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Vale's performance in 2Q16

Vale reached several production records for a second quarter, namely: Carajás iron ore production, nickel, copper and gold production

Vale delivered a sound operational performance in 2Q16, reaching several production records for a second quarter, namely: (i) Carajás iron ore production of 36.5 Mt; (ii) nickel production of 78.5 kt, (iii) copper production of 105.6 kt; and (iv) gold production of 109,000 oz.

Vale's CFO comments on 2Q16 financial results

Net revenues totaled US$ 6.626 billion in 2Q16, increasing US$ 907 million vs. 1Q16 as a result of higher sales volumes of iron ore fines (US$ 462 million) and higher sales prices for iron ore fines (US$ 129 million) and pellets (US$ 98 million).

Costs and expenses increased to US$ 5.287 billion in 2Q16 from the US$ 4.565 billion recorded in 1Q16, mainly due to the impact of higher sales volumes (US$ 457 million) and exchange rate (US$ 283 million), being partially offset by cost reduction initiatives (US$ 165 million).

Adjusted EBITDA was US$ 2.383 billion in 2Q16, 18.9% higher than in 1Q16 mainly driven by Ferrous Minerals (US$ 398 million) and Base Metals (US$ 47 million). Adjusted EBITDA margin was 36.0% in 2Q16, increasing from the 35.1% recorded in 1Q16.

Adjusted EBITDA amounted to US$ 4.388 billion in 1H16 against US$ 3.585 billion[1] in 1H15, increasing US$ 803 million, despite the US$ 860 million decrease in net operating revenues driven by lower sales prices (US$ 1.533 billion). The increase in adjusted EBITDA was mainly driven by our efforts to reduce costs[2] (US$ 1.193 billion) and expenses[12] (US$ 564 million).

Capital expenditures totaled US$ 1.368 billion in 2Q16, decreasing by US$ 81 million vs. 1Q16. Investments in project execution totaled US$ 905 million in 2Q16, with expenditures associated with the S11D project accounting for US$ 540 million. Sustaining capex totaled US$ 463 million in 2Q16, decreasing US$ 66 million from the US$ 529 million recorded in 1Q16.

Net income totaled US$ 1.106 billion in 2Q16 vs. US$ 1.776 billion in 1Q16, decreasing US$ 670 million mostly as a result of a US$ 1.038 billion Samarco related provision[3]. Underlying earnings (after adjusting net income for one-off effects) were US$ 709 million in 2Q16, mainly after the adjustments for exchange rate (US$ 1.960 billion), provision for Samarco liabilities (US$ 1.038 billion) and currencies and interest rate swaps (US$ 483 million).

Gross debt totaled US$ 31.814 billion as of June 30th, 2016, increasing slightly from the US$ 31.470 billion as of March 31st, 2016, mainly as a result of the impact of the appreciation of the Brazilian Real (BRL) on the translation of the BRL denominated debt into USD[4], which was partially offset by net debt payments of US$ 375 million in 2Q16.

Net debt decreased to US$ 27.508 billion as of June 30th, 2016 from US$ 27.661 billion as of March 31st, 2016, with a cash balance of US$ 4.306 billion. The decrease in net debt was mainly driven by the positive free cash flow of US$ 761 million in 2Q16, which was partially offset by the exchange rate impact on the translation of the BRL denominated debt into USD.

EBITDA from the Ferrous Minerals business segment increased 23% in 2Q16 vs. 1Q16 driven by higher realized prices and higher sales volumes

· Adjusted EBITDA for Ferrous Minerals was US$ 2.136 billion in 2Q16, US$ 398 million higher than the US$ 1.738 billion achieved in 1Q16, mainly as a result of higher realized sales prices (US$ 262 million) and higher sales volumes (US$ 246 million), which were partially offset by exchange rate variations (US$ 147 million).

· Cash flow generation, simplified by measuring adjusted EBITDA less sustaining and growth capex, was US$ 1.367 billion in 2Q16, increasing US$ 538 million (65%) from the US$ 829 million recorded in 1Q16.

· CFR dmt reference price for iron ore fines (ex-ROM) increased by US$ 1.6/t from US$ 54.7/t in 1Q16 to US$ 56.3/t in 2Q16, equivalent to a price realization of 101% of the average Platts IODEX 62% of US$ 55.7/t in 2Q16, whereas the combined CFR/FOB wmt price for iron ore fines (ex-ROM)[5] increased by US$ 1.8/t from US$ 46.5/t in 1Q16 to US$ 48.3/t in 2Q16.

· Average Fe content of iron ore fines production decreased slightly, as planned, from 64.3% in 1Q16 to 63.6% in 2Q16, mainly in response to market demand for higher silica ores.

· C1 cash cost FOB port per metric ton for iron ore fines ex-royalties totaled US$ 13.2/t in 2Q16, US$ 0.9/t higher than the US$ 12.3/t recorded in 1Q16, due to the impact of the BRL appreciation against the USD.

