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# 2Q19 Financial Results

Six months after the rupture of Dam I in the Córrego do Feijão mine in Brumadinho (MG), Vale stays committed to the prompt and fair reparation of damages caused to the families, to the infrastructure, to the communities and to the environment. However, the company's agenda goes beyond the full reparation and progress was made in 2Q19 in Vale's journey to achieve operational excellence, asset integrity, sustainable results and shareholder value.

Eduardo Bartolomeo, Chief Executive Officer, commented: *"As we progress towards full and effective reparation, 2Q19 has been a transitional quarter for the business, with the Brumadinho dam rupture still impacting volumes, costs and expenses, however our response started to bear fruit to ensure the safety of people and of the company's operations, as well as to reduce uncertainties and to deliver sustainable results through the supply of a high-quality product portfolio, which will already be reflected in the next quarter".*

**I. Reparation**

. We signed 15 agreements with local, state and federal entities to provide a stable legal framework for reparation. These agreements include: (i) 4 with a social scope providing support for the municipalities, including services and donations; (ii) 9 with an environmental scope, including the construction of new water catchment systems in Pará de Minas city and a water treatment station with the State Sanitation Company (COPASA), as well as initiatives to protect the fauna and flora; and (iii) 2 involving the hiring of new external auditors to review some of Vale's structures with Public Prosecutors.

. We became part  of the Federal Government's “Alliance for Brumadinho” program, that will leave a legacy for the area which includes: (i) 35 new health care units in Brumadinho; (ii) a new train passenger service; (iii) strengthening of tourism in Brumadinho; amongst other projects.

. We advanced with the Preliminary Agreements for indemnifications with the Brazilian authorities with: (i) 104.686 emergency indemnifications  paid; (ii) 263 labor agreements signed to indemnify the families of workers who lost their lives; (iii) 188 individual indemnification agreements  signed. In 3Q19, our focus will be to accelerate the individual indemnification agreements.

. We concluded several tailings containment structures and the Ferro-Carvão stream water treatment station. This station has 2 million liters per hour capacity and ensures that no more tailings are carried from the epicenter of the dam breach towards the Paraopeba river. We also presented to the public authorities a Tailings Containment Plan to ensure the removal and proper disposal of tailings, as part of the environmental recovery, as well as 23 integrated structures to prevent the flow of tailings into the Paraopeba river.

. We know there is still a lot to be done, and we are committed to do it. In the following webpage, we present the updated accountability of the actions we have taken so far - vale.com/repairoverview.

**II. Safety**

. Our operational risk governance was reinforced with the appointment of the new Executive Officer for Safety and Operational Excellence, Carlos Medeiros, with the role of raising safety and operational excellence to a new level.

. The Vargem Grande dam had its emergency level reduced from 2 to 1 as a result of a series of improvements we implemented, such as: lowering the water level of the reservoir; cleaning the drainage channels and updated sensitivity studies carried out by an independent audit firm to evaluate the impact of the water level lowering on the dam's stability. Consequently, 51 people returned to their homes.

**III. Reducing uncertainties**

. We made substantial progress in 2Q19 concerning the 93 Mtpy of Iron Ore production stopped in 1Q19 with the resumption of Brucutu operations on June 22nd, 2019, recovering 30 Mtpy of production capacity, and the partial return of dry processing at the Vargem Grande complex, adding about 12Mtpy (5 Mt in 2019). Regarding the approximate 50 Mtpy currently curbed, we expect that about 20 Mtpy of dry processing production will be gradually resumed starting by the end of this year and the remaining 30 Mtpy, which includes wet processing, is estimated to return in about two to three years.

. In 2Q19, we were able, at the best of our knowledge, to assess and recognize a provision for all categories of the Brumadinho dam rupture impacts. We recorded a total provision of US$ 1.374 billion related to: (i) the environmental measures and related agreements (US$ 1.190 billion); (ii) the decommissioning or de-characterization of other structures not considered in 1Q19 (US$ 98 million); and (iii) revision of the provision related to the Framework Agreements, including the compensation for collective moral damages, which is part of the terms and conditions set in the agreement recently signed with the Public Ministry of Labor (Ministério Público do Trabalho - MPT) (US$ 86 million). Additionally, we recorded US$ 158 million of ongoing reparation expenses related to the Brumadinho event.

