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Vale's performance in 1Q15

Stable debt on lower costs and tight capital and portfolio management

Vale reached iron ore production of 74.5 Mt in 1Q15, the highest output for a first quarter in Vale's history. Carajás production reached 27.5 Mt, a new record for a first quarter. Production of nickel reached 69,200 t in 1Q15, the best performance for a first quarter while copper and gold output reached 107,200 t and 103,000 oz, respectively, marking another production record for Vale.

Gross revenues reached US$ 6.358 billion in 1Q15, decreasing US$ 2.868 billion vs. 4Q14. Seasonally lower sales volumes caused revenues to decrease by US$ 1.307 billion and lower commodities prices caused revenues to decrease by US$ 1.561 billion. Revenues were negatively impacted by an adjustment of US$ 160 million related to the 4Q14 provisional iron ore prices and by the provisional pricing of 45% of the 1Q15 iron ore sales at US$ 51.4/t, against an average IODEX of US$ 62.4/t for the period.

Costs and expenses, net of depreciation charges, decreased by US$ 2.195 billion[1] in 1Q15 vs. 4Q14 and by US$ 561 million in 1Q15 vs. 1Q14. Costs2 were reduced by US$ 1.513 billion and US$ 392 million when compared to 4Q14 and 1Q14, respectively. SG&A[2] decreased by US$ 73 million (30.7%), R&D decreased by US$ 26 million (17.9%) and pre-operating and stoppage expenses[3] decreased by US$ 38 million (18.3%) in 1Q15 vs. 1Q14. Iron ore FOB cash costs reached US$ 19.8/t (US$ 18.3/t ex-royalties) as a result of the cost reduction initiatives.

Adjusted EBITDA was US$ 1.602 billion[4], 26.7% lower than in 4Q14 mainly as a result of lower prices and seasonally lower volumes which had a negative impact on EBITDA of US$ 1.524 billion and US$ 480 million, respectively. EBITDA was positively impacted by US$ 230 million from the goldstream transaction but negatively impacted by the: (i) US$ 160 million price adjustments resulting from the provisional iron ore prices recorded in 4Q14; (ii) US$ 288 million lower revenues resulting from the of 45% of the 1Q15 iron ore sales recorded at a provisional price of US$ 51.4/t, against the average IODEX of US$ 62.4/t for the quarter; (iii) US$ 84 million resulting from the settlement of bunker oil hedge transactions recorded under hedge account that directly impacted freight costs.

Capital expenditures amounted to US$ 2.210 billion in 1Q15, equivalent to a decrease of US$ 377 million when compared to 1Q14. Vale's investments in project execution totaled US$ 1.516 billion, representing a decrease of US$ 318 million in 1Q15 vs. 1Q14 while disbursements for sustaining capex totaled US$ 694 million, representing a decrease of US$ 59 million in 1Q15 vs. 1Q14. Capital expenditures measured on an accrual basis amounted to US$ 1.910 billion (US$ 300 million lower), better indicating the capex trend for the coming quarters.

Divestments and partnerships accounted for US$ 1.017 billion[5] in cash proceeds in 1Q15, with US$ 900 million received as a result of the sale of an additional 25% of the gold by-product stream from the Salobo copper mine for the life of the mine and US$ 97 million received as a result of the sale of 49% of our stake in the hydroelectric plant of Belo Monte.

Net loss was US$ 3.118 billion in 1Q15, mainly driven by the non-cash impact stemming from the 20.8% quarter-on-quarter depreciation of the Brazilian Real (BRL) against the US dollar (USD), from 2.66 to 3.21 BRL / USD. This quarter-on-quarter depreciation caused a US$ 3.019 billion loss on the net of the US$ 21.474 billion[6] of USD denominated debt and USD denominated assets and a US$ 1.263 billion loss on the US$ 7.600 billion of debt and future interest obligations swapped into US Dollars through forward and swap derivatives. Conversely, the average depreciation of the BRL, from 2.54 to 2.87 BRL / USD, which positively impacted cash flows, was only 12.8%.

Gross debt decreased by US$ 320 million from the debt position on December 31st, 2014, reaching US$ 28.487 billion on March 31st, 2015, supported by divestitures of US$ 1.017 billion. Net debt totaled US$ 24.802 billion with a cash position of US$ 3.685 billion prior to the distribution of US$ 1 billion in dividends scheduled to be paid on April 30th, 2015. Average debt maturity was 8.7 years with an average cost of debt of 4.46% per annum.

