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C I R C U L A R L E T T E R

To: B3 Market Participants – BM&FBOVESPA Segment

Ref.: **Treatment of Options Positions, Securities Lending Contracts, Forward Contracts, Index Portfolios, and Shares Posted as Collateral to the Central Counterparty (CCP), Owing to Voluntary Conversion of Vale S.A.'s Preferred Shares into Common Shares.**

On June 27, 2017, Vale S.A. (Company) issued a Notice to Shareholders on the voluntary conversion of its class A preferred shares (VALE5) into common shares (VALE3).

Below we describe the treatment to be given to options positions, securities lending contracts, forward contracts, index portfolios, and shares posted as collateral to the central counterparty (CCP), if adherence to the conversion of class A preferred shares (VALE5) into common shares (VALE3) reaches the minimum level required (54.09%).

1. Options positions

As of **August 14, 2017**, inclusive, if adherence to the conversion of class A preferred shares (excluding treasury shares) into common shares is greater than or equal to 70% of the total number of class A preferred shares, then all series of options on VALE5 will be excluded and positions migrated to new series on VALE3, with positions and exercise price adjusted by the 0.9342 conversion factor, in accordance with equations (1) e (2) respectively.

$$Q_{k,VALE3} = Q_{k,VALE5} \times 0.9342 \quad (1)$$

$$PE_{k,VALE3} = \frac{PE_{k,VALE5}}{0.9342} \quad (2)$$

where:

$Q_{k,VALE3}$ = the quantity of new series k options on VALE3 received in substitution for original series k options on VALE5;

$Q_{k,VALE5}$ = the quantity of original series k options on VALE5;

$PE_{k,VALE3}$ = the exercise price of new series k options on VALE3 received in substitution for series k options on VALE5;

$PE_{k,VALE5}$ = the exercise price of original series k options on VALE5.

If adherence to the conversion of class A preferred shares (excluding treasury shares) into common shares is greater than or equal to 54.09% but less than 70%, all series of options on VALE5 will have their positions reduced in accordance with the percentage of class A preferred shares converted, as per equation (3), and corresponding series of options on VALE3 will be created with positions and exercise price adjusted by the 0.9342 conversion factor, as per equations (4) and (2) respectively.

$$QR_{k,VALE5} = (1 - PA) \times Q_{k,VALE5} \quad (3)$$

$$Q_{k,VALE3} = PA \times Q_{k,VALE5} \times 0.9342 \quad (4)$$

where:

$QR_{k,VALE5}$ = the new quantity of new series k options on VALE5, recalculated in accordance with the decrease in class A preferred share free float;

PA = the percentage of class A preferred shares converted voluntarily into

common shares.

The results of equations 1, 3 and 4 will be truncated to zero decimal places.

Following calculation of the quantity per position, a check of the options series will be performed to make sure there are no discrepancies in total long and short positions. If any discrepancies are found, the positions concerned will be adjusted in accordance with the following criteria:

1. The nature of the position, long or short, with the smaller total quantity will be considered correct;
2. The adjustment factor will be calculated by dividing the total quantity of the nature of the position with the smaller quantity by the total quantity of the opposite nature;
3. All positions of the nature with the larger quantity will be corrected by multiplying the quantity adjusted after the event by the adjustment factor calculated in item 2;
4. Considering only the integer part of the result found in item 3, the total long and short quantities will again be compared. If there is still a discrepancy, the decimal parts of the result found in item 3 will be ranked in descending order, and a quantity will be added to the position with the highest decimal. This procedure will be performed for the ensuing positions until the total quantities are equalized.

If the new series to be created on the underlying VALE3 as a result of the conversion has a registered exercise price, this series will have its exercise price increased by R\$ 0.01.

In accordance with the new positions, all series of options on VALE3 and VALE5 will have their round lots altered from 100 to 1 at the start of trading on August 14, 2017. From this date on, all new series requested will be created with a round

lot equal to 100.

Participants responsible for investors of covered call options (shares deposited to finality 2701-4) who wish to participate in the voluntary conversion must specify the custody agent, investor code and quantity to be converted, by sending an e-mail with this information to dc-cle@b3.com.br not later than 8:00 p.m. on August 10, 2017. Shares deposited to this coverage finality (2701-4) and tagged for conversion will be blocked to prevent movement until the conversion date (August 11). If conversion takes place, the converted shares will remain in the above coverage finality.

If the quantity of shares deposited to the coverage finality for conversion into VALE3 is not sufficient to cover the covered call position in VALE3 originated by conversion of the positions, the balance of uncovered positions will be subject to a collateral margin call, in accordance with the margin calculation methodology established in the Operational Procedures for the BOVESPA Segment Clearinghouse and Central Securities Depository.