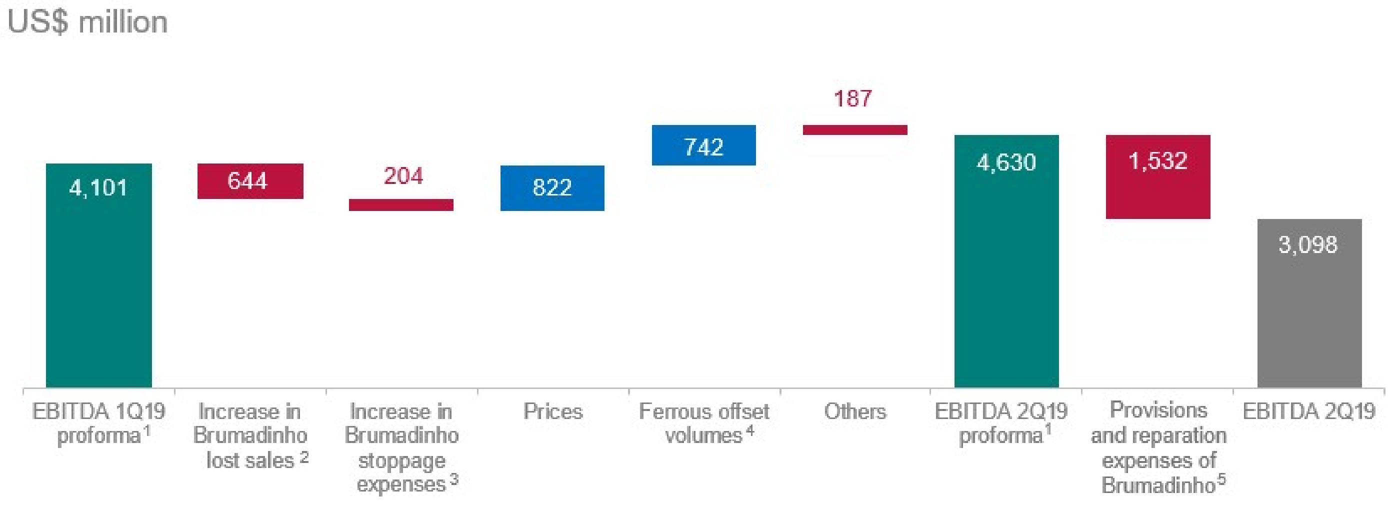
**IV. Sustainable results**

. Our cash generation of US$ 2.2 billion in 2Q19 enabled us to resume our trajectory of debt reduction and strengthened our balance sheet further. Consequently, our net debt decreased from US$ 12.0 billion in 1Q19 to US$ 9.7 billion in 2Q19.

. Our gross debt totaled US$ 15.8 billion as of June 30th, 2019, decreasing by US$ 1.3 billion vs. March 31st, 2019, mainly as a result of debt repayments primarily related to the new credit lines that were raised in 1Q19.

. In light of the recent decision of the Lower Public Treasury Court of Belo Horizonte authorizing Vale to replace the R$ 5 billion that were frozen by other financial guarantees and the agreement signed with Minas Gerais State Public Ministry of Labor which determined the release of R$ 1.6 billion of the frozen amount, the proforma net debt would be US$ 8.0 billion in 2Q19. The release of funds is expected to occur until August.

. Our proforma EBITDA (excluding the provisions and ongoing reparation expenses from the Brumadinho dam rupture) totaled US$ 4.6 billion in 2Q19, US$ 529 million higher than in 1Q19. The increase was mainly due to higher sales prices (US$ 822 million) and higher Ferrous sales volumes (US$ 742 million), which were partially offset by the increase in lost sales (US$ 644 million) and stoppage and extraordinary logistics expenses (US$ 204 million) related to Brumadinho.




[1] Net of Brumadinho provisions.
[2] Difference between effects of 1Q19 (US$ 290 million) and 2Q19 (US$ 934 million).
[3] Difference between effects of 1Q19 (US$ 160 million) and 2Q19 (US$ 364 million). 2Q19 expenses are related to operations stoppages (US$ 238 million) and extraordinary logistics expenses (US$ 126 million).
[4] Iron ore and pellets sales volumes excluding volume losses in Brumadinho.
[5] Out of which US$ 1.374 billion are related to provisions and US$ 158 million to ongoing reparation expenses.

. We had the second consecutive quarter of losses, as our net income reached negative US$ 133 million in 2Q19, mainly as a result of additional provisions related to: (i) the Brumadinho dam rupture (US$ 1.5 billion); (ii) the decommissioning of Germano dam (US$ 257 million); and (iii) the Renova Foundation (US$ 383 million).

