



Vale's Performance in 2Q18

Rio de Janeiro, July 25th, 2018



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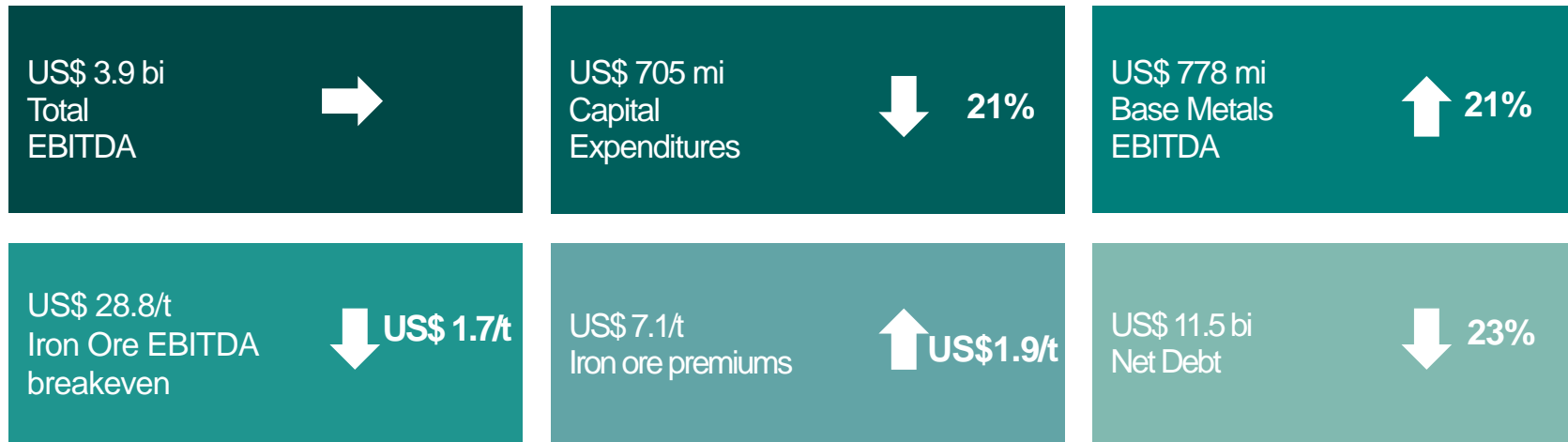
Agenda

1. Vale's performance in 2Q18
2. Predictability
3. Flexibility
4. Cost management
5. Capital allocation
6. Diversification through own assets
7. Business segment performance



Vale's performance in 2Q18

Performance highlights in 2Q18



Chief Executive Officer Mr. Fabio Schvartsman commented on the 2Q18 results: *“I am pleased that several of the main aspects of our strategy were highlighted in the last quarter. We have shown significant progress in **predictability, flexibility, cost management**, discipline in **capital allocation** and **diversification through our own assets.**”*

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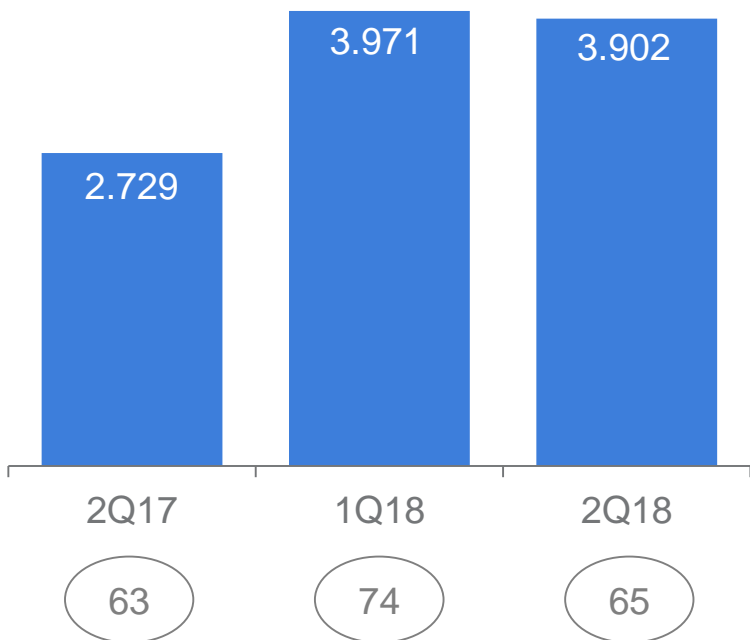
Predictability

2Q18 EBITDA was in line with 1Q18 as anticipated, overcoming the challenges of lower prices and supply disruptions in Brazil

Adjusted EBITDA

US\$ billion

○ Iron ore 62%
reference price (US\$/t)



Highlights 2Q18

Adjusted EBITDA was US\$ 3.902 billion in 2Q18, **remaining practically in line with 1Q18**, despite lower iron ore and metallurgical coal market reference prices, as a result of **higher volumes across the businesses and higher premiums**



Ferrous Minerals had another outstanding result despite the **US\$ 9/t drop in iron ore market reference price**, with **an adjusted EBITDA of US\$ 3.228 bi**

