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Vale 3Q13 results

Vale had its performance in the third quarter of 2013 (3Q13) marked by across-the-boardimprovement in financial indicators. Operating revenues, US$ 12.9 billion, operating income, US$ 4.8 billion, operating margin, 37.7%, adjusted EBITDA, US$ 5.9 billion[1], and underlying earnings, US$ 3.7 billion, all showed increases on a quarter-on-quarter and year-on-year basis[2]. In the first nine months of 2013 (9M13) all of these variables, except for operating revenues, had a positive evolution vis-à-vis 9M12.

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The expected recovery in iron ore and pellet shipments – at 83.6 Mt they were the third largest in Vale´s history – and their higher prices were the main drivers of the results achieved in 3Q13. The cash cost of iron ore – mine, plant, railway and port, after royalties – fell to US$ 22.10 per metric ton from US$ 24.15 in 2Q13. The combination of high quality with low-cash cost remains as a leading edge in the global marketplace.

We are taking steps to build a lean organization, minimizing operating costs and expenses as well as investment costs and focusing on productivity growth. The first half of the year saw the effects of the picking of low hanging fruits. However, it is worthwhile noting that the journey towards a lower cost structure on a sustainable basis is long and requires above all persistence and patience. The pace of cost savings is not linear, as several achievements depend on the maturation of initiatives underway.

Some of these initiatives are already bearing fruit, totaling savings of US$ 2.0 billion[3] in 9M13 versus 9M12. This was caused by decreasing operating costs by US$ 1.126 billion (6.7%), sales, general and administrative expenses (SG&A) by US$ 621 million (41.6%) and research and development (R&D) spending by US$ 479 million (47.1%), which have been very clearly a key factor in the improvement of our performance this year. For instance, adjusted EBITDA for 9M13 totaled US$ 16.0 billion, 8.8% higher on a year-on-year basis, as our efforts to cut costs and expenses more than offset the decline of US$ 828 million in gross revenues, basically caused by lower prices.

The focus on capital efficiency entails the extraction of maximum value from existing assets, stronger internal competition for project funding and the divestiture of non-core assets.

Investments – excluding acquisitions – in the first nine months of the year totaled US$ 11.0 billion, a decrease of US$ 1.2 billion compared to the US$ 12.3 billion invested in the same period of 2012.

The ramp-up of Salobo I is proceeding successfully, and is expected to be concluded by year-end. Salobo generated an EBITDA of US$ 34 million in the quarter and its production continues to increase, running at 86% of nominal capacity in October.

Two new projects were recently delivered that will expand our logistics and iron ore processing capacity: (i) Carajás CLN 150 project, an increase in the logistic capacity of the Northern System; (ii) Additional 40 Mtpy, a dry ore processing plant in Carajás that reduces operating costs and increases productivity.

Consistent with our strategy to minimize exposure to non-core assets, we announced on September 18th the signing of agreements to sell 35.9% of the total capital of VLI – a wholly-owned logistics operator of general cargo – for R$ 2.7 billion. Moreover, we are under final negotiations with a consortium for the sale of a further tranche of the VLI capital, of approximately 26%, ultimately reducing our stake to less than 40%. The divestiture enables us to extract hidden value not priced into Vale's shares and reallocate capital to our core businesses.

Supported by our healthy balance sheet and strong cash flow, our Board of Directors approved the distribution of the second tranche of the minimum dividend, US$ 1.75 billion, and an additional dividend of US$ 500 million. Dividend distribution reached US$ 4.5 billion in 2013.

The global manufacturing PMI is signaling acceleration in the manufacturing cycle. It is likely that manufacturing output will post in 4Q13 the strongest gain since 1Q12, helping to support a benign environment for minerals and metals.

Financial highlights in 3Q13:

- Operating revenues totaled US$ 12.9 billion, an increase of 14.5% over 2Q13, mainly due to higher iron ore sales volumes and prices.

- Income from existing operations, as measured by adjusted EBIT(a) (earnings before interest and taxes), was US$ 4.8 billion, 32.6% higher than US$ 3.6 billion in 2Q13.Operating income margin of 37.7%, as measured by adjusted EBIT margin.

- Underlying earnings(g) were US$ 3.7 billion, equal to US$ 0.72 per share on a fully diluted basis, against US$ 3.3 billion in 2Q13, net of the accounting effects of non-cash and/or non-recurring items.

- Cash generation, as measured by adjusted EBITDA(b) (earnings before interest, taxes, depreciation and amortization) of US$ 5.9 billion in 3Q13, 18.7% above the US$ 5.0 billion in the previous quarter.

- Capex – excluding acquisitions – in 3Q13 was US$ 3.4 billion, a reduction of 4.2% and 19.6% when compared to 2Q13 and 3Q12, respectively.

- Investments in corporate social responsibility reached US$ 310 million, US$ 256 million of which was for environmental protection and conservation and US$ 54 million for social projects.

- On October 31st, 2013, we paid the second installment of the 2013 minimum dividend of US$ 1.750 billion and an additional dividend of US$ 500 million, totaling US$ 0.4366 per common or preferred share.

- Maintenance of a strong balance sheet, with low debt leverage, measured by the ratio of total debt to LTM adjusted EBITDA excluding non-recurring items, equal to 1.5x, long average maturity, at 9.7 years, and low average cost, 4.6% per year as of September 30th, 2013.

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[1] Vale's adjusted EBITDA in 3Q13 amounts to US$ 6.1 billion excluding the effect of the stoppage expense of Rio Colorado (US$ 213 million).
[2] Excluding non-recurring and/or non-cash items.
[3] Excludes depreciation and amortization, loss on sale of assets and the one off

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