Vale S.A.
Form 20-F
April 29, 2010

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As filed with the Securities and Exchange Commission on April 29, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 20-F
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2009
Commission file number: 001-15030

VALE S.A.
(Exact name of Registrant as specified in its charter)

Federative Republic of Brazil
(Jurisdiction of incorporation or organization)

Fabio de Oliveira Barbosa, Chief Financial Officer
fax: +55 21 3814 8820
Avenida Graça Aranha, No. 26
20030-900 Rio de Janeiro, RJ, Brazil
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Preferred class A shares of Vale, no par value per share	New York Stock Exchange*
American Depositary Shares (evidenced by American Depositary Receipts), each representing one preferred class A share of Vale	New York Stock Exchange
Common shares of Vale, no par value per share	New York Stock Exchange*
American Depositary Shares (evidenced by American Depositary Receipts), each representing one common share of Vale	New York Stock Exchange
5.50% Guaranteed Notes due 2010, Series RIO, issued by Vale Capital	New York Stock Exchange
5.50% Guaranteed Notes due 2010, Series RIO P, issued by Vale Capital	New York Stock Exchange
6.75% Guaranteed Notes due 2012, Series VALE, issued by Vale Capital II	New York Stock Exchange
6.75% Guaranteed Notes due 2012, Series VALE.P, issued by Vale Capital II	New York Stock Exchange
9.0% Guaranteed Notes due 2013, issued by Vale Overseas	New York Stock Exchange
6.25% Guaranteed Notes due 2016, issued by Vale Overseas	New York Stock Exchange
6.250% Guaranteed Notes due 2017, issued by Vale Overseas	New York Stock Exchange
55/8% Guaranteed Notes due 2019, issued by Vale Overseas	New York Stock Exchange
8.25% Guaranteed Notes due 2034, issued by Vale Overseas	New York Stock Exchange
6.875% Guaranteed Notes due 2036, issued by Vale Overseas	New York Stock Exchange
6.875% Guaranteed Notes due 2039, issued by Vale Overseas	New York Stock Exchange

* Shares are not listed for trading, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the New York Stock Exchange.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None
The number of outstanding shares of each class of stock of Vale as of December 31, 2009 was:
3,181,726,583 common shares, no par value per share
2,030,997,714 preferred class A shares, no par value per share
12 golden shares, no par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:
U.S. GAAP þ International Financial Reporting Standards as issued by the International Accounting Standards Board o Other o

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.
Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

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FORM 20-F CROSS REFERENCE GUIDE

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FORWARD-LOOKING STATEMENTS

This annual report contains statements that may constitute forward-looking statements within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Many of those forward-looking statements can be identified by the use of forward-looking words such as anticipate, believe, could, expect, should plan, intend, estimate and potential, among others. Those statements appear in a number of places and include statements regarding our intent, belief or current expectations with respect to:

- our direction and future operation;
- the implementation of our principal operating strategies, including our potential participation in acquisition, divestiture or joint venture transactions or other investment opportunities;
- the implementation of our financing strategy and capital expenditure plans;
- the exploration of mineral reserves and development of mining facilities;
- the depletion and exhaustion of mines and mineral reserves;
- trends in commodity prices and demand for commodities;
- the future impact of competition and regulation;
- the payment of dividends;
- industry trends, including the direction of prices and expected levels of supply and demand;
- other factors or trends affecting our financial condition or results of operations; and
- the factors discussed under *Risk factors*.

We caution you that forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in forward-looking statements as a result of various factors. These risks and uncertainties include factors relating to (a) the countries in which we operate, mainly Brazil and Canada, (b) the global economy, (c) capital markets, (d) the mining and metals businesses and their dependence upon global industrial production, which is cyclical by nature, and (e) the high degree of global competition in the markets in which we operate. For additional information on factors that could cause our actual results to differ from expectations reflected in forward-looking statements, see *Risk factors*. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments. All forward-looking statements attributed to us or a person acting on our behalf are expressly qualified in their entirety by this cautionary statement, and you should not place undue reliance on any forward-looking statement.

Vale S.A. is a stock corporation, or sociedade por ações, organized on January 11, 1943 and existing under the laws of the Federative Republic of Brazil for an unlimited period of time. Its head offices are located at Avenida Graça Aranha, No. 26, 20030-900 Rio de Janeiro, RJ, Brazil, and its telephone number is 55-21-3814-4477.

In this report, references to Vale are to Vale S.A. References to us or we are to Vale and, except where the context otherwise requires, its consolidated subsidiaries. References to our preferred shares are to our preferred class A shares. References to our ADSs or American Depositary Shares include both our common American Depositary Shares (our common ADSs), each of which represents one common share of Vale, and our preferred American Depositary Shares (our preferred ADSs), each of which represents one *preferred share of Vale. American Depositary Shares are represented by American Depositary Receipts (ADRs) issued by the depositary. Unless otherwise specified, we use metric units.*

References to real, reais or R$ are to the official currency of Brazil, the real (singular) or reais (plural). References to U.S. dollars or US$ are to United States dollars. References to CAD are to Canadian dollars, and references to A$ are to Australian dollars.

RISK FACTORS

Risks relating to our business

The mining industry is highly exposed to the cyclicality of global economic activity and requires significant investments of capital.

The mining industry is primarily a supplier of industrial raw materials. Industrial production tends to be the most cyclical and volatile component of global economic activity, which affects demand for minerals and metals. At the same time, investment in mining requires a substantial amount of funds in order to replenish reserves, expand production capacity, build infrastructure and preserve the environment. Both the sensitivity to industrial production and the need for significant capital investments are important sources of financial risk for the mining industry.

Adverse economic developments in China could have a negative impact on our revenues, cash flow and profitability.

China has been the main driver of global demand for minerals and metals over the last few years. In 2009, Chinese demand represented 68% of global demand for seaborne iron ore, 44% of global demand for nickel, 39% of global demand for aluminum and 40% of global demand for copper. The percentage of our operating revenues attributable to sales to consumers in China was 38% in 2009. Although China largely withstood the recent global recession, a contraction of China s economic growth could result in lower demand for our products, leading to lower revenues, cash flow and profitability. Poor performance in the Chinese real estate sector, one of the largest consumers of carbon steel in China, could also negatively impact our results.

A decline in demand for steel would adversely affect our business.

Demand for our most important products depends on global demand for steel. Iron ore and iron ore pellets, which together accounted for 59% of our 2009 operating revenues, are used to produce carbon steel. Nickel, which accounted for 14% of our 2009 operating revenues, is used mainly to produce stainless and alloy steels. Demand for steel depends heavily on global economic conditions, but it also depends on a variety of regional and sectoral factors. The prices of different steels and the performance of the global steel industry are highly cyclical and volatile, and these business cycles in the steel industry affect demand and prices for our products. In addition, vertical backward integration of the steel industry could reduce the global seaborne trade of iron ore.

The global seaborne trade of iron ore could also suffer from competition from metallics, such as semi-finished steel and scrap. In certain cases, it may be more economical for steelmakers to charge more scrap in basic oxygen furnaces (BOF) and electric arc furnaces (EAF), instead of producing pig iron. Semi-finished products, such as billets and slabs, may also be available from fully-integrated steel mills at low cost, reducing overall demand for seaborne iron ore.

The prices of nickel, aluminum and copper, which are actively traded on world commodity exchanges, are subject to significant volatility.

Nickel, aluminum and copper are sold in an active global market and traded on commodity exchanges, such as the London Metal Exchange and the New York Mercantile Exchange. Prices for these metals are subject to significant fluctuations and are affected by many factors, including actual and expected global

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macroeconomic and political conditions, levels of supply and demand, the availability and cost of substitutes, inventory levels, investments by commodity funds and others and actions of participants in the commodity markets.

Increased availability of alternative nickel sources or substitution of nickel from end use applications could adversely affect our nickel business.

Scrap nickel competes directly with primary nickel as a source of nickel for use in the production of stainless steel, and the choice between them is largely driven by their relative prices and availability. In 2009, the stainless steel scrap ratio fell from 49% to 43%. Nickel pig iron, a product developed by Chinese steel and alloy makers that utilizes lateritic nickel ores, competes with other nickel sources in the production of stainless steel. In 2009, estimated nickel pig iron production increased 17%, representing 7% of global nickel output. Demand for primary nickel may be negatively affected by the direct substitution of primary nickel with other materials in current applications. In response to high nickel prices or other factors, producers and consumers of stainless steel may partially shift from stainless steel with high nickel content (series 300) to stainless steels with either lower nickel content (series 200) or no nickel content (series 400), which would adversely affect demand for nickel.

We may not be able to adjust production volume in a timely or cost-efficient manner in response to changes in demand.

During periods of high demand, our ability to rapidly increase production capacity is limited, which could render us unable to satisfy demand for our products. Moreover, we may be unable to complete expansions and greenfield projects in time to take advantage of rising demand for iron ore. When demand exceeds our production capacity, we may meet excess customer demand by purchasing iron ore, iron ore pellets or nickel from joint ventures or unrelated parties and reselling it, which would increase our costs and narrow our operating margins. If we are unable to satisfy excess customer demand in this way, we may lose customers. In addition, operating close to full capacity may expose us to higher costs, including demurrage fees due to capacity restraints in our logistics systems.

Conversely, operating at significant idle capacity during periods of weak demand may expose us to higher unit production costs since a significant portion of our cost structure is fixed in the short-term due to the high capital intensity of mining operations. In addition, efforts to reduce costs during periods of weak demand could be limited by labor regulations or previous labor or government agreements.

Regulatory, political, economic and social conditions in the countries in which we have operations or projects could adversely impact our business and the market prices of our securities.

Our financial performance may be negatively affected by regulatory, political, economic and social conditions in countries in which we have significant operations or projects, particularly Argentina, Australia, Brazil, Canada, Colombia, Indonesia, Mozambique, New Caledonia and Peru.

Our operations depend on authorizations and concessions from governmental regulatory agencies of the countries in which we operate. For details about the authorizations and concessions upon which our operations depend, see *Information on the company Regulatory matters*. We are subject to laws and regulations in many jurisdictions that can change at any time, and changes in laws and regulations may require modifications to our technologies and operations and result in unanticipated capital expenditures.

Actual or potential political changes and changes in economic policy may undermine investor confidence, result in economic slowdowns and otherwise adversely affect the economic and other conditions under which we operate in ways that could have a material adverse effect on our business.

Protestors have taken actions to disrupt our operations and projects, and they may continue to do so in the future. Although we vigorously defend ourselves against illegal acts, while supporting the communities living near our operations, future attempts by protestors to harm our operations could adversely affect our business.

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We could be adversely affected by changes in government policies, including the imposition of new taxes or royalties on mining activities.

Mining is subject to government regulation in the form of taxes and royalties, which can have an important financial impact on our operations. In the countries where we operate, governments may impose new taxes, raise existing taxes and royalties, or change the basis on which they are calculated in a manner that is unfavorable to us.

Our projects are subject to risks that may result in increased costs or delay that prevent their successful implementation.

We are investing to further increase our production capacity, logistics capabilities and to expand the scope of minerals we produce. Our projects are subject to a number of risks that may adversely affect our growth prospects and profitability, including the following:

- We may encounter delays or higher than expected costs in obtaining the necessary equipment or services to build and operate a project.

- Our efforts to develop projects according to schedule may be hampered by a lack of infrastructure, including a reliable power supply.

- We may fail to obtain, or experience delays or higher than expected costs in obtaining, the required permits to build a project.

- Changes in market conditions or regulations may make a project less profitable than expected at the time we initiated work on it.

- Adverse mining conditions may delay and hamper our ability to produce the expected quantities of minerals.

- Some of our development projects are located in regions where tropical diseases, AIDS, malaria, yellow fever and other contagious diseases are a major public health issue and pose health and safety risks to our employees. If we are unable to ensure the health and safety of our employees, our business may be adversely affected.

Our controlling shareholder has significant influence over Vale, and the Brazilian government has certain veto rights.

As of March 31, 2010, Valepar S.A. owned 52.7% of our outstanding common stock and 32.4% of our total outstanding capital. As a result of its share ownership, Valepar can control the outcome of some actions that require shareholder approval. For a description of our ownership structure and of the Valepar shareholders agreement, see *Share ownership and trading Major shareholders*.

The Brazilian government owns 12 golden shares of Vale, granting it limited veto power over certain company actions, such as changes to our name, the location of our headquarters and our corporate purpose as it relates to mining activities. For a detailed description of the Brazilian government s veto powers, see *Additional information Memorandum and articles of association Common shares and preferred shares*.

Our governance and compliance processes may fail to prevent regulatory penalties and reputational harm.

We operate in a global environment, and our activities straddle multiple jurisdictions and complex regulatory frameworks with increased enforcement activities worldwide. Our governance and compliance processes, which include the review of internal control over financial reporting, may not prevent future breaches of law, accounting or governance standards. We may be subject to breaches of our Code of Ethical

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Conduct, business conduct protocols and instances of fraudulent behavior and dishonesty by our employees, contractors or other agents. Our failure to comply with applicable laws and other standards could subject us to fines, loss of operating licenses and reputational harm.

Some of our operations depend on joint ventures or consortia, and our business could be adversely affected if our partners fail to observe their commitments.

We currently operate important parts of our pelletizing, bauxite, coal and steel businesses through joint ventures with other companies. Important parts of our electricity investments and all of our oil and gas projects are operated through consortia. Our forecasts and plans for these joint ventures and consortia assume that our partners will observe their obligations to make capital contributions, purchase products and, in some cases, provide skilled and competent managerial personnel. If any of our partners fails to observe its commitments, the affected joint venture or consortium may not be able to operate in accordance with its business plans, or we may have to increase the level of our investment to implement these plans. For example, the joint venture company that owns our Goro project in New Caledonia has a minority shareholder, Sumic Nickel Netherlands B.V., with a put option to sell us 25%, 50%, or 100% of its shares. Sumic may exercise the put option if the cost of the project exceeds a certain value agreed between the shareholders and certain other conditions are met. For more information about our joint ventures, see *Information on the company Lines of business*.

Environmental, health and safety regulation may adversely affect our business.

Our operations involve the use, handling, discharge and disposal of hazardous materials into the environment and the use of natural resources, and nearly all aspects of our activities, products, services and projects around the world are subject to environmental, health and safety regulation, which may expose us to increased litigation or increased costs. Such regulations require us to obtain environmental licenses, permits and authorizations for our operations, and to conduct environmental impact assessments in order to get the approval for our projects and permission for initiating construction. Additionally, all significant changes to existing operations must also undergo the same procedure. Difficulties in obtaining permits may lead to construction delays or cost increases, and in some cases may lead us to postpone or even abandon a project. Environmental regulation also imposes standards and controls on activities relating to mineral research, mining, pelletizing activities, railway and marine services, decomissioning, refining, distribution and marketing of our products. Such regulation may give rise to significant costs and liabilities. In addition, community activist groups and other stakeholders may increase demands for socially responsible and environmentally sustainable practices, which could entail significant costs and reduce our profitability. Private litigation relating to these or other matters may adversely affect our financial condition or cause harm to our reputation.

Environmental regulation in many countries in which we operate has become stricter in recent years, and it is possible that more regulation or more aggressive enforcement of existing regulations will adversely affect us by imposing restrictions on our activities and products, creating new requirements for the issuance or renewal of environmental licenses, raising our costs or requiring us to engage in expensive reclamation efforts. Concern over climate change, and efforts to comply with international undertakings under the Kyoto Protocol, could lead governments to impose limits on carbon emissions applicable to our operations, which could adversely affect our operating costs or our capital expenditure requirements. For example, the Brazilian government passed a carbon emissions law (*Política Nacional de Mudanças Climáticas*) in December 2009, although it has not yet promulgated rules establishing specific limits on carbon emissions from mining activities.

Our reserve estimates may materially differ from mineral quantities that we may be able to actually recover; our estimates of mine life may prove inaccurate; and market price fluctuations and changes in operating and capital costs may render certain ore reserves uneconomical to mine.

Our reported ore reserves are estimated quantities of ore and minerals that we have determined can be economically mined and processed under present and anticipated conditions to extract their mineral content.

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There are numerous uncertainties inherent in estimating quantities of reserves and in projecting potential future rates of mineral production, including factors beyond our control. Reserve engineering involves estimating deposits of minerals that cannot be measured in an exact manner, and the accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment. As a result, no assurance can be given that the indicated amount of ore will be recovered or that it will be recovered at the rates we anticipate. Estimates may vary, and results of our mining and production subsequent to the date of an estimate may lead to revisions of estimates. Reserve estimates and estimates of mine life may require revisions based on actual production experience and other factors. For example, fluctuations in the market prices of minerals and metals, reduced recovery rates or increased operating and capital costs due to inflation, exchange rates or other factors may render proven and probable reserves uneconomic to exploit and may ultimately result in a restatement of reserves.

We may not be able to replenish our reserves, which could adversely affect our mining prospects.

We engage in mineral exploration, which is highly speculative in nature, involves many risks and frequently is non-productive. Our exploration programs, which involve significant capital expenditures, may fail to result in the expansion or replacement of reserves depleted by current production. If we do not develop new reserves, we will not be able to sustain our current level of production beyond the remaining lives of our existing mines.

Drilling and production risks could adversely affect the mining process.

Once mineral deposits are discovered, it can take a number of years from the initial phases of drilling until production is possible, during which the economic feasibility of production may change. Substantial time and expenditures are required to:

- establish mineral reserves through drilling;
- determine appropriate mining and metallurgical processes for optimizing the recovery of metal contained in ore;
- obtain environmental and other licenses;
- construct mining, processing facilities and infrastructure required for greenfield properties; and
- obtain the ore or extract the minerals from the ore.

If a project proves not to be economically feasible by the time we are able to exploit it, we may incur substantial write-offs. In addition, potential changes or complications involving metallurgical and other technological processes arising during the life of a project may result in cost overruns that may render the project not economically feasible.

We face rising extraction costs over time as reserves deplete.

Reserves are gradually depleted in the ordinary course of a given mining operation. As mining progresses, distances to the primary crusher and to waste deposits become longer, pits become steeper and underground operations become deeper. As a result, over time, we usually experience rising unit extraction costs with respect to each mine. Several of our mines have been operating for long periods, and we will likely experience rising extraction costs per unit in the future at these operations in particular.

Labor disputes may disrupt our operations from time to time.

A substantial number of our employees, and some of the employees of our subcontractors, are represented by labor unions and are covered by collective bargaining or other labor agreements, which are subject to periodic negotiation. Negotiation may become more difficult in times of higher prices and consequently higher profits in the mining and metals industries, as labor unions may seek wage increases.

Strikes and other labor disruptions at any of our operations could adversely affect the operation of facilities and the timing of completion and cost of our capital projects. A large number of our unionized employees at our Canadian nickel operations in Sudbury, Port Colborne and Voisey Bay have been on strike since mid-2009, which has resulted in significantly reduced production from these operations. For more information about labor relations, see *Management and employees Employees.* Moreover, we could be adversely affected by labor disruptions involving unrelated parties that may provide us with goods or services.

We may face shortages of equipment, services and skilled personnel.

The mining industry has faced worldwide shortages of mining and construction equipment, spare parts, contractors and other skilled personnel during periods of high demand for minerals and metals and intense development of mining projects. We may experience longer lead-times for mining equipment and problems with the quality of contracted engineering, construction and maintenance services. We compete with other mining companies for highly skilled executives and staff with relevant industry and technical experience, and we may not be able to attract and retain such people. Shortages during peak periods could negatively impact our operations, resulting in higher production or capital expenditure costs, production interruptions, higher inventory costs, project delays and potentially lower production and revenues.

Higher energy costs or energy shortages would adversely affect our business.

Energy costs are a significant component of our cost of production, representing 15.6% of our total cost of goods sold in 2009. To fulfill our energy needs, we depend on the following, all measured in tons of oil equivalent (TOE): oil by-products, which represented 39% of total energy needs in 2009, electricity (38%), coal (15%) and natural gas (6%).

Fuel costs represented 9.4% of our cost of goods sold in 2009. Increases in oil and gas prices adversely affect margins in our logistics services, mining, iron ore pellets, nickel and alumina businesses.

Electricity costs represented 6.2% of our total cost of goods sold in 2009. If we are unable to secure reliable access to electricity at acceptable prices, we may be forced to curtail production or may experience higher production costs, either of which would adversely affect our results of operations.

Electricity shortages have occurred in Brazil in the past and could reoccur in the future, and there can be no assurance that the Brazilian government s policies will succeed in encouraging enough growth in power generation capacity to meet future consumption increases. Future shortages, and government efforts to respond to or prevent shortages, may adversely impact the cost or supply of electricity for our Brazilian aluminum and ferroalloy operations, which are electricity-intensive. Changes in the laws, regulations or governmental policies regarding the power sector or concession requirements could reduce our expected returns from our investments in power generation.

Through our subsidiary PT International Nickel Indonesia Tbk (PTI), we process lateritic nickel ores using a pyrometallurgical process, which is energy-intensive. Although PTI currently generates a majority of the electricity for its operations from its own hydroelectric power plants, low rainfall or other hydrological factors could adversely affect electricity production at PTI s plants in the future, which could significantly increase the risk of higher costs or lower production volume.

Price volatility relative to the U.S. dollar of the currencies in which we conduct operations could adversely affect our financial condition and results of operations.

A substantial portion of our revenues and debt is denominated in U.S. dollars, and changes in exchange rates may result in (i) losses or gains on our net U.S. dollar-denominated indebtedness and accounts payable and (ii) fair value losses or gains on our currency derivatives used to stabilize our cash flow in U.S. dollars. In

2009 and 2007, we had currency gains of US$665 million and US$1.639 billion, respectively; in 2008, we had currency losses of US$1.011 billion. In addition, the price volatility of the Brazilian *real*, the Canadian dollar, the Indonesian rupiah and other currencies against the U.S. dollar affect our results since most of our costs of goods sold are denominated in currencies other than the U.S. dollar, principally the *real* (64% in 2009) and the Canadian dollar (16% in 2009), while our revenues are mostly U.S. dollar-denominated. We expect currency fluctuations to continue to affect our financial income, expense and cash flow generation.

Significant volatility in currency prices may also result in disruption of foreign exchange markets and may limit our ability to transfer or to convert certain currencies into U.S. dollars and other currencies for the purpose of making timely payments of interest and principal on our indebtedness. The central banks and governments of the countries in which we operate may institute restrictive exchange rate policies in the future.

We may not have adequate insurance coverage for some business risks.

Our businesses are generally subject to a number of risks and hazards, which could result in damage to, or destruction of, mineral properties, facilities and equipment. The insurance we maintain against risks that are typical in our business may not provide adequate coverage. Insurance against some risks (including liabilities for environmental pollution or certain hazards or interruption of certain business activities) may not be available at a reasonable cost, or at all. As a result, accidents or other negative developments involving our mining, production or transportation facilities could have a material adverse effect on our operations.

Risks relating to our American Depositary Shares

If ADR holders exchange ADSs for the underlying shares, they risk losing the ability to remit foreign currency abroad.

The custodian for the shares underlying our ADSs maintains a registration with the Central Bank of Brazil entitling it to remit U.S. dollars outside Brazil for payments of dividends and other distributions relating to the shares underlying our ADSs or upon the disposition of the underlying shares. If an ADR holder exchanges its ADSs for the underlying shares, it will be entitled to rely on the custodian s registration for only five business days from the date of exchange. Thereafter, an ADR holder may not be able to obtain and remit U.S. dollars abroad upon the disposition of, or distributions relating to, the underlying shares unless it obtains its own registration under Resolution No. 2,689 of the National Monetary Council, which permits qualifying institutional foreign investors to buy and sell securities on the BM&FBOVESPA. For more information regarding these exchange controls, see *Additional information Exchange controls and other limitations affecting security holders*. If an ADR holder attempts to obtain its own registration, it may incur expenses or suffer delays in the application process, which could delay the receipt of dividends or other distributions relating to the underlying shares or the return of capital in a timely manner.

We cannot assure ADR holders that the custodian s registration or any registration obtained will not be affected by future legislative changes, or that additional restrictions applicable to ADR holders, the disposition of the underlying shares or the repatriation of the proceeds from disposition will not be imposed in the future.

ADR holders may be unable to exercise preemptive rights relating to the shares underlying their ADSs.

ADR holders may not be able to exercise preemptive rights, or exercise other types of rights, with respect to the underlying shares. The ability of ADR holders to exercise preemptive rights is not assured, particularly if the applicable law in the holder s jurisdiction (for example, the Securities Act in the United States) requires that either a registration statement be effective or an exemption from registration be available with respect to those rights. We are not obligated to file a registration statement in the United States, or to make any other similar filing in any other jurisdiction, relating to preemptive rights or to undertake steps that may be needed to make exemptions from registration available, and we cannot assure ADR holders that we will file any registration statement or take such steps. For a more complete description of preemptive rights with respect to the underlying shares, see *Additional information Memorandum and articles of association Preemptive rights*.

ADR holders may encounter difficulties in the exercise of voting rights.

ADR holders do not have the rights of shareholders. They have only the contractual rights set forth for their benefit under the deposit agreements. ADR holders are not permitted to attend shareholders meetings, and they may only vote by providing instructions to the depositary. In the event that we fail to provide the depositary with voting materials on a timely basis, or the depositary does not provide sufficient time for ADR holders to submit voting instructions, ADR holders will not be able to vote. With respect to ADSs for which instructions are not received, the depositary may, subject to certain limitations, grant a proxy to a person designated by us.

The legal protections for holders of our securities differ from one jurisdiction to another and may be inconsistent, unfamiliar or less effective than investors anticipate.

We are a global company with securities traded in several different markets and investors located in many different countries. The legal regime for the protection of investors varies around the world, sometimes in important respects, and investors in our securities should recognize that the protections and remedies available to them may be different from those to which they are accustomed in their home markets. We are subject to securities legislation in several countries, which have different rules, supervision and enforcement practices. The only corporate law applicable to us is the law of Brazil, with its specific substantive rules and judicial procedures. We are subject to corporate governance rules in several jurisdictions where our securities are listed, but as a foreign private issuer, we are not required to follow many of the corporate governance rules that apply to U.S. domestic issuers with securities listed on the New York Stock Exchange, and we are not subject to the U.S. proxy rules.

PRESENTATION OF FINANCIAL INFORMATION

We have prepared our financial statements in this annual report in accordance with generally accepted accounting principles in the United States (U.S. GAAP), which differ in certain respects from accounting practices adopted in Brazil (Brazilian GAAP). Brazilian GAAP is determined by the requirements of Brazilian corporate law and the rules and regulations of the Brazilian Securities Commission (Comissão de Valores Mobiliários), or CVM. We also publish Brazilian GAAP financial statements and use them for reports to Brazilian shareholders, CVM filings, determining the legal minimum dividend under Brazilian law and determining our Brazilian tax liability.

Beginning in 2008, significant changes are being made to Brazilian corporate law to permit Brazilian GAAP to converge with International Financial Reporting Standards (IFRS). Pursuant to CVM regulations, we are required to report our financial statements in IFRS beginning with the year ending December 31, 2010. We do not currently expect to discontinue U.S. GAAP reporting for the year ended December 31, 2010.

Our financial statements and the other financial information in this annual report have been translated from Brazilian *reais* into U.S. dollars on the basis explained in Note 3 to our financial statements, unless we indicate otherwise.

SELECTED FINANCIAL DATA

The tables below present selected consolidated financial information as of and for the periods indicated. You should read this information together with our consolidated financial statements in this annual report.

Statement of income data

	For the year ended December 31,				
	2005	**2006**	**2007**	**2008**	**2009**
	(US$ million)				
Net operating revenues	12,792	19,651	32,242	37,426	23,311
Cost of products and services	(6,229)	(10,147)	(16,463)	(17,641)	(13,621)
Selling, general and administrative expenses	(583)	(816)	(1,245)	(1,748)	(1,130)
Research and development	(277)	(481)	(733)	(1,085)	(981)
Impairment of goodwill				(950)	
Other expenses	(271)	(570)	(607)	(1,254)	(1,522)
Operating income	5,432	7,637	13,194	14,748	6,057
Non-operating income (expenses):					
Financial income (expenses)	(437)	(1,011)	(1,291)	(1,975)	351
Exchange and monetary gains, net	299	529	2,553	364	675
Gain on sale of investments	126	674	777	80	40
Subtotal	(12)	192	2,039	(1,531)	1,066
Income before income taxes and equity results	5,420	7,829	15,233	13,217	7,123
Income taxes charge	(880)	(1,432)	(3,201)	(535)	(2,100)
Equity in results of affiliates and joint ventures and change in provision for gains on equity investments	760	710	595	794	433
Net income	5,300	7,107	12,627	13,476	5,456
Net income attributable to non-controlling interests	(459)	(579)	(802)	(258)	(107)
Net income attributable to Company s stockholders	4,841	6,528	11,825	13,218	5,349
Total cash paid to shareholders(1)	1,300	1,300	1,875	2,850	2,724

(1)

Consists of total cash paid to shareholders during the period, whether classified as dividends or interest on shareholders equity.

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Basic and diluted earnings per share

	For the year ended December 31,(1)				
	2005	2006	2007	2008(5)	2009
	(US$, except as noted)				
Earnings per share(2):					
Basic					
Per common share	1.05	1.35	2.41	2.58	0.97
Per preferred share	1.05	1.35	2.41	2.58	0.97
Diluted					
Per common share			2.42	2.61	1.00
Per preferred share			2.42	2.61	1.00
Weighted average number of shares outstanding (in thousands)(3):					
Common shares	2,943,216	2,943,216	2,943,216	3,028,817	3,181,706
Preferred shares	1,662,864	1,908,852	1,889,171	1,946,454	2,030,700
Treasury common shares underlying convertible notes			34,510	56,582	74,998
Treasury preferred shares underlying convertible notes			18,478	30,295	77,580
Total	4,606,080	4,852,068	4,885,375	5,062,148	5,364,984
Distributions to shareholders per share(4):					
In US$	0.28	0.27	0.39	0.56	0.53
In R$	0.67	0.58	0.74	1.09	1.01

(1) Share and per-share amounts for all periods give retroactive effect to all forward stock splits. We carried out two-for-one forward stock splits in September 2007 and in May 2006.

(2) Diluted earnings per share for 2007, 2008 and 2009 include preferred shares and common shares underlying the mandatorily convertible notes issued in June 2007. Diluted earnings per share for 2009 also include preferred shares and common shares underlying the mandatorily convertible notes issued in July 2009.

(3) Each common ADS represents one common share and each preferred ADS represents one preferred share.

(4) Our distributions to shareholders may be classified as either dividends or interest on shareholders equity. Since 2005, part of each distribution has been classified as interest on shareholders equity and part as dividends. For information about distributions paid to shareholders, see *Share ownership and trading Distributions.*

(5) In July 2008, we issued 80,079,223 common ADSs, 176,847,543 common shares, 63,506,751 preferred ADSs and 100,896,048 preferred shares in a global equity offering. In August 2008, we issued an additional 24,660,419 preferred shares. In October 2008, our Board of Directors approved a share buy-back program, which was terminated on May 27, 2009. While the program was in effect, Vale acquired 18,415,859 common shares and 47,284,800 preferred class A shares, corresponding respectively to 1.5% and 2.4% of the outstanding shares of each class on the date the program was launched. For more information see *Share ownership and trading Purchases of equity securities by the issuer and affiliated purchasers*.

Balance sheet data

	At December 31,				
	2005	2006	2007	2008	2009
	(US$ million)				
Current assets	4,775	12,940	11,380	23,238	21,294
Property, plant and equipment, net	14,166	38,007	54,625	49,329	68,810
Investments in affiliated companies and joint ventures and other investments	1,672	2,353	2,922	2,408	4,585
Other assets	2,031	7,626	7,790	5,017	7,590
Total assets	22,644	60,926	76,717	79,992	102,279
Current liabilities	3,325	7,312	10,083	7,237	9,181
Long-term liabilities(1)	2,410	10,008	13,195	10,173	12,703
Long-term debt(2)	3,714	21,122	17,608	17,535	19,898
Total liabilities	9,449	38,442	40,886	34,945	32,601
Redeemable non-controlling interests		346	375	599	731
Stockholders equity:					
Capital stock	5,868	8,119	12,306	23,848	23,839
Additional paid-in capital	498	498	498	393	411
Mandatorily convertible notes common ADSs			1,288	1,288	1,578
Mandatorily convertible notes preferred ADSs			581	581	1,225
Reserves and retained earnings	5,611	11,056	18,603	16,446	29,882
Total Company shareholders equity	11,977	19,673	33,276	42,556	56,935
Non-controlling interests	1,218	2,465	2,180	1,892	2,831
Total shareholders equity	13,195	22,138	35,456	44,448	59,766
Total liabilities and shareholders equity	22,644	60,926	76,717	79,992	102,279

(1) Excludes long-term debt.
(2) Excludes current portion of long-term debt.

I. INFORMATION ON THE COMPANY

BUSINESS OVERVIEW

Summary

We are the second-largest metals and mining company in the world and the largest in the Americas, based on market capitalization. We are the world s largest producer of iron ore and iron ore pellets and the world s second-largest producer of nickel. We are one of the world s largest producers of manganese ore, ferroalloys, bauxite, alumina and kaolin. We also produce aluminum, copper, coal, potash, cobalt, platinum group metals (PGMs) and other products. To support our growth strategy, we are actively engaged in mineral exploration efforts in 21 countries around the globe. We operate large logistics systems in Brazil, including railroads, maritime terminals and a port, which are integrated with our mining operations. In addition, we are building a maritime freight portfolio to transport iron ore. Directly and through affiliates and joint ventures, we have investments in the energy and steel businesses.

The following table presents the breakdown of our total operating revenues attributable to each of our main lines of business, each of which is described following the table.

	Year ended December 31,					
	2007		2008		2009	
	(US$ million)	(% of total)	(US$ million)	(% of total)	(US$ million)	(% of total)
Ferrous minerals:						
Iron ore	US$ 11,908	36.0%	US$ 17,775	46.2%	US$ 12,831	53.6%
Iron ore pellets	2,738	8.3	4,301	11.2	1,352	5.6
Manganese	69	0.2	266	0.7	145	0.6
Ferroalloys	719	2.2	1,211	3.1	372	1.6
Pig iron	81	0.2	146	0.4	45	0.2
Subtotal ferrous minerals	US$ 15,515	46.9%	US$ 23,699	61.6%	US$ 14,745	61.6%
Non-ferrous minerals and metals:						
Nickel	US$ 10,043	30.3%	US$ 5,970	15.5%	US$ 3,260	13.6%
Aluminum	2,722	8.2	3,042	7.9	2,050	8.6
Copper	1,985	6.0	2,029	5.3	1,130	4.7
Fertilizer nutrients	178	0.6	295	0.8	413	1.7
PGMs	314	1.0	401	1.0	132	0.6
Other precious metals	113	0.3	111	0.3	65	0.3
Other non-ferrous minerals(1)	374	1.1	420	1.1	215	0.9
Subtotal non-ferrous minerals/metals	US$ 15,729	47.5%	US$ 12,268	31.9%	US$ 7,265	30.4%
Coal	178	0.5	577	1.5	505	2.1
Logistics services	1,525	4.6	1,607	4.2	1,104	4.6
Other investments	168	0.5	358	0.8	320	1.3
Total operating revenues	US$ 33,115	100.0%	US$ 38,509	100.0%	US$ 23,939	100.0%

(1) Includes kaolin and cobalt.

