natures; or (c) operational pitfalls that prevented their manifestation within the term for conversion.

Due to the significant conversion of preferred shares and in the Company's and its shareholders' best interest, the Company intends to anticipate the unification of the types of shares into one single type, which would not only allow the complete alignment of all

Table of Contents

of the Company's shareholders but would also permit the anticipation of the adhesion to B3's *Novo Mercado*, together with the clear and proven benefits resulting thereto.

(C) Provide detailed analysis of the impacts of the proposed alterations to the holders of preferred shares

Once the Conversion of Remaining Shares is approved by the Extraordinary Shareholders' Meeting and ratified by the Special Shareholders' Meeting of shareholders of class A preferred shares, they will have their Class A preferred shares issued by Vale in the Company replaced by common shares, subject to the conversion ratio of 0.9342 common share to each class A preferred share.

Currently class A preferred shares issued by the Company grant its holders the following preferences and advantages: (i) right to vote for all matters submitted to the Shareholders' Meeting, except voting for election of members of the Board of Directors, provided the opportunity given to its holders to elect, together with the minority shareholders of common shares, one member of the Board of Directors through separate election process, pursuant to §3rd of article 11 of the By-Laws and §5th of article 141 of Law 6,404/76 (after the Voluntary Conversion the shareholders of preferred shares represented 6% of the total capital stock of Vale not being entitled, therefore, to the right granted by §2nd of article 11 of the By-Laws and §4th of article 141 of Law 6,404/76); and (ii) priority to receive minimum dividends corresponding to (a) three percent (3%) of the equity value of the shares, calculated based on the financial statement prepared for the purpose of dividend payment or (b) six percent (6%) of their pro rata share of our paid-in capital, whichever is higher.

Upon conversion into common stock, current holders of class A preferred shares shall have the following rights: (i) right to vote for all matters submitted to the Shareholders' Meeting; (ii) right to participate in the distribution of profits and earnings in equal conditions with the remaining holders of common shares; (iii) right to have their shares included in a potential public tender offer due to the sale of control of the Company whereby equal treatment as that given to the controlling shareholder shall be ensured, as provided for in article 47 of the By-Laws; and (iv) right to have their shares included in a potential public tender offer made by any shareholder that becomes a holder or that became a holder, for any reason, of shares issued by the Company representing twenty-five percent (25%) or more of the common shares issued by the Company, as provided for in article 51 of the By-Laws.

(D) Provide detailed analysis of the impact of the proposed alterations on the rights of holders of other types and classes of shares of the Company

The rights currently granted by the By-Laws to other types and classes of shares issued by Vale will remain in unchanged, therefore the conversion will not affect such rights.

Table of Contents

The conversion of Class A preferred shares into common shares have the objective to anticipate the adhesion to B3's *Novo Mercado*, with the benefits for all shares of the Company.

Table of Contents

Exhibit V Information required by art. 20 of CVM Instruction 481/2009

(1) Describe the event that originated or that will originate the withdrawal right and its legal grounds

The conversion of class A preferred shares issued by the Company into common shares, event provided for in article 137 together with article 136, item II, of Law 6,404/76.

(2) Inform the shares and classes to which the withdrawal right applies to

Class A preferred shares issued by the Company dissident of the Meeting that approves the conversion.

(3) Inform the date of the first publication of the call notice of the meeting, as well as date of disclosure of the material fact notice regarding the deliberation that gave or give rise to the withdrawal right

The call notices of the Extraordinary Shareholders Meeting and of the Special Shareholders Meeting of holders of class A preferred shares will be published, for the first time, on September 18, 2017. The Company's intention when promoting the conversion of class A preferred shares into common shares was initially disclosed to the market through the Material Fact Notice of August 18, 2017.

(4) Inform the term for exercise of the withdrawal right and the date that shall be taken into account for purposes of determining which shareholders will be entitled to exercise the withdrawal right

The term for exercising the withdrawal right shall be of thirty (30) days as of the publication of the minutes of the Special Shareholders Meeting of holders of class A preferred shares that approves the conversion into common shares.

Only dissenting shareholders that hold, uninterruptedly, title of their preferred shares from closing of the trading on 08.18.2017, date of the Material Fact about the conversion, until the date of the actual exercise of the right to withdraw shall have the withdrawal right. Shares

purchased, including through lease of shares, as of 08.21.2017, including, shall not entitle their holders to the withdrawal right in connection with the mandatory conversion into common shares.

(5) Inform the amount of refund per share

The equity value per share of the Company, based on the equity value as per the Financial Statement of the Company dated December 31, 2016, approved by the Ordinary Shareholders Meeting on April 20, 2017, is of R\$24.26, amount that shall be used as the price to be paid to potential dissident shareholders of the deliberation

Table of Contents

regarding the conversion of class A preferred shares into common shares that effectively exercise the withdrawal right, observing the possibility of the call of a shareholders meeting to reconsider the conversion.

(6) Inform the calculation of the amount of refund

Pursuant to article 45 of Law 6,404/76, the amount of the refund of the Company is calculated based on its equity value as per the last balance sheet approved in Shareholders Meeting.

(7) Inform if the shareholders shall have the right to request the drawing of a special balance sheet

Yes.

(8) In the event that the amount of refund is determined by means of appraisal, list the appraisers or specialized companies recommended by management

Not applicable.

(9) In the event of amalgamation, merger of shares or mergers involving the controlling, controlled and under same control companies

Not applicable

(10) Inform the equity value of each share calculated pursuant to the last approved balance sheet

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The equity value per share of the Company, based on the equity value as per the Financial Statement of the Company dated December 31, 2016, approved by the Ordinary Shareholders Meeting on April 20, 2017, is of R\$24.26.

(11) Inform the price of each class or type of shares to which the withdrawal right applies to in the markets in which it is negotiated, identifying:

(a) Minimum, average and maximum price in the last three (3) years

	Minimum	Average	Maximum
2014	16.00	25.95	31.92
2015	9.32	15.52	20.30
2016	6.57	14.69	27.84
2017	22.85	28.07	34.24

Table of Contents

(b) Minimum, average and maximum price in each quarter in the last two (2) years

	Minimum	Average	Maximum
1st Quarter - 2015	15.45	17.95	20.10
2nd Quarter - 2015	14.95	17.11	20.30
3rd Quarter - 2015	12.27	14.58	16.00
4th Quarter - 2015	9.32	12.46	16.26
1st Quarter - 2016	6.57	8.96	12.78
2nd Quarter - 2016	11.24	12.91	16.68
3rd Quarter - 2016	12.78	14.78	16.17
4th Quarter - 2016	15.55	22.08	27.84
1st Quarter - 2017	22.85	29.39	34.24
2nd Quarter - 2017	24.06	25.92	28.97

(c) Minimum, average and maximum price in each month in the last six (6) months

	Minimum	Average	Maximum
March/2017	27.29	29.18	31.87
April/2017	25.37	26.84	28.97
May/2017	24.44	25.69	27.04
June/2017	24.06	25.37	26.91
July/2017	26.71	27.69	29.17
August/2017	28.59	29.91	32.57

(d) Average price for the last ninety (90) days

Average price between 06.15.2017 and 09.12.2017 R\$ 28.70

Table of Contents

São Paulo, 12 de Setembro de 2017

VALE S/A.

Avenida das Américas n° 700, bloco 8, 2° andar, loja 218, CEP 22640-110

Barra da Tijuca - Rio de Janeiro - RJ

Cc: Fabio Schvartsman, Luciano Siani, Clovis Torres, Isabella Saboya e Sandra Guerra

Ref: Nomination of candidates to the board of directors for the October 2017 extraordinary shareholders meeting.

ABERDEEN ASSET MANAGEMENT PLC on behalf of investment funds under its management - including funds managed by companies from the economic group (Aberdeen) - shareholders of approximately 8.67 million common ADRs, 2.93 million common shares and 123.6 thousand preferred ADRs of Vale S/A, herein present its nomination of the following candidates to the board of directors of Vale S/A as well as the inclusion of the name of the candidates on the proxy form and meeting documents, according to the terms of the CVM Rule No. 481/09.

Under the separate election process according to the terms of the Art. 141 §4°, I and Art. 141§ 5° the Law n° 6.404/76:

1. **SANDRA GUERRA**, as effective member of the board of directors of Vale S/A, under the separate election process during the extraordinary general meeting to take place on the 18th of October 2017.

Under the majority election process:

2. **ISABELLA SABOYA**, as effective member of the board of directors of Vale S/A, under the majority election process during the extraordinary general meeting to take place on the 18th of October 2017.

Annex: Supporting documents as per CVM Rule No. 481/09

Yours sincerely,

George Andrew Moor Kerr
Director

Table of Contents

São Paulo, 13 de Setembro de 2017

VALE S/A.

Avenida das Américas n° 700, bloco 8, 2° andar, loja 218, CEP 22640-110

Barra da Tijuca - Rio de Janeiro - RJ

Cc: Fabio Schvartsman, Luciano Siani, Clovis Torres, Isabella Saboya e Sandra Guerra

Ref.: Clarification regarding the nomination of the candidate Sandra Guerra to the board of directors for the October 2017 extraordinary shareholders meeting

ABERDEEN ASSET MANAGEMENT PLC on behalf of investment funds under its management - including funds managed by companies from the economic group (Aberdeen) - shareholders of approximately 8.67 million common ADRs, 2.93 million common shares and 123.6 thousand preferred ADRs of Vale S/A, herein provides clarification regarding the nomination letter dated from the 12 of September 2017:

In the event that the required quorum for the occurrence of the separate election process according to the terms of the Art. 141 §4°, I and Art. 141§ 5° of the Law n° 6.404/76, we clarify the will that the candidate Sandra Guerra should take part at the majority election process.

For the purpose of the local proxy form (*boletim de voto*), we clarify the intention that Sandra Guerra is presented exclusively as a candidate for the separate voting process.

Yours sincerely,

Peter Taylor
Director

Table of Contents

SANDRA GUERRA

- Career developed as an executive, board director, chair of the board and consultant.
- Positions as CEO or executive in the c-suite of Brazilian and multinational companies.
- Experience includes Board of Directors of listed and non-listed companies; national and international NGOs focused on governance and sustainability and advisory board of family owned company.
- As executive or board director, she has been active in the following industries: electric energy, logistics, transportation, textile, waste management, water & sewage, renewable energy, information technology, training and development, communication, internet, radio and television.
- Participation in strategic planning processes and organizational restructuring.
- Experienced in implementing innovative projects, start-ups, and initiatives which have called for a huge transformation effort and. a change in culture and paradigms.
- Consultant for corporate governance (CG) and board improvement projects

Corporate Governance: 22 years of work developed in this area, having participated in the concept s introduction in Brazil.

1. **Corporate governance consultant** at Better Governance (since 2005)
2. **Board Director** - Member of Board of Directors of listed and non-listed companies and member of Advisory Board of family-owned group of companies. Director at not for profit organizations. (since 1995)
3. **Board and Committees chair** experience as chair of the board and chair of audit committee in a holding company and as chair of a not for profit organization. (since 2011).
4. **Creation of IBGC** - Co-Founder of the Brazilian Institute of Corporate Governance in 1995. IBGC Board member for 5 years and Executive Officer for a year and a half. (1995-2001). Chair of the Board (2012-2016).
5. **Drafting of the first Brazilian governance code** Participation in the creation of the first Code of Best Practices in 1999, and its review in 2001, 2009 and 2015.
6. **Latin American Corporate Governance Roundtable in Brazil** In 2000, she was part of the group bringing to Brazil the first Latin American initiative of the joint effort by OECD – Organization for Economic Cooperation and Development, World Bank and IFC – International Financial Corporation – to start a dialogue on CG policy in the region. The initiative's main activity is the series of *Roundtables* in the region, the first of which was held in São Paulo.
7. **Companies Circle of the Latin American Corporate Governance Roundtable** Co-ordinator the reference group of 14 companies in Latin American created by IFC and OECD.(2005-2012)
8. **Board member** of ICGN - International Corporate Governance Network, the main world organization on CG for two times (2001 -2004 and 2010 -2012)
9. **Member of the Council of IIRC (International INtegrated Reporting Council)** coalition dedicated to the evolution of corporate reporting.
10. **Top 10 Architects of Governance 2004 and Top 10 Stars of Corporate Governance in 2010** Nominated among the 10 top international personalities who most influenced international CG in 2004 and 2010 – Global Proxywatch, The Newsletter of International Corporate Governance and Shareowner Value- December 2004; December 2010.

11. Author of **A caixa-preta da governança. Conselhos de Administração revelados por quem vive dentro deles.** [*The black box of governance. Boards of director revealed by who lives inside them*]. Editora Best Business: Rio de Janeiro. 378 p., 2017.

Table of Contents

PROFESSIONAL BACKGROUND

Current positions and activities

Better Governance Consulting Services

Managing Partner

Since 2005

Brazilian-based consultancy dedicated to help companies, organizations and countries to improve corporate governance understanding, awareness and improvement.

Vix Logística S.A.

Member of Board of Directors

Since 2015

Member of Governance and People Committee

Since 2016

Specialized in customized logistics solutions, VIX Logística is one of the largest companies in the country. It operates in leasing and fleet management, people transportation, material handling, automotive logistics and dedicated logistics, with operations ranging from north to south of Brazil and in the Mercosur.

In 2014, the company closed the year with more than 9000 employees, a turnover of R\$ 1.2 billion and a fleet of over 6000 vehicles and equipment. With certifications in quality, environment, health and safety, the pursuit of service excellence has earned achievements and recognitions as the Samarco Excellence Award and also the Supplier Value Award from Vale.

Global Reporting Initiative (GRI)

Member of Board of Directors

Since 2017

GRI is an international independent organization that helps businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others.

Past Positions and activities

Copel S.A.

Member of Board of Directors

2016-2017

Copel Companhia Paranaense de Energia generates, transmits, distributes and trades electric energy, and also provides telecommunication services. The Company is one of the largest electric power facilities in Brazil. Currently, Copel directly serves 4.4 million customers units in 395 municipalities and 1,113 localities (districts, villas and villages). Copel has 29 own plants (16 hydroelectric power plants, 1 thermal power plant and 12 wind farms), operates 2 hydroelectric power plants under the quota regime, and holds interests in another seven energy generation projects (1 thermal power plant and 6 hydroelectric power plants) in operation, totaling an installed capacity of 5,628.6 MW, referred to Copel's

stake. Copel also holds a 49% interest in other 4 wind farms with 108 MW of installed capacity ready to operate, waiting for the conclusion of the transmission of responsibility from other agents. In addition, another 13 wind farms and two hydroelectric power plants are under construction. In order to transmit and distribute the generated energy, the Company has 5,620 km of transmission lines and 195,052 km of distribution lines, making up Brazil's third largest distribution network. Its workforce is composed of 8,563 employees. Copel's shares are traded at B3 (Level 1 of Corporate Governance), New York Stock Exchange and Latibex.

IBGC Brazilian Institute for Corporate Governance

Chair of the Board of Directors

2012-2016

Leading corporate governance organization in Brazil. Currently, with over 1,500 members, IBGC holds conferences, carries out research and offers courses, from which some 4,000 students have graduated.

IIRC International Integrated Reporting Council

Member of the Council

2012-2016

A global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs that are putting together the next step in the evolution of corporate reporting.

Table of Contents

Grupo Solví

Member of Board of Directors

2011-2013

Chair of the Board

2012

Solví is the result of the management buyout of Suez Group in Brazil in 2006, a holding company investing in the following industries: waste management, water & sewage, renewable energy and engineering. Its operations were spread in 171 Brazilian cities, besides 16 in Peru. The group registered revenues of BRL 2,2 billion in 2012 and 21.000 employees.

Solví Valorização Energética SVE

Member of Board of Directors

2013

Grupo Solví's renewable energy company.

Solví Saneamento

Member of Board of Directors

2012

Grupo Solví's water and sewage business holding company.

Grupo Itapemirim

Member of Advisory Board

2009-2013

Founded in 1953, in Cachoeiro do Itapemirim, State of Espírito Santo, the family owned group operates in the following industries: passengers transportation, mining, car and truck dealers, roadways restaurants and agribusiness. In the past the group also operated in cargo transportation sector. In its main business - passengers transportation - the group covered in 2012 70% of the country, connecting 22 Brazilian states and serving 70.000 passengers over 10 million kilometers by month.

Companies Circle The Latin American Corporate Governance Roundtable

Coordinator

2005 - 2012

A reference group in CG in the region comprised of 17 companies, launched by OECD and IFC/World Bank group.

Coteminas S.A.

Member of the Board of Directors

2007-2010

Coteminas S.A. is a vertically integrated textile company, manufacturing textile home and apparel products in twenty two factories in Argentina, Brasil, México and US. Its traditional brand names (Wamsutta, Springmaid, Artex, Santista, Calfat, Garcia, Arco-Íris, Fantasia, among any others) are traded in domestic and global markets. Coteminas is a holding company with revenues in 2009 of R\$ 3.100 million and 15 thousand employees. It's direct subsidiaries are Springs Global Participações S.A. and Companhia Tecidos Santanense. Coteminas trades its shares at B3, in Brazil.

CPM S.A. (later CPM Braxis and now Cap Gemini)

Marketing Officer

2000- 2005

CIO Chief Information Officer and Marketing Officer

2003

An information technology company providing advisory, outsourcing, and independent integration services; the only non-global brand among IT service leaders operating in the country. At the time, controlled (51%) by a group of investors led by Deutsche Bank Capital Partners, with Bradesco bank (49%) as the Brazilian partner. As Marketing Officer, she conducted an innovation in the company's marketing processes, and a change in the brand's perception in the market.

As CIO, led a team made up of 51 members, serving 2,800 users in 4 sites in Brazil, with a R\$ 7 million budget, having implemented a profound change in the area.

ICGN International Corporate Governance Network, London UK

Member of the Board of Directors

2010-2012 / 2001-2004

Member of Nomination Committee

2012-2015

Member of ICGN Principles Revision Committee

2009

The world's leading corporate governance organization geared to investors. Its members manage US\$ 26 trillion in assets. ICGN tries to reach a global agreement on corporate governance in capital markets and, most importantly, establish the best practices both for issuers and investors.

Table of Contents

InVent

Member of the Advisory Board

2002 - 2003

A venture capital company with a total of R\$ 40 million of the Fundo IP.com (Investidor Profissional) invested in companies using the internet as a tool in the entertainment, retail, and marketing segments: Via Global, Elefante, O Carteiro, Comunique-se, Central de Desejos.

Mundomedia S.A.

Member of the Board of Directors

2000 - 2002

Online media start-up, managed initially by the founding partners, and later funded by the Fundo IP.com (Professional Investor), which originally owned a 17% stake, but in 2001 took control of the company. Initially, nominated to the Board by one of the founding partners, and later invited by Fundo IP.com to stay on, when the fund took over.

IBGC Brazilian Institute for Corporate Governance

Co-founder

1995

Chair of the Board

2012-2016

Board Director

1995 - 2001

Executive Officer

1999 - 2001

IIR Institute for International Research do Brasil

1996 - 1999

Country Manager

Paradygma Marketing e Comunicação

1991 - 1996

Partner, Senior Consultant

Mútua Assessoria de Comunicação

1982 - 1991

Managing Partner

As a journalist on radio and TV stations

1975 1987

ACCREDITATIONS

- Accredited Director of the Board IBGC Brazilian Institute of Corporate Governance - 2009
- Accredited Mediator at CEDR Centre for Effective Dispute Resolution, in London 2010.

EDUCATION BACKGROUND, COURSES AND CONFERENCES

- M.Sc. in Business Administration at School of Economics, Business and Accountancy of University of São Paulo (USP). Her thesis title was The roles of the board of directors in listed companies in Brazil 2009

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- Singularity University Global Summit 2017, San Francisco
- GNDI Global Network of Directors Institute/NACD-National Association of Corporate Directors, Global Cyber Summit, 2015 Washington-DC
- NACD, BOARDROOM AGENDA: CYBER, 2015 Washington - DC
- IBGC Study Tour: Singapore and Hong Kong - 2017; Germany 2015; Sidney 2013; Stockholm and Helsinki 2011; London and Paris - 2010.
- IBGC. Board of Directors Annual Conference. 2013, 2014, 2015, 2016, 2017
- Wharton, Stanford and Chicago Universities - The Directors Consortium - 2005, Chicago
- Training for Members of the Board of Directors IBGC, 2005.
- Training on Basic Accounting IBGC, 2005.
- Accounting Training for Non-Accountants Delloite, 2005.
- OECD/World Bank Latin America Corporate Governance Roundtables - São Paulo-2000, Buenos Aires 2001, Mexico City 2002, Santiago 2003, Rio de Janeiro 2004, Lima 2005, Buenos Aires- 2006, Medellín 2007, Mexico 2008, Santiago 2009, Rio 2010, Lima - 2011.
- ICGN Annual Conference - New York 2000, Tokyo 2001, Milan 2002, Amsterdam 2003, Rio de Janeiro 2004, London 2005, Washington 2006, Cape Town 2007, Seoul-2008, Sydney 2009, Paris 2011, Rio 2012, New York 2013.
- IBGC Brazilian Conference on Corporate Governance 2000, 2001, 2002, 2003. 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016.
- Bachelor's degree in Social Communications, having majored in Journalism - Universidade Paulista, SP 1977.

OTHER INFORMATION

- Fluent in English and Spanish, Good working knowledge of French and an average knowledge of Italian.

Table of Contents

Sandra Maria Guerra de Azevedo

Current positions: Managing Partner of Better Governance Consulting Services. Sector: Consulting Services (2005-current); Member of the Board of Directors of Vix Logistics SA (2015- current) Sector: Logistics and Transportation; Board of Directors of: Global Reporting initiative (GRI) Sector: Non-Profit Organization (2017 - current),

Previous positions: Board Member of Copel SA Sector: Utilities (2016- 2017), Chairman of the Board of Directors of the Brazilian Institute of Corporate Governance - IBGC Sector; Non-Profit Organization (2012-2016); Member of the advisory board of Solvi Participações Sectors: Waste Treatment; Sanitation; Renewable energy; Construction (2011-2013); Member of the Board of Directors of Coteminas S.A. Sector: Textiles (2007-2010); Board of Directors of the international Corporate Governance Network -ICGN Sector: Non-Profit Organization (2001-2004; 2010-2012); Member of the Nomination Committee (2012-2015) and member of the Principles Revision Committee at ICGN (2009); Member of the Advisory Board (2009-2013) and Coordinator of the Organization and People Committee (2010-2013) of the Itapemirim Group Sector. Transportation; Board Member of the Brazilian Institute of Corporate Governance - IBGC (1995-2001); Member of the Board of Directors of Mundo Media SA (2000-2002) Sector: Digital Media; Member of the Advisory Board of InVent Sector: Internet (2002-2003); Director of Marketing (2000-2005) and also Chief Information Officer (CIO) (2003) of CPM SA Sector: Information Technology; Country Manager of the Institute for International Research of Brazil - IIR Sector: Events, Conferences and Training (1996-1999); Partner and Senior Consultant at Paradygma Marketing and Communication Sector: Marketing (1991-1996); Partner-Director of the Mútua Assessoria de Comunicação Sector: Communication (1982-1991); Several positions held as a journalist on radio and television stations (1975-1987).

Training and certifications: Master in Business Administration from FEAUSP - University of São Paulo. Bachelor in Social Communication, - Journalism - Universidade Paulista, SP. Certified as Board Member of the. IBGC (2009) and Mediator by the Center for Effective in Dispute Resolution (CEDR), London (2010).

Table of Contents

CLEARANCE CERTIFICATE FOR MEMBER OF THE BOARD OF DIRECTORS OF VALE S.A.

Name	Sandra Maria Guerra de Azevedo
Nationality	Brazilian
Marital status	Widow
Address	Diogo Jácome St., 518 B 3/232 São Paulo/ SP CEP: 04512-001
Position held in the company	Independent director of the Board of Directors
Profession	Businesswoman
Tax ID number (CPF)	947.562.798-72
Identity and general registry entity	RG 5.146.339-8 SSP/SP
Address to receive general quotations	Diogo Jácome St., 518 B 3/232 São Paulo/SP, CEP: 04512-001

I declare for the proper purposes and under the terms of CVM Instruction no. 367/02, article 147 of Law no. 6.404/76 and article 1.011 of Law 10.046/02 that:

- I I am not barred by special law, nor have I been sentenced for bankruptcy, prevarication, bribery, corruption, embezzlement, against the welfare, public faith or property, or criminal penalty that prohibits me, even if temporarily, the access to public offices,
- II I meet the requirement of good standing established in paragraph 2 of article 147 of Law 6,404/76 and,
- III - I do not hold office in an advisory council, board of directors or audit committee in a company that may be considered a competitor of the company, and I do not maintain or represent conflict of interests with the company, in accordance with subsections I and II of paragraph 3 of the art. 147 of the Law 6.404/76.

This statement is signed in 2 (two) copies of equal content, with one counterpart being filed at the company's headquarters.

Rio de Janeiro, 5th of September, 2017

/s/ Sandra Maria Guerra de Azevedo

Signature

Sandra Maria Guerra de Azevedo

Table of Contents

Statement of Independence

I declare, for the proper purposes, that I am an Independent Director, since: (i) I do not have any connection with the company except from equity ownership; (ii) I am not a Controlling Shareholder, spouse or second-degree relative of the controlling shareholder, or I am not or have not been, in the last 3 (three) years, connected to the company or any entity related to the Controlling Shareholder (people linked to public educational institutions and / or research institutions are excluded from this restriction); (iii) I have not been, in the last three (3) years, an employee or director of the company, or the Controlling Shareholder or a company controlled by the company; (iv) I am not a supplier or buyer, direct or indirectly, of services and / or products of the company, in a magnitude that implies in loss of independence; (v) I am not an employee or administrator of a company or entity that is offering or demanding services and / or products to the society, to a degree that implies in loss of independence; (vi) I am not a spouse or second-degree relative of any administrator of the society; and (vii) I will not receive any other remuneration from the company other than that related to the position of director (cash proceeds from equity ownership are excluded from this restriction).

São Paulo, 12th of September, 2017

/s/ Sandra Maria Guerra de Azevedo
Sandra Maria Guerra de Azevedo

Table of Contents

Items 12.5 to 12.10 of the Reference Form

12.5-Registration data and professional experience:

Name: Sandra Maria Guerra de Azevedo (Sandra Guerra)

Date of Birth: 04/27/1955

Administrative body: Candidate to the Board of Directors

Date of election: 10/18/2017

Date of Taking Office: until 11/17/2017

Term of office: until the Annual General Meeting of 2019

Number of Terms in Office: N/A

CPF: 947.562.798-72

Profession: Businesswoman

Elective position to be occupied: Independent Director of the Board of Directors (Effective)

Was elected by the controller: No.

Other positions or duties exercised at Vale: N/A

Percentage of participation in meetings: N/A

Has acted or acts as manager in a company which belongs to Vale's economic group or is controlled by a holder, directly or indirectly, of a relevant stake in Vale (equal to or above 5%): No.

Professional experience / Declaration of possible convictions / Criteria of Independence

Sandra Maria Guerra de Azevedo 947.562.798-72

Current positions: Managing Partner of Better Governance Consulting Services. Sector: Consulting Services (2005-current); Member of the Board of Directors of Vix Logística SA (2015- current) Sector: Logistics and Transportation; Board of Directors of: Global Reporting initiative (GRI) Sector: Non-Profit Organization (2017 - current),

Previous positions: Board Member of Copel SA Sector: Utilities (2016- 2017), Chairman of the Board of Directors of the Brazilian Institute of Corporate Governance - IBGC Sector: Non-Profit Organization (2012-2016); Member of the advisory board of Solvi Participações Sectors: Waste Treatment; Sanitation; Renewable energy; Construction (2011-2013); Member of the Board of Directors of Coteminas S.A. Sector: Textiles (2007-2010); Board of Directors of the International Corporate Governance Network - ICGN Sector: Non-Profit Organization (2001-2004; 2010-2012); Member of the Nomination Committee (2012-2015) and member of the Principles Revision Committee at ICGN (2009); Member of the Advisory Board (2009-2013) and Coordinator of the Organization and People Committee (2010-2013) of the Itapemirim Group Sector: Transportation; Board Member of the Brazilian Institute of Corporate Governance - IBGC (1995-2001); Member of the Board of Directors of Mundo Media SA (2000-2002) Sector: Digital Media; Member of the Advisory Board of InVent Sector: Internet (2002-2003); Director of Marketing (2000-2005) and also Chief Information Officer (CIO) (2003) of CPM SA Sector: Information Technology; Country Manager of the Institute for International Research of Brazil - IIR Sector: Events, Conferences and Training (1996-1999); Partner and Senior Consultant at Paradygma Marketing and Communication Sector: Marketing (1991-1996); Partner-Director of the Mútua Assessoria de Comunicação Sector: Communication (1982-1991); Several positions held as a journalist on radio and television stations (1975-1987).

Training and certifications: Master in Business Administration from FEAUSP - University of São Paulo. Bachelor in Social Communication, - Journalism - Universidade Paulista, SP. Certified as Board Member of the IBGC (2009) and Mediator by the Center for Effective in Dispute Resolution (CEDR), London (2010).

She is not related to any of the following events: (i) any criminal conviction; (ii) any conviction in an administrative proceeding of the CVM; and (iii) any conviction in the judicial and administrative spheres.

Table of Contents

12.6 - Percentage of Participation in Board Meetings of the last fiscal year, carried out by the respective organ that occurred after tenure in Office:

Does not apply.

12.7 - Information mentioned in item 12.5 in relation to the members of the statutory committees, as well as the audit committees, risk, financial and remuneration, even if such committees or structures are statutory:

Does not participate in any committee of the company.

12.8 - Information on acting as a member of statutory committees, as well as on audit committees, risk, financial and remuneration:

Does not participate in any committee of the company.

12.9 - Information on the existence of a marital relationship, stable union or kinship up to the third degree between:

a. Company directors:

There is no kinship between the candidate to the board of directors and the other candidate indicated by Aberdeen Asset Management, nor with the company's current managers and board directors.

b. (i) manager of the Company and (ii) managers of the Company's direct or indirect subsidiaries.

There is no kinship between the candidate to the board of directors and the other candidate indicated by Aberdeen Asset Management and the officers and board directors of companies directly or indirectly controlled by the Company.

c. (i) managers of the Company or its subsidiaries, direct or indirect and (ii) direct or indirect controllers of the Company.

There is no kinship between the candidate to the board of directors and the other candidate indicated by Aberdeen Asset Management and the Company's controllers.

d. (i) Officers and board directors of the Company and (ii) officers and board directors of the Company's direct and indirect subsidiaries.

There is no relationship between the candidate to the board of directors and the other candidate indicated by Aberdeen Asset Management and the **officers and board directors** and fiscal council members of the Company's direct or indirect subsidiaries.

12.10 Information about relationships of subordination, service or control maintained, in the last 3 (three) fiscal years, between the officers and board directors of the Company.

a. company controlled, directly or indirectly, by the Company.

There were no relationships of service provision, subordination or control in the 3 (three) last fiscal years of the signatory counselor with the other candidate indicated by Aberdeen Asset Management or with the **officers and board directors** of companies directly or indirectly controlled by the company. Meanwhile, by the principle of maximum transparency, the candidate informs that she has provided corporate governance improvement services to VLI S.A., a company in which Vale S.A. is a member of the Control Group together with three other organizations.

Table of Contents

b. Direct or indirect controller of the Company.

Not applicable, since there is no relationship of subordination, service provision or control, maintained in the last three fiscal years between the candidate for the board and the direct or indirect controllers of Vale.

c. If relevant, provide, customer, debtor or creditor of the Company, of your controlled or controlling shareholders or subsidiaries of any of these people.

Not applicable, since there are no relationships of subordination, service provision or control, maintained in the last 3 (three) fiscal years, between the candidate for the board and suppliers, customers, debtors or relevant creditors of Vale, its subsidiaries or its parent companies or controlled of any of these persons. However, due to the principle of maximum transparency, the candidate informs that she is a board member of Vix Logística S.A. who provides definite logistic services to Vale.

/s/ Sandra Maria Guerra de Azevedo
Sandra Maria Guerra de Azevedo

Table of Contents

Isabella Saboya de Albuquerque: Member of the Board of Directors of Wiz Soluções e Corretagem de Seguros (formerly FCP PAR Corretora, insurance industry) and vice-chairman of the Board of Directors of IBGC, a non-profit institution. She was a member of the fiscal board of Mills S.A. (2016), from infrastructure sector, member of the Board of Directors and coordinator of the Audit Committee of Br Malls Participações SA (2016/17), from mall industry. She was a partner at Jardim Botânico Investimentos (2009/15) and investidor Profissional (2001/09), both from asset management industry. Member of the Board of Directors of Dimed / Panvel (2006/07) and Casashow (2008/09), both from retail sector. Alternate member of BoD de Mills S.A. (2008/09), infrastructure sector. Member of the Fiscal Council of Café Iguaçu (2002/04), coffee sector, and Dirned Panvel (2004/05), retail sector. Adviser to the CVM presidency (2000 and 2001), having participated in the formulation of the Lei das S.A. Reform Project and the GTMC (Capital Markets Working Group). Worked on the formulation of a Code of Corporate Governance launched by CVM. Head of the analysis department of Banco Icatu (1999-2000), banking sector. Senior analyst at Banco Icatu (1995-2000), banking sector. He graduated in Economics from the Pontifical Catholic University of Rio de Janeiro - PUC-RJ (1993). She is CFA (Certified Financial Analyst - AIMR 2000) and Board Member certified by the IBGC (2015), non-profit institution.

/s/ Isabella Saboya

Table of Contents

Statement of Independence

I declare, for the proper purposes, that I am an Independent Director, since: (i) I do not have any connection with the company except from equity ownership; (ii) I am not a Controlling Shareholder, spouse or second-degree relative of the controlling shareholder, or I am not or have not been, in the last 3 (three) years, connected to the company or any entity related to the Controlling Shareholder (people linked to public educational institutions and / or research institutions are excluded from this restriction); (iii) I have not been, in the last three (3) years, an employee or director of the company, or the Controlling Shareholder or a company controlled by the company; (iv) I am not a supplier or buyer, direct or indirectly, of services and / or products of the company, in a magnitude that implies in loss of independence; (v) I am not an employee or administrator of a company or entity that is offering or demanding services and / or products to the society, to a degree that implies in loss of independence; (vi) I am not a spouse or second-degree relative of any administrator of the society; and (vii) I will not receive any other remuneration from the company other than that related to the position of director (cash proceeds from equity ownership are excluded from this restriction).

São Paulo, 13th of September, 2017

/s/ Isabella Saboya de Albuquerque
Isabella Saboya de Albuquerque

Table of Contents

CLEARANCE CERTIFICATE FOR MEMBER OF THE BOARD OF DIRECTORS OF VALE S.A.

Name	Isabella Saboya de Albuquerque
Nationality	Brazilian
Marital status	Divorced
Address	Povina Cavalcanti St., 153/1301 Rio de Janeiro RJ, CEP: 22610-080
Position held in the company	Independent director of the Board of Directors
Profession	Consultant
Tax ID number (CPF)	017.919.007-55
Identity and general registry entity	RG 08.423.778-3 IFP/RJ
Address to receive general quotations	Povina Cavalcanti St., 153/1301 Rio de Janeiro RJ, CEP: 22610-080

I declare for the proper purposes and under the terms of CVM Instruction no. 367/02, article 147 of Law no. 6.404/76 and article 1.011 of Law 10.046/02 that:

- I I am not barred by special law, nor have I been sentenced for bankruptcy, prevarication, bribery, corruption, embezzlement, against the welfare, public faith or property, or criminal penalty that prohibits me, even if temporarily, the access to public offices,
- II I meet the requirement of good standing established in paragraph 2 of article 147 of Law 6.404/76 and,
- III - I do not hold office in an advisory council, board of directors or audit committee in a company that may be considered a competitor of the company, and I do not maintain or represent conflict of interests with the company, in accordance with subsections I and II of paragraph 3 of the art. 147 of the Law 6.404/76.

This statement is signed in 2 (two) copies of equal content, with one counterpart being filed at the company s headquarters.

Rio de Janeiro, 5th of September, 2017

/s/ Isabella Saboya de Albuquerque
signature
Isabella Saboya de Albuquerque

Table of Contents

Items 12.5 to 12.10 of the Reference Form

12.5 Registration data and professional experience:

Name: Isabella Saboya de Albuquerque

Date of Birth: 08/25/1970

Administrative body: Candidate to the Board of Directors

Date of election: 10/18/2017

Date of Taking Office: 11/17/2017

Term of Office: until the Annual General Meeting of 2019

Number of terms in Office: Consecutive - N/A

CPF: 017.919.007-55

Profession: Securities consultant.

Elective position to be occupied: Independent Director of the Board of Directors (Effective)

Was elected by the controlling shareholder: No

Other positions or duties exercised at Vale: N/A

Percentage of attendance at meetings: N/A

Has acted or acts as manager in a company which belongs to Vale's economic group or is controlled by a holder, directly or indirectly, of a relevant stake in Vale (equal to or above 5%): No. It is worth noting that from April to July 2016, Isabella was a fiscal board member of Bradespar, appointed by minority shareholders (GAP).

