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1Q18 Production and sales report

Vale reached another milestone towards improving iron content and price realization

Vale maintained a strong supply and sales discipline in 1Q18 as part of its commitment to maximize margins over volume. Our premium and flexible portfolio of products is best positioned to lead and profit from the structural “flight to quality” trend. In 1Q18, Vale reached another milestone towards improving Fe content and price realization in line with its strategy.

Record sales volumes for a first quarter of iron ore and pellets totaled 84.3 Mt in 1Q18, 6.4 Mt higher than in 1Q17, achieving the best first quarter ever, due to flexibility and active management of its supply chain. Vale’s sales mix improved substantially year-on-year, as a result of S11D’s ramp-up and the decision to progressively reduce low grade ore production. The share of pellets, Carajás and blended ores increased to 76% in 1Q18 from 67% of total sales in 1Q17. Consequently, Vale’s product sales mix leveraged the impact

of rising market premiums, driving the increase in the contributions of quality and average premium to Vale's realized CFR/FOB wmt price that amounted to US\$ 5.2/t in 1Q18 vs. US\$ 2.3/t in 1Q17 and US\$ 3.9/t in 4Q17.

Iron ore and pellets sales composition

Iron ore production^[1] reached 82.0 Mt in 1Q18, 4.2 Mt and 11.4 Mt lower than in 1Q17 and 4Q17, respectively, mainly due to management's decision in 2Q17 to reduce production of lower grade ore, reinforcing the positioning of Vale as a premium producer and resulting in higher price realization and better margins since 1Q17. The more intense rain season also affected production in 1Q18. As a result of the premium and flexible product portfolio, average Fe content reached 64.4% in 1Q18 when compared to 63.9% in 1Q17 and 64.3% in 4Q17, by far the best among its peers.

Northern system production, which comprises Carajás and S11D, was driven by S11D successful ramp-up and achieved a record for a first quarter of iron ore production of 40.6 Mt in 1Q18, 12.9% higher than in 1Q17.

Pellet production of 12.8 Mt in 1Q18 was 0.4 Mt higher than in 1Q17 marked by the restart of Tubarão II pellet plant. The restarts of Tubarão I and São Luís pellet plants are scheduled to 2Q18 and 3Q18, respectively, leveraging on the increase in negotiated terms for pellet premiums averaging at US\$ 60/dmt for the year, an increase of more than US\$ 10/dmt vs. 2017.

Vale reaffirms its iron ore production guidance for 2018 of around 390 Mt, as previously announced on Vale Day.

Base metals production and sales performed in line with our decision to reduce the footprint of the Canadian operations by placing non-competitive mines on care and maintenance, following Vale's strategy to optimize margins and maintain the optionality in the scenario of higher demand for nickel class I. As a consequence, nickel production reached 58,600 t in 1Q18, with sales of 57,900 t whilst LME nickel prices in the quarter continued to improve to an average of US\$ 13,276/t, from US\$ 11,584/t in 4Q17, representing the strongest pricing quarter since 1Q15. Nickel production is expected to increase to about 65,000 t in 2Q18.

Vale has adopted a rigorous capital allocation process based on returns. Projects will only be approved if they generate high returns at the current and conservative price scenarios, not depending on future price expectations. As a result, Voisey's Bay production output has been decreased to extend its mine life while the Voisey's Bay Mine Extension project is reassessed. Thompson will fully transition to a mine-mill operation in 3Q18, when its last furnace and refinery will be shut down, while production at the Long Harbour processing plant reached the quarterly record of 8,600 t in 1Q18.

Copper production reached 93,300 t in 1Q18, with sales of 87,700 t. In the quarter, LME copper price averaged US\$ 6,961/t, an increase of 2% from the US\$ 6,808/t registered in 4Q17, being the strongest pricing quarter since 4Q14. Copper production should achieve about 100,000 t in 2Q18.

Cobalt is one of the key metals, along with nickel, required to produce the highest energy density batteries for use in electric vehicles. Vale is an important cobalt producer, with about 6% of market share and about 15% of market share when excluding the DRC (Democratic Republic of Congo). Vale's cobalt production totaled 1,327 t in 1Q18, 68 t higher than 1Q17, capturing the good momentum of the market with LME cobalt prices increasing to the all-time record of US\$ 81,845/t in 1Q18 vs. US\$ 64,516/t in 4Q17.

The contained volume of gold as a byproduct in the nickel and copper concentrates reached 113,000 oz in 1Q18 7.6% higher than in 1Q17.

Production summary

				% change	
000' metric tons	1Q18	4Q17	1Q17	1Q18/4Q17	1Q18/1Q17
Iron ore ¹	81,953	93,361	86,198	-12.2%	-4.9%
Pellets	12,780	12,898	12,422	-0.9%	2.9%
Manganese Ore	434	553	544	-21.5%	-20.2%

Coal	2,432	2,576	2,434	-5.6%	-0.1%
Nickel	58.6	78.0	71.4	-24.9%	-17.9%
Copper ²	93.3	113.5	107.5	-17.8%	-13.2%
Cobalt	1.327	1.650	1.259	-19.6%	5.4%
Gold (000' oz troy)	113	139	105	-18.7%	7.6%

¹ Including third party purchases, run-of-mine and feed for pelletizing plants.

² Excluding Lubambe's attributable production.

Sales summary

000' metric tons	1Q18	4Q17	1Q17	% change	
				1Q18/4Q17	1Q18/1Q17
Iron ore ¹	71,221	79,958	65,318	-10.9%	9.0%
Pellets	13,125	13,579	12,582	-3.3%	4.3%
Manganese Ore	338	740	196	-54.3%	72.4%
Coal	2,497	2,943	2,568	-15.2%	-2.8%
Nickel	57.9	79.8	72.1	-27.4%	-19.7%
Copper	87.7	110.5	100.3	-20.6%	-12.6%

¹ Including third party purchases and run -of-mine.

For further information, please find the complete report in the following link:

<http://www.vale.com/EN/investors/information-market/quarterly-results/Pages/default.aspx>

More information



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