Ferrous minerals:

- *Iron ore and iron ore pellets.* We operate three systems in Brazil for producing and distributing iron ore. The Northern and the Southeastern Systems are fully integrated, consisting of mines, railroads, a maritime terminal and a port. The Southern System consists of three mining complexes and two maritime terminals. We operate 10 pellet-producing plants in Brazil. We also have a 50% stake in a joint venture that owns three integrated pellet plants in Brazil and a 25% stake in a pellet company in China.

- *Manganese and ferroalloys.* We conduct our manganese mining operations through subsidiaries in Brazil, and we produce several types of manganese ferroalloys through subsidiaries in Brazil, France and Norway.

Non-ferrous minerals:

- *Nickel.* Our principal nickel mines and processing operations are conducted by our wholly owned subsidiary Vale Inco Limited (Vale Inco), which has mining operations in Canada, Indonesia and New Caledonia. We own and operate, or have interests in, nickel refining facilities in the United Kingdom, Japan, Taiwan, South Korea and China.

- *Aluminum.* We are engaged in bauxite mining, alumina refining, and aluminum metal smelting. In Brazil, we own a bauxite mine, an alumina refinery and an aluminum smelter. We have a 40% interest in Mineração Rio do Norte S.A. (MRN), a bauxite producer, whose operations are also located in Brazil.

- *Copper.* In Brazil, we produce copper concentrates at Sossego in Carajás, in the state of Pará. In Canada, we produce copper concentrate, copper anode and copper cathode in conjunction with our nickel mining operations at Sudbury and Voisey Bay.

- *Fertilizer nutrients.* We are Brazil s sole producer of potash, with operations in Rosario do Catete, in the state of Sergipe. We are engaged in a major expansion of our fertilizer nutrients business through acquisitions and organic growth.

- *PGMs.* We produce PGMs as by-products of our nickel mining and processing operations in Canada. The PGMs are concentrated at our Port Colborne facilities, in the Province of Ontario, Canada, and refined at our precious metals refinery in Acton, England.

- *Other precious metals.* We produce gold and silver as by-products of our nickel mining and processing operations in Canada. Some of these precious metals are upgraded at our facilities in Port Colborne, Ontario, and all are refined by unrelated parties in Canada.

- *Other non-ferrous minerals.* We are one of the world s largest producers of kaolin for coating used by the paper industry. We produce cobalt as a by-product of our nickel mining and processing operations in Canada and refine it at our Port Colborne facilities.

Coal: We produce metallurgical and thermal coal through Vale Australia Holdings (Vale Australia), which operates coal assets in Australia through wholly owned subsidiaries and unincorporated joint ventures. Through our subsidiary Vale Coal Colombia Ltd. Sucursal Colombia (Vale Colombia) we produce thermal coal in the Cesar department of Colombia. We have minority interests in Chinese coal and coke producers.

Logistics services: We are a leading provider of logistics services in Brazil, with railroads, maritime terminals and a port. Two of our three iron ore systems incorporate an integrated railroad network linked to automated port and terminal facilities, which provide rail transportation for our mining products, general cargo and passengers, bulk terminal storage, and ship loading services for our mining operations and for customers. We conduct seaborne dry bulk shipping and provide tug boat services. We own and charter vessels to transport our iron ore sold on a cost and freight (CFR) basis to customers. Our tug boat services provide an efficient and safe towing service at our terminals in Brazil. We also own a 31.3% interest in

Log-In Logística Intermodal S.A. (Log-In), which provides intermodal logistics services in Brazil, Argentina and Uruguay, and a 41.5% interest in MRS Logística S.A. (MRS), which transports our iron ore products from the Southern System mines to our Guaíba Island and Itaguaí maritime terminals, in the state of Rio de Janeiro.

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Business strategy

Our mission is to transform mineral resources into prosperity and sustainable development. Our vision is to become the largest mining company in the world, and to surpass established standards of excellence in research, development, project implementation and business operations. We aim to increase our geographical and product diversification and logistics capabilities. Iron ore and nickel will continue to be our main businesses while we boost the production capacity of our copper, coal and fertilizer nutrients businesses. To enhance our competitiveness, we will continue to invest in our railroads, maritime terminals, maritime freight portfolio and power generation capacities. We continue to seek opportunities to make strategic acquisitions, while focusing on disciplined capital management in order to maximize return on invested capital and total return to shareholders. Below we highlight our major business strategies.

Maintaining our leadership position in the global iron ore market

We continue to consolidate our leadership in the global iron ore market. In 2008, we had an estimated market share of 30.2% of the total volume traded in the seaborne market, and in 2009 it decreased to 24.9% due to the severe impact of the global recession on the steel industry in Brazil and Europe, two major markets for the sale of our iron ore products. We are committed to maintaining our leadership position in the global iron ore market, by focusing our product line to capture industry trends, increasing our production capacity in line with demand growth, controlling costs, strengthening our logistics infrastructure of railroads, ports, shipping and distribution centers, and strengthening relationships with customers. Our diversified portfolio of high quality products, strong technical marketing strategy, efficient logistics and strong and long-standing relationships with major customers will help us achieve this goal. We have also encouraged steelmakers to develop steel projects in Brazil through joint ventures in which we may preferably hold minority stakes, in order to create additional demand for our iron ore.

Achieving leadership in the nickel business

We are the world s second-largest nickel producer, with large-scale, long-life and low-cost operations, a substantial resource base, advanced technology and a robust growth profile. We have refineries in North America, Europe and Asia, which produce an array of products for use in most nickel applications. We are a leading producer of high-quality nickel products for non-stainless steel applications, such as plating, alloy steels, high nickel alloys and batteries, which represented 59% of our nickel sales in 2009. Our long-term goal is to strengthen our leadership in the nickel business.

Developing our copper resources

We believe that our copper projects, all of which are situated in the Carajás mineral province in the Brazilian state of Pará, could be among the most competitive in the world in terms of investment cost per metric ton of ore. We are developing the Salobo project to produce copper concentrate and testing a new hydro-metallurgical technology at the Usina Hidrometalúrgica de Carajás plant (UHC) that could enable the development of other copper projects in this region. We expect these copper mines to benefit from our infrastructure facilities serving the Northern System. We are developing the Tres Valles copper project in Chile, and we have growth options in the copper business in Africa through a joint venture with African Rainbow Minerals Limited (ARM). We are engaged in mineral exploration in several countries to increase our reserve base.

Investing in coal

We are pursuing various opportunities to become a large global player in the coal business. We have coal operating assets and a portfolio of exploration projects in Australia and Colombia, and minority interests in two joint ventures in China. We intend to continue pursuing organic growth in the coal business through the development of the Moatize project in Mozambique, the development of more advanced coal exploration projects in Australia and Colombia, and mineral exploration initiatives in several countries, such as Mongolia.

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Investing in fertilizer nutrients

We are pursuing various opportunities to become a large producer of fertilizer nutrients in order to benefit from rising global consumption, which is expected to grow significantly in emerging market countries. We expect per capita income growth and biofuels to drive demand for fertilizers. In this context, Brazil is expected to play a key role in the global agricultural market, given its position as a global agricultural powerhouse and its growth potential due to its access to water and arable land for the expansion of the agricultural frontier.

We have developed an understanding of the fertilizer industry, having successfully operated a potash mine in Brazil (Taquari-Vassouras) since the early nineties. Our portfolio of phosphate projects in Peru and Africa and potash projects in Argentina, Brazil and Canada positions us to capture a significant portion of market growth, especially in Brazil. We are engaged in several phosphate and potash mineral exploration projects around the world, and we are seeking opportunities to accelerate our growth strategy. We are currently in the final stage of negotiations to acquire fertilizer assets in Brazil. For more information, see *Significant changes in our business* below.

Diversification and expansion of our resource base

We are actively engaged in a mineral exploration program, with efforts in 21 countries around the globe. We are mainly seeking new deposits of bauxite, coal, copper, iron ore, manganese ore, nickel, phosphates, natural gas, PGMs, potash and uranium. Mineral exploration is an important part of our organic growth strategy.

Enhancing our logistics capacity to support our iron ore business

We believe that the quality of our railway assets and extensive experience as a railroad and port operator, together with the lack of efficient transportation for general cargo in Brazil, position us as a leader in the logistics business in Brazil. We have been expanding the capacity of our railroads primarily to meet the needs of our iron ore business.

To support our commercial strategy for our iron ore business, we continue to invest in a dedicated maritime freight shuttle service from Brazil to Asia and in the development of distribution centers in Asia and the Middle East in order to minimize freight costs and maximize flexibility so as to enhance the competitiveness of our iron ore business in these regions.

Developing energy projects

Energy management and efficient supply have become a priority for us. As a large consumer of electricity, we believe that investing in power generation projects to support our operations will help protect us against volatility in the price of energy, regulatory uncertainties and the risk of energy shortages. Accordingly, we have developed hydroelectric power generation plants in Brazil, Canada and Indonesia, and we are using the electricity from these projects to supply our internal needs. As a potentially large consumer of natural gas, in 2007 we began investing in natural gas exploration in Brazil through consortia, and in 2009 we made our first discoveries. We are seeking to diversify and optimize our energy matrix through increased use of thermal coal, renewable fuels and natural gas.

Significant changes in our business

We summarize below major acquisitions, divestitures and other significant developments since the beginning of 2009.

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Production adjustments

During the second half of 2009, given the global economic recovery and stronger demand fundamentals for minerals and metals, we resumed iron ore operations in some mines in the Southern and Southeastern Systems in the Brazilian state of Minas Gerais, and we increased the pace of production at the Carajás site. We resumed operations at the Itabrasco and Hispanobras pellet plants in July and August, 2009, respectively, and resumed production at the Fábrica and São Luis plants in the first quarter of 2010, at which point all of our pellet plants are in operation.

In the third quarter of 2009, we resumed our manganese ore and ferroalloy operations, with the exception of two ferroalloy plants in Brazil. During the course of 2009, in response to improving market demand for kaolin, we increased production by our subsidiaries CADAM S.A., in the state of Amapá, Brazil, and PPSA, in the state of Pará, Brazil.

Acquisition of fertilizer nutrient assets

In January 2010, we entered into an agreement to acquire 100% of the outstanding shares of Bunge Participações e Investimentos S.A. (BPI) for US$3.8 billion from subsidiaries of Bunge Ltd. BPI s asset portfolio is composed of (i) phosphate rock mines and phosphate assets in Brazil and (ii) a 42.3% stake in the publicly traded Brazilian company Fertilizantes Fosfatados S.A.-Fosfertil (Fosfertil). Of the purchase price, US$1.65 billion will be allocated to the phosphate rock and phosphate assets, and the remaining US$2.15 billion to the shares of Fosfertil. The acquisition does not involve any retail or distribution business.

We also entered into contracts with Fertilizantes Heringer S.A. (Heringer), Fertilizantes do Paraná Ltda. (Fertipar), Yara Brasil Fertilizantes S.A. (Yara) and The Mosaic Company (Mosaic) that give us the right to directly and indirectly acquire Fosfertil shares for the same price per share paid to BPI, US$12.019, totaling US$1.9 billion, upon the closing of the BPI acquisition and the satisfaction of other conditions.

As a result of these acquisitions, we will hold a 78.9% stake in Fosfertil, corresponding to 99.8% of the common shares and 68.2% of the preferred shares. The total price to be paid for the acquisition of a 78.9% stake in Fosfertil is US$4.007 billion. Including BPI s phosphate rock mines and phosphate assets in Brazil, the acquisition of fertilizer nutrients totals US$5.7 billion.

Pursuant to Brazilian corporate law and capital markets regulations, once the acquisition of the above mentioned stakes in Fosfertil are concluded, we will launch a mandatory offer to buy the remaining 0.19% of the common shares held by the minority shareholders for the same price per share agreed with BPI, Heringer, Fertipar, Yara and Mosaic.

Acquisition of copper exploration assets in the African copperbelt

In the first quarter of 2009, we acquired a 50% interest in a joint venture with African Rainbow Minerals Limited (ARM) for CAD81 million. The joint venture will develop and operate the assets of TEAL Exploration & Mining Incorporated (TEAL). TEAL has two copper projects in the African copperbelt, Konkola North and Kalumines, which together could represent a nominal production capacity of 65,000 metric tons of copper per year in the next few years, and an extensive copper exploration portfolio.

Acquisition of coal assets in Colombia

In the first quarter of 2009, we acquired 100% of the export coal assets of Cementos Argos S.A. (Argos) in Colombia for US$306 million, including inventories. Argos s coal assets consist of the El Hatillo mine, the Cerro Largo coal deposit, a port and a minority stake in a railroad. Since Colombia is the world s third-largest exporter of high-quality thermal coal, given its low level of sulfur and high calorific value, we are seeking to build a coal asset platform in the country to enhance our growth options in the coal business.

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Acquisition of potash deposits in Argentina and Canada

In the first quarter of 2009, we acquired 100% of the Rio Colorado project (Rio Colorado) in Argentina and 100% of the Regina project in Canada, for US$850 million from Rio Tinto plc. Rio Colorado includes the development of a mine with an initial nominal capacity of 2.4 million metric tons per year of potash, with potential for expansion to 4.35 million metric tons per year, construction of a 350-kilometer railway spur, port facilities and a power plant. The Regina project is still in the exploration stage, with potential to deliver an estimated annual output of 2.8 million metric tons of potash. Existing infrastructure near the project will allow transportation of the final product to Vancouver on the Canadian west coast, facilitating access to the fast-growing Asian market, or Saint John on the east coast, facilitating access to the Americas and the European market.

Acquisition of Corumbá iron ore assets

In the third quarter of 2009, we acquired from Rio Tinto 100% of the Corumbá open-pit iron ore mining operations in Brazil, including associated logistics assets, inventory of final products, and cash balance, for US$814 million. The Corumbá iron ore mine is a world-class asset, characterized by high grade and rich in direct-reduction lump ores. The logistics assets support 70% of the operations transportation needs.

Increasing our stake in TKCSA

In the third quarter of 2009, we entered into an agreement with ThyssenKrupp Steel AG to increase our stake in ThyssenKrupp CSA Siderúrgica do Atlântico Ltda. (TKCSA) from our current 10% interest to 26.87%, by investing US$1.424 billion. TKCSA is building an integrated steel slab plant, with nominal capacity of five million metric tons of slab per year, in the state of Rio de Janeiro, Brazil. Start-up is currently scheduled for the first half of 2010. As a strategic partner of ThyssenKrupp, we are the sole and exclusive supplier of iron ore to TKCSA.

Organic growth

We have an extensive program of investments in the organic growth of our businesses. Our main investment projects are summarized under *Capital expenditures and projects*. The main projects that have come into stream since the beginning of 2009 are summarized below:

We concluded Vargem Grande (formerly Itabiritos), a pellet plant, in the first half of 2009. Vargem Grande s operations have nominal production capacity of 7 million metric tons per year.

In September 2009, we installed and commissioned a longwall at the Carborough Downs coal mine in Queensland, Australia, which is expected to significantly increase nominal production capacity to 4.8 million metric tons per year in 2011.

We are in the initial stage of ramping up our Goro nickel project in New Caledonia. We expect to ramp-up Goro over a three-year period to reach nominal production capacity of 60,000 metric tons per year of nickel and 4,600 metric tons of cobalt.

We concluded the Southeastern Corridor project, expanding the capacity of the EFVM railroad and the Tubarão port and increasing our logistics capacity for iron ore in the Southeastern System.

Divestitures and asset sales

We are always seeking to optimize our portfolio structure. To that end, we dispose of assets from time to time that we have determined to be non-strategic. We summarize below our key dispositions and asset sales since the beginning of 2009.

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In the second quarter of 2009, we sold our remaining 2.93% interest in Usiminas Siderúrgicas de Minas Gerais S.A. (Usiminas) for US$273 million.

In July 2009, we entered into an agreement with Suzano Papel e Celulose (Suzano) for the sale of forest assets to Suzano, representing a total area of 84,700 hectares, including preservation areas and a eucalyptus plantation in Maranhão, for US$120 million.

In December 2009, as a result of a strategic review of our downstream nickel operations, we sold The International Metals Reclamation Company (INMETCO) for US$38.6 million and our 65% stake in Jinco Nonferrous Metals Co., Ltd (Jinco) for US$6.5 million. During the same month, we entered into an agreement to sell our 76.7% stake in Inco Advanced Technology Materials (Dalian) Co. Ltd. (IATM-D), and our 77% stake in Inco Advanced Technology Materials (Shenyang) Co. Ltd. (IATM-S), which operate nickel foam manufacturing plants in China, for US$7 million, to affiliates of the other shareholders.

In January 2010, we entered into an agreement to sell mineral rights for manganese and iron ore and related properties in the Brazilian state of Bahia for US$16 million. In addition, we sold three small hydroelectric power plants, which we had used to supply part of the energy requirements of our ferroalloy plants in Minas Gerais, for US$20 million.

In January 2010, our wholly owned subsidiary Valesul Alumínio S.A. entered into an agreement to sell its aluminum assets, in the state of Rio de Janeiro (Brazil), for US$31.2 million.

In March 2010, we entered into an agreement with Mosaic and Mitsui & Co. Ltd. (Mitsui) to sell minority stakes in the Bayóvar project through a newly-formed company that will control and operate the project in Peru. We agreed to sell 35% of total capital to Mosaic for US$385 million and 25% of total capital to Mitsui for US$275 million. Following these transactions, we will retain control of the Bayóvar project, holding 51% of the voting shares and 40% of total capital of the newly formed company.

LINES OF BUSINESS

Our principal lines of business consist of mining and logistics services. We also invest in energy to supply part of our consumption. This section presents information about operations, production, sales and competition and is organized as follows.

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1. Ferrous minerals

Our ferrous minerals business includes iron ore mining, iron ore pellet production, manganese ore mining, ferroalloy production and a pig iron operation. Each of these activities is described below.

1.1 Iron ore

1.1.1 Operations

We conduct our iron ore business in Brazil, primarily at the parent-company level and through our wholly owned subsidiary Urucum Mineração S.A. (Urucum). These mining and related operations are concentrated in three systems: the Southeastern System, the Southern System and the Northern System, each with its own transportation capability. In addition, we conduct mining operations through our joint venture Samarco.

Company	System	Our share of capital Voting	Total	Partners
		(%)		
Vale	Northern, Southeastern and Southern			
Urucum	Southeastern	100	100	
Samarco		50.0	50.0	BHP Billiton

Southeastern System

The Southeastern System mines are located in the Iron Quadrangle region of the state of Minas Gerais, where they are divided into three mining complexes (Itabira, Minas Centrais and Mariana), and in the state of Mato Grosso do Sul, where the mines of Urucum and Corumbá are located.

The ore reserves in the three mining complexes have high ratios of itabirite ore relative to hematite ore. Itabirite ore has iron grade of 35-60% and requires concentration to achieve shipping grade, which is at least 63.5% average iron grade. Urucum ore reserves have high ratios of hematite ore, which has an average grade of 63%.

We conduct open-pit mining operations in the Southeastern System. At the three mining complexes, we generally process the run-of-mine by means of standard crushing, classification and concentration steps, producing sinter feed, lump ore and pellet feed in the beneficiation plants located at the mining sites. In September 2009, we concluded the acquisition of Corumbá, where we produce lump ores. At the Urucum and Corumbá mines, we generally process the run-of-mine by means of standard crushing and classification steps, producing only lump ore. In 2009, we produced 100% of the electric energy consumed in the Southeastern System at our hydroelectric power plants (Igarapava, Porto Estrela, Funil, Candonga, Aimorés, Capim Branco I and Capim Branco II).

We own and operate integrated railroad and terminal networks in the three mining complexes, which are accessible by road or by spur tracks of our EFVM railroad. The EFVM railroad connects these mines to the Tubarão port in Vitória, in the state of Espírito Santo. For a more detailed description of the networks, see *Logistics*. Urucum and Corumbá iron ore is delivered to customers by barges through the Paraguay River.

Southern System

The Southern System mines are located in the Iron Quadrangle region of the state of Minas Gerais in Brazil. The mines of our subsidiary Minerações Brasileiras Reunidas S.A.-MBR (MBR) are operated at the parent-company level pursuant to an asset lease agreement. The Southern System has three major mining complexes: the Minas Itabirito complex (comprised of four mines, with two major beneficiation plants and three secondary beneficiation plants); the Vargem Grande complex (comprised of three mines and one major beneficiation plant); and the Paraopeba complex (comprised of four mines and three beneficiation plants).

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We use wet beneficiation processes to convert run-of-mine obtained from open-pit mining operations into sinter feed, lump ore and pellet feed, in addition to *hematitinha*, a product used primarily by Brazilian pig-iron producers. In 2009, we produced 100% of the electric energy consumed in the Southern System at our hydroelectric power plants (Igarapava, Porto Estrela, Funil, Candonga, Capim Branco I and Capim Branco II).

We enter into freight contracts with our affiliate, MRS, a railway company in which we own a 41.5% stake, to transport our iron ore products at market prices from the mines to our Guaíba Island and Itaguaí maritime terminals in the state of Rio de Janeiro.

Northern System

The Northern System mines, located in the Carajás mineral province of the Brazilian state of Pará, contain some of the largest iron ore deposits in the world. The reserves are divided into northern, southern and eastern ranges situated 35 kilometers apart. Since 1985, we have been conducting mining activities in the northern range, which is divided into three main mining bodies (N4W, N4E and N5). The Northern System has open-pit mines and an ore-processing plant. The mines are located on public lands for which we hold mining concessions.

Because of the high grade (66.7% on average) of the Northern System deposits, we do not need to operate a concentration plant at Carajás. The beneficiation process consists simply of sizing operations, including screening, hydrocycloning, crushing and filtration. Output from the beneficiation process consists of sinter feed, pellet feed, special fines for direct reduction processes and lump ore. We obtain all of the electrical power for the Northern System at market prices from regional utilities.

We operate an integrated railroad and maritime terminal network in the Northern System. After completion of the beneficiation process, our EFC railroad transports the iron ore to the Ponta da Madeira maritime terminal in the state of Maranhão. To support our Carajás operations, we have housing and other facilities in a nearby township. These operations are accessible by road, air and rail.

Samarco

We own 50% of Samarco, which operates an integrated system, comprised of a mine, pipeline, three pellet plants and a port. Samarco s Alegria mine complex, located in Mariana, Minas Gerais, is in the same region as our Southeastern System.

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1.1.2 Production

The following table sets forth information about our iron ore production.

Mine/Plant	Type	Production for the year ended December 31, 2007	2008	2009	Recovery rate
		(million metric tons)			(%)
Southeastern System					
Itabira complex					
Cauê(1)	Open pit	24.8	21.5	13.8	65.5
Conceição(1)	Open pit	21.9	20.3	17.3	74.4
Minas Centrais complex					
Água Limpa/Cururu(2)	Open pit	4.2	4.7	1.4	51.7
Gongo Soco	Open pit	6.5	5.0	2.7	88.0
Brucutu	Open pit	21.9	26.4	23.6	76.0
Andrade(3)	Open pit	1.3	1.4	0.7	97.9
Mariana complex					
Alegria	Open pit	13.5	12.3	12.1	73.3
Fábrica Nova(4)	Open pit	14.6	14.0	13.7	77.8
Fazendão(5)	Open pit	3.7	9.8	3.1	100.0
Timbopeba	Open pit	1.3			
Corumbá(6)	Open pit			0.4	55.0
Urucum	Open pit	1.1	1.0	0.5	61.0
Total Southeastern System		114.9	116.4	89.5	
Southern System(7)					
Minas Itabirito complex					
Segredo/João Pereira	Open pit	11.8	12.1	8.4	67.3
Sapecado/Galinheiro(8)	Open pit	17.4	15.1	9.8	61.9
Vargem Grande complex					
Tamanduá(9)	Open pit	10.2	9.8	7.3	79.6
Capitão do Mato(9)	Open pit	11.5	9.7	8.0	79.6
Abóboras	Open pit	6.0	4.2	5.4	100.0
Paraopeba Complex					
Jangada	Open pit	3.9	4.3		
Córrego do Feijão	Open pit	9.3	8.4	5.6	71.8
Capão Xavier	Open pit	13.3	13.5	10.9	84.5
Mar Azul	Open pit	5.9	3.5		
Total Southern System		89.3	80.5	55.2	
Northern System					
Serra Norte(10)					
N4W	Open pit	40.3	44.3	31.0	92.4
N4E	Open pit	15.4	13.2	16.9	92.4
N5(11)	Open pit	36.0	39.1	36.8	92.4

Total Northern System	91.7	96.5	84.6	
Vale	295.9	293.4	229.3	
Samarco(12)	14.5	16.6	17.2	57.7
Total	310.4	310.0	246.5	

(1) The run-of-mine from Minas do Meio is sent to the Cauê and Conceição concentration plants.
(2) Água Limpa/Cururu is owned by Baovale, in which we own 100% of the voting shares and 50% of the total shares. Production figures for Água Limpa/Curucu have not been adjusted to reflect our ownership interest.
(3) The lease for the Andrade mine was terminated in 2009.
(4) Fábrica Nova ore is sent to the Alegria and Fábrica Nova plants.
(5) Fazendão ore is sent to the Alegria plant and Samarco.
(6) Production relative to 4Q09. On a pro forma basis, its production reached 2.0 Mt in 2009.
(7) Former MBR mines were included in other complexes in the Southern System.
(8) Galinheiro mine was separated from the Sapecado mine and includes the Pico mine.
(9) Tamanduá and Capitão do Mato ores are processed at the Vargem Grande plant.
(10) All Serra Norte ores are processed at the Carajás plant.
(11) Our former N5E-N and N5-W mines were incorporated in the N5 reserve model.
(12) Production figures for Samarco, in which we have a 50% interest, have not been adjusted to reflect our ownership interest.

1.2 Iron ore pellets

1.2.1 Operations

Directly and through joint ventures, we produce iron ore pellets in Brazil and in China, as set forth in the following table. The total estimated nominal capacity of the 10 pellet plants directly operated by us, including Hispanobras, is 48 million metric tons per year.

Company	Site of operation	Our share of capital Voting (%)	Total	Partners
	Brazil:			
Vale	Tubarão, Fábrica,Vargem Grande and São Luís			
Hispanobras	Tubarão	51.0	50.9	Arcelor Mittal
Samarco	Mariana and Anchieta	50.0	50.0	BHP Billiton
	China:			
Zhuhai YPM	Zhuhai, Guangdong	25.0	25.0	Zhuhai Yueyufeng Iron and Steel Co. Ltd. Pioneer Iron and Steel Group Co. Ltd.

In the Tubarão port area, in the Brazilian state of Espírito Santo, we operate our wholly owned pellet plants, Tubarão I and II, four plants we lease under operating leases and our jointly-owned plant, Hispanobras. We send iron ore from our Southeastern System mines to these plants and use our logistics infrastructure to distribute their final products.

Our São Luís pellet plant, located in the Brazilian state of Maranhão, is part of the Northern System. We send Carajás iron ore to this plant and ship its production to customers through our Ponta da Madeira maritime terminal.

The Fábrica and Vargem Grande pellet plants, located in the Brazilian state of Minas Gerais, are part of the Southern System. We send some of the iron ore from the Fábrica Nova mine to the Fábrica plant, and iron ore from the Pico mine to the Vargem Grande plant. We transport pellets from these plants using MRS.

Samarco operates three pellet plants in two operating sites with nominal capacity of 21 million tons per year. The pellet plants are located in the Ponta Ubu unit, in Anchieta, Espírito Santo. Iron ore from Alegria and our Southeastern System mine Fábrica Nova is sent to the Samarco pellet plants using a 396-kilometer pipeline, the longest pipeline in the world for the conveyance of iron ore. Samarco has its own port facilities to transport its production.

The Zhuhai YPM pellet plant, in China, is part of the Yueyufeng Steelmaking Complex. It has port facilities, which we use to send feed from our mines in Brazil. Zhuhai YPM s main customer is Yueyufeng Iron & Steel (YYS), which is also located in the Yueyufeng Steelmaking Complex.

We sell pellet feed to our pelletizing joint ventures at market prices. Historically, we have supplied all of the iron ore requirements of our wholly owned pellet plants and joint ventures, except for Samarco and Zhuhai YPM, to which we supply only part of their requirements. Of our total 2009 pellet production, 58.8% was blast furnace pellets, and the remaining 41.2% was direct reduction pellets, which are used in steel mills that employ the direct reduction process rather than blast furnace technology.

The following table sets forth information about our iron ore sales to our pelletizing joint ventures for the periods indicated.

	Sales for the year ended December 31,		
	2007	2008	2009
	(million metric tons)		
Hispanobras	4.7	4.1	1.2
Itabrasco	4.4	3.2(1)	
Kobrasco	4.4	1.6(2)	
Nibrasco	7.4	2.0(3)	
Samarco(4)	7.1	11.3	4.9
Zhuhai YPM(5)		0.8	0.9
Total	28.1	23.0	7.0

(1) Sales through September 2008. We signed a 10-year operating lease for Itabrasco s pellet plant in October 2008.
(2) Sales through May 2008. We signed a five-year operating lease for Kobrasco s pellet plant in June 2008.
(3) Sales through April 2008. We signed a 30-year operating lease for Nibrasco s two pellet plants in May 2008.
(4) In 2007, we sold 1.9 million metric tons of concentrate and 5.2 million metric tons of run-of-mine; in 2008, we sold 1.8 million metric tons of concentrate and 9.5 million metric tons of run-of-mine; and in 2009, we sold 1.1 million metric tons of concentrate and 3.8 million metric tons of run-of-mine.
(5) Zhuhai YPM started operations in January 2008.

1.2.2 Production

The following table sets forth information about our iron ore pellet production. The table reflects 100% of production at each facility.

	Production for the year ended December 31,		
Company	2007	2008	2009
	(million metric tons)		
Vale(1)	17.6	26.6	15.3
Hispanobras(5)	4.3	3.8	1.2
Itabrasco(2)	4.0	2.9	
Kobrasco(3)	5.0	2.1	
Nibrasco(4)	9.0	2.7	
Samarco(5)	14.3	17.1	16.1
Total	53.7	55.2	32.6

(1) Figure includes actual production, including production from the four pellet plants we leased in 2008.

(2) Production through September 2008. We signed a 10-year operating lease contract for Itabrasco s pellet plant in October 2008.
(3) Production through May 2008. We signed a five-year operating lease contract for Kobrasco s pellet plant in June 2008.
(4) Production through April 2008. We signed a 30-year operating lease contract for Nibrasco s two pellet plants in May 2008.
(5) Production figures for Hispanobras and Samarco have not been adjusted to reflect our ownership interest.

1.3 Iron ore and iron ore pellets

1.3.1 Customers, sales and marketing

We supply all of our iron ore and iron ore pellets (including our share of joint-venture pellet production) to the steel industry. Prevailing and expected levels of demand for steel products affect demand for our iron ore and iron ore pellets. Demand for steel products is influenced by many factors, such as global manufacturing production, civil construction and infrastructure spending. For further information about demand and prices, see *Operating and financial review and prospects Demand and prices.*

In 2009, China accounted for 56.8% of our iron ore and iron ore pellet shipments, and Asia as a whole accounted for 72.7%. Europe accounted for 13.4%, followed by Brazil with 10.2%. Our 10 largest customers collectively purchased 96.6 million metric tons of iron ore and iron ore pellets from us, representing 39% of our 2009 iron ore and iron ore pellet shipments and 38% of our total iron ore and iron ore pellet revenues. In 2009, no individual customer accounted for more than 10.0% of our iron ore and iron ore pellet shipments.

In 2009, the Asian market (mainly Japan and South Korea) and the European market were the primary markets for our blast furnace pellets, while North America, the Middle East and North Africa were the primary markets for our direct reduction pellets.

We strongly emphasize customer service in order to improve our competitiveness. We work with our customers to understand their main objectives and to provide them with iron ore solutions to meet specific customer needs. Using our expertise in mining, agglomeration and iron-making processes, we search for technical solutions that will balance the best use of our world-class mining assets and the satisfaction of our customers. We believe that our ability to provide customers with a total iron ore solution and the quality of our products are very important advantages helping us to improve our competitiveness in relation to competitors who may be more conveniently located geographically. In addition to offering technical assistance to our customers, we operate sales support offices in Tokyo (Japan), Seoul (South Korea), Singapore, Muscat (Oman) and Shanghai (China), which support the sales made by our wholly owned subsidiary located in St. Prex, Switzerland. These offices also allow us to stay in close contact with our customers, monitor their requirements and our contract performance, and ensure that our customers receive timely deliveries.

1.3.2 Competition

The global iron ore and iron ore pellet markets are highly competitive. The main factors affecting competition are price, quality, range of products offered, reliability, operating costs and shipping costs.

Our biggest competitors in the Asian market are located in Australia and include subsidiaries and affiliates of BHP Billiton plc and Rio Tinto Ltd. Although the transportation costs of delivering iron ore from Australia to Asian customers are generally lower than ours as a result of Australia s geographical proximity, we are competitive in the Asian market for two main reasons. First, steel companies generally seek to obtain the types (or blends) of iron ore and iron ore pellets that can produce the intended final product in the most economic and efficient manner. Our iron ore has low impurity levels and other properties that generally lead to lower processing costs. For example, in addition to its high grade, the alumina grade of our iron ore is very low compared to Australian ores, reducing consumption of coke and increasing productivity in blast furnaces, which is particularly important during periods of high demand. When the market is very strong, our quality differential is in many cases more valuable to customers than a freight differential. Second, steel companies often develop sales relationships based on a reliable supply of a specific mix of iron ore and iron ore pellets. We have a customer-oriented marketing policy and place specialized personnel in direct contact with our customers to help determine the blend that best suits each particular customer.

In terms of reliability, our ownership and operation of logistics facilities in the Northern and Southeastern Systems help us ensure that our products are delivered on time and at a relatively low cost. In addition, we are developing a low-cost freight portfolio, aimed at enhancing our ability to offer our products in the Asian market at competitive prices and to increase our market share. To support this strategy, we ordered new ships, purchased used vessels and entered into medium- and long-term freight contracts.

