Vale S.A.

4th Quarter 2015 Earnings Results Conference Call

February 25th, 2016

Operator: Good morning ladies and gentlemen. Welcome to Vale's conference call to discuss 4Q15 and full year 2015 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 March 2nd 2016, on ***+55 11 3193-1012 or 2820-4012*** – access code ***6759495#***

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;
- Mr. Galib Chaim – Executive Officer of Capital Project Implementation;
- Mr. Roger Downey – Executive Officer of Fertilizers and Coal;
- Mr. Humberto Freitas – Executive Officer of Logistics and Mineral Research; and
- Ms. Jennifer Maki – Executive Officer of Base Metals.

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 and conference call. Thank you all for joining us to discuss both our 2015 and 4th quarter results.

Vale's financial performance was impacted by the sharp drop in commodity price in 2015. Despite this drop we have successfully managed to reduce costs and expenses, implemented growth projects and advanced our divestment program, while maintaining a stable gross debt position.

Despite all our efforts Vale reported a net loss of US$ 12.1 billion in 2015. This result was impacted by two non-cash effects: impairment in the amount of around US$ 9 billion as a result of sharp decline in commodity prices; financial losses stemming primarily from the depreciation of the Brazilian real on our US dollars denominated debt in derivative positions.

Despite to their immediate impact on Vale's earnings these events do not impact our cash flow generation in short term to medium-term, and can potentially be reverted depending on the market conditions in the medium term. Additionally, our efforts were overshadowed by the failure of Samarco's tailings dam at the beginning of November 2015. As we have said in many occasions, we have been working diligently with Samarco since the beginning and we maintain our commitment to support the affected regions, the communities and the environment.

Now I'll talk about the financial and operational performance. I am pleased to report that Vale delivered a sound numbers performance in 2015 with annual production records in iron ore, pellets, copper, nickel, cobalt and gold.

Our adjusted EBITDA in 2015 amounted US$ 7.1 billion. In 2015 we achieved a reduction of over 5.9 billion in costs and expenses. Our cost decreased by 20%, our general sales and administrative expenses decreased by over 40%, our research and development expenses decreased by 35% and our pre-operating and stoppage expenses decreased by roughly 20%.

We also had a decrease in capital expenditure for the 5th consecutive year, with a strong reduction of 3.6 billion in our investment, from 12 billion in 2014 to 8.4 billion in 2015. Total annual Capex exceeded the previous guidance by US$ 200 million as a result of a better-than-expected execution of S11D project and its associated logistics.

Despite a scenario of declining commodity price and still high capital expenditure, Vale paid 1.5 billion in dividends in 2015 while maintaining its gross debt relatively flat at US$ 28.9 million. Our average debt maturity was 1.1 year with an average cost of debt of 4.5 per annum.

In line with our divestment program, asset sales amounted more than 3.5 billion in 2015, including the sale of a minority stake in MBR for over US$1 billion, the sale of 12 very large ore carriers for roughly 1.4 billion and US$ 900 million from another goldstream transaction and about 100 million on the sale of energy assets.

Going to ferrous minerals, I'm proud to inform you that our iron ore C1 cash cost decreased by US$ 9.6/t through 2015 and reached US$ 11.9/t in the last quarter, the lowest in the industry.

Our freight cost – excluding the effect of the hedging account for bunker oil – decreased to US$ 14.1/t due to lower bunker oil price and favorable renegotiation of our contracts and the reduction in spot freight rates.

Our unit cash costs and expenses for iron ore fines landed in China adjusted for quality and moisture went from almost US$ 65 in the last quarter of 2014 down to US$ 32 in the last quarter 2015 on a dry metric ton basis. If adjusted for the sale of pellets this cost will be close to US$ 31.

Ferrous minerals EBITDA reached US$ 5.9 billion in 2015. Still on ferrous minerals EBITDA, I would like to share with you the fact that Vale's hedging accounting program had a negative impact around US$ 440 million in 2015. However, adjusted EBITDA will no longer be impacted by Vale's hedging account program since our outstanding bunker oil exposure recorded under this program was settled in the last quarter 2015.

