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Vale's performance in 2015

Vale achieved several annual production records, such as iron ore annual supply, Carajás production, nickel production, and copper production

Vale delivered a sound operational performance, achieving several annual production records in 2015, such as: (i) iron ore annual supply of 345.9 Mt; (ii) Carajás production of 129.6 Mt; and (iii) nickel production of 291,000 t; (iv) copper production of 423,800 t.

Gross revenues totaled US$ 26.047 billion in 2015, decreasing US$ 12.189 billion vs. 2014 as a result of lower prices of iron ore fines (US$ 8.614 billion), pellets (US$ 2.030 billion), nickel (US$ 1.394 billion) and others, partly offset by higher sales volumes (US$ 2.060 billion).

Quarterly gross revenues totaled US$ 5.986 billion in 4Q15, decreasing US$ 632 million vs. 3Q15, as a result of lower prices of iron ore fines (US$ 739 million), nickel (US$ 112 million) and others, partly offset by higher sales volumes (US$ 325 million).

Costs and expenses, net of depreciation charges, totaled US$ 18.846 billion in 2015, decreasing US$ 5.908 billion vs. 2014. Costs decreased US$ 4.223 billion (20%), SG&A and other expenses decreased US$ 1.260 billion (65%), R&D decreased US$ 257 million (35%) and pre-operating and stoppage expenses decreased US$ 168 million (19%) in 2015 vs. 2014.

Quarterly costs and expenses, net of depreciation charges, totaled US$ 4.595 billion in 4Q15, practically in line with the US$ 4.649 billion recorded in 3Q15. Costs increased US$ 65 million (2%), mainly due to the sales volume increase in the Ferrous Minerals and the Base Metals business segments. SG&A and other expenses decreased US$ 105 million (63%), mainly due to the positive one-off effect of the adjustment in Asset Retirement Obligations (ARO) recorded in 4Q15. R&D decreased US$ 2 million (2%) and pre-operating and stoppage expenses decreased US$ 12 million (7%) in 4Q15 vs. 3Q15.

C1 cash cost FOB port per metric ton for iron ore fines ex-royalties reached the lowest mark in the iron ore industry at US$ 11.9/t in 4Q15 vs. US$ 12.7/t in 3Q15. The reduction in C1 cash cost was mainly driven by the BRL depreciation and by the ongoing cost reduction initiatives.

Adjusted EBITDA was US$ 7.081 billion in 2015, 47% lower than in 2014 mainly as a result of lower sales prices which impacted EBITDA negatively by US$ 14.005 billion. Higher sales volumes and lower costs and expenses partly offset the EBITDA impact of lower prices by US$ 1.237 billion and US$ 6.746 billion, respectively. Adjusted EBITDA margin was 27.7% in 2015.

Quarterly adjusted EBITDA was US$ 1.391 billion in 4Q15, 26% lower than in 3Q15 mainly as a result of lower sales prices which impacted EBITDA negatively by US$ 943 million. Higher sales volumes and lower costs2 and expenses partly offset the EBITDA impact of lower prices by US$ 57 million and US$ 334 million, respectively. Adjusted EBITDA margin was 23.6% in 4Q15. Quarterly adjusted EBITDA was positively impacted by the above-mentioned effect of the adjustment in ARO (US$ 331 million) and negatively impacted by decisions and/or events from previous quarters, with effects in 4Q15, such as: (i) bunker oil hedge accounting program for iron fines (US$ 134 million); (ii) provisional copper price adjustments (US$ 60 million); (iii) provisional manganese ore price adjustments (US$ 28 million); and (iv) the writeoff of materials inventories in Base Metals (US$ 31 million).

Capital expenditures totaled US$ 2.193 billion in 4Q15 and US$ 8.401 billion in 2015, decreasing US$ 3.578 billion vs. 2014. Investments in project execution totaled US$ 1.366 billion and US$ 5.548 billion in 4Q15 and in 2015, respectively. Sustaining capex totaled US$ 827 million and US$ 2.853 billion in 4Q15 and in 2015, respectively. Total annual capex exceeded the previous guidance by US$ 0.2 billion as a result of a better than expected execution of the S11D project and its associated logistics.