Our principal competitors in Europe are Kumba Iron Ore Limited, Luossavaara Kiirunavaara AB (LKAB), Société Nationale Industrielle et Minière (SNIM), Rio Tinto Ltd. and BHP Billiton. We are competitive in the European market not only for the same reasons we are competitive in Asia, but also due to the proximity of our port facilities to European customers.

The Brazilian iron ore market is also competitive. There are several small iron ore producers and new companies with developing projects, such as Anglo Ferrous Brazil, MMX, MHAG and Bahia Mineração. At the same time, there are vertically integrated steel companies such as Companhia Siderúrgica Nacional (CSN) and V&M do Brasil S.A. (Mannesmann). Usiminas has become partially integrated with the acquisition of an iron ore company. Although pricing is relevant, quality and reliability are important competitive factors as well. We believe that our integrated transportation systems, high-quality ore and technical services make us a strong competitor in the Brazilian market.

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With respect to pellets, our major competitors are LKAB, Cleveland-Cliffs Inc., Quebec Cartier Mining Co., Iron Ore Company of Canada (a subsidiary of Rio Tinto Ltd.) and Gulf Industrial Investment Co.

1.4 Manganese ore

We conduct our manganese mining operations in Brazil through our wholly owned subsidiaries Vale Manganês S.A. (Vale Manganês) and Urucum.

Company	Location	Our share of capital Voting	Total
		(%)	
Vale Manganês(1)	Brazil: Pará and Minas Gerais	100	100
Urucum	Mato Grosso do Sul	100	100

(1) Vale Manganês s mines are Azul and Morro da Mina.

Our mines produce three types of manganese ore products:

- metallurgical ore, used primarily for the production of ferroalloys;
- natural manganese dioxide, suitable for the manufacture of electrolytic batteries; and
- chemical ore, used in several industries for the production of fertilizer, pesticides and animal feed, and used as a pigment in the ceramics industry.

We operate on-site beneficiation plants at our Azul mine and at the Urucum mines, which are accessible by road. The Azul and Urucum mines have high-grade ores (at least 40% manganese grade), while our Morro da Mina mine has low-grade ores. All of these mines obtain electrical power at market prices from regional electric utilities. The following table sets forth information about our manganese production.

Mine	Type	Production for the year ended December 31, 2007	2008	2009	Recovery rate
		(million metric tons)			(%)
Azul(1)	Open pit	0.9	2.0	1.4	62.4
Morro da Mina	Open pit	0.1	0.1	0.1	93.2
Urucum(2)	Underground	0.3	0.2	0.2	83.0
Total		1.3	2.4	1.7	

(1) Given the need to prioritize iron ore transportation through the EFC railroad, we shut down the Azul mine from July to December 2007.
(2) Urucum has a five-year renewable lease agreement with CPFL for its plant in Corumbá, in the Brazilian state of Mato Grosso do Sul.

1.5 Ferroalloys

The following table sets forth the subsidiaries through which we conduct our ferroalloys business.

Company	Location	Our share of capital Voting	Total
		(%)	
Vale Manganês	Minas Gerais and Bahia, Brazil	100	100
Urucum	Mato Grosso do Sul, Brazil	100	100
Vale Manganèse France	Dunkerque, France	100	100
Vale Manganese Norway AS	Mo I Rana, Norway	100	100

We produce several types of manganese ferroalloys, such as high carbon and medium carbon ferro-manganese and ferro-silicon manganese. Our facilities have nominal capacity of 651,000 metric tons per year. The production of ferroalloys consumes significant amounts of electricity, representing 4.8% of our total consumption in 2009. The electricity supply for our ferroalloy plant in Dunkerque, France and Mo I Rana, Norway are provided through long-term contracts. For information on the risks associated with potential energy shortages, see *Risk factors*.

The following table sets forth information about our ferroalloys production.

Company	Production for the year ended December 31, 2007	2008	2009
		(thousand metric tons)	
Vale Manganês(1)	288	288	99
Urucum(2)	22	20	0
Vale Manganèse France(3)	103	55	45
Vale Manganese Norway AS	129	112	79
Total	542	475	223

(1) Vale Manganês has five plants in Brazil: Santa Rita, Barbacena and Ouro Preto in the state of Minas Gerais; and Simões Filho in the state of Bahia. We sold Vale Manganês s São João del-Rei plant in June 2007.
(2) Urucum has one plant in Corumbá in the Brazilian state of Mato Grosso do Sul.
(3) From August to October 2007, we shut down our furnace at Vale Manganèse France due to technical problems. We shut it down again in August 2008 due to technical problems, and it was restarted in September 2009.

1.6 Manganese ore and ferroalloys: sales and competition

The markets for manganese ore and ferroalloys are highly competitive. Competition in the manganese ore market takes place in two segments. High-grade manganese ore competes on a global seaborne basis, while low-grade ore competes on a regional basis. For some ferroalloys, high-grade ore is mandatory, while for others high- and low-grade ores are complementary. The main suppliers of high-grade ores are located in South Africa, Gabon, Australia and Brazil. The main producers of low-grade ores are located in Ukraine, China, Ghana, Kazakhstan, India and Mexico.

The ferroalloy market is characterized by a large number of participants who compete primarily on the basis of price. The principal competitive factors in this market are the costs of manganese ore, electricity and logistics and reductants. We compete both with stand-alone producers and integrated producers that also mine their own ore. Our competitors are located principally in countries that produce manganese ore or steel. For further information about demand and prices, see *Operating and financial review and prospects Demand and prices.*

1.7 Pig iron

We conduct a pig iron operation in northern Brazil. This operation was conducted through our wholly owned subsidiary Ferro-Gusa Carajás S.A. (FGC) until April 2008, when FGC was merged into Vale.

We utilize two conventional mini-blast furnaces to produce 350,000 metric tons of pig iron per year, using iron ore from our Carajás mines in northern Brazil. The charcoal source is exclusively from eucalyptus trees grown in a cultivated forest of 82,000 acres, with the total project encompassing 200,000 acres. In July 2009, we sold this forest to Suzano Papel e Celulose (Suzano) but retained a sufficient wood inventory to keep the mini blast furnaces operating through the first half of 2012.

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2. Non-ferrous minerals

2.1 Nickel

2.1.1 Operations

We conduct our nickel operations primarily through our wholly owned subsidiary Vale Inco. Vale Inco operates two nickel production systems, one in North America and Europe and the other in Asia and the South Pacific, as set forth in the following table.

System	Location	Operations
North America & Europe	Canada Sudbury, Ontario	Fully integrated mines, mill, smelter and refinery (producer of intermediates and finished nickel and by-products)
	Canada Thompson, Manitoba	Fully integrated mines, mill, smelter and refinery (producer of finished nickel and by-products)
	Canada Voisey Bay, Newfoundland and Labrador	Mine and mill (producer of nickel concentrates and by-products)
	U.K. Clydach, Wales	Stand-alone nickel refinery (producer of finished nickel)
Asia & the South Pacific	Indonesia Sorowako, Sulawesi(1)	Mining and processing operations (producer of nickel matte, an intermediate product)
	New Caledonia Southern Province (2)	Mining and processing operations (producer of nickel oxide and cobalt)
	Japan Matsuzaka(3)	Stand-alone nickel refinery (producer of finished nickel)
	Taiwan Kaoshiung(4)	Stand-alone nickel refinery (producer of finished nickel)
	China Dalian, Liaoning(5)	Stand-alone nickel refinery (producer of finished nickel)
	South Korea Onsan(6)	Stand-alone nickel refinery (producer of finished nickel)

(1) Operations conducted through our 59.1%-owned subsidiary PT International Nickel Indonesia Tbk.
(2) Operations conducted though our 74%-owned subsidiary Vale Inco Nouvelle-Calédonie S.A.S.
(3) Operations conducted through our 76%-owned subsidiary Vale Inco Japan Limited.
(4) Operations conducted through our 49.9%-owned subsidiary Taiwan Nickel Refining Corporation.
(5) Operations conducted through our 98.3%-owned subsidiary Vale Inco New Nickel Materials (Dalian) Co. Ltd.
(6) Operations conducted through our 25% interest in Korea Nickel Corporation.

North America & Europe

Sudbury operations

Our long-established mines in Sudbury, Ontario, are primarily underground operations with nickel sulfide ore bodies. These ore bodies also contain co-deposits of copper, cobalt, PGMs, gold and silver. We have integrated mining, milling, smelting and refining operations to process ore into finished nickel at Sudbury. We also smelt and refine nickel concentrates from our Voisey Bay operations. We ship a nickel intermediate product, nickel oxide, from our Sudbury smelter to our nickel refineries in Wales, Taiwan, China and South Korea for processing into finished nickel. In 2009, we produced 31% of the electric energy consumed in Sudbury at our hydroelectric power plants there. The remaining electricity was purchased from Ontario s provincial electricity grid.

In July 2009, unionized maintenance and production employees at our Sudbury operations went on strike after rejecting a settlement offer for a new three-year collective bargaining agreement. We partially resumed production in September 2009, with a focus on copper. We are operating two high-copper mining zones and our Clarabelle Mill to produce copper concentrates. During the first quarter of 2010, we shifted our focus to nickel and partially resumed operations at the Garson and Coleman mines and the Copper Cliff smelter in Sudbury from which we send feed to the Clydach Refinery.

On March 31, 2009, members of USW Local 2020-005, that represents office, technical and professional employees, ratified a new three-year collective agreement with us. This agreement includes increases to salaries in each of the three years, a defined contribution pension plan for new employees and the introduction of an annual incentive plan that supports the achievement of strategic objectives and rewards performance and various other improvements to collective agreement language.

Thompson operations

Our long-established mines in Thompson, Manitoba, are primarily underground operations with nickel sulfide ore bodies. The ore bodies also contain co-deposits of copper and cobalt. We have integrated mining, milling, smelting and refining operations to process ore into finished nickel at Thompson. We also smelt and refine an intermediate product, nickel concentrate, from our Voisey Bay operations. Low-cost energy is available from purchased hydroelectric power at our Thompson operations.

Voisey Bay operations

Our Voisey Bay operation in Newfoundland and Labrador is comprised of Ovoid, an open-pit mine, and deposits with the potential for underground operations at a later stage. We mine nickel sulfide ore bodies, which also contain co-deposits of copper and cobalt. We mill Voisey Bay ore on site and ship it as an intermediate product (nickel concentrates) primarily to our Sudbury and Thompson operations for final processing (smelting and refining). The electricity requirements of our Voisey Bay operations are supplied through diesel generators.

In August 2009, our unionized employees at our Voisey Bay operations went on strike after rejecting a settlement offer for a new three-year collective bargaining agreement. During the first quarter of 2010, we resumed production at the Voisey Bay Ovoid mine and the mill, which supplies nickel concentrates to our operations in Thompson, Manitoba and Sudbury, Ontario and copper concentrates to customers in Europe.

Clydach operations

Clydach is a stand-alone nickel refinery in the U.K. that processes a nickel intermediate product, nickel oxide, supplied from our operations to produce finished nickel in the form of powders and pellets.

Asia & the South Pacific

Sulawesi operations

Our subsidiary PTI operates an open cast mining area and related processing facility in Sorowako on the Island of Sulawesi, Indonesia. PTI mines nickel laterite saprolite ore and produces an intermediate product (nickel matte), which is shipped primarily to our nickel refinery in Japan. Pursuant to life-of-mine off-take agreements, PTI sells 80% of its production to our wholly owned subsidiary Vale Inco and 20% of its production to Sumitomo Metal Mining Co., Ltd. (Sumitomo). PTI is a public company whose shares are traded on the Indonesia Stock Exchange. We hold 59.1% of its share capital, Sumitomo holds 20.1%, 20.1% is publicly held and 0.7% is held by others.

Energy costs are a significant component of our nickel production costs for the processing of lateritic ores at our PTI operations in Indonesia. A major part of the electric furnace power requirements of PTI is supplied at low cost by its two hydroelectric power plants on the Larona River, Larona and Balambano. PTI has thermal generating facilities in order to supplement its hydroelectric power supply with a source of energy that is not subject to hydrological factors. In 2009, the hydroelectric power plants provided 96% of the electric energy consumed at our Indonesian operations, and the thermal generators provided the remainder.

We have committed to maintain a minimum 20% public float of PTI shares. In furtherance of this commitment, in August 2009 we sold, for US$88 million, 2.07% of PTI s outstanding shares (205,680,000 shares).

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Asian refinery operations

Our 76%-owned subsidiary Vale Inco Japan Limited operates a refinery in Matsuzaka, which produces intermediate and finished nickel products, primarily using nickel matte sourced from PTI. Vale Inco Japan is a private company. The minority interest is held by Sumitomo (13%), Mitsui & Co., Ltd. (7%) and other Japanese companies (4%).

We also operate or have investments in nickel refining operations in Taiwan through our 49.9% stake in Taiwan Nickel Refining Corporation (TNRC), China through our 98.3% interest in Vale Inco New Nickel Materials (Dalian) Co. Ltd. (VINNM) and South Korea through our 25% stake in Korea Nickel Corporation (KNC). TNRC, INNM and KNC produce finished nickel for the local stainless steel industry in Taiwan, China and South Korea, primarily using intermediate products containing about 75% nickel (in the form of nickel oxide) from Vale Inco Japan and our Sudbury operations. These refining operations are expected to start receiving nickel oxide from Goro in 2010.

New Caledonian operations

We are in the initial stage of ramping up our Goro nickel project in New Caledonia in the South Pacific. Goro utilizes a High Pressure Acid Leach (HPAL) process to treat laterite ores. The construction of the project is complete and commissioning is underway. We expect to ramp-up Goro over a three-year period to reach nominal production capacity of 60,000 metric tons per year of nickel contained in nickel oxide and 4,600 metric tons of cobalt.

Other operations

We process and sell nickel powders through our wholly owned subsidiary Novamet Specialty Products Corporation, in Wyckoff, New Jersey (United States).

2.1.2 Production

The following table sets forth our annual mine production by operating mine (or on an aggregate basis for PTI because it has mining areas rather than mines) and the average percentage grades of nickel and copper. The mine production at PTI represents the product from PTI s dryer kilns delivered to PTI s smelting operations and does not include nickel losses due to smelting. For our Sudbury, Thompson and Voisey Bay operations, the production and average grades represent the mine product delivered to those operations respective processing plants and do not include adjustments due to beneficiation, smelting or refining. The following table sets forth information about ore production at our nickel mining sites.

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	2007			2008			2009		
	(thousands of metric tons, except percentages)								
		Grade			Grade			Grade	
	Production	% Copper	% Nickel	Production	% Copper	% Nickel	Production	% Copper	% Nickel
Ontario operating mines									
Copper Cliff North	1,078	0.92	0.84	1,165	1.01	1.01	524	0.96	1.06
Copper Cliff South(1)	883	1.71	1.46	771	1.67	1.48	78	1.45	1.40
Creighton	963	1.62	2.08	1,001	1.56	2.14	395	1.57	1.82
Stobie	2,850	0.68	0.72	2,892	0.65	0.72	1,198	0.64	0.72
Garson	692	1.58	1.59	840	1.72	1.69	328	1.93	1.45
Coleman	1,408	2.75	1.74	1,425	2.66	1.62	624	3.28	1.64
Gertrude	12	0.25	0.66	124	0.29	0.72	–	–	–
Total Ontario operations	7,887	1.39%	1.25%	8,219	1.36%	1.26%	3,145	1.49	1.19
Manitoba operating mines									
Thompson	1,380	–	1.83	1,320	–	1.77	1,270	–	1.98
Birchtree	1,164	–	1.52	971	–	1.51	769	–	1.48
Total Manitoba operations	2,545	–	1.69%	2,291	–	1.66%	2,040	–	1.79
Voisey Bay operating mines									
Ovoid	2,147	2.47	3.74	2,385	2.38	3.50	990	2.57	3.20
Total Voisey Bay operations	2,147	2.47%	3.74%	2,385	2.38%	3.50%	990	2.57	3.20
Sulawesi operating mining areas									
Sorowako	4,615	–	2.03	4,258	–	2.08	3,598	–	2.02
Pomalaa(2)	645	–	2.30	417	–	2.29	–	–	–
Total Sulawesi operations	5,260	–	2.06%	4,675	–	2.10%	3,598	–	2.02

(1) This mine has been closed indefinitely since January 2009.
(2) This mine has been closed indefinitely since May 2008.

The following table sets forth information about our nickel production, including: (i) nickel refined through our facilities, (ii) nickel further refined into specialty products, and (iii) intermediates designated for sale. The numbers below are reported on an ore-source basis.

Mine	Type	Production for the year ended December 31, 2007	2008	2009
			(thousand metric tons)	
Sudbury(1)	Underground	70.7	85.3	43.6
Thompson(1)	Underground	29.8	28.9	28.8
Voisey Bay(2)	Open pit	58.9	77.5	39.7
Sorowako(3)	Open cast	75.8	68.3	68.8
External(4)	–	12.7	15.4	5.8
Total(5)		247.9	275.4	186.7

(1) Primary nickel production only (i.e., does not include secondary nickel from unrelated parties).
(2) Includes finished nickel produced at our Sudbury and Thompson operations, as well as some finished nickel produced by unrelated parties under toll-smelting and toll-refining arrangements.
(3) We have a 59.1% interest in PTI, which owns the Sorowako mines, and these figures include the minority interests.
(4) Finished nickel processed at our facilities using feeds purchased from unrelated parties.
(5) Excludes finished nickel produced under toll-smelting and refining arrangements covering purchased intermediates with unrelated parties. Unrelated-party tolling of purchased intermediates was 14.2 thousand metric tons in 2007, 7.5 thousand metric tons in 2008 and 5.2 thousand metric tons in 2009.

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2.1.3 Customers and sales

Our nickel customers are broadly distributed on a global basis. In 2009, 65.3% of our total nickel sales were delivered to customers in Asia, 21.9% to North America, 11.7% to Europe and 1.1% to other markets. We have short-term fixed-volume contracts with customers for the majority of our expected annual nickel sales. These contracts generally provide stable demand for a significant portion of our annual production.

Nickel is an exchange-traded metal, listed on the London Metal Exchange (LME), and most nickel products are priced according to a discount or premium to the LME price, depending on the nickel product s physical and technical characteristics. Our finished nickel products represent what is known in the industry as primary nickel, meaning nickel produced principally from nickel ores (as opposed to secondary nickel, which is recovered from recycled nickel-containing material). Finished primary nickel products are distinguishable in terms of the following characteristics, which determine the product price level and the suitability for various end-use applications:

- nickel content and purity level: (i) intermediates with various levels of nickel content, (ii) nickel pig iron has 1.5-6% nickel, (iii) ferro-nickel has 10-40% nickel, (iv) standard LME grade nickel has a minimum of 99.8% nickel, and (v) high purity nickel has a minimum of 99.9% nickel and does not contain specific elemental impurities;
- shape (such as pellets, discs, squares, strips and foams); and
- size.

In 2009, the principal end-use applications for nickel were:

- austenitic stainless steel (60-65% of global nickel consumption);
- non-ferrous alloys, alloy steels and foundry applications (15-20% of global nickel consumption);
- nickel plating (9% of global nickel consumption); and
- specialty applications, such as batteries, chemicals and powder metallurgy (5-10% of global nickel consumption).

In 2009, 59% of our refined nickel sales were made into non-stainless steel applications, compared to the industry average for primary nickel producers of 35%. As a result of our focus on such higher-value segments, our average realized nickel prices for refined nickel have typically exceeded LME cash nickel prices.

We offer sales and technical support to our customers on a global basis. We have a well-established global marketing network for finished nickel, based at our head office in Toronto, Canada. We also have sales offices in Saddle Brook, New Jersey (United States), London (England), St. Prex (Switzerland), Tokyo (Japan), Hong Kong, Shanghai (China), Kaohsiung (Taiwan), Bangkok (Thailand) and Bridgetown (Barbados). For information about demand and prices, see below *Operating and financial review and prospects Demand and prices*.

2.1.4 Competition

The global nickel market is highly competitive. Our key competitive strengths include our long-life mines, our low cash costs of production relative to other nickel producers, and sophisticated exploration and processing technologies.

Our global marketing reach, diverse product mix, and technical support direct our products to the applications and geographic regions that offer the highest margins for our products.

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Our nickel deliveries represented 17% of global consumption for primary nickel in 2009. In addition to us, the largest suppliers in the nickel industry (each with its own integrated facilities, including nickel mining, processing, refining and marketing operations) are Mining and Metallurgical Company Norilsk Nickel, Jinchuan Nonferrous Metals Corporation, BHP Billiton plc and Xstrata plc. Together with us, these companies accounted for about 58% of global finished primary nickel production in 2009.

While stainless steel production is a major driver of global nickel demand, stainless steel producers can use nickel products with a wide range of nickel content, including secondary nickel (scrap). The choice between primary and secondary nickel is largely based on their relative prices and availability. In recent years, secondary nickel has accounted for about 43-49% of total nickel used for stainless steels, and primary nickel has accounted for about 51-57%. In 2006, a new primary nickel product entered the market, known as nickel pig iron. This is a low-grade nickel product made in China from imported lateritic ores (primarily from the Philippines and Indonesia) that is suitable primarily for use in stainless steel production. In 2009, Chinese nickel pig iron and ferro-nickel production totaled an estimated 94,500 metric tons, representing 7% of world primary nickel supply.

Competition in the nickel market is based primarily on quality, reliability of supply and price. We believe our operations are competitive in the nickel market because of the high quality of our nickel products and our relatively low production costs.

2.2 Aluminum

We operate our aluminum businesses at the parent-company level and through subsidiaries and joint ventures, as set forth in the following table.

		Our share of capital		
Company	**Business**	**Voting**	**Total**	**Partners**
		(%)		
Vale (Paragominas mine)	Bauxite	100	100	
MRN	Bauxite	40.0	40.0	Rio Tinto Alcan Brasil Ltda., BHP Billiton Metais S.A., Companhia Brasileira de Alumínio, Alcoa Alumínio S.A., Alcoa World Alumina LLC, Alcoa World Alumina Brasil Participações Ltda. and Norsk Hydro Brasil Ltda.
Alunorte	Alumina	59.0	57.0	Hydro Aluminum Brasil Investment BV, Companhia Brasileira de Alumínio, Nippon Amazon Aluminum Co., Ltd., Japan Alunorte Investment Co., Ltd. and Mitsui & Co., Ltd.

CAP	Alumina	61.0	61.0	Hydro Aluminum Para BV and Dubai Aluminum Company Limited
Albras	Aluminum	51.0	51.0	Nippon Amazon Aluminum Co., Ltd.
Valesul(1)	Aluminum	100	100	

(1) In January 2010, Valesul entered into an agreement to sell its aluminum assets.

2.2.1 Bauxite

We conduct our bauxite operations through our joint venture Mineração Rio do Norte S.A. (MRN) and at the parent-company level.

MRN. MRN, which is located in the northern region of the Brazilian state of Pará, is one of the largest bauxite operations in the world, operating four open-pit bauxite mines that produce high quality bauxite. In addition, MRN controls substantial additional high quality bauxite reserves.

MRN also operates ore beneficiation facilities at its mines, which are connected by rail to a loading terminal and port facilities on the Trombetas River, a tributary of the Amazon River, that can handle vessels of up to 60,000 deadweight tons (DWT). MRN owns and operates the rail and the port facilities serving its mines. The MRN mines are accessible by road from the port area and obtain electricity from their own thermal power plant.

Paragominas mine. Operations at our Paragominas mine, in the Brazilian state of Pará, began in the first quarter of 2007 to supply Alunorte s alumina refinery. The first expansion of Paragominas (Paragominas II) was concluded in the second quarter of 2008. The mine produces a wet 12% moisture bauxite, and the bauxite quality is similar to that of MRN. The Paragominas site has a beneficiation plant with milling and a 244-kilometer slurry pipeline. We obtain electricity from Eletronorte, a state-owned power generation company in Brazil.

The following table sets forth information about bauxite ore production at our mining sites.

		Production for the year ended December 31,			
Mine(1)	**Type**	**2007**	**2008**	**2009**	**Recovery rate**
		(million metric tons)			(%)
MRN					
Almeidas	Open pit	4.8	3.6	2.2	
Aviso	Open pit	14.4	14.5	13.5	
Saracá V	Open pit	2.1	2.3	0.9	
Saracá W	Open pit	3.5	3.9	4.1	
Total MRN		24.8	24.2	20.7	72-77
Paragominas					
Miltonia 3	Open pit	4.4	7.3	10.1	70

(1) These figures represent run-of-mine production.

The following table sets forth information about our bauxite production.

		Production for the year ended December 31,			
Mine	**Type**	**2007**	**2008**	**2009**	**Recovery rate**
			(million metric tons)		(%)
MRN	Open pit	18.1	18.1	15.6	77

Paragominas	Open pit	1.9	4.4	6.2	70

2.2.2 Alumina

We conduct our alumina operations in Brazil, through our subsidiary Alunorte Alumina do Norte do Brasil S.A. (Alunorte), which produces alumina by refining bauxite supplied by MRN and the Paragominas mine. The Alunorte plant is the largest alumina refinery in the world, with a nominal production capacity of 6.3 million metric tons per year, after the last expansion concluded in the second quarter of 2008.

Alunorte sells alumina to our subsidiary Albras Alumínio Brasileiro S.A. (Albras), its principal customer, and to unaffiliated customers. Albras aluminum production facilities are located nearby, in the city

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of Barcarena in the state of Pará, and Alunorte and Albras share infrastructure and other resources. The following table sets forth information on our alumina production.

Company	Production for the year ended December 31, 2007	2008	2009
		(million metric tons)	
Alunorte	4.3	5.0	5.9

2.2.3 Aluminum

We conduct our aluminum operations in Brazil through our subsidiary Albras. The Albras smelter, located in Barcarena, in the state of Pará, is one of the largest aluminum plants in the Americas, with a nominal capacity of 455,000 metric tons per year. Albras produces aluminum using alumina supplied by Alunorte. Alunorte supplied 100% of Albras alumina requirements in 2009. Albras produces pure metal ingots.

Aluminum is produced from alumina by means of a continuous electro-chemical process, which requires substantial amounts of electricity. Albras purchases electric power from Eletronorte, a state-owned power generating facility. Eletronorte generates electricity at the Tucuruí hydroelectric power plant located on the Tocantins River. This plant is the sole source of electrical power in the region in the quantities required for Albras operations. Albras consumes approximately one-fifth of the non-peak period output of the Tucuruí plant.

The following table sets forth information on our aluminum and aluminum alloys production.

Company	Production for the year ended December 31, 2007	2008	2009
		(thousand metric tons)	
Albras	455	455	450
Valesul(1)	95	87	9
Total	551	543	459

(1) In January 2010, we entered into an agreement to sell Valesul s aluminum assets (in the Brailian state of Rio de Janeiro) for US$31.2 million. In 2007, 2008 and 2009, Valesul recycled 13,000, 15,000 and 18,000 metric tons, respectively, of aluminum scrap from unrelated parties. As of April 1, 2009, Valesul ceased its aluminum smelting operations and began production of billets for extrusion, using purchased aluminum ingots and scrap as its main raw materials. It produced 25,800 metric tons of billets in 2009.

2.2.4 Customers and sales

Bauxite. MRN produces bauxite for sale on a take-or-pay basis to the joint venture partners. Excess production may be sold to customers. The joint venture partners pay a price that is determined by a formula linked to the price of aluminum for three-month futures contracts on the LME and to the price of alumina FOB Australia. In 2009, our subsidiary Alunorte purchased 57.73% of its bauxite requirements from MRN. Paragominas sells all of its production to our subsidiary Alunorte, which corresponds to 42.27% of its bauxite requirements in 2009.

Alumina. Each Alunorte partner must purchase on a take-or-pay basis all alumina produced by Alunorte in proportion to its respective interest. The partners pay the same price, which is determined by a formula based on the price of aluminum for three-month futures contracts on the LME. We usually use a portion of our share of Alunorte s alumina production to supply Albras, and we sell the remainder to customers in Argentina, Canada, Egypt, Norway, the United States and other countries.

Aluminum. Each Albras partner must purchase on a take-or-pay basis all aluminum produced by Albras in proportion to its ownership interests. We generally market our aluminum in the global markets, mainly Asia and Europe, to customers in the aluminum industry. Valesul s aluminum products were sold primarily in the Brazilian market.

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2.2.5 Competition

Alumina. The alumina market is competitive, but small compared to the primary aluminum market, because many of the major aluminum-producing companies have integrated bauxite, alumina and aluminum operations. Competition in the alumina market is based primarily on quality, reliability of supply and price, which is directly related to lower costs and logistics. We believe that Alunorte is competitive in the alumina market because of the high quality of its alumina, its advantages in scale and technology, lower conversion costs relative to other refineries on the Atlantic, its efficient port facilities, and the ongoing commitment of its shareholders to purchase a substantial portion of its annual production to place it both in Brazilian and other markets.

Aluminum. The global aluminum market is highly competitive. The world s largest producers are subsidiaries and affiliates of Alcoa, Rusal, Rio Tinto, Chalco, Norsk Hydro and BHP Billiton. As primary aluminum is a commodity, competition in the aluminum market is based primarily on the economics of transportation and the costs of production. We believe that Albras is competitive in the global aluminum market because of its relatively efficient and accessible port facilities and alumina supply.

2.3 Copper

2.3.1 Operations

We conduct our copper operations at the parent-company level in Brazil and through our subsidiary Vale Inco in Canada.

Company	Location	Our share of capital Voting	Total
		(%)	
Vale	Brazil		
Vale Inco	Canada	100	100

Brazilian operations

Our Sossego copper mine in Carajás, in the state of Pará, has two main copper ore bodies, Sossego and Sequeirinho. The copper ore is mined by open-pit method, and the run-of-mine is processed by means of standard primary crushing and conveying, SAG milling (a semi-autogenous mill that uses a large rotating drum filled with ore, water and steel grinding balls to transform the ore into a fine slurry), ball milling, copper concentrate flotation, tailings disposal, concentrate thickening, filtration and load out. We truck the concentrate to a storage terminal in Parauapebas and then transport it via the EFC railroad to the Ponta da Madeira maritime terminal in São Luís, in the state of Maranhão.

We constructed an 85-kilometer road to link Sossego to the Carajás air and rail facilities and a power line that allows us to purchase electrical power at market prices. We have a long-term energy supply contract with Eletronorte.

In December 2008, we concluded the construction of the Usina Hidrometalúrgica de Carajás plant (UHC), located at the Sossego mining site, to test the application of hydro-metallurgical technology for the industrial-scale processing of copper concentrate to produce copper cathode. In 2009, we produced 2,178 metric tons of copper cathode in this plant using copper concentrate from our Sossego mine. The testing program will continue until the end of 2010 and the information gathered will be used to design and evaluate the feasibility of a larger hydro-metallurgical plant. If proven to be efficient, we believe this technology could be used to process the sulfide ore produced at the mines in the

Carajás mineral province at a relatively low cost.

Canadian operations

In Canada, we recover copper in conjunction with our nickel operations, principally at Sudbury and Voisey Bay. At Sudbury, we produce two intermediate copper products, copper concentrate and copper anodes, and we also produce electrowon copper cathode as a by-product of our nickel refining operations. At Voisey Bay, we produce copper concentrates. For information about strikes affecting some of our Canadian nickel operations, see *Management and employees Employees*.

2.3.2 Production

The following table sets forth information on our copper production.

Mine	Type	Production for the year ended December 31, 2007	2008 (thousand metric tons)	2009
Brazil:				
Sossego	Open pit	118	126	117
Canada:				
Sudbury	Underground	113	115	42
Voisey Bay	Open pit	42	55	24
Thompson	Underground	1	1	1
External(1)		9	14	14
Total		284	312	198

(1) We process copper at our facilities using feed purchased from unrelated parties.

2.3.3 Customers and sales

Copper concentrates from Sossego are sold under medium- and long-term contracts to copper smelters in South America, Europe and Asia. We have long-term off-take agreements to sell the entire production of copper concentrate from the first phase of the Salobo project to smelters. Electrowon copper from UHC is mainly sold in Brazil under short-term sales agreements. We have long-term copper supply agreements with Xstrata Copper Canada for the sale of copper anodes and copper concentrates produced in Sudbury. Copper in concentrates from Voisey Bay are sold under medium-term contracts to customers in Europe. Electrowon copper from Sudbury is sold in North America under short-term sales agreements.

2.3.4 Competition

The global copper cathode market is highly competitive. Producers are integrated mining companies and custom smelters, covering all regions of the world, while consumers are principally wire, rod and copper-alloy producers. Competition occurs mainly on a regional level and is based primarily on production costs, quality, reliability of supply and logistics costs. The world s largest copper cathode producers are Codelco, Freeport-McMoRan, Aurubis, Jiangxi and Xstrata, operating at the parent-company level or through subsidiaries. Our participation in the global copper cathode market is marginal.

Copper concentrate and copper anode are intermediate products in the copper production chain. Both the concentrate and anode markets are competitive, having numerous producers but fewer participants and smaller volumes than in the copper cathode market due to high levels of integration by the major copper producers.

In the copper concentrate market, the main producers are mining companies located in South America, Indonesia and Australia, while consumers are custom smelters located in Europe and Asia. Competition in the copper concentrate market occurs mainly on a global level and is based on production costs, quality, logistics costs and reliability of supply. The largest competitors in the copper concentrate market are Freeport-McMoRan, BHP Billiton, Xstrata and Rio Tinto, operating at the parent-company level or through subsidiaries. Our market share in 2009 was about 3% of the total custom copper concentrate market.

The copper anode/blister market has very limited trade within the copper industry; generally, anodes are produced to supply each company s integrated refinery. The trade in anodes/blister is limited to those facilities that have more smelting capacity than refining capacity or to those situations where logistics cost savings provide an incentive to source anodes from outside smelters. The largest competitors in the copper anode market are Anglo American, Xstrata and Codelco, operating at the parent-company level or through subsidiaries.

2.4 Fertilizer nutrients

2.4.1 Potash

We conduct potash operations in Brazil at the parent-company level. We lease Taquari-Vassouras, the only potash mine in Brazil (in Rosario do Catete, in the state of Sergipe), from Petrobras Petróleo Brasileiro S.A., the Brazilian state-owned oil company. The lease, signed in 1991, became effective in 1992 for a period of 25 years.

The following table sets forth information on our potash production.

