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Vale in 2011: another year of high performance

Vale reports a strong performance in 2011, which is reflected in all-time high figures for operating revenues (US$ 60.4 billion), operating income (US$ 30.1 billion), operating margin (48.5%), cash generation (US$ 35.3 billion) and net earnings (US$ 22.9 billion). Shipments of iron ore and pellets peaked, at almost 300 Mt, while nickel and copper sales had their best year since 2008.

Ricardo Flores, Chairman of the Board of Directors, said: “In 2011, the return of cash to shareholders reached US$ 12 billion, a record mark. This makes clear that alongside its excellent performance Vale has a significant potential. I am sure that the company will continue to be strongly committed with long-term value creation and sustainable development”.

Murilo Ferreira, Chief Executive Officer, commented: “Our financial performance was outstanding, better than ever before. We broke several records, despite a challenging economic scenario. The disciplined execution of our strategy and the high operating performance were instrumental for allowing us to benefit from a strong global demand for our products”.

Vale is strongly committed to create shareholder value, with a strong focus on the efficiency of capital management. In order to strengthen discipline in capital allocation, we have implemented some initiatives to minimize risks of delays and cost overruns in project execution and have taken a more proactive stance towards returning excess cash to shareholders.

Our Board of Directors approved a reorganization of the Executive Board with the purpose of stimulating better interaction between corporate activities and the business units and stronger team work. A division in charge of project implementation, headed by an Executive Director, was created with the focus on improving the quality of project execution.

Five new projects came on stream in 2011 – Onça Puma, Oman, Moatize, Estreito and Karebbe - which are still ramping up, with their growth and value generation potential to be materialized in 2012 and 2013. The growth and value creation dynamics will be supported in the following years by the delivery of world-class iron ore, pellets, coal, copper, nickel and potash projects currently under construction.

The operation permit for the N5 South pit, in the Northern Range of Carajás, was the first license for mining operation in Carajás since 2002. It allows the exploitation of a rich iron ore deposit with high Fe content, contributing to sustain the high quality of our production.

To exploit synergies and to allow for the full exposure of Vale shareholders to the value creation potential of the fertilizers business, we delisted our subsidiary Vale Fertilizers, following the buy-out transaction of its minority shareholders. Seeking to exploit opportunities for synergies and rationalization of the asset portfolio is one of our permanent goals.

The dividend yield of our shares was the highest among our peers and one of the highest among large global companies. Vale had its credit risk upgraded by Standard & Poor’s (S&P) to A- from BBB+. Pursuant to the S&P credit risk rating scale, an A rating indicates a strong capacity to meet financial commitments. The upgrade reflects our powerful cash flow, strong balance sheet and the permanent focus on minimizing the cost of capital.

In line with our focus on people and the paramount importance of human life, we are enhancing work safety standards, regardless of the fact that Vale already shows some of the best safety indicators in the mining industry. Expenditures on corporate social responsibility were US$ 1.5 billion, with US$ 1.0 billion on environmental protection and US$ 457 million for social programs.

Results in 4Q11 were very robust, but below 3Q11, as a consequence of lower prices caused by the European recession and the negative expectations produced by the Euro area debt crisis.

The main highlights of Vale's performance were:

· Record operating revenues of US$ 60.389 billion in 2011, 29.9% above last year's mark of US$ 46.481 billion. In 4Q11, operating revenues were US$ 14.755 billion.
· Record operating income from existing operations as measured by adjusted EBIT (earnings before interest and taxes) - excluding non-recurring gains - of US$ 28.599 billion. In 4Q11, operating income was US$ 6.023 billion.
· Record operational margin from existing operations, as measured by adjusted EBIT margin, of 48.5% in 2011. In 4Q11, operational margin was 41.7%.
· Record net earnings of US$ 22.885 billion in 2011, equal to US$ 4.36 per share on a fully diluted basis. Earnings were US$ 4.672 billion in 4Q11, and earnings per share US$ 0.90 on a fully diluted basis.
· All-time high cash generation from existing operations as measured by adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) - excluding non-recurring gains - of US$ 33.759 billion[1]. In 4Q11, adjusted EBITDA was US$ 7.396 billon.
· Record sales of iron ore and pellets, at 299.1 Mt, showing a 1.6% increase over 2010.
· Record capital expenditures, excluding acquisitions, of US$ 18.0 billion in 2011, of which US$ 13.4 billion spent on project execution and research and development (R&D).
· An all-time high US$ 12.0 billion return of capital to shareholders, comprising a dividend distribution of US$ 9.0 billion, equal to US$ 1.7354 per common or preferred share, and the US$ 3.0 billion share buy-back program fully executed. For 2012, a minimum dividend of US$ 6 billion.
· A strong balance sheet with low debt leverage, measured by total debt/LTM adjusted EBITDA, equal to 0.66x, and the maintenance of a long average debt maturity, of 9.8 years.

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