Professional experience / Statement of possible convictions / Criteria of Independence

Isabella Saboya de Albuquerque 017.919.007-55

Isabella Saboya de Albuquerque: Member of the Board of Directors of Wiz Soluções e Corretagem de Seguros (formerly FCP PAR Corretora, Insurance Industry) and vice-chairman of the Board of Directors of IBGC, a non-profit institution. She was a member of the fiscal board of Mills S.A. (2016), from infrastructure sector, member of the Board of Directors and coordinator of the Audit Committee of Br Malls Participações SA (2016/17), from mall

industry. She was a partner at Jardim Botânico Investimentos (2009/15) and Investidor Profissional (2001/09), both from asset management industry. Member of the Board of Directors of Dimed / Panvel (2006/07) and Casashow (2008/09), both from retail sector. Alternate member of BoD de Mills S.A. (2008/09), infrastructure sector. Member of the Fiscal Council of Café Iguazú (2002/04), coffee sector, and Dimed Panvel (2004/05), retail sector. Adviser to the CVM presidency (2000 and 2001), having participated in the formulation of the Lei das S.A. Reform Project and the GTMC (Capital Markets Working Group). Worked on the formulation of a Code of Corporate Governance launched by CVM. Head of the analysis department of Banco Icatu (1999-2000), banking sector. Senior analyst at Banco Icatu (1995-2000), banking sector. He graduated in Economics from the Pontifical Catholic University of Rio de Janeiro - PUC-RJ (1993). She is CFA (Certified Financial Analyst - AIMR 2000) and Board Member certified by the IBGC (2015), non-profit institution.

She is not related to any of the following events: (i) any criminal conviction; (ii) any conviction in an administrative proceeding of the CVM; and (iii) any conviction in the judicial and administrative spheres.

12.6 - Percentage of Participation in Board Meetings of the last fiscal year, carried out by the respective organ that occurred after tenure In Office:

Does not apply.

12.7 - Information mentioned in item 12.5 in relation to the members of the statutory committees, as well as the audit committees, risk, financial and remuneration, even if such committees or structures are statutory:

Does not participate in any committee of the company.

12.8 - Information on acting as a member of statutory committees, as well as on audit committees, risk, financial and remuneration:

Does not participate in any committee of the company.

Table of Contents

12.9 - Information on the existence of a marital relationship, stable union or kinship up to the third degree between:

a. Company directors:

There is no kinship between the candidate to the board of directors and the other candidate indicated by Aberdeen Asset Management, nor with the company's current managers and board directors.

b. (i) manager of the Company and (ii) managers of the Company's direct or indirect subsidiaries.

There is no kinship between the candidate to the board of directors and the other candidate indicated by Aberdeen Asset Management and the officers and board directors of companies directly or indirectly controlled by the Company.

c. (i) managers of the Company or its subsidiaries, direct or indirect and (ii) direct or indirect controllers of the Company.

There is no kinship between the candidate to the board of directors and the other candidate indicated by Aberdeen Asset Management and the Company's controllers.

d. (i) Officers and board directors of the Company and (ii) officers and board directors of the Company's direct and indirect subsidiaries.

There is no relationship between the candidate to the board of directors and the other candidate indicated by Aberdeen Asset Management and the officers and board directors and fiscal council members of the Company's direct or indirect subsidiaries.

12.10 Information about relationships of subordination, service or control maintained, in the last 3 (three) fiscal years, between the officers and board directors of the Company.

a. company controlled, directly or indirectly, by the Company.

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Not applicable, since there are no relationships of subordination, service rendering or control, maintained in the last 3 (three) fiscal years, between the appointed Director and a company directly or indirectly controlled by Vale.

b. Direct or indirect controller of the Company.

Not applicable, since there are no relationships of subordination, service provision or control, maintained in the last 3 (three) fiscal years between the Director and the direct or indirect controllers of Vale. It is worth mentioning that from April to July 2016, Isabella held the position of fiscal board member of Bradespar, appointed by minority shareholders (GAP).

c. If relevant, provide, customer, debtor or creditor of the Company, of your controlled or controlling shareholders or subsidiaries of any of these people.

Not applicable, since there are no relationships of subordination, service provision or control, maintained in the last 3 (three) fiscal years, between the candidate for the board and suppliers, customers, debtors or relevant creditors of Vale, its subsidiaries or its parent companies or controlled of any of these persons.

/s/ Isabella Saboya de Albuquerque
Isabella Saboya de Albuquerque

Table of Contents

Rio de Janeiro, September 13th, 2017.

FOR

VALE S.A.

CNPJ 33.592.510 / 0001-54

A / C Mr. Luciano Siani pires - Executive Director of Finance and Investor Relations

A / C Mr. Gueitiro Matsuo Genso - Chairman of the Board of Directors

Ref: AGM of 2017 - Indication for Election of Members of the Board of Directors.

TEMPO CAPITAL PRINCIPAL FUNDO DE INVESTIMENTO DE AÇÕES, investment fund, registered with the CNPJ/MF under 11.046.362/0001-30, herein represented by its manager, TEMPO CAPITAL GESTÃO DE RECURSOS LTDA, established at, Rua do Carmo, n 8, Grupo 502, Downtown, ZIP COD 20011-020, registered with the CNPJ/MF under n 00.533.944/0001-24, **GERAÇÃO FUTURO L. PAR INVESTMENT FUND IN SHARES**, registered with CNPJ / MF under 08.935.128 / 0001-59, herein represented by its manager GF GESTÃO DE RECURSOS LTDA., registered with the CNPJ / MF under No. 09.630.188 / 0001-26, with its registered office in the City of Rio de Janeiro, State of Rio de Janeiro, at Praça XV de Novembro, n 20, Group 1201B, Center, **VICTOR ADLER**, Brazilian, divorced, established at, Rua da Assembleia, 10 - Grupo 2.701 Downtown, Rio de Janeiro, RJ enrolled in the CPF under no. 203,840,097-00, **OCEANA INVESTIMENTOS ADMINISTRADORA DE CARTEIRA DE VALORES MOBILIÁRIOS LTDA**, registered with the CNPJ / MF under 09.326.542/0001-23 established at, Rio de Janeiro, State of Rio de Janeiro, at, Rua Visconde de Pirajá, n 430, 11 floor, Ipanema, ZIP CODE: 22410-002, herein represented according you BY LAW (Oceana Investimentos), hereby appoints, **OCEANA VALOR MASTER FUNDO DE INVESTIMENTOS DE AÇÕES**, investment funds, registered with the CNPJ MF under **18.454.944/0001-02**, **HAGOP GUEREKMEZIAN**, Brazilian, married, registered with the CPF under n 455.968.408-15, **HAGOP GUEREKMEZIAN FILHO**, Brazilian, single, engineer, ID n 34.201.0001-1, registered with the CPF/MF under n 308.324.198-42, **KATHLEEN NIETO GUEREKMEZIAN**, Brazilian, single, businesswoman, ID n 34.203.000-0, registered with the CPF MF under **308.324.248-46**, **REGINA NIETO MOTTA GUEREKMEZIAN**, Brazilian, Married, Lawyer, ID 7.334.616-0, registered with the CPF / MF under 141.401.088-51, **KAROLINE GUEREKMEZIAN**, Brazilian, married, businesswoman, ID n 34.202.000-6, registered with the CPF/MF under 308.324.238-74, **JOSÉ PAIS RANGEL**, Brazilian, married, lawyer registered OAB/RJ n 22.191 registered with the CPF/MF under 239.775.667-68, **MELKEZEDEV SOARES**, registered with the CPF / MF under, 564.797.518-68, **FLÁVIO GIESTEIRA**, registered with the CPF/MF 154.306.078-19, **MARCELO GASPARINO DA SILVA**, Brazilian, married, lawyer, OAB/DF 20.473, ID 2.302.967, registered with the CPF/MF under 807.383.469-34, individually and jointly by shareholders holders together of ordinary shares and preferred shares with voting rights in this company, hereby present, the nomination of candidates to the Board of Directors of Vale S / A, in accordance with the Market Announcements dated August 24, 2017 and September 6,

2017, formalize, in advance, the nomination of candidates to the Company's Board of Directors, as follows:, as follows:

1. As a candidate for the Board of Directors, for the planned vacancy in accordance with **Item 1 of paragraph 4 of Article 141 of Law 6,404 / 1976**, where the voting shareholders are holders of common shares, **MARCELO GASPARINO DA SILVA**, as the holder and **BRUNO C. H. BASTIT**, as the alternate;

2. Alternatively, in the event that the quorum of item 1 above is not formed, as a **candidate for the Board of Directors**, for the planned vacancy in accordance with **paragraph 5 of Article 141 of Law 6.404 / 1976**, where the voting shareholders together are holders of common and preferred shares, will compete **MARCELO GASPARINO DA SILVA** as the holder and **BRUNO C. H. BASTIT** as his alternate.

3. Regardless of the result and the actual accomplishment of the elections listed in items 1 and 2 above, as candidate for the Board of Directors, at least one of the vacancies that will be filled by the majority

Table of Contents

election process shall be submitted by **RICARDO REISEN DE PINHO** as the holder and **MARCIO GUEDES PEREIRA JUNIOR**, as his alternate.

Attached, we send the curriculum of the two indications, one for a separate election process (Annex 2), another for majority voting process (Annex 3), and documents and information provided in instruction 481, in its art. 21-M, according to guidelines contained in item 12.2 of the Company's Reference Form (Appendix 4).

It should be emphasized that the purpose of this lawsuit is to enable Brazilian and international investors holding preferred and common shares to exercise, in an equitable manner, equal voting rights with other candidates indicated by other minority shareholders. In order to so, the Company must include the candidates on the American Deposit Receipts (ADRs) Holders' Voting Note (Proxy Card), since, according to the Brazilian Securities and Exchange Commission (CVM), the requirements set forth in Articles 21-A and following, of CVM instruction 481/09 do not apply to the inclusion of applications in the proxy card.

In the same way, in particular, the importance of communicating such candidates to the representatives of non-resident investors in the English language of this present requirement and not least is that disclosure is given in the exact terms of this letter, with full transparency of the form and procedures by which the candidates are positioning themselves, and their respective curricula.

All communications regarding this document may be made in writing and delivered, by electronic mail (E-mail) or by correspondence, with proof of receipt, to the addresses indicated below.

Rua Marquês de Paranaguá, 348, 8th floor. CEP 01303-050

Tel: (11) 3156-2340. Fax: (11) 31562344

At: Dr. Daniel Alves Ferreira - 011 999749155

E-mail: daferreira@mpmae.acv.br

Best regards,

List of other shareholders

/s/ DANIEL ALVES FERREIRA
DANIEL ALVES FERREIRA
OAB/SP 140.613

/s/ GUILHERME PANISSET BARRETO BERNARDES
GUILHERME PANISSET BARRETO BERNARDES
OAB/RJ 183.455

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José Pals Rangel
Hagop GuerekmezianHagop
Guerekmezian Filho
Karoline Gherekmezian Veloso
Kathleen Nieto Guerekmezian
Regina Nieto Motta Guerekmezian
Melciezedech Trajano Soares
Oceana Investimentos Ltda
Geração Futuro L. Par
Flavio Giesteira

Tempo Capital Principal FIA
Victor Adler

Table of Contents

ATTACHMENT 2 English version

I - BOARD OF DIRECTORS

1. HOLDER IN ELECTION SEPARATELY BY THE ONs SHARES - SECTION I OF ARTICLE 4 141 LSA: MARCELO GASPARINO DA SILVA, with BRUNO C. H. BASTIT as alternate.

2. If a quorum is not formed in the separate elections of preferred shares or common shares, unifying the two classes - preferred and common: HOLDER ON ELECTION SEPARATELY BY SHARES ONs AND PNs - § 5 ARTICLE 141 LSA: MARCELO GASPARINO DA SILVA as holder, with BRUNO CH BASTIT as his alternate.

EXPERIENCE

MINI CVs OF THE CANDIDATES:

MARCELO GASPARINO DA SILVA

Chairman and member of boards of directors and fiscal, coordinator and member of committees of finance, auditing, risks, legal and related parties in publicly-held companies. Lawyer Specialist in Corporate Tax Administration by ESAG and MBA in Controlling, Auditing and Finance (attending).

He is Chairman of the Board of Directors of ETERNIT (NM), Board Member of AES ELETROPAULO (Level 2), CEMIG (Level 1) and KEPLER WEBER (Level 1), and alternate member of the Fiscal Council of PETROBRAS (Level 1).

He was Chairman of the Board of Directors of Usiminas, a member of the boards of directors of Bradespar, Celesc, Eletrobras, Tecnisa and Vale, as well as Usiminas. He was Fiscal Council Member of Bradespar, AES Eletropaulo, AES Tietê and Eletrobras.

He is Chairman of the Related Party Committee of AES Eletropaulo, member of the Finance, Audit and Risk Committee of CEMIG and of the Audit Committee of AES Eletropaulo.

At AES Eletropaulo, he actively participates in the entire process of preparing the Company for the migration to the Novo Mercado - NM with the segregation of activities, management and managerial positions, review of contracts involving AES Corp and its subsidiaries (related parties) the migration approved on 09/12/17 can be carried out in the shortest possible time, since the Company will no longer have a controlling shareholder in 2017, which will occur in Vale only in 2019.

Table of Contents

He was a founding partner of Gasparino, Sachet, Roman, Barros & Marchiori Advogados, where he worked as a lawyer until 2006. He started his executive career as CELESC's Legal and Institutional Director in 2007.

He participates in the CEO Program FGV 2016/2018 (IBE / FGV / IDE). He attended the Executive Program on Mergers and Acquisitions at London Business School and specific courses in the financial and strategic areas at the IOD - Institute of Directors in London. He is co-founder and Coordinator of the Santa Catarina Chapter, Certified Management Advisor and composes the IBGC Board of Directors. He is a member of the Technical Committee of AMEC and the Corporate Governance Group - GGC.

With a solid background in Corporate Governance, Corporate and Tax Law and experience in boards of directors and tax, he contributed to IBGC and AMEC in the construction of the Brazilian Corporate Governance Code - CBGC and from its work in all the companies that it is working on, especially the APPLY OR EXPLAIN model, a system that recognizes the practice of corporate governance as a journey that should not translate into a rigid model of regulation applicable equally to all companies.

With passages in companies from the mining, steel and steel transformation, generation, transmission and distribution of energy, natural gas distribution, port, base industry, civil construction, building materials and finishes, vehicle distribution and holding company acquired knowledge in industry, commerce and services, skills that allow constructive contribution in the most diverse subjects and strategies that are dealt with in the boards that participate, such as turnaround, capital structure, merger & acquisitions, sale of non core assets, succession of executives, crisis management, change of corporate governance levels of B3, among others.

PROFESSIONAL QUALIFICATION

CEO Program FGV 2016/2018

(IBE / FGV / IDE)

Examining Board of Directors.

Brazilian Institute of Corporate Governance - IBGC

Component of the Bank of Counselors and Community CCI

IBGC

MBA in Auditing, Controllershship and Finance (attending)

Getulio Vargas Foundation - FGV

Table of Contents

Specialization in Corporate Tax Administration

SOCIESC / ESAG

Law graduation

Federal University of Santa Catarina - UFSC

PROFESSIONAL EXPERIENCE

Mandates in progress

ETERNIT - Chairman of the Board of Directors - 2017-108

Independent member of the Board of Directors - 2014/2018

• Eternit is a Corporation, an integrated industry and leader in the production of asbestos coatings and chrysotile mineral extraction. It faced the defenses of the crisis of the Brazilian economy that reached critical levels in 2016, generating a strong retraction of its businesses. As Chairman of the Audit, Risks, Legal and Compliance Committee, he took on the responsibility of accompanying the negotiations with the Public Prosecutor's Office in order to find a continuity solution for the extraction of the chrysotile mineral and a transition process of production with asbestos fiber chrysotile for production with alternative fiber. In this sense the Company has already built an alternative fiber factory produced with Polixxxxx - PP. Elected Chairman in April 2017 was given the task of accompanying and coordinating with legal advisers the negotiations with the Federal Supreme Court - STF, Superior Labor Court - TST, Ministry of Mines and Energy - MME and the Public Ministry of Labor, the transition in a up to 10 years to migrate 100% of production with chrysotile asbestos fiber for alternative fiber production. The subsidiaries Tégula and Comanhia Sulamericana de Cerâmica - CSA, a joint venture with the market leader in South America, the Colombian Corona, are complementary operations and are undergoing a review process by the Board. The Board plays constant follow-up to the board and initiated in 2016 renewal process, initiated by the choice of a new CEO. The goal is to prepare the company for a new development cycle, leveraging the know-how of current executives in strategic positions.

AES Eletropaulo - Independent member of the Board of Directors - 2016/2018

- Eletropaulo Metropolitana SA AES Eletropaulo composes the AES Corp Group and is a concessionaire of electric energy distribution services for Greater São Paulo, with more than 7 million customers and commercializing 43 GWh in 2016 is the largest electricity distributor in the Latin America by distributed energy. Elected by shareholders holding 10% of the preferred shares, the Board is focused on improving and implementing the best corporate governance practices and strict corporate debt control. In view of having been a member of the Board of Directors of companies in the electric power sector such as Eletrobras, he directly and personally follows the judicial process of the CTEEP / Eletrobras case in view

Table of Contents

of its great relevance and high impact risk to the Company. In 2016 he diverged on the transformation of common and preferred shares to defend exactly the opposite, that the Company that was already in Level 2 of Corporate Governance of the BM & FBovespa (now B3) should seek the unification of its shares, moving towards the Novo Mercado (CBGC 1.1.1). He supported the proposal for the conversion of the preferred shares into common shares, approved in February 2017, and the migration to the Novo Mercado, whose Extraordinary General Meeting was convened on 09/12/2017. He also proposed the creation of the Audit, Finance and Corporate Risks Committee (CBGC 4.1), whose approval occurred in August, which will be discussed in the first quarter of 2017. With the installation of the Related Party Committee for being one of the two independent members, he became part of and presided over the said structure, which will give its opinion on operations with potential risk of conflict of interest (CBGC 5.2). He works closely with Management in preparing the Company for the migration to the Novo Mercado.

CEMIG - Independent member of the Board of Directors - 2016/2018

- Centrais Energeticas de Minas Gerais SA CEMIG is the largest integrated energy company in Brazil, a group of more than 200 SPEs, with operations in several Brazilian states, Controlling Cemig Distribuição and Cemig Geração e Transmissão, Control of TAESA and LIGHT. It serves more than 10 million consumers, has a generator park formed by 79 hydroelectric, 27 wind, 2 thermal and 1 solar. It totals 8.1 GW of installed capacity and 9.5 thousand km of transmission lines. Elected by a long-term preferred shareholder holding 10% of the Company's capital stock and whose objective is to actively participate in the Company's restructuring and recovery process, he actively participates in the Finance, Audit and Corporate Risks Committee that coordinated the renewal of R \$ 2.5 billion of the Company's corporate debt at the end of 2016. The new State Law will streamline Cemig's recovery process and the three independent members of the Board, three appointed by the FIA Dynamics Energy / Banco Classic / Geração Futuro L Par and one indicated by BNDESPar will play a key role.

In 2017, the sale of Renova Energias Renovaveis assets to AES Tietê, Brookfield and Engie will allow for the financial recovery of the investee, and the announcement of the sale for participation in the control group of Light will equate the corporate debt of the Carioca concessionaire.

- But the biggest challenge is the dispute for the four hydroelectric plants of São Simão, Jaguará, Miranda and Volta Grande, which the Federal Government put up for auction in September at a price of R \$ 11 billion, a matter that independent councilors have accompanied daily since they are 2,000 MW of installed capacity that are vital to the Company's economic-financial balance. Recently an injunction granted in Popular Action has suspended the auction of the four plants, and now a composition is expected with the Ministry of Mines and Energy so that the concession contracts are respected and renewed.

Table of Contents

KEPLER WEBER - Independent member of the Board of Directors - 2017/2018

- Kepler Weber S.A. is a company focused in the metal-mechanic sector, with the worldwide position of prominence in the supply of grain storage systems and continuously seeking the forefront in all its segments of operation, having as main objective to be the best in the development of solutions for the public.

With factories in Rio Grande do Sul and Mato Grosso do Sul, it operates in the agribusiness sector, in the post-harvest stage of the grain production chain. We manufacture equipment for the storage, processing and handling of bulk, being specialized in the development of complete solutions in storage for its clients. Our product portfolio consists of metal silos, horizontal and vertical conveyors, dryers and grain cleaning machines.

Trading companies, cooperatives, food processing / industrialization industries, as well as medium and large grain producers, form Kepler Weber's client portfolio, for which tailor-made turnkey projects are developed.

Corporation has been in the market for more than 85 years and has been a leading exporter in the South American market for more than 40 years. Its agile and integrated structure aims to contribute to the final results of its clients and also to the maximum profitability of its shareholders.

Brazil is among the world's largest agribusiness powers, with an annual grain production of more than 145 million tons, of which more than 90 million go through a solution Kepler Weber, the largest Brazilian company in the sector of storage, processing and handling of grains.

The Company is in the process of changing its shareholding structure with Previ and Banco do Brasil -BB-BI signing a contract to sell its shares to AGCO do Brasil and the Independent Member was elected to follow this process and preserve the interest of the Company, the other shareholders and its stakeholders, since there is a proposal for the acquisition of the remaining shares.

PROFESSIONAL EXPERIENCE

Completed mandates

USIMINAS - Chairman of the Board of Directors - 2015/2016

Independent member of the Board of Directors - 2012/2016

- Usinas Siderurgicas de Minas Gerais S.A. Usiminas is an integrated company in the production of flat steel and steel transformation and distribution through its subsidiaries Mineração Usiminas - MUSA,

Table of Contents

Soluções Usiminas - SU and Usiminas Mecânica - USIMEC. With the entry of the Techint Group into the control block, preferred shareholders led by a shareholder holding 6% of the class joined to elect, for the first time, a member on the Board of Directors. The new executives sought to implement a new management format but there was a cultural conflict and this demanded a lot from the two independent members on issues involving operations between related parties, hence the NSC Group was already a solution provider through technology transfer and the Group TT began proposing several inter-company operations, some of which were highly inquiring. Since his inauguration he has included in the agenda of the Board the focus on core business and an agenda of non-strategic business divestitures such as Usiminas Automotiva, Usimec and even Musa. The first operation came to fruition with the sale of Automotiva, but an attempt to operate between Usimec related parties, coupled with a corporate crisis caused by a problem of compliance issues with the executives indicated by the TT Group, triggered the dismissal of the main executive and the beginning of the largest Brazilian corporate conflict. And at this moment the presence of independent members was vital to avoid paralysis of the Company and even the practice of illegalities. As the Control Group prevented its participation in the Audit Committee from issues related to the 2013 financial statements were not approved by the then Board Member. As the differences remained in 2014 in addition to voting against the financial statements, the independent member voted against the extension of the service contract of the independent external audit company, which at the time generated a lot of controversy but proved to be a wise decision, of the controlling group's shareholders filed a lawsuit to annul the approvals of the financial statements voted at the AGOs of 2013 and 2014. As a result of a deadlock within the Control Group was elected Chairman of the Board of Directors at Extraordinary General Meeting held on June 6, 04/2016 defeating two candidates and initiating a process that sought to pacify the conflicting shareholders and support management in the face of the significant reduction in steel consumption that occurred in 2014 and which intensified in 2015 and led the Company to a serious situation of financial stress, resulting in the adoption of several extreme measures the primary activities of the Cubatão Plant. As a result of Chairman's alerts initiated in August 2015, the Board of Directors began renegotiating with financial institutions in order to reflect the financial debt, which resulted in Standstill signed on 03/13/16, followed by capitalization of R \$ 1.05 billion at a time when The Company had only R \$ 200 million in cash, an operation that only materialized thanks to the involvement of the two independent members of the Board, Mauro Cunha and Marcelo Gasparino, who improved the NSSMC Group proposal by R \$ 4.30 to R \$ 5.00 the value of the new shares to be issued and reducing the risk of dilution of minority shareholders. Again the time showed that the decisions taken by the then Chairman were correct, since Usiminas was in a process of burning R \$ 200 million cash / month and after all the measures approved in the Council until April 2016 the Company maintained the same level of Caixa, around R \$ 1 billion, throughout 2016, which improved in 2017 with the reduction of MUSA's capital stock by R \$ 1 billion, and the portion that corresponded to Usiminas was R \$ 700 million, and today the steel mill's cash position exceeds R \$ 1.7 billion.

VALE - Alternate member of the Board of Directors - 2016/2017

- Vale is one of the world's largest miners, a leader in the production of iron ore, pellets and nickel, and is present in 30 countries. Brazilian shareholders are increasingly interested in closely monitoring the

Table of Contents

performance of their investees and the shareholder Geração Futuro L Par, holder of a direct position in the capital of the company and indirectly through Bradespar where he elected members in the Board of Directors and in the Fiscal Council decided to support the Company's management in the face of the extreme reduction in the price of iron ore in 2015 and the tragedy of Mariana in November 2015. In the last five years Vale has been responsible for the largest investment program in its history and the beginning of the production of S11D mine in 2016 will propitiate a new cycle of growth and consolidation of the leadership in ferro ore market. The resumption of operations of the Samarco joint venture will also be fundamental to overcome this difficult episode in the history of Brazilian mining, and the call of the Company to make it viable. The presence of two independent members on the Board of Directors as from the Ordinary General Meeting held on 10/18/17 of the Company will be a victory for all that the Company's preferred shareholders and minority shareholders hold and a great opportunity for collaboration by the Company's Management in the sense of more equity, transparency, compliance and results. to reach 2017.

- Specifically in relation to Vale his experiences in Vale itself, Usiminas, in Bradespar and currently in AES Eletropaulo, which is migrating to B3's New Market in 2017 and in the Presidency of Eternit's Board, which controls Sama Minerações Reunidas SA, which faces restrictions to the commercialization of Chrysotile Asbestos in Brazil will be determinant to allow that the arrival to the Board in the middle of a mandate is not prejudiced by the necessary period of learning that all the new member of a Board needs to know about the Company.

BRADESPAR - Independent member of the Board of Directors - 2015/2016

Independent member of the Supervisory Board - 2014/2015

- Bradespar is a holding company that participates in the Control Group of VALE and with representatives on the Board of Directors and in the committees of the subsidiary. The shareholder Geração Futuro L Par holds 6% of the Company's preferred shares and elected in 2015, for the first time in its history, an independent member of the Board of Directors. The experience was very valuable to the Board member who participated in the strategies discussed by one of the controllers of the largest iron ore producer in the world, as well as resulted in the intention of the minority shareholder to elect an Officer at Vale.

BATTISTELLA - Independent member of the Board of Directors - 2016/2017

- Battistella S.A. operates in the port logistics, heavy vehicles and forestry business, having been the largest Scania operation outside of Sweden, and currently serves the State of Paraná in this proceeding. The Port of Itapoá is a private mixed-use terminal for the handling of containers, capable of receiving large ships, of up to 9,800 TEUs. The forestry activity serves several markets in the Americas, Europe and Asia. Invited by minority shareholders holding 5% of the capital stock to compose the Board of Directors with the purpose of highlighting short-term financial challenges in the face of high leverage led a series of proposals that culminated in the capitalization of the Company in R \$ 100 million in December 2016,

Table of Contents

equating a financial debt of equivalent amount and a relevant tax liability, making possible a recovery of the capacity of payments and return to a situation of sustainability.

CELESC - Independent member of the Board of Directors - 2011/2014

- Centrais Elétricas de Santa Catarina SA is a mixed-capital company that controls Celesc Distribuição SA, a power distribution concessionaire for the State of Santa Catarina, Celesc Geração SA, which owns small hydroelectric plants - PCHs and SC Gás, public service concessionaire for the distribution of natural gas to the State of SC. As an independent member, he played a key role as Coordinator of the Legal and Audit Committee in the review of the Bylaws in 2011 and in the investigation of complaints in contracts that resulted in several corrective measures, as well as in the denunciation of the administrators involved in order to recover the damages caused.

ELETRORBRAS - Independent member of the Board of Directors - 2012/2014 and 2016

- Centrais Elétricas Brasileiras S.A. is the largest energy company in Latin America, and a state company that was involved in major scandals of Operation Lava Jato. When the Federal Government issued the Provisional Measure - MP 579/2012, the minority councilor elected not to participate in the vote that would approve the membership and resigned, leaving the minority orphans, without a voice that could present and mainly record arguments that would show how damaging would be the Company's adhesion to the early renewal of the concessions. Minority shareholders led by the Capital Market Investors Association (AMEC) elected and appointed the Director as a candidate at the Extraordinary Shareholders Meeting held on 12/3/12, the same one that also approved the Company's adhesion to the rules of MP 579/2012. Being elected, he began analyzing and questioning several businesses that were disadvantaged, in addition to proposing measures to improve management and Corporate Governance of Eletrobras. The objective of installing the advisory committees to the Board was raised to the Coordinator of the Audit Committee, Corporate and Legal Risks, where he began reviewing the most critical processes, such as the passive billionaire related to the so-called Compulsory Loan, to the purchasing processes and the strict compliance with the legislation and regulations that affected Eletrobras, its subsidiaries and SPEs. This has caused much discomfort within the Board. The Charter produced and sent by the Director a year after his election to the representative of the Controlling Shareholder, then President Dilma Rousseff one year after the election, added to the votes against the 2012 and 2013 financial statements generated a reaction from the Board and a change of interpretation by the Chairman's position at the AGM of 2014 prevented the re-election of the Director. In 2016 the shareholders Geração Futuro L Par, / Banco Classico and Fundo Jaburá were invited to return to the Board, which occurred through the Multiple Voting process for the first time in the Company's history. In three months of performance and again elected Coordinator of the Audit Committee, Corporate and Legal Risks led the Working Group constituted for the revision of the Company's Bylaws and subsidiaries Furnas, Chesf, Eletronorte and Eletrosul to adapt the requirements of the new State Law, approving draft to be submitted to the MME in the RCA of 07/15/2016. The announcement of a new regulatory framework for the electricity sector in July 2017 caused Eletrobras shareholders to seek the former adviser to understand the repercussions for the Company, which will once again be very damaging. Following the discussions in the Ministry of Mines and Energy- MME and with the President of Eletrobras sought to highlight the impracticability of Eletrobras

and that the discharging of the Company's plants.

Table of Contents

On August 21, 17, MME announces the Company's privatization as a result of a brilliant work carried out in 13 months by the new CEO Wilson Ferreira, who made history at CPFL Energia, who diagnosed that Eletrobras would not survive if kept under public control, with papers in B3 valuing 50% the day after the announcement.

The role of the board member elected by minority shareholders in a state-owned company is essential to evidence problems in business and contracts, as well as to compare their performance with privately held companies, as the State's inability to become a publicly-held company becomes increasingly evident.

TECNISA - Independent member of the Board of Directors - 2012/2014

- Tecnisa SA is one of the largest construction companies in Brazil, opened the capital of 2006 and began to face the difficulties of the economic downturn as of 2012. The Board member was propositive in the two years so that the Company re-adjusted its costs to the new reality that presented. However, management was slow to take the necessary actions and was not prepared for the serious real estate crisis that settled in 2014.

AES TIET - Independent member of the Supervisory Board - 2013/2014

- AES Tietê has hydroelectric plants in the State of São Paulo, is part of the AES Brasil Group, supplied to AES Eletropaulo and commercialized energy in the free market.

Institutional Consultant of the Innovare Award - Period: June 2004 - current (13 years, the oldest external consultant)

- **Conceived by Fundação Getúlio Vargas - FGV with fundamental support from CVRD (current VALE).**

Function: Consultant for Santa Catarina of the Innovare Prize - The Judiciary of the 21st Century - (<http://www.premioinnovare.com.br/>) organized by the following institutions: Ministry of Justice, which participates through the Secretariat for Judicial Reform, Association of Brazilian Magistrates - AMB, National Association of Members of the Public Prosecution Service - CONAMP, National Association of Public Defenders - ANADEP, Association of Federal Judges - AJUFE, National Association of Attorneys of the Republic - ANPR and Brazilian Bar Association.

UNISUL - University Professor from 2000 to 2002

- He taught subjects of financial law and tax law.

Table of Contents

MINISTRATED / DIRECTED LECTURES

- Corporate Governance and its importance in small and public companies - FACISC / ACIVALE 2017
- Whorkshop Assemblies Season 2017 - AMEC
- Voting of the Board Member - IBGC Chapter RJ 2016
- CORPORATE GOVERNANCE IN TIMES OF CRISIS - LIDE / SC 2015
- CORPORATE GOVERNANCE IN RETAIL - EXPOSUPER-ACATS / IBGC Chapter SC, 2014
- BUILDING EFFECTIVE ADMINISTRATION ADVICE - IBGC SC / FIESC Nucleus, October 2013.
- CORPORATE GOVERNANCE AND SUCCESSION IN FAMILY BUSINESSES - LIDE SC / IBGC Núcleo SC, June 2013.
- ARE YOU PREPARED TO PASS THE BAT? The PANEX case. ACIJS / IBGC Core SC, 2012.
- CORPORATE GOVERNANCE - Principles and Practices. South Chapter IBGC / FIESC, 2011.
- ENERGY TAX BRASIL FORUM BRAZIL. National Forum on Energy Taxation - IQPC. TOPIC: Energy chain and large consumption, 2010

COURSES AND SEMINARS

- 17th INTERNATIONAL CONGRESS ON CORPORATE GOVERNANCE. IBGC (participates since 2011)
- AMEC INVESTORS FORUM 2016 (participates since 2013)
- 17th MEETING COUNCIL PREVI, 2016 (participates since 2011)
- 4th Meeting of Board Members. IBGC, 2016 (participates since 2013)
- Workshop of Tax Counselors. PREVI, 2013.
- Technical Workshop Australian Institute of Company Directors / IACD - IBGC 2013
- ICGN - Annual Conference. Rio de Janeiro 2012
- ADVANCED COURSE FOR DIRECTOR OF ADMINISTRATION. IBGC 2010
- MERGES AND ACQUISITIONS PROGRAM - LONDON BUSINESS SCHOOL 2009

Table of Contents

BRUNO C. H. BASTIT

Founder & Managing Director - Quetzal Strategy - ESG Advisors (London, UK / New York, USA)

Aug. 14 - Current

- Independent consultant specialized in emerging markets providing solutions in corporate governance and integrated strategies of sustainability for companies and investors.
- Assistance to Boards of Directors and Executives in the creation of strategies and governance models for the management of Social, Environmental and Corporate Governance (ESG) risks.
- Strategic advice for success in communicating with investors.
- Counseling to integrate ESG strategies in the allocation of assets and investment processes.

Director / Consultant Mr. Governance, South America - Morrow Sodali (London, United Kingdom / São Paulo, Brazil)

Dec. 14 - Jan. 17

- Morrow Sodali is the largest independent global corporate governance consultancy, proxy solicitation, investor relations and shareholder services and capital markets.
- Advising the Boards of Directors, executives and teams of R.I. on matters related to corporate governance, ordinary and extraordinary meetings, shareholder activism, strategic communications, IPOs, debt operations and mergers and acquisitions.

Consultant Governance - AMEC, Capital Market Investors Association (São Paulo, Brazil) Sep. 14 - Dec. 14

- Project focused on state-owned enterprises. He was AMEC's representative at the OECD round table for LATAM.

Senior Analyst Governance & Sustainability - Hermes Investment (London, UK)

Mar. 09 - Aug. 14

- Head of the Department of or Responsible for operations in Latin America and Russia - formerly responsible for Africa, India, the Middle East and France.

Table of Contents

- Global Manager for Energy and Extractive Industries - Representative of Hermes at EITI (Extractive Industries Transparency Initiative).
- Counsel senior executives and members of the Board of Directors on corporate governance and sustainability risks, representing the interests of some of the largest pension funds and institutional investors in the world.
- In addition to engaging with companies and public policy, responsible for integrating key ESG factors within the Hermes investment process.

Member - Disclosure on Management Approach Working Group - GRI, Global Reporting Initiative (Amsterdam, The Netherlands)

Dec. 11 - Jan. 13

- Responsible for the content development of the G.4 GRI Sustainability Reporting Guidelines.

ESG Analyst - Innovest Strategic Value Advisors (London, UK)

Nov. 07 - Apr 08

- Responsible for the analysis of European & North American retail companies, focusing on ESG themes and related impacts on competitiveness and financial performance.

VOLUNTEER WORK

Independent Member of the Council - Grassroot Diplomat (Social Enterprise) (London, United Kingdom)

May 16 - Current

- The only social enterprise serving the global diplomatic community. Our mission is to strengthen relations between governments and civil society by innovating traditional practices of diplomacy.

Global Ambassador - Childreach International / Action for Brazil's Children Trust (NGO) (London, UK)

Jun. 12 - Current

- Global NGO working in 5 countries so that children can develop their own potential. In Brazil, ABC Trust is dedicated to helping street children and the most vulnerable youth.