		Production for the year ended December 31,			
Mine	**Type**	**2007**	**2008**	**2009**	**Recovery rate**
			(thousand metric tons)		(%)
Taquari-Vassouras	Underground	671	607	717	87.6

2.4.2 Phosphates

We have agreed to acquire a 78.9% stake (direct and indirect) in Fosfertil and 100% of BPI. See *Significant changes in our business*. Fosfertil is a Brazilian producer of phosphate rock, phosphates fertilizers (P) (e.g., monoammonium phosphate (MAP), diammonium phosphate (DAP), triple superphosphate (TSP) and single superphosphate (SSP)) and nitrogen (N) fertilizers (e.g., ammonium nitrate and urea). It is the largest producer of P and N crop nutrients in Brazil. Fosfertil operates three phosphate rock mines: Catalão, in the state of Goiás, Tapira and Patos de Minas, both in the state of Minas Gerais. In addition, it is developing Salitre, a greenfield project in Patrocínio, in the state of Minas Gerais. BPI owns two phosphate rock mines, Araxá, in the state of Minas Gerais, and Cajati, in the state of São Paulo. BPI also has four processing plants for the production of phosphates fertilizers, located at Araxá, Minas Gerais; Cajati, São Paulo; Cubatão, São Paulo; and Guará, São Paulo.

2.4.3 Customers and sales

All potash sales from the Taquari-Vassouras mine are to the Brazilian market. Our production represents 8-10% of total potash consumption in Brazil. We have a strong presence and long-standing relationships with the major players in Brazil.

2.4.4 Competition

Fertilizers have a strong demand growth potential, which is anchored in market fundamentals similar to those underlying the global demand for minerals, metals and energy. Rapid per capita income growth of emerging economies causes diet changes towards an increasing intake of proteins that ultimately contribute to boost fertilizer use. More recently, global output of biofuels has started to boom as they emerged as an alternative source of energy to reduce world reliance on sources of climate-changing greenhouse gases. Given that key inputs for the production of biofuels sugar cane, corn and palm are intensive in the use of fertilizers, they are becoming another major driver of the global demand for crop nutrients.

The industry is divided into three major nutrients: potash, phosphate and nitrogen. There are limited resources of potash around the world with Canada, Russia and Belarus being the most important sources. Due to the lack of resources, the high level of investment and the long time for a project to mature, it is unlikely that other regions will emerge as major potash producers. While potash is a very scarce resource, phosphate is more available, but all major exporters are located in the northern region of Africa (Morocco, Algeria and Tunisia) and in the United States.

Brazil is one of the largest agribusiness markets in the world due to its high production and consumption of grains and biofuel. It is the fifth-largest consumer of fertilizers in the world and one of the largest importers of phosphates, potash, urea and phosphoric acid. Brazil imports 90% of its potash (6.8 Mt) from Canadian, Russian and German producers in descending order. The United States, Brazil, China and India are important consumers of potash, representing 60% of total global consumption. Our projects portfolios are highly competitive in terms of cost and logistics with these regions. The potash industry is highly concentrated, with the eight major producers being responsible for more than 80% of total world production capacity.

We are building our expertise in solution mine technology for potash mining. During the last period, we achieved very good results applying this technology for silvinite and carnalite resources in the Rio Colorado and Carnalita projects, respectively. We believe that this technology will enhance our competitive advantage in operating and capital expenditures.

Most phosphate concentrate is consumed locally by downstream integrated producers, with the seaborne market corresponding to 15% of total phosphate rock production. Major phosphate rock exporters are concentrated in North Africa, mainly through state-owned companies, with OCP Group holding 49% of the total seaborne market. Brazil imports 49% of its total phosphate nutrients it needs in both phosphate fertilizer products and phosphate rock. The phosphate rock imports supply non-integrated producers of phosphate fertilizers products such as single superphosphate (SSP), triple superphosphate (TSP) and monoammonium phosphate (MAP).

2.5 PGMs and other precious metals

As by-products of our Sudbury nickel operations in Canada, we recover significant quantities of PGMs, as well as small quantities of gold and silver. We operate a processing facility in Port Colborne, Ontario, which produces PGMs, gold and silver intermediate products. We have a refinery in Acton, England, where we process our intermediate products, as well as feeds purchased from unrelated parties and toll-refined materials. In 2009, PGM concentrates from our Sudbury operations supplied about 36% of our PGM production. Our global nickel marketing department sells our own PGMs and other precious metals, as well as products from unrelated parties and toll-refined products, on a sales agency basis. For information about strikes affecting some of our Canadian operations, see *Management and employees Employees*.

The following table sets forth information on our precious metals production.

Mine(1)	**Type**	**2007**	**2008**	**2009**
			(thousand troy ounces)	
Sudbury:				
Platinum	Underground	140	166	103
Palladium	Underground	191	231	152
Gold	Underground	75	85	49

(1) Production figures exclude precious metals purchased from unrelated parties and toll-refined materials.

2.6 Other non-ferrous minerals

2.6.1 Cobalt

We recover significant quantities of cobalt as a by-product of our Canadian nickel operations. In 2009, we produced 639 metric tons of refined cobalt metal at our Port Colborne refinery and 554 metric tons of cobalt in a cobalt-based intermediate at our Thompson nickel operations in Canada. Our remaining cobalt production consisted of 491 metric tons of cobalt contained in other intermediate products (such as nickel concentrates). For information about strikes affecting some of our Canadian operations, see *Management and employees Employees*. We expect to increase our production of cobalt as we increase nickel production in New Caledonia at the Goro mine, because the nickel laterite ore at this location contains significant co-deposits of cobalt.

We sell cobalt on a global basis. Our cobalt metal, which is electro-refined at our Port Colborne refinery, has very high purity levels (99.8%). Cobalt metal is used in the production of various alloys, particularly for aerospace applications, as well as the manufacture of cobalt-based chemicals.

The following table sets forth information on our cobalt production.

Mine	Type	Production for the year ended December 31, 2007	2008	2009
			(metric tons)	
Sudbury	Underground	727	804	359
Thompson	Underground	179	168	181
Voisey Bay	Open pit	1,239	1,695	971
External(1)		379	161	64
Total		2,524	2,828	1,575

(1) These figures do not include unrelated-party tolling of feeds purchased from unrelated parties.

2.6.2 Kaolin

We conduct our kaolin business in Brazil, through the subsidiaries set forth in the following table:

Company	Location	Our share of capital Voting	Total	Partners
		(%)		
CADAM	Vitória do Jari, Amapá	100	61.5	Banco do Brasil and BNDES
PPSA	Barcarena, Pará	85.6	86.2	Mitsubishi Corporation

CADAM S.A. (CADAM) and Pará Pigmentos S.A. (PPSA) produce kaolin for paper coating. They also conduct research into other uses for kaolin products in order to develop a more diversified portfolio.

CADAM is located on the border of the states of Pará and Amapá, in the Amazon area in northern Brazil. CADAM s reserves are principally concentrated in the open-pit Morro do Felipe mine, in Vitória do Jari, in the state of Amapá. The beneficiation plant and private port facilities are situated on the west bank of the Jari River, in Munguba, in the state of Pará. CADAM produces the following products: Amazon SB, Amazon Premium and Amazon Plus. They are sold mainly in the European, Asian and Latin American markets.

PPSA operates an open-pit mine, Rio Capim, and a beneficiation plant. These operations are linked to the land and port facilities in Barcarena, via a 180-kilometer pipeline. The beneficiated kaolin is pumped through a slurry pipeline.

PPSA produces the following products: Century, Century S, Paraprint, Paraplate and Paralux. They are sold mainly in the European, Asian and North American markets. We are in preliminary negotiations to sell PPSA.

CADAM obtains electricity from its own thermal power plant, whose nominal capacity is 25.0 MW. PPSA has an energy supply contract with Rede Celpa, a power generation company in the state of Pará, Brazil.

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The following table sets forth information on our kaolin production.

Mine	Type	Production for the year ended December 31, 2007	2008 (thousand metric tons)	2009	Recovery rate(1) (%)
CADAM					
Morro do Felipe	Open pit	714	602	427	52.1
PPSA					
Rio Capim	Open pit	639	528	354	24.2
Total		1,354	1,129	781	

(1) Total recovery rate.

3. Coal

3.1 Operations

We produce thermal and metallurgical coal through our subsidiary Vale Australia, which operates coal assets in Australia through wholly owned companies and unincorporated joint ventures, and thermal coal through our subsidiary Vale Colombia.

We also have a minority interest in two Chinese companies, Henan Longyu Energy Resources Co., Ltd. (Longyu) and Shandong Yankuang International Coking Company Ltd. (Yankuang), as set forth in the following table.

Company	Business	Location	Our share of capital (%)	Partners
Vale Australia		*Australia:*		
Integra Coal	Thermal and metallurgical coal	Hunter Valley, New South Wales	61.2	NSC, JFE, Posco, Toyota
Carborough Downs	Metallurgical coal	Bowen Basin, Queensland	80.0	NSC, JFE, Posco, Tata
Isaac Plains	Thermal and metallurgical coal	Bowen Basin, Queensland	50.0	Aquila
Broadlea	Thermal and metallurgical coal	Bowen Basin, Queensland	100	
Vale Colombia	Thermal coal	Colombia	100	

Longyu	Coal and other related products	Henan Province, China	25.0	Yongmei Group Co., Ltd. (former Yongcheng Coal & Electricity (Group) Co. Ltd.), Shanghai Baosteel International Economic & Trading Co., Ltd. and other minority shareholders
Yankuang	Metallurgical coke and methanol	Shandong Province, China	25.0	Yankuang Group Co. Limited, Itochu Corporation

Integra Coal Operations (*underground and open-cut*). The Integra Coal Operations are located 10 kilometers north-west of Singleton in the Hunter Valley of New South Wales, Australia. The operations comprise an underground coal mine that produces coal by longwall methods, and an open-cut pit. Coal from the mine is processed at a coal handling and processing plant (CHPP) with a capacity of 1,200 metric tons per hour, loaded onto trains at a purpose-built rail loadout facility for transport to the port of Newcastle, New South Wales, Australia.

Carborough Downs. Carborough Downs is located in the Central Bowen Basin in central Queensland, Australia, 15 kilometers east of the township of Moranbah and 180 kilometers southwest of the coastal city of Mackay. Carborough Downs mining leases overlie the Rangal Coal Measures of the Bowen Basin with the economic seams of Leichardt and Vermont. Both seams have coking properties and can be beneficiated to produce coking and PCI products. The Leichardt seam is currently our main target for development and constitutes 100% of the current reserve and resource base. Carborough Downs coal is processed at the Carborough Downs CHPP, which is capable of processing 1000 metric tons per hour, and which operates seven days per week. The product is loaded onto trains at a rail loadout facility and transported 160 kilometers to the Dalrymple Bay Coal Terminal, Queensland, Australia.

Isaac Plains. The Isaac Plains open-cut mine is located close to Carborough Downs in central Queensland. The mine is managed by Isaac Plains Coal Management on behalf of the joint venture parties. The coal is classified as a medium volatile bituminous coal with low ash and sulfur contents. Isaac Plains s product split for the life of the mine is 75% metallurgical coal and 25% thermal coal. Coal is processed at the Isaac Plains CHPP and railed 172 kilometers to the Dalrymple Bay Coal Terminal.

Broadlea. Broadlea is an open-cut operation located just north of Carborough Downs underground mine, consisting of a collection of small economic coal deposits. Broadlea is mined using the truck-and-shovel method, and product coal is toll-washed at the Carborough Downs CHPP and railed 172 kilometers to the Dalrymple Bay Coal Terminal in Queensland, Australia. At the end of 2009, Broadlea ceased operations and underwent maintenance due to increasing unit costs. The mine s economic viability will undergo regular review to determine the potential recommencement of operations.

El Hatillo. The El Hatillo thermal coal mine is located in the central portion of the Cesar Department, 210 kilometers southeast of Santa Marta. The concession area is adjacent to the town of La Loma and encompasses an area of 9,693 hectares.

3.2 Production

The following table sets forth information on our coal production.

		Production for the year ended December 31,		
Operation	**Mine type**	**2007(1)**	**2008**	**2009**
		(thousand metric tons)		
Thermal coal:				
El Hatillo(2)	Open-cut			1,143
Integra Coal(3)	Open-cut	255	557	702
Isaac Plains(4)	Open-cut	171	147	551
Broadlea	Open-cut	14	582	497
Total thermal coal		440	1,286	2,892
Metallurgical coal:				
Integra Coal(3)	Underground and open-cut	1,214	1,747	1,184
Isaac Plains(4)	Open-cut	249	382	487
Carborough Downs(5)	Underground	269	429	604
Broadlea	Open-cut	32	249	252

Total metallurgical coal	1,764	2,808	2,527

(1) We acquired AMCI HA, the previous owner of these mines, in April 2007. Figures for 2007 include production from May to December 2007 only.
(2) We acquired El Hatillo in the first quarter of 2009. Figures for 2009 include production from April to December only.
(3) These figures correspond to our 61.2% equity interest in Integra Coal, an unincorporated joint venture.
(4) These figures correspond to our 50% equity interest in Isaac Plains, an unincorporated joint venture.
(5) These figures correspond to our 80% equity interest in Carborough Downs, an unincorporated joint venture.

Operation	Mine type
El Hatillo(1)	Open-cut
Integra Coal(2)	Underground and open-cut
Isaac Plains(3)	Open-cut
Carborough Downs(4)	Underground
Broadlea	Open-cut

(1) We acquired El Hatillo in the first quarter of 2009. Figures for 2009 include production from April to December only.
(2) These figures correspond to our 61.2% equity interest in Integra Coal, an unincorporated joint venture.
(3) These figures correspond to our 50% equity interest in Isaac Plains, an unincorporated joint venture.
(4) These figures correspond to our 80% equity interest in Carborough Downs, an unincorporated joint venture.

Longyu produces coal and other related products. Yankuang, a metallurgical coke plant, has production capacity of 2.0 million metric tons per year of coke and 200,000 metric tons per year of methanol.

3.3 Customers and sales

The coal sales from our Australian operations are primarily focused on East Asia. In 2009, 41% of our coal sales were made to Japanese steel mills and power utilities. In 2009, our Chinese coal joint ventures directed their sales mainly to the Chinese domestic market. The coal sales from our Colombian operations are primarily focused in Europe and the United States.

Integra s operations in New South Wales are similar to many Hunter Valley operations in that the vast majority of production is consumed in northern Asia. Our Queensland operations commenced production in late 2006. Aided by a strong market for metallurgical coal, we were able to market various types of coal from Carborough Downs, Broadlea and Isaac Plains mines in a number of target markets, predominantly those mentioned above.

3.4 Competition

The global coal industry, which is primarily comprised of the markets for hard coal (metallurgical coal and thermal coal) and brown coal/lignite, is highly competitive. Growth in steel demand, especially in Asia, underpins strong demand for metallurgical coal. Major port and rail constraints in some of the countries in which major suppliers are located could lead to limited availability of incremental metallurgical coal production.

The global seaborne thermal coal market has significantly expanded in recent years. Growth in thermal coal demand is closely related to growth in electricity consumption, which will continue to be driven by global economic growth, particularly from emerging economies. Large existing fleets of coal-fired power plants with long life cycles take decades to replace or upgrade, keeping a high share of thermal coal in the electricity matrix in countries with high consumption. The cost of fuel is typically the largest variable cost involved in electricity generation and coal is currently the most competitively priced fossil fuel for this purpose.

Competition in the coal industry is based primarily on the economics of production costs, coal quality and transportation costs. We believe that our operations and project pipeline are competitive, and our key competitive strengths include the strategic geographic location of our current and future supply bases and our production cash costs relative to several other coal producers.

Major participants in the coal seaborne market are subsidiaries and affiliates of Xstrata plc, BHP Billiton plc, PT Bumi Resources Tbk., Anglo Coal, Drummond Company, Inc., Rio Tinto Ltd., Teck Cominco, Peabody and the Shenhua Group.

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4. Infrastructure

4.1 Logistics services

We have developed our logistics business based on the transportation needs of our mining operations, mainly iron ore, and it also provides transportation services for customers products and for passengers. We conduct logistics businesses at the parent-company level, through subsidiaries and through joint ventures, as set forth in the following table.

Company	Business	Location	Our share of capital Voting (%)	Our share of capital Total (%)	Partners
Vale	Railroad (EFVM and EFC), port and maritime terminal operations	Brazil	100.0	100.0	
FCA	Railroad operations	Brazil	100.0	99.9	Former employees of Rede Ferroviária Federal S.A.
FNS	Railroad operations	Brazil	100.0	100.0	
MRS	Railroad operations	Brazil	37.9	41.5	CSN, Usiminas and Gerdau
CPBS	Port and maritime terminal operations	Brazil	100.0	100.0	
Log-In	Port and maritime terminal operations and shipping activities	Brazil	31.3	31.3	Mitsui &Co., public investors
PTI	Port and maritime terminal operations	Indonesia	59.1	59.1	Sumitomo, public investors
SPRC	Port and maritime terminal operations	Colombia	100.0	100.0	
FENOCO	Railroad operations	Colombia	8.4	8.4	Drummond, Glencore and Coalcorp

4.1.1 Railroads

Brazil

Vitória a Minas railroad (*EFVM*). The EFVM railroad links our Southeastern System mines in the Iron Quadrangle region in the Brazilian state of Minas Gerais to the Tubarão Port, in Vitória, in the Brazilian state of Espírito Santo. We operate this 905-kilometer railroad under a 30-year renewable concession, which expires in 2027. The EFVM railroad consists of two lines of track extending for a distance of 601 kilometers to permit continuous railroad travel in opposite directions, and single-track branches of 304 kilometers. Industrial manufacturers are located in this area and major agricultural regions are also accessible to it. The EFVM railroad has a daily capacity of 342,000 metric tons of iron ore. In 2009, the EFVM railroad carried a total of 60.5 billion ntk of iron ore and other cargo, of which 13.5 billion ntk, or 22%, consisted of cargo transported for customers, including iron ore for Brazilian customers. The EFVM railroad also carried 0.9 million passengers in 2009. In 2009, we had a fleet of 331 locomotives and 19,395 wagons at EFVM.

Carajás railroad (*EFC*). We operate the EFC railroad under a 30-year renewable concession, which expires in 2027. EFC is located in the Northern System, beginning at our Carajás iron ore mines in the Brazilian state of Pará and extending 892 kilometers to our Ponta da Madeira maritime terminal complex facilities located near the Itaqui Port in the Brazilian state of Maranhão. Its main cargo is iron ore, principally carried for us. It has a daily capacity of 301,000 metric tons of iron ore. In 2009, the EFC railroad carried a total of 85.04 billion ntk of iron ore and other cargo, 3.11 billion ntk of which was cargo for customers, including iron ore for Brazilian customers. EFC also carried 342,665 passengers in 2009. EFC supports the largest capacity train in Latin America, which measures 3.4 kilometers, weighs 42,300 gross metric tons when loaded and has 330 cars. In 2009, EFC also had a fleet of 226 locomotives and 12,627 wagons.

Ferrovia Centro-Atlântica (*FCA*). Our subsidiary FCA operates the central-east regional railway network of the Brazilian national railway system under a 30-year renewable concession, which expires in 2026. The central east network has 8,023 kilometers of track extending into the states of Sergipe, Bahia, Espírito Santo, Minas Gerais, Rio de Janeiro and Goiás and Brasília, the Federal District of Brazil. It connects with our EFVM railroad near the cities of Belo Horizonte, in the state of Minas Gerais and Vitória, in the state of Espírito Santo. FCA operates on the same track gauge as our EFVM railroad and provides access to the Santos Port in the state of São Paulo. In 2009, the FCA railroad transported a total of 10.62 billion ntk of cargo for customers. In 2009, FCA had a fleet of 498 locomotives and 13,061 wagons.

Ferrovia Norte-Sul railroad (*FNS*). In October 2007, we won the auction for the subconcession for commercial operation for 30 years of a 720-kilometer stretch of the FNS railroad, in Brazil. Since 1989, we have operated a segment of the FNS, which connects to the EFC railroad, enabling access to the port of Itaqui, in São Luís, where our Ponta da Madeira maritime terminal is located. A 452-kilometer extension was concluded in December 2008. In 2009, the FNS railroad transported a total of 1.16 billion ntk of cargo for customers. This new railroad creates a new corridor for the transportation of general cargo, mainly for the export of soybeans, rice and corn produced in the center-northern region of Brazil. In 2009, FNS had a fleet of 6 locomotives and 370 wagons.

The principal items of cargo of the EFVM, EFC, FCA and FNS railroads are:

- iron ore and iron ore pellets, carried for us and customers;
- steel, coal, pig iron, limestone and other raw materials carried for customers with steel mills located along the railroad;
- agricultural products, such as soybeans, soybean meal and fertilizers; and
- other general cargo, such as building materials, pulp, fuel and chemical products.

We charge market prices for customer freight, including iron ore pellets originating from joint ventures and other enterprises in which we do not have a 100% equity interest. Market prices vary based on the distance traveled, the type of product transported and the weight of the freight in question, and are regulated by the Brazilian transportation regulatory agency, ANTT (*Agência Nacional de Transportes Terrestres*).

MRS Logística S.A. (MRS). The MRS railroad is 1,643 kilometers long and links the Brazilian states of Rio de Janeiro, São Paulo and Minas Gerais. In 2009, the MRS railroad carried a total of 56.25 million metric tons of cargo, including 51.1 million metric tons of iron ore and other cargo from Vale.

Colombia

Ferrocarriles del Norte de Colombia S.A. (*FENOCO*). We own an 8.4% equity stake in FENOCO, a company that owns a concession to restore and operate the Chiriguana - Santa Marta tranche (220 kilometers) of the Atlantic Railroad, which connects the Cesar coal-producing region with various ports in the Atlantic Ocean.

4.1.2 Ports and maritime terminals

Brazil

We operate a port and six maritime terminals principally as a means to complete the delivery of our iron ore and iron ore pellets to bulk carrier vessels serving the seaborne market. See *Ferrous minerals Iron ore pellets Operations*. We also use our port and terminals to handle customers   cargo. In 2009, 10% of the cargo handled by our port and terminals represented cargo handled for customers.

Tubarão Port. The Tubarão Port, which covers an area of 18 square kilometers, is located near the Vitória Port in the Brazilian state of Espírito Santo and contains four maritime terminals: (i) the iron ore maritime terminal, (ii) Praia Mole Terminal, (iii) Terminal de Produtos Diversos, and (iv) Terminal de Granéis Líquidos.

The iron ore maritime terminal has two piers. Pier I can accommodate two vessels at a time, one of up to 170,000 DWT on the southern side and one of up to 200,000 DWT on the northern side. Pier II can accommodate one vessel of up to 365,000 DWT at a time, limited at 20 meters draft plus tide. In Pier I there are two ship loaders, which can load up to a combined total of 14,000 metric tons per hour. In Pier II there are two ship loaders that work alternately and can each load up to 16,000 metric tons per hour. In 2009, 77.42 million metric tons of iron ore and iron ore pellets were shipped through the terminal for us. The iron ore maritime terminal has a stockyard capacity of 2.8 million metric tons.

Praia Mole terminal is principally a coal terminal and handled 8.9 million metric tons in 2009. See *Additional information Legal proceedings*.

Terminal de Produtos Diversos handled 5.9 million metric tons of grains and fertilizers in 2009.

Terminal de Granéis Líquidos handled 1 million metric tons of bulk liquid in 2009.

Ponta da Madeira maritime terminal. The Ponta da Madeira maritime terminal is located near the Itaqui Port in the Brazilian state of Maranhão. The terminal facilities can accommodate four vessels. Pier I can accommodate vessels displacing up to 420,000 DWT. Pier II can accommodate vessels of up to 155,000 DWT. Pier I has a maximum loading rate of 16,000 tons per hour. Pier II has a maximum loading rate of 8,000 tons per hour. Pier III, which has two berths and three shiploaders, can accommodate vessels of up to 220,000 DWT and has a maximum loading rate of 8,000 metric tons per hour in each shiploader. Cargo shipped through our Ponta da Madeira maritime terminal consists principally of our own iron ore production. Other cargo includes manganese ore, copper concentrate and pig iron produced by us and pig iron and soybeans for unrelated parties. In 2009, 87.3 million metric tons were handled through the terminal for us and 4.5 million metric tons for customers. The Ponta da Madeira maritime terminal has a stockyard capacity of 5.4 million metric tons.

Itaguaí maritime terminal Cia. Portuária Baía de Sepetiba (*CPBS*). CPBS is a wholly owned subsidiary that operates the Itaguaí terminal, in the Sepetiba Port, in the Brazilian state of Rio de Janeiro. Itaguaí s maritime terminal has a pier that allows the loading of ships up to 18 meters of draft and up to 230,000 DWT. In 2009, the terminal uploaded 19.6 million metric tons of iron ore. From December 2007 to February 2008, Itaguaí operated with limited capacity as a result of an accident with a ship in the terminal.

Guaíba Island maritime terminal. We operate a maritime terminal on Guaíba Island in the Sepetiba Bay, in the Brazilian state of Rio de Janeiro. The iron ore terminal has a pier that allows the loading of ships of up to 300,000 DWT. In 2009, the terminal uploaded 36.8 million metric tons of iron ore.

Inácio Barbosa maritime terminal (*TMIB*). We operate the Inácio Barbosa maritime terminal, located in the Brazilian state of Sergipe. The terminal is owned by Petrobras. Vale and Petrobras entered into an agreement in December 2002, which allows Vale to operate this terminal for a period of 10 years. In 2009, 0.9 million metric tons of fuel and agricultural and steel products were shipped through TMIB.

Colombia

Sociedad Portuaria Rio Cordoba (SPRC). SPRC is a seaport facility wholly owned by Vale and used to export coal from the El Hatillo operation, as well as other nearby mines. The port is located in Cienaga, on the Caribbean coast of

Colombia, in the Magdalena Department, about 67 kilometers from Barranquilla and 31 kilometers from Santa Marta.

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Indonesia

PTI owns and operates two ports in Indonesia to support its nickel mining activities.

The Balantang Special Port is located in Balantang Village, South Sulawesi, and has a pier that can accommodate vessels displacing up to 6,000 DWT.

The Harapan Tanjung Mangkasa Village is located in Harapan Tanjung Mangkasa Village, South Sulawesi, and has a pier that can accommodate vessels displacing up to 39,000 DWT.

4.1.3 Shipping

We operate in two distinct shipping areas: seaborne dry bulk shipping and tug boat services. The following table sets forth information on the volume of cargo that our seaborne dry bulk shipping service carried for the periods indicated.

	Year ended December 31,		
	2007	2008	2009
	(thousand metric tons)		
Iron ore:			
Vale	1,324	1,884	2,739
Customers			
Coal	147		
Other			
Total	1,471	1,884	2,739

We are developing a low-cost freight portfolio. Since 2007, we have operated three capesize vessels, which have been fully dedicated to performing shuttle services from Brazil to Asia. In 2009, we bought 17 used capesize vessels, seven of which begin operation in 2010. We have also entered into long-term freight contracts and have placed orders with shipyards for the construction of 16 very large ore carriers, each with a capacity of 400,000 DWT, and four additional capesize vessels, each with a capacity of 180,000 DWT. We expect this service to enhance our ability to offer our products in the Asian market at competitive prices and to increase our market share in China and the global seaborne market.

We have also entered into long-term freight contracts to transport pellet feed from Brazil to Oman, where we are building a pellet plant with nominal capacity of 9 million metric tons of direct reduction iron ore pellets per year and a distribution center with capacity to handle 40 million tons of iron ore or iron ore pellets.

We own 31.3% of Log-In, which conducts intermodal shipping business. Log-In offers port handling and container transportation services, by sea or rail, as well as container storage. It operates owned and chartered ships for coastal shipping, a container terminal (*Terminal Vila Velha*, or TVV) and two multimodal terminals. In 2009, Log-In s coastal shipping service transported 110,547 twenty-foot equivalent units (teus), TVV handled 211,387 teus and its express train service moved 41,475 teus.

We also operate a fleet of 25 tug boats (14 owned and 11 chartered) in maritime terminals in Brazil, in Vitória (state of Espírito Santo), Trombetas (state of Pará), São Luís (state of Maranhão) and Aracaju (state of Sergipe).

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4.2 Energy

4.2.1 Electric power

We have developed our energy assets based on the current and projected energy needs of our mining operations, with the goal of reducing our energy costs and minimizing the risk of energy shortages.

Brazil

Energy management and efficient supply in Brazil are priorities for us, given the uncertainties associated with changes in the regulatory environment, and the risk of rising electricity prices and electric energy shortages (as experienced in Brazil in the second half of 2001). We currently have seven hydroelectric power plants in operation. In 2009, our total energy capacity in Brazil was 12,509 GWh. We use the electricity produced by these plants for our internal consumption needs. As a large consumer of electricity, we expect that investing in power projects will help us reduce costs and will protect us against energy price volatility. However, we may experience delays in the construction of certain generation projects due to environmental and regulatory issues, which may lead to higher costs.

Canada

In 2009, our wholly owned and operated hydroelectric power plants in Sudbury generated 31% of the electricity requirements of our Sudbury operations. The power plants consist of five separate generation stations with an installed generator nameplate capacity of 56 MW. The output of the plants is limited by water availability, as well as constraints imposed by a water management plan regulated by the provincial government. Over the course of 2009, the power system operator distributed electrical energy at the rate of 80.0 MW to all surface plants and mines in the Sudbury area.

In 2009, diesel generation provided 100% of the electric requirements of our Voisey Bay operations. We have six diesel generators on-site, of which normally only four are in operation, producing 12 MW.

Indonesia

Energy costs are a significant component of our nickel production costs for the processing of lateritic ores at PTI operations in Indonesia. A major portion of PTI s electric furnace power requirements are supplied at low-cost by its two hydroelectric power plants on the Larona River: (i) the Larona plant, which generates an average of 180 MW, and (ii) the Balambano plant, which generates an average of 110 MW. PTI has thermal generating facilities which include 24 Caterpillar diesel generators, with capacity of 1 MW each, five Mirrlees Blackstone diesel generators, and one oil burning steam turbine generator. These generators have the capacity to provide 80 MW of power.

4.2.2 Oil and natural gas

The use of natural gas in our energy matrix in Brazil is expected to increase from 1.3 million cubic meters per day (Mm3/day) in 2009 to 12.8 Mm3/day in 2020. In order to mitigate supply and price risks we started investing in natural gas exploration. Since 2007, we have developed a 29-block portfolio in Brazilian onshore and offshore basins.

During 2009, the operators of the consortia in which we participate drilled six offshore wells in the Santos and Espírito Santo basins. These wells delivered two oil and gas discoveries that are going to be delimited and tested in the current year. Both of them are located in the Santos basin, on the BM-S-48 concession area. Oil or gas existence has been detected at three other wells but common technical or commercial issues prevented their development.

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5. Other investments

We own a 50% stake in California Steel Industries, Inc. (CSI), a producer of flat-rolled steel and pipe products located in the United States. The remainder is owned by JFE Steel. CSI has annual production capacity of 1.8 million metric tons of flat rolled steel and pipe. CSI is adding a second reheat furnace with state-of-the-art environmental technology which will increase its capacity by about 50%. The total cost of the project is estimated to be US$71.0 million.

RESERVES

Presentation of information concerning reserves

The estimates of proven and probable ore reserves at our mines and projects and the estimates of mine life included in this annual report have been prepared by our staff of experienced geologists and engineers, unless otherwise stated, and calculated in accordance with the technical definitions established by the SEC. Under the SEC s Industry Guide 7:

> Reserves are the part of a mineral deposit that could be economically and legally extracted or produced at the time of the reserve determination.
>
> Proven (measured) reserves are reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, working or drill holes; grade and/or quality are computed from the results of detailed sampling; and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established.
>
> Probable (indicated) reserves are reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

We periodically revise our reserve estimates when we have new geological data, economic assumptions or mining plans. During 2009, we performed an analysis of our reserve estimates for certain projects, which is reflected in new estimates as of December 31, 2009. Reserve estimates for each operation are for 100% of the operation and assume that we either have or will obtain all of the necessary rights to mine, extract and process ore reserves at each mine. Where we own less than 100% of the operation, reserve estimates have not been adjusted to reflect our ownership interest. Certain figures in the tables, discussions and notes have been rounded. For a description of risks relating to reserves and reserve estimates, see *Risk factors*.

Iron ore reserves

In preparing iron ore reserve data, we used price assumptions that did not exceed the three-year (2007 to 2009) historical average prices for iron ore of US$0.9217 per Fe unit for Southeastern System fines and US$0.9518 per Fe unit for Carajás fines.

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The following tables set forth our iron ore reserves and other information about our iron ore mines. Our iron ore reserve estimates are of in-place material after adjustments for mining depletion, with no adjustments made for metal losses due to processing.

Summary of total iron ore reserves(1)

	Proven Tonnage	**2009 Grade**	**Probable Tonnage**	**2009 Grade**	**Total Tonnage**	**2009 Grade**
Southeastern System	2,196.3	51.0	1,239.2	50.3	3,435.4	50.7
Southern System	1,508.2	52.4	1,864.8	49.0	3,373.0	50.5
Northern System	5,038.5	66.7	2,060.0	66.6	7,098.5	66.7
Samarco(2)	1,172.1	42.5	939.1	39.8	2,111.2	41.3
Total	9,915.1	58.2	6,103.1	53.8	16,018.2	56.5

(1) Tonnage is stated in millions of metric tons of wet run-of-mine. Grade is % of Fe.
(2) Reserves of Samarco s Alegria iron ore mines. Samarco is 50% owned by Vale.

Iron ore reserves per mine in the Southeastern System(1)

	Proven Tonnage	**2009 Grade**	**Probable Tonnage**	**2009 Grade**	**Total Tonnage**	**2009 Grade**	**Total Tonnage**	**2008 Grade**
Itabira complex								
Conceição	292.8	51.4	27.2	58.8	320.0	52.0	349.1	52.0
Minas do Meio	326.5	53.9	175.1	56.1	501.6	54.6	521.7	54.5
Minas Centrais complex								
Água Limpa(2)	44.8	41.8	6.0	42.2	50.8	41.8	52.8	41.8
Gongo Soco	50.9	64.7	20.2	58.6	71.1	63.0	74.4	63.0
Brucutu	429.5	50.5	252.6	47.2	682.1	49.3	659.2	51.1
Baú			37.1	55.7	37.1	55.7	37.1	55.7
Apolo	145.2	60.3	133.5	56.2	278.7	58.3	278.7	58.3
Andrade(3)							120.9	59.2
Mariana complex								
Alegria	179.1	50.2	41.3	47.1	220.5	49.7	240.8	49.7
Fábrica Nova	479.1	46.5	349.7	44.2	828.8	45.5	862.6	45.8
Fazendão	240.5	49.7	94.4	50.0	334.9	49.8	346.0	50.0
Timbopeba			73.2	55.2	73.2	55.2	73.3	55.2
Corumbá complex(4)								
Urucum	7.9	62.7	28.8	62.1	36.7	62.3	37.5	62.3
Total Southeastern System	2,196.3	51.0	1,239.2	50.3	3,435.4	50.7	3,654.2	51.4

(1)

Tonnage is stated in millions of metric tons of wet run-of-mine. Grade is % of Fe. Approximate drill hole spacings used to classify the reserves were: 100m x 100m to proven reserves and 200m x 200m to probable reserves.

