VALE - 1Q15 Earnings Release

Conference call and webcast presentation

April 30th, 2015 – 12:00 a.m. RJ / 11:00 a.m. NY

Operator: Good morning ladies and gentlemen. Welcome to Vale's conference call to discuss 1Q15 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 key followed by zero. As a reminder, this conference is being recorded and the recording will be available on the Company's website: vale.com at the Investors link. The replay of this conference call will be available by phone until May 6th 2015, on +55 11 3193-1012 or 2820-4012, access code 2029237#

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 (CEO);
- Mr. Luciano Siani - Executive Officer of Finance and Investor Relations (CFO);
- Mr. Peter Poppinga – Executive Officer of Ferrous Minerals;
- Ms. Vânia Somavilla – Executive Officer of Human Resources, Health and Safety, Sustainability and Energy;
- Mr. Galib Chaim – Executive Officer of Capital Projects;
- Mr. Humberto Freitas – Executive Officer of Logistics and Mineral Exploration;
- Ms. Jennifer Maki – Executive Officer of Base Metals; and
- Mr. Clóvis Torres - General Cousel and Chief Compliance Officer.

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.

Mr. Murilo Ferreira: Ladies and gentlemen, welcome to our webcast. Thank you all for joining us to discuss our first quarter 2015 results. First of all, I'm pleased to report that despite a declining commodity price, Vale maintained its leveraged, reduced cost and delivered US$1 billion in asset sales. We had a solid operational result with production records in copper and gold, as well as the highest production of iron ore and nickel for a first quarter.

In the first quarter, we achieved a reduction of over US$ 560 million in cost and expenses when compared to the first quarter 2014. Our general sales and administrative expenses decreased by over 30% and our pre-operating and stoppage expenses decreased by roughly 18%.

As I will comment later on in more details, we have reduced our costs and expenses in iron ore, including freight costs, by US$ 13.10 per ton in the first quarter of 2015 when compared to the fourth quarter of 2014. We have also reduced our sustaining investment by US$ 4.50 per ton.

In the quarter, we have recorded CapEx of US$ 2.2 billion. Now, I would like to highlight that our CapEx is accounted for on a cash basis and is measured on an accrual basis. This US$ 2.2 billion will amount to roughly US$ 1.9 billion. This lower CapEx number indicates more accurately our CapEx trend for the following quarters.

In this quarter, we divested over US$ 1 billion, with US$ 900 million coming from the gold stream transaction and US$ 100 million from the sale of a minority stake in the Belo Monte hydroelectric power plant.

Despite our efforts and good results in reducing costs and expenses, this environment of lower commodity price took their toll on adjusted EBITDA, which decreased to US$ 1.6 billion.

Our gross debt decreased by US$ 320 million, amounting to US$ 28.5 billion, with a cash position of US$ 3.7 billion prior to the distribution of US$ 1 billion in dividend scheduled to be paid today.

I am proud to announce that iron ore achieved a record production in the first quarter. Adjusted EBITDA for iron ore and pellets reached US$ 1 billion, decreasing over US$ 600 million from last quarter. This decrease was primarily driven by lower iron ore sales price. As we have forecasted in our results call in February, our iron ore cash costs decreased by US$ 3.40 per ton, to US$ 19.80 per ton.

If our cash costs were presented excluding royalties, on the same basis of our competitors, our cash cost will be US$ 18.20 per ton. Nevertheless, we are not satisfied and maintain our relentless focus in costs and expenses reduction.

We also forecasted, our freight cost also decreased by about US$ 4.50 per ton, to US$ 17.20 per ton, as a result of the positive impact of lower bunker in our contracts and of lower spot freight costs.

And our total expenses, excluding SG&A, R&D and pre-operating expenses, were reduced by US$ 5.20 per ton, from US$ 9.20 per ton to US$ 4 per ton. As I mentioned in the beginning of this call, we decreased costs and expenses in the first quarter 2015 versus fourth quarter 2014 by US$ 13.10 per ton including freight, excluding the hedge account impact in bunker oil.

