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3Q20 Financial Results

"At the same time that we remain firm in our commitment to Brumadinho full reparation, in this quarter we achieved an important milestone in our production stabilization, with an all-time production record in the Northern System, a major step towards the de-risking of our company", commented Eduardo Bartolomeo, Chief Executive Officer.

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The Integral Reparation Plan has evolved

The reparation of Brumadinho is a priority for Vale. In August, search and rescue efforts were resumed after a five-month suspension on the wake of the COVID-19 pandemic. We continue to support the Minas Gerais Fire Department in the search for 11 missing victims.

The indemnification process continues, making use of videoconferences during the pandemic. More than 8,200 people are related to indemnification agreements entered into by Vale, an increase of about 600 people since the 2Q20 Performance Report release.

Water supply initiatives - relevant to the reparation efforts - have also progressed. This year, Vale concluded the tailings containment structures at the Paraopeba river, cleaning over 68,500 m³ of sediments, about 30% of the total, through the dredging system installed. We also completed the water connection between the Paraopeba and the Rio das Velhas rivers and the water main to ensure the supply to the municipality of Pará de Minas, with a population close to 100,000 people. The new water pipeline for the Paraopeba river is 50% concluded and will be delivered by March 2021, as the COVID-19 pandemic impacted its works.

Essential social infrastructure works were completed, with the delivery of a daycare facility and a health care unit to communities in Parque da Cachoeira[1], and a school for 400 students to the community of Macacos[2]. In Brumadinho, we are renovating a multi-sport gymnasium complex and all 16 public schools. In September, the Integral Reparation Plan for Brumadinho, a solid plan for damage recovery and support to the city's development, was submitted to the appreciation of the municipal authority. In Antônio Pereira[3], a public consultation led to 711 comments on the compensation plan, whose implementation is expected to start in early 2021.

Vale is committed to be fully compliant with the recommendations made by the Extraordinary Independent Consulting Committee for Support and Reparation[4] by 2021. To date, the company has already addressed 57% of those recommendations, and that progress has been monitored by the committee. Vale is also in process of hiring an external and independent assessment for an annual review of the reparation progress.

Our commitment to safety and operational excellence advances

Vale's dam management practices continue to evolve, with significant improvements already in place:

. The new Tailings & Dams Management System is under implementation, in compliance with the ICMM standard, launched in August 2020. Vale's initial assessment indicates a level of adherence to the ICMM recommendations close to 60%, and the company expects to be fully compliant by 2021.

. In Risk Management, the risk identification and treatment program, HIRA, continues to expand. Since 2019, 59 operational units were assessed, 42 of those only in 2020. Until the end of the year, other 12 operational units will be

assessed. The HIRA methodology has also been adapted to assess Vale's projects: one pilot was completed in July and other three projects will be assessed this year. Finally, since August 2020, the methodology has also been applied to our dams, with two pilots underway on structures in Sudbury and Long Harbour. Vale expects to have all dam portfolio covered by HIRA by the end of 2022.

. The Engineer of Record has already provided solid results this year, and is implemented for 100% of dams serving the Ferrous Minerals Business in Brazil - that means 93[5] dams, dikes and drained stacks.

The dam de-characterization plan has evolved to comprise a total of 29 geotechnical structures, as disclosed in September 2020.

. The de-characterization of Fernandinho dam is expected to be completed in the coming months. The works related to Ponces de Rejeitos dam were completed in September, pending an assessment of the de-characterization by the National Mining Agency.

. The back-up dam for Forquilhas and Grupo structures had phase 1 completed in September 2020, reaching the quota 949, or a height of 77 metres. Phase 2 will be completed in 2Q21, with total height of 93 metres.

. As for the Sul Superior dam de-characterization, it had infrastructure works started in 3Q20, in preparation for the start of tailings removal.

Stabilization of iron ore production

The Northern System achieved a quarterly production record of 56.9 Mt while the Southern and Southeastern Systems improved performance across operating units, notably in the Itabira Complex and Timbopéba site that ran for a full quarter after restarting in June, and with the resumption at Fazendão mine in July.

For more details, please refer to our [3Q20 Sales and Production Report](#).

Vale ESG approach

Environmental

In July, Vale signed a non-binding agreement with Kobe Steel and Mitsui for the creation of a new venture to deliver low CO2 metallics to the global market and new solutions to our clients. Additionally, as part of our PowerShift program to replace Vale's energy sources with clean ones, we developed, in partnership with Progress Rail, a new 100% electric, battery-powered switchyard locomotive, which is under tests. The equipment also reduces noise emission, which mitigates impacts on communities close to our operations. Also, Vale is installing at the Ilha Guaíba Port Terminal one of the country's largest lithium-ion battery energy storage systems to supply electrical demand as a strategy to replace fossil fuels, becoming operational by 1Q21.

In September, during Amazon Day, we disclosed our manifesto reaffirming our commitment to promote sustainable development in the Amazon region supporting indigenous culture, traditional communities and the fight against mining and illegal logging. We also endorse the inclusion of forests in carbon markets and environmental protection and restoration.