Table of Contents

Coordinator of education and health projects - Beguedo International (NGO) (France / Burkina Faso)

Sep. 99 - May 02

- Responsible for fundraising, logistics and monitoring in France and Burkina Faso.

Project Manager - French Movement for Peace (NGO) (France / **Dakar, Senegal)**

Oct. 00 - Jun. 02

- Responsible for the creation of a library in Dakar, including activities for fundraising and logistics management.

ACADEMIC EDUCATION

Masters, International Political Economics - University of Warwick (Coventry, UK)

Oct. 07 - Sep 08

- Thesis: Market strategies to tackle global warming: A critical assessment of the international trade of CO2 emissions.

Bachelor, Politics, Economics & History of the Middle East - Durham University (Durham, UK)

Oct 03 - Jun 06

Baccalauréat French - Lycée Dominique Villars (Gap, France)

Set. 99 - Jun. 02

PROFESSIONAL QUALIFICATIONS & COURSES

Certification Program for Management Advisers - IBGC (São Paulo, Brazil)

Pending

Certificate of Investment Management (IMC) - CFA Society UK (London, UK)

Pending

Professional Certification for Investor Relations - Investor Relations Society UK (London, UK)

Apr 2016

Leadership in Sustainability Program - LEAD International (London, UK / Sofia, Bulgaria)

Jul. 12 - Mar. 13

Table of Contents

LANGUAGES

- French (Native), English, Spanish and Portuguese (full speaking and writing fluency).
- Intermediate (spoken and written) knowledge of Arabic.

LECTURES & PUBLIC INTERVENTIONS

- *Community relations in Latin America: Going back to basics on the industry's biggest challenge* , 4th Mining & Investment Latin America Summit (Lima, Peru) 24 & 25 Oct. 2016
- *Crisis Communications: Actionable Strategies* , BNY Mellon 6th Depositary Receipt Issuers Conference (DRIC) LATAM (Rio de Janeiro, Brazil) 28-30 Sep. 2016
- *(Re) building bridges: What do IR departments need to know in order to establish a productive dialogue with bondholders?* , Bonds, Loans & Derivatives Brazil 2016 (Sao Paulo, Brazil) 12-13 Apr. 2016
- *Preparing for the 2016 AGM Season: How to respond to international investors' ESG concerns & expectations* , BNY Mellon workshop (Sao Paulo, Brazil) 27 Jan. 2016
- *Corporate governance in focus: Understanding & responding to international investors' expectations*

BNY Mellon's Annual Mexico and Colombia Depositary Receipt Issuers Client Council, (Playa del Carmen, Mexico) 23 Sep. 2015

- *Politics & corporate governance in Brazil: What are the real, nominal & perceived impacts on the*

Brazilian economy & on Brazilian debt markets? , Bonds, Loans & Derivatives Brazil 2015 (Sao Paulo, Brazil)

20-21 May 2015

- *Preparing for the 2015 AGM season* , BNY Mellon workshop (Sao Paulo & Rio de Janeiro, Brazil)

27-25 Jan. 2015

- *The role of institutional investors in Brazilian corporate governance* , representing AMEC, OECD Latin

American Corporate Governance Roundtable Annual Meeting, (Bogota, Colombia) 18-19 Nov. 2014

- *M&A & joint ventures: Managing ESG risks & communicating it successfully to investors* , 2nd Mining &

Investment Latin America Summit (Lima, Peru) 27-28 Oct. 2014

- *ESG communications* , 7th BNY Mellon Investor Relations Seminar (London, UK) 23 Oct. 2014

Table of Contents

- *El panorama de gobierno corporativo para las juntas directivas en América Latina* , La Liga de Directores, 1st Edition, (Bogota, Colombia) 22-23 May 2014
- *ESG materiality for investors An introduction to responsible investment* , Guest lecturer, Cass Business School (London, UK) 16 Apr. 2014
- *How can miners in Latin America maintain positive community relations & reduce environmental impact whilst sustaining growth and investment?* , 1st Mining & Investment Latin America Summit (Lima, Peru) 18 Nov. 2013
- *Corporate democracy - Rights & duties of companies and investors* , 6th Annual AMEC Seminar (São Paulo, Brazil) 29 Oct. 2013
- *Integration of ESG into pension funds investment policy* , 2nd Russian Sustainability Investment Forum (Moscow, Russia) 10 Oct. 2013
- *Russian corporate governance code Changes, effects & practical solutions* , Sodali / BNY Mellon Conference (Moscow, Russia) 9 Oct. 2013
- *Activism vs. active ownership: how international investors are getting mobilized to improve competitiveness at investee companies* , PREVI 14th Corporate Governance Summit (Rio de Janeiro, Brazil) 27 Aug. 2013

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- *ESG materiality for investors* , Guest lecturer, Imperial College (London, UK) 17 May 2013
- *The benefits of carbon reporting for investors* , Carbon Reporting for Business, Investors & Policymakers, event organized by the UK Embassy in Russia (Moscow, Russia) 12 Mar. 2013
- *ESG opportunities & challenges: An institutional investor's view* , XVIII Jornadas del Plan de Pensiones de Empleados de Telefónica de España (Madrid, Spain) 3 Oct. 2012
- *ESG challenges & opportunities in Russia: An international investor's perspective* , 1st Russian Sustainability Investment Forum (Moscow, Russia) 12 Sep. 2012
- *Advancing responsible business in Colombia Engaging with local communities & addressing grievances An international investor's perspective* , UNPRI/UNGC Webinar 29 May 2012
- *Political donations in Emerging Markets* , ICGN Conference (London, UK) 20 Mar. 2012
- *Active voting in the Russian Market An international investor's perspective* , IPREO Roundtable on Proxy Voting in Russia (Moscow, Russia) 14 Feb. 2012
- *Key ESG considerations for investors in Russia & CIS* , C5 IPO & SPO in Russia & CIS Conference (London, UK) 21 Nov. 2011
- *Family owned enterprises: An international investor perspective* , IFC Corporate Governance Network

Table of Contents

Meeting (Beirut, Lebanon) 18 Nov. 2011

3. IN NOT HAVING A SEPARATE ELECTION OF ORDINARISTS OR PREFERENTIALISTS, UNITING BOTH OF THE CLASSES, AS A HOLDER IN ELECTION SEPARATELY BY ACTIONS ONs AND PNs - § 5 ARTICLE 141 LSA: MARCELO GASPARINO DA SILVA as holder, AND BRUNO C. H. BASTIT AS alternate.

Table of Contents

PROPOSED BY-LAWS OF

V A L E S.A.

75

Table of Contents

BY-LAWS

VALE S.A.

CHAPTER I - NAME, PURPOSE, HEAD OFFICE AND DURATION

Article 1 Vale S.A., referred to in abbreviated form as Vale, is a joint-stock company governed by the present By-Laws and by applicable legislation.

Sole Paragraph - Vale, its shareholders, directors, executive officers and members of the Fiscal Council are also subjected to the Corporate Governance Level 1 Listing Rules of BM&FBOVESPA S.A. - Bolsa de Valores, Mercadorias e Futuros (Level 1 Listing Rules).

Article 2 - The purpose of the company is:

I. the exploitation of mineral deposits in Brazil and abroad by means of extraction, processing, industrialization, transportation, shipment and commerce of mineral assets;

II. the building and operation of railways and the exploitation of own or third party rail traffic;

III. the building and operation of own or third party marine terminals, and the exploitation of nautical activities for the provision of support within the harbor;

IV. the provision of logistics services integrated with cargo transport, comprising generation, storage, transshipment, distribution and delivery within the context of a multimodal transport system;

V. the production, processing, transport, industrialization and commerce of all and any source and form of energy, also involving activities of production, generation, transmission, distribution and commerce of its products, derivatives and subproducts;

VI. the carrying-on, in Brazil or abroad, of other activities that may be of direct or indirect consequence for the achievement of its corporate purpose, including research, industrialization, purchase and sale, importation and exportation, the exploitation, industrialization and commerce of forest resources and the provision of services of any kind whatsoever;

VII. constituting or participating in any fashion in other companies, consortia or associations directly or indirectly related to its business purpose.

Article 3 - The head office and legal venue of the company shall be in the city of Rio de Janeiro, State of Rio de Janeiro, the company being empowered for the better realization of its activities to set up branch offices, subsidiary branch offices, depots, agencies, warehouses, representative offices or any other type of establishment in Brazil or abroad.

Article 4 - The term of duration of the company shall be unlimited.

Table of Contents

CHAPTER II - CAPITAL AND SHARES

Article 5 - The paid-up capital amounts to R\$77,300,000,000.00 (seventy-seven billion and three hundred million Reais) corresponding to ~~5.416.521.415~~5.304.684.600 (five billion, ~~four~~three hundred and ~~sixteen~~four million, ~~five~~six hundred and ~~twenty-one~~eighty-four thousand and ~~four~~six hundred and ~~fifteen~~ book-entry shares, being R\$~~48.660.827.602,05~~ (forty-eight ~~72.772.826.412,91~~ (seventy-two billion, ~~six~~seven hundred and ~~sixty~~seventy-two million, eight hundred and twenty-seven ~~nine~~x thousand, ~~six~~four hundred and ~~two~~twelve Reais and ~~five~~ninety-one cents), divided into ~~3.409.733.697~~ (three ~~4.997.544.504~~ (four billion, ~~four~~nine hundred and ~~nine~~ninety-seven million, ~~seven~~five hundred and ~~thirty-three~~forty-four thousand and ~~six~~five hundred and ~~ninety-seven~~four) common shares and R\$~~28.639.172.397,96~~ (twenty-eight ~~4.527.173.587,09~~ (four billion, ~~six~~five hundred and ~~thirty-nine~~twenty-seven million, one hundred and seventy-two ~~three~~hree thousand, ~~three~~five hundred and ~~nine~~eighty-seven Reais and ~~ninety-six~~nine cents), divided into ~~2.006.787.718~~ (two billion, ~~six~~three hundred and ~~seven~~million, sevenone hundred and ~~eighty-seven~~forty thousand, ~~seven~~hundred and ~~eighteen~~ninety-six) preferred Class A shares, including 12 (twelve) golden shares, all without nominal value.

§ 1 - The shares are common shares and preferred shares. The preferred shares comprise class A and special class.

§ 2 - The special class preferred share shall belong exclusively to the Federal Government. In addition to the other rights which are expressed and specifically attributed to these shares in the current By-Laws, the special class shares shall possess the same rights as the class A preferred shares.

§ 3 - Each common, class A preferred share and special class shares shall confer the right to one vote in decisions made at General Meetings, the provisions of § 4 following being observed.

§ 4 - The preferred class A and special shares will have the same political rights as the common shares, with the exception of voting for the election of Board Members, excepting the provisions set forth in §§ 2 and 3 of Article 11 following, and also the right to elect and dismiss one member of the Fiscal Council, and its respective alternate.

§5 - Holders of class A preferred and special class shares shall be entitled to receive dividends calculated as set forth in Chapter VII in accordance with the following criteria:

a) priority in receipt of dividends specified in § 5 corresponding to: (i) a minimum of 3% (three percent) of the stockholders' equity of the share, calculated based on the financial statements which served as reference for the payment of dividends, or (ii) 6% (six percent) calculated on the portion of the capital formed by this class of share, whichever higher;

Table of Contents

b) entitlement to participate in the profit distributed, on the same conditions as those for common shares, once a dividend equal to the minimum priority established in accordance with letter a above is ensured; and

c) entitlement to participate in any bonuses, on the same conditions as those for common shares, the priority specified for the distribution of dividends being observed.

§6 - Preferred shares shall acquire full and unrestricted voting rights should the company fail to pay the minimum dividends to which they are entitled during 3 (three) consecutive fiscal years, under the terms of §5 of Article 5.

Article 6 - The company is authorized to increase its paid-up capital up to the limit of 7,000,000,000 (seven billion) common shares. Within the limit authorized in this article, the Company, as a result of deliberation by the Board of Directors, may increase its paid-up capital independently of amendment to its By-laws, through the issue of common shares.

§ 1 - The Board of Directors shall determine the conditions for issuance, including the price and the period of time prescribed for paying up.

§ 2 - At the option of the Board of Directors the preemptive right in the issuance of shares, bonds convertible into common shares and subscription bonuses, the placement of which on the market may be by sale on the stock exchange or by public subscription as per the prescriptions set forth in Law no. 6.404/76, may be rescinded.

§ 3 - Provided that the plans approved by the General Meeting are complied with, the company shall be entitled to delegate the option of common share purchase to its administrators and employees, with common shares held in Treasury or by means of the issuance of new shares, the shareholders' preemptive right being excluded.

Article 7 - The special class share shall possess a veto right regarding of the following subjects:

- I. change of name of the company;
- II. change of location of the head office;
- III. change of the corporate purpose with reference to mineral exploitation;
- IV. the winding-up of the company;
- V. the sale or cessation of the activities of any part or of the whole of the following categories of the integrated iron ore systems of the company: (a) mineral deposits, reserves and mines; (b) railways; (c) ports and marine terminals;

Table of Contents

VI. any alteration of the rights assigned to the types and classes of the shares issued by the company in accordance with the prescriptions set forth in the present By-Laws;

VII. any alteration of the present Article 7 or of any of the other rights assigned to the special class share by the present By-Laws.

CHAPTER III - GENERAL MEETING

Article 8 - The ordinary Shareholders General Meeting shall be held within the first four months following the end of the fiscal year and, extraordinarily, whenever called by the Board of Directors.

§ 1 - An Extraordinary Shareholders General Meeting shall be competent to discuss the subjects specified in Article 7.

§ 2 - The holder of the special class share shall be formally requested by the company to attend for the purpose of discussing the subjects specified in Article 7 by means of personal correspondence addressed to its legal representative, a minimum period of notice of 15 (fifteen) days being given.

§ 3 - Should the holder of the special class share be absent from the General Meeting called for this purpose or should it abstain from voting, the subjects specified in Article 7 shall be deemed as having been approved by the holder of the said special class.

Article 9 - At an Ordinary or Extraordinary General Meeting, the chair shall be taken by the Chairman, or in his absence by the Vice-Chairman of the Board of Directors of the company, and the Secretary ~~of the Board of Directors shall act as secretary, as per § 15 of Article 11~~ shall be appointed by the Chairman of the Meeting.

~~Sole Paragraph~~ § 1 - In the case of temporary absence or impediment of the Chairman or Vice-Chairman of the Board of Directors, the General Meeting of Shareholders shall be chaired by their respective alternates, or in the absence or impediment of such alternates, by ~~an~~ another Officer or by a person specially appointed by the Chairman of the Board of Directors.

§ 2 The minutes of the General Meetings shall be recorded as a summary of the resolutions taken and shall be published, omitting the signatures of the shareholders present, pursuant to legislation in force. In addition, the minutes shall be signed by enough shareholders to constitute the majority needed to approve the matters reviewed.

Table of Contents

CHAPTER IV - ADMINISTRATION

Article 10 - The Board of Directors and the Executive Board shall be responsible for the administration of the company.

§1 - The members of the Board of Directors and the Executive Board shall take office by means of signing the Minute Book of the Board of Directors or the Executive Board, as the case may be, provided that the investiture of such administrators is subject to prior subscription of the Term of Consent of Administrators in accordance with the provisions of the Level 1 Listing Rules, as well as in compliance with the applicable legal requirements.

§2 - The term of office of the members of the Board of Directors and the Executive Board shall be extended until their respective successors have taken office.

§3 - The positions of Chairman of the Board of Directors and Chief Executive Officer may not be held by the same person.

§4 - The General Meeting shall fix the overall amount for the remuneration of the administrators, benefits of any kind and allowances being included therein, taking into account the responsibilities of the administrators, the time devoted to the performance of their duties, their competence and professional reputation and the market value of their duties. The Board of Directors shall apportion the fixed remuneration among its members and the Executive Board.

§5 - The Board of Directors shall be supported by technical and consultant bodies, denominated Committees, regulated as set forth in **Section II - Committees hereinafter**.

SECTION I - BOARD OF DIRECTORS

Subsection I - Composition

Article 11 - The Board of Directors, a joint decision-making body, shall be elected by the General Meeting and shall be formed of 12 (twelve) principal members and their respective alternates, and one of whom shall be the Chairman of the Board and another shall be the Vice-Chairman.

§1 - The unified term of office of the members of the Board of Directors shall be 2 (two) years, their re-election being permitted.

Table of Contents

§2 - Under the terms of Article 141 of Law No. 6,404/76, 1 (one) member and his alternate of the Board of Directors, may be elected and removed, by means of a separate vote at the general meeting of shareholders, excluding the controlling shareholder, by the majority of holders, respectively, of:

I - common shares representing at least 15% (fifteen percent) of the total shares with voting rights; and

II - preferred shares representing at least 10% (ten percent) of share capital.

§3 - Having ascertained that neither the holders of common shares or preferred shares have respectively formed the quorum required in sections I and II of §2 above, they shall be entitled to combine their shares to jointly elect a member and an alternate to the Board of Directors, and in such hypothesis the quorum established in section II of §2 of this Article shall be observed.

§4 - The entitlement set forth in §2 of this Article may only be exercised by those shareholders who are able to prove uninterrupted ownership of the shares required therein for a period of at least 3 (three) months, immediately prior to the general shareholders meeting which elected the members of the Board of Directors.

§5 - From among the 12 (twelve) principal members and their respective alternates of the Board of Directors, 1 (one) member and his alternate shall be elected and/or removed, by means of a separate vote, by the employees of the company.

§6 - At least 20% of the elected principal members of the Board of Directors (and their respective alternates) shall be Independent Directors (as defined below), and expressly designated as such in the Minutes of the General Meeting that elected them. Members of the Board of Directors elected pursuant to the provisions of §§ 2 and 3 of this **Article 11** shall also be regarded as Independent Directors. If the application of the percentage referenced above results in a fractional number of members of the Board of Directors, the result shall be rounded to the nearest whole number.

§7 - The Chairman and the Vice-Chairman of the Board of Directors shall be elected among the members thereof during a Meeting of the Board of Directors to be held immediately after the General Meeting which has elected them, subject to Art. 10, §3.

§8 - In the case of impediment or temporary absence, the Vice-Chairman shall replace the Chairman, and during the period of such replacement the Vice-Chairman shall have powers identical to those of the Chairman, the alternate of the Chairman

Table of Contents

being nevertheless entitled to exercise the right to vote in his capacity as a member of the Board of Directors.

§9 - Should a vacancy occur in the office of Chairman or Vice-Chairman, the Board of Directors shall elect the respective alternates in the first Meeting to be held after the vacancy.

§10 - During their impediments or temporary absences, the members of the Board of Directors shall be replaced by their respective alternates.

§11 - Should a vacancy occur in the office of a member of the Board of Directors or of an alternate, the vacancy shall be filled by nomination by the remaining members of an alternate who shall serve until the next General Meeting, which shall decide on his election. Should vacancies occur in the majority of such offices, a General Meeting shall be convened in order to proceed with a new election.

§12 - If the Board of Directors is elected under the multiple vote regime, as established in Article 141 of Law No. 6,404/76, the Chairman of the shareholders meeting shall inform those shareholders present that the common shares which elected a member of the Board of Directors, by means of a separate vote in accordance with §§2 and 3 of Article 11, may not participate in the multiple vote regime and, evidently, may not participate in the calculation of the respective quorum. Once the separate vote has been held, then the ratio may be definitively defined in order to proceed with the multiple vote.

§13- With the exception of the principal members and their respective alternates elected by means of separate vote, respectively, by the employees of the company and by the holders of common and/or preferred shares, under §2 of Article 11, whenever the election for the Board of Directors is held under the multiple vote regime, the removal of any member of the Board of Directors, principal or alternate, elected through the multiple vote system by the general shareholders meeting, shall imply the removal of the other members of the Board of Directors also elected through the multiple vote system, and consequently a new election shall be held; in other cases of vacancy, in the absence of an alternate, the first general shareholders meeting shall elect the whole Board.

§14 - Whenever, cumulatively, the election of the Board of Directors is held under the multiple vote system and the holders of common shares or preferred shares or company employees exercise the right established in §§ 2, 3 and 5 above, the shareholder or group of shareholders under vote agreement who hold over 50% (fifty percent) of common shares with voting rights, shall be ensured the right to elect officers in a number equal to those elected by the other shareholders, plus one, irrespective of the number of officers established in the head of Article 11.

Table of Contents

~~§15—The Board of Directors shall have a Secretary, appointed by the Chairman of the Board of Directors, who shall necessarily be an employee or administrator of the company, in whose absence or impediment shall be replaced by another employee or administrator as designated by the Chairman of the Board of Directors.~~

Subsection II Workings

Article 12 - The Board of Directors shall meet on an ordinary basis once a month and extraordinary whenever called by the Chairman or, in his absence, by the Vice-Chairman of the Board or by any 2 (two) members acting together.

Sole Paragraph - The meetings of the Board of Directors shall be held at the Company's headquarters, but, under exceptional circumstances, may be held at a different location, being permitted to participate by teleconference, videoconference or other means of communication that could ensure effective participation and authenticity of vote.

Article 13 - Meetings of the Board of Directors shall only be held with the presence of and decisions shall only be taken by the affirmative vote of a majority of its members.

§1Sole Paragraph - The minutes of the meetings of the Board of Directors shall be recorded in the Book of Minutes of Meetings of the Board of Directors which, after having been read and approved by the officers present at the meetings, shall be signed in a number sufficient to constitute the majority necessary for approval of the subjects examined.

~~§2—The Secretary shall be responsible for the recording, distribution, filing and safeguard of the respective minutes of the meetings of the Board of Directors, as well as for the issuance of abstracts of the minutes and certificates of approvals of the Board of Directors.~~

Subsection III Responsibilities

Article 14 - The Board of Directors shall be responsible for:

- I.** electing, evaluating and at any time removing the Executive Officers of the company, and assigning functions to them;
- II.** distributing the remuneration established by the general shareholders meeting among its members and those of the Executive Board;
- III.** assigning the functions of Investor Relations to an Executive Officer;
- IV.** approving the policies relating to selection, evaluation, development and remuneration of members of the Executive Board;

Table of Contents

- V. approving the company's human resources general policies as submitted to it by the Executive Board;
- VI. establishing the general guidance of the business of the company, its wholly owned subsidiary companies and controlled companies;
- VII. approving the strategic guidelines and the strategic plan of the company submitted annually by the Executive Board;
- VIII. approving the company's annual and multi-annual budgets, submitted to it by the Executive Board;
- IX. monitoring and evaluating the economic and financial performance of the company, and may request the Executive Board to provide reports with specific performance indicators;
- X. approving investments and/or divestiture opportunities submitted by the Executive Board which exceed the limits established for the Executive Board as defined by the Board of Directors;
- XI. issuing opinions on operations relating to merger, split-off, incorporation in which the company is a party, as well as share purchases submitted by the Executive Board;
- XII. with the provisions set forth in Article 2 of the present By-Laws being complied with, making decisions concerning the setting-up of companies, or its transformation into another kind of company, direct or indirect participation in the capital of other companies, consortia, foundations and other organizations, by means of the exercise of rights withdrawal, the exercise of non-exercise of rights of subscription, or increase or sale, both direct and indirect, of corporate equity, or in any other manner prescribed by law, including but not limited to, merger, split-off and incorporation in companies in which it participates;

- XIII.** approving the corporate risks and financial policies of the company submitted by the Executive Board;
- XIV.** approving the issuance of simple debentures, not convertible into share and without collateral submitted by the Executive Board;
- XV.** approving the accounts of the Executive Board, substantiated in the Annual Report and the Financial Statements, for subsequent submission to the Ordinary General Meeting;
- XVI.** approving the employment of profit for the year, the distribution of dividends and, when necessary, the capital budget, submitted by the Executive Board, to the later direction to the appreciation of the Ordinary Shareholders Meeting;
- XVII.** selecting and removing external auditors of the company, based on the Fiscal Council's recommendation, in accordance with section (ii) of §1° of Article ~~393~~33;
- XVIII.** appointing and removing the persons responsible for the governance office, the internal auditing and ~~for~~ the Ombud of the company, who shall report directly to the Board of Directors;
- XIX.** approving the policies and the annual audit plan of the company submitted by the person responsible for internal auditing, as well as to acknowledge the respective reports and determine the adoption of necessary measures;

Table of Contents

XX. overseeing the management of the company by the Executive Officers and examining at any time, the books and documents of the Company, requesting information about contracts signed or about to be signed, and about any other actions, in order to ensure the financial integrity of the Company;

XXI. approving alterations in corporate governance rules, including, but not limited to, the process of rendering of accounts and the process of disclosure of information;

XXII. approving policies of employee conducts based on ethical and moral standards described in the Code of Ethics of the Company, to be observed by all administrators and employees of the Company, its subsidiaries and controlled companies;

XXIII. approving policies to avoid conflicts of interests between the Company and its shareholders or its administrators, as well as the adoption of the measures considered necessary in the event such conflicts arise;

XXIV. approving policies of corporate responsibility of the Company, mainly those related to: the environment, health and labor safety, and social responsibility of the Company, submitted by the Executive Board;

XXV. establishing criteria for the Executive Board in relation to the purchase of, sale of and placing of liens on **non-current assets** and for the constitution of encumbrances, the provisions set forth in Article 7 of the present By-Laws being complied with.

XXVI. ~~approving the provision of guarantees in general, and~~ establishing criteria for the Executive Board ~~in relation to the for providing guarantees in general and~~ contracting of loans and financing and for the signing of other contracts;

XXVII. establishing criteria for the Executive Board in relation to the signing of commitments, waiving of rights and transactions of any nature, except for the waiver of its preemptive rights in the subscription and purchase of shares,

under section XII of Article 14;

XXVIII. approving any matters which are not the competence of the Executive Board, under the terms of the present By-Laws, as well as matters whose limits exceed the criteria established for the Executive Board, as established in Article 14;

XXIX. approving any reformulation, alteration, or amendment of shareholders' agreements or consortia contracts, or of agreements among the shareholders or among the consortia parties of companies in which the company participates, as well as approving the signing of new agreements and/or consortia contracts that address subjects of this nature;

XXX. authorizing the negotiation, signing or alteration of contracts of any kind of value between the company and (i) its shareholders, either directly or through intermediary companies (ii) companies which directly or indirectly participate in the capital of the controlling shareholder or which are controlled, or are under joint control, by companies which participate in the capital of the controlling shareholder, and/or (iii) companies in which the controlling shareholder of the company participates, and the Board of Directors may establish delegations, with standards and procedures, which meet the requirements and nature of the operations, without prejudice of keeping the aforementioned group duly informed of all company transactions with related parties;

XXXI. expressing its opinion regarding any matter to be submitted to the General Meeting of Shareholders;

Table of Contents

XXXII. authorizing the purchase of shares of its own issuance for maintenance in treasury, cancellation or subsequent sale;

XXXIII. approving the recommendations submitted by the Fiscal Council of the Company in the exercise of its legal and statutory attributions;

XXXIV. expressing its views in favor of or against any tender offer to purchase the company's shares by means of a substantiated opinion disclosed fifteen (15) days before the publication of the tender offer notice, which opinion shall address, at least: (a) the benefit and opportunity of the tender offer with respect to the interest of all shareholders and the liquidity of the securities owned by them; (b) the repercussions of the tender offer on the company's interests; (c) the strategic plans disclosed by the offeror in relation to the company; (d) other matters that the Board of Directors deems appropriate, as well as any information required by applicable rules of the Brazilian Securities and Exchange Commission (*Comissão de Valores Mobiliários* - CVM).

§1 - The Board of Directors shall be responsible for appointing, as submitted by the Executive Board, the persons who shall form part of the Administrative, Consulting and Audit bodies of those companies and organizations in which the company participates, directly or indirectly.

§2 - The Board of Directors may, at its discretion, delegate the assignment mentioned in the prior paragraph to the Executive Board.

§3 Vale and its controlled companies in Brazil or abroad are prohibited from making, directly or indirectly through third parties, any contribution to political movements, including those organized as political parties, and to their representatives or candidates.

SECTION II - COMMITTEES

Article 15 - The Board of Directors, shall have, for advice on a permanent basis, 5 (five) technical and advisory committees, denominated as follows: ~~Executive Development Personnel~~ Committee, Strategic Compliance and Risk Committee, Finance Committee, ~~Accounting~~Audit Committee and ~~Governance and~~ Sustainability Committee.

§1 - The Board of Directors, at its discretion, may also establish, for its consulting support, other committees to fulfill consultant or technical tasks, other than those permanent committees as set forth in the head of this Article.

§2 - The members of the committees shall be remunerated as established by the Board of Directors, and those members who are administrators of the company shall not be entitled to additional remuneration for participating on the committees.

Table of Contents

Subsection I Mission

Article 16 - The mission of the committees shall be to provide support to the Board of Directors, which includes the follow up of the activities of the Company, in order to increase the efficiency and quality of its decisions.

Subsection II Composition

Article 17 - The members of the committees shall have proven experience and technical skills in relation to matters that are the object of the respective committee's responsibility and shall be subject to the same legal duties and responsibilities as the administrators.

Article 18 - The composition of each committee shall be defined by the Board of Directors.

§1 - The members of the committees shall be appointed by the Board of Directors and may belong to such company administration ~~bodies or notbody~~, being prohibited the participation of Executive Officers of Vale and with due regard to applicable legal and regulatory provisions.

§2 - The term of management for the members of the committees shall begin as of their appointment by the Board of Directors, and termination shall coincide with the end of the management term of the members of the Board of Directors, and reappointment shall be permitted.

§3 - During their management, members of the committees may be removed from office by the Board of Directors.

Subsection III Workings and Responsibilities

Article 19 - Standards relating to the workings ~~of each~~ and responsibilities of the committees shall be defined by the Board of Directors in the specific Internal Rules of each committee.

§1 - The committees established within the company shall not have decision making power and their reports and proposals shall be submitted to the Board of Directors for approval.

§2 - The committees' reports do not constitute a necessary condition for the presentation of matters for scrutiny and approval by the Board of Directors.

Table of Contents

§3- The Board of Directors shall be responsible for determining that the Audit Committee shall exercise, with exclusivity, the duties contained in Art. 33, §1, (i) to (iv) below.

Subsection IV—Responsibilities

~~Article 20—The Board of Directors shall determine the main duties of the committees, including, but not limited to the ones set forth in Article 21 and subsequent articles.~~

~~Article 21—The Executive Development Committee shall be responsible for:~~

~~I——— issuing reports on the human resources general policies of the Company submitted by the Executive Board to the Board of Directors;~~

~~II——— analyzing and issuing reports to the Board of Directors on the proposal for the distribution of the annual, global budget for the remuneration of the administrators and the restatement of the model of the remuneration of members of the Executive Board;~~

~~III——— submitting and ensuring up to dateness of the performance evaluation methodology of the members of the Executive Board; and~~

~~IV——— aiding the Board of Directors with the definition of goals for the performance evaluation of the Executive Officers; and~~

~~V——— follow up of the development of the succession plan for the Executive Officers.~~

~~Article 22—The Strategic Committee shall be responsible for:~~

~~I ——— recommending the strategic guidelines and the strategic plan submitted annually by the Executive Board;~~

~~II ——— recommending investment and/or divestiture opportunities; and~~

~~III ——— recommending operations relating to merger, split off, incorporation in which the Company and its controlled subsidiaries are a party.~~

~~Article 23—The Finance Committee shall be responsible for:~~

~~I ——— evaluate the corporate risks and financial policies and the internal financial control systems of the Company;~~

~~II ——— evaluate the compatibility between the remuneration level of shareholders and the parameters established in the annual budget and financial scheduling, as well as its consistency with the general policy on dividends and the capital structure of the company;~~

~~III ——— evaluate the annual budget and the annual investments plan of Vale;~~

~~IV ——— evaluate the annual funding plan and the risk exposure limits of the Company;~~

~~V ——— evaluate the risks management process of the Company; and~~

~~VI ——— follow up the financial execution of capital expenditure projects and ongoing budget.~~

~~Article 24—The Accounting Committee shall be responsible for:~~

~~I _____ issuing reports on the policies and the Company's annual auditing plan submitted by the employee responsible for internal auditing, and on its execution;~~

Table of Contents

~~II — tracking the results of the Company's internal auditing, and identifying, prioritizing, and submitting actions to be accompanied by the Executive Board to the Board of Directors;~~

~~III — evaluating the procedures and results of the internal audit, in respect to best practices, when requested by the Board of Directors; and~~

~~IV — aiding the Board of Directors, if requested by them, in the process of appointing and evaluating the annual performance of the person responsible for the internal auditing of the Company.~~

~~Article 25 — The Governance and Sustainability Committee shall be responsible for:~~

~~I — evaluating the efficiency of the company's governance practices and the workings of the Board of Directors, and submitting improvements;~~

~~II — submitting improvements to the Code of Ethics and Conduct and to the management system in order to avoid conflicts of interests between the company and its shareholders or company administrators;~~

~~III — evaluating related party transactions submitted for resolution of the Board of Directors, as well as issuing reports on potential conflicts of interest involving related parties;~~

~~IV — evaluating proposals for modifying the Policies which are not attributed to other committees, of the By-Laws and the Internal Regiments of Vale's Assessment Committees;~~

~~V — analyzing and proposing improvements to the Company's Sustainability Report;~~

~~VI — evaluating Vale's performance regarding sustainability aspects and proposing improvements based on a long term strategic vision;~~

~~VII — aiding the Board of Directors, if requested by them, in the process of appointing and evaluating the annual performance of the person responsible for the internal ombudsman (*ouvidoria*) of the Company;~~

~~VIII — aiding the Board of Directors, if requested by them, in the process of evaluating the internal ombudsman (*ouvidoria*) of the Company when dealing with matters involving the Ombudsman channel (*Canal de Ouvidoria*) and violations to the Code of Ethics and Conduct.~~

SECTION III - EXECUTIVE BOARD

Subsection I Composition

Article 2620 - The Executive Board, which shall be the executive management body of the company, shall consist of 6 (six) to 11 (eleven) members, one of whom shall be the Chief Executive Officer and the others Executive Officers.

Table of Contents

§1 - The Chief Executive Officer shall submit to the Board of Directors the names of candidates for the Executive Board with renowned knowledge and specialization in the subject of responsibility of the respective operational area, and may also at any time submit to the Board of Directors a motion to remove.

§2 - The Executive Officers shall have their individual duties defined by the Board of Directors.

§3 - The management term of the members of the Executive Board shall be 2 (two) years, and re-election shall be permitted.

Subsection II Workings

Article 2721 - The Chief Executive Officer and other members of the Executive Board shall continue in their respective official capacities when physically distant from headquarters realizing their respective duties on business-related travel. In the case of a permanent vacancy, or an impairment which temporarily impedes an officer from performing his respective duties, or a temporary absence or leave due to extraordinary circumstances, the respective procedures for replacing the Chief Executive Officer and other Executive Officers shall be as follows:

§1^o - In the case of an impairment which temporarily impedes the Chief Executive Officer from performing his respective duties, the Chief Financial Officer shall assume, in addition to his own legal, statutory, and regulatory rights and responsibilities, the legal, statutory, and regulatory responsibilities of Chief Executive Officer, provided that the Board of Directors ratifies such replacement. In the case of the Chief Executive Officer's temporary absence or leave due to extraordinary circumstances, the Chief Executive Officer shall designate his own substitute, who shall assume all legal, statutory, and regulatory rights and responsibilities of the Chief Executive Officer.

§2^o - In the case of an impairment which temporarily impedes an Executive Officer from performing his respective duties or in the case of an Executive Officer's temporary absence or leave due to extraordinary circumstances, such Executive Officer shall be replaced, in accordance with the Chief Executive Officer's nomination, by any of the other Executive Officers, and such nominated Executive Officer shall assume, in addition to his own

legal, statutory, and regulatory rights and responsibilities, the legal, statutory, and regulatory responsibilities of the temporarily impaired or absent Executive Officer, excluding voting rights at Executive Board meetings, for the duration of the temporarily impaired or absent Executive Officer's term.

Table of Contents

§3^o - Should there be a permanent vacancy in the position of Executive Officer, the Chief Executive Officer shall select a substitute officer and submit such officer's name to the Board of Directors who shall appoint such substitute officer to complete the remaining term of the vacant executive officer.

§4^o - Should there be a permanent vacancy in the position of the Chief Executive Officer, the Chief Financial Officer shall replace the Chief Executive Officer and shall assume the duties, rights, and responsibilities of both the Chief Executive Officer and the Chief Financial Officer, until the Board of Directors holds an election to fill the position of Chief Executive Officer.

Article 2822 - In respect of the limits established for each Executive Officer, the decisions on matters affecting his specific operational area, provided that the matter does not affect the operational area of another Executive Officer, shall be taken by himself or in conjunction with the Chief Executive Officer, in matters or situations pre-established by the latter.

Article 2923 - The Executive Board shall meet on an ordinary basis once each fifteen days and extraordinarily whenever called by the Chief Executive Officer or his substitute, and Executive Board members may participate in ordinary or extraordinary meetings in person, by teleconference, videoconference, or other means of communication that could ensure effective participation and authenticity of the vote.