The balance of remaining call options on VALE5 (which will exist if adherence exceeds 54.09% and is less than 70%) will also be subject to a collateral margin call if it becomes uncovered owing to the conversion of VALE5 shares deposited for the coverage finality.

2. BTC securities lending

In accordance with Chapter VI, item 7.2 of the Operational Procedures of the Bovespa Segment Clearinghouse and Central Securities Depository, investors with lending positions in securities lending contracts who wish to participate in the share conversion as permitted by the Notice to Shareholders issued by Vale S.A. on June 27, 2017, must observe the following procedures:

- (i) Securities lending contracts will be eligible for conversion if:
 - a. they are active at the end of the day on August 11, 2017;

- b. they have received a conversion request from the lender;
- c. they expire after August 16, 2017;
- d. they do not have an early settlement request from the lender with a settlement date equal to or later than August 10, 2017.

Contracts not eligible for conversion will not be treatable via the BTC system. The lender will have to request early settlement in time to receive the securities and request conversion via the Central Securities Depository, taking into account the possibility of failure to deliver the securities by the borrower.

- (ii) The BTC system will perform the treatment for conversion of shares in Vale S.A. using the same operational methodology as for the priority offering. However, it is important to note that this will entail the conversion of securities lending contracts and not a priority offering. Interested lenders' brokerage houses or custody agents must apply by August 11, 2017, via BTC, accessing the menu *Proventos*, selecting *Aceitar Subscrição*, and specifying the contracts and respective quantity of common shares the lender wishes to obtain via BTC's treatment for this conversion. If the loan is contracted for or renewed on August 11, 2017, the interested lenders' brokerage houses or custody agents must apply by e-mail to dc-cle@b3.com.br, informing the contract number and quantity to be converted;
- (iii) The treatment afforded eligible lenders will consist of the conversion of their original contracts for VALE5 into contracts for the loan of VALE3. Thus lenders who wish to participate in BTC's treatment will not receive the originally loaned securities at the end of the contract but the corresponding quantity in common shares of Vale S.A.;
- (iv) Participants responsible for borrowers of VALE5 with positions in the coverage finality (2201-2) who wish to participate in the voluntary

conversion must send an e-mail specifying the custody agent, investor code and quantity to be converted to dc-cle@b3.com.br not later than 8:00 p.m. on August 10, 2017. Shares deposited to the coverage finality (2201-2) and tagged for conversion will be blocked to prevent movement until the conversion date (August 11). If conversion takes place, the converted shares will remain in this coverage finality;

Originally covered contracts that become uncovered owing to conversion of contracts or shares deposited to the coverage finality will be subject to a collateral margin call, in accordance with the margin calculation methodology established in the Operational Procedures for the BOVESPA Segment Clearinghouse and Central Securities Depository;

- (v) Intermediaries responsible for borrowers will be notified by e-mail if the lending counterparties opt for treatment of conversion by BTC. Once a lending contract has been converted into common shares, its underlying, price and quantity will be altered but all other characteristics will remain unchanged;
- (vi) Borrowers of VALE5 may not request early settlement on August 11, 2017 for contracts whose lenders have requested conversion;
- (vii) Lenders who wish to apply for voluntary conversion to the Central Securities Depository must request early settlement in the BTC system sufficiently in advance to receive the securities and transfer them to the conversion finality, taking into account the possibility of failure to deliver the securities by the borrower;
- (viii) For contracts renewed in the period July 10-August 11, 2017, participants responsible for lenders must again request conversion of the shares under the contracts generated via renewal;
- (ix) Any fractions created by the conversion process will be treated

according to the same procedures as those applied by the Central Securities Depository;

- (x) Calculations for conversion of securities lending contracts will be performed as follows:
 - a. Lenders will specify in the BTC system the quantity of common shares they wish to obtain via securities lending contract conversion treatment;
 - b. Lenders will be entitled to request conversion of each VALE5 share in the original loan into 0.9342 of one VALE3 common share;
 - c. In the event of partial conversion of the original contract, the counterparties will end up with two securities lending contracts: (i) the original contract with VALE5 as underlying but with the quantity and volume adjusted; and (ii) a contract with VALE3 common shares as underlying and also with the quantity and volume adjusted. The sum of the volumes in the two contracts will be equal to the volume of the original contract for VALE5 before conversion;
 - d. Conversion of contracts will take place at the end of the day on August 11, 2017.

