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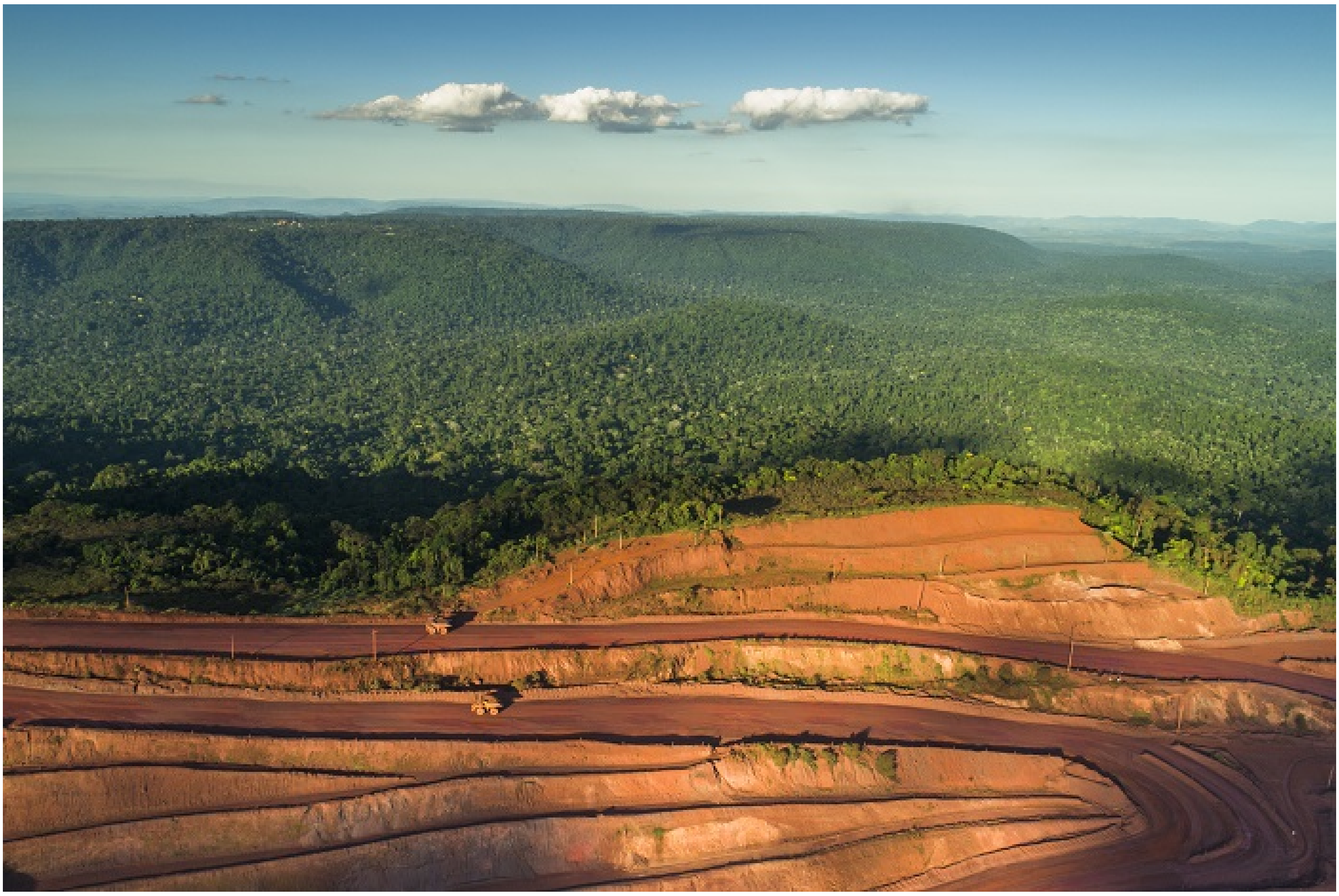

07/25/2018

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Vale’s performance in 2Q18

Vale has shown significant progress in predictability, flexibility, cost management, discipline in capital allocation and diversification through its own assets

Chief Executive Officer Mr. Fabio Schvartsman commented on the 2Q18 results: "I am pleased that several of the main aspects of our strategy were highlighted in the last quarter. We have shown significant progress in predictability, flexibility, cost management, discipline in capital allocation and diversification through our own assets."

CFO Luciano Siani Pires comments on 2T18 financial results

I. Predictability

- We achieved another strong financial performance in 2Q18, with an adjusted EBITDA of US$ 3.9 billion, in line with the previous quarter as anticipated, overcoming the challenges of lower prices and supply disruptions in Brazil.

II. Flexibility

- Production and sales records: we had a strong performance in 2Q18, proactively dealing with the difficulties imposed by the nationwide truck drivers' strike in Brazil, achieving records in iron ore production (96.8 Mt) and sales (86.5 Mt1) for a second quarter.

- Quality premiums: continuous growth in quality premiums over the last quarters led to records in iron fines (US$ 7.1/t) and nickel Class I products (US$ 1,430/t) in 2Q18, as a result of the active optimization of our flexible supply chain and of our premium product portfolio.

III. Costs

- 48 new ships with freight US$ 5/t lower: we reached an important milestone in the implementation of our strategy to offset the effects of our geographical position on freight rates by concluding the negotiations of long-term Contracts of Affreightment with different shipowners. These shipowners intend to employ approximately 47 new Very Large Ore Carriers and one new Valemax, all equipped with scrubbers, covering approximately 62 Mtpy of our transportation needs. The average freight rates of these new contracts is about US$ 5/t lower than our current average freight cost.