**Ferrous Minerals**

. The Ferrous Minerals EBITDA totaled US$ 4.2 billion, US$ 621 million higher than 1Q19 despite the impacts of the abnormal rain in the Northern System and of events following the Brumadinho dam rupture, which affected costs and expenses.

. Iron ore and pellets quality premium reached US$ 11.4/t  in 2Q19, US$ 0.7/t higher than 1Q19 mainly due to the increase in pellet contribution.

. Iron ore fines C1 cash cost was US$ 17.6/t in 2Q19, US$ 3.6/t higher than 1Q19, mainly due to: (i) consumption of inventories with higher average production costs from 1Q19 (US$ 1.4/t); (ii) higher demurrage costs in the Northern System (US$ 1.2/t), due to the extended queue of vessels in Ponta da Madeira port which resulted from redirecting vessels bound to the South and Southeast towards the North; (iii) higher iron ore benchmark prices and volumes on the third-party purchases (US$ 1.0/t), which were partially offset by the positive impact of the 4.1% depreciation of the BRL (US$ 0.4/t). The line-up of vessels at Ponta da Madeira port and average production costs have normalized, which will translate into a decrease of about US$ 2.5/t in iron ore C1 cash costs in 3Q19 .

. Stoppage and extraordinary logistics expenses related to the Brumadinho dam rupture in 2Q19 were US$ 5.7/t, US$ 3.0/t higher than 1Q19 mainly as a result of a full quarter stoppage during 2Q19 (vs. ~2 months of stoppage in 1Q19), provision for clients' contractual claims and related-party railway take-or-pay contracts (MRS). Looking forward, unitary stoppage expenses may be reduced by about US$ 1.5/t in 3Q195 as a result of the restart of Brucutu and Vargem Grande operations and the dilution effect on the expenses of higher volumes.

. Vale's unit maritime freight cost per ton decreased US$ 0.3/t, totaling US$ 16.5/t in 2Q19, despite the increase in bunker oil prices (US$ 0.3/t)  mainly due to lower freight contracts.

. Iron ore fines and pellets EBITDA break-even totaled US$ 36.8/t in 2Q19, US$ 6.5/t higher than 1Q19, mainly due to the above-mentioned effects of higher C1 cash cost and higher expenses related to Brumadinho, which were offset by a greater pellet contribution and lower freight costs.

**Base Metals**

. Base Metals EBITDA totaled US$ 465 million in 2Q19, US$ 40 million lower than 1Q19, mainly as a result of lower copper prices, as well as lower VNC production resulting in lower fixed cost dilution; these were partly offset by higher nickel price realization and improvement in the performance of PTVI.

. Nickel realized price reached US$ 12,877/t, US$ 306/t higher than 1Q19, while LME average price was US$ 111/t lower in the same period. As a result, price realization increased to 105.0 % of LME price from 101.6% in 1Q19.

**Selected financial indicators**

| *US$ million* | 2Q19 | 1Q19 | 2Q18 |
|---|---|---|---|
| Net operating revenues | 9,186 | 8,203 | 8,616 |
| Total costs and other expenses | 5,743 | 5,180 | 5,767 |
| Expenses related to Brumadinho | 1,532 | 4,504 | - |
| Adjusted EBIT | 2,132 | (1,453) | 3,014 |
| Adjusted EBIT margin (%) | 23% | (18%) | 35% |
| Adjusted EBITDA | 3,098 | (652) | 3,875 |
| Adjusted EBITDA margin (%) | 34% | (8%) | 45% |
| Iron ore - 62% Fe reference price | 100.1 | 82.7 | 65.3 |
| Net income (loss) | (133) | (1,642) | 76 |
| Net debt [1] | 9,726 | 12,031 | 11,519 |
| Capital expenditures | 730 | 611 | 705 |

[1] Does not include leases (IFRS 16).

| *US$ million* | 1H19 | 1H18 | % |
|---|---|---|---|
| Net operating revenues | 17,389 | 17,219 | 1.0 |
| Total costs and other expenses | 10,923 | 11,317 | (3.5) |
| Expenses related to Brumadinho | 6,036 | - | - |
| Adjusted EBIT | 679 | 6,067 | (88.8) |
| Adjusted EBIT margin (%) | 4% | 35% | (31 bps) |
| Adjusted EBITDA | 2,446 | 7,801 | (68.6) |
| Adjusted EBITDA margin (%) | 14% | 45% | (31 bps) |
| Net income (loss) | (1,775) | 1,666 | (206.5) |
| Capital expenditures | 1,341 | 1,595 | (15.9) |

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