Sole Paragraph - The Chief Executive Officer shall convene an extraordinary meeting of the Executive Board by virtue of the request of at least 3 (three) members of the Executive Board;

Article 3024 - The meetings of the Executive Board shall only begin with the presence of the majority of its members.

Article 3125 - The Chief Executive Officer shall chair the meetings of the Executive Board in order to prioritize consensual approvals amongst its members.

§1 - When there is no consent among members of the Board, the Chief Executive Officer may (i) withdraw the issue from the agenda, (ii) attempt to form a majority, with the use of his casting vote or, (iii) in the interests of the company and by grounded presentation, decide individually on the matters raised for joint approval, including those listed in Article ~~32~~26, and in respect of the exceptions stated in §2 following;

§2 - Decisions relating to annual and multi-annual budgets and to the strategic plan and the Annual Report of the company shall be taken by majority vote,

Table of Contents

considered to be all Executive Officers, provided that the favorable vote of the Chief Executive Officer is included therein.

§3 - The Chief Executive Officer shall inform the Board of Directors the utilization of the prerogative concerning item (iii), §1 stated above, in the first Board of Directors meeting which succeed the corresponding decision.

Subsection III Responsibilities

Article 3226 - The Executive Board shall be responsible for:

- I -** approving the creation and elimination of Executive Departments subordinated to each Executive Director;
- II -** preparing and submitting to the Board of Directors the company's general policies on human resources, and executing the approved policies;
- III -** complying with and ensuring compliance with the general guidelines and business policies of the Company laid down by the Board of Directors;
- IV -** preparing and submitting, annually, to the Board of Directors, the company's strategic guidelines and the strategic plan, and executing the approved strategic plan;
- V -** preparing and submitting the Company's annual and multi-annual budgets to the Board of Directors, and executing the approved budgets;

VI - planning and steering the company's operations and reporting the company's economic and financial performance to the Board of Directors, and producing reports with specific performance indicators;

VII - identifying, evaluating and submitting investment and/or divestiture opportunities to the Board of Directors which exceed the limits of the Executive Board as defined by the Board of Directors, and executing the approved investments and/or divestitures;

VIII - identifying, evaluating and submitting to the Board of Directors operations relating to merger, split-off, incorporation in which the company is a party, as well as share purchases, and conducting the approved mergers, split-offs, incorporations and purchases;

IX - preparing and submitting the company's finance policies to the Board of Directors, and executing the approved policies;

X - submitting to the Board of Directors the issuance of simple debentures, not convertible into shares and without collateral;

XI - defining and submitting to the Board of Directors, after the drawing up of the balance sheet, the employment of profit for the year, the distribution of company dividends and, when necessary, the capital budget;

XII - preparing in each fiscal year the Annual Report and Financial Statements to be submitted to the Board of Directors and the General Meeting;

Table of Contents

XIII - adhering to and encourage adhesion to the company's code of ethics, established by the Board of Directors;

XIV - preparing and submitting to the Board of Directors the company's policies on corporate responsibility, such as the environment, health, safety and social responsibility, and implementing the approved policies;

XV - authorizing the purchase of, sale of and placing of liens on fixed and non-fixed assets including securities, the contracting of services, the company being the provider or receiver of such, being empowered to establish standards and delegate powers, all in accordance with the criteria and standards established by the Board of Directors;

XVI - authorizing the signing of agreements, contracts and settlements that constitute liabilities, obligations or commitments on the company, being empowered to establish standards and delegate powers, all in accordance with the criteria and standards established by the Board of Directors;

XVII - proposing to the Board of Directors any reformulation, alteration, or amendment of shareholders' agreements or of agreements among the shareholders of companies in which the company participates, as well as suggesting the signing of new agreements and consortia contracts that address subjects of this nature;

XVIII-authorizing the opening and closing of branch offices, subsidiary branch offices, depots, agencies, warehouses, representative officer or any other type of establishment in Brazil or abroad;

XIX - authorizing the undertaking of commitments, waiver of rights and transactions of any nature, liens on securities being excepted, under the terms of section XII of Article 14, being empowered to establish standards and delegate powers in accordance with the criteria and standards established by the Board of Directors;

XX - establishing and informing the Board of Directors on the individual limits of the Executive Officers, in respect of the limits of the Executive Board jointly, as established by the Board of Directors;

XXI - establishing, based on the limits fixed for the Board of Directors, the limits throughout the whole of the company's administrative organization hierarchy.

§1 - The Executive Board shall be empowered to lay down voting guidelines to be followed at the General Meetings by its proxies in the companies, foundations and other organizations in which the company participates, directly or indirectly, the investment plans and programs of the company, as well as the respective budgets being complied with, the limit of responsibility being observed as regards, among others, indebtedness, the sale of assets, the waiver of rights and the reduction of corporate equity investments.

§ 2 - The Executive Board shall take steps to appoint persons who shall form part of the Administrative, Consultant and Audit bodies of those companies and organizations in which the company participates directly or indirectly.

Table of Contents

Article ~~332~~7 - The responsibilities of the Chief Executive Officer are to:

- I - take the chair at meetings of the Executive Board;
- II - exercise executive direction of the Company, with powers to coordinate and supervise the activities of the other Executive Officers, exerting his best efforts to ensure faithful compliance with the decisions and guidelines laid down by the Board of Directors and the General Meeting;
- III - coordinate and supervise the activities of the business areas and units that are directly subordinated to him;
- IV - select and submit to the Board of Directors the names of candidates for Executive Officer posts to be elected by the Board of Directors, and also to propose the respective removal;
- V - coordinate the decision-making process of the Executive Board, as provided for in Article ~~342~~5 of Subsection II **Workings**;
- VI - indicate, whom among the Executive Officers shall substitute an Executive Officer in case of an impairment that temporarily impedes an officer from performing his respective duties or temporary absence or leave, in compliance to Article ~~272~~1 Subsection II **Workings**;
- VII - keep the Board of Directors informed about the activities of the company;
- VIII - together with the other Executive Officers, prepare the annual report and draw up the balance sheet;

Article ~~3428~~ - The Executive Officers are to:

- I - organize the services for which they are responsible;
- II - participate in meetings of the Executive Board, contributing to the definition of the policies to be followed by the company and reporting on matters of the respective areas of supervision and coordination;
- III - comply with and ensure compliance with the policy and general guidance of the company's business laid down by the Board of Directors, each Executive Officer being responsible for his business units and specific area of activities;
- IV - contract the services described in §2° of Article ~~3933~~, in compliance with determinations of the Fiscal Council.

Article ~~3529~~ - The company shall be represented as plaintiff or defendant in courts of law or otherwise, including as regards the signature of documents constituting responsibility for this, by 2 (two) members of the Executive Board, or by 2 (two) proxies established in accordance with § 1 of this Article, or by 1 (one) proxy jointly with an Executive Officer.

§ 1 - Except when otherwise required by law, proxies shall be appointed by a power of attorney in the form of a private instrument in which shall be specified the powers granted and the term of validity of powers of attorney.

Table of Contents

§ 2 - The company may, moreover, be represented by a single proxy at the General Meetings of shareholders of the companies, consortia and other organizations in which it participates or for acts arising out the exercise of powers specified in a power of attorney *ad judicia* or: (a) at agencies at any level of government, customs houses and public service concessionaires for specific acts for which a second proxy is not necessary or not permitted; (b) for signing of contract instruments in solemnity or at which the presence of a second proxy is not possible; (c) for signing of documents of any kind which imply in an obligation for the company whose monetary limits shall be established by the Executive Board.

§ 3 - In the case of commitments assumed abroad, the company may be represented by a single member of the Executive Board, or by an attorney in-fact with specific and limited powers according to the present By-Laws.

§ 4 - Summons and judicial or extrajudicial notifications shall be made in the name of the Executive Officer responsible for Investor Relations, or by proxy as established in § 1 of this Article.

CHAPTER V - FISCAL COUNCIL

Article ~~36~~30 - The Fiscal Council, a permanently functioning body, shall be formed of 3 (three) to 5 (five) principal members and an equal number of alternates, elected by the General Meeting, which shall fix their remuneration.

Article ~~37~~31 - The members of the Fiscal Council shall carry out their duties until the first Ordinary General Meeting to be held following their election, their re-election being permitted.

Article ~~38~~32 - In their absence or impediment, or in cases of vacancy of office, the members of the Fiscal Council shall be replaced by their respective alternates.

Article ~~39~~33 - The Fiscal Council shall be responsible to exercise the functions attributed to it by the applicable

prevailing legislation, in these By-Laws, and as regulated by its own Internal Rules to be approved by its members;

§ 1º The Internal Rules of the Fiscal Council shall regulate, in addition to the attributions already established in Law 6.404/76, ~~imperatively, the following, subject to the provisions of Art. 19, §3 of the By-laws:~~

(i) to establish the procedures to be adopted by the Company to receive, process and treat denunciations and complaints related to accounting, internal

Table of Contents

accounting controls and auditing matters, and ensure that the procedures for receiving complaints will guarantee secrecy and anonymity to the complainants;

(ii) to recommend and assist the Board of Directors in the selection, remuneration and dismissal of the external auditors of the Company;

(iii) to deliberate concerning the contracting of new services that may be rendered by the external auditors of the Company;

(iv) to supervise and evaluate the work of the external auditors, and to direct the management of the Company concerning any need to withhold the remuneration of the external auditor, as well as to mediate any disputes between management and the external auditors regarding the financial statements of the Company.

§ 2º - For adequate performance of its duties, the Fiscal Council may determine the contracting of services from lawyers, consultants and analysts, and other resources that may be necessary for the performance of its duties, while observing the budget, proposed by the Fiscal Council and approved by the Board of Directors, without prejudice to the provisions established in §8º of Article 163 of Law 6.404/76.

§3º - The members of the Fiscal Council shall provide, within at least 30 (thirty) days before the Annual Shareholders Meeting is held, their analysis of the management report and the financial statements.

CHAPTER VI - COMPANY PERSONNEL

Article 4034 - The company shall maintain a social security plan for its employees administered by a foundation established for this purpose, the provisions of prevailing legislation being complied with.

CHAPTER VII - FINANCIAL YEAR AND DISTRIBUTION OF PROFITS

Article ~~41~~35 - The fiscal year of the company shall coincide with the calendar year, thus finishing on December 31, when the balance sheets shall be prepared.

Article ~~42~~36 - After the constitution of the legal reserve, the employment of the remaining portion of the net profit verified at the end of each financial year (which shall coincide with the calendar year) shall, on the motion of the Administration, be submitted to the decision of the General Meeting.

Sole Paragraph - The amount of the interest, paid or credited in the form of interest on stockholders' equity in accordance with the prescriptions of Article 9, § 7 of Law

Table of Contents

9,249 dated December 26, 1995 and of relevant legislation and regulations, may be ascribed to the compulsory dividend and to the minimum annual dividend on the preferred shares, such amount for all legal purposes forming the sum of the dividends distributed by the company.

Article ~~433~~7 - The proposal for distribution of profit shall include the following reserves:

I. Tax Incentive Reserve, to be constituted in accordance with the fiscal legislation in force.

II. Investments Reserve, in order to ensure the maintenance and development of the main activities which comprise the company's purpose, in an amount not greater than 50% (fifty percent) of distributable net profit up to a maximum of the company's share capital.

Article ~~443~~8 - At least 25% (twenty-five percent) of the net annual profit, adjusted as per the law, shall be devoted to the payment of dividends.

Article ~~453~~9 - At the proposal of the Executive Board, the Board of Directors may determine the preparation of the balance sheets in periods of less than a year and declare dividends or interest on stockholders' equity on account of the profit verified in these balances as well as to declare for the account of accrued profits or profit reserves existing in the latest annual or semi-annual balance sheet.

Article ~~464~~0 - The dividends and interest on stockholders' equity mentioned in the Sole Paragraph of Article ~~423~~6 shall be paid at the times and at the places specified by the Executive Board, those not claimed within 3 (three) years after the date of payment reverting in favor of the company.

CHAPTER VIII SALE OF CONTROL AND CANCELLATION OF THE COMPANY'S REGISTRATION AS A PUBLICLY HELD COMPANY

Article ~~47~~41 - The Sale of Control of the Company, whether through a single transaction or through a series of transactions, shall be undertaken pursuant to conditions precedent or conditions subsequent that the Purchaser undertakes to make a tender offer to purchase the common shares from the company's common shareholders, in compliance with the terms and conditions provided for under applicable law, so as to ensure them equal treatment as that given to the Selling Controlling Shareholder.

Article ~~48~~42 - The tender offer mentioned in the previous article shall also be required:

Table of Contents

I. when there is a remunerated transfer of share subscription rights and other securities or rights related to securities convertible into shares, which may result in the Sale of Control of the Company; or

II. in case of transfer of the control of a company holding Control over the company, in which case the Selling Controlling Shareholder shall inform BM&FBOVESPA regarding the amount attributed to the company in this transfer and attach the documents evidencing such amount.

Article-~~4943~~ - Any person who acquires Control under a private agreement entered into with the Controlling Shareholder for the purchase of any amount of shares shall:

I. make the tender offer referred to in Article-~~4741~~ above; and

II. pay, as indicated below, the amount equivalent to the difference between the tender offer price and the amount paid per any share acquired on a stock exchange in the six (6) months prior to the acquisition of Control, duly adjusted for inflation until the payment date. Such amount shall be distributed among all persons who sold the company's common shares during the trading sessions in which the Purchaser made the acquisitions, proportionally to the net daily selling balance of each, and BM&FBOVESPA will take measures to make the distribution pursuant to its regulations.

Article-~~5044~~ - For the purposes of these By-laws, the following capitalized terms will have the following meanings:

Administrator(s) means, when used in the singular, the company's Officers and members of the Board of Directors referred to individually, or, when used in the plural, the company's Officers and members of the Board of Directors referred to jointly.

Control (as well as its related terms, Controlling Company, Controlled, or under Common Control) means the power effectively used to direct corporate activities and guide the operation of a company's bodies, directly or indirectly, *de facto* or *de jure*, regardless of the equity interest held, as well as to elect the majority of the administrators of a company. There is a rebuttable presumption of control for the person or Group of Shareholders that holds shares assuring it an absolute majority of votes of shareholders attending the last three General Meetings, even if it does not hold shares ensuring the absolute majority of the voting capital.

Controlling Shareholder means the shareholder(s) or Group of Shareholders exercising Control of the company.

Controlling Shares means the set of shares that directly or indirectly entitles its holder(s) to the individual and/or shared exercise of Control of the company.

Table of Contents

Economic Value means the value of the company and of its shares as may be determined by a valuation firm using recognized methodology or based on other criteria as may be defined by the CVM.

Group of Shareholders means a group of persons tied together by a voting agreement with any person (including, without limitation, any individual or legal entity, investment fund, condominium, securities portfolio, rights agreement or other form of organization, resident, domiciled or headquartered in Brazil or abroad), or which represents the same interest as the shareholder, which may subscribe for and/or acquire shares of the company. Among the examples of a person representing the same interest as the shareholder, which may subscribe for and/or acquire shares of the Company, is any person (i) who is directly or indirectly controlled or managed by such shareholder, (ii) who controls or manages, in any way, the shareholder, (iii) who is directly or indirectly controlled or managed by any person who directly or indirectly controls or manages such shareholder, (iv) in which the controller of such shareholder holds, directly or indirectly, an equity interest equal to or greater than thirty percent (30%) of the capital stock, (v) in which such shareholder holds, directly or indirectly, an equity interest equal to or greater than thirty percent (30%) of the capital stock, or (vi) who directly or indirectly holds an equity interest equal to or higher than thirty percent (30%) of the shareholder's capital stock.

Independent Director is a member of the board of directors characterized by: (i) not having any ties to the company, except as a shareholder; (ii) not being a Controlling Shareholder or spouse or relative up to the second degree of a Controlling Shareholder, or not being or not having been, in the last three (3) years, tied to a company or entity related to the Controlling Shareholder (persons tied to public education and/or research institutions are excluded from this restriction); (iii) not having been, in the last three (3) years, an employee or executive officer of the company, of its Controlling Shareholder or of a company controlled by the company; (iv) not being a direct or indirect supplier or purchaser of services and/or products of the company, in such an amount that would imply loss of independence; (v) not being an employee or administrator of a company or entity that is offering or purchasing services and/or products from the company, in such an amount that would imply loss of independence; (vi) not being a spouse or relative up to the second degree of any manager of the company; and (vii) not receiving any compensation from the company besides that related to the position as a director (cash compensation arising from equity ownership is excluded from such restriction).

Outstanding Shares means all shares issued by the company, except for shares held by the Controlling Shareholder, persons or legal entities related to such Controlling Shareholder or Administrators, shares kept in treasury and special class preferred shares.

Purchaser means the person to whom the Selling Controlling Shareholder transfers the Controlling Shares in a Sale of Control of the Company.

Table of Contents

Sale of Control of the Company means the transfer to a third party, for consideration, of Controlling Shares.

Selling Controlling Shareholder means the Controlling Shareholder when it advances a Sale of Control of the Company.

Article ~~514~~5 - Any person, shareholder or Group of Shareholders who acquires or becomes, or has become, by any means, the holder of an amount equal to or greater than 25% (twenty-five percent) of the company's total issued common shares or of its total capital stock, excluding shares held in treasury, shall, within thirty (30) days after the date of acquisition or the event resulting in the ownership of shares in an amount equal to or greater than the aforementioned limit, make or request the registration of, as the case may be, a tender offer for all common shares issued by the company (*oferta pública para aquisição*, or OPA), in compliance with applicable CVM and BM&FBOVESPA regulations and the terms of this article.

§1 - The OPA shall be (i) addressed equally to all shareholders holding common shares issued by the company, (ii) made in an auction to be held at BM&FBOVESPA, (iii) launched at the price determined in accordance with the provisions of § 2 below, and (iv) paid in cash in Brazilian currency for the acquisition of the company's common shares issued in the OPA.

§2 - The minimum purchase price in the OPA of each common share issued by the company shall be equal to the greater of:

- (i) the Economic Value determined in an appraisal report;
- (ii) 120% of the weighted average unit price of the common shares issued by the company during the period of 60 (sixty) trading sessions prior to the OPA; and

(iii) 120% of the highest price paid by the purchasing shareholder during the 12 (twelve) months before the purchasing shareholder attained a significant equity interest.

§3 - The OPA referred to in the head paragraph of this article shall not exclude the possibility of another shareholder of the company or, as the case may be, the company itself, formulating a competing OPA, pursuant to the applicable regulations.

§4 - The person, shareholder or Group of Shareholders shall be required to comply with any standard requests or requirements of the CVM related to the OPA, within the deadlines set forth in the applicable regulation.

§5 - Any person, shareholder or Group of Shareholders that purchases or becomes the holder of other rights, including usufruct or trustee rights, related to the shares issued by the company in an amount equal to or greater than 25% (twenty-five percent) of the total common shares issued by the company or of the total capital stock, excluding the shares held in treasury, shall be equally required to, within no

Table of Contents

later than 60 (sixty) days from the date of such purchase or the event resulting in the ownership of such rights related to shares in an amount equal to or higher than 25% (twenty-five percent) of the total common shares issued by the company or of the total capital stock, excluding the shares held in treasury, make or request the registration, as the case may be, of an OPA, as described in this **Article-5145**.

§6 - The obligations set forth in Article 254-A of Law No. 6,404/76 and in **Articles-4741, 4842** and **4943** hereof shall not exempt the person, shareholder or Group of Shareholders from performing the obligations included in this article.

§7 Until November 9th, 2020, the provisions set forth in this Article shall not apply:

(i) to the shareholders or Group of Shareholders bound by a shareholders' agreement filed at the headquarters of the company on the date that the deliberations approved at the EXTRAORDINARY GENERAL MEETING held on July 27th, 2017 became effective (Base Date) and which, on the Base Date, were holders of at least 25% (twenty-five percent) of the total common shares issued by the company or of the total capital stock, excluding the shares held in treasury (Agreement);

(ii) to investors who may become party to an Agreement, provided that such investors' equity participation is acquired in accordance with the terms of the respective Agreement;

(iii) to partners and/or shareholders of the signatories of an Agreement, who succeed such signatories in the ownership of their equity participation.

§8 - The provisions of this **Article-5145** are not applicable if a shareholder or Group of Shareholders becomes the holder of an amount exceeding 25% (twenty-five percent) of the total common shares issued by the company or of the total capital stock, excluding the shares held in treasury, as a result of (a) the merger of another company into Vale, (b) the merger of shares of another company into Vale or (c) the subscription of Vale's shares, made in a single primary issuance approved at a general shareholders' meeting convened by the Board of Directors, and which proposal of capital increase has determined the issue price of the shares based on an Economic Value obtained from an

economic and financial appraisal report of the company prepared by an expert institution or firm with proven experience in the appraisal of publicly held companies.

§9 - Involuntary increases of equity interest resulting from the retirement of treasury stock, repurchase of shares or reduction of the company's capital stock through the retirement of treasury stock shall not be included in the calculation of the percentage set forth in the head paragraph of this article.

§10 - If the CVM regulation applicable to the OPA set forth in this article provides for the adoption of a criterion for determining the OPA acquisition price of each share issued by the company that results in an acquisition price higher than the acquisition

Table of Contents

price established under §2 above, the acquisition price in the OPA set forth in this article shall be that determined pursuant to the terms of the CVM regulation.

Article ~~5246~~ - In the event that any person, shareholder or Group of Shareholders fails to comply with the obligation of making a tender offer in accordance with the rules, proceedings and provisions set forth in this Chapter (the Defaulting Shareholder), including with respect to compliance with the deadlines for making and requesting registration of such offering, or compliance with potential requests by CVM:

(i) the Board of Directors of the company shall convene an Extraordinary Shareholders Meeting, in which the Defaulting Shareholder shall not be entitled to vote, to decide upon the suspension of the exercise of the rights of the Defaulting Shareholder, in accordance with Article 120 of Law No. 6,404/76; and

(ii) in addition to the obligation of making a tender offer under the terms set forth herein, the Defaulting Shareholder shall be required to cause the acquisition price of each of the company's common shares in such tender offer to be fifteen percent (15%) higher than the minimum acquisition price determined for such tender offer.

Article ~~5347~~ - In the tender offer to be made by the Controlling Shareholder or by the company with the purpose of canceling the company's registration as a publicly held company, the minimum offering price shall correspond to the Economic Value as determined in the appraisal report prepared according to the terms contained in the head paragraph and in §1 of **Article ~~5448~~**, in due compliance with the applicable legal rules and regulations.

Article ~~5448~~ - The appraisal report referred to in **Articles ~~5145~~** and **~~5347~~** of these By-laws shall be prepared by a specialized institution or firm with proven experience and with decision-making power independent from the company, its Administrators and/or the Controlling Shareholder(s), and the report shall also meet the requirements of Article 8, §1 of Law No. 6,404/76 and be subject to liability as set forth in §6 of the same article of Law No. 6,404/76.

§1 - The choice of the specialized institution or firm responsible for determining the company's Economic Value is attributed exclusively to the general meeting, based on a list of three options submitted by the Board of Directors. The

respective resolution, not counting blank votes, shall be taken by majority vote of shareholders representing the Outstanding Shares present at that meeting, which, if initiated at first call shall be attended by shareholders representing at least 20% (twenty percent) of the total Outstanding Shares, or if initiated at second call may be attended by any number of shareholders representing the Outstanding Shares.

§2 - The costs for preparation of the appraisal report shall be fully borne by the offeror.

Table of Contents

Article 5549 - The company shall not register any transfer of common shares to the Purchaser or to any person(s) who acquire(s) Control until such person(s) have complied with the provisions set forth in these By-laws, subject to the provisions of **Article 5145**.

Article 5650 - No shareholders' agreement that provides for the exercise of Control may be filed at the company's headquarters unless the signatories thereof have complied with the provisions set forth in these By-laws, subject to the provisions of **Article 51**.

Article 5751 - Cases not expressly addressed in these By-laws shall be resolved by the General Meeting and in accordance with Law No. 6,404/76.

CHAPTER IX ARBITRATION

Article 5852 - The company, its shareholders, Administrators and members of the Fiscal Council and of the Committees undertake to resolve by arbitration before the Market Arbitration Chamber (*Câmara de Arbitragem do Mercado*) any and all disputes or controversies that may arise between or among them, related to or resulting from, in particular, the application, validity, effectiveness, interpretation, breach and its effects of the provisions of Law No. 6,404/76, these By-laws and the rules issued by the National Monetary Council, the Central Bank of Brazil and the CVM, as well as other rules applicable to the operation of capital markets in general.

Table of Contents**Report on the proposed amendments to the Bylaws of Vale S.A.**

Below is a report in table format, detailing the origin of, and justification for, the proposed amendments to the Company's Bylaws and analyzing their possible legal and economic effects:

Current text of By-laws	Proposed text for Bylaws	Justification
Article 5 - The paid-up capital amounts to R\$77,300,000,000.00 (seventy-seven billion and three hundred million Reais) corresponding to 5.416.521.415 (five billion, four hundred and sixteen million, five hundred and twenty one thousand and four, hundred and fifteen) book-entry shares, being R\$48.660.827.602,05 (forty-eight billion, six hundred and sixty million, eight hundred and twenty-seven thousand, six hundred and two Reais and five cents), divided into 3.409.733.697 (three billion, four hundred and nine million, seven hundred and thirty-three thousand and six hundred and ninety-seven) common shares and R\$28.639.172.397,96 (twenty-eight billion, six hundred and thirty-nine million, one hundred and seventy-two thousand, three hundred and ninety-seven Reais and ninety-six cents), divided into 2.006.787.718 (two billion, six million, seven hundred and eighty-seven thousand, seven hundred and eighteen) preferred Class A shares, including 12 (twelve) golden shares, all without nominal value.	Article 5 - The paid-up capital amounts to R\$77,300,000,000.00 (seventy-seven billion and three hundred million Reais) corresponding to <u>5.416.521.415 5.304.684.600</u> (five billion, <u>four</u> <u>three</u> hundred and <u>sixteen</u> <u>four</u> million, <u>five</u> <u>six</u> hundred and <u>twenty one</u> <u>eighty-four</u> thousand and <u>four</u> <u>six</u> , hundred and <u>and fifteen</u>) book-entry shares, being <u>R\$48.660.827.602.05</u> <u>72.772.826.412.91</u> (<u>forty eight</u> <u>seventy-two</u> billion, <u>six</u> <u>seven</u> hundred and <u>sixty</u> <u>seventy-two</u> million, eight hundred and twenty- <u>seven</u> <u>six</u> thousand, <u>six</u> <u>four</u> hundred and <u>twotwelve</u> Reais and <u>five</u> <u>ninety-one</u> cents), divided into <u>3.409.733.697 (three</u> <u>4.997.544.504</u> (four billion, <u>four</u> <u>nine</u> hundred and <u>nineninety-seven</u> million, <u>seven</u> <u>five</u> hundred and <u>thirty three</u> <u>forty-four</u> thousand and <u>six</u> <u>five</u> hundred and <u>ninety seven</u> <u>four</u>) common shares and <u>R\$28.639.172.397.96</u> (<u>twenty eight</u> <u>4.527.173.587.09</u> (four billion, <u>six</u> <u>five</u> hundred and <u>thirty nine</u> <u>twenty-seven</u> million, one hundred and seventy- <u>two</u> <u>three</u> thousand, <u>three</u> <u>five</u> hundred and <u>nine</u> <u>eighty-seven</u> Reais and <u>ninety six</u> <u>nine</u> cents), divided into <u>2.006.787.718 (two billion,</u> <u>six</u> <u>307.140.096</u> (three hundred and <u>seven</u> million, <u>seven</u> <u>one</u>	This amendment is a result of the corporate restructuring approved in the the Extraordinary General Meeting held on 06.27.2017 and of the requests for conversion of class A preferred shares into common shares filed by holders of 84.4% of the existing preferred shares, as reported in the Material Fact disclosed on 08.11.2017. <i>Legal and Economic Effects</i> . This amendment only aims to reflect the change in the corporate capital resulting from the merger of Valepar S.A. into Vale, and the conversion of 1,660,581,830 class A preferred shares issued by the Company into common shares at a ratio of 0.9342 common share for each preferred share, as informed in the Material Fact disclosed on 08.11.2017.

Table of Contents

Current text of By-laws	Proposed text for Bylaws	Justification
()	hundred and eighty seven forty thousand, seven hundred and eighteen ninety-six) preferred Class A shares, including 12 (twelve) golden shares, all without nominal value. ()	
<p>Article 9 - At an Ordinary or Extraordinary General Meeting, the chair shall be taken by the Chairman, or in his absence by the Vice-Chairman of the Board of Directors of the company, and the Secretary of the Board of Directors shall act as secretary, as per § 15 of Article 11.</p> <p>Sole Paragraph - In the case of temporary absence or impediment of the Chairman or Vice-Chairman of the Board of Directors, the General Meeting of Shareholders shall be chaired by their respective alternates, or in the absence or impediment of such alternates, by an Officer specially appointed by the Chairman of the Board of Directors.</p>	<p>Article 9 - At an Ordinary or Extraordinary General Meeting, the chair shall be taken by the Chairman, or in his absence by the Vice-Chairman of the Board of Directors of the company, and the Secretary <u>of the Board of Directors shall act as secretary, as per § 15 of Article 11.</u> shall be appointed by the Chairman of the Meeting.</p> <p><u>Sole Paragraph § 1</u> - In the case of temporary absence or impediment of the Chairman or Vice-Chairman of the Board of Directors, the General Meeting of Shareholders shall be chaired by their respective alternates, or in the absence or impediment of such alternates, by <u>an another</u> Officer <u>or by a person</u> specially appointed by the Chairman of the Board of Directors.</p> <p><u>§ 2</u> <u>The minutes of the General Meetings shall be recorded as a summary of the resolutions taken and shall be published, omitting the signatures of the shareholders present, pursuant to legislation in force. In addition, the minutes shall be signed by enough shareholders to constitute the majority needed to approve the matters reviewed.</u></p>	<p>The amendments in article 9 of the Bylaws aims to establish that (i) the Secretary of the General Meeting will be appointed by the President of the General Meeting; (ii) in cases of temporary absence or impediment of the Chairman or Vice-Chairman of the Board or of their respective alternates, any person appointed by the Chairman of the Board of Directors may chair the Meeting; and (iii) the minutes of the meetings shall be drawn up in summary form, published with the omission of the signatures of the shareholders and shall be valid with the signature by <u>by enough shareholders to constitute the majority needed to approve the matters reviewed</u>, as provided for in Article 130 of Law 6,404/76. <u>Legal and Economic Effects</u>. These amendments aim to make the procedure of the meetings and the preparation of the minutes more flexible</p>

Table of Contents

Current text of By-laws	Proposed text for Bylaws	Justification
Article 11 () §15 - The Board of Directors shall have a Secretary, appointed by the Chairman of the Board of Directors, who shall necessarily be an employee or administrator of the company, in whose absence or impediment shall be replaced by another employee or administrator as designated by the Chairman of the Board of Directors.	Article 11 () §15 - The Board of Directors shall have a Secretary, appointed by the Chairman of the Board of Directors, who shall necessarily be an employee or administrator of the company, in whose absence or impediment shall be replaced by another employee or administrator as designated by the Chairman of the Board of Directors.	Exclusion of Paragraph 15 of Article 11 of the Bylaws, which refers to the Secretary of the Board of Directors, which will be extinguished due to the creation of the Company's governance office, according to the wording proposed for item XVIII of article 14 of the Bylaws. <i><u>Legal and Economic Effects</u></i> . This amendment aims to avoid overlapping of functions, in view of the creation of the Company's governance office.
Article 13 () §1 - The minutes of the meetings of the Board of Directors shall be recorded in the Book of Minutes of Meetings of the Board of Directors which, after having been read and approved by the officers present at the meetings, shall be signed in a number sufficient to constitute the majority necessary for approval of the subjects examined. §2 - The Secretary shall be responsible for the recording, distribution, filing and safeguard of the respective minutes of the meetings of the Board of Directors, as well as for the issuance of abstracts of the minutes and certificates of approvals of the Board of Directors.	Article 13 () §1 Sole Paragraph - The minutes of the meetings of the Board of Directors shall be recorded in the Book of Minutes of Meetings of the Board of Directors which, after having been read and approved by the officers present at the meetings, shall be signed in a number sufficient to constitute the majority necessary for approval of the subjects examined. §2 - The Secretary shall be responsible for the recording, distribution, filing and safeguard of the respective minutes of the meetings of the Board of Directors, as well as for the issuance of abstracts of the minutes and certificates of approvals of the Board of Directors.	Exclusion of Paragraph 2 of Article 13 of the Bylaws, which refers to the Secretary of the Board of Directors, which will be extinguished due to the creation of the Company's governance office, according to the wording proposed for item XVIII of article 14 of the Bylaws. <i><u>Legal and Economic Effects</u></i> . This amendment aims to avoid overlapping of functions, in view of the creation of the Company's governance office.

