Vale S/A

First Quarter 2017 Earnings Results Conference Call

April 27th, 2017

Operator: Good morning ladies and gentlemen. Welcome to Vale's conference call to discuss the first quarter of 2017 results. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions will be given at that time.

If you should require assistance during the call, please press the star followed by zero. As a reminder, this conference is being recorded and the recording will be available on the Company's website at: VALE.COM at the Investors' link. The replay of this conference call will be available by phone until May 3rd, 2017, on ***+55 11 3193-1012 or 2820-4012***– access code ***4474554#***

This conference call and the slide presentation are being transmitted via internet as well, also through the Company's website.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors.

With us today are:

- Mr. Murilo Ferreira – Chief Executive Officer (the CEO);
- Mr. Luciano Siani – Executive Officer of Finance and Investor Relations (CFO);
- Mr. Peter Poppinga– Executive Officer of Ferrous Minerals;
- Mr. Roger Downey – Executive Officer of Fertilizers and Coal;
- Mr. Humberto Freitas – Executive Officer of Logistics and Mineral Research;
- Ms. Jennifer Maki – Executive Officer of Base Metals; and
- Mr. Clóvis Torres – Executive Officer of Human Resources, Sustainability, Compliance, and General Counsel

First, Mr. Murilo Ferreira will proceed to the presentation and after that we will open for questions and answers. It is now my pleasure to turn the call over to Mr. Murilo Ferreira. Sir, you may now begin.

Murilo Ferreira: Ladies and gentlemen, welcome to our webcast and conference call. Thank you all for joining us, it is a pleasure to be here presenting Vale's 2017 first quarter results.

Now moving to the first quarter results, first I will talk about our financial operational performance. Vale delivered a sound operation performance in the first quarter of 2017, with production records for a first quarter in iron ore with highlights to the record achieved in the North system, in Mozambique, with quarterly coal production records.

We are on track to achieve our net debt target of US$ 15 to 17 billion. The first quarter of 2017, our net debt amounted US$ 22.8 billion with a big reduction of roughly US$ 2.3 billion when compared with 4th quarter of 2016.

Vale's cash balance will be used to continue the implementation of a liability management program, reducing gross debt in 2017. The reduction in our net debt was driven by our strong cash generation in the quarter. Ebitda amounted to US$ 4.3 billion, despite the seasonally lower volumes.

Costs and expenses amounted US$ 4.2 billion in the first quarter 2017. Cost decreased by US$ 263 million when compared to the 4th quarter 2016 driven by lower sales volume notwithstanding the unfavorable impact of exchange rate variations, higher price related to cost factors, such as leasing of the pellets plants, royalties, feed purchase from third parties, higher bunker oil prices and lower dilution of fixed costs and seasonally lower production volumes.

Expenses decreased by about US$ 150 million in the first quarter 2017 when compared to the 4th quarter 2016 with reduction in SG&A, R&D, pre-operating expenses, and others.

Capital expenditure amounted US$ 1.1 billion in the first quarter of 2017. The S11D project continues its successful ramp-up, advancing according to plan. In line with our divestment plan, the proceeds from the net disposal of assets amounted [US$] 770 million, mainly as a result of the conclusion of the divestment to Mitsui of part of our interest in Moatize coal mining in the Nacala Logistics Corridor.

Our focus remains on the strengthening our balance sheet while maintaining our commitment to shareholders' returns and dividends. In that regard, we paid out 870… sorry, R$ 857 million of shareholders' remuneration in 2016, and we will pay an additional remuneration of R$ 4.667 billion in the next few days.

Ebitda from Ferrous Minerals was US$ 4 billion in the first quarter of 2017, slightly below the previous quarter, mainly as a result of the negative impact of seasonally lower sales volumes, exchange rate variations and higher bunker oil prices, which were partially offset by higher realized prices.

Despite the recent drop in the Platts IODEX 62%, the price differentials between the high-grade of ore Carajás with 65% ferrous content and low-grade ore with 58% ferrous content remained around US$ 40 throughout the quarter.

Our Ebitda breakeven for iron ore and pellets landed in China remained in line with the 4th quarter 2016, at US$ 30.50 per dry metric ton in the first quarter 2017.

This quarter, we were able to capture higher pellet premiums as we renewed our sales contracts. Pellets CFR/FOB price increased by almost US$ 25 per ton, to US$ 115 per ton in the first quarter of 2017, whereas the Platts IODEX iron ore reference price increased by US$ 15 per ton in the quarter.

