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Vale's performance in 3Q16

Net revenues totaled US$ 7.324 billion in 3Q16, increasing by US$ 698 million vs. 2Q16

Vale posted another quarter of sound operational performance, with several production records in 3Q16, namely: (i) iron ore production[1] of 92.1 Mt; (ii) Carajás iron ore production of 38.7 Mt; (iii) Tubarão 3, Tubarão 8 and Vargem Grande pellet plants production of 1.2 Mt, 1.8 Mt and 1.8 Mt, respectively; (iv) contained gold as a by-product in the copper and nickel concentrates of 118,000 oz and (v) Moatize coal production of 1.8 Mt.

Vale's CFO comments on 3Q16 financial results

Net revenues totaled US$ 7.324 billion in 3Q16, increasing by US$ 698 million vs. 2Q16 as a result of higher sales prices for iron ore fines and pellets (US$ 275 million), nickel and copper (US$ 95 million), and coal (US$ 25 million), along with higher sales volumes of fertilizers (US$ 142 million) and for our ferrous business segment (US$ 127 million).

Costs and expenses decreased by US$ 2.180 billion in 9M16 vs. 9M15, mainly due to cost reduction initiatives (US$ 1.740 billion) and exchange rate variations (US$ 924 million), being partially offset by higher sales volumes (US$ 1.190 billion).

Adjusted EBITDA was US$ 3.023 billion[2] in 3Q16, 26.9% higher than in 2Q16, mainly driven by EBITDA improvements in Ferrous Minerals (US$ 357 million), Base Metals (US$ 224 million) and Coal (US$ 103 million). Adjusted EBITDA margin increased by 5 percentage points, reaching 41.3% in 3Q16.

Capital expenditures totaled US$ 1.257 billion in 3Q16, decreasing by US$ 111 million vs. 2Q16. Investments in project execution totaled US$ 741 million in 3Q16, with expenditures associated with the S11D project accounting for US$ 530 million. Sustaining capex totaled US$ 516 million in 3Q16, 11.4% higher than in 2Q16 as a result of the concentration of investment in the second half of the year.

There is now one main project under development, the S11D project, which reached an important milestone, successfully initiating its hot commissioning in 3Q16. S11D's start-up is expected for 4Q16 with the first commercial ore sale planned for 1Q17.

Net income totaled US$ 575 million in 3Q16 vs. US$ 1.106 billion in 2Q16, decreasing by US$ 531 million mostly as a result of foreign exchange rate variations (US$ 2.237 billion), which were partially offset by the Samarco provision recorded in 2Q16 (US$ 1.038 billion) and the higher EBITDA in 3Q16 (US$ 640 million). Underlying earnings (earnings after adjusting for one-off effects) were US$ 954 million in 3Q16, mainly after the adjustments for foreign exchange variation (US$ 330 million).

Net debt decreased by US$ 1.543 billion to US$ 25.965 billion with a cash position of US$ 5.484 billion. Gross debt reduced by US$ 365 million to US$ 31.449 billion in 3Q16, with the leverage ratio[3] improving to 3.6x, the same level as in 3Q15.

The main highlights of Vale's performance by business segment were:

EBITDA from the Ferrous Minerals business segment increased 17% in 3Q16 vs. 2Q16, mainly driven by higher realized prices and by lower costs and expenses

· Adjusted EBITDA for Ferrous Minerals was US$ 2.493 billion in 3Q16, US$ 357 million higher than the US$ 2.136 billion achieved in 2Q16, mainly as a result of higher realized sales prices (US$ 291 million) and lower costs and expenses[4] (US$ 213 million), which were partially offset by exchange rate variations (US$ 117 million).

· Cash flow generation, simplified by measuring adjusted EBITDA less sustaining and growth capex, was US$ 1.698 billion in 3Q16, increasing US$ 331 million (24%) from the US$ 1.367 billion recorded in 2Q16.

· C1 cash cost FOB port per metric ton of iron ore fines in BRL reduced by 10% to R$ 42.2/t in 3Q16 vs. R$ 46.9/t in 3Q15, despite inflationary pressures of 8.5%[5], mainly due to improvements in operational performance and ongoing cost-cutting initiatives.