Table of Contents

Current text of By-laws	Proposed text for Bylaws	Justification
<p>Article 14 - The Board of Directors shall be responsible for:</p> <p>()</p> <p>XVII. selecting and removing external auditors of the company, based on the Fiscal Council's recommendation, in accordance with section (ii) of §1º of Article 39;</p> <p>()</p> <p>XVIII. appointing and removing the person responsible for the internal auditing and for the Ombud of the company, who shall report directly to the Board of Directors;</p> <p>()</p> <p>XXVI. approving the provision of guarantees in general, and establishing criteria for the Executive Board in relation to the contracting of loans and financing and for the signing of other contracts;</p> <p>()</p>	<p>Article 14 - The Board of Directors shall be responsible for:</p> <p>()</p> <p>XVII. selecting and removing external auditors of the company, based on the Fiscal Council's recommendation, in accordance with section (ii) of §1º of Article 39 33;</p> <p>()</p> <p>XVIII. appointing and removing the person responsible for <u>the governance office</u>, <u>the</u> internal auditing and for the Ombud of the company, who shall report directly to the Board of Directors;</p> <p>()</p> <p>XXVI. approving the provision of guarantees in general, and establishing criteria for the Executive Board in relation to the for providing guarantees in general and contracting of loans and financing and for the signing of other contracts;</p> <p>()</p> <p><u>§3 Vale and its controlled companies in Brazil or abroad are prohibited from making, directly or indirectly through third parties, any contribution to political movements, including those organized as political parties, and to their representatives or candidates.</u></p>	<p><u>Legal and Economic Effects</u>. There are no legal and economic effects, since it is a mere update of the cross reference.</p> <p>This amendment reflects the creation of the Company's governance office, which will be directly subordinated to the Board of Directors and whose responsible person will be appointed and removed by such body. <u>Legal and Economic Effects</u>. There are no legal and economic effects.</p> <p>This amendment aims to clarify the wording on the general providing of guarantees by the Company. <u>Legal and Economic Effects</u>. There are no legal and economic effects.</p> <p>Inclusion of a clause to expressly prohibit the Company and its subsidiaries in Brazil and abroad from making any contribution to political movements, and to their representatives or candidates. <u>Legal and Economic Effects</u>. This amendment is in accordance with the decision issued by the Federal Supreme Court in Direct Unconstitutionality Action (ADIN) No. 4,650</p>

Table of Contents

Current text of By-laws	Proposed text for Bylaws	Justification
		and Law No. 13,165/2015, which excluded the possibility of election donations by legal entities, and aims to reflect the observance, by the Company, of the highest ethical and governance standards.
<p>Article 15 - The Board of Directors, shall have, for advice on a permanent basis, 5 (five) technical and advisory committees, denominated as follows: Executive Development Committee, Strategic Committee, Finance Committee, Accounting Committee and Governance and Sustainability Committee.</p> <p>()</p>	<p>Article 15 - The Board of Directors, shall have, for advice on a permanent basis, 5 (five) technical and advisory committees, denominated as follows: <u>Executive Development Personnel Committee</u>, <u>Strategic Compliance and Risk</u> Committee, Finance Committee, <u>Accounting Audit</u> Committee and <u>Governance and Sustainability</u> Committee.</p> <p>()</p>	<p>The proposal aims only to reflect the creation and new denomination of the Advisory Committees. <u>Legal and Economic Effects</u>. There are no legal and economic effects., since it is a mere change of name of the advisory committees of the Board of Directors.</p>
<p>Article 18 ()</p> <p>§1 - The members of the committees shall be appointed by the Board of Directors and may belong to company administration bodies or not.</p> <p>()</p>	<p>Article 18 ()</p> <p>§1 - The members of the committees shall be appointed by the Board of Directors and may belong to company administration <u>bodies or not, being prohibited the participation of Executive Officers of Vale and with due regard to applicable legal and regulatory provisions.</u></p> <p>()</p>	<p>Wording adjustment on the appointment of the members of the advisory committees of the Board of Directors. <u>Legal and Economic Effects</u>. There are no legal and economic effects, since it is only a wording to clarify the rules on the appointment of the committee members.</p>
<p>Subsection III Workings</p> <p>Article 19 - Standards relating to the workings of each committee shall be defined</p>	<p>Subsection III Workings and Responsibilities</p> <p>Article 19 - Standards relating to the workings <u>of each and responsibilities of the</u> committees</p>	<p>Amendment in the title and caput of article 19 in order to determine wich attributions of the Committees will be defined by the Board of Directors in the respective regiments of the committees.</p>

Table of Contents

Current text of By-laws	Proposed text for Bylaws	Justification
<p>by the Board of Directors. ()</p>	<p>shall be defined by the Board of Directors <u>in the specific Internal Rules of each committee.</u> ()</p> <p><u>§3- The Board of Directors shall be responsible for determining that the Audit Committee shall exercise, with exclusivity, the duties contained in Art. 33, §1, (i) to (iv) below.</u></p>	<p><u>Legal and Economic Effects.</u> The amendment aims to bring greater efficiency and flexibility to the performance of the committees, since any changes in their attributions will no longer depend on statutory changes, and may be carried out directly by the Board of Directors in the internal regiments of the committees.</p> <p>Inclusion of paragraph 3 in article 19 to establish the Board of Directors is in change to determine that the exercise of certain functions currently assigned by the Bylaws to the Fiscal Council, in addition to the attributions conferred to the Fiscal Council by article 163 of Law 6,404/1976, will be exercised, with exclusivity, by the Audit Committee.</p> <p><u>Legal and Economic Effects.</u> By reason of such amendment, the Company's Board of Directors may decide that the duties of the Audit Committee, which are currently conferred by the Bylaws to the Fiscal Council, will be exercised exclusively by the Audit Committee. Thus, the Fiscal Council would only exercise the attributions provided for in article 163 of Law 6,404/1976.</p>
<p><u>Subsection IV Responsibilities</u></p>	<p><u>Subsection IV—Responsibilities</u></p>	<p>Exclusion of Subsection IV, articles 20 to 25</p>

Table of Contents

Current text of By-laws	Proposed text for Bylaws	Justification
<p>Article 20 The Board of Directors shall determine the main duties of the committees, including, but not limited to the ones set forth in Article 21 and subsequent articles.</p> <p>Article 21 - The Executive Development Committee shall be responsible for:</p> <p>I - issuing reports on the human resources general policies of the Company submitted by the Executive Board to the Board of Directors;</p> <p>II - analyzing and issuing reports to the Board of Directors on the proposal for the distribution of the annual, global budget for the remuneration of the administrators and the restatement of the model of the remuneration of members of the Executive Board;</p> <p>III - submitting and ensuring up-to-dateness of the performance evaluation methodology of the members of the Executive Board; and</p> <p>IV - aiding the Board of Directors with the definition of goals for the performance evaluation of the Executive Officers; and</p> <p>V - follow-up of the development of the succession plan for the Executive Officers.</p> <p>Article 22 - The Strategic Committee shall be responsible for:</p> <p>I - recommending the strategic guidelines and the strategic plan submitted annually by the Executive Board;</p>	<p>Article 20—The Board of Directors shall determine the main duties of the committees, including, but not limited to the ones set forth in Article 21 and subsequent articles.</p> <p>Article 21—The Executive Development Committee shall be responsible for:</p> <p>I—issuing reports on the human resources general policies of the Company submitted by the Executive Board to the Board of Directors;</p> <p>II—analyzing and issuing reports to the Board of Directors on the proposal for the distribution of the annual, global budget for the remuneration of the administrators and the restatement of the model of the remuneration of members of the Executive Board;</p> <p>III—submitting and ensuring up-to-dateness of the performance evaluation methodology of the members of the Executive Board; and</p> <p>IV—aiding the Board of Directors with the definition of goals for the performance evaluation of the Executive Officers; and</p> <p>V—follow-up of the development of the succession plan for the Executive Officers;</p> <p>Article 22—The Strategic Committee shall be responsible for:</p> <p>I—recommending the strategic guidelines and the strategic plan submitted annually by the Executive Board;</p> <p>II—recommending investment and/or divestiture opportunities; and</p> <p>III—recommending operations relating to</p>	<p>of the Bylaws, in order of the amendment in the caput of article 19, according to which the attributions of the advisory committees of the Board of Directors will be established by the Board of Directors itself, in the respective regiments interns.</p> <p><u>Legal and Economic Effects.</u></p> <p>The amendment aims to bring greater efficiency and flexibility to the work of the committees, since possible changes in their attributions will no longer depend on statutory changes, and may be carried out directly by the Board of Directors in the internal regiments of the committees.</p>

Table of Contents

Current text of By-laws	Proposed text for Bylaws	Justification
<p>II - recommending investment and/or divestiture opportunities; and</p> <p>III - recommending operations relating to merger, split-off, incorporation in which the Company and its controlled subsidiaries are a party.</p> <p>Article 23 - The Finance Committee shall be responsible for:</p> <p>I - evaluate the corporate risks and financial policies and the internal financial control systems of the Company;</p> <p>II - evaluate the compatibility between the remuneration level of shareholders and the parameters established in the annual budget and financial scheduling, as well as its consistency with the general policy on dividends and the capital structure of the company;</p> <p>III - evaluate the annual budget and the annual investments plan of Vale;</p> <p>IV - evaluate the annual funding plan and the risk exposure limits of the Company;</p> <p>V - evaluate the risks management process of the Company; and</p> <p>VI - follow-up the financial execution of capital expenditure projects and ongoing budget.</p> <p>Article 24 - The Accounting Committee shall be responsible for:</p> <p>I - issuing reports on the policies and the Company's annual auditing plan submitted by the employee responsible for internal</p>	<p>merger, split off, incorporation in which the Company and its controlled subsidiaries are a party.</p> <p>Article 23 - The Finance Committee shall be responsible for:</p> <p>I - evaluate the corporate risks and financial policies and the internal financial control systems of the Company;</p> <p>II - evaluate the compatibility between the remuneration level of shareholders and the parameters established in the annual budget and financial scheduling, as well as its consistency with the general policy on dividends and the capital structure of the company;</p> <p>III - evaluate the annual budget and the annual investments plan of Vale;</p> <p>IV - evaluate the annual funding plan and the risk exposure limits of the Company;</p> <p>V - evaluate the risks management process of the Company; and</p> <p>VI - follow up the financial execution of capital expenditure projects and ongoing budget.</p> <p>Article 24 - The Accounting Committee shall be responsible for:</p> <p>I - issuing reports on the policies and the Company's annual auditing plan submitted by the employee responsible for internal auditing, and on its execution;</p> <p>II - tracking the results of the Company's internal auditing, and identifying, prioritizing,</p>	

Table of Contents

Current text of By-laws	Proposed text for Bylaws	Justification
auditing, and on its execution; II - tracking the results of the Company's internal auditing, and identifying, prioritizing, and submitting actions to be accompanied by the Executive Board to the Board of Directors; III - evaluating the procedures and results of the internal audit, in respect to best practices, when requested by the Board of Directors; and IV - aiding the Board of Directors, if requested by them, in the process of appointing and evaluating the annual performance of the person responsible for the internal auditing of the Company. Article 25 - The Governance and Sustainability Committee shall be responsible for: I - evaluating the efficiency of the company's governance practices and the workings of the Board of Directors, and submitting improvements; II - submitting improvements to the Code of Ethics and Conduct and to the management system in order to avoid conflicts of interests between the company and its shareholders or company administrators; III - evaluating related party transactions submitted for resolution of the Board of Directors, as well as issuing reports on potential conflicts of interest involving related parties;	and submitting actions to be accompanied by the Executive Board to the Board of Directors; III - evaluating the procedures and results of the internal audit, in respect to best practices, when requested by the Board of Directors; and 278	
		125%
Orthopedics	71,831	59,986 20%
Sports Medicine	4,143	2,834 46%
Vascular	19,866	21,168 (6)%
Other	27,820	24,180 15%
International	\$ 124,285	\$ 108,446 15%

Sales by Market Sector:

Sales of our Spine products grew 68% to \$243.2 million in 2007 from \$145.1 million in 2006. The increase is primarily due to the acquisition of Blackstone which was completed at the end of the third quarter 2006 and due to increased sales of Spinal-Stim(R) and Cervical-Stim(R) which increased 5% and 12%, respectively, due to increased demand in the United States as mentioned above.

Sales of our Orthopedics products increased 17% to \$111.9 million in 2007 compared to \$95.8 million in 2006. The increase in this market sector is primarily attributable to increased sales of internal fixation devices of 51%, increased sales of Physio-Stim(R) of 19% and other orthopedic products when compared to the prior year. These increases were

slightly offset by sales of external fixation devices, which decreased 5% compared to the prior year due to internal fixation alternative devices sharing the market as discussed above.

Sales of our Sports Medicine products increased 11% from \$79.1 million in 2006 to \$87.5 million in 2007. As discussed above, the increase in sales is primarily due to increased demand of our Breg Bracing(R) products, including our Fusion(R) knee brace and cold therapy products including the recently introduced Kodiak product line.

Sales of our Vascular products decreased 6% to \$19.9 million in 2007, compared to \$21.2 million in 2006 due to increased world-wide competition.

Sales of Other products grew 15% to \$27.8 million in 2007 compared to \$24.2 million in 2006 due to increased sales of airway management products, women's care and other distributed products.

Table of Contents

Gross Profit — Gross profit increased 33% to \$361.3 million in 2007 compared to \$271.7 million in 2006, primarily due to the 34% increase in net sales from the prior year. Gross profit as a percent of net sales in 2007 was 73.7% compared to 74.4% in 2006. During 2007, we experienced negative impacts from the amortization of the step-up in inventory of \$2.7 million associated with the Blackstone acquisition. Operational pressures on Blackstone gross profit margins resulting from the impacts of product and channel mix changes were offset by higher sales of higher margin stimulation products.

Sales and Marketing Expenses — Sales and marketing expenses, which include commissions, royalties and bad debt provisions, increased \$41.3 million to \$187.0 million in 2007 from \$145.7 million in 2006. The increase is mainly due the inclusion of Blackstone for the full year 2007 (approximately \$38.5 million) as well as higher commissions, royalties and other variable costs associated with higher sales, an increase in SFAS No. 123(R) expense of \$1.3 million, and other costs intended to build our distribution capabilities. Additionally, 2006 sales and marketing expense included \$4.5 million in distributor termination costs related to the Blackstone acquisition. These increases were partially offset by decreased sales tax expense of \$3.5 million in 2007 principally due to favorable rulings and classifications relating to the taxability of certain of our stimulation devices. Although generally we see an increase or decrease in sales and marketing expenses in relation to sales, in 2007 we experienced an increase of 28% on a sales increase of 34% due to the reasons above. Further, sales and marketing as a percent of sales for 2007 and 2006 were 38.1% and 39.9%, respectively.

General and Administrative Expenses — General and administrative expenses increased 37%, or \$19.6 million, to \$72.9 million in 2007 from \$53.3 million in 2006. The increase is primarily attributable to an increase in general and administrative expenses at Blackstone from the prior year of \$12.4 million as Blackstone was not acquired until September 22, 2006. Also included in the increase in general and administrative expenses was management transition costs of \$1.6 million, which included \$0.7 million of non-cash share-based compensation and a further increase of SFAS No. 123(R) expense of \$2.6 million, and costs related to strategic initiatives of \$1.3 million. General and administrative expenses as a percent of net sales were 14.9% and 14.6% in 2007 and 2006, respectively.

Research and Development Expenses — Research and development expenses decreased 56%, or \$30.8 million, to \$24.2 million in 2007 from \$55.0 million in 2006. The decrease is related to a charge of \$40.0 million in 2006 for the write-off of in-process research and development resulting from the Blackstone acquisition, which was partially offset by an increase in research and development expenses at Blackstone of \$9.8 million and an increase in SFAS No. 123(R) expense of \$0.4 million from 2006. Research and development expenses as a percent of net sales were 4.9% in 2007 and 15.1% in 2006.

Amortization of Intangible Assets — Amortization of intangible assets was \$18.2 million in 2007 compared to \$8.9 million in 2006. The increase in amortization expense was primarily due to the amortization associated with definite-lived intangible assets acquired in the Blackstone acquisition in September 2007.

Impairment of Certain Intangible Assets — In 2007, we incurred \$21.0 million of expense related to the impairment of certain intangible assets. As part of our annual impairment test under SFAS No. 142, we determined that the Blackstone trademark, an indefinite-lived intangible asset, was impaired by \$20.0 million because the book value exceeded the fair value. We also impaired intangibles related to our Orthotrac product by \$1.0 million. There is no comparable cost in 2006.

KCI Settlement, Net of Litigation Costs — The gain, net of litigation costs, on the settlement of the KCI litigation in 2006 was \$1.1 million for which there was no comparable gain in 2007.

Interest Income — Interest income earned on cash balances held during the period was \$1.0 million in 2007 compared to \$2.2 million in 2006.

Interest Expense — Interest expense was \$24.7 million in 2007 compared to \$8.4 million in 2006. We incurred \$22.4 and \$6.9 million of interest expense on borrowings under our senior secured term loan which financed the Blackstone acquisition in 2007 and 2006, respectively. Also, during 2007, additional interest expense of \$1.2 million was incurred under a line of credit in Italy and we amortized \$1.1 million of debt costs. During 2006, additional interest expense of \$1.5 million was incurred on the senior secured term loan associated with the Breg acquisition which was repaid in the first quarter of 2006 and under a line of credit in Italy.

Table of Contents

Other Income (Expense), Net — Other income (expense), net was income of \$0.4 million in 2007 compared to income of \$2.5 million in 2006. The other income in 2007 was due to foreign currency gains resulting from the weakening of the United States dollar. Other income in 2006 was primarily attributable to a \$2.1 million foreign currency gain related to an unhedged intercompany loan of 42.6 million Euro created as part of a European restructuring. In December 2006, we arranged a currency swap to hedge the substantial majority of intercompany exposure and minimize future foreign currency exchange risk related to the intercompany position.

Income Tax Expense — In 2007 and 2006, the effective tax rate was 25.5% and 210.5%, respectively. The effective tax rate for 2007 reflects a \$0.9 million tax benefit resulting from research and development tax credit claims relating to years 2003 thru 2006. Excluding the tax benefit for research and development tax credits, our effective tax rate would have been 31.6%. The effective tax rate for 2007 also includes \$1.3 million of tax expense as the result of tax rate changes in various tax jurisdictions, with the majority of the amount related to rate changes in Italy. The effective tax rate for 2006 reflects the non-deductibility, for tax purposes, of the \$40.0 million purchased in-process research and development charge associated with the Blackstone acquisition. Excluding the charge for in-process research and development, our effective tax rate would have been 28.8%. Our 2006 tax rate also benefited from a one-time tax benefit of \$2.8 million resulting from our election to adopt a new tax position in Italy. Without these discrete items, our worldwide effective tax rate was 35% in 2006.

Net Income (Loss) — Net income for 2007 was \$11.0 million compared to net loss of \$7.0 million in 2006 and reflects the items noted above. Net income was \$0.66 per basic share and \$0.64 per diluted share in 2007, compared to net loss of \$0.44 per basic and diluted share in 2006. The weighted average number of basic common shares outstanding was 16,638,873 and 16,165,540 during 2007 and 2006, respectively. The weighted average number of diluted common shares outstanding was 17,047,587 and 16,165,540 during 2007 and 2006, respectively.

Liquidity and Capital Resources

Cash and cash equivalents at December 31, 2008 were \$25.6 million, of which \$11.0 million is subject to certain restrictions under the senior secured credit agreement described below. This compares to cash and cash equivalents of \$41.5 million at December 31, 2007, of which \$16.5 million was subject to certain restrictions under the senior secured credit agreement described below.

Net cash provided by operating activities was \$26.8 million in 2008 compared to \$21.5 million in 2007, an increase of \$5.3 million. Net cash provided by operating activities is comprised of net income (loss), non-cash items (including impairment charges, share-based compensation, inventory provisions and non-cash purchase accounting items from the Blackstone and Breg acquisitions) and changes in working capital, including changes in restricted cash. Net income decreased \$239.5 million to a net loss of \$228.6 million in 2008 compared to net income of \$11.0 million in 2007. Non-cash items for 2008 increased to \$282.6 million compared to \$54.6 in 2007 as a result of the impairment of goodwill and intangible assets of \$289.5 million, the change in estimate for inventory provisions of \$10.9 million, the \$8.0 million unrealized non-cash loss on our interest rate swap and the loss on refinancing of our senior secured term loan of \$3.7 million. These increases were partially offset by the change in deferred taxes of \$79.2 million, primarily attributable to the intangibles impairment, and the \$1.6 million gain on the sale of the operations related to the Breg Pain Care(R) line. Working capital accounts consumed \$27.3 million of cash in 2008 compared to \$44.0 million in 2007. The principal uses of cash for working capital can be mainly attributable to increases in accounts receivable and inventory to support additional sales and certain operational initiatives. Specifically, increases in inventory at Blackstone were approximately \$18.3 million which included significant purchases of Trinity(R) bone growth matrix due, in part, to the pending expiration of a related supply agreement. Overall performance indicators for our two primary working capital accounts, accounts receivable and inventory, reflect days sales in receivables of 77 days at December 31, 2008 compared to 78 days at December 31, 2007 and inventory turns of 1.5 times at December 31, 2008 and December 31, 2007. Also included in the uses of working capital were \$8.5 million in payments related to

strategic initiatives with MTF, \$4.7 million in payments related to the potential divestiture which is no longer being pursued of certain orthopedic fixation assets and \$7.8 million in costs related to matters occurring at Blackstone prior to the acquisition and for which we are seeking reimbursement from the applicable escrow fund.

Table of Contents

Net cash used in investing activities was \$13.9 million in 2008, compared to \$30.4 million during 2007. During 2008, we sold the operations of our Pain Care(R) line of ambulatory infusion pumps for net proceeds of \$6.0 million. During 2008, we also sold a portion of our ownership in OPED AG, a German based bracing company, for net proceeds of \$0.8 million. Also, in 2008, we invested \$20.2 million in capital expenditures, of which \$10.4 million were related to Blackstone and included the acquisition of intellectual property and related technology for a spinal fixation system from IIS. During 2007, we invested \$27.2 million in capital expenditures of which \$7.9 million was related to the acquisition of inSWing(TM) interspinous process spacers at Blackstone. In 2007, we also invested \$3.1 million in subsidiaries and affiliates which was a result of adjustments in purchase accounting related to Blackstone and a purchase of a minority interest in our subsidiaries in Mexico and Brazil.

Net cash used in financing activities was \$22.3 million in 2008 compared to \$7.7 million provided by financing activities in 2007. In 2008, we repaid approximately \$17.1 million against the principal on our senior secured term loan, of which \$10.0 million was paid on a discretionary basis, and repaid \$6.7 million related to borrowings by our Italian subsidiary. In addition, we received proceeds of \$1.7 million from the issuance of 51,052 shares of our common stock upon the exercise of stock options and shares issued pursuant to the stock purchase plan. In 2007, we repaid \$17.5 million against the principal on our senior secured term loan and borrowed \$8.1 million to support working capital in our Italian subsidiary. In addition, we received proceeds of \$15.1 million from the issuance of 592,445 shares of our common stock upon the exercise of stock options.

On September 22, 2006 our wholly-owned U.S. holding company subsidiary, Orthofix Holdings, Inc. (“Orthofix Holdings”), entered into a senior secured credit facility with a syndicate of financial institutions to finance the acquisition of Blackstone. Certain terms of the senior secured credit facility were amended September 29, 2008. The senior secured credit facility provides for (1) a seven-year amortizing term loan facility of \$330.0 million, the proceeds of which, together with cash balances were used for payment of the purchase price of Blackstone; and (2) a six-year revolving credit facility of \$45.0 million. As of December 31, 2008 we had no amounts outstanding under the revolving credit facility and \$280.7 million outstanding under the term loan facility. Obligations under the senior secured credit facility have a floating interest rate of the London Inter-Bank Offered Rate (“LIBOR”) plus a margin or prime rate plus a margin. Currently, the term loan is a \$150.0 million LIBOR loan, with a 3.0% LIBOR floor, plus a margin of 4.5% and a \$130.7 million prime rate loan plus a margin of 3.5%, which are adjusted based upon the credit rating of the Company and its subsidiaries. In June 2008, we entered into a three year fully amortizable interest rate swap agreement (the “Swap”) with a notional amount of \$150.0 million and an expiration date of June 30, 2011. The amount outstanding under the Swap as of December 31, 2008 was \$150.0 million. Under the Swap we will pay a fixed rate of 3.73% and receive interest at floating rates based on the three month LIBOR rate at each quarterly re-pricing date until the expiration of the Swap. As of December 31, 2008 the interest rate on the debt related to the Swap was 9.8%. Our overall effective interest rate, including the impact of the Swap, as of December 31, 2008 on our senior secured debt was 8.4%.

The credit agreement contains certain financial covenants, including a fixed charge coverage ratio and a leverage ratio applicable to Orthofix and its subsidiaries on a consolidated basis. A breach of any of these covenants could result in an event of default under the credit agreement, which could permit acceleration of the debt payments under the facility. Management believes the Company was in compliance with these financial covenants as measured at December 31, 2008 and 2007. The Company further believes that it should be able to meet these financial covenants in future fiscal quarters, however, there can be no assurance that it will be able to do so, and failure to do so could result in an event of default under the credit agreement, which could have a material adverse effect on our financial position.

At December 31, 2008, we had outstanding borrowings of \$1.9 million and unused available lines of credit of approximately 5.2 million Euro (\$7.3 million) under a line of credit established in Italy to finance the working capital of our Italian operations. The terms of the line of credit give us the option to borrow amounts in Italy at rates

determined at the time of borrowing.

56

Table of Contents

On July 24, 2008, we entered into an agreement with Musculoskeletal Transplant Foundation (“MTF”) to collaborate on the development and commercialization of a new stem cell-based bone growth biologic matrix. Under the terms of the agreement, we will invest up to \$10.0 million in the development of the new stem cell-based bone growth biologic matrix that will be designed to provide the beneficial properties of an autograft in spinal and orthopedic surgeries. After the completion of the development process, the Company and MTF will operate under the terms of a separate commercialization agreement. Under the terms of this 10-year agreement, MTF will source the tissue, process it to create the bone growth matrix, and package and deliver it in accordance with orders received directly from customers and from the Company. The Company will have exclusive global marketing rights for the new allograft and will receive a marketing fee from MTF based on total sales. We account for this collaborative arrangement considering guidance included in Emerging Issues Task Force Issue No. 07-1 “Accounting for Collaborative Arrangements.” We currently plan for the new allograft to be launched in the U.S. in May 2009. Approximately \$6.1 million of expenses incurred under the terms of the agreement are included in research and development expense in 2008. We have also entered into an agreement with IIS, as mentioned above, where we have purchased \$2.5 million of intellectual property and related technology. IIS will continue to perform research and development functions related to the technology and under the agreement, we will pay IIS an additional amount, up to \$4.5 million for research and development performance milestones.

We believe that current cash balances together with projected cash flows from operating activities, the unused availability of the \$45.0 million revolving credit facility, the available Italian line of credit, and our debt capacity are sufficient to cover anticipated working capital and capital expenditure needs including research and development costs and research and development projects formerly mentioned, over the near term.

Contractual Obligations

The following chart sets forth our contractual obligations as of December 31, 2008:

Contractual Obligations (In US\$ thousands)	Payments Due By Period				
	Total	2009	2010-2012	2013-2014	2015 and thereafter
Senior secured term loan	\$ 280,700	\$ 3,300	\$ 86,625	\$ 190,775	\$ -
Estimated interest on senior secured term loan(1)	84,911	19,989	58,630	6,292	-
Other borrowings	162	29	133	-	-
Uncertain tax positions	707	-	707	-	-
Operating leases	11,261	4,655	6,386	220	-
Total	\$ 377,741	\$ 27,973	\$ 152,481	\$ 197,287	\$ -

(1) Estimated interest on senior secured term loan excludes any potential effects of the interest rate swap agreement and assumes payments are made in accordance with the scheduled payments as defined in the agreement. Interest payments are estimated using rates in effect at December 31, 2008.

The aggregate maturities of long-term debt after December 31, 2008 are as follows: 2009 - \$3.3 million, 2010 - \$3.4 million, 2011 - \$3.4 million, 2012 - \$80.0 million, 2013 - \$190.8 million.

Table of Contents

In addition to scheduled contractual payment obligations on the debt as set forth above, our credit agreement requires us to make mandatory prepayments with (a) the excess cash flow (as defined in the credit agreement) of Orthofix International N.V. and its subsidiaries, in an amount equal to 50% of the excess annual cash flow beginning with the year ending December 31, 2007, provided, however, if the leverage ratio (as defined in the credit agreement) is less than or equal to 1.75 to 1.00, as of the end of any fiscal year, there will be no mandatory excess cash flow prepayment, with respect to such fiscal year, (b) 100% of the net cash proceeds of any debt issuances by Orthofix International N.V. or any of its subsidiaries or 50% of the net cash proceeds of equity issuances by any such party, excluding the exercise of stock options, provided, however, if the leverage ratio is less than or equal to 1.75 to 1.00 at the end of the preceding fiscal year, Orthofix Holdings shall not be required to prepay the loans with the proceeds of any such debt or equity issuance in the immediately succeeding fiscal year, (c) the net cash proceeds of asset dispositions over a minimum threshold, or (d) unless reinvested, insurance proceeds or condemnation awards.

Off-balance Sheet Arrangements

As of December 31, 2008 we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks as part of our ongoing business operations. Primary exposures include changes in interest rates and foreign currency fluctuations. These exposures can vary sales, cost of sales, and costs of operations, the cost of financing and yields on cash and short-term investments. We use derivative financial instruments, where appropriate, to manage these risks. However, our risk management policy does not allow us to hedge positions we do not hold and we do not enter into derivative or other financial investments for trading or speculative purposes. As of December 31, 2008, we had a currency swap transaction in place to minimize future foreign currency exchange risk related to a 43.0 million Euro intercompany note foreign currency exposure. See Item 7 under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations – 2007 Compared to 2006 – Other Income (Expense), Net”.

We are exposed to interest rate risk in connection with our senior secured term loan and borrowings under our revolving credit facility, which bear interest at floating rates based on LIBOR or the prime rate plus an applicable borrowing margin. Therefore, interest rate changes generally do not affect the fair market value of the debt, but do impact future earnings and cash flows, assuming other factors are held constant. We had an interest rate swap in place as of December 31, 2008 to minimize interest rate risk related to our LIBOR-based borrowings.

As of December 31, 2008, we had \$280.7 million of variable rate term debt represented by borrowings under our senior secured term loan at a floating interest rate of LIBOR, with a LIBOR floor of 3.0% plus a margin or the prime rate plus a margin. Currently, the term loan is a \$150.0 million LIBOR loan plus a margin of 4.50% and a \$130.7 million prime rate loan plus a margin of 3.5%, which are adjusted based upon the credit rating of the Company and its subsidiaries. In June 2008, we entered into a Swap with a notional amount of \$150.0 million and an expiration date of June 30, 2011. The amount outstanding under the Swap as of December 31, 2008 was \$150.0 million. Under the Swap we will pay a fixed rate of 3.73% and receive interest at floating rates based on the three month LIBOR rate at each quarterly re-pricing date until the expiration of the Swap. As of December 31, 2008 the interest rate on the debt related to the Swap was 9.8%. Our overall effective interest rate, including the impact of the Swap, as of December 31, 2008 on our senior secured debt was 8.4%. Based on the balance outstanding under the senior secured term loan combined with the Swap as of December 31, 2008, an immediate change of one percentage point in the applicable interest rate on the variable rate debt would cause an increase in interest expense of approximately \$2.8 million on an annual basis.

Table of Contents

Our foreign currency exposure results from fluctuating currency exchange rates, primarily the U.S. Dollar against the Euro, Great Britain Pound, Mexican Peso and Brazilian Real. We are subject to cost of goods currency exposure when we produce products in foreign currencies such as the Euro or Great Britain Pound and sell those products in U.S. Dollars. We are subject to transactional currency exposures when foreign subsidiaries (or the Company itself) enter into transactions denominated in a currency other than their functional currency. As of December 31, 2008, we had an unhedged intercompany receivable denominated in Euro for approximately \$17.2 million. We recorded a foreign currency loss in 2008 of \$1.1 million which resulted from the weakening of the Euro against the U.S. dollar during the period.

We also are subject to currency exposure from translating the results of our global operations into the U.S. dollar at exchange rates that have fluctuated from the beginning of the period. The U.S. dollar equivalent of international sales denominated in foreign currencies was favorably impacted in 2008 and 2007 by foreign currency exchange rate fluctuations with the weakening of the U.S. dollar against the local foreign currency during these periods. As we continue to distribute and manufacture our products in selected foreign countries, we expect that future sales and costs associated with our activities in these markets will continue to be denominated in the applicable foreign currencies, which could cause currency fluctuations to materially impact our operating results.

Item 8. Financial Statements and Supplementary Data

See “Index to Consolidated Financial Statements” on page F-1 of this Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a - 15(e) or 15d - 15 (e)) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting during the year ended December 31, 2008 that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

Our management’s assessment regarding the Company’s internal control over financial reporting can be found immediately prior to the financial statements in a section entitled “Management’s Report on Internal Control over Financial Reporting” in this Form 10-K.

Item 9B. Other Information

Not applicable.

59

Table of Contents

PART III

Certain information required by Item 10 of Form 10-K and information required by Items 11, 12, 13 and 14 of Form 10-K is omitted from this annual report and will be filed in a definitive proxy statement or by an amendment to this annual report not later than 120 days after the end of the fiscal year covered by this annual report.

Item 10. Directors, Executive Officers and Corporate Governance

The following table sets forth certain information about the persons who serve as our directors and executive officers.

Name	Age	Position
James F. Gero	64	Chairman of the Board of Directors
Alan W. Milinazzo	49	Chief Executive Officer, President and Director
Robert S. Vaters	48	Executive Vice President and Chief Financial Officer
Bradley R. Mason	55	Group President, North America
Michael Simpson	47	President, Orthofix Inc.
Raymond C. Kolls	46	Senior Vice President, General Counsel and Corporate Secretary
Michael M. Finegan	45	Vice President, Business Development and President of Biologics
Denise E. Pedulla	49	Senior Vice President, Chief Compliance Officer-Global Compliance and Government Affairs
Brad Lee	43	President, Breg, Inc.
Luigi Ferrari	41	President, Orthofix International Orthopedic Fixation
Peter J. Hewett	73	Deputy Chairman of the Board of Directors
Charles W. Federico	61	Director
Jerry C. Benjamin (2) (3)	68	Director
Walter von Wartburg (1)	69	Director
Thomas J. Kester (1) (2)	62	Director
Kenneth R. Weisshaar (2) (3)	58	Director
Guy Jordan (1) (3)	60	Director
Maria Sainz	42	Director

(1) Member of the Compensation Committee

(2) Member of the Audit Committee

(3) Member of Nominating and Governance Committee

All directors hold office until the next annual general or special meeting of our shareholders and until their successors have been elected and qualified. Our officers serve at the discretion of the Board of Directors. There are no family relationships among any of our directors or executive officers. The following is a summary of the background of each director and executive officer.

James F. Gero. Mr. Gero became Chairman of Orthofix International N.V. on December 2, 2004 and has been a Director of Orthofix International N.V. since 1998. Mr. Gero became a Director of AME Inc. in 1990. He is a Director of Intrusion, Inc., and Drew Industries, Inc. and is a private investor.

Alan W. Milinazzo. Mr. Milinazzo joined Orthofix International N.V. in 2005 as Chief Operating Officer and succeeded to the position of Chief Executive Officer effective as of April 1, 2006. From 2002 to 2005, Mr. Milinazzo was Vice President of Medtronic, Inc.'s Vascular business as well as Vice President and General Manager of Medtronic's Coronary and Peripheral businesses. Prior to his time with Medtronic, Mr. Milinazzo spent 12 years as an executive with Boston Scientific Corporation in numerous roles, including Vice President of Marketing for SCIMED

Europe. Mr. Milinazzo brings more than two and a half decades of experience in the management and marketing of medical device businesses, including positions with Aspect Medical Systems and American Hospital Supply. He earned a bachelor's degree, cum laude, at Boston College in 1981.

Table of Contents

Robert S. Vaters. Mr. Vaters became Executive Vice President and Chief Financial Officer of Orthofix N.V. on September 7, 2008. Mr. Vaters joined the Company after almost four years as a senior executive at Inamed Corporation, where he was Executive Vice President, Chief Financial Officer and Head of Strategy and Corporate Development. Inamed Corporation, a global medical device company was acquired by Allergan Inc. in March of 2006. Since 2006, Mr. Vaters has been General Partner of a health care private equity firm, which he co-founded, and serves on the Board of Reliable Biopharmaceutical Corporation, a private health care company.

Michael Simpson. Mr. Simpson became President of Orthofix Inc. in 2007. From 2002 to 2006, Mr. Simpson was Vice President of Operations for Orthofix Inc. In 2006, Mr. Simpson was promoted to Senior Vice President of Global Operations and General Manager, Orthofix Inc. responsible for world wide manufacturing and distribution. With more than 20 years of experience in a broad spectrum of industries he has held the following positions: Chief Operating Officer, Business Unit Vice President, Vice President of Operations, Vice President of Sales, Plant Manager, Director of Finance and Director of Operations. His employment history includes the following companies: Texas Instruments, Boeing, McGaw/IVAX, Mark IV Industries, Intermec and Unilever

Bradley R. Mason. Mr. Mason became Group President, North America in June 2008 after serving as Vice President of Orthofix International N.V. since December 2003 upon the acquisition of Breg, Inc. Mr. Mason founded Breg in 1989 with five other principal shareholders. Mr. Mason has over 25 years of experience in the medical device industry, some of which were spent with dj Orthopedics (formally DonJoy) where he was a founder and held the position of Executive Vice President. Mr. Mason is the named inventor on 35 issued patents in the orthopedic product arena with several other patents pending.

Raymond C. Kolls, J.D. Mr. Kolls became Vice President, General Counsel and Corporate Secretary of Orthofix International N.V. on July 1, 2004. Mr. Kolls was named Senior Vice President, General Counsel and Corporate Secretary effective October 1, 2006. From 2001 to 2004, Mr. Kolls was Associate General Counsel for CSX Corporation. Mr. Kolls began his legal career as an attorney in private practice with the law firm of Morgan, Lewis & Bockius.

Michael M. Finegan. Mr. Finegan joined Orthofix International N.V. in June 2006 as Vice President of Business Development. Mr. Finegan was named President of Biologics in March 2009. Prior to joining Orthofix, Mr. Finegan spent sixteen years as an executive with Boston Scientific in a number of different operating and strategic roles, most recently as Vice President of Corporate Sales. Earlier in his career, Mr. Finegan held sales and marketing roles with Marion Laboratories and spent three years in banking with First Union Corporation (Wachovia). Mr. Finegan earned a BA in Economics from Wake Forest University.

Denise E. Pedulla, J.D., M.P.H. Ms. Pedulla joined Orthofix in June 2008 as Senior Vice President and Chief Compliance Officer. Prior to joining Orthofix, Ms. Pedulla spent eight years as an attorney in private practice. Ms. Pedulla was formerly Vice President, Compliance, Regulatory and Government Affairs and Associate General Counsel for Fresenius Medical Care North America.

Brad Lee. Mr. Lee became President of BREG in July 2008. He joined Orthofix in 2005 as Director of Business Development, and in early 2008, became Vice President and General Manager of the BREG Sports Medicine Division. Prior to joining the Orthofix team, Mr. Lee was Vice President of Marketing for LMA North America.

Luigi Ferrari. Mr. Ferrari became President of International Orthopedic Fixation in April 2008. Since February 2006, he was Vice President of Europe and oversaw Orthofix activities in these key geographic markets. He serves also as General Manager of Orthofix Srl, Italy.

Peter J. Hewett. Mr. Hewett was appointed Deputy Chairman of the Board of Directors in 2005 and has been a non-executive Director of Orthofix International N.V. since March 1992. He was the Deputy Group Chairman of Orthofix International N.V. between March 1998 and December 2000. Previously, Mr. Hewett served as the Managing Director of Caradon Plc, Chairman of the Engineering Division, Chairman and President of Caradon Inc., Caradon Plc's U.S. subsidiary and a member of the Board of Directors of Caradon Plc of England. In addition, he was responsible for Caradon Plc's worldwide human resources function, and the development of its acquisition opportunities.

Table of Contents

Charles W. Federico. Mr. Federico has been a Director of Orthofix International N.V. from October 1996, President and Chief Executive Officer of Orthofix International N.V. from January 1, 2001 until April 1, 2006 and President of Orthofix, Inc. from October 1996 to January 1, 2001. From 1985 to 1996 Mr. Federico was the President of Smith & Nephew Endoscopy (formerly Dyonics, Inc.). From 1981 to 1985, Mr. Federico served as Vice President of Dyonics, initially as Director of Marketing and subsequently as General Manager. Previously, he held management and marketing positions with General Foods Corporation, Puritan Bennett Corporation and LSE Corporation. Mr. Federico is a director of SRI/Surgical Express, Inc., BioMimetic Therapeutics, Inc., Power Medical Innovations, Inc. and MAKO Surgical Corp.

