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Vale's results in 1Q14

Vale delivered a strong operational performance in 1Q14, with iron ore production reaching 71.1 Mt, the best performance for a first quarter since 1Q08 and registering record production for nickel (67,500 t) and coal (1.8 Mt) in a first quarter.

CFO Luciano Siani Pires comments on 1Q14 results

In 1Q14 we have seen progress across all our business segments despite the seasonal effects of the beginning of the year and the more challenging pricing environment. In April, Moody's recognized Vale's disciplined approach to project development, capital allocation and cost reduction, and changed Vale's rating outlook from neutral to positive.

In 1Q14 Vale posted an adjusted EBITDA of US$ 4.058 billion, including an improved contribution of US$ 549 million from the Base Metals division. Gross sales revenues were US$ 9.682 billion and net income US$ 2.515 billion, equivalent to US$ 0.49 per share.

As a result of our continued cost cutting efforts, the reduction in costs and expenses, net of depreciation charges, reached US$ 218 million in 1Q14 vs. 1Q13, after the adjustment for the US$ 244 million one-off effect of the gold stream transaction in 1Q13. Comparing 1Q14 with 1Q13, SG&A[1] decreased by US$ 60 million (20.1%), R&D decreased by US$ 26 million (15.2%) and pre-operating and stoppage expenses[1] were US$ 103 million lower (33.1%).

Notwithstanding the strong production for a first quarter of the year in most of our business segments, iron ore sales volumes were below potential as we positioned around 3 Mt of the 71.1 Mt production along the supply chain to support greater flexibility and stronger sales volumes in the coming quarters. In addition to lower volumes, a US$ 14.2/t fall in the iron ore price index (IODEX) and a US$ 9.5/t impact from adjustments on iron ore provisional prices negatively impacted the 1Q14 adjusted EBITDA in comparison with 4Q13. Despite the sharp decrease in the IODEX, pellet premiums held up firmly, contributing to support realized pellet prices at US$ 147.31/t, showing a decrease of only US$ 2.86/t from 4Q13.

Vale's capital expenditures amounted to US$ 2.587 billion in 1Q14. Sustaining capex was US$ 753 million, showing a decrease of about 24.3% when compared to 1Q13. As an additional effect of completing our ongoing projects, our pre-operating expenses, currently at US$ 248 million, will come down even further.

Net debt fell by US$ 1.3 billion in 1Q14 to US$ 23.162 billion. Vale maintained a healthy balance sheet with low leverage, 9.7 years average debt maturity, an average cost of 4.55% per annum and high interest coverage. As of March 31, 2014, Vale had a cash position of US$ 7.2 billion before the proceeds from the sale of VLI, which were partially received in April.

We achieved solid results in ferrous minerals albeit at lower prices and with seasonal effects

• Adjusted EBITDA for the ferrous minerals segment amounted to US$ 3.604 billion in 1Q14, 88.8% of Vale's adjusted EBITDA in 1Q14.
• Iron ore production, excluding 2.4 Mt related to Samarco's attributable production, reached 71.1 Mt, the best performance for a first quarter since 1Q08, helped by better weather conditions and the start-up of the Conceição

Itabiritos project.
• Iron ore and pellet sales volumes reached 67.8 Mt in 1Q14, lower than in the seasonally stronger last quarter of the year, but 4.2% higher than in 1Q13.
• The completion of the unloading system at our distribution center in Malaysia allowed us to start building inventory to blend different quality ores and generate stronger cash flow in the near future.
• The average sales price was impacted by the fall of the Platt's iron ore reference price by US$ 14.2/t and by the fact that in 1Q14 we incurred US$ 349million in gross revenues losses on the adjustment of price provisions registered at the end of 4Q13 (equivalent to a negative impact of US$ 6.4/t in 1Q14, as compared with the US$ 3.1/t positive impact in 4Q13).
• Iron ore cash cost was US$ 21.6/t, excluding iron ore acquired from third parties.
• We successfully ramped up Plant 2 (Additional 40 Mtpy) and advanced the development of Serra Leste, which is close to commissioning the iron ore processing facility.

We enhanced Base Metals contribution to the business through consistent cash flow generation

• Adjusted EBITDA reached US$ 549 million in 1Q14, 13.5% of the total and an increase of US$ 306 million from US$ 243 million in 4Q13.
• Sales revenues were US$ 1.728 billion, 8.9% lower than in 4Q13, due to lower sales volumes, which were partly mitigated by the initial recovery of nickel prices from an average of US$ 13,870/t in 4Q13 to US$ 14,277/t in 1Q14, having risen above US$ 18,000/t in late April.
• After the US$ 882 million reduction delivered in 2013, cost and expenses[2] maintained the downward trend with US$ 475 million savings in 1Q14 in comparison with 4Q13.
• Ramp-up of projects contributed to the increase in Base Metal's adjusted EBITDA:
1. Salobo I reached close to its nominal capacity of 100,000 t,
2. Onça Puma generated US$ 15 million in EBITDA,
3. VNC nickel production reached 5,600 t in 1Q14 (2,700 t in March alone), and
4. Long Harbour is expected to produce its first nickel by the end of 2Q14.
• Looking forward, the ramp-up of ongoing projects reinforces our confidence that the Base Metals segment is set to achieve its EBITDA target of US$ 4 billion in 2016.

We made good progress on the logistics solution for Moatize, while facing a short term negative price environment

• Our coal business delivered a negative adjusted EBITDA of US$ 162 million mainly due to low coal prices and the low utilization of Moatize's asset base as a result of the lack of sufficient rail and port capacity, which will only be achieved with the conclusion of the Nacala Corridor.
• Production reached 1.8 Mt, our best first quarter ever, with the positive contribution from the ramp-up of Moatize which was partially off-set by the weak performance of Carborough Downs.
• The Nacala Corridor, with US$ 322 million capex in 1Q14, advanced as expected and reached 62% of physical progress at the greenfield sections, which are the main restriction for the use of the line for the first train in 4Q14.

We continue our homework in Fertilizers

• Adjusted EBITDA for the fertilizers business increased to US$ 35 million in 1Q14 from the negative US$ 105 million in 4Q13.
• Efforts to cut costs and expenses started to show results, with savings of US$ 166 million in 1Q14 vs. 4Q13, net of depreciation charges.
• Rio Colorado stoppage expenses were reduced from US$ 102 million in 4Q13 to US$ 5 million in 1Q14.

2014 will be an important year for us to consolidate our cost cutting efforts, increase efficiency, deliver productivity improvements, and grow our production volume with the completion of seven new projects (Serra Leste, Vargem Grande Itabiritos, Conceição Itabiritos II, Teluk Rubiah, Tubarão VIII, Nacala Corridor and Salobo II). We are having ongoing discussions about partnerships in selected businesses and expect to reach some progress during the course of the year.

Overall, we remain strongly committed to investing only in world-class assets and will continue to manage our asset portfolio to maximize shareholder value. Our commitment is to streamline our business to generate positive free cash flow in any price scenario.

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