Base Metals adjusted Ebitda amounted US$ 410 million in the first quarter of 2017, decreasing by US$ 130 million when compared to the 4th quarter of 2016, negatively impacted by lower volumes, unfavorable exchange rate variations and one-off provisions for cost normalization in Thompson, after the operational issues there.

In the second quarter of 2017, nickel and copper production will be impacted by the transition to a single furnace operation at Sudbury and 3-week long surface plant wide scheduled maintenance shutdown, which occurs every 18 months.

We took one of the furnaces offline in mid-March and we are rebuilding and expanding the furnace. The rebuilt furnace will remain in operation post the transition to one furnace in the second half of the year.

With coal, we managed to turn the business around. The coal Ebitda was US$ 61 million reaching a positive result for a second consecutive quarter, despite lower coal prices.

Sales volumes of metallurgical coal amounted 1.54 million tons in the first quarter 2017, increasing 11% when compared to the 4th quarter 2016, as a result of the quarterly production record achieved in the first quarter of 2017.

Production cost per ton of coal shipped through the port of the Nacala decreased 14%, to US$ 83.90 per ton as a result of the successful ramp-up of Moatize II and the Nacala Logistics Corridor.

We stand firm on pursuing a lower net debt while we conclude the investment cycle and prepare the foundations for even stronger free cash flow generation from 2017 onwards.

In first quarter 2017, we managed to reduce debt by roughly US$ 2.3 billion when compared with the 4th quarter of 2016. Vale's cash balance will be used to implement a liability management program, further reducing gross debt in 2017.

Thank you for your attention, and now let us open this webcast for your questions.

Q&A Session

Operator: Excuse me, ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press the star key followed by the one key on your touchtone phone now. If at any time, you would like to remove yourself from the questioning queue, please press star 2. Please, restrict your questions to 2 at a time.

Our first question comes from Mr. John Brandt, with HSBC.

John Brandt: Hi, good morning. Thanks for taking my questions. First, I wanted to ask you about Samarco. I understand you are temporarily suspending some workers. I'm wondering if, you know, what the new expectation is for startup of Samarco and if you could remind us of what Vale's obligations are under the agreement with the courts.

And then secondly, reading through your press release, it seems that you are pretty optimistic on copper prices in the medium to longer term. I'm wondering if you could give us an update on a potential expansion of the Salobo project, you know, at what point would you think you make a decision, how much would it cost and how long would it take you to actually bring that down to a project bond. Thank you.

Murilo Ferreira: Thank you John. I think that Samarco, we are working hard in order to see Samarco going back to the operations in the second half of this year. And about the court issue, I will leave with Clóvis Torres.

Clóvis Torres: Well, the issue on the court, actually, what we are doing is that we are extending what is already in place, keeping the suspension of contracts of certain employees, so not really in court. So, there is nothing new about it, we're just renewing it. We had it for a year and now we are asking for another six months. We are negotiating with the employees.

And the agreement is in line, as you know, the Foundation is up and running, is carrying on all the works for remediation and compensation as agreed with the different plaintiffs in the lawsuit. So, there is nothing new about that either.

Murilo Ferreira: Jennifer, please, about copper, mainly, and the expansion in Salobo.

Jennifer Maki: In Salobo III, we just finished our, what we call our FEL II study and we are moving to the final feasibility study shortly, and we expect that to take about a year, and we will be looking at an investment decision in Salobo in the second half of 2018.

And I think the interesting thing about Salobo, obviously is a world-class asset, and we've done a number of streaming transactions as regards to Salobo, and as part of those transactions we pre-negotiated a payment that would offset some of the capital costs associated with Salobo, and from Silver Wheaton that payment varies depending on the timing you bring on the production and the amount of the production brought on.

Murilo Ferreira: Thank you John.

Operator: The next question comes from Andreas Bokenheuser, with UBS.

Andreas Bokenheuser: Yes, thank you very much. Good morning and thank you for taking my question. Basically, two questions. The first one is, you know, we had some headlines this morning from BHP talking about iron ore prices, and talking it down a bit in the thought of, you know, growing supply and so on and so forth, I got the sense from the Portuguese call earlier this morning that you mentioned that you think iron ore prices are going to go up from here. I guess I'm just wondering what is it that you guys are seeing that makes you slightly more bullish than someone like BHP, for example, on iron ore? So that would be my first question.

And my second question is on the iron ore inventories. Something we've talked about before, but they obviously seem pretty high, even on inventory databases, and moving into the second half of the year, there is some concern among investors that we are going to see a destocking and inventory liquidation. I guess the question is, to what point or to what level does that concern you going into the seasonally weaker period of the second half of the year? Thank you very much.