Physical progress on the S11D mine implant project reached 80% while the physical progress of our railway and port achieved 57%, with 81% progress on the railway spur.

Base metals adjusted EBITDA amounted 1.4 billion in 2015, representing a decrease of 45% against 2014, mainly due to the lower sales price.

Nickel production achieved a new annual record as a result of higher production at VNC and Onça Puma. Copper production supported by Salobo's ramping up was also a record amount.

Coal and fertilizer. With coal we continued to focus on reducing costs, increasing profitability and delivering milestones projects, such as the Nacala Logistics Corridor. The Nacala corridor was completed in 2015 while the Moatize II mine should be completed in the 1st quarter 2016.

Coal EBITDA was negative US$ 149 million in the last quarter 2015, and should improve with the ramping up of the Nacala Logistics Corridor.

With fertilizer our adjusted EBITDA reached almost US$ 507 million in 2015, driven by lower costs and expenses and gains on realized price due to the commercial initiatives. Despite the reduction in sales volumes in 2015, the fertilizer business segment increased its market share in Brazil. Adjusted EBITDA was US$ 117 million in the last quarter, decreasing quarter on quarter mainly driven by lower sales volumes, following the usual annual sales.

Just to finalize, I wanted to say, 2015 was a challenging year and we recognize that the sharp decline in commodity price expected by many markets participants can represent a challenge to our strategy of deleveraging the company after the conclusion of S11D. We wanted to state that we are exploring more aggressive options to reduce our debt, including the sale of core assets.

We don't have specific attachments to any asset from any commodity, so we will explore all the options rationally assessing the trade-offs between the portfolio of assets that we envision in the long-term, the valuation of those assets in the marketplace and the potential debt reduction that will be associated with each divestiture. Our objective after concluding these divestments is to provide Vale with more financial and strategic flexibility.

Thank you for your attention, and let's open this webcast for your questions. Thank you.

Q&A Session

Operator: 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 two at a time.

Our first question comes from René Kleyweg, with Deutsche Bank.

René Kleyweg – Deutsche Bank: Afternoon gentlemen, and congratulations on the comments about the cash from the balance sheet proactively.

Away from that, just on the trade, which is now your single largest cost given the cost-out on the mining side, current spot rates are obviously very low and your hedged cost is running at US$ 14, but it's, the potential is there to pick up vessels at a reasonable price and you've got a ramp up in production coming through from Carajás. Could you talk to us, just in general terms, how you're thinking about your freight and the opportunities and maybe comments about the US$ 300 million of cost savings you've been able to extract?

And then secondly, could you provide us an update just in general terms on how you're thinking about nickel in terms of your asset base and the market? Thank you.

Murilo Ferreira: We can start with Jennifer doing some comments about the nickel.

Jennifer Maki: I think in Q4 we finally delivered the production that most were expecting from earlier in the year, and we've shown that when we deliver the production, especially in North Atlantic, our costs are very competitive. That's not to say that, you know, we are satisfied, we continue to review our costs at all our operations in this challenging market and looking to reduce them.

Our focus in 2016 is on our fixed cost basis across Canada and we are doing a review of that, and obviously we continue to review our asset in New Caledonia, and in Indonesia the performance there they delivered significant cost reductions in 15 and we look to continue that trend in 16.

I would also say Onça Puma in this market remains at cash flow breakeven and they are doing a good job to manage their costs as well.

Murilo Ferreira: Let's go to Peter Poppinga and with some additional comments by Luciano Siani.

Peter Poppinga: Hi, René, thanks for the comment – for the question. The freight, as you well said, is an important, we have an advantage there because we are far away from the main markets, but what we are doing is, the US$ 300 million you were referring to, probably, on page 34, where we said that we took out of the business that we improved our business, net of exchange rate, around US$ 3.5 billion in gains, part of that is US$ 300 million of freight. That's pure renegotiation of freight contracts and existing COAs being replaced in a more competitive basis by new COAs.