3. Forward contracts

Investors with covered long forward positions who wish to convert their preferred shares into common shares must perform early settlement of these contracts and request conversion by the Central Securities Depository, observing the deadlines for contract settlement and balance release, according to the following procedure:

- a. In the event of settlement by difference (Portuguese acronym LPD), settlement must be requested not later than August 7, 2017, in order for settlement to take place on August 10, 2017, and the balance to be

released on August 11, 2017, for transfer to the conversion portfolio;

- b. In the event of Special Settlement by Difference (LPDE), settlement must be requested not later than August 8, 2017, in order for settlement to take place on August 10, 2017, and the balance to be released on August 11, 2017, for transfer to the conversion portfolio;
- c. In the event of early settlement (LA), settlement must be requested not later than August 9, 2017, in order for settlement to take place on August 10, 2017, and the balance to be released on August 11, 2017, for transfer to the conversion portfolio.

For contracts expiring on August 11, 2017, participants must perform early settlement so that settlement takes place by August 10, 2017, and the balance is available for transfer to the conversion portfolio on August 11, 2017.

4. Index portfolios

The theoretical portfolios of the Bovespa Index (Ibovespa), BM&FBOVESPA Brazil Broad-Based Index (IBrA), Brazil 50 Index (IBrX 50), Brazil 100 Index (IBrX 100), Special Corporate Governance Stock Index (IGC), Corporate Governance Trade Index (IGCT), BM&FBOVESPA Basic Materials Index (IMAT) and MidLarge Cap Index (MLCX) will be adjusted for the opening of the trading session on August 14 as follows:

- (i) If adherence is greater than or equal to 70%, the theoretical quantity of VALE5 shares will be converted into VALE3 using the 0.9342 conversion factor and the appropriate adjustments will be made to the reduction factors for these indexes;
- (ii) If adherence is equal to or greater than 54.09% and less than 70%, the percentage will be subtracted from the theoretical quantity of VALE5 and included in the theoretical quantity of VALE3 using the 0.9342 conversion factor; VALE5 will continue to belong to the indexes with its theoretical

quantity reduced and the appropriate adjustments will be made to the reduction factors for these indexes.

5. VALE5 shares posted as collateral

- (i) For investors who own class A preferred shares (VALE5) posted to the Bovespa segment collateral portfolio (2301-9) and wish to participate in the voluntary conversion, by August 10 participants must transfer the balances in portfolio 2301-9 to portfolio 2117-2, which will remain valid for the posting of margin requirements until the conversion date (August 11). On August 11, class A preferred shares (VALE5) will be debited from portfolio 2117-2 and VALE3 shares will be credited to portfolio 2301-9.
- (ii) For investors who own VALE5 shares posted to the BM&F segment collateral portfolio (2390-6) and wish to participate in the voluntary conversion, participants must send an e-mail to garantias@bvmf.com.br not later than 8:00 p.m. on August 10 specifying the Clearing Member/Full Trading Participant code (MC/PNP) or Settlement Participant/Settlement Account code (PL/CL), the custody agent code/customer code, and the quantity of shares. These shares will be blocked to prevent movement until the conversion date (August 11). After conversion, VALE3 shares will be credited to the respective owners in portfolio 2390-6.

Any instruction to move a balance from portfolio 2301-9 to portfolio 2117-2 shall be deemed an express order by the participant in accordance with instructions received from the investor that the investor intends to participate in the conversion of VALE5 into VALE3.

6. Corporate update event

On August 14, 2017, Vale S.A.'s common shares (VALE3) and class A preferred shares (VALE5) will undergo a corporate update event consisting of an internal operational procedure with no financial impact for investors and no change to the prices of the securities mentioned.

Owing to this corporate event, all valid registered orders for VALE3, VALE3F, VALE5 and VALE5F shares, and for options on VALE3 and VALE5, will be canceled before the start of the trading session on August 14, 2017.

7. General provisions

Considering that the conversion may affect the risk profiles of VALE5 and VALE3 shares, the stress scenarios used for margin calculation are subject to alteration.

If adherence to the voluntary conversion event does not reach the minimum level set by the Company, none of the treatments described in this Circular Letter will take place.

Early settlement requests and early settlements performed to enable participation in the conversion via the Central Securities Depository will not be canceled if adherence does not reach the minimum level set by the Company.

VALE5 positions in the Central Securities Depository (Bovespa Segment) will be converted in accordance with the procedures described in the Central Securities Depository's rulebook and operational procedures manual. For details, go to: <http://www.bvmfnet.com.br/pt-br/noticias/2017/VALE-SA.aspx?idioma=pt-br>.

Additional clarification can be obtained from Post-Trade Support, by telephone on +55 11 2565-5000, option 3, or by e-mail at mail ssp@bvmf.com.br; and from Trading Support on +55 (11) 2565-5000, option 2, or at suporteanegociacao@bvmf.com.br.

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