- Iron ore costs: we managed the challenges of a complex quarter and delivered a C1 cash cost in line with 1Q18. Vale's C1 cash cost2 is expected to decrease to an average distinctly

lower than US$ 13.0/t in 2H18, benefiting from the competitiveness of growing S11D volumes, seasonally lower costs and higher production.

- Iron ore and pellets competitiveness: we reached another landmark by breaking the US$ 30/t barrier for our iron ore fines and pellets EBITDA breakeven3 in 2Q18, which reached US$ 28.8/dmt as a result of a better price realization and stronger pellets performance.

IV. Capital Allocation

- Buyback: we are announcing a share buyback program of US$ 1 billion to be executed within the period of one year, as we believe this is one of the best investments for our excess cash, working towards making Vale the global mining player that generates most value for its shareholders.

- Dividend: Vale's new dividend policy is the beginning of a new era for Vale's shareholders. Pursuant to this, we are announcing US$ 2.054 billion4 of shareholder remuneration to be paid in September 2018, the highest remuneration for a semester since 2014.

- High return investment: the Voisey's Bay underground mine expansion project was transformed into a high return investment by the cobalt stream deal. The transaction secures a significant share of the total capex required for the project while maintaining 40% of future cobalt exposure in the mine. We are committed to optimizing margins and maintaining the optionality for the scenario of higher demand for nickel.

- Indebtedness: net debt was reduced to US$ 11.5 billion in 2Q18, the lowest level since the second quarter of 2011, bringing us close to our target, supported by the highest second quarter free cash flow in 10 years, amounting to US$ 3.1 billion in 2Q18. Net debt has been reduced by almost US$ 11 billion over the last 12 months.

V. Diversification

- Vale is committed to diversifying its cash generation by optimizing its own assets. In 2Q18, Vale's Base Metals EBITDA amounted to 20% of the company's EBITDA anchored in higher volumes of nickel, copper and by-products and higher realized premiums for nickel.

Chief Financial Officer Mr. Luciano Siani Pires highlighted: "We are close to achieving our net debt target and we can already perceive the benefits of carrying lower indebtedness on our credit rating, with the recent upgrade from Moody's, and also on our gross interest, which were reduced by 30% from about US$ 900 million in 1H17 to US$ 630 million in 1H18."

Financial highlights

- Underlying earnings improved to US$ 2.094 billion in 2Q18 from US$ 1.787 billion in 1Q18.

- Capex guidance for 2018 has been revised down to US$ 3.6 billion. Capital Expenditures reached US$ 705 million in 2Q18, the lowest level for a second quarter in the last 13 years, consistent with the lower capex execution planned for 2Q18. Mr. Peter Poppinga, Executive Officer for Ferrous Minerals and Coal commented: "Based on our general positioning of high quality products in the iron ore business, we are progressively building up our differentiation strategy and simultaneously continuing to pursue the value over volume margin optimization approach. The quality premium on Vale's realized price achieved a record US$ 7.1/t in 2Q18, showing that Vale is well positioned to benefit from the structural "flight to quality" trend. This not only values Vale's high iron content, but also our low impurity levels, such as alumina and phosphorous, as seen in the realized premiums for the Brazilian Blend Fines".

Ferrous Minerals

- The Ferrous Minerals business had another outstanding result in 2Q18, with an adjusted EBITDA of US$ 3.228 billion in 2Q18, due to higher volumes and better premiums, reflecting: (i) Vale's marketing efforts to position its premium product portfolio; (ii) the flexibility of the operations; (iii) the active supply chain management; (iv) the share of premium products in total sales; and (v) stronger market premiums.

- Vale has been reducing its time-to-market as it increases its capillarity through the distribution centers closer to end-customers in Asia, which also has the positive side effect of improving the predictability of its results, by reducing the price adjustments related to market reference index price variations, due to the decrease in the share of the provisional pricing mechanism.

Mr. Eduardo Bartolomeo, Executive Officer for Base Metals commented: "We are committed to optimizing our nickel strategy, which encompasses much more than just the overall increase in prices. We are seeking higher value opportunities for our Class I and Class II Battery-suitable products, as well as maintaining discipline in production to dynamically address market demand and margin maximization."

Underlying earnings

Despite the stable Adjusted EBITDA, Vale showed an improvement of 17.2% on its underlying earnings in 2Q18 vs 1Q18, increasing to US$ 2.094 billion from US$ 1.787 billion mainly as a result of the positive impact on income tax (US$ 337 million) of the shareholder remuneration declared as interest on equity.

Underlying earnings excludes the non-cash impacts from the net income such as: (i) the effect of the depreciation of BRL on USD denominated debt (US$ 2.333 billion8); (ii) the provision of US$ 391 million related to Renova Foundation funding obligations and short-term facilities to Samarco (US$ 20 million); and (iii) the mark-to-market of shareholder debentures (US$ 304 million). All the adjustments resulted in income tax of US$ 1.035 billion in the underlying earnings.

As a consequence of the non-cash impacts, net income was US$ 76 million in 2Q18 vs. US$ 1.590 billion in 1Q18.

Release in PDF

Infographics

Production Report

More information

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