Now we are… it is going to be a little more in 2016 where we have some COAs running out in the 2nd half of this year, and the optimization also of the supply chain will fall into that because there's lots of freight inefficiencies today when we have our own ships sometimes having to be diverted directly to customers because the Malaysia operation was still ramping up. This will be now not the case anymore because Malaysia will be fully ramped up this year.

Also the floating transfer stations where we have two operations in the Philippines, we don't need them anymore because now we can go directly to China. Remember that was one of the plan B we had in the past. So all that optimization of supply chain will also fall into this freight optimization. And then, in, a little more longer term the new generation of Valemaxes coming in will be, of course, a very big boost because they have a significantly lower operational cost.

Now, on the spot exposure, there is a limit to we can… I'm not disclosing, I never disclose what is our spot percentage, but it will be at least the double of what we have today, of what we had in 2015, we are going to have in 2016. So that's an important leverage as well.

Luciano Siani Pires: Well, just to add on this point that, if you consider the landed cost in China of US$ 32 that we released today, this assumes an average freight of US$ 14/t as you also said. But if you consider the tons which are on spot, which are the marginal tons basically, this landed cost in China is already US$ 24/t, because the spot is at 6, not at 14. So that is, as you pointed out, a huge opportunity that we intend to capture as Peter just mentioned.

Murilo Ferreira: Thank you René.

Operator: Our next question comes from Andreas Bokkenheuser, with UBS.

Andreas Bokkenheuser - UBS: Thank you very much, thank you for hosting the call. Just a quick question on asset sales. You mentioned during the call earlier this morning that you're looking to reduce net debt, and you mentioned that this morning as well early on this call to about US$ 15 billion. Just in terms of asset sales, you know, what are you thinking in terms of valuations for the individual assets that could raise that kind of money? I think you were mentioning coal assets, so I'm assuming that includes iron ore. So, can you provide us a little bit more visibility on the valuations on the specific assets you have in mind?

Murilo Ferreira: For sure we are including everything in our core business. We don't have any constraint regarding the iron ore, as nickel, as copper, as fertilizer and met coal. For sure we needed to see some trade-offs between what's happened, and what's our…, which means our long-term vision and the valuation of the assets in order to recommend it to my Board.

But I strongly believe that we have some opportunities, it's something that we have already started to see, to test the market. And we have…, our feeling that in case of having good assets with good margins, regardless of the market that we are living right now, we can see good opportunities. Thank you very much.

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

Wilfredo Ortiz – Deutsche Bank: Yes, good day everyone. Just to follow-up on some of the comments as far as the targets, what have you, in terms of net debt and recognizing all of the initiatives that are in place, when should we start to see, you know, could some of that be seen throughout the course of 2016? And by that I mean, in addition to the announced asset sales that you have sort of alluded to during the course of the Vale Day, how advanced would you be in some of these increments of potential asset sales? Is it something more towards the later part of their, into next year?

And then, you know, as far as cost, expenses, Capex, considering where we are right now, do you have any targets for further reductions in any of these items that you have previously guided for?

Murilo Ferreira: Thank you for your question. In fact, we are… agenda to have everything in place in one year, one year and a half. But, for sure, we don't need this to go in just in one shot. Probably we can spread in different tranches. But it all depends of our negotiations. I believe that you could consider one year and a half as a tenor that we will be able to build good alternatives.

And, by the way, I think that we need to provide some further clarification about the project finance as well, and I will leave with Luciano about the costs and some clarification about the project finance.

Luciano Siani Pires: Okay. So, for clarification, the asset sales we are talking about to reduce net debt to US$ 15 billion, they are in addition to what we have announced over Vale Day. So the Vale Day asset sales, they are more geared towards financing our…, the end of our investment program in 2016, bridging any cash flow gaps depending on the behavior of prices, whereas the more strategic ones, they intended to really slash net debt.