Jerry C. Benjamin. Mr. Benjamin became a non-executive Director of Orthofix International N.V. in March 1992. He has been a General Partner of Advent Venture Partners, a venture capital management firm in London, since 1985. Mr. Benjamin is a director of Micromet, Inc., Ivax Diagnostics, Inc. and a number of private health care companies.

Walter von Wartburg, Ph.D. Dr. von Wartburg became a non-executive Director of Orthofix International N.V. in June 2004. He is an attorney and has practiced privately in his own law firm in Basel, Switzerland since 1999, specializing in life sciences law. He has also been a Professor of administrative law and public health policy at the Saint Gall Graduate School of Economics in Switzerland for 25 years. Previously, he held top management positions with Ciba Pharmaceuticals and Novartis at their headquarters in Basel, Switzerland.

Thomas J. Kester, CPA. Mr. Kester became a non-executive Director of Orthofix International N.V. in August 2004. Mr. Kester retired after 28 years, 18 as an audit partner, from KPMG LLP in 2002. While at KPMG, he served as the lead audit engagement partner for both public and private companies and also served four years on KPMG's National Continuous Improvement Committee. Mr. Kester earned a Bachelor of Science degree in mechanical engineering from Cornell University and an MBA degree from Harvard University.

Kenneth R. Weisshaar. Mr. Weisshaar became a non-executive Director of Orthofix International N.V. in December 2004. From 2000 to 2002, Mr. Weisshaar served as Chief Operating Officer and strategy advisor for Sensatex, Inc. Prior to that, Mr. Weisshaar spent 12 years as a corporate officer at Becton Dickson, a medical device company, where at different times he was responsible for global businesses in medical devices and diagnostic products and served as Chief Financial Officer and Vice President, Strategic Planning. Mr. Weisshaar earned a Bachelor of Science degree from Massachusetts Institute of Technology and an MBA from Harvard University. Mr. Weisshaar is a director of Precision Therapeutics, Inc.

Guy J. Jordan, Ph.D. Dr. Jordan became a non-executive Director of Orthofix International N.V. in December 2004. Most recently, from 1996 to 2002, Dr. Jordan served as a Group President at CR Bard, Inc., a medical device company, where he had strategic and operating responsibilities for Bard's global oncology business and functional responsibility for all of Bard's research and development. Dr. Jordan earned a Ph.D. in organic chemistry from Georgetown University as well as an MBA from Fairleigh Dickinson University. He also currently serves on the boards of VasoNova, Inc. and EndoGastric Solutions, Inc.

Maria Sainz. Ms. Sainz became a non-executive Director of Orthofix International N.V. in June 2008. She currently serves as the President and CEO of Concentric Medical. Prior to joining Concentric Medical she was President of Guidant Corporation's Cardiac Surgery Division and a member of Guidant's Management Committee prior to their acquisition by Boston Scientific. She gained significant experience in the medical device market with Lilly MDD, Guidant and Boston Scientific. Ms. Sainz holds a Bachelors and Masters Degree of Arts from the Universidad Complutense de Madrid, and a Masters Degree in International Management from AGSIM in Arizona.

Table of Contents

Audit Committee

We have a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. Messrs. Benjamin, Kester and Weisshaar currently serve as members of the Audit Committee. All of the members of our Audit Committee are “independent” as defined by the current SEC and NASDAQ(R) rules. Our Board of Directors has determined that Messrs. Benjamin, Kester and Weisshaar are “audit committee financial experts” in accordance with current SEC rules.

Code of Ethics

We have adopted a code of ethics applicable to our directors, officers and employees worldwide, including our Chief Executive Officer and Chief Financial Officer. A copy of our code of ethics is available on our website at www.orthofix.com.

Section 16(a) Beneficial Ownership Reporting Compliance

We will provide the information regarding Section 16(a) beneficial ownership reporting compliance in our definitive proxy statement or in an amendment to this annual report not later than 120 days after the end of the fiscal year covered by this annual report, in either case under the caption “Section 16(a) Beneficial Ownership Reporting Compliance,” and possibly elsewhere therein. That information is incorporated in this Item 10 by reference.

Item 11. Executive Compensation

We will provide information that is responsive to this Item 11 regarding executive compensation in our definitive proxy statement or in an amendment to this annual report not later than 120 days after the end of the fiscal year covered by this annual report, in either case under the caption “Executive Compensation,” and possibly elsewhere therein. That information is incorporated in this Item 11 by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

We will provide information that is responsive to this Item 12 regarding ownership of our securities by certain beneficial owners and our directors and executive officers, as well as information with respect to our equity compensation plans, in our definitive proxy statement or in an amendment to this annual report not later than 120 days after the end of the fiscal year covered by this annual report, in either case under the captions “Security Ownership of Certain Beneficial Owners and Management and Related Stockholders” and “Equity Compensation Plan Information,” and possibly elsewhere therein. That information is incorporated in this Item 12 by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

We will provide information that is responsive to this Item 13 regarding transactions with related parties and director independence in our definitive proxy statement or in an amendment to this annual report not later than 120 days after the end of the fiscal year covered by this annual report, in either case under the caption “Certain Relationships and Related Transactions,” and possibly elsewhere therein. That information is incorporated in this Item 13 by reference.

Item 14. Principal Accountant Fees and Services

We will provide information that is responsive to this Item 14 regarding principal accountant fees and services in our definitive proxy statement or in an amendment to this annual report not later than 120 days after the end of the fiscal

year covered by this annual report, in either case under the caption “Principal Accountant Fees and Services,” and possibly elsewhere therein. That information is incorporated in this Item 14 by reference.

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of report on Form 10-K

The following documents are filed as part of this report on Form 10-K:

1. Financial Statements

See “Index to Consolidated Financial Statements” on page F-1 of this Form 10-K.

2. Financial Statement Schedules

See “Index to Consolidated Financial Statements” on page F-1 of this Form 10-K.

3. Exhibits

Exhibit	Number	Description
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3.1	Certificate of Incorporation of the Company (filed as an exhibit to the Company’s annual report on Form 20-F dated June 29, 2001 and incorporated herein by reference).
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3.2	Articles of Association of the Company as amended (filed as an exhibit to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2008 and incorporated herein by reference).
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10.1	Orthofix International N.V. Amended and Restated Stock Purchase Plan (filed as an exhibit to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2008 and incorporated herein by reference).
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10.2	Orthofix International N.V. Staff Share Option Plan, as amended through April 22, 2003 (filed as an exhibit to the Company’s annual report on Form 10-K for the fiscal year ended December 31, 2007 and incorporated herein by reference).
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10.3	Orthofix International N.V. Amended and Restated 2004 Long Term Incentive Plan (filed as an exhibit to the Company’s current report on Form 8-K filed June 26, 2007 and incorporated herein by reference).
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10.4	Amendment No. 1 to the Orthofix International N.V. Amended and Restated 2004 Long-Term Incentive Plan (filed as an exhibit to the Company's current report on Form 8-K filed June 20, 2008 and incorporated herein by reference).
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10.5	Form of Nonqualified Stock Option Agreement under the Orthofix International N.V. Amended and Restated 2004 Long Term Incentive Plan (vesting over 3 years) (filed as an exhibit to the Company's current report on Form 8-K filed June 20, 2008 and incorporated herein by reference).
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10.6	Form of Nonqualified Stock Option Agreement under the Orthofix International N.V. Amended and Restated 2004 Long Term Incentive Plan (3 year cliff vesting) (filed as an exhibit to the Company's current report on Form 8-K filed June 20, 2008 and incorporated herein by reference).
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10.7 Form of Restricted Stock Grant Agreement under the Orthofix International N.V. Amended and Restated 2004 Long Term Incentive Plan (vesting over 3 years) (filed as an exhibit to the Company's current report on Form 8-K filed June 20, 2008 and incorporated herein by reference).

- 10.13*

- 10.14 Settlement Agreement dated February 23, 2006, between Intavent Orthofix Limited, a wholly-owned subsidiary of Orthofix International N.V. and Galvin Mould (filed as an exhibit to the Company's annual report on Form 8-K filed on April 17, 2006 and incorporated herein by reference).
- 10.15 Amended and Restated Employment Agreement, dated December 6, 2007, between Orthofix Inc. and Alan W. Milinazzo (filed as an exhibit to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2007, as amended, and incorporated herein by reference).
- 10.16 Amended and Restated Employment Agreement, dated December 6, 2007, between Orthofix Inc. and Raymond C. Kolls (filed as an exhibit to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2007, as amended, and incorporated herein by reference).
- 10.17 Amended and Restated Employment Agreement, dated December 6, 2007, between Orthofix Inc. and Michael M. Finegan. (filed as an exhibit to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2007, as amended, and incorporated herein by reference).
- 10.18 Credit Agreement, dated as of September 22, 2006, among Orthofix Holdings, Inc., Orthofix International N.V., certain domestic subsidiaries of Orthofix International N.V., Colgate Medical Limited, Victory Medical Limited, Swiftsure Medical Limited, Orthofix UK Ltd, the several banks and other financial institutions as may from time to time become parties thereunder, and Wachovia Bank, National Association (filed as an exhibit to the Company's current report on Form 8-K filed September 27, 2006 and incorporated herein by reference).

Table of Contents

- 10.19 First Amendment to Credit Agreement, dated September 29, 2008, by and among Orthofix Holdings, Inc., Orthofix International N.V., certain domestic subsidiaries of Orthofix International N.V., Colgate Medical Limited, Victory Medical Limited, Swiftsure Medical Limited, Orthofix UK Ltd, and Wachovia Bank, National Association, as administrative agent on behalf of the Lenders under the Credit Agreement (filed as an exhibit to the Company's current report on Form 8-K filed September 29, 2008 and incorporated herein by reference).
- 10.20 Agreement and Plan of Merger, dated as of August 4, 2006, among Orthofix International N.V., Orthofix Holdings, Inc., New Era Medical Limited, Blackstone Medical, Inc. and William G. Lyons, III, as Equityholders' Representative (filed as an exhibit to the Company's current report on Form 8-K filed August 7, 2006 and incorporated herein by reference).
- 10.21 Employment Agreement, dated as of September 22, 2006, between Blackstone Medical, Inc. and Matthew V. Lyons (filed as an exhibit to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2006, as amended, and incorporated herein by reference).
- 10.22 Amended and Restated Employment Agreement dated December 6, 2007 between Orthofix Inc. and Timothy M. Adams (filed as an exhibit to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2007, as amended, and incorporated herein by reference).
- 10.23 Nonqualified Stock Option Agreement between Timothy M. Adams and Orthofix International N.V. dated November 19, 2007 (filed as an exhibit to the Company's current report on Form 8-K filed November 21, 2007 and incorporated herein by reference).
- 10.24 Employment Agreement between Orthofix Inc. and Scott Dodson, dated as of December 10, 2007 (filed as an exhibit to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2007, as amended, and incorporated herein by reference).
- 10.25 Employment Agreement between Orthofix Inc. and Michael Simpson, dated as of December 6, 2007 (filed as an exhibit to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2007, as amended, and incorporated herein by reference).
- 10.26 Description of Director Fee Policy (filed as an exhibit to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2007, as amended, and incorporated herein by reference).
- 10.27 Summary of Orthofix International N.V. Annual Incentive Program (filed as an exhibit to the Company's current report on Form 8-K filed April 11, 2008, and incorporated herein by reference).
- 10.28 Employment Agreement between Orthofix Inc. and Thomas Hein dated as of April 11, 2008 (filed as an exhibit to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2008 and incorporated herein by reference).
- 10.29 Nonqualified Stock Option Agreement under the Orthofix International N.V. Amended and Restated 2004 Long-Term Incentive Plan, dated April 11, 2008, between Orthofix International N.V. and Thomas Hein (filed as an exhibit to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2008 and incorporated herein by reference).

Table of Contents

- 10.30 Summary of Consulting Arrangement between Orthofix International N.V. and Peter Hewett (filed as an exhibit to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2008 and incorporated herein by reference).
- 10.31 Employment Agreement between Orthofix Inc. and Denise E. Pedulla dated as of June 9, 2008 (filed as an exhibit to the company's quarterly report on Form 10-Q for the quarter ended June 30, 2008 and incorporated herein by reference).
- 10.32 Form of Inducement Grant Nonqualified Stock Option Agreement between Orthofix International N.V. and Robert S. Vaters (filed as an exhibit to the current report on Form 8-K of Orthofix International N.V dated September 10, 2008 and incorporated herein by reference).
- 10.33 Employment Agreement between Orthofix Inc. and Robert S. Vaters effective September 7, 2008 (filed as an exhibit to the company's current report on Form 8-K filed September 10, 2008 and incorporated herein by reference).
- 10.34 Offer Letter from Orthofix International N.V. to Robert S. Vaters dated September 5, 2008 (filed as an exhibit to the Company's current report on Form 8-K filed September 10, 2008 and incorporated herein by reference).
- 10.35+ Letter Agreement between Orthofix Inc. and Oliver Burckhardt dated August 28, 2008 (filed as an exhibit to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2008 and incorporated herein by reference).
- 10.36 Notice of Termination from Orthofix Inc. to Oliver Burckhardt dated August 27, 2008 (filed as an exhibit to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2008 and incorporated herein by reference).
- 10.37 Employment Agreement between Orthofix Inc. and Bradley R. Mason dated October 14, 2008 (filed as an exhibit to the Company's current report on Form 8-K filed October 15, 2008 and incorporated herein by reference).
- 10.38 Second Amended and Restated Performance Accelerated Stock Options Agreement between Orthofix International N.V. and Bradley R. Mason dated October 14, 2008 (filed as an exhibit to the Company's current report on Form 8-K filed October 15, 2008 and incorporated herein by reference).
- 10.39 Nonqualified Stock Option Agreement between Orthofix International N.V. and Bradley R. Mason dated October 14, 2008 (filed as an exhibit to the Company's current report on Form 8-K filed October 15, 2008 and incorporated herein by reference).

21.1*

List of Subsidiaries.

23.1*

Consent of Ernst & Young LLP.

31.1*

Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.

31.2*

Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.

32.1*

Section 1350 Certification of Chief Executive Officer.

32.2*

Section 1350 Certification of Chief Financial Officer.

* Filed herewith.

+ Certain confidential portions of this exhibit were omitted by means of redacting a portion of the text. This exhibit has been filed separately with the Secretary of the Commission without redactions pursuant to our Application Requesting Confidential Treatment under the Securities Exchange Act of 1934.

67

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ORTHOFIX INTERNATIONAL N.V.

Dated: March 12, 2009

By: /s/ Alan W. Milinazzo

Name: Alan W. Milinazzo

Title: Chief Executive Officer and President

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Alan w. Milinazzo Alan W. Milinazzo	Chief Executive Officer, President and Director	March 12, 2009
/s/ Robert S. vaters Robert S. Vaters	Executive Vice President and Chief Financial Officer	March 12, 2009
/s/ james f. gero James F. Gero	Chairman of the Board of Directors	March 12, 2009
/s/ peter j. hewett Peter J. Hewett	Deputy Chairman of the Board of Directors	March 12, 2009
/s/ Charles w. federico Charles W. Federico	Director	March 12, 2009
/s/ jerry c. benjamin Jerry C. Benjamin	Director	March 12, 2009
/s/ walter von wartburg Walter von Wartburg	Director	March 12, 2009
/s/ thomas j. kester Thomas J. Kester	Director	March 12, 2009
/s/ kenneth r. weisshaar Kenneth R. Weisshaar	Director	March 12, 2009
/s/ guy jordan Guy Jordan	Director	March 12, 2009
/s/ Maria Sainz Maria Sainz	Director	March 12, 2009

Table of Contents

Index to Consolidated Financial Statements

	Page
Index to Consolidated Financial Statements	F-1
Statement of Management's Responsibility for Financial Statements	F-2
Management's Report on Internal Control over Financial Reporting	F-3
Report of Independent Registered Public Accounting Firm	F-4
Consolidated Balance Sheets as of December 31, 2008 and 2007	F-6
Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006	F-7
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2008, 2007 and 2006	F-8
Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006	F-9
Notes to the Consolidated Financial Statements	F-10
Schedule 1 — Condensed Financial Information of Registrant Orthofix International N.V.	S-1
Schedule 2 — Valuation and Qualifying Accounts	S-5

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

Table of Contents

Statement of Management's Responsibility for Financial Statements

To the Shareholders of Orthofix International N.V.:

Management is responsible for the preparation of the consolidated financial statements and related information that are presented in this report. The consolidated financial statements, which include amounts based on management's estimates and judgments, have been prepared in conformity with accounting principles generally accepted in the United States. Other financial information in the report to shareholders is consistent with that in the consolidated financial statements.

The Company maintains accounting and internal control systems to provide reasonable assurance at reasonable cost that assets are safeguarded against loss from unauthorized use or disposition, and that the financial records are reliable for preparing financial statements and maintaining accountability for assets. These systems are augmented by written policies, an organizational structure providing division of responsibilities and careful selection and training of qualified personnel.

The Company engaged Ernst & Young LLP independent registered public accountants to audit and render an opinion on the consolidated financial statements in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). These standards include an assessment of the systems of internal controls and test of transactions to the extent considered necessary by them to support their opinion.

The Board of Directors, through its Audit Committee consisting solely of outside directors of the Company, meets periodically with management and our independent registered public accountants to ensure that each is meeting its responsibilities and to discuss matters concerning internal controls and financial reporting. Ernst & Young LLP have full and free access to the Audit Committee.

James F. Gero
Chairman of the Board of Directors

Alan W. Milinazzo
President, Chief Executive Officer and Director

Robert S. Vaters
Executive Vice President and Chief Financial Officer

Table of Contents

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rule 13a-15f under the Exchange Act). The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation of reliable financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes self-monitoring mechanisms and actions taken to correct deficiencies as they are identified. Because of the inherent limitations in any internal control, no matter how well designed, misstatements may occur and not be prevented or detected. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, the evaluation of the effectiveness of internal control over financial reporting was made as of a specific date, and continued effectiveness in future periods is subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may decline.

Management conducted an evaluation of the effectiveness of the Company's system of internal control over financial reporting as of December 31, 2008 based on the framework set forth in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation, management concluded that, as of December 31, 2008, the Company's internal control over financial reporting is effective based on the specified criteria.

The Company's internal control over financial reporting has been audited by the Company's Independent Registered Public Accounting Firm, Ernst & Young LLP, as stated in their reports at pages F-4 and F-5 herein.

James F. Gero
Chairman of the Board of Directors

Alan W. Milinazzo
President, Chief Executive Officer and Director

Robert S. Vaters
Executive Vice President and Chief Financial Officer

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Orthofix International N.V.

We have audited the accompanying consolidated balance sheets of Orthofix International N.V. as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedules listed in the index at Item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Orthofix International N.V. at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 15 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109, effective January 1, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Orthofix International N.V.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 11, 2009

F - 4

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Orthofix International N.V.

We have audited Orthofix International N.V.'s internal control over financial reporting as of December 31, 2008 based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Orthofix International N.V.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Orthofix International N.V. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Orthofix International N.V. as of December 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 of Orthofix International N.V. and our report dated March 11, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 11, 2009

F - 5

Table of Contents

Consolidated Balance Sheets as of December 31, 2008 and 2007

(U.S. Dollars, in thousands except share and per share data)	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 14,594	\$ 25,064
Restricted cash	10,998	16,453
Trade accounts receivable, less allowance for doubtful accounts of \$6,473 and \$6,441 at December 31, 2008 and 2007, respectively	110,720	108,900
Inventories, net	91,185	93,952
Deferred income taxes	17,543	11,373
Prepaid expenses	6,923	8,055
Other current assets	22,687	16,980
Total current assets	274,650	280,777
Investments, at cost	2,095	4,427
Property, plant and equipment, net	32,660	33,444
Patents and other intangible assets, net	53,546	230,305
Goodwill	182,581	319,938
Deferred taxes and other long-term assets	15,683	16,773
Total assets	\$ 561,215	\$ 885,664
Liabilities and shareholders' equity		
Current liabilities:		
Bank borrowings	\$ 1,907	\$ 8,704
Current portion of long-term debt	3,329	3,343
Trade accounts payable	22,179	22,526
Accounts payable to related parties	1,686	2,189
Other current liabilities	45,894	36,544
Total current liabilities	74,995	73,306
Long-term debt	277,533	294,588
Deferred income taxes	4,509	75,908
Other long-term liabilities	2,117	7,922
Total liabilities	359,154	451,724
Contingencies (Note 17)		
Shareholders' equity		
Common shares \$0.10 par value; 50,000,000 shares authorized; 17,103,142 and 17,038,304 issued and outstanding as of December 31, 2008 and 2007, respectively	1,710	1,704
Additional paid-in capital	167,818	157,349
Retained earnings	29,647	258,201
Accumulated other comprehensive income	2,886	16,686
Total shareholders' equity	202,061	433,940
Total liabilities and shareholders' equity	\$ 561,215	\$ 885,664

The accompanying notes form an integral part of these consolidated financial statements.

Table of Contents

Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006

(U.S. Dollars, in thousands, except share and per share data)	2008	2007	2006
Net sales	\$ 519,675	\$ 490,323	\$ 365,359
Cost of sales	152,014	129,032	93,625
Gross profit	367,661	361,291	271,734
Operating expenses (income)			
Sales and marketing	206,913	186,984	145,707
General and administrative	81,806	72,902	53,309
Research and development, including \$40,000 of purchased in-process research and development in 2006	30,844	24,220	54,992
Amortization of intangible assets	17,094	18,156	8,873
Impairment of goodwill and certain intangible assets	289,523	20,972	-
Gain on sale of Pain Care(R) operations	(1,570)	-	-
KCI settlement, net of litigation costs	-	-	(1,093)
	624,610	323,234	261,788
Operating income (loss)	(256,949)	38,057	9,946
Other income (expense)			
Interest income	542	1,043	2,236
Interest expense	(20,216)	(24,720)	(8,361)
Unrealized non-cash loss on interest rate swap	(7,975)	-	-
Loss on refinancing of senior secured term loan	(5,735)	-	-
Other, net	(4,702)	355	2,498
Other income (expense), net	(38,086)	(23,322)	(3,627)
Income (loss) before income taxes	(295,035)	14,735	6,319
Income tax benefit (expense)	66,481	(3,767)	(13,361)
Net (loss) income	\$ (228,554)	\$ 10,968	\$ (7,042)
Net income (loss) per common share - basic	\$ (13.37)	\$ 0.66	\$ (0.44)
Net income (loss) per common share - diluted	\$ (13.37)	\$ 0.64	\$ (0.44)
Weighted average number of common shares - basic	17,095,416	16,638,873	16,165,540
Weighted average number of common shares - diluted	17,095,416	17,047,587	16,165,540

The accompanying notes form an integral part of these consolidated financial statements.

Table of Contents

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2008, 2007 and 2006

(U.S. Dollars, in thousands, except share data)	Number of Common Shares Outstanding	Common Shares	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
At December 31, 2005	16,009,249	\$ 1,602	\$ 106,746	\$ 255,475	\$ 5,062	\$ 368,885
Net loss	—	—	—	(7,042)	—	(7,042)
Other comprehensive income:						
Unrealized loss on derivative instrument (net of taxes of \$30)	—	—	—	—	(55)	(55)
Translation adjustment	—	—	—	—	9,253	9,253
Total comprehensive income						2,156
Tax benefit on exercise of stock options	—	—	2,175	—	—	2,175
Share-based compensation expense	—	—	7,912	—	—	7,912
Common shares issued	436,610	43	11,464	—	—	11,507
At December 31, 2006	16,445,859	1,645	128,297	248,433	14,260	392,635
Cumulative effect adjustment for the adoption of FIN 48	—	—	—	(1,200)	—	(1,200)
Net income	—	—	—	10,968	—	10,968
Other comprehensive income:						
Unrealized gain on derivative instrument (net of taxes of \$586)	—	—	—	—	1,585	1,585
Translation adjustment	—	—	—	—	841	841
Total comprehensive income						12,194
Tax benefit on exercise of stock options	—	—	2,145	—	—	2,145
Share-based compensation expense	—	—	11,913	—	—	11,913
Common shares issued	592,445	59	14,994	—	—	15,053
At December 31, 2007	17,038,304	1,704	157,349	258,201	16,686	433,940
Net loss	—	—	—	(228,554)	—	(228,554)
Other comprehensive income:						
Unrealized gain on derivative instrument (net of taxes of \$609)	—	—	—	—	1,567	1,567

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Translation adjustment	–	–	–	–	(15,367)	(15,367)
Total comprehensive loss						(242,354)
Tax benefit on exercise of stock options	–	–	22	–	–	22
Reclassification adjustment for tax benefit on exercise of stock options	–	–	(1,870)			(1,870)
Share-based compensation expense	–	–	10,589	–	–	10,589
Common shares issued	64,838	6	1,728			1,734
At December 31, 2008	17,103,142	\$ 1,710	\$ 167,818	\$ 29,647	\$ 2,886	\$ 202,061

The accompanying notes form an integral part of these consolidated financial statements.

Table of Contents

Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006

(U.S. Dollars, in thousands)	2008	2007	2006
Cash flows from operating activities:			
Net income (loss)	\$ (228,554)	\$ 10,968	\$ (7,042)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	31,279	28,531	16,457
Amortization of debt costs	911	1,085	501
Provision for doubtful accounts	7,261	7,326	5,475
Deferred taxes	(79,158)	(12,168)	(12,363)
Share-based compensation	10,589	11,913	7,912
Change in Blackstone inventory obsolescence estimate	10,913	-	-
Loss on refinancing of senior secured term loan	3,660	-	-
In-process research and development	-	-	40,000
Impairment of goodwill and certain intangible assets	289,523	20,972	-
Change in fair value of interest rate swap	7,975	-	-
Impairment of investments held at cost	1,500	-	-
Amortization of step up of fair value in inventory	493	2,718	1,001
Gain on sale of Pain Care(R) operations	(1,570)	-	-
Other	(743)	(5,816)	(1,314)
Changes in operating assets and liabilities, net of effect of acquisitions:			
Restricted cash	5,444	(9,153)	6,582
Accounts receivable	(13,182)	(8,685)	(10,308)
Inventories	(13,731)	(22,745)	(13,868)
Prepaid expenses and other current assets	(5,046)	(5,855)	(4,521)
Accounts payable	675	303	6,448
Other current liabilities	(1,469)	2,102	(26,789)
Net cash provided by operating activities	26,770	21,496	8,171
Cash flows from investing activities:			
Payments made in connection with acquisitions and investments, net of cash acquired	(500)	(3,142)	(342,290)
Capital expenditures for property, plant and equipment	(15,600)	(18,537)	(11,225)
Capital expenditures for intangible assets	(4,592)	(8,692)	(1,388)
Proceeds from sale of assets	769	-	-
Proceeds from sale of Pain Care(R) operations	5,980	-	-
Net cash used in investing activities	(13,943)	(30,371)	(354,903)
Cash flows from financing activities:			
Net proceeds from issue of common shares	1,734	15,053	11,507
Payment of refinancing fees and debt issuance costs	(283)	(184)	(5,884)
Repayment of long-term debt	(17,069)	(17,483)	(15,139)
Tax benefit on non-qualified stock options	22	2,145	2,175
Proceeds from long-term debt	-	25	315,175
Proceeds from (repayment of) bank borrowings	(6,721)	8,131	(10)
Net cash provided by (used in) financing activities	(22,317)	7,687	307,824
Effect of exchange rates changes on cash	(980)	371	1,003
Net decrease in cash and cash equivalents	(10,470)	(817)	(37,905)
Cash and cash equivalents at the beginning of the year	25,064	25,881	63,786
Cash and cash equivalents at the end of the year	\$ 14,594	\$ 25,064	\$ 25,881

Supplemental disclosure of cash flow information

Cash paid during the year for:

Interest	\$	19,311	\$	27,477	\$	7,386
Income taxes	\$	12,602	\$	15,908	\$	31,773

The accompanying notes form an integral part of these consolidated financial statements.

F - 9

Table of Contents

Notes to the consolidated financial statements

Description of business

Orthofix International N.V. (the “Company”) is a multinational corporation principally involved in the design, development, manufacture, marketing and distribution of medical equipment, principally for the Orthopedic products market.

1 Summary of significant accounting policies

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its wholly-owned and majority-owned subsidiaries and entities over which the Company has control.

The results of acquired businesses are included in the consolidated statements of operations from the date of their acquisition. All intercompany accounts, transactions and profits are eliminated in the consolidated financial statements. The Company’s investments in which it does not have significant influence or control are accounted for under the cost method of accounting.

(b) Foreign currency translation

Foreign currency translation is performed in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 52, “Foreign Currency Translation.” All balance sheet accounts, except shareholders’ equity, are translated at year end exchange rates and revenue and expense items are translated at weighted average rates of exchange prevailing during the year. Gains and losses resulting from the translation of foreign currency are recorded in the accumulated other comprehensive income component of shareholders’ equity. Transactional foreign currency gains and losses, including intercompany transactions that are not long-term investing in nature, are included in other income (expense), net and were \$(2.7) million, \$0.8 million and \$2.8 million for the years ended December 31, 2008, 2007 and 2006, respectively.

(c) Inventories

Inventories are valued at the lower of cost or estimated net realizable value, after provision for excess or obsolete items. Cost is determined on a weighted-average basis, which approximates the FIFO method. The valuation of work-in-process, finished products, field inventory and consignment inventory includes the cost of materials, labor and production. Field inventory represents immediately saleable finished products inventory that is in the possession of the Company’s direct sales representatives.

(d) Reporting currency

The reporting currency is the United States Dollar.

(e) Market risk

In the ordinary course of business, the Company is exposed to the impact of changes in interest rates and foreign currency fluctuations. The Company’s objective is to limit the impact of such movements on earnings and cash flows. In order to achieve this objective the Company seeks to balance its non-dollar denominated income and

expenditures. During 2008, the Company executed an interest rate swap agreement to manage the exposure to interest rate fluctuations. During 2008, 2007 and 2006, the Company made use of a foreign currency swap agreement entered into in December 2006 to manage exposure to foreign currency fluctuations. See Note 11 for additional information.

F - 10

Table of Contents

Notes to the consolidated financial statements (cont.)

(f) Long-lived assets

Property, plant and equipment is stated at cost less accumulated depreciation. Plant and equipment also includes instrumentation and other working assets. Depreciation is computed on a straight-line basis over the useful lives of the assets, except for land, which is not depreciated. Depreciation of leasehold improvements is computed over the shorter of the lease term or the useful life of the asset. The useful lives are as follows:

	Years
Buildings	25 to 33
Plant, equipment	2 to 10
Instrumentation	3 to 4
Furniture and fixtures	4 to 8

Expenditures for maintenance and repairs and minor renewals and improvements, which do not extend the lives of the respective assets, are expensed. All other expenditures for renewals and improvements are capitalized. The assets and related accumulated depreciation are adjusted for property retirements and disposals, with the resulting gain or loss included in operations. Fully depreciated assets remain in the accounts until retired from service.

Patents and other intangible assets are recorded at cost, or when acquired as a part of a business combination, at estimated fair value. These assets primarily include patents and other technology agreements (“developed technologies”), certain trademarks, licenses, customer relationships and distribution networks. Identifiable intangible assets which are considered definite lived are generally amortized over their useful lives using a method of amortization that reflects the pattern in which the economic benefit of the intangible assets are consumed. The Company’s weighted average amortization period for developed technologies and distribution networks is 11 and 9 years, respectively.

SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” requires that intangible assets with definite lives, such as Orthofix’s developed technologies and distribution network assets, be tested for impairment if any adverse conditions exist or change in circumstances has occurred that would indicate impairment or a change in the remaining useful life. If an impairment indicator exists, the Company tests the intangible asset for recoverability. For purposes of the recoverability test, the Company groups its intangible assets with other assets and liabilities at the lowest level of identifiable cash flows if the intangible asset does not generate cash flows independent of other assets and liabilities. If the carrying value of the intangible asset (asset group) exceeds the undiscounted cash flows expected to result from the use and eventual disposition of the intangible asset (asset group), the Company will write the carrying value down to the fair value in the period identified.

The Company generally calculates fair value of intangible assets as the present value of estimated future cash flows the Company expects to generate from the asset using a risk-adjusted discount rate. In determining the estimated future cash flows associated with intangible assets, the Company uses estimates and assumptions about future revenue contributions, cost structures and remaining useful lives of the asset (asset group). The use of alternative assumptions, including estimated cash flows, discount rates, and alternative estimated remaining useful lives could result in different calculations of impairment

The Company tests goodwill and certain trademarks at least annually. The Company tests more frequently if indicators are present or changes in circumstances suggest that impairment may exist. In performing the test, the Company utilizes the two-step approach prescribed under SFAS No. 142, “Goodwill and Other Intangible Assets”. The

first step requires a comparison of the carrying value of the reporting units, as defined in the standard, to the fair value of these units. For purposes of performing the annual goodwill impairment test, assets and liabilities, including corporate assets, which relate to a reporting unit's operations, and would be considered in determining fair value, are allocated to the individual reporting units. The Company allocates assets and liabilities not directly related to a specific reporting unit, but from which the reporting unit benefits, based primarily on the respective contribution of each reporting unit. If the carrying value of a reporting unit exceeds its fair value, the Company will perform the second step of the goodwill impairment test to measure the amount of impairment loss, if any.

Table of Contents

Notes to the consolidated financial statements (cont.)

The second step of the goodwill impairment test compares the implied fair value of a reporting unit's goodwill to its carrying value. If the Company was unable to complete the second step of the test prior to the issuance of the Company's financial statements and an impairment loss was probable and could be reasonably estimated, the Company would recognize the Company's best estimate of the loss in the current period financial statements and disclose that the amount is an estimate. The Company would then recognize any adjustment to that estimate in subsequent reporting periods, once the Company has finalized the second step of the impairment test.

Certain of the impairment tests require Orthofix to make an estimate of the fair value of goodwill and other intangible assets, which is primarily determined using discounted cash flow methodologies, research analyst estimates, market comparisons and a review of recent transactions. Since a number of factors may influence determinations of fair value of intangible assets, Orthofix is unable to predict whether impairments of goodwill or other indefinite lived intangibles will occur in the future.

(g) Revenue recognition and accounts receivable

Revenue is generally recognized as income in the period in which title passes and the products are delivered. For bone growth stimulation and certain bracing products prescribed by a physician, the Company recognizes revenue when the product is placed on or implanted in and accepted by the patient. For domestic spinal implant and human cellular and tissue based products ("HCT/P products"), revenues are recognized when the product has been utilized and a confirming purchase order has been received from the hospital. For sales to commercial customers, including hospitals and distributors, revenues are recognized at the time of shipment unless contractual agreements specify that title passes on delivery. The Company derives a significant amount of revenues in the United States from third-party payors, including commercial insurance carriers, health maintenance organizations, preferred provider organizations and governmental payors such as Medicare. Amounts paid by these third-party payors are generally based on fixed or allowable reimbursement rates. These revenues are recorded at the expected or pre-authorized reimbursement rates, net of any contractual allowances or adjustments. Certain billings are subject to review by such third-party payors and may be subject to adjustment. For royalties, revenues are recognized when the royalty is earned. Revenues for inventory delivered on consignment are recognized as the product is used by the consignee. Revenues exclude any value added or other local taxes, intercompany sales and trade discounts. Shipping and handling costs are included in cost of sales.

The process for estimating the ultimate collection of accounts receivable involves significant assumptions and judgments. Historical collection and payor reimbursement experience is an integral part of the estimation process related to reserves for doubtful accounts and the establishment of contractual allowances. Accounts receivable are analyzed on a quarterly basis to assess the adequacy of both reserves for doubtful accounts and contractual allowances. Revisions in allowances for doubtful accounts estimates are recorded as an adjustment to bad debt expense within sales and marketing expenses. Revisions to contractual allowances are recorded as an adjustment to net sales. In the judgment of management, adequate allowances have been provided for doubtful accounts and contractual allowances. Our estimates are periodically tested against actual collection experience.

(h) Research and development costs

Expenditures for research and development are expensed as incurred. In accordance with SFAS No. 141 "Business Combinations" and Emerging Issues Task Force ("EITF") Consensus No. 96-7 "Accounting for Deferred Taxes on In-Process Research and Development Activities Acquired in a Purchase Business Combination," the Company

recognizes acquired in-process research and development to research and development expense on the day of acquisition, with no corresponding tax benefit.