Murilo Ferreira: Please, Peter.

Peter Poppinga: Thank you Andreas. There might be some different assumptions on the timing, on a time frame. What we are saying here is not the long-term iron ore price, this is a different dynamics. What we were referring to here is the short-term 2017 and what we think because of the steel demand, which is really going up this year in China, at 3%, steel production and the recent downturn - this is a hiccup in our opinion -, housing is okay, infrastructure is strong, capacity closures are going on, which are actually… helps seaborne supply because of the quality. And the stocks in the mines are low, the stocks in the mills are low as well and the stocks in the ports are in balance in quality and not so high at all if you measure them against the days of consumption. It is 45 days against 40 days in historical terms. So, that is everything there in order to be… to have a healthy average in the whole year.

In terms of supply, the cards are on the table. There are no big surprises here, we have… if you add up the competitors and what are their plans and you come to Roy Hill, you come to Vale itself, you have some marginal increase in Australia and some other Brazilians here, but you also have some people exiting. So, you have much less, actually, coming into the seaborne market than came last year and was easily absorbed. Last year it was 150 million tons, this year we are calculating around 70 million tons coming in, and because of the strong market, the demand, we think it is going to be absorbed as well.

So, what we said is there is no reason… first of all, there is no reason why price should be lower than last year. Actually, we think they are going to be significantly higher than last year, and you can look around and … we said it should be something around US$ 70/ton, which actually is the breakeven when you look to some seaborne, low-quality seaborne marginal players, and which is also not so far away from the breakeven in terms of Chinese concentrates.

About the inventories, no, there will be no liquidation at all. We said this is a trade-off, which we always said from the beginning, actually before the Samarco incident. The trade-off we deliberately made between investing a very high Capex into the Southern System and then there is the trade-off of the lower quality, but since we have the Carajás to blend offshore, we will do that and it's a highly positive NPV.

So, momentaneously, maybe for some quarters, you will see an increase in stocks, but as soon as the stocks formation stabilizes outside, offshore, then you will see it coming back to normal levels. Thank you.

Operator: The next question comes from Daniel Lurch, with BNP Paribas.

Daniel Lurch: Hi, thank you very much for taking my question. Just two quickly questions from my side. Firstly, on coal, could you maybe outline how you expect that fixed-price sales will develop over the next couple of quarters? Do you expect a decrease in the next quarters?

And the second one, just quickly in relation to the S11D, you've outlined that the ramp-up is […] according to plan, and could you provide some details on production volumes achieved in Q1 and potentially what your target is in 2017? Thank you very much.

Murilo Ferreira: Roger, please.

Roger Downey: Yes, the question was a bit garbled, I didn't really understand what the question was about coal. If you could repeat it slowly, please, because the line is a bit garbled.

Daniel Lurch: I'm sorry. The question in relation to coal was, how do you expect your fixed-price sales to develop? There was a mismatch between the hard-coking coal and benchmark price and your realized volumes, and it appeared to be due to the fixed-price sales. Would you expect that this is normalizing going forward or do you expect that fixed-prices might remain at higher levels?

And the second question was in relation to the S11D and the production volume in Q1 and your target in 2017, if you could provide some details. Thank you.

Roger Downey: Thank you. Just on the coal then to start off with. It's difficult to say right now, with the changing landscape in terms of the benchmark. I think, assuming things will carry on as they are, is a difficult assumption to adopt, to work with. We have several, large proportion of our sales already are indexed and, therefore, not benchmarked, with good price realization. As you can see, price realization in the first quarter of this year was very close to the benchmark and there isn’t really any reason why we should make it any different.

So, I think what will probably see is a bit more of what we've been seeing in markets outside of Japan. Remember, we do not sell into China yet, we have no need to sell, we haven't had any need to sell into China, most of our sales go to Korea, Taiwan, Japan, India, South America and Europe, where we have been able to become an important part of our customers’ blends, so we don't… other than the benchmark contracts in Japan, we don't expect a big difference in relation to the other markets.

Murilo Ferreira: Peter?

Peter Poppinga: Regarding to the S11D, as I said in the previous call, we are still… we are producing and commissioning at the same time, there are equipment which are almost finalized, but other equipment like the truckers, the mobile crusher and some conveyor belts, they are being commissioned as we speak, so there is no… in some equipment, there is no production going on at all, in others there is. So, it is very difficult to actually say how much we are producing because of production or how much is being produced due to commissioning.