So in this front, so you heard a lot of the project finance, some of you might be wondering why it takes so long. So the deal with Mitsui was signed in December 2014, by the same time when there has been a change in the government of Mozambique. So, all the approvals for the interest of Mitsui in the entities, they took about six months to get. So we have the tax authority, the Central Bank, Ministry of Mines, Ministry of Transportation. So in fact, the discussions toward the project finance they really started more intensively on the 2nd half of last year.

We got some, at that point, some conceptual deadlocks. These deadlocks were resolved by the end of the year. You saw the African Development Bank approving the transaction in December. Now, in 2016, I would say… and then there was a lot of due diligence ongoing, so technical due diligence, social due diligence, environmental due diligence in the mine, in the railway, IFC has just published in its site a very extensive report on the environmental and social due diligences of the project, as you can see, the amount of work that's been put into that.

And now, in 2016, we would like to make a public acknowledgment here, especially to the government of Mozambique and Malawi, because of their full engagement into bringing this to fruition, their support and in the intensity which they have been dedicating to the negotiations. That's why we are now so confident that we should be able to finalize the term sheets and have the approvals of the other financing, the lender institutions by the next few months and, therefore, we can finally proceed to the more detailed documentation and to closing somewhere and receiving the money somewhere in the beginning of the 2nd half of next year.

So it is simply very complex – yeah, of this year, exactly - so it's simply very complex. It’s five institutions, two governments, you’ve got a lot of work, but I have to say, especially with the energy that the governments are putting right now, which I do acknowledge here publicly and we do acknowledge publicly, that we are very confident in a successful closure of the transaction.

Murilo Ferreira: Thank you very much.

Operator: Our next question comes from Carlos de Alba, with Morgan Stanley.

Carlos de Alba – Morgan Stanley: Thank you, thank you very much. Just a follow-on on the project financing. Is it more or less… you know, has the amount remained the same, around 2 or maybe US$ 3 billion on this transaction or has it been revised because of the delay in closing it?

And second, if you could give us any update, if you have, on any more specific targets in terms of cost reduction or expenses reductions for 2016. Thanks.

Luciano Siani Pires: Okay. So I'm sorry Wilfredo, I forgot to address the costs and expenses, Carlos is giving the opportunity, so I'll start by that.

We actually engaged in a full companywide review of our plans in the beginning of this year. Those plans were just approved by the Board, so I would say the Company is indeed targeting additional cost and expense reductions. For instance, I'll give you guidance for Capex, now we are targeting more something around US$ 5.5 billion instead of the original US$ 6.2 that we disclosed that during Vale Day.

I'm not going to give specific details on cost and expense reductions, but I want to make sure that, whatever the plans that we did as of the end of last year that we approved on our annual budgeting process, they are now superseded and the Company is putting all its energy to deliver, in addition to that, additional value and competitiveness. And the heads of the businesses can address those opportunities specifically.

On the project finance…, so just reminding you that the transaction as a whole should bring around US$ 3 billion, being US$ 1 billion from the equity portion from the Mitsui agreement, and the project finance itself, we are setting a conservative target of US$ 2 billion. We have commitments for more than that, but we believe that perhaps at US$ 2 billion we can reach the optimum balance between the costs and the capital structure of the entity, which will bear the debt. But if need be, we have the opportunity to go above that.

Murilo Ferreira: Thank you Carlos.

Operator: Our next question comes from Christian George, with Societe Generale.

Christian George – Société Générale: Thank you. Just a couple of questions I wanted to clarify. In terms of your cash flow, how much of the proceeds which you announced last year and the same for Valemax and so on is actually accounted for in 2015? And how much do you see that will come for 2016, if any, and whether you could give us an idea of how much more outside the project finance in Mozambique you have in mind in terms of potential proceeds of assets? Actually, excluding the divisional failure you are contemplating?

And the second question is, I believe that you've got about 30 million tons, roughly, of additional iron ore production that you're able to produce to the market in 2016? What would be your behavior if overall demand is static or even lower in 2016, with your demand from China, how would you behave with those 20 additional million tons? Thank you.