On July 24, 2008, the Company entered into an agreement with Musculoskeletal Transplant Foundation (“MTF”) to collaborate on the development and commercialization of a new stem cell-based bone growth biologic matrix. Under the terms of the agreement, the Company will invest up to \$10.0 million in the development of the new stem cell-based bone growth biologic matrix that will be designed to provide the beneficial properties of an autograft in spinal and orthopedic surgeries. After the completion of the development process, the Company and MTF will operate under the terms of a separate commercialization agreement. Under the terms of this 10-year agreement, MTF will source the tissue, process it to create the bone growth matrix, and package and deliver it in accordance with orders received directly from customers and from the Company. The Company will have exclusive global marketing rights for the new allograft and will receive a marketing fee from MTF based on total sales. The Company accounts for collaborative arrangements considering guidance included in Emerging Issues Task Force Issue No. 07-1 “Accounting for Collaborative Arrangements,” as there was no other prevailing guidance. Approximately \$6.1 million of expenses incurred under the terms of the agreement are included in research and development expense in the year ended December 31, 2008.

Table of Contents

Notes to the consolidated financial statements (cont.)

(i) Income taxes

Income taxes have been provided using the liability method in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred income taxes arise because of differences in the treatment of income and expense items for financial reporting and income tax purposes. Deferred tax assets and liabilities resulting from such differences are recorded based on the enacted tax rates that will be in effect when the differences are expected to reverse. The Company has operations in various tax jurisdictions.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes. As a result of the implementation of FIN 48, the Company recognized \$1.2 million in additional liability for unrecognized tax benefits (including interest and penalties), which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. As of December 31, 2008, the Company had \$0.7 million of unrecognized tax benefits.

(j) Net income per common share

Net income per common share is computed in accordance with SFAS No. 128, "Earnings per Share." Net income per common share – basic is computed using the weighted average number of common shares outstanding during each of the respective years. Net income per common share – diluted is computed using the weighted average number of common and common equivalent shares outstanding during each of the respective years using the "treasury stock" method. Common equivalent shares represent the dilutive effect of the assumed exercise of outstanding share options (see Note 20) and the only differences between basic and diluted shares result solely from the assumed exercise of certain outstanding share options and warrants. In 2006 and 2008, the effect of options was not included in the calculation because the inclusion would have been anti-dilutive.

(k) Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents.

(l) Restricted cash

Restricted cash consists of cash held at certain subsidiaries, the distribution or transfer of which to Orthofix International N.V. (the "Parent") or other subsidiaries that are not parties to the credit facility described in Note 10 is restricted. The senior secured credit facility restricts the Parent and subsidiaries that are not parties to the facilities from access to cash held by Colgate Medical Limited and its subsidiaries. All credit party subsidiaries have access to this cash for operational and debt repayment purposes.

(m) Sale of accounts receivable

The Company follows the provisions of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities". Trade accounts receivables sold without recourse are removed from the balance sheet at the time of sale. The Company generally does not require collateral on trade receivables.

Table of Contents

Notes to the consolidated financial statements (cont.)

(n) Use of estimates in preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, the Company evaluates its estimates including those related to contractual allowances, doubtful accounts, inventories, taxes and potential goodwill and intangible asset impairment. Actual results could differ from these estimates.

(o) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2008 presentation. The reclassifications have no effect on previously reported net earnings or shareholders' equity.

(p) Share-based compensation

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R) (revised 2004), "Share-Based Payment," using the modified prospective transition method. Under this transition method, share-based compensation expense recognized in 2008, 2007 and 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). The fair value of stock options is determined using the Black-Scholes valuation model. Such value is recognized as expense over the service period net of estimated forfeitures.

The expected term of options granted is estimated based on a number of factors, including the vesting term of the award, historical employee exercise behavior for both options that are currently outstanding and options that have been exercised or are expired, the expected volatility of the Company's common stock and an employee's average length of service. The risk-free interest rate is determined based upon a constant U.S. Treasury security rate with a contractual life that approximates the expected term of the option award. Management estimates expected volatility based on the historical volatility of the Company's stock. The compensation expense recognized for all equity-based awards is net of estimated forfeitures. Forfeitures are estimated based on an analysis of actual option forfeitures. For the year ended December 31, 2008, options were valued at an expected term of 3.92 years, expected volatility of 28.4%, risk-free interest rates between 1.52% and 3.49%, and a dividend rate of zero. The Company has chosen to use the "short-cut method" to determine the pool of windfall tax benefits as of the adoption of SFAS No. 123(R).

As of December 31, 2008, the unamortized compensation expense relating to options granted and expected to be recognized is \$8.5 million. This expense is expected to be recognized over a weighted average period of 1.34 years.

Table of Contents

Notes to the consolidated financial statements (cont.)

The following table shows the detail of share-based compensation by line item in the Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006:

(In US\$ thousands)	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Cost of sales	\$ 175	\$ 403	\$ 238
Sales and marketing (1)	1,890	2,749	1,411
General and administrative	7,731	7,884	5,537
Research and development	793	877	726
Total	\$ 10,589	\$ 11,913	\$ 7,912

(1) There are no performance requirements and there was no consideration received for share-based compensation awarded to sales and marketing employees.

During the year ended December 31, 2008, the Company granted to employees 83,434 shares of restricted stock, which vest at various dates through December 2011. The compensation expense, which represents the fair value of the stock measured at the market price at the date of grant, less estimated forfeitures, is recognized on a straight-line basis over the vesting period. Unamortized compensation expense related to restricted stock amounted to \$3.5 million at December 31, 2008.

(q) Recently Issued Accounting Standards

In May 2008, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 162, “The Hierarchy of Generally Accepted Accounting Principles.” The Statement identified the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. The Statement is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.” We do not anticipate the adoption of SFAS No. 162 to have a material impact on the Company’s results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133.” SFAS No. 161 requires entities to provide greater transparency through additional disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 “Accounting for Derivative Instruments and Hedging Activities” and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity’s financial position, results of operations, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the

potential impact of adopting SFAS No. 161 on the Company's disclosures of its derivative instruments and hedging activities.

F - 15

Table of Contents

Notes to the consolidated financial statements (cont.)

In December 2007, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 07-1, “Accounting for Collaborative Arrangements” (EITF 07-1). EITF 07-1 provides guidance related to the classification of the payments between participants, the appropriate income statement presentation, as well as disclosures related to certain collaborative arrangements. EITF 07-1 is effective for fiscal years beginning after December 15, 2008 and will be adopted by the Company in the first quarter of 2009. The Company applied the guidance included in EITF 07-1 to collaborative arrangements entered into in 2008 for such contracts in which there was no prevailing guidance.

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations (revised 2007).” SFAS No. 141(R) amends SFAS No. 141, “Business Combinations,” and provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008 and is to be applied prospectively. The Company is currently evaluating the potential impact of adopting SFAS No. 141(R) on its consolidated financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51,” which establishes accounting and reporting standards pertaining to ownership interest in subsidiaries held by parties other than the parent, the amount of net income attributable to the parent and to the noncontrolling interest, changes in a parent’s ownership interest, and the valuation of any retained noncontrolling equity investment when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. We do not anticipate the adoption of SFAS No. 160 to have a material impact on the Company’s results of operations or financial position.

(r) Fair value of financial instruments

The carrying amounts reflected in the Consolidated Balance Sheets for cash and cash equivalents, restricted cash, accounts receivable, short-term bank borrowings and accounts payable approximate fair value due to the short-term maturities of these instruments. The Company’s long-term secured debt carries a floating rate of interest and therefore, the carrying value is considered to approximate fair value.

(s) Advertising costs

The Company expenses all advertising costs as incurred. Advertising expense for the years ended December 31, 2008, 2007 and 2006 was \$1.1 million, \$1.8 million and \$1.0 million, respectively.

(t) Derivative instruments

The Company manages its exposure to fluctuations in interest rates and foreign exchange within the consolidated financial statements according to its hedging policy. Under the policy, the Company may engage in non-leveraged transactions involving various financial derivative instruments to manage exposed positions. The policy requires the Company to formally document the relationship between the hedging instrument and hedged item, as well as its risk-management objective and strategy for undertaking the hedge transaction. For instruments designated as a cash flow hedge, the Company formally assesses (both at the hedge’s inception and on an ongoing basis) whether the derivative that is used in the hedging transaction has been effective in offsetting changes in the cash flows of the hedged item and whether such derivative may be expected to remain effective in future periods. If it is determined

that a derivative is not (or has ceased to be) effective as a hedge, the Company will discontinue the related hedge accounting prospectively. Such a determination would be made when (1) the derivative is no longer effective in offsetting changes in the cash flows of the hedged item; (2) the derivative expires or is sold, terminated, or exercised; or (3) management determines that designating the derivative as a hedging instrument is no longer appropriate. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. For instruments designated as a fair value hedge, the Company ensures an exposed position is being hedged and the changes in fair value of such instruments are recognized in earnings.

The Company follows SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted, which requires that all derivatives be recorded as either assets or liabilities on the balance sheet at their respective fair values. For a cash flow hedge, the effective portion of the derivative's change in fair value (i.e. gains or losses) is initially reported as a component of other comprehensive income, net of related taxes, and subsequently reclassified into net earnings when the hedged exposure affects net earnings.

Table of Contents

Notes to the consolidated financial statements (cont.)

The Company utilizes a cross currency swap to manage its foreign currency exposure related to a portion of the Company's intercompany receivable of a U.S. dollar functional currency subsidiary that is denominated in Euro. The cross currency swap has been accounted for as a cash flow hedge in accordance with SFAS No. 133.

See Note 11 for a description of the types of derivative instruments the Company utilizes.

(u) Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss) is comprised of foreign currency translation adjustments, and the effective portion of the gain (loss) for derivatives designated and accounted for as a cash flow hedge. The components of other comprehensive income (loss) are as follows:

(In US\$ thousands)	Foreign Currency Translation Adjustments	Fair Value of Derivatives	Accumulated Other Comprehensive Income
Balance at December 31, 2007	\$ 15,156	\$ 1,530	\$ 16,686
Balance at December 31, 2008	(211)	3,097	2,886

2. Acquisitions

Blackstone Acquisition

On September 22, 2006, the Company purchased 100% of the stock of Blackstone Medical, Inc. ("Blackstone") for a purchase price of \$333.0 million plus acquisition costs. The acquisition and related costs were financed with approximately \$330.0 million of senior secured bank debt, as described in Note 10, and cash on hand. Blackstone, a company based in Springfield, Massachusetts, which was privately held when acquired by the Company, specializes in the design, development and marketing of spinal implant and related HCT/P products. Blackstone's product lines include spinal fixating devices including hooks, rods, screws, plates, various spacers and cages and related HCT/P products. The Company considered this acquisition as a way to fortify and further advance its business strategy to expand its spinal sector. The acquisition broadened the Company's product lines, reduced reliance on the success of any single product and enlarged channel opportunities for products from Blackstone's and the Company's existing operations.

The acquisition has been accounted for using the purchase method in accordance with SFAS No. 141, "Business Combinations". The purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair market value at the date of acquisition. The purchase price allocation resulted in goodwill of \$136.2 million and \$202.0 million of intangible assets. In 2007 and 2008, the Company recorded impairment charges related to certain assets recorded at Blackstone, see Note 6, "Patents and Other Intangible Assets" and Note 7, "Goodwill" for further detail.

The purchase price was allocated to assets acquired, purchased in-process research and development and liabilities assumed based on their estimated fair market value at the acquisition date. The amount of the purchase price allocated to purchased in-process research and development was recognized at the date of acquisition and resulted in a charge of

\$40.0 million. This charge was included in the research and development expense line item on the Consolidated Statements of Operations for the year ended December 31, 2006 and was not deductible for income tax purposes in the United States.

F - 17

Table of Contents

Notes to the consolidated financial statements (cont.)

Of the total Blackstone purchase price, \$50.0 million was placed into an escrow account. As described in the Agreement and Plan of Merger, the Company can make claims for reimbursement from the escrow account for certain defined items relating to the acquisition for which the Company is indemnified. See Note 17, "Contingencies" for further information.

The summary unaudited pro forma condensed results of operations and earnings per share, for the year ended December 31, 2006, assuming consummation of the Blackstone acquisition as of January 1, 2006, is as follows:

(In US\$ thousands)	Year Ended December 31, 2006	
	As Reported	Pro Forma*
Net sales	\$ 365,359	\$ 427,489
Net income (loss)	(7,042)	16,494
Per share data:		
Basic	\$ (0.44)	\$ 1.02
Diluted	\$ (0.44)	\$ 1.01

* In-process research and development charge of \$40.0 million recorded during the year ended December 31, 2006 has been excluded from the pro forma financial information.

International Medical Supplies Distribution GmbH Acquisition

In February 2006, the Company purchased 52% of International Medical Supplies Distribution GmbH ("IMES"), a German distributor of Breg products, for \$1.5 million plus closing adjustments and acquisition costs. The operations of the acquired distributor are included in the Company's Statements of Operations from the date of acquisition. The results of operations would not be materially different if the acquisition had been consolidated as of January 1, 2006. The final purchase price included approximately \$0.1 million of working capital and \$1.0 million of goodwill.

3. Inventories

(In US\$ thousands)	December 31,	
	2008	2007
Raw materials	\$ 9,314	\$ 10,804
Work-in-process	8,829	6,100
Finished products	57,151	42,384
Field inventory	13,633	13,997
Consignment inventory	23,426	30,560
	112,353	103,845
Less reserve for obsolescence	(21,168)	(9,893)
	\$ 91,185	\$ 93,952

Table of Contents

Notes to the consolidated financial statements (cont.)

See Note 1 “Summary of significant accounting policies” part (c) “Inventories” for a description of field inventory.

In the year ended December 31, 2008, due to reduced projections in revenue, distributor terminations, new products, and the replacement of one product with a successor product, the Company changed its estimates regarding the inventory allowance at Blackstone, primarily based on estimated net realizable value using assumptions about future demand and market conditions. The change in estimate resulted in an increase in the reserve for obsolescence of approximately \$10.9 million.

4. Investments

The Company had total investments held at cost of \$2.1 million and \$4.4 million as of December 31, 2008 and 2007, respectively. Investments at December 31, 2008 are comprised of an investment of \$1.8 million in OPED AG, a German-based bracing company, and \$0.3 million in Biowave Corporation, a pain therapy company. During the third quarter of 2008, the Company sold a portion of its ownership in OPED AG, for net proceeds of \$0.8 million. The Company has assessed these cost investments as of December 31, 2008 and 2007, noting no impairment in carrying value.

The Company also has an investment in OrthoRx. The investment was reduced to zero in 2004. For the year ended December 31, 2008, the Company’s investment in Innovative Spinal Technologies (IST), which was recorded at \$1.5 million as of December 31, 2007, was reduced to zero.

5. Property, plant and equipment

(In US\$ thousands)	December 31,	
	2008	2007
Cost		
Buildings	\$ 3,340	\$ 3,445
Plant, equipment and instrumentation	76,827	75,900
Furniture and fixtures	10,638	10,266
	90,805	89,611
Accumulated depreciation	(58,145)	(56,167)
	\$ 32,660	\$ 33,444

Depreciation expense for the years ended December 31, 2008, 2007 and 2006 was \$14.2 million, \$10.4 million and \$7.6 million, respectively.

Table of Contents

Notes to the consolidated financial statements (cont.)

6. Patents and other intangible assets

(In US\$ thousands)	December 31,	
	2008	2007
Cost		
Patents and developed technologies	\$ 25,602	\$ 107,235
Trademarks – definite lived (subject to amortization)	105	714
Trademarks – indefinite lived (not subject to amortization)	23,382	80,844
Distribution networks	44,586	98,586
	93,675	287,379
Accumulated amortization		
Patents and developed technologies	(13,194)	(28,254)
Trademarks – definite lived (subject to amortization)	(105)	(559)
Distribution networks	(26,830)	(28,261)
Patents and other intangible assets, net	\$ 53,546	\$ 230,305

Amortization expense for intangible assets is estimated to be approximately \$6.3 million, \$6.2 million, \$6.1 million, \$4.9 million and \$6.7 million for the periods ending December 31, 2009, 2010, 2011, 2012 and 2013 and thereafter, respectively.

During the third quarter of 2008, the Company determined that a test for impairment of indefinite lived assets at Blackstone in accordance with SFAS No. 142 “Goodwill and Other Intangible Assets,” was necessary due to decreasing revenues at Blackstone, among other matters. The Company evaluated the indefinite-lived intangible assets which included the Blackstone Trademark acquired during the acquisition of Blackstone. The impairment analysis resulted in the carrying value, as adjusted for an impairment charge recognized in the fourth quarter of 2007, of the Trademark exceeding the fair value for which the Company recognized a \$57.0 million impairment charge included in Impairment of Goodwill and Certain Intangible Assets in the year ended December 31, 2008.

Also, during the third quarter of 2008, the Company determined that an impairment indicator as described in SFAS No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets” occurred with respect to the definite-lived intangibles at Blackstone. Due to the impairment indicator, the Company compared the expected cash flows to be generated by the Blackstone reporting unit, which represented the lowest level at which cash flows are specifically identifiable, on an undiscounted basis to the carrying value of the reporting unit’s assets, including goodwill. The Company determined the carrying value of the Blackstone reporting unit exceeded the related undiscounted cash flows, this determination resulted in the impairment of the distribution network and technologies at Blackstone based on their fair values. The resulting impairment charge of \$105.7 million is included in Impairment of Goodwill and Certain Intangible Assets.

7. Goodwill

Under SFAS No. 142, “Goodwill and Other Intangible Assets,” goodwill is subject to annual or more frequent impairment testing if indicators of impairment exist, using the guidance and criteria described in the standard. This testing requires the comparison of carrying values to fair values of reporting units, as defined in the standard, and when appropriate, the carrying value of impaired assets is reduced to fair value. During the third quarter of 2008, due to the matters described in Note 6 above, the Company also performed an impairment analysis of the goodwill at

Blackstone. The impairment analysis resulted in a goodwill impairment charge of \$126.9 million because the carrying value exceeded the implied fair value of goodwill. For a discussion of acquisitions and the associated goodwill, see Note 2.

F - 20

Table of Contents

Notes to the consolidated financial statements (cont.)

The following table presents the changes in the net carrying value of goodwill by reportable segment:

(In US\$ thousands)	Domestic	Blackstone	Breg	International	Total
At December 31, 2006	\$ 31,793	\$ 132,784	\$ 101,322	\$ 47,171	\$ 313,070
Acquisitions (1)	-	-	-	1,558	1,558
Purchase price adjustment (2)	-	3,456	-	-	3,456
Foreign currency	-	-	-	1,854	1,854
At December 31, 2007	31,793	136,240	101,322	50,583	319,938
Disposals (3)	-	-	(2,027)	-	(2,027)
Purchase price adjustment (1)	-	-	-	(365)	(365)
Impairment (4)	-	(126,873)	-	-	(126,873)
Foreign currency	-	-	-	(8,092)	(8,092)
At December 31, 2008	\$ 31,793	\$ 9,367	\$ 99,295	\$ 42,126	\$ 182,581

(1) Purchase of the remaining 38.74% of the minority interest in Mexican subsidiary and 4.00% of the minority interest in Brazilian subsidiary.

(2) Principally relates to legal fees incurred in connection with the acquisition of Blackstone and related contingencies.

(3) Sale of operations relating to the Pain Care(R) business at Breg during the first quarter of 2008.

(4) The impairment analysis resulted in a goodwill impairment charge of \$126.9 million because the carrying value exceeded the implied fair value of goodwill. The fair value of the Blackstone reporting unit was estimated using a combination of the income approach, which estimates the fair value of the reporting units based on the expected present value of future cash flows and, to a lesser extent, the market approach, which estimates the fair value of the reporting units based on comparable market indicators such as multiples of earnings measures.

The income approach, which was more heavily weighted in the Company's development of fair value, calculates fair value by estimating the after-tax cash flows attributable to a reporting unit and then discounting these after-tax cash flows to a present value using a risk-adjusted discount rate. This methodology is consistent with how the Company estimates the fair value of reporting units during its annual goodwill impairment tests. In applying the income approach to calculate the fair value of the Blackstone reporting unit, the Company used reasonable estimates and assumptions about future revenue contributions and cost structures. In addition, the application of the income approach requires judgment in determining a risk-adjusted discount rate at the reporting unit level. The Company based this determination on estimates of weighted-average costs of capital of a market participant. The Company performed a peer company analysis and considered the industry weighted-average return on debt and equity from a market participant perspective.

Table of Contents

Notes to the consolidated financial statements (cont.)

To calculate the amount of the goodwill impairment charge, the Company allocated the fair value of the Blackstone reporting unit to all of its assets and liabilities, in-process research and development and certain unrecognized intangible assets, in order to determine the implied fair value of goodwill at September 30, 2008. This allocation process required judgment and the use of additional valuation assumptions in deriving the individual fair values of the Blackstone reporting unit's assets and liabilities as if the Blackstone reporting unit had been acquired in a business combination. The Company believes its determined fair values and the resulting goodwill impairment charge are based on reasonable assumptions and represent the best estimate of these amounts at September 30, 2008.

As of December 31, 2008, the Company performed its annual impairment review of its other reporting units and updated its Blackstone impairment review and determined there was no additional impairment of goodwill.

8. Bank borrowings

(In US\$ thousands)	December 31,	
	2008	2007
Borrowings under line of credit	\$ 1,907	\$ 8,704

The weighted average interest rate on borrowings under lines of credit as of December 31, 2008 and 2007 was 5.86% and 4.79%, respectively.

Borrowings under lines of credit consist of borrowings in Euros. The Company had unused available lines of credit of 5.2 million Euros (\$7.3 million) and 1.3 million Euros (\$2.0 million) at December 31, 2008 and 2007, respectively, in its Italian line of credit. These lines of credit provide the Company the option to borrow amounts in Italy at rates which are determined at the time of borrowing. This line of credit is unsecured.

9. Other current liabilities

(In US\$ thousands)	December 31,	
	2008	2007
Accrued expenses	\$ 12,247	\$ 9,278
Salaries and related taxes payable	15,738	18,413
Interest rate swap	7,975	-
Income taxes payable	2,833	1,964
Other payables	7,101	6,889
	\$ 45,894	\$ 36,544

Table of Contents

Notes to the consolidated financial statements (cont.)

10. Long-term debt

(In US\$ thousands)	December 31,	
	2008	2007
Long-term obligations	\$ 280,700	\$ 297,700
Other loans	162	231
	280,862	297,931
Less current portion	(3,329)	(3,343)
	\$ 277,533	\$ 294,588

On September 22, 2006, the Company's wholly-owned U.S. holding company subsidiary, Orthofix Holdings, Inc. ("Orthofix Holdings"), entered into a senior secured credit facility with a syndicate of financial institutions to finance the acquisition of Blackstone. Certain terms of the senior secured credit facility were amended September 29, 2008. The senior secured credit facility provides for (1) a seven-year amortizing term loan facility of \$330.0 million, the proceeds of which, together with cash balances were used for payment of the purchase price of Blackstone; and (2) a six-year revolving credit facility of \$45.0 million. As of December 31, 2008, the Company had no amounts outstanding under the revolving credit facility and \$280.7 million outstanding under the term loan facility. As of December 31, 2007, the Company had no amounts outstanding under the revolving credit facility and \$297.7 million outstanding under the term loan facility. Obligations under the senior secured credit facility have a floating interest rate of LIBOR, with a LIBOR floor of 3.0% plus a margin or prime rate plus a margin. Currently, the term loan is a \$150.0 million LIBOR loan plus a margin of 4.50% and a \$130.7 million prime rate loan plus a margin of 3.5%. The effective interest rate as of December 31, 2008 and 2007 on the senior secured credit facility was 8.4% and 6.58%, respectively.

Each of the domestic subsidiaries of the Company (which includes Orthofix Inc., Breg Inc., and Blackstone), Colgate Medical Limited and Victory Medical have guaranteed the obligations of Orthofix Holdings under the senior secured credit facility. The obligations of the subsidiaries under their guarantees are secured by the pledges of their respective assets.

In conjunction with obtaining the senior secured credit facility, the Company incurred debt issuance costs of \$6.4 million which it has been amortizing over the life of the facility. A portion of the capitalized debt issuance costs included in other long-term assets related to the senior secured credit facility were expensed as a result of the amendment on September 29, 2008, and are included in the loss on refinancing of senior secured term loan. In connection with the amendment to the credit facility, the Company paid additional fees of \$2.4 million in the year ended December 31, 2008, of which \$2.1 million are included in the loss on refinancing of senior secured term loan. As of December 31, 2008, \$0.8 million of debt issuance costs which relate to the Company's revolving credit facility are included in other long-term assets. As of December 31, 2007, debt issuance costs related to the senior secured term loan and the revolving credit facility were \$5.2 million.

Certain subsidiaries of the Company have restrictions on their ability to pay dividends or make intercompany loan advances pursuant to the Company's senior secured credit facility. The net assets of Orthofix Holdings and its subsidiaries are restricted for distributions to the parent company and its foreign subsidiaries. Domestic subsidiaries of the Company which are parties to the credit facility have access to these net assets for operational purposes. The amount of restricted net assets of Orthofix Holdings and its subsidiaries as of December 31, 2008 is \$111.3 million compared to \$300.7 million at December 31, 2007.

Weighted average interest rates on current maturities of long-term obligations as of December 31, 2008 and 2007 were 8.4% and 6.58%, respectively.

F - 23

Table of Contents

Notes to the consolidated financial statements (cont.)

The aggregate maturities of long-term debt after December 31, 2008 are as follows: 2009 - \$3.3 million, 2010 - \$3.4 million, 2011 - \$3.4 million, 2012 - \$80.0 million, 2013 - \$190.8 million.

11. Derivative instruments

In 2006, the Company entered into a cross-currency swap agreement to manage its foreign currency exposure related to a portion of the Company's intercompany receivable of a U.S. dollar functional currency subsidiary that is denominated in Euro. The derivative instrument, a ten-year fully amortizable agreement with a notional amount of \$63.0 million, is scheduled to expire on December 30, 2016. The instrument is designated as a cash flow hedge. The amount outstanding under the agreement as of December 31, 2008 is \$56.7 million. Under the agreement, the Company pays Euro and receives U.S. dollars based on scheduled cash flows in the agreement. During each year ended December 31, 2008 and 2007, the Company recorded the unrealized gain on the change in fair value of this swap arrangement of \$1.6 million, within other comprehensive income/(loss).

In June 2008, the Company entered into a three year fully amortizable interest rate swap agreement (the "Swap") with a notional amount of \$150.0 million and an expiration date of June 30, 2011. During the fourth quarter the Company incurred an unrealized, non-cash loss of approximately \$8.0 million which resulted from changes in the fair value of the Company's interest rate swap. During the second and third quarters of 2008, the interest rate swap was accounted for as a cash flow hedge, and changes in its value were recorded as part of accumulated other comprehensive income on the balance sheet. Due to declining interest rates and a LIBOR floor in the Company's amended credit facility, the effectiveness of the swap was no longer deemed highly effective; therefore cash flow accounting is no longer applied and mark-to-market adjustments are required to be reported in current earnings through the expiration of the swap in June 2011. The swap continues to provide an economic hedge against fluctuating interest rate exposure on the \$150.0 million portion of outstanding debt it covers, should the LIBOR interest rate rise above 3.73%.

12. Fair value measurements

As described in Note 1, the Company adopted SFAS No. 157 effective January 1, 2008. SFAS No. 157 defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also describes three levels of inputs that may be used to measure fair value:

Level 1 – quoted prices in active markets for identical assets and liabilities

Level 2 – observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3 – unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions

The fair value of the Company's financial assets and liabilities measured at fair value on a recurring basis were as follows:

	Balance at December 31, 2008	Level 1	Level 2	Level 3
(In US\$ thousands)				

Derivative financial instruments(1)

Cash flow hedges:

Interest rate hedge	\$ (7,975)	\$ (7,975)
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Cross currency hedge	\$ 681	\$ 681
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(1) See Note 11, "Derivative instruments".

F - 24

Table of Contents

Notes to the consolidated financial statements (cont.)

13. Commitments

Leases

The Company has entered into operating leases for facilities and equipment. Rent expense under the Company's operating leases for the years ended December 31, 2008, 2007 and 2006 was approximately \$5.6 million, \$5.2 million and \$4.2 million, respectively. Future minimum lease payments under operating leases as of December 31, 2008 are as follows:

(In US\$ thousands)

2009	\$	4,655
2010		3,822
2011		1,932
2012		632
2013		218
Thereafter		2
Total	\$	11,261

In February 2009, as part of the consolidation and reorganization of the Company's spine business from New Jersey and Massachusetts into the Texas facility, the Company entered into a ten year operating lease in Lewisville, Texas which includes future minimum lease payments of \$1.2 million per year for the first five years and \$1.3 million per year for the following five years. This lease will commence upon the earlier of occupancy or completion of improvements, but no earlier than January 31, 2010.

14. Business segment information

The Company's segment information is prepared on the same basis that the Company's management reviews the financial information for operational decision making purposes. The Company is comprised of the following segments:

Domestic

Domestic consists of operations in the United States of Orthofix, Inc. which designs, manufactures and distributes stimulation and orthopedic products. Domestic uses both direct and distributor sales representatives to sell Spine and Orthopedic products to hospitals, doctors and other healthcare providers in the United States market.

Blackstone

Blackstone ("Blackstone") consists of Blackstone Medical, Inc., based in Springfield, Massachusetts, and its two subsidiaries, Blackstone GmbH and Goldstone GmbH. Blackstone specializes in the design, development and marketing of spinal implant and related HCT/P products.

Breg

Breg ("Breg") consists of Breg, Inc. Breg, based in Vista, California, designs, manufactures, and distributes Orthopedic products for post-operative reconstruction and rehabilitative patient use and sells its products through a network of

domestic and international distributors, sales representatives and affiliates.

F - 25

Table of Contents

Notes to the consolidated financial statements (cont.)

International

International consists of international operations located in Europe, Mexico, Brazil and Puerto Rico, as well as independent distributors located outside the United States. International uses both direct and distributor sales representatives to sell Spine, Orthopedics, Sports Medicine, Vascular and Other products to hospitals, doctors, and other healthcare providers.

Group Activities

Group Activities are comprised of the Parent's and Orthofix Holdings' operating expenses and identifiable assets.

The tables below present information by reportable segment:

(In US\$ thousands)	External Sales			Intersegment Sales		
	2008	2007	2006	2008	2007	2006
Domestic	\$ 188,807	\$ 166,727	\$ 152,560	\$ 5,871	\$ 4,090	\$ 3,511
Blackstone	108,966	115,914	28,134	3,999	5,925	699
Breg	89,478	83,397	76,219	5,583	3,780	1,651
International	132,424	124,285	108,446	24,914	27,893	50,521
Total	\$ 519,675	\$ 490,323	\$ 365,359	\$ 40,367	\$ 41,688	\$ 56,382

Operating Income (Expense)

(In US\$ thousands)	2008	2007	2006
Domestic	\$ 64,301	\$ 55,297	\$ 36,560
Blackstone(1) (2)	(330,755)	(26,110)	(39,268)
Breg	12,393	9,717	6,218
International	18,664	19,973	18,674
Group Activities	(20,812)	(19,003)	(11,262)
Eliminations	(740)	(1,817)	(976)
Total	\$ (256,949)	\$ 38,057	\$ 9,946

(1) Includes \$40.0 million of In-Process Research and Development related to the acquisition of Blackstone in 2006

(2) Includes \$289.5 and \$20.0 million charge for impairment of certain Blackstone assets in 2008 and 2007, respectively.

Table of Contents

Notes to the consolidated financial statements (cont.)

The following table presents identifiable assets by segment, excluding intercompany balances and investments in consolidated subsidiaries.

Identifiable Assets (In US\$ thousands)	2008	2007
Domestic	\$ 110,981	\$ 118,178
Blackstone	121,508	404,788
Breg	172,398	180,157
International	146,444	177,586
Group activities	10,624	20,063
Eliminations	(740)	(15,108)
Total	\$ 561,215	\$ 885,664

The following table presents depreciation and amortization, income tax expense (benefit) and other income (expense) by segment:

(In US\$ thousands)	Depreciation and amortization			Income tax expense (benefit)			Other income (expense)		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Domestic	\$ 2,674	\$ 2,831	\$ 2,934	\$ 25,457	\$ 21,803	\$ 14,444	\$ (1,414)	\$ 69	\$ 300
Blackstone	15,837	13,975	2,011	(86,857)	(16,186)	(1,710)	73	475	199
Breg	7,750	8,048	8,154	2,676	1,799	125	(119)	(89)	(24)
International	4,794	3,497	3,347	(222)	(520)	(1,042)	(7,460)	6,178	97
Group activities	224	180	11	(7,535)	(3,129)	1,544	(29,166)	(29,955)	(4,199)
Total	\$ 31,279	\$ 28,531	\$ 16,457	\$ (66,481)	\$ 3,767	\$ 13,361	\$ (38,086)	\$ (23,322)	\$ (3,627)

Table of Contents

Notes to the consolidated financial statements (cont.)

Capital expenditures of tangible and intangible assets for each segment are as follows:

(In US\$ thousands)	2008	2007	2006
Domestic	\$ 1,813	\$ 2,936	\$ 2,240
Blackstone	10,355	15,278	1,473
Breg	3,071	2,706	3,496
International	4,757	6,309	5,360
Group activities	196	-	44
Total	\$ 20,192	\$ 27,229	\$ 12,613

Geographical information

Analysis of net sales by geographic destination:

(In US\$ thousands)	2008	2007	2006
U.S.	\$ 381,016	\$ 359,007	\$ 263,442
U.K.	27,465	33,109	26,708
Italy	26,075	25,175	23,436
Other	85,119	73,032	51,773
International	138,659	131,316	101,917
Total	\$ 519,675	\$ 490,323	\$ 365,359

There are no sales in the Netherlands Antilles.

Analysis of property, plant and equipment and other assets by geographic area:

(In US\$ thousands)	2008	2007
U.S.	\$ 21,409	\$ 22,455
Italy	6,540	7,063
U.K.	2,044	2,955
Others	4,762	5,398
Total	\$ 34,755	\$ 37,871

There are no long-lived assets in the Netherlands Antilles.

Table of Contents

Notes to the consolidated financial statements (cont.)

(In US\$ thousands)	Sales by Market Sector for the year ended December 31, 2008				
	Domestic	Blackstone	Breg	International	Total
Spine	\$ 141,753	\$ 108,966	\$ -	\$ 1,520	\$ 252,239
Orthopedics	47,054	-	-	82,052	129,106
Sports Medicine	-	-	89,478	5,050	94,528
Vascular	-	-	-	17,890	17,890
Other	-	-	-	25,912	25,912
Total	\$ 188,807	\$ 108,966	\$ 89,478	\$ 132,424	\$ 519,675

(In US\$ thousands)	Sales by Market Sector for the year ended December 31, 2007				
	Domestic	Blackstone	Breg	International	Total
Spine	\$ 126,626	\$ 115,914	\$ -	\$ 625	\$ 243,165
Orthopedics	40,101	-	-	71,831	111,932
Sports Medicine	-	-	83,397	4,143	87,540
Vascular	-	-	-	19,866	19,866
Other	-	-	-	27,820	27,820
Total	\$ 166,727	\$ 115,914	\$ 83,397	\$ 124,285	\$ 490,323

(In US\$ thousands)	Sales by Market Sector for the year ended December 31, 2006				
	Domestic	Blackstone	Breg	International	Total
Spine	\$ 116,701	\$ 28,134	\$ -	\$ 278	\$ 145,113
Orthopedics	35,813	-	-	59,986	95,799
Sports Medicine	-	-	76,219	2,834	79,053
Vascular	-	-	-	21,168	21,168
Other	46	-	-	24,180	24,226
Total	\$ 152,560	\$ 28,134	\$ 76,219	\$ 108,446	\$ 365,359

Table of Contents

Notes to the consolidated financial statements (cont.)

15. Income taxes

Income (loss) before provision (benefit) for income taxes consisted of:

(In US\$ thousands)	Year ended December 31,		
	2008	2007	2006
U.S.	\$ (304,542)	\$ 551	\$ (11,264)
Non-U.S.	9,507	14,184	17,583
	\$ (295,035)	\$ 14,735	\$ 6,319

The (benefit from) provision for income taxes in the accompanying consolidated statements of operations consists of the following:

(In US\$ thousands)	Year ended December 31,		
	2008	2007	2006
U.S.			
-Current	\$ 12,697	\$ 10,501	\$ 12,231
-Deferred	(81,661)	(10,817)	(1,601)
Non-U.S.			
-Current	(53)	2,134	13,745
-Deferred	2,536	1,949	(11,014)
Total tax expense	\$ (66,481)	\$ 3,767	\$ 13,361

The tax effects of the significant temporary differences, which comprise the deferred tax liabilities and assets, are as follows:

(In US\$ thousands)	2008	2007
Goodwill	\$ (901)	\$ 184
Patents, trademarks and other intangible assets	(12,760)	(82,841)
Property, plant and equipment	(2,172)	(1,133)
Other current	(4,509)	7,882
Inventories and related reserves	9,108	4,453
Accrued compensation	10,669	3,549
Allowance for doubtful accounts	4,254	3,370
Interest	9,284	3,781
Net operating loss carryforwards	15,320	12,768
Other long-term	7,383	1,560
Valuation allowance	(14,370)	(11,377)
Net deferred tax asset (liability)	\$ 21,306	\$ (57,804)

Table of Contents

Notes to the consolidated financial statements (cont.)

