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1Q20 Financial Results

"Vale is facing the challenging times brought by the COVID-19 pandemic with responsibility, discipline and sense of urgency. We designed a response plan to this crisis, with actions that prioritize: (a) the health and safety of our people and communities in which we operate; (b) the support to the battle against the virus, honoring our new pact with the society; and (c) the continuity of our business. Nevertheless, we keep advancing with Brumadinho reparation and risk management initiatives and our goal remains intact, we are transforming Vale in one of the safest and most reliable mining companies in the world.", commented Eduardo Bartolomeo, Chief Executive Officer.

Since March 2020, Vale has been adjusting its way to operate to battle the COVID-19 pandemic effects.

Health and safety

In all of its sites Vale has adopted world-class safety standards:
. Implementation of home-office regime to all employees considered in risk groups and those for which the function does not require physical presence
. Access to operations by essential personnel only
. Suspension of all non-essential construction works at the sites
. Adjustments to operational sites and transportation procedures, safeguarding social distancing
. Daily symptoms checklists and continuous monitoring for potential symptoms
. Body temperature scan at operational sites' entrances
. Contact-tracing with Information Technology to quarantine those who have been in touch with suspect cases
. Comprehensive internal communication on contagion and 24/7 health assistance channels

New pact with society

Vale is conscious of its responsibility to the society and its essential role in the economy. Since the outbreak of the pandemic, Vale has been looking for ways to contribute in the fight against the virus, protecting its employees and communities. This is evidenced by the procurement from China and donation of 30 million pieces of individual protection equipment and 5 million detection tests using its logistics and financial capabilities and almost 50 years of presence in China. In addition, Vale has made direct financial contributions to existing hospitals and to build emergency field hospitals in the communities where it operates. As of the date of this release, out of the R$ 500 million Vale has pledged to humanitarian support, around R$ 353 million have already been disbursed.

Vale is also working to keep the ecosystem of suppliers and contractors around its operations healthy during this crisis. Programs to advance payments to more than 3 thousand small and medium-sized suppliers have been implemented in countries where Vale operate, with an injection of more than R$ 900 million in the Brazilian economy, for example. Contractors and workers who were allocated to projects suspended by Vale are also receiving financial support.

Continuity of our business

So far, Vale has been weathering the COVID-19 outbreak with limited impact to its operations.

Up to this moment, the adoption of three restrictive measures were necessary:
. in the Iron Ore business, Vale temporarily halted operations in the Teluk Rubiah Maritime Terminal in Malaysia, with no impact on production,
. in the Base Metals business, Vale ramped down its Voisey's Bay mining operation and placed it on care and maintenance for up to 4 months, and
. in the Coal business, Vale decided to postpone plans for the coal processing plant maintenance revamp in Mozambique.

Looking forward, Vale has postponed scheduled maintenance stoppages at many of its plants, which will hinder achievement of optimal production levels especially at Base Metals operations. Vale may also suffer production impacts from increased absenteeism associated with quarantining measures, and resumption of idled mines in Iron Ore will be postponed due to delays in inspections, assessments and authorizations.

Considering the uncertainties and potential impact of COVID-19 on Vale's operations, the company revised its production guidance for its businesses. The new forecasts for 2020 production are: iron ore fines 310-330 Mt (from 340-355 Mt), pellets 35-40 Mt (from 44 Mt), nickel 180-195 kt (from 200-210 kt) and copper 360-380 kt (from 400 kt), while the guidance for coal production was withdrawn. For additional details on the guidance revision, please refer to Vale's 1Q20 Production and Sales Report released on April 17th, 2020, available at the company's website.

Reparation and risk management

Efforts to mitigate the impacts of COVID-19 do not compete with Vale's initiatives to repair Brumadinho. Indemnification agreements signed reached approximately 7,000 people and, together with emergency payments, are equivalent to approximately R$ 3.6 billion.
Vale is also proceeding with the improvements of its risk management practices and, in January 2020, the Engineer of Record (EoR) role was implemented as an additonal step to strengthen the governance of its Tailing Management System. The EoR is responsible for carrying out regular dam safety inspections and monthly technical reports, continuously interpreting the results of these activities and monitoring the integrity of the structures. The EoR is external to the operations and is integrated with Vale's lines of defense and with the senior management level, to act with the authority required for this type of role. The adoption of the EoR is a good practice recommended by the Mining Association of Canada - MAC, by the Canadian Dam Association- CDA and by the Extraordinary Independent Investigation Committee, providing further reliability and quality to the process of monitoring and reviewing Vale's dams' safety.