Luciano Siani Pires: All right. Only the proceeds, again, making a clear distinction between the transactions announced during Vale Day, which were intended to be done in 2016, and the other more core assets that we are not going to talk about proceeds, but focusing on the transactions which were announced on the Vale Day, a few days after Vale Day we concluded the sale of four ships for around US$ 400 million so, therefore that was actually accounted in 2015, rather than in 2016. We've already talked about the project finance, we do have also a transaction of energy assets, and bauxite assets that, again, I'm not giving particular figures, but we've indicated that we can see each of them several hundred million dollars, but that would… in addition, we have also another seven ships still remaining on our portfolio that can be sold. We have also other alternatives, which you know about, which are, for example, additional preferred shares or additional streaming operations that we are constantly evaluating. So, beyond the project finance we've indicated then at Vale Day that we could reach somehow something around 4.5, maybe even US$ 5 billion of assets sales if you put all those transactions together. That's, again, what has been announced in end of 15, do not relate to what Mr. Murilo has started his speech talking about, which is the sale of core assets to reduce debt.

Murilo Ferreira: Thank you very much. Peter, please.

Peter Poppinga: Christian, thanks for the question. The guidance… although I said in the previous call that the seaborne market in my opinion is balanced of what is coming in of new supply, which is around 60 million, and what is coming out, which is 40 million and the rest is depletion, we think it's not time to push for extra production, that's why we gave the guidance at the Vale Day of 340 to 350 million tons. And it will depend really on market conditions and on our margins optimization, continues margin optimization efforts. So I think that is a very balanced answer I can give you.

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

Tony Rizzuto – Cowen & Co.: Thank you very much and congrats on the success on driving cost lower and good to hear the initiatives to try to delever in a meaningful way. My question is a follow-up. I was not on the earlier call but, on the iron ore market, I was wondering if, as a result of the Samarco tragedy, are you diversifying or diverting more supply to Europe and possibly way from China to make up for that shortfall that was previously going to Europe out of Samarco?

Peter Poppinga: Thanks for your question. This is not a Samarco subject only. Yes, we are increasing our sales in Europe, but naturally because some of the smaller companies are struggling to cope with the volumes there and also because Europe is recovering a little bit in terms of the steel market. Samarco, yes, we are also stepping in for the moment, but it's much more about Europe naturally needing more iron ore from Vale because of some of the smaller suppliers reducing or stepping out production. So it is actually both, but much more the natural trend to go to Europe again.

Murilo Ferreira: Thank you.

Operator: Our next question comes from Sylvain Brunet, with BNP Paribas.

Sylvain Brunet – BNP Paribas: Good morning, gentlemen. I had a question on VNC nickel because I'm a bit puzzled by the strategy when we see the proceeds of, like, over US$ 400 million EBITDA in 2015. First I wanted to understand how good a proxy this was for the cash losses your operations are making. Second, could you confirm that on your guidance you would keep proceed at current prices with a ramp-up that would lose roughly US$ 4,500 per ton cash, all right? And that's on top of the proceeds that you would have to pay to Sumitomo for their exit. So, could you please square that with your medium to long-term view for nickel that would justify you spending this sort of money in this business? Thank you.

Jennifer. Maki: I think that the first thing is to reiterate it as we said it at Vale Day is that we are considering other options in New Caledonia, and that exercise is ongoing and later this year we will be able to update you on that. Essentially, we are projecting a unit cash cost of about 13,000 in New Caledonia this year, and we originally guided around 46,000 tons. I'm not sure that we will do 46,000 tons this year. That 46,000 tons required an investment in the mines fleet that this time we are holding back, given the nickel market. So we could be 5,000 tons or 6,000 tons less than that.

And I think, just to balance the conversation on New Caledonia – cause I know there's a lot of negative sentiment on that and, as I said, we are doing our review – you have to remember that it is a very long life resource basin, so you don't make a decision in a moment. You take your time and make sure you've fully considered all the factors that go into making a decision with a reserve base that is over 30 years in terms of life of mine.