(2) Vale s equity interest in Água Limpa is 50%.

(3) Vale and Companhia Siderúrgica Belgo Mineira mutually agreed to terminate the lease for the Andrade mine in 2009.

(4) The Corumbá complex also includes the Corumbá iron ore mine, which we acquired in 2009. We are conducting a review of the reserve model.

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Iron ore reserves per mine in the Southern System(1)

	Proven Tonnage	2009 Grade	Probable Tonnage	2009 Grade	Total Tonnage	2009 Grade	Total Tonnage	2008 Grade
Minas Itabiritos complex								
Segredo	141.1	51.9	162.7	48.2	303.9	49.9	308.6	49.9
João Pereira	243.6	42.8	307.5	41.5	551.1	42.0	567.4	42.1
Sapecado	107.7	52.7	142.5	53.5	250.2	53.1	254.4	53.2
Galinheiro	129.6	54.6	191.0	54.1	320.6	54.3	323.6	54.3
Vargem Grande complex								
Tamanduá	267.1	54.8	248.4	51.3	515.4	53.1	516.0	54.5
Capitão do Mato	208.9	55.9	562.8	50.7	771.6	52.1	825.8	52.0
Abóboras	233.0	45.6	220.3	43.5	453.4	44.6	450.9	45.6
Paraopeba complex								
Jangada	43.6	66.6	15.2	66.2	58.8	66.5	61.3	66.5
Córrego do Feijão	30.3	67.0	3.4	63.1	33.6	66.6	35.0	66.6
Capão Xavier	84.5	65.1	9.3	64.3	93.8	65.0	103.0	65.0
Mar Azul	18.8	58.6	1.8	58.7	20.6	58.6	26.6	55.9
Total Southern System	1,508.2	52.4	1,864.8	49.0	3,373.0	50.5	3,472.6	50.9

(1) Tonnage is stated in millions of metric tons of wet run-of-mine. Grade is % of Fe. Approximate drill hole spacings used to classify the reserves were: 100m x 100m to proven reserves and 200m x 200m to probable reserves.

Iron ore reserves per mine in the Northern System(1)

	Proven Tonnage	2009 Grade	Probable Tonnage	2009 Grade	Total Tonnage	2009 Grade	Total Tonnage	2008 Grade
Serra Norte complex								
N4W	1,243.5	66.5	283.7	66.1	1,527.3	66.5	1,569.7	66.5
N4E	315.8	66.6	92.2	66.0	408.0	66.4	427.7	66.4
N5(2)	377.6	67.3	485.1	66.9	862.7	67.1	904.1	67.1
Serra Sul								
S11	3,045.8	66.8	1,193.7	66.7	4,239.6	66.8	4,239.6	66.8
Serra Leste								
SL1	55.7	66.2	5.2	66.4	60.9	66.2	60.9	66.2
Total Northern System	5,038.5	66.7	2,060.0	66.6	7,098.5	66.7	7,202.0	66.7

(1) Tonnage is stated in millions of metric tons of wet run-of-mine. Grade is % of Fe. Approximate drill hole spacings used to classify the reserves are: 150m x 100 m to proven reserves and 300m x 200m to probable reserves, except SL1 which is 100m x 100m to proven reserves and 200m x 200m to probable reserves.
(2) Reserves previously classified under N5W and N5E are now grouped as the N5 reserve model.

	Iron ore reserves per Samarco mine					
	Proven Tonnage	2009 Grade	Probable Tonnage	2009 Grade	Total Tonnage	2009 Grade
Samarco						
Alegria Norte/Centro	720.7	44.3	555.6	40.7	1,276.3	42.7
Alegria Sul	451.4	39.8	383.6	38.6	835.0	39.2
Total Samarco	1,172.1	42.5	939.1	39.8	2,111.2	41.3

Changes in iron ore reserves reflect mining production during 2008 and small changes in new updated geological models or pit designs and reserve classification.

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Other mine data: Southeastern System iron ore mines

	Type	Operating since	Projected exhaustion date	Vale interest (%)
Itabira complex				
Conceição	Open pit	1957	2023	100
Minas do Meio	Open pit	1976	2023	100
Minas Centrais complex			100	
Água Limpa	Open pit	2000	2019	50
Gongo Soco	Open pit	2000	2019	100
Brucutu	Open pit	1994	2023	100
Baú	Open pit		2029	100
Apolo	Open pit		2029	100
Mariana complex				
Alegria	Open pit	2000	2024	100
Fábrica Nova	Open pit	2005	2033	100
Fazendão	Open pit	1976	2040	100
Timbopeba(1)	Open pit	1984		100
Corumbá complex				
Urucum	Open pit	1994	2023	100

(1) The Timbopeba mine is running below full capacity, and we are reviewing its life of mine.

Other mine data: Southern System iron ore mines

	Type	Operating since	Projected exhaustion date	Vale interest (%)
Minas Itabiritos complex				
Segredo	Open pit	2003	2034	100
João Pereira	Open pit	2003	2034	100
Sapecado	Open pit	1942	2030	100
Galinheiro	Open pit	1942	2030	100
Vargem Grande complex				
Tamanduá	Open pit	1993	2039	100
Capitão do Mato	Open pit	1997	2040	100
Abóboras	Open pit	2004	2029	100
Paraopeba complex				
Jangada	Open pit	2001	2018	100
Córrego do Feijão	Open pit	2003	2014	100
Capão Xavier	Open pit	2004	2021	100
Mar Azul	Open pit	2006	2016	100

Other mine data: Northern System iron ore mines

	Type	Operating since	Projected exhaustion date	Vale interest (%)
Serra Norte				
N4W	Open pit	1994	2028	100
N4E	Open pit	1984	2024	100
N5	Open pit	1998	2024	100
Serra Sul				
S11	Open pit		2059	100
Serra Leste				
SL1	Open pit		2039	100

	Other mine data: Samarco iron ore mines			
	Type	Operating since	Projected exhaustion date	Vale interest (%)
Samarco				
Alegria Norte/Centro	Open pit	2000	2052	50
Alegria Sul	Open pit	2000	2052	50

Manganese ore reserves

In preparing manganese reserve data, we used price assumptions that did not exceed the three-year (2007 to 2009) historical average price for manganese of US$353.76 per metric ton (published by CRU, CIF China, 44% manganese grade). We have adjusted ore reserve estimates for extraction losses and metallurgical recoveries during extraction.

	Manganese ore reserves(1)							
	Proven Tonnage	2009 Grade	Probable Tonnage	2009 Grade	Total Tonnage	2009 Grade	Total Tonnage	2008 Grade
Azul	43.3	41.1	8.5	39.5	51.8	40.9	42.6	35.2
Urucum			6.9	45.1	6.9	45.1	7.0	44.4
Morro da Mina	9.2	24.3	6.0	24.3	15.2	24.3	15.3	24.3
Total	52.5	38.2	21.4	37.0	73.9	37.9	64.9	33.6

(1) Tonnage is stated in millions of metric tons of wet run-of-mine. Grade is % of Mn.

Our manganese ore reserve estimates increased in 2009, due to new reserves at the Azul mine (pit and talings ore). The cut off grade in the Azul mine changed, based on the new product specifications required by the market. New ore bodies were discovered in the 2008/2009 geological exploration program. In addition, reserves also included some tailing material from the Azul tailing dam that could be recovered in the mineral processing plant after the reconstruction occurred in 2007. Based on these new assumptions, some new materials were included in these new reserves.

	Other mine data: manganese ore mines			
	Type	Operating since	Projected exhaustion date	Vale interest (%)
Azul	Open pit	1985	2022	100
Urucum	Underground	1976	2020	100
Morro da Mina	Open pit	1902	2045	100

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Nickel ore reserves

In preparing nickel reserve data, we used price assumptions that did not exceed the three-year (2007 to 2009) historical average LME spot price for nickel of US$24,281 per metric ton. Our nickel reserve estimates are of in-place material after adjustments for mining depletion and mining losses (or screening and drying in the cases of Sulawesi and Goro) and recoveries, with no adjustments made for metal losses due to processing.

Nickel ore reserves(1)

	Proven Tonnage	2009 Grade	Probable Tonnage	2009 Grade	Total Tonnage	2009 Grade	Total Tonnage	2008 Grade
Canada								
Sudbury	69.9	1.23	47.0	1.15	116.9	1.20	150.4	1.17
Thompson	9.1	1.89	17.0	1.63	26.1	1.72	24.5	1.78
Voisey Bay	21.8	3.01	3.2	0.66	25.0	2.71	26.0	2.76
Indonesia(2)								
Sulawesi	82.3	1.84	38.8	1.70	121.1	1.79	152.7	1.77
New Caledonia(2)								
Goro	100.8	1.35	23.5	1.91	124.3	1.46	124.3	1.46
Brazil								
Onça Puma	55.1	1.79	27.6	1.62	82.7	1.73	82.7	1.73
Total	339.0	1.64	157.1	1.52	496.1	1.60	560.6	1.58

(1) Tonnage is stated in millions of dry metric tons. Grade is % of nickel.
(2) We have rights to other properties in Indonesia, New Caledonia and in other locations, which have not yet been fully explored.

In Canada, reserves at our Sudbury operations decreased due primarily to mining depletion and reclassification of mineral reserves to mineral resources at the non-operating Creighton 3 Shaft and Kelly Lake deposits, partially offset by exploration additions at our operating mines. Reserves at our Thompson operations increased slightly due to exploration. Reserves at our Voisey Bay operations decreased primarily due to mining depletion. This reduction is supported by the reconciliation of production data with the life-of-mine plan estimates.

Reserves at Sulawesi decreased as a result of adjustments for mining depletion, changes in plant feed chemistry operational targets, changes to the duration of the life-of-mine plan (in accordance with the new mining law) and reclassification of mineral reserves to mineral resources. These adjustments were partially offset by drilling that converted mineral resources to reserves.

Reserves at Goro and Onça Puma remained unchanged from 2008 estimates, since there was virtually no production at these mines in 2009.

Other mine data: nickel ore mines

	Type	Operating since	Projected exhaustion date	Vale interest
				(%)

Canada				
Sudbury	Underground	1885	2040	100
Thompson	Underground	1961	2023	100
Voisey Bay	Open pit	2005	2022	100
Indonesia				
Sulawesi	Open cast	1977	2035	59.1
New Caledonia				
Goro	Open pit		2041	74.0
Brazil				
Onça Puma	Open pit		2042	100

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Bauxite ore reserves

In preparing bauxite reserve data, we used price assumptions that did not exceed the three-year (2007 to 2009) historical average realized sales price for bauxite of US$37.49 per metric ton. We have adjusted ore reserve estimates for mass recoveries during washing, bone dry.

	Bauxite ore reserves(1)							
	Proven Tonnage	2009 Grade	Probable Tonnage	2009 Grade	Total Tonnage	2009 Grade	Total Tonnage	2008 Grade
MRN								
Almeidas	0.8	49.8			0.8	49.8	1.8	50.2
Aviso	14.4	49.7			14.4	49.7	22.1	51.2
Bacaba	7.4	52.2			7.4	52.2	6.8	53.5
Saracá V	1.6	46.8			1.6	46.8	2.2	47.9
Saracá W	11.1	48.9			11.1	48.9	11.7	49.8
Bela Cruz	50.5	51.0	24.9	50.9	75.4	51.0	67.3	52.1
Cipó	2.3	48.7	5.2	48.7	7.5	48.7	6.7	49.8
Teófilo	31.3	49.0	6.0	49.0	37.3	49.0	33.2	50.1
Aramã	9.7	48.7	1.4	48.9	11.0	48.7	10.0	49.8
Greigh	2.0	47.8	0.8	47.6	2.7	47.8	2.4	48.8
Monte Branco	18.9	47.9	26.0	47.5	44.9	47.7	41.2	48.8
Total MRN	150.1	49.7	64.3	49.2	214.3	49.6	205.4	50.6
Paragominas								
Miltonia 3	134.8	49.4	55.3	49.4	190.1	49.4	196.4	49.4
Miltonia 5	95.7	47.3	2.9	47.3	98.6	47.3	98.6	47.3
Total Paragominas	230.5	48.5	58.2	49.3	288.7	48.7	295.0	48.7

(1) Tonnage is stated in millions of metric tons of washed product (bone dry). Grade is % of Al_2O_3.

MRN s bauxite reserves increased despite the depletion of 13 million metric tons in 2009 due to an update of the geological model.

Paragominas s bauxite reserves decreased primarily due to mining depletion. The mine contains 692,000 metric tons of stockpiled material that was taken into account in the reserve calculations.

	Other mine data: bauxite ore mines			
	Type	Operating since	Projected exhaustion date	Vale interest (%)
MRN				
Almeidas	Open pit	2002	2010	40.0

Aviso	Open pit	2003	2011	40.0
Bacaba	Open pit	2009	2012	40.0
Saracá V	Open pit	1979	2011	40.0
Saracá W	Open pit	2006	2013	40.0
Bela Cruz	Open pit		2018	40.0
Cipó	Open pit		2023	40.0
Teófilo	Open pit		2023	40.0
Aramã	Open pit		2019	40.0
Greigh	Open pit		2022	40.0
Monte Branco	Open pit		2019	40.0
Paragominas				
Miltonia 3	Open pit	2006	2032	100
Miltonia 5	Open pit		2032	100

Copper ore reserves

In preparing copper reserve data, we used price assumptions that did not exceed the three-year (2007 to 2009) historical average LME spot price for copper of US$6,414 per metric ton. Our copper reserve estimates are of in-place material after adjustments for mining depletion and mining losses and recoveries, with no adjustments made for metal losses due to processing.

	Copper ore reserves(1)							
	Proven Tonnage	2009 Grade	Probable Tonnage	2009 Grade	Total Tonnage	2009 Grade	Total Tonnage	2008 Grade
Canada								
Sudbury	69.9	1.49	47.0	1.53	116.9	1.51	150.4	1.35
Thompson	9.1	0.12	17.0	0.12	26.1	0.12	24.5	0.12
Voisey Bay	21.8	1.76	3.2	0.38	25.0	1.58	26.0	1.62
Brazil								
Sossego	122.1	0.91	39.3	0.91	161.4	0.91	166.5	0.93
Salobo	508.2	0.80	420.3	0.74	928.5	0.77	928.5	0.77
Total	731.1	0.90	526.8	0.80	1,257.9	0.86	1,295.9	0.86

(1) Tonnage is stated in millions of metric tons of dry run-of-mine. Grade is % of copper.

In Canada, our copper ore reserve estimates decreased for the reasons discussed above in connection with nickel reserves.

In Brazil, reserves at Sossego decreased due primarily to mining depletion and a review of pit optimization with an updated economic model with increased operational costs. Reserves at Salobo remain unchanged from 2008 estimates because no production occurred in 2009. The Salobo mine is currently under pre-stripping.

	Other mine data: copper ore mines			
	Type	Operating since	Projected exhaustion date	Vale interest (%)
Canada				
Sudbury	Underground	1885	2040	100
Thompson	Underground	1961	2023	100
Voisey Bay	Open pit	2005	2022	100
Brazil				
Sossego	Open pit	2004	2021	100
Salobo	Open pit		2030	100

Cobalt ore reserves

In preparing cobalt reserve data, we used price assumptions that did not exceed the three-year (2007 to 2009) historical average realized sales price for cobalt of US$22.7 per pound. We expect to recover significant quantities of cobalt as a by-product of our Canadian operations and from the Goro project. Our cobalt reserve

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estimates are of in-place material after adjustments for mining depletion and mining losses (or screening and drying in the case of Goro) and recoveries, with no adjustments made for metal losses due to processing.

	Cobalt ore reserves(1)							
	Proven Tonnage	**2009 Grade**	**Probable Tonnage**	**2009 Grade**	**Total Tonnage**	**2009 Grade**	**Total Tonnage**	**2008 Grade**
Canada								
Sudbury	69.9	0.04	47.0	0.03	116.9	0.04	150.4	0.04
Voisey Bay	21.8	0.15	3.2	0.03	25.0	0.13	26.0	0.14
New Caledonia								
Goro	100.8	0.12	23.5	0.08	124.3	0.11	124.3	0.11
Total	192.6	0.09	73.7(7.0)					
	$306,572	42.9	$ 250,583	41.9	$55,989	22.3		

Contribution margin is the financial measure that we use as a primary measure for evaluating segment performance. It is defined as gross profit less advertising and promotional expenses. Contribution margin increased $56.0 million, or 22.3%, during 2015 versus 2014. The contribution margin increase was primarily the result of the increased gross profit in the North American and International OTC Healthcare segments discussed above.

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North American OTC Healthcare Segment

Contribution margin for the North American OTC Healthcare segment increased $42.0 million, or 19.3%, during 2015 versus 2014. The contribution margin increase was primarily the result of increased gross profit discussed above, partially offset by higher advertising and promotional expenses. As a percentage of North American OTC Healthcare revenues, contribution margin for the North American OTC Healthcare segment increased to 46.1% during 2015 versus 45.4% during 2014. Advertising and promotional spending increased during 2015 versus 2014 due primarily to the Insight acquisition, partially offset by reduced spending on Pediacare, Beano, and Gaviscon.

International OTC Healthcare Segment

Contribution margin for the International OTC Healthcare segment increased $15.4 million, or 128.6%, during 2015 versus 2014. The contribution margin increase was primarily the result of increased gross profit discussed above, partially offset by higher advertising and promotional expenses. As a percentage of International OTC Healthcare revenues, contribution margin from the International OTC Healthcare segment increased to 44.8% during 2015 from 40.1% during 2014. This increase was primarily related to the increased gross profit from the Hydralyte and Care Pharma acquisitions discussed above.

Household Cleaning Segment

Contribution margin for the Household Cleaning segment decreased $1.5 million, or 7.0%, during 2015 versus 2014. As a percentage of Household Cleaning revenues, contribution margin from the Household Cleaning segment decreased to 21.5% during 2015 from 23.6% during 2014. The contribution margin decrease was the result of gross profit changes discussed above, partially offset by lower advertising and promotional spending.

General and Administrative

General and administrative expenses were $81.3 million for 2015 versus $48.5 million for 2014. The increase in general and administrative expenses was primarily related to an increase in compensation costs of $13.8 million due to increased headcount associated with the Insight and Hydralyte acquisitions, an increase of $12.8 million in acquisition costs related to the purchases of Insight and Hydralyte, and an increase in legal and other professional costs of $1.7 million.

Depreciation and Amortization

Depreciation and amortization expense was $17.7 million for 2015 versus $13.5 million for 2014. The increase in depreciation and amortization expense was due to slightly higher intangible asset amortization in the current period, primarily related to intangible assets associated with the Insight acquisition.

Interest Expense

Net interest expense was $81.2 million during 2015 versus $68.6 million during 2014. The increase in interest expense was primarily the result of a higher level of indebtedness, primarily related to the acquisition of Insight. The average indebtedness outstanding increased from $976.7 million during 2014 to $1.4 billion during 2015. The increase in average indebtedness outstanding was the result of additional borrowings under our 2012 Term B-2 Loans and 2012 ABL Revolver to fund our acquisitions of the Hydralyte brand and Insight. The average cost of borrowing decreased to 5.9% for 2015, from 7.0% for 2014, which is attributed to the refinancing of debt in September 2014.

Income Taxes

The provision for income taxes during 2015 was $49.2 million versus $29.1 million in 2014. The effective tax rate on income before income taxes was 38.6% during 2015 versus 28.6% during 2014. The increase in the effective tax rate for 2015 was primarily due to the impact of certain non-deductible items related to acquisitions of $2.9 million, and a higher gain for tax purposes associated with the sale of the right of use of the Comet brand in certain Eastern European countries in the third quarter of fiscal 2015 and a one-time benefit of $9.1 million due primarily to lower state income taxes enacted in the prior year period. This benefit was primarily related to a law change in the state where we have our major distribution center to tax earnings attributed to in-state revenues only.

Results of Operations

2014 compared to 2013

Total Segment Revenues

The following table represents total revenue by segment, including product groups, for each of the fiscal years ended March 31, 2014 and 2013.

					Increase (Decrease)	
(In thousands)	2014	%	2013	%	Amount	%
North American OTC Healthcare						
Analgesics	$ 108,101	18.1	$ 107,272	17.3	$ 829	0.8
Cough & Cold	100,060	16.7	121,514	19.6	(21,454)	(17.7)
Women's Health	1,960	0.3	2,544	0.4	(584)	(23.0)
Gastrointestinal	81,469	13.6	97,536	15.7	(16,067)	(16.5)
Eye & Ear Care	75,568	12.6	76,960	12.4	(1,392)	(1.8)
Dermatologicals	56,436	9.4	56,114	9.0	322	0.6
Oral Care	47,900	8.0	49,002	7.9	(1,102)	(2.2)
Other OTC	8,208	1.4	8,743	1.4	(535)	(6.1)
Total North American OTC Healthcare	479,702	80.1	519,685	83.7	(39,983)	(7.7)
International OTC Healthcare						
Analgesics	1,883	0.3	245	0.0	1,638	668.6
Cough & Cold	13,365	2.2	4,277	0.7	9,088	212.5
Women's Health	1,835	0.3	—	—	1,835	(*)
Gastrointestinal	838	0.1	82	0.0	756	(*)
Eye & Ear Care	9,923	1.7	9,116	1.5	807	8.9
Dermatologicals	1,655	0.4	399	0.1	1,256	314.8
Oral Care	413	0.2	419	0.1	(6)	(1.4)
Other OTC	2	0.0	—	—	2	(*)
Total International OTC Healthcare	29,914	5.2	14,538	2.4	15,376	105.8
Total OTC Healthcare	509,616	85.3	534,223	86.1	(24,607)	(4.6)
Household Cleaning	87,765	14.7	85,895	13.9	1,870	2.2
Total Consolidated	$ 597,381	100.0	$ 620,118	100.0	$ (22,737)	(3.7)

(*) size of % not meaningful

Revenues for 2014 were $597.4 million, a decrease of $22.7 million, or 3.7%, versus 2013. The decrease in revenue reflects the effects of increased competition from the introduction of new brands or brands that had previously been recalled, a weak cough & cold season, and the impact of the divestiture of Phazyme, which was offset partly by the acquisition of the Care Pharma products and the launch of new analgesics products. Revenues for the Household Cleaning segment increased 2.2% during 2014 versus 2013. Revenues from customers outside of North America, which represented 5.2% of total revenues in 2014, increased by $15.4 million, or 105.8%, during 2014 versus 2013.

North American OTC Healthcare Segment

Revenues for the North American OTC Healthcare segment decreased $40.0 million, or 7.7%, during 2014 versus 2013. This decrease was primarily caused by declines in the gastrointestinal and cough & cold groups, offset partly by increased revenues in the analgesics product group. Revenues for the gastrointestinal group declined primarily due to decreased revenues for both the Beano and Gaviscon brands as well as the effects of the divestiture of Phazyme. Beano revenues declined due to consumer shifts to probiotics and the expansion of private label products in the mass channel. Gaviscon was impacted by supply chain issues incurred during 2014, which caused a shift in the timing of sales due to limited supply availability. The decrease in the cough & cold product group was due primarily to the decrease in revenues for the PediaCare, Little Remedies, and Chloraseptic brands, resulting from increased competition from products that had previously been recalled and a weak cough & cold season. The

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increased revenue in the analgesic product group reflected new product launches for the BC and Goody's brands. These increases were partially offset by a decline in the Ecotrin brand, resulting from increased competition.

International OTC Healthcare segment
Revenues for the International OTC Healthcare segment increased $15.4 million, or 105.8%, during 2014 versus 2013. The increased revenues in the International OTC Healthcare segment was the result of the inclusion of acquired Care Pharma brands, including the Fess line of cold/allergy and saline nasal health products.

Household Cleaning Segment
Revenues for the Household Cleaning segment increased $1.9 million, or 2.2%, during 2014 versus 2013, primarily due to increases in the Comet brand attributable to increased sales volumes.

Cost of Sales
The following table represents our cost of sales and cost of sales as a percentage of total segment revenues, by segment for each of the fiscal years ended March 31, 2014 and 2013.

(In thousands)					Increase (Decrease)	
Cost of Sales	2014	%	2013	%	Amount	%
North American OTC Healthcare	$184,796	38.5	$205,389	39.5	$(20,593)	(10.0)
International OTC Healthcare	12,646	42.3	6,265	43.1	6,381	101.9
Household Cleaning	64,388	73.4	64,727	75.4	(339)	(0.5)
	$261,830	43.8	$276,381	44.6	$(14,551)	(5.3)

Cost of sales decreased $14.6 million, or 5.3%, during 2014 versus 2013. As a percent of total revenue, cost of sales decreased from 44.6% in 2013 to 43.8% in 2014. The decrease in cost of sales as a percent of revenues was primarily due to reductions in product costs, attributed to sourcing activities and a favorable product mix relative to the acquired Care Pharma brands, offset by the one-time adjustment for acquisition costs for the Care Pharma inventory.

North American OTC Healthcare Segment
Cost of sales for the North American OTC Healthcare segment decreased $20.6 million, or 10.0%, during 2014 versus 2013. As a percentage of North American OTC Healthcare revenues, cost of sales in the North American OTC Healthcare segment decreased from 39.5% during 2013 to 38.5% during 2014. The decrease in cost of sales as a percent of revenues was primarily due to reductions in product costs, attributed to sourcing activities.

International OTC Healthcare Segment
Cost of sales for the International OTC Healthcare segment increased $6.4 million, or 101.9%, during 2014 versus 2013. As a percentage of International OTC Healthcare revenues, cost of sales in the International OTC Healthcare segment decreased from 43.1% during 2013 to 42.3% during 2014. The decrease in cost of sales as a percent of revenues was primarily due to reductions in product costs, attributed to sourcing activities and a favorable product mix relative to the acquired Care Pharma brands, offset by the one-time adjustment for acquisition costs for the Care Pharma inventory.

Household Cleaning Segment
Cost of sales for the Household Cleaning segment decreased $0.3 million, or 0.5%, during 2014 versus 2013. As a percentage of Household Cleaning revenues, cost of sales decreased from 75.4% during 2013 to 73.4% during 2014. The decrease in the cost of sales percentage was the result of lower promotional spending, which resulted in a greater net revenue relative to product cost.

Gross Profit

The following table represents our gross profit and gross profit as a percentage of total segment revenues, by segment for each of the fiscal years ended March 31, 2014 and 2013.

(In thousands)					Increase (Decrease)	
Gross Profit	2014	%	2013	%	Amount	%
North American OTC Healthcare	$294,906	61.5	$314,296	60.5	$(19,390)	(6.2)
International OTC Healthcare	17,268	57.7	8,273	56.9	8,995	108.7
Household Cleaning	23,377	26.6	21,168	24.6	2,209	10.4
	$335,551	56.2	$343,737	55.4	$(8,186)	(2.4)

Gross profit during 2014 decreased $8.2 million, or 2.4%, versus 2013. As a percentage of total revenues, gross profit increased from 55.4% in 2013 to 56.2% in 2014. Gross profit as a percentage of revenue increased due to lower promotional spending, resulting in a higher net revenue relative to product cost. The increase was also attributable to reductions in product costs due to sourcing activities and a favorable product mix relative to the acquired Care Pharma brands, offset by the one-time adjustment for acquisition costs for the Care Pharma inventory.

North American OTC Healthcare Segment

Gross profit for the North American OTC Healthcare segment decreased $19.4 million, or 6.2%, during 2014 versus 2013. As a percentage of revenues, gross profit in the North American OTC Healthcare segment increased from 60.5% during 2013 to 61.5% during 2014. The increase in gross profit percentage is attributable to lower product costs, attributable to sourcing activities.

International OTC Healthcare Segment

Gross profit for the International OTC Healthcare segment increased $9.0 million, or 108.7%, during 2014 versus 2013. As a percentage of revenues, gross profit in the International OTC Healthcare segment increased from 56.9% during 2013 to 57.7% during 2014. The increase in gross profit percentage reflects the lower product costs and mix impact for Care Pharma detailed in the cost of sales discussion above.

Household Cleaning Segment

Gross profit for the Household Cleaning segment increased $2.2 million, or 10.4%, during 2014 versus 2013. As a percentage of Household Cleaning revenues, gross profit increased from 24.6% during 2013 to 26.6% during 2014. The increase in gross profit percentage was the result of lower promotional spending, which resulted in higher net revenue relative to product cost.

Contribution Margin

The following table represents our contribution margin and contribution margin as a percentage of total segment revenues, by segment for each of the fiscal years ended March 31, 2014 and 2013.

(In thousands)					Increase (Decrease)	
Contribution Margin	2014	%	2013	%	Amount	%
North American OTC Healthcare	$217,823	45.4	$234,245	45.1	$(16,422)	(7.0)
International OTC Healthcare	12,004	40.1	6,630	45.6	5,374	81.1
Household Cleaning	20,756	23.6	15,711	18.3	5,045	32.1
	$250,583	41.9	$256,586	41.4	$(6,003)	(2.3)

Contribution margin is the financial measure that we use as a primary measure for evaluating segment performance. It is defined as gross profit less advertising and promotional expenses. Contribution margin for 2014 decreased $6.0 million, or 2.3%, versus 2013. The contribution margin decrease was primarily the result of lower sales volumes, partially offset by lower advertising and promotional spending and the lower costs of sales discussed above.

North American OTC Healthcare Segment

Contribution margin for the North American OTC Healthcare segment decreased $16.4 million, or 7.0%, during 2014 versus 2013. The contribution margin decrease was the result of lower sales volumes, the divestiture of Phazyme, higher advertising and promotional spending, partially offset by the lower cost of sales discussed above. Advertising and promotional spending for the North American OTC Healthcare segment decreased by $3.0 million, or 3.7%, during 2014 versus 2013, due primarily to reductions in the cough & cold and oral care brands. As a percentage of North American OTC Healthcare revenues, contribution margin increased to 45.4% during 2014 from 45.1% during 2013. This increase is primarily attributable to the lower costs of sales discussed above.

International OTC Healthcare Segment
Contribution margin for the International OTC Healthcare segment increased $5.4 million, or 81.1%, during 2014 versus 2013. The contribution margin increase was the result of lower cost of sales discussed above. Advertising and promotional spending for the International OTC Healthcare segment increased by $3.6 million, or 220.4%, during 2014 versus 2013, due primarily to the Care Pharma acquisition. As a percentage of International OTC Healthcare revenues, contribution margin decreased to 40.1% during 2014 from 45.6% during 2013. This decrease was primarily attributable to an increase in advertising and promotional spending in the International OTC Healthcare segment.

Household Cleaning Segment
Contribution margin for the Household Cleaning segment increased $5.0 million, or 32.1%, during 2014 versus 2013. As a percentage of Household Cleaning revenues, contribution margin increased to 23.6% during 2014 from 18.3% during 2013. The contribution margin increase was the result of the increased gross profit as a percentage of revenues and lower advertising and promotional spending.

General and Administrative
General and administrative expenses were $48.5 million for 2014 versus $51.5 million for 2013. The decrease in general and administrative expenses was due primarily to Transitional Services Agreement fees of $4.1 million associated with the GSK Brands acquisition, warehouse relocation fees of $0.7 million, and lease termination costs of $1.1 million incurred in 2013. These costs were offset by increased Enterprise Resource Planning ("ERP") implementation costs of $1.0 million, acquisition-related costs of $1.0 million incurred in 2014 for Care Pharma, and increased share-based compensation costs of $1.4 million for 2014.

Depreciation and Amortization
Depreciation and amortization expense was $13.5 million for 2014 versus $13.2 million for 2013. The increase in depreciation and amortization expense was due to the implementation of the new ERP system.

Interest Expense
Net interest expense was $68.6 million during 2014 versus $84.4 million during 2013. The decrease in interest expense was primarily the result of a lower level of indebtedness attributed to payments made to the 2012 Term Loan and a lower amount of borrowings against the 2012 ABL Revolver in 2014, as well as the acceleration of the amortization of the debt in 2013 associated with our 2012 Term Loan due to significant payments made during that fiscal year. The average interest rate decreased to 7.0% for 2014 versus 7.9% for 2013. This decrease is attributed to the issuance of the 2013 Senior Notes and the redemption of the 2010 Senior Notes in 2014, as the interest rate for the 2013 Senior Notes is 5.375% versus the interest rate of 8.25% attributed to the 2010 Senior Notes, as well as the accelerated portion of the deferred financing costs and debt discount incurred in 2013. The average indebtedness outstanding decreased to $976.7 million during 2014 from $1,065.0 million during 2013. The decrease in the average indebtedness outstanding is due to payments made to the 2012 Term Loan, lower borrowings against the 2012 ABL Revolver, as well as the redemption of the 2010 Senior Notes in December 2013, which was offset by entering into the 2013 Senior Notes.

Loss on Extinguishment of Debt
On December 17, 2013, we offered to redeem the 2010 Senior Notes at a premium of 6.33%, of which $201.7 million were redeemed on such date. The remaining $48.3 million were redeemed on January 16, 2014. As a result, during the quarter ended December 31, 2013, we recorded a $15.0 million loss on the early extinguishment of debt relating to the $201.7 million 2010 Senior Notes redeemed and recorded an additional loss of $3.3 million on the remaining $48.3

million tendered on January 16, 2014. The $18.3 million loss consists of premium payments of $15.5 million, write-off of deferred financing costs of $2.2 million, and write-off of debt discount of $0.6 million.

Income Taxes

The provision for income taxes during 2014 was $29.1 million versus $40.5 million in 2013. The effective tax rate on pretax income was 28.6% during 2014 versus 38.2% during 2013. The 2014 tax rate reflects the impact of non-deductible compensation of $1.0 million and a non-cash benefit of $9.1 million to adjust our current and deferred tax balances for lower state income taxes. This benefit was primarily related to a recent change in state law where we have our major distribution center that taxes earnings attributed to in-state revenues only. The 2013 tax rate reflects the impact of non-deductible compensation of $1.7 million and a non-cash benefit of $1.7 million for expected lower future state taxes.

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Liquidity and Capital Resources

Liquidity

Our primary source of cash comes from our cash flow from operations. In the past, we have supplemented this source of cash with various debt facilities, primarily in connection with acquisitions. We have financed and expect to continue to finance our operations over the next twelve months, with a combination of borrowings and funds generated from operations. Our principal uses of cash are for operating expenses, debt service, acquisitions, working capital and capital expenditures.