However, iron ore price dropped by US$ 12 per ton in the first quarter of the year. In addition to this price decline, our price realization was negatively impacted by almost US$ 7 per ton from our price system, namely our provisional price mechanism, in the fourth quarter 2014 and the first quarter 2015. This represented a negative impact of about US$ 450 million, which will not happen again if price stabilizes.

Base metals adjusted EBITDA amounted US$ 678 million in the quarter, representing an increase of about US$ 100 million when compared to the last quarter. It's fair to say that our base metals EBITDA was impacted by the goldstream transaction.

However, I would like to call your attention to our low operational costs in the quarter and to Salobo's EBITDA, which reached US$ 100 million.

With coal, we continued to develop our projects, which are key to our long term business profitability, as we eliminate the existing logistics bottleneck in Mozambique. We achieved 86% physical process in Moatize II and 85% in the Nacala Corridor.

Once again, we saw improvements in the fertilizer's adjusted EBITDA, which increased by 20% quarter-on-quarter, despite the impact of lower sales volumes and prices. Looking forward, we expect Brazil's fertilizer demand to increase this year, despite of a weak first quarter. Potash we will probably increase in the second half of the year to provide for the summer crop.

2015 will be a year to set the basis for an even more competitive and profitable company as we intensify and consolidate our cost cutting efforts, delivering productivity improvements and increasing our production volumes.

The opening of N4WS mining and the ramping up of the Itabirites projects will also be important milestones leading to big improvements in the quality of our products.

Despite the challenging market scenario, we remain confident on delivering of a strong results and our ability to deal with these more challenging times.

Thank you so much and let's now open this webcast for your questions.

Operator: Thank you. 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 1 key one your touch tone 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 two at a time.

Our first question comes from Carlos de Alba with Morgan Stanley.

Carlos de Alba: Thank you very much. I appreciate the opportunity. Just wanted to get your sense us to what potential supplier adjustment can we see on the iron ore from Vale, clearly when the iron ore prices were close to US$ 47 there may have been some operations in the

Southern system that were, is breaking even or barely breaking even. Can you comment us to what are the mines or the tonnage that maybe susceptible to shut down if prices do go back to the US$ 47 - US$ 45 level?

And the second question, maybe for Luciano. Could you help us understand a little bit what happened to debt in the quarter? When we look at the cash flow statement, debt appears to have increased by about US$ 1 billion, however in the appendix III of the press release, it shows that total debt basically fell by less than US$ 500 million from the fourth quarter. So you can help us understand or reconcile those numbers, it would be appreciated. Thank you very much.

Peter Poppinga: Hi Carlos, thank you very much for your question. And so it is very important to, this is a very important question. And we have to differentiate between having a certain capacity and actually utilizing it no matter what. So, Vale already committed investments in logistics in the Northern Corridor, right, will take us from today's 350 to 450 million tons capacity. This is 410 for exports and 40 for domestic market and we will, of course, aim to maximize its utilization rates, right. So this is a given.

However, Vale will operate with a mature eye on the markets, particularly with a long view on the tendency for Chinese steel mill production. So that we make sure that we maximize value and the returns to our shareholders.

So this means concretely that we, the recent improvements in licensing conditions, particularly when you look at Carajás, and it means also that, with our several new Itabirites projects ramping up now in the Southern and Southeastern Systems, we now can optimize our upstream operations in the mines. So it enables us to close higher cost and lower quality production flows, if necessary, in all Systems, according to market conditions. All of this, in our quest to improve overall margins and, if we look at the production flows, we are constantly analyzing and watching and it could be up to 30 million tons in the Southern and Southeastern Systems, already, this we know, but it's not necessarily going to happen. It's out discretion according to the market developments. So in a nutshell, the capacity will be there, 450 million tons, and we are going to use it according to the market conditions. Thank you.

Luciano Siani: Carlos, I'll give you an explanation what happens with our debt position when the real devaluates and then reconcile with the overall picture.