What I offered since the beginning - and later we can go down the road when we have a clear-cut, we can go in more details -, but what we said is the bottleneck is the railway. The bottleneck is the railway in terms of duplication. And this year, the capacity, and we will fully utilize it, is 175 million tons, and if you look into 2016 we were fully produced in the Northern System 155, so it's not difficult to calculate what is the additional tonnage coming, which mostly will come from S11D, but can also come a little bit from the Northern System. So, it will be determined by the speed of the ramp-up and also by the marginal optimization. Thank you.

Murilo Ferreira: Thank you.

Operator: The next question comes from Mr. Alfonso Salazar, with Scotia Bank.

Alfonso Salazar: Thank you. I have two questions. The first one is a follow-up on Salobo. You mentioned in your production report that there were some repairs and there was also the negative impact of lower rates, and I was wondering if you can tell if this is something that you will see temporarily and what do you expect in terms of copper and coal production in 2017.

The second question is regarding inventories, the develop of iron ore inventories: What can… if you can give us some clarity what to expect in terms of what follows in the next quarters, what you… you have provided a guidance for production, but where do you see shipments for the rest of the year? Do you think you won't catch up and have production and shipments similar for the year or higher shipments? If you can give us some color on that. Thank you.

Murilo Ferreira: Jennifer Maki, please.

Jennifer Maki: I think on Salobo that can bare about the issues we experienced, there are normal maintenance repairs and they happen from time to time as we replace spices in the conveyor belts, so, you know, we do that probably three times a year and take it down for couple of days.

And in terms of the great variability, I think it's normal great variation in a pit of that size, at Salobo, and the forecast for the year is about 200 thousand tons of copper in Salobo.

Murilo Ferreira: Okay, Peter.

Peter Poppinga: Shipments in this year will be higher than last year, roughly in the same proportion and the production is going up.

Murilo Ferreira: Thank you.

Operator: The next question comes from David Wang, with Morningstar.

David Wang: Good morning, thank you for taking my question. My first is on cash cost. It looks like the iron ore cash cost is a little bit higher over last year's despite the ramp up of Carajás. Can you discuss how the overall cash cost is set to play out with Carajás ramping up? I guess I would expect, you know, a lower cost system coming online that just so much offset the inflationary pressures that you might be seeing.

Murilo Ferreira: Please, Peter.

Peter Poppinga: Thanks for the question. You know, we were heavily penalized by the bunker going up and also by the exchange rate, which is not playing in our favor, but if you look to the cash cost and the C1 cost in reais, you can see that we reduced our… from one quarter to the other, our C1 cost in reais in spite of the inflation and some non-recurring costs.

I would say that under similar affects conditions and bunker conditions we have today, I would say for the first half of the year we will be around… in a range of 14 to 14.5 - that is because of lower volumes in the first half -, and in the second half, aiming to come back to 13.5 again, again, under similar conditions for FX and bunker.

On the freight rate, there was a recent uptick, but freight is very volatile, and again it is about the bunker.

On the sustaining Capex, if you look carefully and if you make… it's very difficult to judge from one quarter to the other, but if you go and check what happened in 2015, we had a sustaining Capex of US$ 3.4 per ton. In 2016, we have… we came down to US$ 2.6 per ton. Of course, the number will be higher in 2017, but mainly also because of the FX. If you equalize for the FX, you will have… you will see on the average of the year, probably sustaining numbers very similar to 2016. Thank you.

Operator: The next question comes from Thiago Lofiego, with Bradesco BBI.

Thiago Lofiego: Thank you gentlemen. Peter, I just want a follow-up question. What do you think trigger a destocking at Chinese ports? We know that most of that material is low-grade and so we haven't actually seen any kind of significant destocking happening, and then when we think about steelmakers margins in China, they have been tidying up, right? I mean, we are seeing lower steel prices, higher coking coal, when compared to a few months ago, a couple of months ago, so margins are tighter in China. Do you think that could be a driver or a trigger for steelmakers finally wanting to procure cheaper low-grade ore versus more expensive high-grade ore and then that could trigger the stocking? What's your view about that? Thank you.

Peter Poppinga: Thank you Thiago. I think the ports and the port inventory, as we said, is […] in quality, but when you look at the ports, when you look at the stocks in the mines and in the mills, they are very low level now. So, you can see already restocking in the mines and in the mills.

The mines are catching up in terms of production, they call “domestic concentrates”, and the mills restocking as well.