· C1 cash cost FOB port per metric ton of iron ore fines in BRL was R$ 46.1/t in 2Q16, R$ 1.4/t lower than the R$ 47.5/t recorded in 1Q16, mainly due to improved operational performance, ongoing cost-cutting initiatives and increased fixed-costs dilution on seasonally higher production volumes.

· Unit maritime freight cost per iron ore metric ton was US$ 11.8/t in 2Q16, US$ 0.5/t higher than the US$ 11.3/t recorded in 1Q16, mainly driven by the negative impact of higher bunker oil prices in our chartering contracts.

· Iron ore fines and pellets EBITDA break-even, measured by unit cash costs and expenses on a landed-in-China basis (and adjusted for quality, pellets margins differential and moisture, excluding ROM), increased from US$ 28.0/dmt in 1Q16 to US$ 28.5/dmt in 2Q16, mainly driven by (i) the impact on C1 cash cost of the appreciation of BRL against the USD (US$ 1.2/t); (ii) higher bunker oil prices (US$ 0.4/t); and (iii) higher royalties (US$ 0.5/t), due to higher iron ore prices; and were partially offset by higher pellet premiums (US$ 0.3/t) and by the dividends received from the pelletizing plants (US$ 0.7/t)[6].

· Iron ore and pellets cash break-even on a landed-in-China basis, including sustaining capex per ton of US$ 1.8/t, decreased from US$ 30.9/ dmt in 1Q16 to US$ 30.3/ dmt in 2Q16.

· Physical progress reached 90% at the S11D mine and plant, 70% at the S11D logistic sites and 92% at the S11D railway spur.

EBITDA from the Base Metals business segment increased 14% in 2Q16 vs. 1Q16 as operational improvements more than offset negative exchange rate impacts

· Nickel realized prices were positively impacted by improving premiums over the LME, increasing 4.5% in 2Q16 vs. 1Q16 vs. the 3.8% increase of LME nickel prices in the same period.

· Adjusted EBITDA was US$ 376 million in 2Q16, US$ 47 million higher than in 1Q16, as a result of lower costs (US$ 50 million) and higher prices (US$ 48 million), which offset the negative exchange rate impacts (US$ 56 million).

· Adjusted EBITDA for VNC totaled negative US$ 50 million in 2Q16, in line with the previous quarter and US$ 28 million better than in 2Q15 as VNC's unit costs net of by-product credits reached US$ 12,208/t in 2Q16, decreasing from the US$ 20,471/t in 2Q15 and the US$ 12,711/t in 1Q16.

· Salobo's EBITDA totaled US$ 122 million in 2Q16, decreasing US$ 9 million from the US$ 131 million recorded in 1Q16, mainly as a result of the negative impact of the appreciation of the BRL (US$ 13 million).

· Salobo achieved a monthly production record of 14.6 kt of copper in concentrates in May and is expected to reach its full production capacity on a monthly basis during 2H16.

EBITDA from Coal was positively impacted by lower costs in Mozambique with the ramp-up of the Nacala Logistics Corridor

· Adjusted EBITDA was negative US$ 110 million in 2Q16 vs. negative US$ 93 million in 1Q16, having decreased US$ 17 million mainly as a result of geological instability issues at Carborough Downs (US$ 29 million).

· Production cost per ton at Nacala Port in Mozambique decreased by 39% to US$ 103/t in 2Q16 from US$ 168/t in 1Q16, and should further improve in the coming quarters as Nacala ramp ups and Moatize II starts up in early August.

· Total mine movement in Mozambique reached a new monthly record of 12.7 Mt in June due to higher equipment productivity and the development of new mining areas to supply the Moatize II coal handling and processing plant.

EBITDA from the Fertilizers business segment decreased, mainly driven by lower prices and the appreciation of the BRL

· Adjusted EBITDA for Fertilizers decreased to US$ 32 million in 2Q16 from US$ 70 million in 1Q16, mainly driven by the negative effect of the appreciation of the BRL, which impacted costs, expenses and revenues (US$ 13 million), and by lower prices (US$ 11 million).

· Realized prices for fertilizer nutrients decreased in 2Q16 vs 1Q16 for almost all of our products, with prices decreasing by 6.7% for Potash, 1.8% for MAP, 0.4% for TSP, 9.5% for SSP and 14.5% for phosphate rock.

The S11D project – the most important project in our history – is being commissioned and, meanwhile, we remain committed to our divestment program, having sold three very large ore carriers of 400,000 deadweight tons to ICBC International in 2Q16. The transaction totaled US$ 269 million and the amount will be received in August.

Looking forward, we remain fully focused on improving our operations, maintaining our capex discipline and strengthening our balance sheet.

[1] *Net of US$ 230 million of the goldstream transaction in 1H15.*
[2] *Net of depreciation*
[3] *For more information on the Samarco related provision, please see the section "Update on Samarco Mineração S.A." of this release.*
[4] *In 2Q16, from end to end, the BRL appreciated 9.8% against the USD.*
[5] *After adjusting for moisture and the effects of FOB sales on 34% of the total sales volumes*
[6] *Dividends usually paid every 6 months (at second and fourth quarters).*

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Production Report

Infographics

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