When you have a debt position denominated in Reais, and the Real devalues, when expressed in U.S. dollars, it falls, right. On the other hand, you have a derivatives loss. So part of the loans that you mention, the US$ 1 billion that we raised, was actually used to repay those losses on derivative positions, which in a nutshell, it works as if we're repaying part of your debt in Reais, because actually the debt in Reais instead of, when translated into US dollars, instead of becoming constant, it is reduced by the devaluation, it generates a loss, but then you have to settle this loss by paying cash, right. So, you don't see it in the cash flow statement, but actually the US$ 1 billion that gets in, most of it was used to repay the derivative positions which is the counterpart of the reduction of debt denominated in

Reais. So, another way of looking at our total debt is to summing up the total gross debt with the open derivative position. You will see that also in this metric that total debt was somewhat stable as well.

Operator: Our next question comes from Alex Hacking with Citi.

Alex Hacking: Hi, good morning and thank you for the question. The first question is around the cost savings. You know, first, congratulations on the very strong cost savings in iron ore in the first quarter. I know it's not easy. As we look forward, I think you talked on the Brazilian call about another US$ 2 per ton of cost saving, is that just referring to, at the mine level, and are there further possible cost savings in freight or other areas?

And then I guess the second question would just be, you know, Vale could give us your view on sort of the mid-term iron ore price? I know iron ore forecasting is very difficult but, you know, what in your view is kind of a sustainable level over the next, you know, say five years, you know, based on your view of the cost curve and Chinese steel production? Thank you.

Peter Poppinga: So, hi Alex, thanks for the question. On the cost guidance we gave here, we are confident that we can take out another US$ 2 this year, and we are only speaking about cash cost, until the port, of course including royalties. So we are aiming for US$ 17 this year. This doesn't exclude, of course, that we, in the next years once you have S11D coming and also other logistics changes, optimizations and more dilution of fixed cost, of course, will bring cost down even further, but for this year's cost guidance, we are aiming at least US$ 17 cost cash. And this is at the similar level of exchange rate.

Now on the iron ore price, I really, as you know the volatility is very high and it's a difficult task to forecast iron ore prices. For me, the US$ 47 or the under US$ 50 was a clear under shooting. However there is lot of supply coming on stream and the demand in China, there are some mixed signals, as you know. We saw some reaction in the steel market, we saw some restocking going on. But to extrapolate the iron ore price from there is really not my goal today.

So that's it. I strongly believe that we are very well positioned. You will see a different Vale is the next months, quarters and years. We're very focused on productivity and cost cutting, of course also on health and safety, more and more. And we are going to give priority over the margins then over the volumes. Although, as I said before, we will have the capacity to go to 450 million tons with the S11D, which progresses very, very well, in terms of project implementation. However, we will also look at the market conditions, and according to the market conditions, we are going to adjust some of our production levels in the Southern and Southeastern Systems.

Murilo Ferreira: Alex, Murilo. Just to highlight, on a positive note as well, that the daily production in April in China reached the highest rate since September 2014. I think that is a good signal as well. But I have to call your attention for a message of the Mr. Chairman Zhu Jimin, executive vice president of Chinese CISA, saying that the Chinese mines must survive even if the global price of iron ore falls to US$ 60. I think that the message is clear. And again I think that, in our view, what is happening in Chinese mines is much more dramatic that most of the analysts are saying. Thank you very much.

Operator: Our next question comes from Wilfredo Ortiz with Deutsche Bank.

Wilfredo Ortiz: Yes, good morning, everyone. Just very quickly on the capex, I just wanted to get a better senses to what is the run rate that you would expect to see for the year given some of the comments that you mentioned earlier on the sensitivities that you provided. And if you could also give us a better sense of where the sustaining capex could end up being, you know, perhaps this year going forward?

And then if you could also perhaps remind us of some of the announced asset sales that have already taken place? When will the cash proceeds come in and what are the amounts of those cash proceeds? And again I am talking about announced asset sales, and perhaps what's next to come based on the pipeline of what you are seeing?