Asset sales totaled US$ 3.525 billion in 2015, with US$ 1.316 billion coming from the sale of 12 very large ore carriers to Chinese shipowners, US$ 1.089 billion coming from the sale of 36.4% of MBR preferred shares, US$ 900 million from another goldstream transaction and US$ 97 million from the sale of energy assets. In 4Q15, Vale sold four very large ore carriers of 400,000 tons deadweight to ICBC Financial Leasing. The transaction totaled US$ 423 million.

Net loss totaled US$ 12.129 billion in 2015 vs. a net income of US$ 657 million in 2014. The US$ 12.786 billion decrease in income was mostly driven by higher impairment charges recorded in 2015 vs. 2014 and the effect on financial results of the 47% end to end depreciation of the BRL against the USD in 2015. Underlying earnings were negative US$ 1.698 billion in 2015, against positive US$ 4.419 billion in 2014.

Impairments on assets and on investments3 and the recognition of onerous contracts totaled US$ 9.372 billion in 2015. The increase of US$ 8.189 billion vs. 2014 was mainly due to the significant reduction in the price assumptions used for the impairment tests.

Quarterly net loss totaled US$ 8.569 billion in 4Q15 compared to a net loss of US$ 2.117 billion in 3Q15. The US$ 6.452 billion decrease was mostly driven by impairments, which were partly offset mainly by the effect on financial results of monetary and foreign exchange variation gains. Underlying earnings were negative US$ 1.032 billion in 4Q15, against negative US$ 961 million in 3Q15.

Gross debt totaled US$ 28.853 billion as of December 31, 2015, slightly higher than the US$ 28.675 billion as of September 30, 2015, but in line with the US$ 28.807 billion registered as of December 31, 2014. After the dividends payment of US$ 1.5 billion in 2015, net debt totaled US$ 25.234 billion vs. US$ 24.685 billion as of December 31, 2014 and US$ 24.213 billion as of September 30, 2015, with a cash balance of US$ 3.619 billion. Average debt maturity was 8.1 years with an average cost of debt of 4.47% per annum.

EBITDA from the Ferrous Minerals business segment decreased 15% in 4Q15 driven by lower realized prices despite higher volumes and reductions in costs and expenses

• Adjusted EBITDA of the Ferrous Minerals business segment was US$ 5.899 billion in 2015, 47.9% lower than in 2014, mainly as result of lower sales prices (-US$ 11.414 billion), which were partially offset by real competitiveness gains of US$ 3.477 billion such as: (i) marketing and commercial initiatives (US$ 680 million); (ii) higher sales volumes (US$ 1.599 billion); (iii) favorable renegotiations of chartering freight contracts (US$ 300 million); and (iv) the ongoing cost reduction initiatives (US$ 898 million).

• Adjusted EBITDA for Ferrous Minerals in 4Q15 was US$ 1.409 billion, US$ 243 million lower than the US$ 1.652 billion achieved in 3Q15, mainly as a result of lower realized sales prices (US$ 782 million), which were partially offset by higher sales volumes (US$ 62 million), lower expenses4 (US$ 245 million) and lower costs5 (US$ 188 million).

• Adjusted EBITDA will no longer be impacted by Vale's hedge accounting program since all outstanding bunker oil exposure recorded under this program was settled in 4Q15. Vale's hedge accounting program for iron ore fines had a negative impact of US$ 134 million in 4Q15 and US$ 412 million in 2015.

• Cash flow, measured as adjusted EBITDA6 less sustaining and growth capex, was US$ 363 million in 4Q15.

• CFR dmt reference price for iron ore fines (ex-ROM) decreased US$ 10.9/t from US$ 56.0/t in 3Q15 to US$ 45.1/t in 4Q15 whereas CFR/FOB wmt price for iron ore fines (ex-ROM) decreased US$ 9.3/t from US$ 46.5/t per metric ton in 3Q15 to US$ 37.2/t in 4Q15 after adjusting for moisture and the effect of the lower FOB sales prices on 32% of the total sales volumes.