Social

We recognize the importance of the community's perception and the grievance mechanisms, serving to anticipate risks, impacts and possible conflicts and rights violations. From 2019 to 3Q20, we registered 22,300 community interactions in our channels globally, and we responded to 97% of them. During 2020, Vale integrated its grievance channels in Brazil and for 2021, will roll out the same initiative for the rest of its operations.

Vale liaises with local stakeholders to promote territorial development, preparing and implementing community engagement plans. Currently, we interact with 1,938 communities globally, of which 54% have community engagement plans developed in an active listening process.

Governance

Following the establishment of the Nomination Committee and aligned with best governance practices, in September, the Board of Directors approved the Nomination Policy, which sets principles, criteria and procedures to guide the choice of nominees for the positions of members of the Board of Directors, Advisory Committees and Executive Board. The Nomination Policy takes into consideration several aspects, including experience, knowledge, diversity and criteria for member independency.

The policy is available at [Vale's ESG Portal](#).

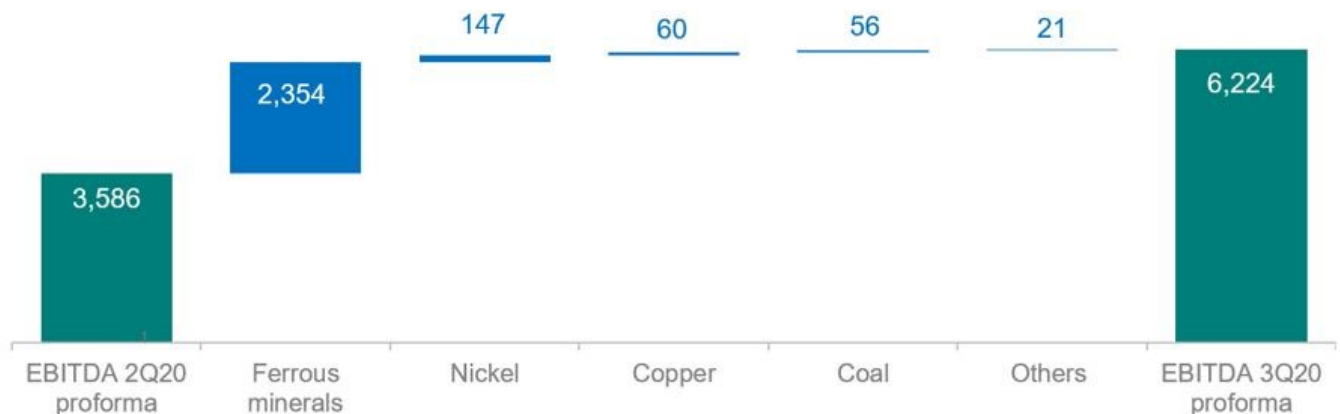
Vale's performance in 3Q20

Proforma adjusted EBITDA reached US\$ 6.224 billion, US\$ 2.638 billion higher than in 2Q20 and the highest since 4Q13. While EBITDA improved in all Vale's business, the better result was mainly driven by the 26% increase of iron ore realized prices and 20% higher iron ore sales volumes in 3Q20.

Adjusted EBITDA, after US\$ 129 million of expenses related to Brumadinho and COVID-19-related donations to support initiatives to fight the pandemic, totaled US\$ 6.095 billion.

Adjusted EBITDA proforma 3Q20 vs. 2Q20 per business

US\$ million



Ferrous Minerals EBITDA of US\$ 5.856 billion in 3Q20 was US\$ 2.354 billion higher than 2Q20.

. Vale's realized price for iron ore fines totaled US\$ 112.1/t, an increase of US\$ 23.2/t compared with 2Q20 reflecting the higher 62% Fe reference price and forward curve, on the back of strong Chinese demand.

. Iron ore fines C1 cash cost improved US\$ 2.2/t, totaling US\$ 14.9/t in 3Q20. The lower C1 cash cost was achieved as a result of the higher dilution of fixed costs (US\$ 1.5/t) and the normalization of demurrage costs (US\$ 0.9/t), both effects anticipated in the 2Q20 report. The positive effects were partially offset by the higher cost of third-party purchased ore (US\$ 0.6/t). C1 cash cost excluding third-party purchases was US\$ 12.5/t in the quarter, US\$2.9/t lower than 2Q20. As a

consequence of the higher iron ore price environment, the achievement of US\$ 14.5/t of C1 cash cost in 2H20 may be challenging due to its effect on third party purchase costs.

. Maritime freight cost increased US\$ 2.2/t, totaling US\$ 15.7/t in 3Q20, driven mainly by the expected seasonally higher exposure to spot freight prices and the higher chartering and bunker oil fuel costs.