The ferrous minerals business EBITDA was impacted by lower commodity prices and price adjustments but iron ore cash costs and freight cost have reduced significantly

· Adjusted EBITDA for ferrous minerals reached US$ 1.027 billion in 1Q15, representing a decrease of US$ 675 million from the US$ 1.702 billion recorded in 4Q14, mainly as a result of a US$ 1.071 billion reduction in sales prices.
· Realized prices for iron ore fines (ex-ROM) decreased from US$ 61.6/t in 4Q14 to US$ 46.0/t in 1Q15, negatively impacted by a US$ 2.8/t adjustment on prices provisioned at the end of 4Q14 (US$ 160 million deducted from revenues) and by a US$ 4.9/t impact on prices driven by the difference between the average Platt's IODEX 62% CFR China of US$ 62.4/t in 1Q15 and the US$ 51.4/t provisionally priced for 45% of our sales by the end of 1Q15 (US$ 288 million lower revenues).
· Cash costs for iron ore fines decreased to US$ 19.8[7]/t (US$ 18.3/t ex-royalties) vs. US$ 23.2 /t in 4Q14, mainly as a result of the average quarter-on-quarter depreciation of the Brazilian Real of 12.8% from 2.54 to 2.87 BRL / USD and of cost reductions initiatives.
· Unit freight cost for iron ore was US$ 17.2[8]/t in 1Q15 vs. US$ 21.7/t in 4Q14, mainly as a result of the positive impact of lower bunker oil prices in our medium and long term chartering contracts and of lower spot freight costs.
· Expenses for iron ore fines[9], including SG&A, R&D and pre-operating and stoppage expenses, reduced by US$ 5.2/t from US$ 9.2/t in 4Q14 to US$ 4.0/t in 1Q15.
· Total costs and expenses9 for iron ore fines, including freight costs8, decreased by US$ 13.1/t in 1Q15 vs. 4Q14 whilst After adjusting for the effects of lower volumes (-US$ 577 million) and exchange rates (-US$ 242 million) total costs and expenses of iron ore fines decreased by US$ 349 million (US$ 6.1/t) in 1Q15 vs. 4Q14.Sustaining capex decreased by US$ 4.5/t in quarter vs. 4Q14.

The base metals business EBITDA was impacted by lower prices but costs and expenses were further reduced

· Adjusted EBITDA reached US$ 678 million in 1Q15[10], an increase of US$ 96 million from the US$ 582 million in 4Q14, positively impacted by the goldstream transaction (US$ 230 million) and by lower costs (US$ 134 million) while partially offset by the effect of lower prices (US$ 242 million).
· Sales revenues totaled US$ 1.710 billion, US$ 238 million lower than in 4Q14 due to lower sales prices.
· Costs[11] decreased by US$ 134 million and expenses[12] by US$ 91 million in 1Q15, representing a costs and expenses reduction of US$ 225 million vs. 4Q14.
· Salobo's EBITDA reached a record US$ 100 million for a quarter despite lower than planned production volumes for 1Q15.

The coal and fertilizers businesses EBITDA were positively impacted by expense reductions despite the lower prices and volumes

· Adjusted EBITDA for coal was negative US$ 128 million in 1Q15 against a negative US$ 204 million in 4Q14, despite the lower coal prices and lower volumes mainly as a result of further reductions in expenses.
· Moatize II reached 86% of physical progress in 1Q15 with a capital expenditure of US$ 117 million in the quarter.
· The Nacala Corridor reached 99% of physical progress in its greenfield sections while the Nacala Port reached 97%

· Adjusted EBITDA for the fertilizer business increased to US$ 90 million in 1Q15 from US$ 75 million in 4Q14, despite lower prices (US$ 16 million) and lower volumes (US$ 20 million), mainly as a result of lower expenses (US$ 32 million).

2015 will be a year for laying the foundations of an even more competitive and profitable company as we intensify and consolidate our cost cutting efforts, deliver productivity improvements, grow our production volumes and increase the quality of our products with the completion of several projects and the operation of the N4WS mine. Meanwhile, we remain confident that we will be able to keep absolute debt levels stable through the successful execution of our divestment program and further capital discipline.

[1] Amount is net of depreciation. Reduction calculated after adjusting for the US$ 230 million one-off positive impact from the goldstream transaction in 1Q15 and the insurance payment of US$ 116 million received in 4Q14.
[2] Net of depreciation.
[3] Net of depreciation.
[4] Including US$ 230 million of the goldstream transaction.
[5] Including the US$ 532 million accounted for as "deferred revenues".
[6] Composed of USD denominated debt of US$ 21.415 billion plus interest.
[7] Excluding ROM and iron ore acquired from third parties.
[8] Excluding the US$ 2.3/t impact from the bunker oil hedge in 1Q15.
[9] Net of depreciation.
[10] Including US$ 230 million of the goldstream transaction.
[11] Net of depreciation.
[12] After adjusting for the US$ 230 million one-off effect of the goldstream transaction in 1Q15 and the insurance payment of US$ 116 million received in 4Q14.

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