· Iron ore fines and pellets EBITDA break-even, measured by unit cash costs and expenses on a landed-in-China basis[6], decreased US$ 0.2/dmt[7] to US$ 28.3/dmt in 3Q16 when compared to 2Q16, despite the negative impacts of the exchange rate (US$ 1.0/wmt[8]) and bunker oil prices (US$ 0.7/wmt).

EBITDA from the Base Metals business segment increased 60%[9] in 3Q16 vs. 2Q16 as a result of the goldstream transaction and higher prices

· Adjusted EBITDA for Base Metals was US$ 600 million in 3Q16, US$ 224 million higher than in 2Q16, positively impacted by the goldstream transaction (US$ 150 million) and higher prices (US$ 114 million).

· Salobo's EBITDA totaled US$ 131 million in 3Q16, or US$ 281 million including the impact of the goldstream transaction, increasing US$ 9 million vs. 2Q16, despite the negative impact of an exchange rate variation of US$ 12 million.

· Salobo achieved a quarterly production record of 44,300 t in 3Q16 and a monthly production record of 17,000 t in September 2016, running at nominal capacity on a monthly basis.

· Adjusted EBITDA for VNC totaled negative US$ 39 million in 3Q16 improving by US$ 11 million when compared to 2Q16 despite a planned maintenance shutdown in 3Q16. VNC's unit cost net of by-product credits reached US$ 12,425/t in 3Q16, reflecting an US$ 11 million maintenance expenditures associated with the shutdown.

EBITDA from Coal almost reached break-even, being positively impacted by lower costs in Mozambique with the ramp-up of the Nacala Logistics Corridor and the start-up of the Moatize II beneficiation plant

· Adjusted EBITDA for Coal improved significantly from negative US$ 110 million in 2Q16 to negative US$ 7 million in 3Q16, despite not fully capturing the recent hike in index prices.

· Metallurgical coal realized price in 3Q16 did not yet reflect the recent sharp increase in coal index prices due to the impact of Vale's lagged pricing systems, with Vale's realized price (US$ 91.0/t) still significantly lower than the index price average[10] of US$ 135.6/t. Vale's realized price is expected to improve considerably in 4Q16 alongside the improvement in benchmark prices.

· Adjusted EBITDA at the Nacala port improved by 71% to negative US$ 7 million, while EBITDA at the Beira Port (-US$ 28 million) was offset by EBITDA from the Australian operations (US$ 28 million).

· Production cost per ton at the Nacala port continued to improve at US$ 87/t in 3Q16, 16% lower than 2Q16, with further improvement expected for the coming quarters.

EBITDA from the Fertilizers business segment increased 84% in 3Q16 vs. 2Q16, mainly driven by lower costs and higher volumes, despite lower prices and exchange rate variation

· Adjusted EBITDA for Fertilizers increased 84% to US$ 59 million in 3Q16, mainly driven by lower costs[11] (US$ 42 million) and higher sales volumes (US$ 13 million).

· Costs decreased by US$ 42 million[12] in 3Q16 vs. 2Q16, mainly as a result of lower raw material prices.

· Phosphate rock, SSP (single superphosphate) and MAP (monoammonium phosphate) production volumes increased by 14.5%, 9.0% and 3.9% in 3Q16, respectively, as a result of the stabilization of the plants operational performance after maintenance stoppages carried out in 2Q16.

[1] Including third party purchases.
[2] Including US$ 150 million from the goldstream transaction.
[3] Leverage ratio measured by gross debt to LTM (Last Twelve Months) adjusted EBITDA.
[4] Cost and expenses after adjusting the effects of higher volumes, exchange rate variation and lower bunker oil prices.
[5] IPCA last twelve months until September 2016.
[6] Adjusted for quality, pellets margins differential and moisture, excluding ROM.
[7] Dry metric ton.
[8] Wet metric ton.
[9] Including US$ 150 million from the goldstream transaction.
[10] Platts Premium Low Vol Hard Coking Coal FOB Australia Index used as reference.
[11] Excluding volume and exchange rate variation.
[12] After adjusting for the effects of higher volumes (US$ 129 million) and exchange rate variation (US$ 18 million)

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