	Year Ended March 31,		
(In thousands)	2015	2014	2013
Net cash provided by (used in):			
Operating activities	$156,255	$111,582	$137,605
Investing activities	(805,258)	(57,976)	11,221
Financing activities	643,265	(41,153)	(152,117)

2015 compared to 2014

Operating Activities

Net cash provided by operating activities was $156.3 million for 2015 compared to $111.6 million for 2014. The $44.7 million increase in net cash provided by operating activities was primarily due to a decrease in working capital of $25.3 million, an increase in non-cash charges of $13.8 million, and an increase in net income of $5.6 million.

Working capital is defined as current assets (excluding cash and cash equivalents) minus current liabilities. The working capital decrease in 2015 compared to 2014 is due to decreases in inventories and prepaid expenses and other current assets of $18.2 million and $6.8 million, respectively, and an increase in accrued liabilities of $21.4 million. This decrease was partially offset by a decrease in accounts payable of $13.0 million and an increase in accounts receivable of $8.1 million.

Non-cash charges increased $13.8 million primarily due to a premium payment on the 2010 Senior Notes tendered in fiscal 2014 of $15.5 million, and increases in deferred income taxes, depreciation and amortization, and long term income taxes payable of $9.9 million, $4.2 million and $2.3 million, respectively. The increase in non-cash charges was partially offset by a $18.3 million loss on the extinguishment of debt incurred in fiscal 2014.

Investing Activities

Net cash used in investing activities was $805.3 million for 2015 compared to $58.0 million for 2014. This was primarily due to the use of cash for the acquisition of Insight in September 2014 of $749.7 million and for the acquisition of the Hydralyte brand in April 2014 of $78.0 million, compared to $55.2 million for the acquisition of Care in July 2014. This was slightly offset by proceeds from the sale of one of the brands we acquired from the Insight acquisition of $18.5 million and $10.0 million received as proceeds from the sale of certain rights to use our Comet brand in certain Eastern European countries to a third-party licensee.

Financing Activities

Net cash provided by financing activities was $643.3 million for 2015 compared to net cash used in financing activities of $41.2 million for 2014. The increase in cash provided by financing activities was primarily due to the additional borrowings of $590 million under our term loan facility and $66.1 million under our revolving credit facility in 2015, while 2014 resulted in net repayment under the 2012 ABL Revolver of $33 million. We utilized $65.0 million of borrowings under the ABL Revolver for the acquisition of the Hydralyte brand and repaid $58.5 million during 2015. Due to the net borrowing under the 2012 ABL Revolver and 2012 Term Loan, our outstanding indebtedness increased to $1,593.6 million at March 31, 2015 from $937.5 million at March 31, 2014.

2014 compared to 2013

Operating Activities

Net cash provided by operating activities was $111.6 million for 2014 compared to $137.6 million for 2013. The $26.0 million decrease in net cash provided by operating activities was primarily due to a decrease in working capital of $24.5 million and a decrease in non-cash charges of $8.6 million, offset partly by an increase in net income of $7.1 million.

Working capital is defined as current assets (excluding cash and cash equivalents) minus current liabilities. Working capital decreased in 2014 compared to 2013 due to decreases in accrued liabilities of $19.1 million. The decrease in accrued liabilities was primarily due to a decrease in accrued interest attributed to the redemption of the 2010 Senior Notes and the issuance of the 2013 Senior Notes, as discussed in Note 10 of the Consolidated Financial Statements. Additionally, the decrease in working capital was due to a decrease in accounts payable of $29.3 million and decreases to prepaid expenses of $5.2 million, partially offset by increases in accounts receivable of $22.6 million and inventories of $6.5 million in 2014.

Non-cash charges decreased $8.6 million primarily due to a premium payment on the 2010 Senior Notes tendered in 2014 of $15.5 million, a decrease in deferred income tax charges of $6.5 million, and decreases in amortization of deferred financing charges and debt discount of $4.0 million in 2014. The decrease in non-cash charges were partially offset by a $18.3 million loss on extinguishment of debt incurred in 2014 versus the $1.4 million incurred in the prior year.

Investing Activities
Net cash used in investing activities was $58.0 million for 2014 compared to net cash provided by investing activities of $11.2 million for 2013. The increase in net cash used in investing activities for the year ended March 31, 2014 was due primarily to the acquisition of Care Pharma in 2014 for $55.2 million, and $21.7 million of cash received from the divestiture of the Phazyme brand in 2013.

Financing Activities
Net cash used in financing activities was $41.2 million for 2014 compared to net cash used in financing activities of $152.1 million for 2013. During the year ended March 31, 2014, we repaid $157.5 million of our outstanding long term debt. This decreased our outstanding indebtedness to $937.5 million at March 31, 2014 from $978.0 million at March 31, 2013. During 2014, we issued $400.0 million of 2013 Senior Notes, and redeemed the 2010 Senior Notes for $250.0 million.

Capital Resources

On January 31, 2012, Prestige Brands, Inc. (the "Borrower") (i) issued the 2012 Senior Notes in an aggregate principal amount of $250.0 million, (ii) entered into the 2012 Term Loan with a seven-year maturity and the $50.0 2012 ABL Revolver with a five-year maturity, and (iii) repaid in full and canceled its then-existing credit facility. The 2012 Term Loan was issued with an original issue discount of 1.5% of the principal amount thereof, resulting in net proceeds to the Borrower of $650.1 million. In addition to the discount, we incurred $33.3 million in issuance costs, which were capitalized as deferred financing costs and are being amortized over the terms of the related loans and notes. The Borrower may redeem some or all of the 2012 Senior Notes at redemption prices set forth in the indenture governing the 2012 Senior Notes. The 2012 Senior Notes are guaranteed by Prestige Brands Holdings, Inc. and certain of its 100% domestic owned subsidiaries. Each of these guarantees is joint and several. There are no significant restrictions on the ability of any of the guarantors to obtain funds from their subsidiaries or to make payments to Prestige Brands, Inc. or Prestige Brands Holdings, Inc.

On February 21, 2013, the Borrower entered into Term Loan Amendment No. 1. The Term Loan Amendment No. 1 provided for the refinancing of all of the Borrower's existing Term B Loans with new Term B-1 Loans (the "Term B-1 Loans"). The interest rate on the Term B-1 Loans under Term Loan Amendment No. 1 was based, at the Borrower's option, on a LIBOR rate plus a margin of 2.75% per annum, with a LIBOR floor of 1.00%, or an alternate base rate, with a floor of 2.00%, plus a margin. The new Term B-1 Loans mature on the same date as the Term B Loans' original maturity date. In addition, Term Loan Amendment No. 1 provided the Borrower with certain additional capacity to prepay subordinated debt, the 2012 Senior Notes and certain other unsecured indebtedness permitted to be incurred under the credit agreement governing the 2012 Term Loan and 2012 ABL Revolver. In connection with Term Loan Amendment No. 1, during the fourth quarter ended March 31, 2013, we recognized a $1.4 million loss on the extinguishment of debt.

On September 3, 2014, the Borrower entered into Amendment No. 2 ("Term Loan Amendment No. 2") to the 2012 Term Loan. Term Loan Amendment No. 2 provides for (i) the creation of a new class of Term B-2 Loans in an aggregate principal amount of $720.0 million (the "Term B-2 Loans"), (ii) increased flexibility under the credit agreement governing the 2012 Term Loan and the 2012 ABL Revolver, including additional investment, restricted payment and debt incurrence flexibility and financial maintenance covenant relief, and (iii) an interest rate on (x) the Term B-1 Loans that is based, at the Borrower’s option, on a LIBOR rate plus a margin of 3.125% per annum, with a LIBOR floor of 1.00%, or an alternate base rate, with a floor of 2.00%, plus a margin, and (y) the Term B-2 Loans that is based, at the Borrower’s option, on a LIBOR rate plus a margin of 3.50% per annum, with a LIBOR floor of 1.00%, or an alternate base rate, with a floor of 2.00%, plus a margin (with a margin step-down to 3.25% per annum, based upon achievement of a specified secured net leverage ratio).

On September 3, 2014, the Borrower entered into Amendment No. 3 (“ABL Amendment No. 3”) to the 2012 ABL Revolver. ABL Amendment No. 3 provides for (i) a $40.0 million increase in revolving commitments under the 2012 ABL Revolver and (ii)increased flexibility under the credit agreement governing the 2012 Term Loan and the 2012 ABL Revolver, including additional investment, restricted payment and debt incurrence flexibility. Borrowings under the 2012 ABL Revolver, as amended, bear interest at a rate per annum equal to an applicable margin, plus, at the Borrower's option, either (i) a base rate determined by reference to the highest of (a) the Federal Funds rate plus 0.50%, (b) the prime rate of Citibank, N.A., and (c) the LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for an interest period of one month, adjusted for certain additional costs, plus 1.00% or (ii) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs. The initial applicable margin for borrowings under the 2012 ABL Revolver is 1.75% with respect to LIBOR borrowings and 0.75% with respect to base-rate borrowings. The applicable margin for borrowings under the 2012 ABL Revolver may be increased to 2.00% or 2.25% for LIBOR borrowings and 1.00% or 1.25% for base-rate borrowings, depending on average excess availability under the 2012 ABL Revolver during the prior fiscal quarter. In addition to paying interest on outstanding principal under the 2012 ABL Revolver, we are required to pay a commitment fee to the lenders under the 2012 ABL Revolver in respect of the unutilized commitments thereunder. The initial commitment fee rate is 0.50% per annum. The commitment fee rate will be reduced to 0.375% per annum at any time when the average daily unused commitments for the prior quarter is less than a percentage of total commitments by an amount set forth in the credit agreement covering the 2012 ABL Revolver. We may voluntarily repay outstanding loans under the 2012 ABL Revolver at any time without a premium or penalty. For the year ended March 31, 2015, the average interest rate on the amounts borrowed under the 2012 ABL Revolver was 2.8%.

On December 17, 2013, the Borrower issued $400.0 million of the 2013 Senior Notes. The Borrower may redeem some or all of the 2013 Senior Notes at redemption prices set forth in the indenture governing the 2013 Senior Notes. The 2013 Senior Notes are guaranteed by Prestige Brands Holdings, Inc. and certain of its 100% domestic owned subsidiaries. Each of these guarantees is joint and several. There are no significant restrictions on the ability of any of the guarantors to obtain funds from their subsidiaries or to make payments to the Borrower or Prestige Brands Holdings, Inc. As a result of this issuance, in December 2013, we

redeemed $201.7 million of the 2010 Senior Notes and the balance of $48.3 million in January 2014 and repaid approximately $120.0 million toward our 2012 Term Loan.
As of March 31, 2015, we had an aggregate of $1,593.6 million of outstanding indebtedness, which consisted of the following:

- $250.0 million of 8.125% 2012 Senior Notes due 2020;
- $400.0 million of 5.375% 2013 Senior Notes due 2021;
- $217.5 million of borrowings under the 2012 Term B-1 Loans;
- $660.0 million of borrowings under the 2012 Term B-2 Loans; and
- $66.1 million of borrowings under the 2012 ABL Revolver.

As of March 31, 2015, we had $44.9 million of borrowing capacity under the 2012 ABL Revolver.

The 2012 Term Loan, as amended, bears interest at a rate per annum equal to an applicable margin plus, at our option, either (i) a base rate determined by reference to the highest of (a) the Federal Funds rate plus 0.50%, (b) the prime rate of Citibank, N.A., (c) the LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for an interest period of one month, adjusted for certain additional costs, plus 1.00% and (d) a floor of 2.00% or (ii) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, with a floor of 1.00%.

As we deem appropriate, we may from time to time utilize derivative financial instruments to mitigate the impact of changing interest rates associated with our long-term debt obligations or other derivative financial instruments. While we have utilized derivative financial instruments in the past, we did not have any significant derivative financial instruments outstanding at either March 31, 2015 or March 31, 2014 or during any of the periods presented. We have not entered into derivative financial instruments for trading purposes; all of our derivatives were over-the-counter instruments with liquid markets.

Our debt facilities contain various financial covenants, including provisions that require us to maintain certain leverage, interest coverage and fixed charge ratios. The credit agreement governing the 2012 Term Loan and the 2012 ABL Revolver and the indentures governing the 2012 and 2013 Senior Notes contain provisions that accelerate our indebtedness on certain changes in control and restrict us from undertaking specified corporate actions, including asset dispositions, acquisitions, payment of dividends and other specified payments, repurchasing our equity securities in the public markets, incurrence of indebtedness, creation of liens, making loans and investments and transaction with affiliates. Specifically, we must:

- Have a leverage ratio of less than 8.00 to 1.0 for the quarter ended March 31, 2015 (defined as, with certain adjustments, the ratio of our consolidated total net debt as of the last day of the fiscal quarter to our trailing twelve month consolidated net income before interest, taxes, depreciation, amortization, non-cash charges and certain other items ("EBITDA")). Our leverage ratio requirement decreases over time to 3.75 to 1.0 for the quarter ending March 31, 2019 and remains level thereafter;

- Have an interest coverage ratio of greater than 2.25 to 1.0 for the quarter ended March 31, 2015 (defined as, with certain adjustments, the ratio of our consolidated EBITDA to our trailing twelve month consolidated cash interest expense). Our interest coverage requirement increases over time to 3.50 to 1.0 for the quarter ending March 31, 2018 and remains level thereafter; and

- Have a fixed charge ratio of greater than 1.0 to 1.0 for the quarter ended March 31, 2015 (defined as, with certain adjustments, the ratio of our consolidated EBITDA minus capital expenditures to our trailing twelve month consolidated interest paid, taxes paid and other specified payments). Our fixed charge requirement remains level throughout the term of the agreement.

At March 31, 2015, we were in compliance with the applicable financial and restrictive covenants under the 2012 Term Loan and the 2012 ABL Revolver and the indentures governing the 2012 Senior Notes and the 2013 Senior Notes. Additionally, management anticipates that in the normal course of operations, we will be in compliance with the financial and restrictive covenants during 2016. During the years ended March 31, 2015, 2014 and 2013, we made voluntary principal payments against outstanding indebtedness of $130.0 million, $157.5 million and $190.0 million, respectively, under the 2012 Term Loan. Under the Term Loan Amendment No. 2, we are required to make quarterly payments each equal to 0.25% of the original principal amount of the Term B-2 Loan, with the balance expected to be due on the seventh anniversary of the closing date. However, we will not be required to make another payment until the maturity date of January 31, 2019.

Commitments

As of March 31, 2015, we had ongoing commitments under various contractual and commercial obligations as follows:

	Payments Due by Period				
(In millions)		Less than	1 to 3	4 to 5	After 5
Contractual Obligations	Total	1 Year	Years	Years	Years
Long-term debt	$1,593.6	$—	$66.1	$467.5	$1,060.0
Interest on long-term debt(1)	536.7	81.3	241.2	141.8	72.4
Purchase obligations:					
Inventory costs(2)	86.1	82.5	3.0	0.6	—
Other costs(3)	17.1	17.1	—	—	—
Operating leases (4)	10.0	1.9	5.6	2.5	—
Total contractual cash obligations (5)	$2,243.5	$182.8	$315.9	$612.4	$1,132.4

(1) Represents the estimated interest obligations on the outstanding balances at March 31, 2015 of the 2012 Senior Notes, 2013 Senior Notes, 2012 Term B-1 Loan, 2012 Term B-2 Loan, and 2012 ABL Revolver, assuming scheduled principal payments (based on the terms of the loan agreements) are made and assuming a weighted average interest rate of 5.9%. Estimated interest obligations would be different under different assumptions regarding interest rates or timing of principal payments.

(2) Purchase obligations for inventory costs are legally binding commitments for projected inventory requirements to be utilized during the normal course of our operations.

(3) Purchase obligations for other costs are legally binding commitments for marketing, advertising and capital expenditures. Activity costs for molds and equipment to be paid, based solely on a per unit basis without any deadlines for final payment, have been excluded from the table because we are unable to determine the time period over which such activity costs will be paid.

(4) We have excluded minimum sublease rentals of $1.4 million due in the future under noncancelable subleases. Refer to Note 17 for further details.

(5) We have excluded obligations related to uncertain tax positions because we cannot reasonably estimate when they will occur.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements or financing activities with special-purpose entities.

Inflation

Inflationary factors such as increases in the costs of raw materials, packaging materials, purchased product and overhead may adversely affect our operating results and financial condition. Although we do not believe that inflation has had a material impact on our financial condition or results from operations for the three most recent fiscal years, a high rate of inflation in the future could have a material adverse effect on our financial condition or results from operations. More volatility in crude oil prices may have an adverse impact on transportation costs, as well as certain petroleum based raw materials and packaging material. Although we make efforts to minimize the impact of inflationary factors, including raising prices to our customers, a high rate of pricing volatility associated with crude oil supplies or other raw materials used in our products may have an adverse effect on our operating results.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to changes in interest rates because our 2012 Term Loan and 2012 ABL Revolver are variable rate debt. Interest rate changes generally do not significantly affect the market value of the 2012 Term Loan and the 2012 ABL Revolver but do affect the amount of our interest payments and, therefore, our future earnings and cash flows, assuming other factors are held constant. At March 31, 2015, we had variable rate debt of approximately $943.6 million.

Holding other variables constant, including levels of indebtedness, a one percentage point increase in interest rates on our variable rate debt would have an adverse impact on pre-tax earnings and cash flows for the year ended March 31, 2015 of approximately $7.2 million.

Foreign Currency Exchange Rate Risk

During the year ended March 31, 2015, approximately 13.1% of our revenues were denominated in currencies other than the U.S. Dollar. As such, we are exposed to transactions that are sensitive to foreign currency exchange rates, including insignificant foreign currency forward exchange agreements. These transactions are primarily with respect to the Canadian and Australian Dollar.

We performed a sensitivity analysis with respect to exchange rates for the year ended March 31, 2015. Holding all other variables constant, and assuming a hypothetical 10.0% adverse change in foreign currency exchange rates, this analysis resulted in a less than 5.0% impact on pre-tax income of approximately $3.3 million for the year ended March 31, 2015.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The supplementary data required by this Item are described in Part IV, Item 15 of this Annual Report on Form 10-K and are presented beginning on page 116.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Prestige Brands Holdings, Inc.

Audited Financial Statements

March 31, 2015

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 defined in Rule 13a-15(f) of the Exchange Act). Internal control over financial reporting is a process designed by, or under the supervision of the Chief Executive Officer and Chief Financial Officer and effected by the Board of Directors, management and other personnel, 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable, not absolute, assurance that the control objectives will be met. 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 and procedures may deteriorate over time.

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's internal control over financial reporting as of March 31, 2015. In making its evaluation, management has used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013 Framework).

Based on management's assessment utilizing the 2013 Framework, management concluded that the Company's internal control over financial reporting was effective as of March 31, 2015.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has issued a report on the effectiveness of our internal control over financial reporting as of March 31, 2015, which appears below.

Prestige Brands Holdings, Inc.
May 14, 2015

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Prestige Brands Holdings, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, of changes in stockholders' equity and comprehensive income and of cash flows present fairly, in all material respects, the financial position of Prestige Brands Holdings, Inc. and its subsidiaries at March 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013 Framework), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, 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 opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 (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.

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.

/s/ PricewaterhouseCoopers LLP

New York, New York
May 14, 2015

Prestige Brands Holdings, Inc.
Consolidated Statements of Income and Comprehensive Income

(In thousands, except per share data)	Year Ended March 31, 2015	2014	2013
Revenues			
Net sales	$710,070	$592,454	$616,915
Other revenues	4,553	4,927	3,203
Total revenues	714,623	597,381	620,118
Cost of Sales			
Cost of sales (exclusive of depreciation shown below)	308,400	261,830	276,381
Gross profit	406,223	335,551	343,737
Operating Expenses			
Advertising and promotion	99,651	84,968	87,151
General and administrative	81,273	48,481	51,467
Depreciation and amortization	17,740	13,486	13,235
Total operating expenses	198,664	146,935	151,853
Operating income	207,559	188,616	191,884
Other (income) expense			
Interest income	(92)	(60)	(13)
Interest expense	81,326	68,642	84,420
Gain on sale of asset	(1,133)	—	—
Loss on extinguishment of debt	—	18,286	1,443
Total other expense	80,101	86,868	85,850
Income before income taxes	127,458	101,748	106,034
Provision for income taxes	49,198	29,133	40,529
Net income	$78,260	$72,615	$65,505
Earnings per share:			
Basic	$1.50	$1.41	$1.29
Diluted	$1.49	$1.39	$1.27
Weighted average shares outstanding:			
Basic	52,170	51,641	50,633
Diluted	52,670	52,349	51,440
Comprehensive income, net of tax:			
Currency translation adjustments	(24,151)	843	(91)
Total other comprehensive income (loss)	(24,151)	843	(91)
Comprehensive income	$54,109	$73,458	$65,414

See accompanying notes.

Prestige Brands Holdings, Inc.
Consolidated Balance Sheets

(In thousands)	March 31,	
Assets	2015	2014
Current assets		
Cash and cash equivalents	$21,318	$28,331
Accounts receivable, net	87,858	65,050
Inventories	74,000	65,586
Deferred income tax assets	8,097	6,544
Prepaid expenses and other current assets	10,434	11,674
Total current assets	201,707	177,185
Property and equipment, net	13,744	9,597
Goodwill	290,651	190,911
Intangible assets, net	2,134,700	1,394,817
Other long-term assets	28,603	23,153
Total Assets	$2,669,405	$1,795,663
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$46,115	$48,286
Accrued interest payable	11,974	9,626
Other accrued liabilities	40,948	26,446
Total current liabilities	99,037	84,358
Long-term debt		
Principal amount	1,593,600	937,500
Less unamortized discount	(4,889)	(3,086)
Long-term debt, net of unamortized discount	1,588,711	934,414
Deferred income tax liabilities	351,569	213,204
Other long-term liabilities	2,464	327
Total Liabilities	2,041,781	1,232,303
Commitments and Contingencies – Note 17		
Stockholders' Equity		
Preferred stock – $0.01 par value		
Authorized – 5,000 shares		
Issued and outstanding – None	—	—
Common stock – $0.01 par value		
Authorized – 250,000 shares		
Issued – 52,562 shares and 52,021 shares at March 31, 2015 and 2014, respectively	525	520
Additional paid-in capital	426,584	414,387
Treasury stock, at cost – 266 shares at March 31, 2015 and 206 shares at March 31, 2014	(3,478)	(1,431)
Accumulated other comprehensive income (loss), net of tax	(23,412)	739
Retained earnings	227,405	149,145
Total Stockholders' Equity	627,624	563,360
Total Liabilities and Stockholders' Equity	$2,669,405	$1,795,663

See accompanying notes.

Prestige Brands Holdings, Inc.
Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income

(In thousands)	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive (Loss) Income	Preferred Share Rights	Retained Earnings (Accumulated Deficit)	Totals
Balances at March 31, 2012	50,466	$505	$391,898	181	$(687)	$(13)	$283	$10,742	$402,728
Stock-based compensation	—	—	3,772	—	—	—	—	—	3,772
Exercise of stock options	786	7	6,022	—	—	—	—	—	6,029
Issuance of shares related to restricted stock	59	1	(1)	—	—	—	—	—	—
Components of comprehensive income:									
Net income	—	—	—	—	—	—	—	65,505	65,505
Translation adjustments	—	—	—	—	—	(91)	—	—	(91)
Total comprehensive income	—	—	—	—	—	—	—	—	65,414
Balances at March 31, 2013	51,311	$513	$401,691	181	$(687)	$(104)	$283	$76,247	$477,943
Stock-based compensation	—	—	5,146	—	—	—	—	—	5,146
Exercise of stock options	605	6	5,901	—	—	—	—	—	5,907
Preferred share rights	—	—	—	—	—	—	(283)	283	—
Issuance of shares related to restricted stock	105	1	(1)	—	—	—	—	—	—
Treasury share repurchases	—	—	—	25	(744)	—	—	—	(744)
Excess tax benefits from share-based awards	—	—	1,650	—	—	—	—	—	1,650

									—
Components of comprehensive income:									
Net income	—	—	—	—	—	—	—	72,615	72,615
Translation adjustments	—	—	—	—	—	843	—	—	843
Total comprehensive income	—	—	—	—	—	—	—	—	73,458
Balances at March 31, 2014	52,021	$520	$414,387	206	$(1,431)	$739	$—	$149,145	$563,360

See accompanying notes.

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Prestige Brands Holdings, Inc.
Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive (Loss) Income	Preferred Share Rights	Retained Earnings	Totals
	Shares	Par Value		Shares	Amount				
Balances at March 31, 2014	52,021	$520	$414,387	206	$(1,431)	$739	$—	$149,145	$563,360
Stock-based compensation	—	—	6,918	—	—	—	—	—	6,918
Exercise of stock options	387	4	3,950	—	—	—	—	—	3,954
Issuance of shares related to restricted stock	154	1	(1)	—	—	—	—	—	—
Treasury share repurchases	—	—	—	60	(2,047)	—	—	—	(2,047)
Excess tax benefits from share-based awards	—	—	1,330	—	—	—	—	—	1,330
Components of comprehensive income:									
Net income	—	—	—	—	—	—	—	78,260	78,260
Translation adjustments	—	—	—	—	—	(24,151)	—	—	(24,151)
Total comprehensive income	—	—	—	—	—	—	—	—	54,109
Balances at March 31, 2015	52,562	$525	$426,584	266	$(3,478)	$(23,412)	$—	$227,405	$627,624

See accompanying notes.

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Prestige Brands Holdings, Inc.
Consolidated Statements of Cash Flows

(In thousands)	Year Ended March 31, 2015	2014	2013
Operating Activities			
Net income	$78,260	$72,615	$65,505
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,740	13,486	13,235
Gain on sale of asset	(1,133)	—	—
Deferred income taxes	28,922	19,012	25,505
Long term income taxes payable	2,294	—	—
Amortization of deferred financing costs	6,735	7,102	9,832
Stock-based compensation costs	6,918	5,146	3,772
Loss on extinguishment of debt	—	18,286	1,443
Premium payment on 2010 Senior Notes	—	(15,527)	—
Amortization of debt discount	2,086	3,410	4,632
Lease termination costs	785	—	975
Loss (gain) on sale or disposal of property and equipment	321	(3)	103
Changes in operating assets and liabilities, net of effects from acquisitions			
Accounts receivable	1,608	9,735	(12,882)
Inventories	15,360	(2,850)	(9,342)
Prepaid expenses and other current assets	4,664	(2,130)	3,096
Accounts payable	(17,637)	(4,641)	24,677
Accrued liabilities	9,332	(12,059)	7,054
Net cash provided by operating activities	156,255	111,582	137,605
Investing Activities			
Purchases of property and equipment	(6,101)	(2,764)	(10,268)
Proceeds from sale of property and equipment	—	3	15
Proceeds from sale of business	18,500	—	—
Proceeds from sale of asset	10,000	—	—
Acquisition of Insight Pharmaceuticals, less cash acquired	(749,666)	—	—
Acquisition of the Hydralyte brand	(77,991)	—	—
Proceeds from the sale of Phazyme brand	—	—	21,700
Acquisition of brands from GSK purchase price adjustments	—	—	(226)
Acquisition of Care Pharmaceuticals, less cash acquired	—	(55,215)	—
Net cash (used in) provided by investing activities	(805,258)	(57,976)	11,221
Financing Activities			
Proceeds from issuance of 2013 Senior Notes	—	400,000	—
Repayment of 2010 Senior Notes	—	(250,000)	—
Term loan borrowings	720,000	—	—
Term loan repayments	(130,000)	(157,500)	(190,000)
Borrowings under revolving credit agreement	124,600	50,000	48,000
Repayments under revolving credit agreement	(58,500)	(83,000)	(15,000)
Payment of deferred financing costs	(16,072)	(7,466)	(1,146)
Proceeds from exercise of stock options	3,954	5,907	6,029
Proceeds from restricted stock exercises	57	—	—

Excess tax benefits from share-based awards	1,330	1,650	—
Fair value of shares surrendered as payment of tax withholding	(2,104)	(744)	—
Net cash provided by (used in) financing activities	643,265	(41,153)	(152,117)
Effects of exchange rate changes on cash and cash equivalents	(1,275)	208	(54)
Increase (decrease) in cash and cash equivalents	(7,013)	12,661	(3,345)
Cash and cash equivalents - beginning of year	28,331	15,670	19,015
Cash and cash equivalents - end of year	$21,318	$28,331	$15,670
Interest paid	$70,155	$62,357	$69,641
Income taxes paid	$11,939	$11,020	$10,624

See accompanying notes.

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Prestige Brands Holdings, Inc.
Notes to Consolidated Financial Statements

1. Business and Basis of Presentation

Nature of Business
Prestige Brands Holdings, Inc. (referred to herein as the "Company" or "we", which reference shall, unless the context requires otherwise, be deemed to refer to Prestige Brands Holdings, Inc. and all of its direct and indirect 100% owned subsidiaries on a consolidated basis) is engaged in the marketing, sales and distribution of over-the-counter ("OTC") healthcare and household cleaning products to mass merchandisers, drug stores, supermarkets, and club, convenience, and dollar stores in North America (the United States and Canada) and in Australia and certain other international markets. Prestige Brands Holdings, Inc. is a holding company with no operations and is also the parent guarantor of the senior credit facility and the senior notes described in Note 10 to these Consolidated Financial Statements.

Basis of Presentation
Our Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All significant intercompany transactions and balances have been eliminated in consolidation. Our fiscal year ends on March 31st of each year. References in these Consolidated Financial Statements or notes to a year (e.g., "2015") mean our fiscal year ended on March 31st of that year.

Reclassification
We revised the classification of certain promotional expenses that were incurred in the prior year to correctly present the amounts as a reduction to net sales. The amounts were not material to any of the periods presented.

Use of Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on our knowledge of current events and actions that we may undertake in the future, actual results could differ from those estimates. As discussed below, our most significant estimates include those made in connection with the valuation of intangible assets, stock-based compensation, fair value of debt, sales returns and allowances, trade promotional allowances and inventory obsolescence, and the recognition of income taxes using an estimated annual effective tax rate.

Cash and Cash Equivalents
We consider all short-term deposits and investments with original maturities of three months or less to be cash equivalents. Substantially all of our cash is held by a large regional bank with headquarters in California. We do not believe that, as a result of this concentration, we are subject to any unusual financial risk beyond the normal risk associated with commercial banking relationships. The Federal Deposit Insurance Corporation ("FDIC") and Securities Investor Protection Corporation ("SIPC") insure these balances, up to $250,000 and $500,000, with a $250,000 limit for cash, respectively. Substantially all of the Company's cash balances at March 31, 2015 are uninsured.

Accounts Receivable
We extend non-interest-bearing trade credit to our customers in the ordinary course of business. We maintain an allowance for doubtful accounts receivable based upon historical collection experience and expected collectability of the accounts receivable. In an effort to reduce credit risk, we (i) have established credit limits for all of our customer relationships, (ii) perform ongoing credit evaluations of customers' financial condition, (iii) monitor the payment history and aging of customers' receivables, and (iv) monitor open orders against an individual customer's outstanding

receivable balance.

Inventories

Inventories are stated at the lower of cost or market value, where cost is determined by using the first-in, first-out method. We reduce inventories for the diminution of value resulting from product obsolescence, damage or other issues affecting marketability, equal to the difference between the cost of the inventory and its estimated market value. Factors utilized in the determination of estimated market value include (i) current sales data and historical return rates, (ii) estimates of future demand, (iii) competitive pricing pressures, (iv) new product introductions, (v) product expiration dates, and (vi) component and packaging obsolescence.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method based on the following estimated useful lives:

	Years
Machinery	5
Computer equipment and software	3
Furniture and fixtures	7
Leasehold improvements	*

*Leasehold improvements are amortized over the lesser of the lease term or the estimated useful life of the related asset.

Expenditures for maintenance and repairs are charged to expense as incurred. When an asset is sold or otherwise disposed of, we remove the cost and associated accumulated depreciation from the accounts and recognize the resulting gain or loss in the Consolidated Statements of Income and Comprehensive Income.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. An impairment loss is recognized if the carrying amount of the asset exceeds its fair value.

Goodwill

The excess of the purchase price over the fair market value of assets acquired and liabilities assumed in purchase business combinations is classified as goodwill. Goodwill is not amortized, although the carrying value is tested for impairment at least annually in the fourth fiscal quarter of each year, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Goodwill is tested for impairment at the product group level, which is one level below the operating segment level.

Intangible Assets

Intangible assets, which are comprised primarily of trademarks, are stated at cost less accumulated amortization. For intangible assets with finite lives, amortization is computed using the straight-line method over estimated useful lives, typically ranging from 10 to 30 years.

Indefinite-lived intangible assets are tested for impairment at least annually in the fourth fiscal quarter of each year, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their fair values and may not be recoverable. An impairment loss is recognized if the carrying amount of the asset exceeds its fair value.

Deferred Financing Costs

We have incurred debt origination costs in connection with the issuance of long-term debt. These costs are capitalized as deferred financing costs and amortized over the term of the related debt using the effective interest method.

Revenue Recognition

We recognize revenue when the following criteria are met: (i) persuasive evidence of an arrangement exists; (ii) the selling price is fixed or determinable; (iii) the product has been shipped and the customer takes ownership and assumes the risk of loss; and (iv) collection of the resulting receivable is reasonably assured. We have determined that these criteria are met and the transfer of the risk of loss generally occurs when product is received by the customer and, accordingly, we recognize revenue at that time. Provision is made for estimated discounts related to customer payment terms and estimated product returns at the time of sale based on our historical experience.

As is customary in the consumer products industry, we participate in the promotional programs of our customers to enhance the sale of our products. The cost of these promotional programs varies based on the actual number of units sold during a finite period of time. These promotional programs consist of direct-to-consumer incentives, such as coupons and temporary price reductions, as well as incentives to our customers, such as allowances for new distribution, including slotting fees, and cooperative advertising. Estimates of the costs of these promotional programs are based on (i) historical sales experience, (ii) the current promotional offering, (iii) forecasted data, (iv) current market conditions, and (v) communication with customer purchasing/marketing personnel. We recognize the cost of such sales incentives by recording an estimate of such cost as a reduction of revenue, at the later of (a) the date the related revenue is recognized, or (b) the date when a particular sales incentive is offered. At the completion of the promotional program, the estimated amounts are adjusted to actual results.

Due to the nature of the consumer products industry, we are required to estimate future product returns. Accordingly, we record an estimate of product returns concurrent with recording sales, which is made after analyzing (i) historical return rates, (ii) current economic trends, (iii) changes in customer demand, (iv) product acceptance, (v) seasonality of our product offerings, and (vi) the impact of changes in product formulation, packaging and advertising.