Luciano Siani: Wilfredo, thanks for your question, is Luciano. If you look at the release, we provide a table with sensitivities of capex to exchange rates, so this is one effect. Also on the Portuguese call, Murilo Ferreira mentioned that we are targeting a level of sustaining capex for iron ore between US$ 3 or US$ 4 per ton. And obviously we are doing our best to reproduce the performance of previous years whereby we announced a higher number and we end up the year with a smaller number. So, you can count on the same tenacity to pursue on lower capex without jeopardizing the scope of our works.

In terms of announced sales, so we already had the proceeds in the first quarter for the goldstream transaction and the sale of US$ 100 million of our energy assets in the North of Brazil. And we announced last year also transactions involving ships of which we haven't received yet. We announced a sale of four ships to Cosco, in China, so this is a transaction that we expect to close soon. We also announced the coal transaction in the end of last year with Mitsui and we haven't received any money yet, so it's about US$ 1 billion from Mitsui itself, and we still expect and we're working on, that we've already also announced at that time, on the project finance that should bring an additional US$ 2 billion. So these are the amounts related to transactions we have already announced.

Operator: Our next question comes from Tony Rizzuto with Cowen & Co.

Tony Rizzuto: Thank you very much. My first question is just a follow-up on your iron ore flexibility. Did I hear correctly that, similar to BHP Billiton, that you would look to flex production possibly to the tune of 30 million tons with some of your less competitive output in the Southern and Southeastern areas?

And then secondly, a question on the US market. Do you see it as an opportunity, particularly as players they are struggling to bring on supply, and I was wondering if you could address what you think the cost would be from a capital standpoint and what might the cost be if you land material, pellets, DRI grade pellets into the US market, you think you can be competitive there? Thank you.

Peter Poppinga: Hi, Tony thanks for the question. Well, yes, you are correct. We are not flexibilizing our capacity, however, what we are saying is, we stick to our plans which are ongoing in the Northern Corridor and our capacity goes from 350 million to 450 million tons overall in Vale. And, however, what we are saying is that, given that we have all those Itabirites projects now ramping up in the Southern System and Southeastern System, that there we can really substitute some low margin ores with some higher margin ores. And if necessary, if the market requires that, we will analyze up to 30 million tons we are going to reduce production flows. It doesn't mean that we are going to close mines, but there are mines with several products and several different beneficiation plants where we can optimize it, and we would take out up to 30 million tons per year, while keeping our pace towards the 450 million tons capacity in the year.

Now, the US market is very interesting. Yes, we're already selling some pellets there, but not very much. So, given their recent shale gas evolution and the competitiveness of DRI plants in the US, we are looking at the US and we have several supply agreements already in place to the US. However, we are not participating in any capital expenditure or any joint venture in the US. But we are going to, what we are already doing, to increase our products, the pellets mainly, and remember we are going to increase pellet production naturally over the next years, that those pellets are becoming very competitive in the US market. Thank you.

Operator: Our next question comes from Jeff Largey with Macquarie.

Jeff Largey: Hi, good afternoon and thanks for the opportunity to ask a question. My first question was just to go back on the announced transactions in terms of raising cash. When you talk about the four ships where there's been, where the deal should close hopefully soon, and also thinking about the coal JV, I mean, would you expect that those transactions when you assume that they actually close here in the second quarter? That would be my first question.

Luciano Siani: Yes for the ships, no for the coal JV, it should take longer. And we also have other efforts that we are doing, that we expect to close already in the second quarter, which goes beyond those two transactions and part of it also involves additional sales of ships.

Jeff Largey: Okay, great. And the second question, it was just to still sticking with coal and Moatize, was just to get a sense, given the rains and flooding we saw in the area earlier this year, are there are lingering effects in terms of getting, particularly the Nacala Corridor, construction complete, or is that all sort of behind us and things are moving along smoothly?

Humberto de Freitas: No, we don't have any problem regarding the Nacala Corridor. We have already transported something around 200 wagons from Moatize to Nacala port. And the port onshore is working very well, no problem at all.