The valuation allowance as of December 31, 2008 and 2007 was \$14.4 million and \$11.4 million, respectively. The net increase in the valuation allowance of \$3.0 million during the year relates to current period foreign losses not benefitted. The valuation allowance is attributable to net operating loss carryforwards in certain foreign jurisdictions, the benefit for which is dependent upon the generation of future taxable income in that location. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2008.

As part of the acquisition of Blackstone, the Company acquired a federal net operating loss carryforward of \$31.1 million which was subject to annual section 382 limitations. During 2006, the Company utilized \$7.4 million of these federal net operating loss carryforwards, and the remaining operating losses were utilized during 2007. The Company also has tax net operating loss carryforwards in other taxing jurisdictions of approximately \$55.1 million with the majority of the losses related to the Company's Netherlands operations expiring in various amounts in tax years beginning in 2009. The Company has provided a valuation allowance against these net operating loss carryforwards since it does not believe that this deferred tax asset can be realized prior to expiration.

The rate reconciliation presented below is based on the U.S. federal income tax rate, rather than the parent company's country of domicile tax rate. Management believes, given the large proportion of taxable income earned in the United States, such disclosure is more meaningful.

(In US\$ thousands, except percentages)

	2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent
Statutory U.S. federal income tax rate	\$ (103,263)	35%	\$ 5,179	35%	\$ 2,221	35%
State taxes, net	(4,798)	1.6%	317	2.1%	1,394	22.0%
Foreign rate differential	(1,422)	0.5%	(2,504)	(17.0)%	(4,589)	(72.3)%
Valuation allowance – foreign losses	3,031	(1.0)%	2,665	18.0%	2,875	45.3%
Italy step-up amortization	(2,527)	0.9%	(2,115)	(14.3)%	(2,778)	(43.8)%
Blackstone purchased research and development	(165)	0.1%	(1,320)	(8.9)%	14,000	220.6%
Domestic manufacturing deduction	(741)	0.3%	(453)	(3.1)%	-	-
Reserves, net	(1,093)	0.4%	372	(2.5)%	-	-
Goodwill impairment	44,406	(15.2)%	-	0.0%	-	-
Permanent items	900	(0.3)%	451	3.0%	-	-
Tax rate changes	(2,320)	0.8%	1,266	8.6%	-	-

Other items, net	1,511	(0.6)%	(91)	(0.4)%	238	3.7%
Income tax expense/effective rate	(66,481)	22.5%	\$ 3,767	25.5%	\$ 13,361	210.5%

The Company's gross unrecognized tax benefit was \$0.7 million and \$1.7 million for the years ended December 31, 2008 and December 31, 2007 respectively.

F - 31

Table of Contents

Notes to the consolidated financial statements (cont.)

A reconciliation of the gross unrecognized tax benefits for the years ended December 31, 2008 and December 31, 2007 follows:

	2008	2007
Balance as of January 1,	\$ 1,707	\$ 1,346
Additions for current year tax positions	-	175
Additions for prior year tax positions	-	186
Reductions related to expirations of statute of limitations	(1,000)	-
Balance as of December 31,	\$ 707	\$ 1,707

The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits within its global operations in income tax expense. During 2008, the Company recognized approximately \$45 thousand in interest and penalties. The Company had approximately \$0.4 million and \$0.5 million accrued for the payment of interest and penalties as of December 31, 2008 and December 31, 2007 respectively.

The entire \$0.7 million of unrecognized tax benefits would affect the Company's effective tax rate if recognized. As of December 31, 2008, the Company does not expect the amount of unrecognized tax benefits to change significantly over the next twelve months.

The Company files a consolidated income tax return in the U.S. federal jurisdiction and numerous consolidated and separate income tax returns in many state and foreign jurisdictions. The statute of limitations with respect to federal tax authorities is closed for years prior to December 31, 2004. The statute of limitations for the various state tax filings is closed in most instances for the years prior to December 31, 2005. There are certain state tax statutes open for years from 1997 forward due to current examinations. The statute of limitations with respect the major foreign tax filing jurisdictions is closed for years prior to December 31, 2004.

The Company has not recorded additional income taxes applicable to undistributed earnings of foreign subsidiaries (residing outside the Netherlands Antilles) that are considered to be indefinitely reinvested and the taxes attributable to such amounts not deemed to be indefinitely reinvested are not material. In the event that undistributed earnings which have been deemed to be indefinitely reinvested no longer meet the criteria to remain as such, these undistributed earnings will also be considered when calculating any potential future tax liabilities relating to undistributed foreign earnings. Total undistributed earnings, which amounted to approximately \$219.4 million, \$186.0 million and \$191.1 million at December 31, 2008, 2007 and 2006, respectively, may become taxable upon their remittance as dividends or upon the sale or liquidation of these foreign subsidiaries. It is not practicable to determine the amounts of net additional income tax that may be payable if such earnings were repatriated.

16. Related parties

The following related party balances and transactions as of and for the three years ended December 31, 2008, between the Company and other companies in which directors and/or executive officers have an interest are reflected in the consolidated financial statements. The Company buys components related to the A-V Impulse(R) System and buys the Laryngeal Mask from companies in which a former board member has a beneficial minority interest. The Company sells bracing products to OrthoRx.

	Year ended December 31,		
(In US\$ thousands)	2008	2007	2006

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Sales	\$	2,278	\$	1,474	\$	1,741
Purchases	\$	12,681	\$	13,119	\$	16,733
Accounts payable	\$	1,686	\$	2,189	\$	2,474
Accounts receivable	\$	460	\$	5	\$	86
Due from officers (included in other long-term assets)	\$	-	\$	-	\$	208

F - 32

Table of Contents

Notes to the consolidated financial statements (cont.)

17. Contingencies

Litigation

Effective October 29, 2007, our subsidiary, Blackstone, entered into a settlement agreement with respect to a patent infringement lawsuit captioned Medtronic Sofamor Danek USA Inc., Warsaw Orthopedic, Inc., Medtronic Puerto Rico Operations Co., and Medtronic Sofamor Danek Deggendorf, GmbH v. Blackstone Medical, Inc., Civil Action No. 06-30165-MAP, filed on September 22, 2006 in the United States District Court for the District of Massachusetts. In that lawsuit, the plaintiffs had alleged that (i) they were the exclusive licensees of United States Patent Nos. 6,926,718 B1, 6,936,050 B2, 6,936,051 B2, 6,398,783 B1 and 7,066,961 B2 (the “Patents”), and (ii) Blackstone's making, selling, offering for sale, and using within the United States of its Blackstone Anterior Cervical Plate, 3° Anterior Cervical Plate, Hallmark Anterior Cervical Plate and Construx Mini PEEK VBR System products infringed the Patents, and that such infringement was willful. The Complaint requested both damages and an injunction against further alleged infringement of the Patents. Blackstone denied infringement and asserted that the Patents were invalid. On July 20, 2007, the Company submitted a claim for indemnification from the escrow fund established in connection with the agreement and plan of merger between the Company, New Era Medical Corp. and Blackstone, dated as of August 4, 2006 (the “Blackstone Merger Agreement”), for any losses to us resulting from this matter. The Company was subsequently notified by legal counsel for the former shareholders that the representative of the former shareholders of Blackstone has objected to the indemnification claim and intends to contest it in accordance with the terms of the Blackstone Merger Agreement. The settlement agreement is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

On or about July 23, 2007, Blackstone received a subpoena issued by the Department of Health and Human Services, Office of Inspector General, under the authority of the federal healthcare anti-kickback and false claims statutes. The subpoena seeks documents for the period January 1, 2000 through July 31, 2006, which is prior to Blackstone's acquisition by the Company. The Company believes that the subpoena concerns the compensation of physician consultants and related matters. On September 17, 2007, the Company submitted a claim for indemnification from the escrow fund established in connection with the Blackstone Merger Agreement for any losses to the Company resulting from this matter. The Company was subsequently notified by legal counsel for the former shareholders that the representative of the former shareholders of Blackstone has objected to the indemnification claim and intends to contest it in accordance with the terms of the Blackstone Merger Agreement.

On or about January 7, 2008, the Company received a federal grand jury subpoena from the United States Attorney's Office for the District of Massachusetts. The subpoena seeks documents from the Company for the period January 1, 2000 through July 15, 2007. The Company believes that the subpoena concerns the compensation of physician consultants and related matters, and further believe that it is associated with the Department of Health and Human Services, Office of Inspector General's investigation of such matters. On September 18, 2008, the Company submitted a claim for indemnification from the escrow fund established in connection with the Blackstone Merger Agreement for any losses to the Company resulting from this matter.

On or about December 5, 2008, the Company obtained a copy of a qui tam complaint filed by Susan Hutcheson and Philip Brown against Blackstone and the Company in the U.S. District Court for the District of Massachusetts. A qui tam action is a civil lawsuit brought by an individual for an alleged violation of a federal statute, in which the U.S. Department of Justice has the right to intervene and take over the prosecution of the lawsuit at its option. On November 21, 2008, the U.S. Department of Justice filed a notice of non-intervention in the case. To our knowledge, the plaintiffs have not served either Blackstone or the Company with a copy of the complaint. The complaint alleges a

cause of action under the False Claims Act for alleged inappropriate payments and other items of value conferred on physician consultants, as well as a cause of action for retaliation and wrongful discharge. The Company believes that this lawsuit is related to the matters described above involving the Department of Health and Human Services, Office of the Inspector General, and the United States Attorney's Office for the District of Massachusetts. The Company intends to defend vigorously against this lawsuit. On or about September 27, 2007, Blackstone received a federal grand jury subpoena issued by the United States Attorney's Office for the District of Nevada ("USAO-Nevada subpoena"). The subpoena seeks documents for the period from January 1999 to the date of issuance of the subpoena. The Company believes that the subpoena concerns payments or gifts made by Blackstone to certain physicians. On February 29, 2008, Blackstone received a Civil Investigative Demand ("CID") from the Massachusetts Attorney General's Office, Public Protection and Advocacy Bureau, Healthcare Division. The Company believes that the CID seeks documents concerning Blackstone's financial relationships with certain physicians and related matters for the period from March 2004 through the date of issuance of the CID. On September 18, 2008, the Company submitted a claim for indemnification from the escrow fund established in connection with the Merger Agreement for any losses to us resulting from this matter.

F - 33

Table of Contents

Notes to the consolidated financial statements (cont.)

The Ohio Attorney General's Office, Health Care Fraud Section has issued a criminal subpoena, dated August 8, 2008, to Orthofix, Inc (the "Ohio AG Subpoena"). The Ohio AG Subpoena seeks documents for the period from January 1, 2000 through the date of issuance of the subpoena. The Company believes that the Ohio AG Subpoena arises from a government investigation that concerns the compensation of physician consultants and related matters. On September 18, 2008, the Company submitted a claim for indemnification from the escrow fund established in connection with the Merger Agreement for any losses to us resulting from the USAO-Nevada subpoena, the Massachusetts CID and the Ohio AG Subpoena.

Blackstone has cooperated with the government's request in each of the subpoenas set forth above. The Company is unable to predict what actions, if any, might be taken by the governmental authorities that have issued these subpoenas or what impact, if any, the outcome of these matters might have on the Company's consolidated financial position, results of operations or cash flows.

By order entered on January 4, 2007, the United States District Court for the Eastern District of Arkansas unsealed a qui tam complaint captioned Thomas v. Chan, et al., 4:06-cv-00465-JLH, filed against Dr. Patrick Chan, Blackstone and other defendants including another device manufacturer. The complaint alleges causes of action under the False Claims Act for alleged inappropriate payments and other items of value conferred on Dr. Chan. On December 29, 2006, the U.S. Department of Justice filed a notice of non-intervention in the case. Plaintiff subsequently amended the complaint to add the Company as a defendant. On January 3, 2008, Dr. Chan pled guilty to one count of knowingly soliciting and receiving kickbacks from a medical device distributor in a criminal matter in which neither the Company nor any of its business units or employees were defendants. In January 2008, Dr. Chan entered into a settlement agreement with the plaintiff and certain governmental entities in the civil qui tam action, and on February 21, 2008, a joint stipulation of dismissal of claims against Dr. Chan in the action was filed with the court, which removed him as a defendant in the action. On July 11, 2008, the court granted a motion to dismiss the Company as a defendant in the action. Blackstone remains a defendant. The Company believes that Blackstone has meritorious defenses to the claims alleged and the Company intends to defend vigorously against this lawsuit. On September 17, 2007, the Company submitted a claim for indemnification from the escrow fund established in connection with the Merger Agreement for any losses to us resulting from this matter. The Company was subsequently notified by legal counsel for the former shareholders that the representative of the former shareholders of Blackstone has objected to the indemnification claim and intends to contest it in accordance with the terms of the Merger Agreement.

Between January 2007 and May 2007, Blackstone and Orthofix Inc. were named defendants, along with other medical device manufacturers, in three civil lawsuits alleging that Dr. Chan had performed unnecessary surgeries in three different instances. In January 2008, the Company learned that Orthofix Inc. was named a defendant, along with other medical device manufacturers, in a fourth civil lawsuit alleging that Dr. Chan had performed unnecessary surgeries. All four civil lawsuits were filed in the Circuit Court of White County, Arkansas. The Company has reached a settlement in all four civil lawsuits, and the court has entered an order of dismissal in two of the four cases. The settlement agreements are not expected to have a material impact on our consolidated financial position, results of operations or cash flows. On September 17, 2007, the Company submitted a claim for indemnification from the escrow fund established in connection with the Merger Agreement for any losses to us resulting from one of these four civil lawsuits. The Company was subsequently notified by legal counsel for the former shareholders that the representative of the former shareholders of Blackstone has objected to the indemnification claim and intends to contest it in accordance with the terms of the Merger Agreement.

The Company is unable to predict the outcome of each of the escrow claims described above in the preceding paragraphs or to estimate the amount, if any, that may ultimately be returned to the Company from the escrow fund

and there can be no assurance that losses to us from these matters will not exceed the amount of the escrow account. As of December 31, 2008 and 2007, included in Other Current Assets is approximately \$8.3 million and \$2.1 million of escrow receivable balances related to the Blackstone matters described above, respectively.

F - 34

Table of Contents

Notes to the consolidated financial statements (cont.)

In addition to the foregoing claims, the Company has submitted claims for indemnification from the escrow fund established in connection with the Blackstone Merger Agreement for losses that have or may result from certain claims against Blackstone alleging that plaintiffs and/or claimants were entitled to payments for Blackstone stock options not reflected in Blackstone's corporate ledger at the time of Blackstone's acquisition by the Company, or that their shares or stock options were improperly diluted by Blackstone. To date, the representative of the former shareholders of Blackstone has not objected to approximately \$1.5 million in such claims from the escrow fund, with certain claims remaining pending.

The Company cannot predict the outcome of any proceedings or claims made against the Company or its subsidiaries described in the preceding paragraphs and there can be no assurance that the ultimate resolution of any claim will not have a material adverse impact on our consolidated financial position, results of operations, or cash flows.

In addition to the foregoing, in the normal course of our business, the Company is involved in various lawsuits from time to time and may be subject to certain other contingencies.

United Kingdom Payroll Taxes

In 2007, Intavent Orthofix Limited, the Company's UK distribution subsidiary, received an inquiry from H.M. Revenue and Customs (HMRC) relating to the tax treatment of gains made by UK employees on the exercise of stock options. The Company is in the process of formulating a response to HMRC. Based on preliminary calculations, a provision of \$0.5 million has been provided, of which the Company has paid \$0.2 million. The Company cannot predict the ultimate outcome of its discussions with HMRC.

Concentrations of credit risk

Financial instruments which potentially subject the Company to concentrations of credit risk are primarily cash investments and accounts receivable. Cash investments are primarily in money market funds deposited with major financial center banks. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of entities comprising the Company's customer base. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. Certain of these customers rely on third party healthcare payers, such as private insurance companies and governments, to make payments to the Company on their behalf. Accounts receivable in countries where the government funds medical spending are primarily located in North Africa, Middle East, South America, Asia and Europe. The Company has considered special situations when establishing allowances for potentially uncollectible accounts receivable in such countries as India, Egypt and Turkey. The Company also records reserves for bad debts for all other customers based on a variety of factors, including the length of time the receivables are past due, the financial condition of the customer, macroeconomic conditions and historical experiences. The Company maintains reserves for potential credit losses and such losses have been within management's expectations.

The Company sells via a direct sales force and distributors. There were no customers that accounted for 5% or more of net sales in 2008, 2007 or 2006.

18. Pensions and deferred compensation

Orthofix Inc. sponsors a defined contribution plan (the “Orthofix Inc. 401(k) Plan”) covering substantially all full time employees. The Orthofix Inc. 401(k) Plan allows for participants to contribute up to 15% of their pre-tax compensation, subject to certain limitations, with the Company matching 100% of the first 2% of the employee’s base compensation and 50% of the next 4% of the employee’s base compensation if contributed to the Orthofix Inc. 401(k) Plan. Breg also sponsors a 401(k) plan (the “Breg 401(k) plan). The Breg 401(k) Plan allows for participants to contribute up to 100% of their compensation, subject to certain limitations, with the Company matching 100% of the first \$1,000 deferred. Blackstone also sponsors a 401(k) plan (the “Blackstone 401(k) Plan). The Blackstone 401(k) Plan allows for participants to contribute up to 75% of their compensation, subject to certain limitations, with the Company matching 50% of the first 6% of the employee’s compensation deferred. During the years ended December 31, 2008, 2007 and 2006, expenses incurred relating to 401(k) Plans, including matching contributions, were approximately \$1.8 million, \$1.5 million and \$1.1 million, respectively.

F - 35

Table of Contents

Notes to the consolidated financial statements (cont.)

The Company operates defined contribution pension plans for its other International employees not described above meeting minimum service requirements. The Company's expenses for such pension contributions during 2008, 2007 and 2006 were approximately \$1.0 million, \$1.0 million and \$0.5 million, respectively.

Under Italian Law, Orthofix S.r.l. accrues, on behalf of its employees, deferred compensation, which is paid on termination of employment. Each year's provision for deferred compensation is based on a percentage of the employee's current annual remuneration plus an annual charge. Deferred compensation is also accrued for the leaving indemnity payable to agents in case of dismissal which is regulated by a national contract and is equal to approximately 3.5% of total commissions earned from the Company. The Company's expense for deferred compensation during 2008, 2007 and 2006 was approximately \$0.5 million, \$0.4 million and \$0.4 million, respectively. Deferred compensation payments of \$0.5 million, \$0.3 million and \$0.3 million were made in 2008, 2007 and 2006, respectively. The balance as of December 31, 2008 and 2007 of \$1.7 million represents the amount which would be payable if all the employees and agents had terminated employment at that date and is included in other long-term liabilities.

The Orthofix Deferred Compensation Plan (the "Plan"), administered by the Board of Directors of Orthofix, effective January 1, 2007, and as amended and restated effective January 1, 2009, is a plan intended to allow a select group of key management and highly compensated employees of Orthofix to defer the receipt of compensation that would otherwise be payable to them. The terms of this plan are intended to comply in all respects with the provisions of Code Section 409A and Code Section 457A. Under the Plan, employees of Orthofix and its subsidiaries are eligible to participate if the employee is in management or a highly compensated employee and is named by the Board of Directors to be a participant in the Plan. All directors were eligible to participate in the Plan, but effective January 1, 2009, they were prohibited from further participation, unless a director performs services as an employee attributable, for tax purposes, to any U.S. subsidiary of the Company. An eligible employee may elect to enter into a salary deferral commitment and/or a director's fees deferral commitment with respect to any plan year by submitting a participation agreement to the plan administrator by December 31 of the calendar year immediately preceding the plan year. Further, an eligible employee may elect to enter into a bonus deferral commitment with respect to bonus compensation earned during any plan year by submitting a participation agreement to the plan administrator by December 31 of the calendar year immediately preceding the plan year. Deferral commitments can be stated as a percentage or a flat dollar amount as allowed by the plan administrator. A participant's participation agreement will remain in effect only for the immediately succeeding plan year. Distributions are made in accordance with the requirements of Code Section 409A.

19. Share-based compensation plans

At December 31, 2008, the Company had three stock option and award plans and one stock purchase plan which are described below.

2004 Long Term Incentive Plan

The 2004 Long Term Incentive Plan (the "2004 LTIP Plan") is a long term incentive plan that was originally adopted in April 2004. The 2004 LTIP Plan was approved by shareholders on June 29, 2004 and 2.0 million shares were reserved for issuance under this plan (in addition to shares (i) available for future awards as of June 29, 2004 under prior plans or (ii) that become available for future issuance upon the expiration or forfeiture after June 29, 2004 of awards upon prior plans). Awards generally vest on years of service with all awards fully vesting within three years

from the date of grant for employees and either three or four years from the date of grant for non-employee directors. Awards can be in the form of a stock option, restricted stock, restricted share unit, performance share unit, or other award form determined by the Board of Directors. Awards granted under the 2004 LTIP Plan expire no later than 10 years after the date of the grant. On June 20, 2007, the Company's shareholders approved amendments and a restatement of the 2004 LTIP Plan, providing for the following major changes: an increase in the number of shares available for grant from 2.0 million shares to 2.8 million shares, a specific allowance for grants of restricted stock awards, and a provision for fixed awards to non-employee directors on the date of their first election to the Board and on each subsequent re-election. On June 19, 2008, the Company's shareholders approved further amendments to the 2004 LTIP Plan to increase the number of shares available for grant from 2.8 million shares to 3.1 million shares, to increase the annual grant to non-employee directors from 3,000 shares to 5,000 shares, and to limit in the future the number of shares that may be awarded under the plan as full value awards to 100,000 shares. At December 31, 2008, there were 2,666,395 options outstanding under the 2004 LTIP Plan, of which 1,181,744 were exercisable; in addition, there were 118,993 shares of restricted stock outstanding, none of which were vested.

Table of Contents

Notes to the consolidated financial statements (cont.)

Staff Share Option Plan

The Staff Stock Option Plan (the “Staff Plan”) is a fixed stock option plan which was adopted in April 1992. Under the Staff Plan, the Company granted options to its employees at the estimated fair market value of such options at the date of grant. Options generally vest based on years of service with all options to be fully vested within five years from date of grant. Options granted under the Staff Plan expire ten years after the date of grant. There are no options left to be granted under the Staff Plan. At December 31, 2008, there were 133,625 options outstanding and exercisable under the Staff Plan.

Performance Accelerated Stock Option Inducement Grants

On December 30, 2003, the Company granted inducement stock option awards to two key executives of Breg, in conjunction with the acquisition of Breg. The exercise price was fixed at \$38.00 per share on November 20, 2003, when the Company announced it had entered into an agreement to acquire Breg. The inducement grants included both service-based and performance-based vesting provisions. The inducement grants became 100% vested on the fourth anniversary of the grant date but are subject to certain exercisability limitations. Following vesting on December 30, 2007, the original inducement grants limited the executives’ ability to exercise specific numbers of options during the years 2008 – 2012. Prior to the options fully vesting and as an inducement for the executives to extend the term of their employment agreements for one year, in November 2007 the Company entered into amended award agreements with the two executives. The amended agreements did not change the vesting date of the options, but provided that the options granted thereunder will only be exercisable during the fixed period beginning January 1, 2009 and ending on December 31, 2009. In December 2008, in order to meet certain requirements of Code Section 409A and the Treasury Regulations promulgated thereunder, and fulfill the Company’s desire to extend each of the executives’ terms of employment with the Company, the Company and the executives entered into second amended and restated award agreements. The second amended agreements provided for the election by the executives of respective periods during which they can exercise options. Bradley Mason has elected to exercise 50,000 options in each of the following periods: April 1, 2010 through December 31, 2010, January 1, 2011 through December 31, 2011 and January 1, 2012 through December 31, 2012. William Hopson has elected to exercise his 50,000 options in the period between January 1, 2011 and December 31, 2011. Subject to certain termination of employment provisions and notwithstanding any other provisions of the second amended agreements, any portion of the options that are not exercised during their respective exercise periods will not be exercisable thereafter and will lapse and be cancelled. At December 31, 2008, there were 200,000 options outstanding and exercisable under the inducement grants.

Inducement Stock Option Agreement

In the year ended December 31, 2008, stock options were granted pursuant to a standalone inducement stock option agreement, on terms substantially the same as grants made under the Company’s Amended and Restated 2004 Long Term Incentive Plan. The grant of 150,000 stock options vests in one-third increments annually.

Table of Contents

Notes to the consolidated financial statements (cont.)

Stock Purchase Plan

The Orthofix International N.V. Amended and Restated Stock Purchase Plan (the “Stock Purchase Plan”) provides for the issuance of shares of the Company’s common stock to eligible employees and directors of the Company and its subsidiaries that elect to participate in the plan and acquire shares of common stock through payroll deductions (including executive officers). On June 20, 2008, the Company’s shareholders approved an amendment and restatement of the plan, providing for the following major change: (i) to allow officers and directors of Orthofix Inc. to participate in the plan on the same basis as our other employees, (ii) to provide that the Company will assume and adopt the plan, as amended, in lieu of Orthofix Inc. acting as sponsor of the plan, (iii) to allow non-employee directors of the Company to participate in the plan, (iv) to increase by 500,000 shares the maximum number of shares available for issuance under the plan, and (v) to provide that the determination of the value of common stock under the plan will be determined either on the first or last day of the plan year, whichever date renders the lower value. These changes were generally effective for the plan year starting January 1, 2009.

During each purchase period, eligible employees may designate between 1% and 25% of their compensation to be deducted for the purchase of common stock under the plan (up to 25% for employees working in North America, South America and Asia, and up to 15% for employees working in Europe). For eligible directors, the designated percentage will be an amount equal to his or her annual or other director compensation paid in cash for the current plan year. The purchase price of the shares under the plan is equal to 85% of the fair market value on the first day of the plan year (which is a calendar year, running from January 1st to December 31st, or, if lower, on the last day of the plan year). The aggregate number of shares reserved for issuance under the Employee Stock Purchase Plan is 950,000 shares. As of December 31, 2008, 429,688 shares had been issued under the Stock Purchase Plan.

Summaries of the status of the Company’s stock option plans as of December 31, 2008 and 2007 and changes during the years ended on those dates are presented below:

	2008		2007	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	2,444,235	\$ 42.39	2,264,361	\$ 35.67
Granted	1,263,200	\$ 27.64	817,601	\$ 49.33
Exercised	(4,917)	\$ 29.73	(517,869)	\$ 24.33
Forfeited*	(552,498)	\$ 49.21	(119,858)	\$ 40.58
Outstanding at end of year	3,150,020	\$ 35.30	2,444,235	\$ 42.39
Options exercisable at end of year	1,515,370		979,365	
Weighted average fair value of options granted during the year		\$ 7.51		\$ 15.21

No options were granted during 2008 or 2007 at less than market value.

Table of Contents

Notes to the consolidated financial statements (cont.)

Outstanding and exercisable by price range as of December 31, 2008

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$10.42 - \$25.05	360,250	9.12	\$ 19.06	29,250	\$ 21.45
\$28.50 - \$28.50	18,750	3.53	\$ 28.50	18,750	\$ 28.50
\$28.95 - \$28.95	622,300	9.50	\$ 28.95	28,000	\$ 28.95
\$29.17 - \$37.76	535,022	6.92	\$ 34.61	359,222	\$ 35.59
\$38.00 - \$38.00	200,000	5.00	\$ 38.00	200,000	\$ 38.00
\$38.11 - \$38.11	368,931	7.40	\$ 38.11	254,198	\$ 38.11
\$38.40 - \$42.97	375,000	7.53	\$ 40.95	207,670	\$ 41.00
\$42.99 - \$44.87	208,599	6.34	\$ 43.08	202,766	\$ 43.06
\$44.97 - \$44.97	317,000	8.41	\$ 44.97	121,344	\$ 44.97
\$45.35 - \$57.72	144,168	7.19	\$ 48.50	94,170	\$ 47.55
	3,150,020	7.79	\$ 35.30	1,515,370	\$ 39.08

The weighted average remaining contractual life of exercisable options was 6.44 years at December 31, 2008. The total intrinsic value of options exercised was \$88,000, \$14.6 million and \$1.9 million for the years ended December 31, 2008, 2007 and 2006, respectively. The aggregate intrinsic value of options outstanding and options exercisable as of December 31, 2008 is calculated as the difference between the exercise price of the underlying options and the market price of the Company's common stock for the shares that had exercise prices that were lower than the \$15.33 closing price of the Company's stock on December 31, 2008. The aggregate intrinsic value of options outstanding was \$0.5 million, \$38.1 million and \$26.5 million for the years ended December 31, 2008, 2007 and 2006, respectively. The aggregate intrinsic value of options exercisable was \$10,000, \$19.4 million and \$11.9 million for the years ended December 31, 2008, 2007 and 2006, respectively.

A summary of the status of our restricted stock as of December 31, 2008 and changes during the year is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested as of December 31, 2007	65,787	\$ 47.41
Granted	83,434	\$ 32.19
Vested	(19,416)	\$ 46.52
Cancelled	(10,812)	\$ 40.73
Non-vested as of December 31, 2008	118,993	\$ 37.49

Table of Contents

Notes to the consolidated financial statements (cont.)

20. Earnings per share

For each of the three years in the period ended December 31, 2008, there were no adjustments to net income (loss) for purposes of calculating basic and diluted net income (loss) per common share. The following is a reconciliation of the weighted average shares used in the basic and diluted net income (loss) per common share computations.

	Year Ended December 31,		
	2008	2007	2006
Weighted average common shares-basic	17,095,416	16,638,873	16,165,540
Effect of diluted securities:			
Unexercised stock options net of treasury share repurchase	-	408,714	-
Weighted average common share-diluted	17,095,416	17,047,587	16,165,540

For the years ended December 31, 2008 and 2006, the effects of all potentially dilutive options were excluded from the computation of diluted earnings per share because the Company had a net loss and, therefore, the effect would have been anti-dilutive. Options to purchase shares of common stock with exercise prices in excess of the average market price of common shares are not included in the computation of diluted earnings per share. There were 309,651 outstanding options not included in the diluted earnings per share computation for the fiscal year ended December 31, 2007, because the options' exercise prices were greater than the average market price of the common shares.

21. Quarterly financial data (unaudited)

(U.S. Dollars, in thousands, except per share data)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
2008					
Net sales	\$ 128,032	\$ 130,039	\$ 129,301	\$ 132,303	\$ 519,675
Gross profit	93,794	94,991	81,303	97,573	367,661
Net income (loss)	3,606	5,808	(237,251)	(717)	(228,554)
Net income (loss) per common share:					
Basic	0.21	0.34	(13.87)	(0.04)	(13.37)
Diluted	0.21	0.34	(13.87)	(0.04)	(13.37)
2007					
Net sales	\$ 117,032	\$ 123,336	\$ 121,120	\$ 128,835	\$ 490,323
Gross profit	86,236	90,328	90,378	94,350	361,291
Net income (loss)	6,267	7,189	8,028	(10,515)	10,968
Net income (loss) per common share:					
Basic	0.38	0.43	0.48	(0.62)	0.66
Diluted	0.37	0.43	0.48	(0.62)	0.64

The sum of per share earnings by quarter may not equal earnings per share for the year due to the change in average share calculations. This is in accordance with prescribed reporting requirements.

Table of Contents

Orthofix International N.V.

Schedule 1 — Condensed Financial Information of Registrant Orthofix International N.V.

Condensed Balance Sheets

(U.S. Dollars, in thousands)	December 31, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 623	\$ 10,048
Prepaid expenses and other current assets	484	239
Total current assets	1,107	10,287
Other long term assets	274	252
Investments in and amounts due from subsidiaries and affiliates	207,125	427,804
Total assets	\$ 208,506	\$ 438,343
Liabilities and shareholder's equity		
Current liabilities	\$ 1,669	\$ 1,191
Long-term liabilities	4,776	3,212
Shareholder's equity		
Common stock	1,710	1,704
Additional paid in capital	167,818	157,349
Accumulated earnings	29,647	258,201
Accumulated other comprehensive income	2,886	16,686
	202,061	433,940
Total liabilities and shareholder's equity	\$ 208,506	\$ 438,343

See accompanying notes to condensed financial statements.

S - 1

Table of Contents

Orthofix International N.V.

Schedule 1 — Condensed Financial Information of Registrant Orthofix International N.V.

Condensed Statements of Operations

(U.S. Dollars, in thousands)	December 31, 2008	December 31, 2007	December 31, 2006
(Expenses) Income			
General and administrative	\$ (11,945)	\$ (10,172)	\$ (8,774)
Equity in earnings of investments in subsidiaries and affiliates	(215,310)	22,334	692
Other, net	481	653	2,800
Income (loss) before income taxes	(226,774)	12,815	(5,282)
Income tax expense	(1,780)	(1,847)	(1,760)
Net income (loss)	\$ (228,554)	\$ 10,968	\$ (7,042)

See accompanying notes to condensed financial statements.

S - 2

Table of Contents

Orthofix International N.V.

Schedule 1 — Condensed Financial Information of Registrant Orthofix International N.V.

Condensed Statement of Cash Flows

(U.S. Dollars, in thousands)	December 31, 2008	December 31, 2007	December 31, 2006
Net income (loss)	\$ (228,554)	\$ 10,968	\$ (7,042)
Equity in earnings of investments in subsidiaries and affiliates	215,310	(22,334)	(692)
Cash used in other operating activities	2,350	(772)	(1,066)
Net cash used in operating activities	(10,894)	(12,138)	(8,800)
Cash flows from investing activities:			
Distributions and amounts received from subsidiaries	11,074	21,991	24,468
Capital Expenditures	(196)	-	-
Net cash provided by investing activities	10,878	21,991	24,468
Cash flows from financing activities:			
Net proceeds from issuance of common stock	1,734	17,198	11,507
Dividends to subsidiaries and affiliates	(11,165)	(27,748)	(24,845)
Tax benefit on exercise of stock options	22	-	2,175
Net cash used in financing activities	(9,409)	(10,550)	(11,163)
Net (decrease) increase in cash and cash equivalents	(9,425)	(697)	4,505
Cash and cash equivalents at the beginning of the year	10,048	10,745	6,240
Cash and cash equivalents at the end of the year	\$ 623	\$ 10,048	\$ 10,745

See accompanying notes to condensed financial statements.

S - 3

Table of Contents

Orthofix International N.V.

Schedule 1 — Condensed Financial Information of Registrant Orthofix International N.V.

Notes to Condensed Financial Statements

1. Background and Basis of Presentation

These condensed parent company financial statements have been prepared in accordance with Rule 12-04, Schedule 1 of Regulation S-X, as the restricted net assets of Orthofix Holdings, Inc. and its subsidiaries exceed 25% of the consolidated net assets of Orthofix International N.V. and its subsidiaries (the “Company”). This information should be read in conjunction with the Company’s consolidated financial statements included elsewhere in this filing.

2. Restricted Net Assets of Subsidiaries

Certain of the Company’s subsidiaries have restrictions, with an effective date of September 22, 2006, on their ability to pay dividends or make intercompany loans and advances pursuant to their financing arrangements. The amount of restricted net assets the Company’s subsidiaries held at December 31, 2008 and 2007 was approximately \$111.3 million and \$300.7 million, respectively. Such restrictions are on net assets of Orthofix Holdings, Inc. and its subsidiaries.

3. Commitments, Contingencies and Long Term Obligations

For a discussion of the Company’s commitments, contingencies and long term obligations under its senior secured credit facility, see Note 10, Note 13 and Note 17 of the Company’s consolidated financial statements.

4 Dividends From Subsidiaries

Cash dividends received by Orthofix International N.V. from its consolidated subsidiaries accounted for by the equity method were \$11.1 million, \$22.0 million and \$24.5 million for the years ended December 31, 2008, 2007 and 2006, respectively.

S - 4

Table of Contents

Schedule 2 — Valuations and Qualifying Amounts

For the years ended December 31, 2008, 2007 and 2006:

(US Dollars, in thousands)

Provisions from assets to which they apply:	Balance at beginning of year	Additions		Deductions/ Other	Blackstone Acquisition	Balance at end of year
		Charged to cost and expenses	Charged to other accounts			
2008						
Allowance for doubtful accounts receivable	\$ 6,441	\$ 7,261	\$ (133)	\$ (7,096)	\$ -	\$ 6,473
Inventory provisions	9,893	14,858	(22)	(3,561)	-	21,168
Deferred tax valuation allowance	11,377	2,993	-	-	-	14,370
2007						
Allowance for doubtful accounts receivable	6,265	7,431	44	(7,299)	-	6,441
Inventory provisions	7,213	3,472	52	(844)	-	9,893
Deferred tax valuation allowance	9,428	2,665	(716)	-	-	11,377
2006						
Allowance for doubtful accounts receivable	4,155	5,475	41	(3,634)	228	6,265
Inventory provisions	3,334	3,042	242	(1,310)	1,905	7,213
Deferred tax valuation allowance	6,324	3,024	80	-	-	9,428