Cost of Sales
Cost of sales includes product costs, warehousing costs, inbound and outbound shipping costs, and handling and storage costs. Shipping, warehousing and handling costs were $37.7 million for 2015, $32.0 million for 2014 and $30.6 million for 2013.

Advertising and Promotion Costs
Advertising and promotion costs are expensed as incurred. Allowances for new distribution costs associated with products, including slotting fees, are recognized as a reduction of sales. Under these new distribution arrangements, the retailers allow our products to be placed on the stores' shelves in exchange for such fees.

Stock-based Compensation
We recognize stock-based compensation by measuring the cost of services to be rendered based on the grant-date fair value of the equity award. Compensation expense is to be recognized over the period an employee is required to provide service in exchange for the award, generally referred to as the requisite service period.

Income Taxes
Deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized.

The Income Taxes topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance only allows the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the various taxing authorities. As a result, we have applied a more-likely-than-not recognition threshold for all tax uncertainties.

We are subject to taxation in the United States and various state and foreign jurisdictions.

We classify penalties and interest related to unrecognized tax benefits as income tax expense in the Consolidated Statements of Income and Comprehensive Income.

Earnings Per Share
Basic earnings per share is calculated based on income available to common stockholders and the weighted-average number of shares outstanding during the reporting period. Diluted earnings per share is calculated based on income available to common stockholders and the weighted-average number of common and potential common shares outstanding during the reporting period. Potential common shares, composed of the incremental common shares issuable upon the exercise of stock options, stock appreciation rights and unvested restricted shares, are included in the earnings per share calculation to the extent that they are dilutive.

Recently Issued Accounting Standards
In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. The amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from that carrying amount of that debt liability, consistent with debt discounts. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and

interim periods within those fiscal years. The adoption of ASU 2015-03 is not expected to have a material impact on our Consolidated Financial Statements.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis. Update 2015-02 amended the process that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The amendments in this update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The adoption of ASU 2015-02 is not expected to have a material impact on our Consolidated Financial Statements.

In January 2015, the FASB issued ASU 2015-01, Income Statement - Extraordinary and Unusual Items. The amendments in this update eliminate the concept of extraordinary items in Subtopic 225-20, which required entities to consider whether an underlying event or transaction is extraordinary. However, the amendments retain the presentation and disclosure guidance for items that are unusual in nature or occur infrequently. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The adoption of ASU 2015-01 is not expected to have a material impact on our Consolidated Financial Statements.

In November 2014, the FASB issued ASU 2014-17, Pushdown Accounting, which clarifies whether and at what threshold an acquired entity that is a business or nonprofit activity can apply pushdown accounting in its separate financial statements. This ASU provides companies with the option to apply pushdown accounting in its separate financial statements upon the occurrence of an event in which an acquirer obtains control of the acquired entity. The election to apply pushdown accounting can be made either in the period in which the change of control occurred, or in a subsequent period. The amendments in this update were effective November 18, 2014. The adoption of ASU 2014-17 did not have a material impact on our Consolidated Financial Statements.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This amendment states that in connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). The amendments in this update are effective for the annual reporting period beginning after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of ASU 2014-15 is not expected to have a material impact on our Consolidated Financial Statements.

In June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could Be Achieved after the Requisite Service Period, which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the new guidance does not allow for a performance target that affects vesting to be reflected in estimating the fair value of the award at the grant date. The amendments to this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. Entities may apply the amendments in this update either prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. We currently do not have any outstanding share-based payments with a performance target. The adoption of ASU 2014-12 is not expected to have a material impact on our Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers - Topic 606, which supersedes the revenue recognition requirements in FASB ASC 605. The new guidance primarily states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The amendments in this update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We are evaluating the impact of adopting this prospective guidance on our Consolidated Financial Statements.

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The amendments in this update must be applied prospectively to all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. The adoption of ASU 2014-08 is not expected to have a material impact on our Consolidated Financial Statements.

Management has reviewed and continues to monitor the actions of the various financial and regulatory reporting agencies and is currently not aware of any other pronouncement that could have a material impact on our consolidated financial position, results of operations or cash flows.

2. Acquisitions

Acquisition of Insight Pharmaceuticals
On September 3, 2014, the Company completed the acquisition of Insight Pharmaceuticals Corporation ("Insight"), a marketer and distributor of feminine care and other OTC healthcare products, for $753.2 million in cash. The closing followed the Federal Trade Commission's ("FTC") approval of the acquisition and was finalized pursuant to the terms of the purchase agreement announced on April 25, 2014. Pursuant to the Insight purchase agreement, the Company acquired 27 OTC brands sold in North America (including related trademarks, contracts and inventory), which extended the Company's portfolio of OTC brands to include a leading feminine care platform in the United States and Canada anchored by Monistat, the leading North American brand in OTC yeast infection treatment. The acquisition also added brands to the Company's cough & cold, pain relief, ear care and dermatological platforms. In connection with the FTC's approval of the Insight acquisition, we sold one of the competing brands that we acquired from Insight on the same day as the Insight closing. Insight is primarily included in our North American OTC Healthcare segment.

The Insight acquisition was accounted for in accordance with the Business Combinations topic of the FASB ASC 805, which requires that the total cost of an acquisition be allocated to the tangible and intangible assets acquired and liabilities assumed based upon their respective fair values at the date of acquisition.

We prepared an analysis of the fair values of the assets acquired and liabilities assumed as of the date of acquisition. The following table summarizes our preliminary allocation of the assets acquired and liabilities assumed as of the September 3, 2014 acquisition date.

(In thousands)	September 3, 2014
Cash acquired	$ 3,507
Accounts receivable	25,784
Inventories	23,559
Deferred income tax assets - current	860
Prepaids and other current assets	1,407
Property, plant and equipment	2,308
Goodwill	103,255
Intangible assets	724,374
Total assets acquired	885,054
Accounts payable	16,079
Accrued expenses	8,003
Deferred income tax liabilities - long term	107,799
Total liabilities assumed	131,881
Total purchase price	$ 753,173

Based on this analysis, we allocated $599.6 million to indefinite-lived intangible assets and $124.8 million to amortizable intangible assets. We are amortizing the purchased amortizable intangible assets on a straight-line basis over an estimated weighted average useful life of 16.2 years. The weighted average remaining life for amortizable intangible assets at March 31, 2015 was 15.6 years.

We also recorded goodwill of $103.3 million based on the amount by which the purchase price exceeded the fair value of the net assets acquired. Goodwill is not deductible for income tax purposes.

The operating results of Insight have been included in our Consolidated Financial Statements beginning September 3, 2014. Revenues of the acquired Insight operations for the year ended March 31, 2015 were $97.1 million. On September 3, 2014, we sold one of the brands we acquired from the Insight acquisition for $18.5 million, for which we had allocated $17.7 million, $0.6 million and $0.2 million to intangible assets, inventory and property, plant and equipment, respectively.

The following table provides our unaudited pro forma revenues, net income and net income per basic and diluted common share had the results of Insight's operations been included in our operations commencing on April 1, 2013, based upon available information related to Insight's operations. This pro forma information is not necessarily indicative either of the combined results of operations that actually would have been realized by us had the Insight acquisition been consummated at the beginning of the period for which the pro forma information is presented, or of future results.

	Year Ended March 31,	
(In thousands, except per share data)	2015	2014
	(Unaudited)	
Revenues	$ 783,217	$ 767,897
Net income	$ 86,844	$ 82,762
Earnings per share:		
Basic	$ 1.66	$ 1.60
Diluted	$ 1.65	$ 1.58

Acquisition of the Hydralyte brand
On April 30, 2014, we completed the acquisition of the Hydralyte brand in Australia and New Zealand from The Hydration Pharmaceuticals Trust of Victoria, Australia, which was funded through a combination of cash on hand and our existing senior secured credit facility.

Hydralyte is the leading OTC brand in oral rehydration in Australia and is marketed and sold through our Care Pharmaceuticals Pty Ltd. subsidiary ("Care Pharma"). Hydralyte is available in pharmacies in multiple forms and is indicated for oral rehydration following diarrhea, vomiting, fever, heat and other ailments. Hydralyte is included in our International OTC Healthcare segment.

The Hydralyte acquisition was accounted for in accordance with the Business Combinations topic of the FASB ASC 805, which requires that the total cost of an acquisition be allocated to the tangible and intangible assets acquired and liabilities assumed based upon their respective fair values at the date of acquisition.

We prepared an analysis of the fair values of the assets acquired and liabilities assumed as of the date of acquisition. The following table summarizes our allocation of the assets acquired and liabilities assumed as of the April 30, 2014 acquisition date.

(In thousands)	April 30, 2014
Inventories	$ 1,970
Property, plant and equipment, net	1,267
Goodwill	1,224
Intangible assets, net	73,580
Total assets acquired	78,041
Accrued expenses	38
Other long term liabilities	12
Total liabilities assumed	50
Net assets acquired	$ 77,991

Based on this analysis, we allocated $73.6 million to non-amortizable intangible assets and no allocation was made to amortizable intangible assets.

We also recorded goodwill of $1.2 million based on the amount by which the purchase price exceeded the fair value of the net assets acquired. Goodwill is not deductible for income tax purposes.

The pro forma effect of this acquisition on revenues and earnings was not material.

Acquisition of Care Pharmaceuticals Pty Ltd.
On July 1, 2013, we completed the acquisition of Care Pharma, which was funded through a combination of our existing senior secured credit facility and cash on hand.

The Care Pharma brands include the Fess line of cold/allergy and saline nasal health products, which is the leading saline spray for both adults and children in Australia. Other key brands include Painstop analgesic, Rectogesic for rectal discomfort, and the Fab line of nutritional supplements. Care Pharma also carries a line of brands for children including Little Allergies, Little Eyes, and Little Coughs. The brands acquired are complementary to our OTC Healthcare portfolio.

This acquisition was accounted for in accordance with the Business Combinations topic of the FASB ASC 805, which requires that the total cost of an acquisition be allocated to the tangible and intangible assets acquired and liabilities assumed based upon their respective fair values at the date of acquisition.

We prepared a analysis of the fair values of the assets acquired and liabilities assumed as of the date of acquisition. The following table summarizes our allocation of the assets acquired and liabilities assumed as of the July 1, 2013 acquisition date.

(In thousands)	July 1, 2013
Cash acquired	$ 1,546
Accounts receivable	1,658
Inventories	2,465
Deferred income tax assets	283
Prepaids and other current assets	647
Property, plant and equipment	163
Goodwill	23,122
Intangible assets	31,502
Total assets acquired	61,386
Accounts payable	1,537
Accrued expenses	2,788
Other long term liabilities	300
Total liabilities assumed	4,625
Net assets acquired	$ 56,761

Based on this analysis, we allocated $29.8 million to non-amortizable intangible assets and $1.7 million to amortizable intangible assets. We are amortizing the purchased amortizable intangible assets on a straight-line basis over an estimated weighted average useful life of 15.1 years. The weighted average remaining life for amortizable intangible assets at March 31, 2015 was 11.8 years.

We also recorded goodwill of $23.1 million based on the amount by which the purchase price exceeded the fair value of the net assets acquired. The full amount of goodwill is deductible for income tax purposes.

The pro-forma effect of this acquisition on revenues and earnings was not material.

3. Divestitures

Sale of the Phazyme Brand

On October 31, 2012, we divested the Phazyme gas treatment brand, which was a non-core OTC brand that we acquired from GlaxoSmithKline plc ("GSK") in January 2012. We received $21.7 million from the divestiture on October 31, 2012 and the remaining $0.6 million on January 4, 2013. The proceeds were used to repay debt. No significant gain or loss was recorded as a result of the sale.

4. Accounts Receivable

Accounts receivable consist of the following:

(In thousands)	March 31, 2015	2014
Components of Accounts Receivable		
Trade accounts receivable	$95,411	$73,632
Other receivables	2,353	1,360
	97,764	74,992
Less allowances for discounts, returns and uncollectible accounts	(9,906)	(9,942)
Accounts receivable, net	$87,858	$65,050

5. Inventories

Inventories consist of the following:

(In thousands)	March 31, 2015	2014
Components of Inventories		
Packaging and raw materials	$7,588	$3,099
Finished goods	66,412	62,487
Inventories	$74,000	$65,586

Inventories are carried and depicted above at the lower of cost or market, which includes a reduction in inventory values of $4.1 million and $1.1 million at March 31, 2015 and 2014, respectively, related to obsolete and slow-moving inventory.

6. Property and Equipment

Property and equipment consist of the following:

(In thousands)	March 31, 2015	2014
Components of Property and Equipment		
Machinery	$4,743	$1,927
Computer equipment	11,339	8,923
Furniture and fixtures	2,484	1,858
Leasehold improvements	7,134	4,734
	25,700	17,442
Accumulated depreciation	(11,956)	(7,845)
Property and equipment, net	$13,744	$9,597

We recorded depreciation expense of $3.8 million, $3.2 million, and $1.6 million for 2015, 2014, and 2013, respectively.

7. Goodwill

The following table summarizes the changes in the carrying value of goodwill by operating segment for each of 2013, 2014, and 2015:

(In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Balance – March 31, 2012				
Goodwill	$296,483	$—	$72,549	$369,032
Accumulated impairment losses	(130,170)	—	(65,160)	(195,330)
Balance – March 31, 2012	166,313	—	7,389	173,702
2013 additions	226	—	—	226
2013 reductions	(6,382)	—	—	(6,382)
Balance – March 31, 2013				
Goodwill	290,327	—	72,549	362,876
Accumulated impairment losses	(130,170)	—	(65,160)	(195,330)
Balance – March 31, 2013	160,157	—	7,389	167,546
2014 additions	—	23,122	—	23,122
Effects of foreign currency exchange rates	—	243	—	243
Balance – March 31, 2014				
Goodwill	290,327	23,365	72,549	386,241
Accumulated impairment losses	(130,170)	—	(65,160)	(195,330)
Balance - March 31, 2014	160,157	23,365	7,389	190,911
2015 additions	103,254	1,224	—	104,478
2015 reductions	—	—	(589)	(589)
Effects of foreign currency exchange rates	—	(4,149)	—	(4,149)
Balance – March 31, 2015				
Goodwill	393,581	20,440	71,960	485,981
Accumulated impairment losses	(130,170)	—	(65,160)	(195,330)
Balance - March 31, 2015	$263,411	$20,440	$6,800	$290,651

During the three months ended June 30, 2012, we received a revised post-closing inventory and apportionment adjustment from GSK requiring an additional payment of $0.2 million, which resulted in an increase to our recorded goodwill balance.

As more fully disclosed in Note 3, on October 31, 2012, we sold the Phazyme brand for $22.3 million. As a result of the divestiture of Phazyme, we reduced goodwill by $6.4 million.

As discussed in Note 2, on July 1, 2013, we completed the acquisition of Care Pharma. In connection with this acquisition, we recorded goodwill of $23.1 million based on the amount by which the purchase price exceeded the fair value of the net assets acquired.

As discussed in Note 2, we completed two acquisitions during the year ended March 31, 2015. On September 3, 2014, we completed the acquisition of Insight and recorded goodwill of $103.3 million reflecting the amount by which the purchase price exceeded the preliminary estimate of fair value of net assets acquired. Additionally, on April 30, 2014, we completed the acquisition of the Hydralyte brand and recorded goodwill of $1.2 million reflecting the amount by which the purchase price exceeded the preliminary estimate of fair value of the net assets acquired.

As further discussed in Note 8, in December 2014, we completed a transaction to sell rights to use of the Comet brand in certain Eastern European countries to a third-party licensee. As a result, we recorded a gain on the sale of such rights in the amount of $1.1 million and reduced the carrying value of our intangible assets and goodwill.

Under accounting guidelines, goodwill is not amortized, but must be tested for impairment annually, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below the carrying

amount. During the fourth quarter of each fiscal year, we perform our annual impairment analysis. In prior years, we performed the analysis as of March 31. However, beginning with fiscal year 2015, we changed the date of our analysis to February 28 to better align with our annual operating plan preparation and to help facilitate our financial reporting process. We do not believe that a one-month change in the date of our analysis will significantly impact the results of our analysis or our financial statements.
At February 28, 2015 and March 31, 2014, in conjunction with the annual test for goodwill impairment, there were no indicators of impairment under the analysis. Accordingly, no impairment charge was recorded in 2015 or 2014.

We identify our reporting units in accordance with the FASB ASC Subtopic 280. The carrying value and fair value for intangible assets and goodwill for a reporting unit are calculated based on key assumptions and valuation methodologies previously discussed. The discounted cash flow methodology is a widely-accepted valuation technique utilized by market participants in the transaction evaluation process and has been applied consistently. We also considered our market capitalization at February 28, 2015 and March 31, 2014 and 2013, as compared to the aggregate fair values of our reporting units, to assess the reasonableness of our estimates pursuant to the discounted cash flow methodology. Although the impairment charges recorded in the prior years were a result of utilizing management’s best estimate of fair value, the estimates and assumptions made in assessing the fair value of our reporting units and the valuation of the underlying assets and liabilities are inherently subject to significant uncertainties. Consequently, changing rates of interest and inflation, declining sales or margins, increases in competition, changing consumer preferences, technical advances, or reductions in advertising and promotion may require additional impairments in the future. We have experienced significant declines in revenues and profitability of certain brands in the North American OTC Healthcare segment during 2015. In the past, we have experienced declines in revenues and profitability of certain brands in the North American OTC Healthcare and Household Cleaning segments. Sustained or significant future declines in revenue, profitability, other adverse changes in expected operating results, and/or unfavorable changes in other economic factors used to estimate fair value of certain brands could indicate that fair value no longer exceeds carrying value, in which case a non-cash impairment charge may be recorded in future periods.

The aggregate fair value of our reporting units exceeded the carrying value by 45.2% with no reporting unit's fair value exceeding the carrying value by less than 10%.

8. Intangible Assets

A reconciliation of the activity affecting intangible assets for each of 2013, 2014, and 2015 is as follows:

(In thousands)	Year Ended March 31, 2013			
	Indefinite Lived Trademarks	Finite Lived Trademarks	Non Compete Agreement	Totals
Gross Amount				
Balance – March 31, 2012	$1,245,414	$217,512	$158	$1,463,084
Reclassifications	(1,696)	1,696	—	—
Reductions	—	(16,142)	—	(16,142)
Balance – March 31, 2013	$1,243,718	$203,066	$158	$1,446,942
Accumulated Amortization				
Balance – March 31, 2012	$—	$62,404	$158	$62,562
Additions	—	11,678	—	11,678
Reductions	—	(538)	—	(538)
Balance – March 31, 2013	$—	$73,544	$158	$73,702
Intangibles, net – March 31, 2013	$1,243,718	$129,522	$—	$1,373,240
Intangible Assets, net by Reportable Segment:				
North American OTC Healthcare	$1,123,898	$101,611	$—	$1,225,509
International OTC Healthcare	—	—	—	—
Household Cleaning	119,820	27,911	—	147,731
Intangible assets, net – March 31, 2013	$1,243,718	$129,522	$—	$1,373,240

(In thousands)	Year Ended March 31, 2014			
	Indefinite Lived Trademarks	Finite Lived Trademarks	Non Compete Agreement	Totals
Gross Amount				
Balance – March 31, 2013	$1,243,718	$203,066	$158	$1,446,942
Additions	29,845	1,657	—	31,502
Reductions	—	—	(158)	(158)
Effects of foreign currency exchange rates	315	17	—	332
Balance – March 31, 2014	$1,273,878	$204,740	$—	$1,478,618
Accumulated Amortization				
Balance – March 31, 2013	$—	$73,544	$158	$73,702
Additions	—	10,256	—	10,256
Reductions	—	—	(158)	(158)
Effects of foreign currency exchange rates	—	1	—	1
Balance – March 31, 2014	$—	$83,801	$—	$83,801
Intangibles, net – March 31, 2014	$1,273,878	$120,939	$—	$1,394,817
Intangible Assets, net by Reportable Segment:				
North American OTC Healthcare	$1,123,897	$93,242	$—	$1,217,139
International OTC Healthcare	30,161	1,530	—	31,691
Household Cleaning	119,820	26,167	—	145,987

Intangible assets, net – March 31, 2014	$1,273,878	$120,939	$—	$1,394,817

(In thousands)	Year Ended March 31, 2015			
	Indefinite Lived Trademarks	Finite Lived Trademarks	Non Compete Agreement	Totals
Gross Amount				
Balance – March 31, 2014	$1,273,878	$204,740	$—	$1,478,618
Additions	673,180	124,774	—	797,954
Reclassifications	(46,506)	46,506	—	—
Reductions	(9,548)	(17,674)	—	(27,222)
Effects of foreign currency exchange rates	(17,600)	(280)	—	(17,880)
Balance – March 31, 2015	$1,873,404	$358,066	$—	$2,231,470
Accumulated Amortization				
Balance – March 31, 2014	$—	$83,801	$—	$83,801
Additions	—	12,995	—	12,995
Effects of foreign currency exchange rates	—	(26)	—	(26)
Balance – March 31, 2015	$—	$96,770	$—	$96,770
Intangibles, net – March 31, 2015	$1,873,404	$261,296	$—	$2,134,700
Intangible Assets, net by Reportable Segment:				
North American OTC Healthcare	$1,676,991	$235,642	$—	$1,912,633
International OTC Healthcare	86,141	1,231	—	87,372
Household Cleaning	110,272	24,423	—	134,695
Intangible assets, net – March 31, 2015	$1,873,404	$261,296	$—	$2,134,700

In conjunction with our annual impairment analysis, we reassessed the useful lives of our intangible assets and determined that our Pediacare trade name should be reclassified to a finite-lived intangible asset with an estimated 20 year useful life. We made this determination based on the recent declines in the business and a strategic change in the focus of certain brands as we continue to prioritize our support on other significant and more recently acquired brands.

As discussed in Note 3, on October 31, 2012, we sold the Phazyme brand for $22.3 million. As a result of this divestiture, we reduced the net book value of our intangible assets by $15.6 million.

During the year ended March 31, 2013, we reclassified a portion of trademarks related to the acquired GSK brands from indefinite-lived to finite-lived intangible assets in the amount of $1.7 million.

As discussed in Note 2, on July 1, 2013, we completed the acquisition of Care Pharma. In connection with this acquisition, we allocated $31.5 million to intangible assets based on our analysis.

As discussed in Note 2, we completed two acquisitions during the year ended March 31, 2015. On September 3, 2014, we completed the acquisition of Insight and allocated $724.4 million to intangible assets based on our preliminary analysis. Additionally, on April 30, 2014, we completed the acquisition of the Hydralyte brand and allocated $73.6 million to intangible assets based on our preliminary analysis. Furthermore, on September 3, 2014 we sold one of the brands that we acquired from Insight, for which we had allocated $17.7 million to intangible assets.

Under accounting guidelines, indefinite-lived assets are not amortized, but must be tested for impairment annually, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset below the carrying amount. Additionally, at each reporting period, an evaluation must be made to determine whether events and circumstances continue to support an indefinite useful life. Intangible assets with finite lives are amortized over their respective estimated useful lives and are also tested for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable and exceeds its fair value.

On an annual basis during the fourth fiscal quarter, or more frequently if conditions indicate that the carrying value of the asset may not be recovered, management performs a review of both the values and, if applicable, useful lives assigned to intangible assets and tests for impairment.

During the fourth quarter of each fiscal year, we perform our annual impairment analysis. In prior years, we performed the analysis as of March 31. However, beginning with fiscal year 2015, we changed the date of our analysis to February 28 to better align with our annual operating plan preparation and to help facilitate our financial reporting process. We do not believe that a one-month change in the date of our analysis will significantly impact the results of our analysis or our financial statements.

We utilized the discounted cash flow method to estimate the fair value of our reporting units as part of the goodwill impairment test and the excess earnings method to estimate the fair value of our individual indefinite-lived intangible assets. The discount rate utilized in the analyses, as well as future cash flows, may be influenced by such factors as changes in interest rates and rates of inflation. Additionally, should the related fair values of goodwill and intangible assets be adversely affected as a result of declining sales or margins caused by competition, changing consumer preferences, technological advances or reductions in advertising and promotional expenses, we may be required to record impairment charges in the future. In addition, we considered our market capitalization at February 28, 2015, as compared to the aggregate fair values of our reporting units, to assess the reasonableness of our estimates pursuant to the discounted cash flow methodology. As a result of our analysis, we determined that the fair values exceeded the carrying values and as such, no impairment charge was recorded in 2015.

Based on our analysis, the aggregate fair value of our reporting units exceeded the carrying value by 45.2%, with no reporting unit's fair value exceeding the carrying value by less than 10%. The aggregate fair value of the indefinite-lived intangible assets exceeded the carrying value by 42.4%. Three of the individual indefinite-lived trade names exceeded their carrying values by less than 10%. The fair value of Debrox, New Skin and Ecotrin, exceed their carrying values of $76.3 million, $37.2 million and $32.9 million, by 8.3%, 9.2% and 7.9%, respectively.

The significant assumptions underpinning the fair value of Debrox include a discount rate of 10%, coupled with modest revenue growth, and advertising and promotion investments that are in line with historical performance. A decrease in the annual cash flow of approximately 7.7% compared to the projected cash flow utilized in our analysis, or an increase in the discount rate of approximately 62 basis points could result in the carrying value of our trade name exceeding its fair value, resulting in an impairment charge.

The significant assumptions supporting the fair value of New Skin and Ecotrin, include a discount rate of 10% and cash flow projections that assume stabilizing revenue declines followed by modest revenue growth. Gross margin and advertising and promotion investments behind the brands are expected to be consistent with historic trends. Continued revenue declines in each of the brands, or changes in assumptions utilized in our quantitative indefinite lived asset impairment analysis may result in the fair value no longer exceed their carrying values. For example, a decrease in the annual cash flow of approximately 8.4% and 7.3%, for New Skin and Ecotrin, respectively, compared to the projected cash flow utilized in our analysis, or an increase in the discount rate of approximately 77 and 72 basis points, respectively, could result in the carrying value of our trade name exceeding its fair value, resulting in an impairment charge. We will continue to review our results against forecasts and assess our assumptions to ensure they continue to be appropriate.

Additionally, certain of our North American OTC Healthcare and Household Cleaning brands, have experienced recent declines in revenues and profitability. While the fair value of these reporting units exceeds the carrying value by more than 10%, should such revenue declines continue, the fair value of the corresponding reporting units may no longer exceed their carrying value and we would be required to record an impairment charge.

Revenues from our Pediacare brand have declined significantly as compared to the corresponding periods in the prior year, due primarily to competition in the category, including new product introductions and lost distribution. Although we had expected revenues to decline with the return to the market of competing products, such declines have been steeper than expected. As a result, we performed an interim impairment analysis during our third quarter ended December 31, 2014 and concluded that no impairment existed. Additionally, in conjunction with a strategic review of our brands during the fourth quarter ended March 31, 2015 and our annual impairment review, we have reassessed the useful life of the Pediacare brand as of February 28, 2015 and determined it to be 20 years.

See Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Critical Accounting Policies" for a further discussion on the assumptions used in our impairment analysis. Furthermore, we completed our annual test for impairment of intangible assets during the fourth quarter of each of the years presented and did not record an impairment charge, as facts and circumstances indicated that the fair values of each intangible asset exceeded its carrying value. Adverse changes in the expected operating results and/or unfavorable changes in other economic factors used to estimate fair values of these specific brands could result in a non-cash impairment charge in the future.

The weighted average remaining life for finite-lived intangible assets at March 31, 2015 was approximately 14.6 years and the amortization expense for the year ended March 31, 2015 was $13.0 million. At March 31, 2015, finite-lived intangible assets are expected to be amortized over their estimated useful life, which ranges from a period of 10 to 30 years, and the estimated amortization expense for each of the five succeeding years and periods thereafter is as follows (in thousands):

Year Ending March 31,	
2016	17,868
2017	17,868
2018	17,868
2019	17,868
2020	17,868
Thereafter	171,956
	$261,296

Sale of asset

Historically, we received royalty income from the licensing of the name of certain of our brands in geographic areas or markets in which we do not directly compete. We have had a royalty agreement for our Comet brand for several years, which included an option on behalf of the licensee to purchase the rights in certain geographic areas and markets in perpetuity. In December 2014, we amended the agreement to allow the licensee to buy out a portion of the agreement early, but retaining the remaining stream of royalty payments. In December, in connection with this amendment, we sold rights to use of the Comet brand in certain Eastern European countries to a third-party licensee and received $10.0 million as a partial early buyout. As a result, we recorded a gain on sale of $1.1 million, and reduced the carrying value of our intangible assets and goodwill. The licensee will continue to make quarterly payments at least through June 30, 2016 of approximately $1.0 million. The licensee has the option to purchase the remaining territories and markets, as defined in the agreement, at any time after July 1, 2016.

9. Other Accrued Liabilities

Other accrued liabilities consist of the following:

(In thousands)	March 31,	
	2015	2014
Accrued marketing costs	$16,903	$11,812
Accrued compensation costs	8,840	6,232
Accrued broker commissions	1,134	1,019
Income taxes payable	2,642	1,854
Accrued professional fees	2,769	2,002
Deferred rent	1,021	1,258
Accrued production costs	5,610	1,506
Accrued lease termination costs	669	—
Other accrued liabilities	1,360	763
	$40,948	$26,446

10. Long-Term Debt

2012 Senior Notes:

On January 31, 2012, Prestige Brands, Inc. (the "Borrower") issued $250.0 million of senior unsecured notes at par value, with an interest rate of 8.125% and a maturity date of February 1, 2020 (the "2012 Senior Notes"). The Borrower may earlier redeem some or all of the 2012 Senior Notes at redemption prices set forth in the indenture governing the 2012 Senior Notes. The 2012 Senior Notes are guaranteed by Prestige Brands Holdings, Inc. and certain of its domestic 100% owned subsidiaries, other than the Borrower. Each of these guarantees is joint and several. There are no significant restrictions on the ability of any of the guarantors to obtain funds from their subsidiaries or to make payments to the Borrower or the Company. In connection with the

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2012 Senior Notes offering, we incurred $12.6 million of costs, which were capitalized as deferred financing costs and are being amortized over the term of the 2012 Senior Notes.

2012 Term Loan and 2012 ABL Revolver:
On January 31, 2012, the Borrower also entered into a new senior secured credit facility, which consists of (i) a $660.0 million term loan facility (the “2012 Term Loan”) with a 7-year maturity and (ii) a $50.0 million asset-based revolving credit facility (the “2012 ABL Revolver”) with a 5-year maturity. In subsequent years, we have utilized portions of our accordion feature to increase the amount of our borrowing capacity under the 2012 ABL Revolver by $85.0 million to $135.0 million and reduced our borrowing rate on the 2012 ABL Revolver by 0.25%. The 2012 Term Loan was issued with an original issue discount of 1.5% of the principal amount thereof, resulting in net proceeds to the Borrower of $650.1 million. In connection with these loan facilities, we incurred $20.6 million of costs, which were capitalized as deferred financing costs and are being amortized over the terms of the facilities. The 2012 Term Loan is unconditionally guaranteed by Prestige Brands Holdings, Inc. and certain of its domestic 100% owned subsidiaries, other than the Borrower. Each of these guarantees is joint and several. There are no significant restrictions on the ability of any of the guarantors to obtain funds from their subsidiaries or to make payments to the Borrower or the Company.

On February 21, 2013, the Borrower entered into Amendment No. 1 (the "Term Loan Amendment No. 1") to the 2012 Term Loan. Term Loan Amendment No. 1 provided for the refinancing of all of the Borrower's existing Term B Loans with new Term B-1 Loans (the "Term B-1 Loans"). The interest rate on the Term B-1 Loans under the Term Loan Amendment No. 1 was based, at the Borrower's option, on a LIBOR rate plus a margin of 2.75% per annum, with a LIBOR floor of 1.00%, or an alternate base rate, with a floor of 2.00%, plus a margin. The new Term B-1 Loans mature on the same date as the Term B Loans' original maturity date. In addition, Term Loan Amendment No. 1 provided the Borrower with certain additional capacity to prepay subordinated debt, the 2012 Senior Notes and certain other unsecured indebtedness permitted to be incurred under the credit agreement governing the 2012 Term Loan and 2012 ABL Revolver. In connection with Term Loan Amendment No. 1, during the fourth quarter ended March 31, 2013, we recognized a $1.4 million loss on the extinguishment of debt.
On September 3, 2014, the Borrower entered into Amendment No. 2 ("Term Loan Amendment No. 2") to the 2012 Term Loan. Term Loan Amendment No. 2 provides for (i) the creation of a new class of Term B-2 Loans under the 2012 Term Loan (the "Term B-2 Loans") in an aggregate principal amount of $720.0 million, (ii) increased flexibility under the credit agreement governing the 2012 Term Loan and 2012 ABL Revolver, including additional investment, restricted payment and debt incurrence flexibility and financial maintenance covenant relief, and (iii) an interest rate on (x) the Term B-1 Loans that is based, at the Borrower’s option, on a LIBOR rate plus a margin of 3.125% per annum, with a LIBOR floor of 1.00%, or an alternate base rate, with a floor of 2.00%, plus a margin, and (y) the Term B-2 Loans that is based, at the Borrower’s option, on a LIBOR rate plus a margin of 3.50% per annum, with a LIBOR floor of 1.00%, or an alternate base rate, with a floor of 2.00%, plus a margin (with a margin step-down to 3.25% per annum, based upon achievement of a specified secured net leverage ratio).
The 2012 Term Loan, as amended, bears interest at a rate per annum equal to an applicable margin plus, at the Borrower's option, either (i) a base rate determined by reference to the highest of (a) the Federal Funds rate plus 0.50%, (b) the prime rate of Citibank, N.A., (c) the LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for an interest period of one month, adjusted for certain additional costs, plus 1.00% and (d) a floor of 2.00% or (ii) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, with a floor of 1.00%. For the year ended March 31, 2015, the average interest rate on the 2012 Term Loan was 5.3%.
Under the 2012 Term Loan, we were originally required to make quarterly payments each equal to 0.25% of the original principal amount of the 2012 Term Loan, with the balance expected to be due on the seventh anniversary of the closing date. However, since we have previously made significant optional payments that exceeded all of our required quarterly payments, we will not be required to make another payment until the maturity date of January 31, 2019.