So, I think it's happening already, but it will be very painful, slow process to get rid of all these lower quality ore. So, I think it's a gradual process, and I have no doubt that the market will come into balance once and, again, it comes an uptake because of the robust steel demand, especially maybe in the next weeks when there are some announcements again about the one belt one road initiatives and other fiscal stimulus for political reasons eventually potentially coming, you will see those tons moving very quickly. Thank you.

Operator: The next question comes from Ivano Westin, with Credit Suisse.

Ivano Westin: Hi, thanks for those questions. The first one, Peter, is a follow-up on the inventory level. You mentioned on the Portuguese call the inventory increase in the last years. I'd just like to clarify what was the exact volume that increased in quarter one, what is the total volume that you have in inventories and what is the normalized inventory level you expect for achieving and when?

And the second question, if Jennifer, if you could comment on VNC cash cost, it lowered well in quarter one, especially due to higher cobalt byproduct prices, there is a positive outlook for cobalt, so I just wonder if you expect overall cash cost of VNC to be below US$ 11 thousand. Thank you.

Peter Poppinga: Ivano, we have not… thank you for the questions. We have not disclosed in details our inventory because it's along the whole supply chain, in the past we were focused on the inventory in Brazil, this went down drastically. Actually, last year the inventory came down as well. This year, as I said, there will be a slight increase in inventories and we don't know when this will stabilize, but we… it is part of our strategy to come to a certain level and to move the inventory downstream and at the same time try to reduce it.

The downstream move is succeeding well, the reduction cannot happen so easily this year because of the increase in blending. But it is a temporary situation and it will be sorted out probably in 2018, when we have a stable inventory level, and then it will go down again. Thank you.

Murilo Ferreira: Jennifer?

Jennifer Maki: On Vale New Caledonia, definitely the benefits from the doubling of the cobalt price from a year ago cost US$ 55 thousand a ton today. I do believe that in the second half of the year that we will see the unit cash cost for VNC in the range of 10.5 to US$ 11 thousand a ton. In the second half of the year we have an increased production on a monthly basis, which will help dilute the fixed costs, and in addition, we are in the middle of executing taking on another, I would say, US$ 30-US$ 40 million of operating costs in VNC this year. So, with all that, I expect that will be below 11 thousand for sure.

Operator: The next question comes from Marcos Assumpção, with Itaú BBA.

Marcos Assumpção: Good morning everyone. Two quick questions. The first one on coking coal… sorry, on the coal operation: If you could just confirm that the current logistic contract that you have on the Beira, on the Sena Beira corridor, when do you expect that to finalize, and probably if we will see a significant improvement in profitability of the whole operation, on the coal operation following the end of that contract.

And the second question, for Murilo, more strategically, a more strategic question. You spent the last six years in the company, did a very good job like turning around the company, where would you like to see the company positioned in five-years-time? Thank you very much.

Murilo Ferreira: Humberto, please.

Humberto Freitas: The contract in Sena Beira will finish in the end of this year. After that, we will have lower costs and enough capacity to have all the material in the Nacala corridor.

Luciano Siani: This, it's Luciano. Just to add, with the entrance of Mitsui, there will be now the charging of tariffs from the corridor to the mines, so therefore, the coal business will have a hit in terms of Ebitda, because of this increase in tariff, which starts now, small increase, it will be higher after the project finance, but it will start in the second quarter.

On the other hand, because of the relationships of Vale with the corridor, being a 50% owner, we shall get some of the results of the corridor that will fall through the tariff, but in other lines of the financial statements, equity income and so on.

Murilo Ferreira: About your question, Marcos, for sure I'd like to see Vale providing the best return in the mining industry, having a huge discipline in terms of capital, and I believe that paying high dividends, for sure. I think that instead of to accumulate cash or looking for some project not being so world-class project, I think that the best that Vale can provide is a good return in terms of dividends. But in terms of the company, is being efficient, very efficient to be in the first quartile in all of the segments and to continue our leadership, mainly in iron ore, and nickel, and looking for the future terms of copper. I think that we will have some exploration activities that can provide good opportunities, mainly in Indonesia, in Brazil and in Sudbury. And I think that in this context, being the most efficient company in the world in terms of return to the shareholders.

I would like to express, in the end of this call, to express my gratitude to the analysts, to the investors. I have received many comments in this period, I am extremely happy with the support, but I would like to share with my colleagues in the Executive Board and in the whole company. Thank you very much. I hope to see you soon.

Operator: That does conclude Vale’s conference call for today. Thank you very much for your participation. You may now disconnect.