Operator: Our next question comes from Rodolfo De Angele with JP Morgan.

Rodolfo Angele: Hi. Just, I am sorry to insist in the theme, I just wanted to follow-up with you on the question of the volumes versus market conditions trade off, it was discussed also in the previous call and we started getting a few questions from investors. So I just wanted to make sure, you know, I understand this. So this management team has been talking about capital discipline since, you know, for a long time. And in that kind of philosophy there is a mining plan, a mining plan for the year, for the years to come in place that considers that you are going to have the new Itabiritos projects, that you have the N4WS now. And those two projects and these plants, you already had the intention, I guess, to replace some, you know, high cost capacity or at least to deal with some depletion that we are seeing. So, when we are discussing this trade off volume here, Peter, are we talking about something new and in addition to what has been planned? And I ask this because people have been asking us specifically, you know, the number that was discussed on Vale Day of production overall for this year including third parties close to 340 million, could we see that number going lower or is this trade off something that you already have incorporated in your plans for the year?

Peter Poppinga: Hi Rodolfo, thanks for the question and opportunity to clarify. You are right, what we are taking here, volumes versus market, is something new. Let me recapwhat the Vale Day 340 million tons production guidance. This is one thing. And there is also depletion involved here. We, as you know, produced around 330 million and plus, including some purchasing, in 2014. Now we added new capacity in 2015, around 32 million tons, the Itabiritos projects, part of them already in 2014, the other part in 2015, now then, the difference is 32 million tons. Now we are substituting already low margin ore, 22 million tons are coming out. So the 32 minus 22 are 10, so that means that you add 330 plus 10, gives you the 340 which we announced at the Vale Day. And this is margin optimization, okay. On top of that, what we are saying is that we are keeping our capacity plans to 450 million tons, mainly now due to the Northern Corridor, the investments in logistics which are underway. But, depending on market conditions, now since we have lots of more flexibility in the Southern and Southeastern Systems, depending on market conditions, we would be able to close higher costs and lower quality production flows in those systems to improve again for the overall margins, of course taking out proportionally the fixed cost as well. And that's it, up to 30 million tons we could do on top of this. So, this doesn't mean that we are going to do it, and not, maybe part of it, maybe nothing, maybe all of it. It depends on the market condition, it depends on how we can maximize the margins for our shareholders.

Operator: Our next question comes from Rene Kleyweg with Deutsche Bank.

Rene Kleyweg: Good morning. Just a follow-up on that, the 30 million tons does not include any third party purchase decreases? And, you know, what is your obligation in terms of, let's say, a minimum level of third party purchases that you have to make?

And then just a second one, following-up again on Nacala specifically your ended power supply to the port, given the weather destructions and so on that we've seen and the effects of that on the northern grid in terms of outages in Mozambique. How are you getting on or has there been an agreement with the local power supplier in terms of upgrading the network that Vale was potentially going to be contributing some capital towards, is that being, has that reached a conclusion? Thank you.

Peter Poppinga: Thanks Rene. Regarding the third party orders, we purchased 12 million tons last year and this year it's roughly half of that. And most of it has already taken out. So when we say up to 30 million tons means our own production flows. But again, it's up to, it doesn't mean that we are going there.

Murilo Ferreira: And then the obligation to buy from third party.

Peter Poppinga: The obligation to buy from third party, these are flexible contracts. Most of them are done on a quarterly or annual basis, so we have lots of flexibility there.

Humberto Freitas: Okay, here is Humberto Freitas. According to the energy for the Nacala port, we are a little bit late in the construction of the line. We will have this line in four or five months. Till there we are operating with diesel fuel. This is the information.

Operator: Our next question comes from Thiago Lofiego with Merrill Lynch.

Thiago Lofiego: Thanks gentlemen. I have two questions, just to understand about the timing of the project finance. What's the expectation there, for that deal to unwind? And if it doesn't happen this year, how would you offset the lack of cash from that deal, maybe with other asset sales? So what could be done in terms of leverage if that deal doesn't happen this year for example?