In August 2020, Vale approved the Serra Sul 120 Project, a multiyear investment of US\$ 1.5 billion with start-up expected for 2024, including new mining areas in Serra Sul, duplication of the long-distance belt conveyor, new processing lines and the expansion of storage areas. The project provides flexibility to Vale's operations in the Northern System and aggregates important elements for the reduction of operational risk, adding reliability to the Northern System.

Base Metals business adjusted EBITDA was US\$ 770 million in 3Q20, US\$ 207 million higher than 2Q20, with the Copper business EBITDA reaching a record^[6] US\$ 380 million, mainly due to (i) higher nickel and copper realized prices, on stronger LME reference price, (ii) higher byproduct credits, especially gold, rhodium and palladium, and (iii) lower stoppage expenses with Voisey's Bay's resumption after care and maintenance.

In October 2020, Vale completed, together with Sumitomo Metal Mining Co., Ltd, the sale of 20% shareholding in PT Vale Indonesia to Inalum, therefore satisfying one of the requirements for the extension of PTVI's operations beyond 2025.

The Coal business EBITDA increased US\$ 56 million in 3Q20 to negative US\$ 213 million with higher metallurgical coal sales and fixed cost dilution after resumption of operations in June 2020. Vale expects to carry on its 3-month revamp plan starting in November 2020, after which a ramp up to 15 Mtpy run-rate production is expected.

Vale posted net income of US\$ 2,908 million in 3Q20, US\$ 1,913 million higher when compared to US\$ 995 million recorded in 2Q20. The better result was mostly driven by the higher EBITDA in the quarter and the improvement in equity results, as in 2Q20 this line was impacted by provisions for future expenditures with Samarco and Renova Foundation. The positive effects were partially offset by higher financial expenses, from mark-to-market of the participative shareholders' debentures and the revaluation of the fair value of financial guarantees issued by Vale.

Vale generated US\$ 3,751 million in Free Cash Flow from Operations in 3Q20, US\$ 3,474 million higher than in 2Q20, following the strong EBITDA and the gradual normalization of working capital, whose impact was US\$ 769 million lower than in 2Q20.

In September 2020, Vale repaid US\$ 5 billion from its revolving credit lines, which were disbursed in March 2020 amid the increased risks and uncertainties presented by the COVID-19 pandemic. The repayments fully reset the available funding from the revolving credit lines to its original amount.

Vale's liquidity position was also positively impacted by the proceeds from the notes issued in July 2020. Vale issued US\$ 1.5 billion in notes due 2030 bearing a coupon of 3.75% per year, the lowest-ever yield for Vale's 10-year benchmark. It represented a successful return to the international debt capital market, from which it was absent since February 2017.

In 3Q20, Vale's Board of Directors approved the resumption of Shareholders Remuneration Policy and Vale distributed a total of US\$ 3.327 billion in shareholders remuneration in relation to the company performance in 1H20 and the interest on equity announced in December 2019.

Selected financial indicators

US\$ million	3Q20	2Q20	3Q19
Net operating revenues	10,762	7,518	10,217
Total costs and other expenses	5,349	4,901	6,345
Expenses related to Brumadinho	114	130	225
Adjusted EBIT	5,321	2,584	3,678
Adjusted EBIT margin (%)	49%	34%	36%
Adjusted EBITDA	6,095	3,371	4,803
Adjusted EBITDA margin (%)	57%	45%	45%
Proforma adjusted EBITDA ¹	6,224	3,586	4,828
Iron ore - 62% Fe reference price	118.2	93.3	102.0
Net income (loss)	2,908	995	1,854
Net debt ²	4,474	4,897	5,321
Capital expenditures ³	895	967	891

¹ Excluding expenses related to Brumadinho and COVID-19.

² Does not include leases (IFRS 16).

³ Including recoverable taxes in 3Q20 (US\$ 23 million).

US\$ million	9M20	9M19	%
Net operating revenues	25,249	27,608	-9%
Total costs and other expenses	15,068	17,268	-13%
Expenses related to Brumadinho	403	6,261	-94%
Adjusted EBIT	9,952	4,355	129%
Adjusted EBIT margin (%)	39%	16%	23%
Adjusted EBITDA	12,348	7,049	75%
Adjusted EBITDA margin (%)	48%	26%	23%
Proforma adjusted EBITDA ¹	12,851	13,310	-3%
Net income (loss)	4,142	(121)	-3523%
Capital expenditures ²	2,986	2,232	34%

¹ Excluding expenses related to Brumadinho and COVID-19.

² Including recoverable taxes in 3Q20 (US\$ 23 million).

[1] Parque da Cachoeira is a district of the municipality of Brumadinho, Minas Gerais

[2] Macacos is a community of the municipality of Nova Lima, Minas Gerais.

[3] Antônio Pereira is community of the municipality of Ouro Preto, Minas Gerais.

[4] Final report issued in February 2020.

[5] Geotechnical structures reported to the National Mining Agency and framed under the terms of the Ordinance No. 70.389, set by the agency.

[6] Not considering the effects of the Salobo goldstream recorded in 1Q15.

More information



Media Relations Office

imprensa@vale.com

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