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Vale’s performance in 1Q18

Vale has shown remarkable flexibility and performance during a very complex first quarter 2018

Chief Executive Officer Mr. Fabio Schvartsman commented on the 1Q18 results: “We are well positioned to generate significant shareholder value by leveraging our premium and flexible product portfolio. We are pleased that Vale has shown remarkable flexibility and performance during a very complex first quarter 2018, which was crucial to achieve the same level of EBITDA as 4Q17, despite the challenge of seasonally lower volumes”. He concluded that: “I am committed to make Vale a more predictable company. Thus, in any given price scenario, the market will be able to easily forecast Vale’s performance. This will only be possible by having full control of everything other than prices, meaning that we will have a very strict capital allocation policy, a relentless focus on performance and constant efforts to optimize our cost structure”.[1]

- The flexibility of Vale’s supply chain led to a record sales volume for a first quarter of iron ore and pellets, despite the challenge of seasonally lower production. Consequently, adjusted EBITDA totaled US$ 3.971 billion in 1Q18, remaining practically in line with 4Q17.

- Vale’s operational cash flow generation in 1Q18, together with the proceeds from the sale of fertilizer assets and the Project Finance in Mozambique, supported the increase in Free Cash Flow vs. 4Q17, totaling US$ 5.015 billion, the best performance since 1Q11, which enabled a substantial net debt reduction of US$ 3.242 billion quarter-on-quarter. “1Q18 was marked by our deleveraging, with net debt achieving US$ 14.9 billion, the lowest level since 2Q11, while paying US$ 1.4 billion in shareholder remuneration. We will reach the US$ 10 billion net debt target in the short term and our sound balance sheet and strong cash generation will enable us to significantly increase shareholder remuneration”, highlighted Chief Financial Officer Mr. Luciano Siani Pires.

- Consistent with Vale’s strategy to adopt a rigorous capital allocation process based on returns, Capital Expenditures reached US$ 890 million, the lowest level for a first quarter since 1Q05, following the trend of remaining sub US$ 1 billion per quarter and reinforcing Vale’s Capex guidance of US$ 3.8 billion in 2018.

- The Ferrous Minerals business had an outstanding result in 1Q18, with an adjusted EBITDA of US$ 3.408 billion in 1Q18, as a result of the contributions of higher quality and average premium, which improved Vale’s realized CFR/FOB wmt price, reflecting: (i) the flexibility of the operations; (ii) the active supply chain management; and (iii) the increase of premium product share in total sales.

- Vale’s premium and flexible portfolio of products is in a leading position to profit from the structural “flight to quality” trend. In 1Q18, Vale reached another milestone towards improving Fe content, price realization and pellets contribution that resulted in a lower iron ore fines and pellets EBITDA breakeven[2],3 of US$ 30.5/dmt in 1Q18, a reduction of US$ 1.7/t vs. 4Q17, and in a higher adjusted EBITDA per ton for Ferrous Minerals[3] that totaled US$ 39.8/t in 1Q18, an increase of US$ 3.7/t vs. 4Q17. “Vale’s Ferrous division is following its well defined value over volume strategy and is progressively optimizing its price realization and margins based on its increasing proportion of premium products as well as through an active management of its global supply chain”, commented Mr. Peter Poppinga, Executive Officer for Ferrous Minerals and Coal.

- Vale’s decision to restart Tubarão II pellet plant and the negotiation of better terms for pellet premiums averaging US$ 60/wmt for the year, an increase of over US$ 10/wmt vs. 2017, are reflected in its results with adjusted EBITDA for pellets amounting to US$ 763 million in 1Q18, a 13% increase vs. 4Q17, and representing 19% of Vale’s total adjusted EBITDA.

- Vale is a premium nickel player with a unique product mix and market position and was able to benefit from the higher nickel prices in 1Q18, with an adjusted EBITDA for Base Metals of US$ 644 million. “We are focused on further improving the competitiveness of the Base Metals business optimizing margins and maintaining the optionality of nickel in the scenario of higher demand for Class I nickel. In 1Q18 we partially compensated the unplanned production shortcomings in the Coleman mine in Sudbury with the marketing focus on maximizing price realization over our premium product mix with higher margins”, commented Mr. Eduardo Bartolomeo, Executive Officer for Base Metals.

- VNC registered its best result ever for the second consecutive quarter, with an adjusted EBITDA of US$ 28 million in 1Q18, reflecting higher nickel and cobalt prices.

- The results of Vale’s Coal business continued to improve in 1Q18, driven by higher realized prices, showing Vale’s effort to increase the share of contracts linked to the index reference price, which resulted in an increase of 41% in adjusted EBITDA for the Coal business, amounting to US$ 104 million in 1Q18, despite lower volumes.

Vale announced a new dividend policy on March 29th, 2018, which was designed to be: (i) both aggressive and sustainable over a long period of time, (ii) applicable in any price scenario, and (iii) predictable as regards payment dates and the amount to be distributed. The policy will be effective as of the results of the first half 2018. Therefore, according to the new policy, the 1Q18 results translate into a minimum shareholder remuneration of US$ 1.033 billion, which will be further increased by applying the threshold of 30% over the adjusted EBITDA less sustaining investments to 2Q18 results, for payment in September 2018.

[1] Excluding Manganese and ferroalloys.

[2] Measured by unit cash costs and expenses on a landed-in-China basis (and adjusted for quality, pellets margin differential and moisture, excluding ROM).

[3] Considers the new allocation criteria for general and administrative expenses as described in the box “Managerial Allocation Changes” of this Earnings Release

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Infographics

Production Report

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