Regarding the works from the Extraordinary Independent Committees, in February 2020, the summary report of the Investigation Committee was made public with several technical and governance recommendations. Since most of them were already being addressed Vale could quickly prepare its action plan which indicates a 95% completion rate in December 2020, and the recommendations will be fully met in December 2022. In March 2020, the Support and Reparation Committee issued a report analysing the Vale's actions in response to its recommendations, as well as focus points so that Vale can continue the integral reparation program. Also in March 2020, the Board of Directors decided for the continuity of the Committee for Dam Safety, as relevant discussions around the dam safety standards are still ongoing in the mining industry.

Following Vale's new risk management approach, Vale has decided for the phase-out or substitution of 25 converted vessels (from VLCCs to VLOCs) from its fleet, either through early termination or amendment of contracts.

In February 2020, a vessel built in 2016, owned and operated by the South Korean company Polaris Shipping, suffered damages and ran aground after leaving the Ponta da Madeira Maritime Terminal, in the state of Maranhão, loaded with approximately 295 kt of Vale's iron ore. Vale is supporting the shipowner with technical-operational and preventive measures, to safely remove the fuel (successfully concluded on March 27th, 2020) and the iron ore cargo from this vessel.

Vale's performance in 1Q20

. In 1Q20, proforma adjusted EBITDA, excluding the provisions and incurred expenses related to Brumadinho, totaled US$ 3.041 billion, US$ 1.636 billion lower than in 4Q19, mainly as a result of (i) seasonal lower volumes in the first quarter, the partial stoppage of Brucutu plant and scheduled and unscheduled maintenances carried out in the period, impacting sales volumes in Ferrous Minerals (US$ 1.593 billion), (ii) lower nickel and copper realized prices (US$ 249 million) and (iii) lower base metals sales volumes (US$ 149 million), which were partially offset by the positive effect of the Brazilian real devaluation (US$ 179 million).

. Vale generated US$ 380 million in Free Cash Flow from Operations in 1Q20, US$ 947 million lower than in 4Q19, mainly due to the lower proforma adjusted EBITDA in the quarter (US$ 1.636 billion) which was partially offset by seasonaly lower CAPEX (US$ 348 million) and lower payments related to Brumadinho (US$ 248 million).
. Despite the US$ 380 million free cash flow generation and the US$ 549 million reduction in the US dollar value of the debt denominated in Brazilian Reais due to the devaluation of the currency, net debt remained relatively stable at US$ 4.808 billion, due to the US$ 914 million offsetting effect of such currency devaluation on the onshore cash balances held in the Brazilian Reais.

. 1Q20 financial results were heavily impacted by the depreciation of the Brazilian real, mainly through the decrease in the value of derivatives used to hedge some Brazilian real denominated commitments (US$ 1.232 billion) and the increase in the value (measured in Brazilian reais) of our net US dollars liability (US$ 464 million).

. Vale hedges part of its Brazilian real denominated commitments, such as debt, Brumadinho and REFIS future disbursements, through both the use of derivatives and holding cash locally, in Brazil. Because such hedging is partial, in 1Q20, the decrease in the value of the derivatives (US$ 1.091 billion) and the loss in cash position held in Brazilian reais (US$ 914 million) due to the devaluation of the Brazilian real, totaling US$ 2.005 billion, was more than offset by the decrease of the US dollar equivalent value of Vale's debt and commitments denominated in Brazilian reais (US$ 2.984 billion) referred above.

. Vale posted a net income of US$ 239 million in 1Q20, compared to a loss of US$ 1.562 billion in 4Q19. The US$ 1.801 billion increase was mostly driven by the recognition of one-off expenses in 4Q19, such as the impairment charges in nickel and coal assets (US$ 4.202 billion) and provisions related to the Brumadinho (US$ 898 million). These effects were partially offset by lower proforma adjusted EBITDA (US$ 1.636 billion), higher financial expenses (US$ 1.445 billion) and lower tax income (US$ 764 million) due to the lower loss before taxes.

. In March, 2020, as precautionary measure in order to increase its cash position and preserve its financial flexibility in light of current uncertainty in the global markets resulting from the COVID-19 outbreak, Vale disbursed US$ 5 billion from its revolving credit lines, reinforcing its liquidity position to weather the increased risks presented to the business by the COVID-19 pandemic. Additionally, Vale decided to unwind its nickel hedge positions by selling the nickel contract options and cashed a total consideration of US$ 230 million, to be recognized in Vale's top line in tandem with the underlying nickel sales. As of March 31st, 2020, Vale's cash position stands at US$ 12.267 billion, US$ 4.091 billion higher than December 31st, 2019.