On September 3, 2014, the Borrower entered into Amendment No. 3 ("ABL Amendment No. 3") to the 2012 ABL Revolver. ABL Amendment No. 3 provided for (i) a $40.0 million increase in revolving commitments under the 2012 ABL Revolver and (ii) increased flexibility under the credit agreement governing the 2012 Term Loan and 2012 ABL Revolver, including additional investment, restricted payment and debt incurrence flexibility. Borrowings under the 2012 ABL Revolver, as amended, bear interest at a rate per annum equal to an applicable margin, plus, at the Borrower's option, either (i) a base rate determined by reference to the highest of (a) the Federal Funds rate plus 0.50%, (b) the prime rate of Citibank, N.A., and (c) the LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for an interest period of one month, adjusted for certain additional costs, plus 1.00% or (ii) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs. The initial applicable margin for borrowings under the 2012 ABL Revolver is 1.75% with respect to LIBOR borrowings and 0.75% with respect to base-rate borrowings. The applicable margin for borrowings under the 2012 ABL Revolver may be increased to 2.00% or 2.25% for LIBOR borrowings and 1.00% or 1.25% for base-rate borrowings, depending on average excess availability under the 2012 ABL Revolver during the prior fiscal quarter. In addition to paying interest on outstanding principal under the 2012 ABL Revolver, we are required to pay a commitment fee to the lenders under the 2012 ABL Revolver in respect of the unutilized commitments thereunder. The initial commitment fee rate is 0.50% per annum. The commitment fee rate will be reduced to 0.375% per annum at any time when the average daily unused commitments for the prior quarter is less than a percentage of total commitments by an amount set forth in the credit agreement covering the 2012 ABL Revolver. We may voluntarily repay outstanding loans under the 2012 ABL Revolver at any time without a premium or penalty. For the year ended March 31, 2015, the average interest rate on the amounts borrowed under the 2012 ABL Revolver was 2.8%.

2013 Senior Notes:
On December 17, 2013, the Borrower issued $400.0 million of senior unsecured notes, with an interest rate of 5.375% and a maturity date of December 15, 2021 (the "2013 Senior Notes"). The Borrower may redeem some or all of the 2013 Senior Notes at redemption prices set forth in the indenture governing the 2013 Senior Notes. The 2013 Senior Notes are guaranteed by Prestige Brands Holdings, Inc. and certain of its 100% domestic owned subsidiaries, other than the Borrower. Each of these guarantees is joint and several. There are no significant restrictions on the ability of any of the guarantors to obtain funds from their subsidiaries or to make payments to the Borrower or the Company. In connection with the 2013 Senior Notes offering, we incurred $7.2 million of costs, which were capitalized as deferred financing costs and are being amortized over the term of the 2013 Senior Notes.
Redemptions and Restrictions:
At any time prior to February 1, 2016, we may redeem the 2012 Senior Notes in whole or in part at a redemption price equal to 100% of the principal amount of the notes redeemed, plus a "make-whole premium" calculated as set forth in the indenture governing the 2012 Senior Notes, together with accrued and unpaid interest, if any, to the date of redemption. On or after February 1, 2016, we may redeem the 2012 Senior Notes in whole or in part at redemption prices set forth in the indenture governing the 2012 Senior Notes. In addition, at any time prior to February 1, 2015, we could redeem up to 35% of the aggregate principal amount of the 2012 Senior Notes at a redemption price equal to 108.125% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, with the net cash proceeds of certain equity offerings, provided that certain conditions were met. Subject to certain limitations, in the event of a change of control, as defined in the indenture governing the 2012 Senior Notes, the Borrower will be required to make an offer to purchase the 2012 Senior Notes at a price equal to 101% of the aggregate principal amount of the 2012 Senior Notes repurchased, plus accrued and unpaid interest, if any, to the date of repurchase.

At any time prior to December 15, 2016, we may redeem the 2013 Senior Notes in whole or in part at a redemption price equal to 100% of the principal amount of notes redeemed, plus an applicable "make-whole premium" calculated as set forth in the indenture governing the 2013 Senior Notes, together with accrued and unpaid interest, if any, to the date of redemption. On or after December 15, 2016, we may redeem some or all of the 2013 Senior Notes at redemption prices set forth in the indenture governing the 2013 Senior Notes. In addition, at any time prior to December 15, 2016, we may redeem up to 35% of the aggregate principal amount of the 2013 Senior Notes at a redemption price equal to 105.375% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, with the net cash proceeds of certain equity offerings, provided that certain conditions are met. Subject to certain limitations, in the event of a change of control, as defined in the indenture governing the 2013 Senior Notes, the Borrower will be required to make an offer to purchase the 2013 Senior Notes at a price equal to 101% of the aggregate principal amount of the 2013 Senior Notes repurchased, plus accrued and unpaid interest, if any, to the date of repurchase.

The indentures governing the 2012 Senior Notes and the 2013 Senior Notes contain provisions that restrict us from undertaking specified corporate actions, such as asset dispositions, acquisitions, dividend payments, repurchases of common shares outstanding, changes of control, incurrences of indebtedness, issuance of equity, creation of liens, making of loans and transactions with affiliates. Additionally, the credit agreement with respect to the 2012 Term Loan and the 2012 ABL Revolver and the indentures governing the 2012 Senior Notes and the 2013 Senior Notes contain cross-default provisions, whereby a default pursuant to the terms and conditions of certain indebtedness will cause a default on the remaining indebtedness under the credit agreement governing the 2012 Term Loan and the 2012 ABL Revolver and the indentures governing the 2012 Senior Notes and the 2013 Senior Notes. At March 31, 2015, we were in compliance with the covenants under our long-term indebtedness.

At March 31, 2015, we had an aggregate of $28.6 million of unamortized debt issuance costs and $4.9 million of unamortized debt discount, the total of which is comprised of $8.7 million related to the 2012 Senior Notes, $6.2 million related to the 2013 Senior Notes, $17.4 million related to the 2012 Term Loan, and $1.2 million related to the 2012 ABL Revolver.

At March 31, 2015, we had $66.1 million outstanding on the 2012 ABL Revolver and a borrowing capacity of $44.9 million.

Long-term debt consists of the following, as of the dates indicated:

(In thousands, except percentages)	March 31, 2015	March 31, 2014
2013 Senior Notes bearing interest at 5.375%, with interest payable on June 15 and December 15 of each year. The 2013 Senior Notes mature on December 15, 2021.	$400,000	$400,000
2012 Senior Notes bearing interest at 8.125%, with interest payable on February 1 and August 1 of each year. The 2012 Senior Notes mature on February 1, 2020.	250,000	250,000
2012 Term B-1 Loan bearing interest at the Borrower's option at either a base rate with a floor of 2.00% plus applicable margin or LIBOR with a floor of 1.00% plus applicable margin, due on January 31, 2019.	217,500	287,500
2012 Term B-2 Loan bearing interest at the Borrower's option at either a base rate with a floor of 2.00% plus applicable margin or LIBOR with a floor of 1.00% plus applicable margin, due on September 3, 2021.	660,000	—
2012 ABL Revolver bearing interest at the Borrower's option at either a base rate plus applicable margin or LIBOR plus applicable margin. Any unpaid balance is due on January 31, 2017.	66,100	—
	1,593,600	937,500
Current portion of long-term debt	—	—
	1,593,600	937,500
Less: unamortized discount	(4,889)	(3,086)
Long-term debt, net of unamortized discount	$1,588,711	$934,414

As of March 31, 2015, aggregate future principal payments required in accordance with the terms of the 2012 Term Loan, 2012 ABL Revolver and the indentures governing the 2013 Senior Notes and the 2012 Senior Notes are as follows:

(In thousands) Year Ending March 31,	Amount
2016	$—
2017	66,100
2018	—
2019	217,500
2020	250,000
Thereafter	1,060,000
	$1,593,600

11. Fair Value Measurements

As we deem appropriate, we may from time to time utilize derivative financial instruments to mitigate the impact of changing interest rates associated with our long-term debt obligations or other derivative financial instruments. While we have utilized derivative financial instruments in the past, we did not have any significant derivative financial instruments outstanding at March 31, 2015, 2014 or 2013. We have not entered into derivative financial instruments for trading purposes; all of our derivatives were over-the-counter instruments with liquid markets.

For certain of our financial instruments, including cash, accounts receivable, accounts payable and other current liabilities, the carrying amounts approximate their respective fair values due to the relatively short maturity of these amounts.

The Fair Value Measurements and Disclosures topic of the FASB ASC 820 requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market assuming an orderly transaction between market participants. The Fair Value Measurements and Disclosures topic established market (observable inputs) as the preferred source of fair value, to be followed by the Company's assumptions of fair value based on hypothetical transactions (unobservable inputs) in the absence of observable market inputs. Based upon the above, the following fair value hierarchy was created:

Level 1 - Quoted market prices for identical instruments in active markets;

Level 2 - Quoted prices for similar instruments in active markets, as well as quoted prices for identical or similar instruments in markets that are not considered active; and

Level 3 - Unobservable inputs developed by the Company using estimates and assumptions reflective of those that would be utilized by a market participant.

The market values have been determined based on market values for similar instruments adjusted for certain factors. As such, the Term B-1 Loans, Term B-2 Loans, the 2013 Senior Notes, the 2012 Senior Notes, and the 2012 ABL Revolver are measured in Level 2 of the above hierarchy. At March 31, 2015 and 2014, we did not have any assets or liabilities measured in Level 1 or 3. During 2015, 2014 and 2013, there were no transfers of assets or liabilities between Levels 1, 2 and 3.

At March 31, 2015 and 2014, the carrying value of our 2013 Senior Notes was $400.0 million and $400.0 million, respectively. At March 31, 2015 and 2014, the fair value of our 2013 Senior Notes was $405.0 million and $408.5 million, respectively.

At March 31, 2015 and 2014, the carrying value of our 2012 Senior Notes was $250.0 million and $250.0 million, respectively. The fair value of our 2012 Senior Notes was $268.1 million and $280.6 million at March 31, 2015 and 2014, respectively.

At March 31, 2015 and 2014, the carrying value of the Term B-1 Loans was $217.5 million and $287.5 million, respectively. The fair value of the Term B-1 Loans was $218.0 million and $288.9 million at March 31, 2015 and 2014, respectively.

At March 31, 2015, the carrying value of the Term B-2 Loans was $660.0 million. The fair value of the Term B-2 Loan was $662.5 million at March 31, 2015. Because the Term B-2 Loans were entered into on September 3, 2014, there were no outstanding loan balances as of March 31, 2014.

At March 31, 2015, the carrying value and fair value of the 2012 ABL Revolver was $66.1 million and $65.7 million, respectively. There were no outstanding borrowings under the 2012 ABL Revolver at March 31, 2014.

12. Stockholders' Equity

The Company is authorized to issue 250.0 million shares of common stock, $0.01 par value per share, and 5.0 million shares of preferred stock, $0.01 par value per share. The Board of Directors may direct the issuance of the undesignated preferred stock in one or more series and determine preferences, privileges and restrictions thereof.

Each share of common stock has the right to one vote on all matters submitted to a vote of stockholders. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to prior rights of holders of all classes of stock outstanding having priority rights as to dividends. No dividends have been declared or paid on the Company's common stock through March 31, 2015.

Pursuant to the provisions of various employee restricted stock awards, we repurchased 59,933 shares and 25,464 shares of restricted common stock from our employees during the years ended March 31, 2015 and 2014, respectively. The repurchases during the years ended March 31, 2015 and 2014 were at an average price of $34.16 and $29.23, respectively. All of the repurchased shares have been recorded as treasury stock.

13. Earnings Per Share

Basic earnings per share is computed based on the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed based on the weighted-average number of shares of common stock outstanding plus the effect of potentially dilutive common shares outstanding during the period using the treasury stock method, which includes stock options, restricted stock awards, and restricted stock units. The following table sets forth the computation of basic and diluted earnings per share:

(In thousands, except per share data)	Year Ended March 31,		
	2015	2014	2013
Numerator			
Net income	$78,260	$72,615	$65,505
Denominator			
Denominator for basic earnings per share- weighted average shares outstanding	52,170	51,641	50,633
Dilutive effect of unvested restricted common stock (including restricted stock units) and options issued to employees and directors	500	708	807
Denominator for diluted earnings per share	52,670	52,349	51,440
Earnings per Common Share:			
Basic net earnings per share	$1.50	$1.41	$1.29
Diluted net earnings per share	$1.49	$1.39	$1.27

Additionally, for 2015, 2014, and 2013 there were 0.3 million, 0.2 million, and zero shares attributable to outstanding stock-based awards that were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

14. Share-Based Compensation

In connection with our initial public offering, the Board of Directors adopted the 2005 Long-Term Equity Incentive Plan (the “Plan”), which provides for grants, up to a maximum of 5.0 million shares of restricted stock, stock options, restricted stock units and other equity-based awards. In June 2014, the Board of Directors approved, and in July 2014, the stockholders ratified, an increase of an additional 1.8 million shares of our common stock for issuance thereunder and increased the maximum number of shares subject to stock options that may be awarded to any one participant under the Plan during any 12-month period from 1 million to 2.5 million shares and extended the term of the Plan by 10 years, to February 2025. Directors, officers and other employees of the Company and its subsidiaries, as well as others performing services for the Company, are eligible for grants under the Plan.

During 2015, pre-tax share-based compensation costs charged against income and the related income tax benefit recognized were $6.9 million and $1.9 million, respectively.

During 2014, pre-tax share-based compensation costs charged against income and the related income tax benefit recognized were $5.1 million and $1.5 million, respectively.

During 2013, pre-tax share-based compensation costs charged against income and the related income tax benefit recognized were $3.8 million and $1.2 million, respectively.

Restricted Shares

Restricted shares granted to employees under the Plan generally vest in three to five years, primarily upon the attainment of certain time vesting thresholds, and may also be contingent on the attainment of certain performance goals of the Company, including revenue and earnings before income taxes, depreciation and amortization targets. The restricted share awards provide for accelerated vesting if there is a change of control, as defined in the Plan. The restricted stock units granted to employees generally vest in their entirety on the three-year anniversary of the date of the grant. Termination of employment prior to vesting will result in forfeiture of the restricted stock units. The restricted stock units granted to directors will vest in their entirety one year after the date of grant so long as the membership on the Board of Directors continues through the vesting date, with the settlement in common stock to occur on the earliest of the director's death, disability or six-month anniversary of the date on which the director's Board membership ceases for reasons other than death or disability. Upon vesting, the units will be settled in shares of our common stock.

On May 9, 2012, the Compensation Committee of our Board of Directors granted 111,152 restricted stock units to certain executive officers and employees under the Plan, which will vest 33.3% per year over three years. On June 29, 2012, the Compensation Committee of our Board of Directors granted 12,652 restricted stock units to the independent members of the Board of Directors under the Plan. On August 6, 2012, the Compensation Committee of the Board of Directors granted 5,109 restricted stock units to Matthew M. Mannelly, our President and CEO, under the Plan. On May 14, 2013, the Compensation Committee of our Board of Directors granted 113,637 restricted stock units to certain executive officers and employees under the Plan. Of those grants, 55,637 restricted stock units vest in their entirety on the three-year anniversary of the date of grant, and 58,000 restricted stock units vest 33.3% per year over three years. On July 29, 2013, the Compensation Committee of the Board of Directors granted 7,004 restricted stock units to the independent members of the Board of Directors under the Plan. On November 5, 2013, the Compensation Committee of our Board of Directors granted 6,000 restricted stock units to certain employees under the Plan, which will vest 33.3% per year over three years. On May 12, 2014, the Compensation Committee of our Board of Directors granted 96,638 restricted stock units to certain executive officers and employees under the Plan. Of those grants, 75,638 restricted stock units vest in their entirety on the three-year anniversary of the date of grant and 21,000 restricted stock units vest 33.3% per year over three years. On August 5, 2014, the Compensation Committee of our Board of Directors granted 7,796 restricted stock units to the independent members of the Board of Directors under the Plan. On August 14, 2014, pursuant to his employment agreement, the Compensation Committee of the Board of Directors granted 2,489 restricted stock units to Thomas Hochuli, our Vice-President of Operations, under the Plan.

The fair value of the restricted stock units is determined using the closing price of our common stock on the day of the grant. The weighted-average grant-date fair value during 2015, 2014, and 2013 was $33.33, $30.19 and $13.59, respectively.

A summary of the Company’s restricted shares granted under the Plan is presented below:

Restricted Shares	Shares (in thousands)		Weighted-Average Grant-Date Fair Value
Vested and Nonvested at March 31, 2012	363.4		$9.92
Granted	128.9		13.59
Vested and issued	(58.7	)	9.99
Forfeited	(12.3	)	10.69
Vested and nonvested at March 31, 2013	421.3		11.01
Vested at March 31, 2013	70.4		8.52
Granted	126.6		30.19
Vested and issued	(104.8	)	9.98
Forfeited	(5.6	)	15.11
Vested and nonvested at March 31, 2014	437.5		16.76
Vested at March 31, 2014	69.6		9.34

Granted	106.9	33.33
Vested and issued	(154.4)	13.37
Forfeited	(27.7)	21.45
Vested and nonvested at March 31, 2015	362.3	22.74
Vested at March 31, 2015	76.6	11.62

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Options
The Plan provides that the exercise price of options granted shall be no less than the fair market value of the Company's common stock on the date the options are granted. Options granted have a term of no greater than ten years from the date of grant and vest in accordance with a schedule determined at the time the option is granted, generally three to five years. The option awards provide for accelerated vesting in the event of a change in control, as defined in the Plan. Termination of employment prior to vesting will result in forfeiture of the unvested stock options. Vested stock options will remain exercisable by the employee after termination, subject to the terms of the Plan.

The fair value of each option award is estimated on the date of grant using the Black-Scholes Option Pricing Model that uses the assumptions noted in the table below. Expected volatilities are based on the historical volatility of our common stock and other factors, including the historical volatilities of comparable companies. We use appropriate historical data, as well as current data, to estimate option exercise and employee termination behaviors. Employees that are expected to exhibit similar exercise or termination behaviors are grouped together for the purposes of valuation. The expected terms of the options granted are derived from our historical experience, management's estimates, and consideration of information derived from the public filings of companies similar to us, and represent the period of time that options granted are expected to be outstanding. The risk-free rate represents the yield on U.S. Treasury bonds with a maturity equal to the expected term of the granted options.

On May 9, 2012, the Compensation Committee of our Board of Directors granted stock options to acquire 422,962 shares of our common stock to certain executive officers and employees under the Plan. These stock options were granted at an exercise price of $13.24 per share, which is equal to the closing price for our common stock on the date of the grant. On August 6, 2012, the Compensation Committee of the Board of Directors granted stock options to acquire 21,978 shares of our common stock to Matthew M. Mannelly. These stock options were granted at an exercise price of $15.66 per share, which is equal to the closing price for our common stock on the date of grant. The stock options will vest 33.3% per year over three years and are exercisable for up to ten years from the date of grant. On May 14, 2013, the Compensation Committee of our Board of Directors granted stock options to acquire 227,672 shares of our common stock to certain executive officers and employees under the Plan. The stock options will vest 33.3% per year over three years and are exercisable for up to ten years from the date of grant. These stock options were granted at an exercise price of $29.94 per share, which is equal to the closing price for our common stock on the date of grant. On May 12, 2014, the Compensation Committee of our Board of Directors granted stock options to acquire 307,490 shares of our common stock to certain executive officers and employees under the Plan. The stock options will vest 33.3% per year over three years and are exercisable for up to ten years from the date of grant. These stock options were granted at an exercise price of $33.50 per share, which is equal to the closing price for our common stock on the date of grant. On August 14, 2014, pursuant to his employment agreement, the Compensation Committee of our Board of Directors granted stock options to acquire 10,485 shares of our common stock to Thomas Hochuli, our Vice-President of Operations, under the Plan. The stock options will vest 33.3% per year over three years and are exercisable for up to ten years from the date of grant. These stock options were granted at an exercise price of $34.79 per share, which is equal to the closing price for our common stock on the date of grant. Termination of employment prior to vesting will result in forfeiture of the unvested stock options.

The weighted-average grant-date fair values of the options granted during 2015, 2014, and 2013 were $15.95, $13.94, and $6.03, respectively.

	Year Ended March 31,			
	2015		2014	
Expected volatility	47.3	%	48.0	%
Expected dividends	—		—	
Expected term in years	6.0		6.0	
Risk-free rate	2.2	%	1.3	%

A summary of option activity under the Plan is as follows:

Options	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at March 31, 2012	1,745.4	$ 8.44		
Granted	444.9	13.36		
Exercised	(786.5)	7.67		
Forfeited or expired	(17.4)	11.21		
Outstanding at March 31, 2013	1,386.4	10.43		
Granted	227.7	29.94		
Exercised	(605.0)	9.76		
Forfeited or expired	(14.2)	14.56		
Outstanding at March 31, 2014	994.9	15.24		
Granted	317.9	33.54		
Exercised	(386.3)	10.24		
Forfeited or expired	(55.3)	26.77		
Outstanding at March 31, 2015	871.2	23.40	7.7	$ 16,978
Exercisable at March 31, 2015	312.3	15.15	6.4	8,664

The aggregate intrinsic value of options exercised during 2015 was $9.3 million.

At March 31, 2015, there were $4.9 million of unrecognized compensation costs related to nonvested share-based compensation arrangements under the Plan, based on management's estimate of the shares that will ultimately vest. We expect to recognize such costs over a weighted-average period of 0.9 years. The total fair value of options and restricted stock units vested during 2015, 2014, and 2013 was $4.7 million, $3.4 million and $2.5 million, respectively. Cash received from the exercise of stock options was $4.0 million during 2015, and we realized $2.2 million in tax benefits for the tax deductions resulting from option exercises in 2015. Cash received from the exercise of stock options was $5.9 million during 2014, and we realized $1.7 million in tax benefits for the tax deductions resulting from option exercises in 2014. Cash received from the exercise of stock options was $6.0 million during 2013, and we realized $11.3 million in tax benefits for the tax deductions from option exercises in 2013. On August 5, 2014 at the Annual Meeting of Stockholders, the stockholders approved the proposal to amend the Plan. The amendment authorized an additional 1.8 million shares of our common stock for issuance thereunder, increased the maximum number of shares subject to stock options that may be awarded to any one participant under the Plan during any 12-month period from 1.0 million to 2.5 million shares and extended the term of the Plan by 10 years, until February 2025. At March 31, 2015, there were 3.0 million shares available for issuance under the Plan.

15. Accumulated Other Comprehensive Income (Loss)

The table below presents accumulated other comprehensive income (loss) ("AOCI"), which affects equity and results from recognized transactions and other economic events, other than transactions with owners in their capacity as owners.

AOCI consisted of the following at March 31, 2015 and 2014:

(In thousands)	March 31, 2015	March 31, 2014
Components of Accumulated Other Comprehensive Income (Loss)		
Cumulative translation adjustment	$(23,412)	$739
Accumulated other comprehensive income (loss), net of tax	$(23,412)	$739

16. Income Taxes

Income from continuing operations before income taxes consists of the following:

	Year Ended March 31,		
	2015	2014	2013
(In thousands)			
United States	$122,588	$98,786	$105,727
Foreign	4,870	2,962	307
	$127,458	$101,748	$106,034

The provision for income taxes consists of the following:

	Year Ended March 31,		
(In thousands)	2015	2014	2013
Current			
Federal	$13,066	$7,801	$12,520
State	760	625	1,972
Foreign	3,228	1,675	532
Deferred			
Federal	31,012	27,045	23,845
State	1,162	(7,879)	1,660
Foreign	(30)	(134)	—
Total provision for income taxes	$49,198	$29,133	$40,529

The principal components of our deferred tax balances are as follows:

(In thousands)	March 31, 2015	2014
Deferred Tax Assets		
Allowance for doubtful accounts and sales returns	$4,106	$4,082
Inventory capitalization	1,550	1,301
Inventory reserves	1,495	362
Net operating loss carryforwards	23,800	327
State income taxes	7,557	3,728
Accrued liabilities	619	642
Stock compensation	3,517	2,358
Other	834	702
Total deferred tax assets	43,478	13,502
Deferred Tax Liabilities		
Property and equipment	(1,143)	(1,467)
Intangible assets	(385,807)	(218,696)
Total deferred tax liabilities	(386,950)	(220,163)
Net deferred tax liability	$(343,472)	$(206,661)

At March 31, 2015, a 100% owned subsidiary of the Company had a net operating loss carryforward of approximately $65.0 million ($23.8 million, tax effected), which may be used to offset future taxable income of the consolidated group and begins to expire in 2025. The Company expects to fully utilize the loss carryover before it expires. The net operating loss carryforward is subject to an annual limitation as to usage under Internal Revenue Code Section 382 of approximately $33.0 million.

A reconciliation of the effective tax rate compared to the statutory U.S. Federal tax rate is as follows:

(In thousands)	Year Ended March 31, 2015	%	2014	%	2013	%
Income tax provision at statutory rate	$44,610	35.0	$35,612	35.0	$37,112	35.0
Foreign tax (benefit) provision	(2,019)	(1.6)	(918)	(0.9)	—	—
State income taxes, net of federal income tax benefit	2,865	2.3	2,004	2.0	3,413	3.2
Decrease in net deferred tax liability resulting from a change in the effective state tax rate	—	—	(8,892)	(8.7)	(1,741)	(1.6)
Goodwill impairment	206	0.2	—	—	—	—
Transaction costs	2,936	2.3	—	—	—	—
Nondeductible compensation	566	0.4	1,011	1.0	1,684	1.6
Other	34	—	316	0.3	61	—
Total provision for income taxes	$49,198	38.6	$29,133	28.7	$40,529	38.2

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Uncertain tax liability activity is as follows:

(In thousands)	2015	2014	2013
Balance – beginning of year	$1,236	1,016	292
Additions based on tax positions related to the current year	2,229	360	831
Reductions based on lapse of statute of limitations	(45)	(140)	(107)
Balance – end of year	$3,420	$1,236	$1,016

We recognize interest and penalties related to uncertain tax positions as a component of income tax expense. We did not incur any material interest or penalties related to income taxes in 2013, 2014 or 2015. We do not anticipate any events or circumstances that would cause a significant change to these uncertainties during 2016. We are subject to taxation in the United States and various state and foreign jurisdictions and we are generally open to examination from the year ended March 31, 2012 forward.

The Company does not provide for United States income taxes on the undistributed earnings of foreign subsidiaries, which are intended to be indefinitely reinvested in operations outside of the United States. As of March 31, 2015, the cumulative amount of earnings upon which United States income taxes have not been provided is approximately $14.2 million. As of March 31, 2015, the amount of unrecognized deferred tax liability related to these earnings is estimated to be $1.3 million.

17. Commitments and Contingencies

We are involved from time to time in routine legal matters and other claims incidental to our business. We review outstanding claims and proceedings internally and with external counsel as necessary to assess probability and amount of potential loss. These assessments are re-evaluated at each reporting period and as new information becomes available to determine whether a reserve should be established or if any existing reserve should be adjusted. The actual cost of resolving a claim or proceeding ultimately may be substantially different than the amount of the recorded reserve. In addition, because it is not permissible under GAAP to establish a litigation reserve until the loss is both probable and estimable, in some cases there may be insufficient time to establish a reserve prior to the actual incurrence of the loss (upon verdict and judgment at trial, for example, or in the case of a quickly negotiated settlement). We believe the resolution of routine legal matters and other claims incidental to our business, taking our reserves into account, will not have a material adverse effect on our business, financial condition, or results from operations.

Lease Commitments

We have operating leases for office facilities and equipment in New York, Wyoming, and other locations, which expire at various dates through fiscal 2021. We required additional office space as a result of the closing of the acquisition of Insight. Therefore, in the first quarter of fiscal 2015, we amended our existing New York office lease to include an additional 15,470 square feet beginning October 2014 and extended the expiration of the combined lease through September 2020. These amounts have been included in the table below.

The following summarizes future minimum lease payments for our operating leases [(a)]:

(In thousands)	Facilities	Equipment	Total
Year Ending March 31,			
2016	$1,612	$311	$1,923
2017	1,772	77	1,849
2018	1,856	—	1,856
2019	1,864	—	1,864
2020	2,465	—	2,465

	$9,569	$388	$9,957

(a) Minimum lease payments have not been reduced by minimum sublease rentals of $1.4 million due in the future under noncancelable subleases.

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The following schedule shows the composition of total minimum lease payments that have been reduced by minimum sublease rentals:

	Year ending March 31,	
(In thousands)	2015	2014
Minimum lease payments	$9,957	$4,621
Less: Sublease rentals	(1,401)	—
	$8,556	$4,621

Rent expense was $1.6 million, $1.5 million, and $1.2 million for 2015, 2014, and 2013, respectively.

Purchase Commitments
Effective November 1, 2009, we entered into a ten year supply agreement for the exclusive manufacture of a portion of one of our Household Cleaning products. Although we are committed under the supply agreement to pay the minimum amounts set forth in the table below, the total commitment is less than 10% of the estimated purchases that we expect to make during the course of the agreement.

(In thousands)	
Year Ending March 31,	
2016	1,074
2017	1,044
2018	1,013
2019	982
2020	560
Thereafter	—
	$4,673

18. Concentrations of Risk

Our revenues are concentrated in the areas of OTC Healthcare and Household Cleaning products. We sell our products to mass merchandisers, food and drug stores, and dollar and club stores. During 2015, 2014, and 2013, approximately 38.2%, 38.3%, and 40.5%, respectively, of our gross revenues were derived from our five top selling brands. One customer, Walmart, accounted for more than 10% of our gross revenues for each of the periods presented. During 2015, 2014, and 2013, Walmart accounted for approximately 18.1%, 19.5%, and 15.9%, respectively, of our gross revenues. At March 31, 2015, approximately 23.0% and 10.5% of accounts receivable were owed by Walmart and Walgreens, respectively. Our next largest customer accounted for approximately 8.4% of our gross revenues during 2015.

We manage product distribution in the continental United States through a third-party distribution center in St. Louis, Missouri. A serious disruption, such as a flood or fire, to the main distribution center could damage our inventories and could materially impair our ability to distribute our products to customers in a timely manner or at a reasonable cost. We could incur significantly higher costs and experience longer lead times associated with the distribution of our products to our customers during the time that it takes us to reopen or replace our distribution center. As a result, any such disruption could have a material adverse effect on our business, sales and profitability.

At March 31, 2015, we had relationships with 95 third-party manufacturers. Of those, we had long-term contracts with 44 manufacturers that produced items that accounted for approximately 82.9% of our gross sales for 2015, compared to 24 manufacturers with long-term contracts that accounted for approximately 82.4% of gross sales in 2014. The fact that we do not have long-term contracts with certain manufacturers means that they could cease manufacturing our products at any time and for any reason or initiate arbitrary and costly price increases, which could have a material adverse effect on our business and results from operations. Although we are in the process of negotiating long-term contracts with certain key manufacturers, we may not be able to reach agreement which could have a material adverse effect on our business.

19. Business Segments

Beginning April 1, 2014, we began managing and reporting certain of our businesses separately and have therefore realigned our reportable segments to align with how we manage and evaluate the results of our business. These reportable segments consist of (i) North American OTC Healthcare, (ii) International OTC Healthcare and (iii) Household Cleaning. The results of our previously reported OTC Healthcare segment is now separated into two reporting segments, the North American OTC Healthcare segment and the International OTC Healthcare segment, largely to reflect our international expansion due to recent acquisitions. Prior year amounts were reclassified to conform to the current reportable segments discussed above. Segment information has been prepared in accordance with the Segment Reporting topic of the FASB ASC 280. We evaluate the performance of our operating segments and allocate resources to these segments based primarily on contribution margin, which we define as gross profit less advertising and promotional expenses.

The table below summarizes information about our operating and reportable segments.

	Year Ended March 31, 2015			
(In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Gross segment revenues	$566,256	$61,116	$86,085	$713,457
Elimination of intersegment revenues	(3,387)	—	—	(3,387)
Third-party segment revenues	562,869	61,116	86,085	710,070
Other revenues	637	64	3,852	4,553
Total segment revenues	563,506	61,180	89,937	714,623
Cost of sales	216,781	22,820	68,799	308,400
Gross profit	346,725	38,360	21,138	406,223
Advertising and promotion	86,897	10,922	1,832	99,651
Contribution margin	$259,828	$27,438	$19,306	306,572
Other operating expenses				99,013
Operating income				207,559
Other expense				80,101
Income before income taxes				127,458
Provision for income taxes				49,198
Net income				$78,260

(In thousands)	Year Ended March 31, 2014 North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Gross segment revenues	$482,138	$29,872	$83,629	$595,639
Elimination of intersegment revenues	(3,185)	—	—	(3,185)
Third-party segment revenues	478,953	29,872	83,629	592,454
Other revenues	749	42	4,136	4,927
Total segment revenues	479,702	29,914	87,765	597,381
Cost of sales	184,796	12,646	64,388	261,830
Gross profit	294,906	17,268	23,377	335,551
Advertising and promotion	77,083	5,264	2,621	84,968
Contribution margin	$217,823	$12,004	$20,756	250,583
Other operating expenses				61,967
Operating income				188,616
Other expense				86,868
Income before income taxes				101,748
Provision for income taxes				29,133
Net income				$72,615

(In thousands)	Year Ended March 31, 2013 North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Gross segment revenues	$519,046	$14,493	$83,376	$616,915
Elimination of intersegment revenues	—	—	—	—
Third-party segment revenues	519,046	14,493	83,376	616,915
Other revenues	639	45	2,519	3,203
Total segment revenues	519,685	14,538	85,895	620,118
Cost of sales	205,389	6,265	64,727	276,381
Gross profit	314,296	8,273	21,168	343,737
Advertising and promotion	80,051	1,643	5,457	87,151
Contribution margin	$234,245	$6,630	$15,711	256,586
Other operating expenses				64,702
Operating income				191,884
Other expense				85,850
Income before income taxes				106,034
Provision for income taxes				40,529
Net income				$65,505

	Year Ended March 31, 2015			
(In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Analgesics	$ 111,954	$ 2,597	$ —	$ 114,551
Cough & Cold	103,686	18,080	—	121,766
Women's Health	71,506	2,261	—	73,767
Gastrointestinal	77,596	19,372	—	96,968
Eye & Ear Care	81,849	16,076	—	97,925
Dermatologicals	64,806	2,289	—	67,095
Oral Care	45,916	483	—	46,399
Other OTC	6,193	22	—	6,215
Household Cleaning	—	—	89,937	89,937
Total segment revenues	$ 563,506	$ 61,180	$ 89,937	$ 714,623

	Year Ended March 31, 2014			
(In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Analgesics	$ 108,101	$ 1,883	$ —	$ 109,984
Cough & Cold	100,060	13,365	—	113,425
Women's Health	1,960	1,835	—	3,795
Gastrointestinal	81,469	838	—	82,307
Eye & Ear Care	75,568	9,923	—	85,491
Dermatologicals	56,436	1,655	—	58,091
Oral Care	47,900	413	—	48,313
Other OTC	8,208	2	—	8,210
Household Cleaning	—			