And then the second question is to explore a little bit more on your S11D project. I understand the mine and the rail, they have different capex evaluation timings. So would you maybe consider as an alternative, not postponing but reaching peak production levels of 90 million tons, maybe more likely towards 2020 not in 2018 as you have been pointing, through a slower capex in the rail? Would that be an alternative? Thank you.

Murilo Ferreira: Thiago, Murilo. I think that we can understand, but is a very challenging decision. With our experience, in case of having some delay in this project, we will see increasing costs. Is the experience that we have. Then this issue regarding to postpone mainly the investment in the railway is something that must be analyzed very carefully. About the project finance, Luciano.

Luciano Siani: The timing for the project finance is expected for the fourth quarter of this year. If there is any delay, the plan is to offset that with two types of transactions. First, US$ 1.5 billion with sales of ships, of which we've already commented, part of it has already been disclosed to the market. And another US$ 1.5 billion on sale of preferred shares into specific assets, which are very well advanced these transactions and we expect to close them pretty soon.

Murilo Ferreira: Just to address properly, we need to check, we need to analyze in case of having some alternative to postpone the logistic, but at this point of time, we are not analyzing any kind of changing in the agenda and implementation of the project.

Operator: Our next question comes from Jeremy Sussman with Clarkson.

Jeremy Sussman: Yes, hello and thank you very much for taking my questions. Just one last clarification. Trying to get a sense of how soon we could look to see some production adjustments. Is this something that we could see in the near future or is this a more predicated one, you know S11D is more up and running and you have a little bit more flexibility on that front?

Peter Poppinga: Thanks Jeremy. This is not related to S11D, this is related to market conditions and our flexibility. We now have in the Southern and Southeastern Systems, that we can have new capacity coming in substitute old and low margin capacity and going beyond that. So production adjustments are a possibility, it can happen in 2015, can happen in 2016, but it has to do with the market. Our margins, by the way, in the Southeastern System and the Southern system, none of them are negative. So, it is a question of adjustments of margins and adjustments of production flows, because you can obtain better margins by mixing things differently. Thanks.

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

Marcos Assumpção: Good morning, everyone. First question on iron ore, actually just to confirm a number here. The EBITDA per ton on iron ore fines in the first quarter totaled US$ 10 per ton, and I've adjusted the price of Vale, instead of the US$ 62 per ton Platts, after adjusting for the pricing systems, we get actually to a price equivalent of US$ 55 per ton, so for fines. So, basically I would like to confirm with you guys that if that calculation is right, the breakeven price for Vale in the first quarter was around US$ 45 per ton. So I would like to confirm that and to see if you are already closer to US$ 40 per ton, probably in the second quarter, as you continue to cut cost?

And my second is regarding the coal asset in Moatize, if you could comment a little bit on the expected cost reduction for that operations whenever you start to use the logistics and also you start to increase volumes there, so you would have more dilution of fixed costs? Thank you.

Luciano Siani: Marcos, on the first question, this is Luciano, you are right, the breakeven was around US$ 45 per ton. And without any, if you just consider the US$ 2 per ton that was mentioned afterwards in terms of potential cost reduction already in 2015, and another US$ 2 simply taking out the hedge accounting effects, which affected maybe there for iron ore, this gives you already, without changing the exchange rates, always remembering the exchange rate on average for the first quarter was 2.84, that we would be already operating near US$ 40 per ton. So as Murilo said, the goal is to go beyond that with our cost cutting efforts.

Marcos, on the logistics for Moatize, we are expecting opex, including railway and port, of between US$ 18 and US$ 20 per ton, which obviously is a much improved situation compared to the current situation whereby we are paying around US$ 60 per ton in the Sena-Beira Corridor. So that's our goal.

Murilo Ferreira: Now in the end of the session, I think that it's time to say thank you very much for your support, for your understanding. And we can say that we continue to work hard in order to deliver our projects below budget and on time, and to be very competitive and based in the discipline in capital location and to bring the best returns for our shareholders. Thank you very much.

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