Ferrous Minerals

. Adjusted EBITDA of the Ferrous Minerals business segment was US$ 2.847 billion in 1Q20, US$ 1.691 billion lower than in 4Q19, mainly due to sales volumes 34% lower than in 4Q19.
. Vale's realized price CFR/FOB totaled US$ 83.8/t, a slight increase of US$ 0.3/t compared with 4Q19.
. C1 cash cost for iron ore fines increased to US$ 16.2/t in 1Q20 from US$ 14.5/t in 4Q19, mainly due to reduced fixed costs' dilution on seasonal lower volumes (US$ 1.2/t), higher maintenance costs as a result of scheduled and unscheduled maintenances (US$ 0.5/t) and higher demurrage costs, as the heavy rains affected the logistics chain and shipments this quarter (US$ 0.3/t), which were partially offset by the positive effect of the Brazilian real devaluation (US$ 0.8/t). The Brazilian Real devaluation together with higher dilution of fixed cost should bring even greater positive impact to C1 in 2Q20, nonetheless those effects are expected to be offset by (i) consumption of inventories with higher average production costs from 1Q20; (ii) costs related to COVID-19 related expenses such as additional employee benefits; and (iii) increasing the share of higher cost production from Southeastern/Southern Systems with the return of operations with dry processing. In 2H20 however, with increased production, especially in the Northern System on a seasonally higher volume, C1 should be below US$ 14/t.
. Unit maritime freight cost per iron ore metric ton decreased US$ 1.1/t, totaling US$ 17.1/t in 1Q20, mainly due to lower spot freight prices (US$ 1.6/t), which was partially offset by a slight increase of bunker fuel costs due to IMO 2020 regulation (US$ 0.3/t). The bunker fuel cost gains due to the lower oil prices in February will be mostly realized in 2Q20, as vessels were in transit and gradually refueled towards the end of the quarter. We expect freight rates in 2Q20 to decrease by at least US$ 3/ton compared to 1Q20.

Base Metals

. Nickel operations adjusted EBITDA was US$ 350 million in 1Q20, US$ 61 million lower than in 4Q19, mainly due to lower nickel realized prices (US$ 80 million), lower copper as by-product realized prices (US$ 48 million) and lower nickel and copper as by-product sales volumes (US$ 37 million), which were partially offset by higher PGMs by-product credits (US$ 62 million), lower costs and expenses (US$ 31 million) and favourable exchange rate variations (US$ 9 million).
. The Nickel business presented a solid first quarter, with the lower sequential production volume mainly caused by seasonality and routine scheduled maintenance. We are also making progress with the closure of VNC's refinery, which will only produce nickel hydroxide cake at the site starting in May 2020.
. Sales volume was lower than production as Vale is actively managing its inventories to cope with market conditions and also due to regular annual maintenance shutdown at its refinery in Japan. On price realization, the collar hedge structure provided a floor to part of the volume at US$ 16,000/t and, as a result, the average realized price stood US$ 1,711/t above the average LME nickel price of US$ 12,723/t in 1Q20.
. Copper operations adjusted EBITDA was US$ 160 million in 1Q20 vs. US$ 238 million in 4Q19, mainly due to lower realized prices (US$ 113 million) and the combined effect of lower Salobo volumes and higher Sossego volumes (US$ 64 million), which were partially offset by lower costs and expenses (U$ 86 million) and favourable exchange rate variations (US$ 13 million). Copper performance was supported by the resumption of Sossego's operation after the unscheduled maintenance held in the previous quarter and by Salobo's negative unit cash costs due to higher gold by-product credits, which were partially offset by the unscheduled maintenance at its processing plant in 1Q20.

Selected financial indicators

US$ million	1Q20	4Q19	1Q19
Net operating revenues	6,969	9,964	8,203
Total costs and other expenses	4,818	6,507	5,180
Expenses related to Brumadinho	159	1,141	4,504
Adjusted EBIT	2,067	2,504	(1,453)
Adjusted EBIT margin (%)	30%	25%	(18%)
Adjusted EBITDA	2,882	3,536	(652)
Adjusted EBITDA margin (%)	41%	35%	(8%)
Iron ore - 62% Fe reference price	89.0	88.6	82.7
Net income (loss)	239	(1,562)	(1,642)
Net debt [1]	4,808	4,880	12,031
Capital expenditures	1,124	1,472	611

[1] Does not include leases (IFRS 16).

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More information

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