Operator: Our next question comes from John Tumazos, with John Tumazos Very Independent Research.

John Tumazos – John Tumazos Very Independent Research: Thank you for all your good work. The current time is sort of an extreme moment, US$ 26 oil, US$ 6 iron ore spot freight, US$ 3.750/ton nickel, etc. If iron ore rebounds just US$ 10 next year, it's 4 billion of EBITDA. I'm worried that you might make too many decisions during the extreme moment, sell core asset's cheap. What will you do to lock in low costs, more contracts shipping and keep your upsides opened? Just a little patience in 2018 could reduce a lot of that just from the wonderful assets in place.

Luciano Siani Pires: John, this is Luciano. This is a great question, that's precisely why we do not want to rush and to be making decisions at the spur of the moment or pressured by the market conditions, but we have to balance with the insurance that we need to have in case prices go lower. So you can be sure that in the tradeoffs that we are going to make, the preservation of an upside will be paramount. We do believe that over the medium to longer term, being in possession of the great assets will be rewarding, so therefore that has to be in place.

On the other hand, we need to acknowledge that there is a large chunk ofthat we need to refinance over the next few years. So, tracking the adequate balance is what management is looking for on the benefit for shareholders.

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

Marcos Assumpção – Itaú BBA: Hi, good morning everyone. Two questions here. First one, what were the price assumptions that you used for the impairment tests on nickel, iron ore and coal?

And the second question, maybe to Murilo or to Peter, we saw, given the recent results in the mining industry, we saw like Anglo saying that they could be selling iron ore assets, we also saw BHP and Rio Tinto reducing their dividends and even cutting Capex for future expansions as well. Do you think that there is a read-across to the mining industry and more specifically to iron ore prices of these recent results in the mining industry?

Luciano Siani Pires: Marcos, Luciano. On your first question - and this comes from the financial statements - there is a footnote 15, when it talks about impairments, the numbers are there. So just for the sake of clarity, for iron ore we are using a curve that starts at 48 and goes longer-term to 65. For coal we are going to 85 to 140 and nickel starting at 13,000 and phosphate 105 to 125. So, and you see you have all the details on that footnote.

Operator: Our next question…

Luciano Siani Pires: Marcos, could you please repeat your second question? I'm sorry.

Marcos Assumpção – Itaú BBA: Okay, no problem. Given the difficult results that we saw for other mining companies, like Anglo saying that they could be selling iron ore assets, BHP cutting Capex and also cutting dividends, do you think that this shows that we are probably close to a bottom here? Even like the large companies or the low-cost producers, theoretically the more prepared companies are already saying that this kind of price levels may be not sustainable. Do you think that there is anything that we could read from these results, from these recent actions from these companies?

Murilo Ferreira: As you can see Marcos, with most of their ratings that in the bond market and share price, I think that there is a clear demonstration that at this level of price, and as Peter mentioned a few moments ago regarding what's happening with supply in Europe, saying that small producers they are not able to confirm some contracts, in our view it's very clear that if you are not in the bottom you are very near. In the context of the… even if it's not a decision by themselves, it's a decision by the credit issues. Thank you very much.

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

Mr. Lofiego, your line is open.

Our next question comes from Leonardo Shinohara, with HSBC.

Leonardo Shinohara - HSBC: Yes, thanks for the question. Just a quick question. You had more Capex disbursement because of a better-than-expected physical progress at S11D. So the question is, given that, and you have pointed out that on the second half of 16 you might start production there, can you expect anything for this year in terms of tonnage coming, or will there be a shift, in other words, producing better product, higher FE content as opposed to lower? Thank you.

Murilo Ferreira: I think that we can have more flexibility in the ramping up. We don't think that we are, to go to the market and to sell. The context is mainly in order to assure that the ramping up can be more smoothly.

I think that we are in the end of our webcast. Thank you very much for your questions and all the best.

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