• Product quality measured by Fe content improved from 63.5% in 3Q15 to 63.7% in 4Q15 mostly due to the ramp-up of the N4WS and N5S mines and of the Itabirites projects.

• Unit freight cost per iron ore metric ton, excluding the impact of hedge accounting, was US$ 14.1/t in 4Q15, US$ 2.3/t lower than the US$ 16.4/t recorded in 3Q15.

• Unit cash costs and expenses for iron ore fines landed in China (and adjusted for quality and moisture and excluding the positive one-off effect of the ARO adjustment) decreased from US$ 34.2/t in 3Q15 to US$ 32.0/t in 4Q15 on a dry metric ton (dmt) basis.

• Sustaining capex for iron ore fines totaled US$ 178 million (US$ 2.3/ wmt) in 4Q15, US$ 0.8/ wmt lower than in 3Q15.

• Physical progress reached 80% at the S11D mine and plant, 57% at the railway and port, and 81% on the railway spur.

EBITDA from the Base Metals business segment decreased with lower nickel and copper prices

• Sales revenues totaled US$ 1.458 billion in 4Q15, US$ 103 million higher than in 3Q15 mainly due to higher volumes that were partially offset by lower LME nickel and copper prices.

• Realized prices were negatively impacted by US$ 60 million in provisional copper price adjustments.

• Adjusted EBITDA was US$ 111 million in 4Q15, US$ 82 million lower than in 3Q15, mainly as a result of: (i) lower prices (US$ 158 million), including the abovementioned negative impact in provisional copper price adjustments; and (ii) the negative impact of the write-off of materials inventories in 4Q15 (US$ 31 million).

• Adjusted EBITDA was impacted by VNC's negative EBITDA of US$ 107 million in 4Q15.

• Salobo´s EBITDA remained in line with 3Q15´s EBITDA at US$ 75 million despite weaker copper prices as production reached a quarterly record of 42,000 t in 4Q15. 7

• Salobo is expected to reach its full production capacity in 2H16 as rain decreases and higher grade mine faces are accessed.

EBITDA from the Coal business segment decreased as a result of one-off effects on costs and lower prices

• Adjusted EBITDA was negative US$ 149 million in 4Q15, compared to negative US$ 129 million in 3Q15, mainly driven by lower prices and higher costs in Australia.

• Costs in Mozambique in 4Q15 were in line with 3Q15, after adjusting for the effects of higher volumes whereas costs in Australia increased in 4Q15 due to the write-down of mine development expenses.

• Moatize II reached 99% physical progress with a capital expenditure of US$ 196 million while the Nacala Logistics Corridor (NLC) reached 97% physical progress with capital expenditures of US$ 259 million in 4Q15.

EBITDA from the Fertilizers business segment improved in 2015 mainly driven by lower costs and expenses

• Adjusted EBITDA for the Fertilizer business segment increased to US$ 567 million in 2015 from US$ 278 million in 2014 with an increase of US$ 289 million mainly driven by exchange rates and commercial and cost savings initiatives.

• Adjusted EBITDA for the Fertilizer business segment decreased to US$ 117 million in 4Q15 from US$ 197 million in 3Q15, mainly driven by lower sales volumes (US$ 86 million) as a result of the usual market seasonality.

In 2015 we successfully reduced our costs and expenses, progressed with the implementation of our critical projects and advanced with our divestment process while maintaining our gross debt position.

Despite all our efforts, our accomplishments in 2015 were overshadowed by Samarco's tailings dam failure in the beginning of November. We have been working diligently with Samarco since the beginning and will remain fully committed to supporting the people and the environment of the affected regions.

We acknowledge the additional challenges brought by the declining commodity prices and the consequent impact on our cash flow generation. Nonetheless we remain confident in our ability to move through these more difficult times, by maintaining operating discipline and the courage to implement the required strategic actions.

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