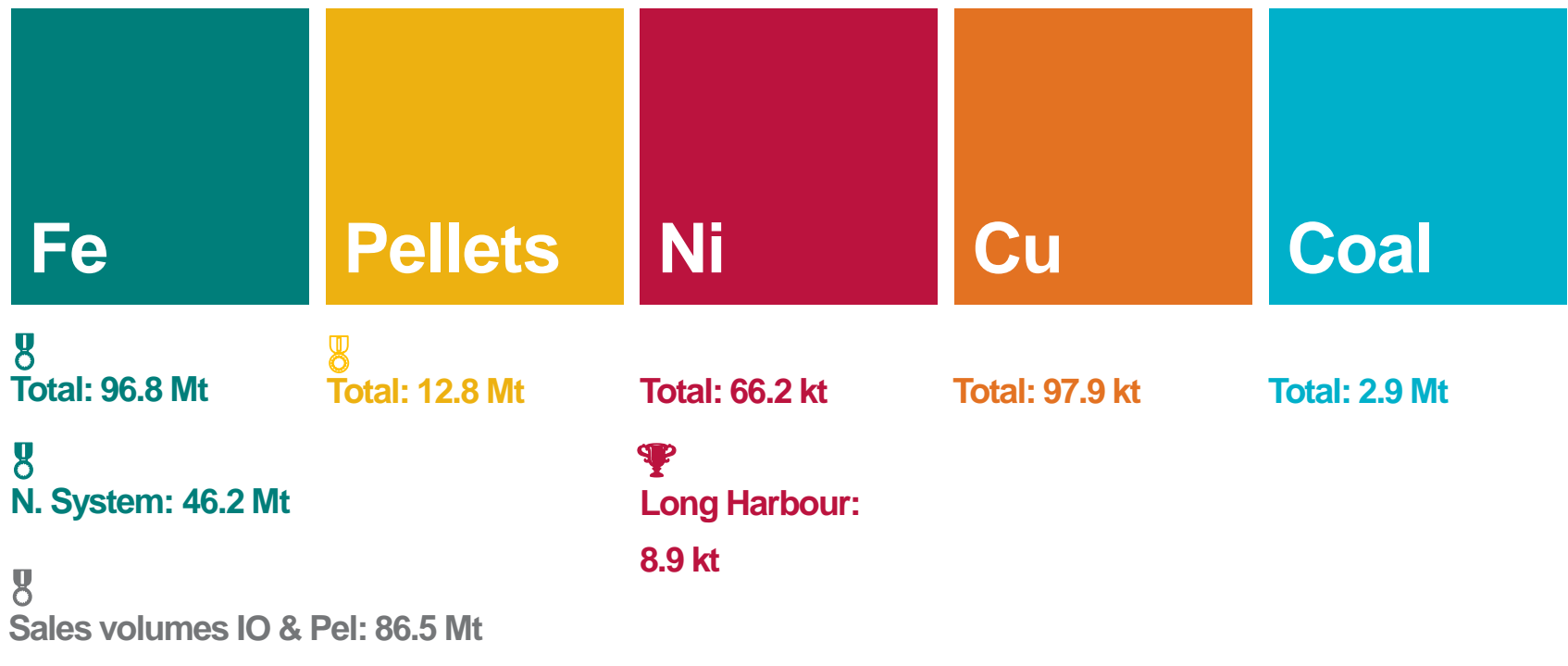
Base Metals adjusted EBITDA increased 21% q-o-q, totaling US\$ 778 million and representing **20% of total EBITDA**

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Flexibility

Production and sales records for a 2Q, overcoming the challenges of truck drivers' strike in Brazil

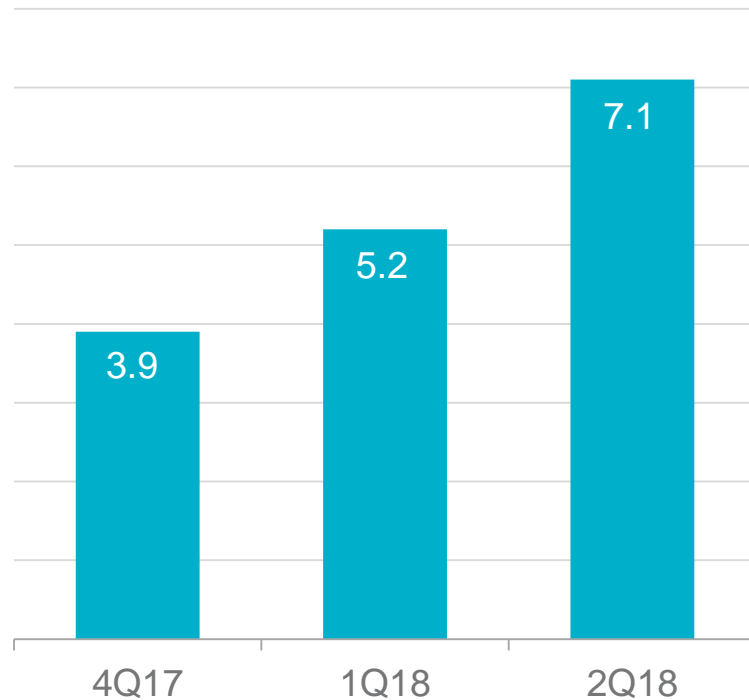
 Quarterly record
 Record for a second quarter



Record premium of US\$ 7.1/t, due to the active optimization of the supply chain and the premium product portfolio

Average Premiums¹ of iron ore fines

US\$/t



Highlights 2Q18

Value over volume

Differentiation strategy capturing the benefits of the structural “flight to quality” trend

Record was a result of **marketing efforts to position Vale’s premium product portfolio** and the dynamic supply chain management maximizing margins

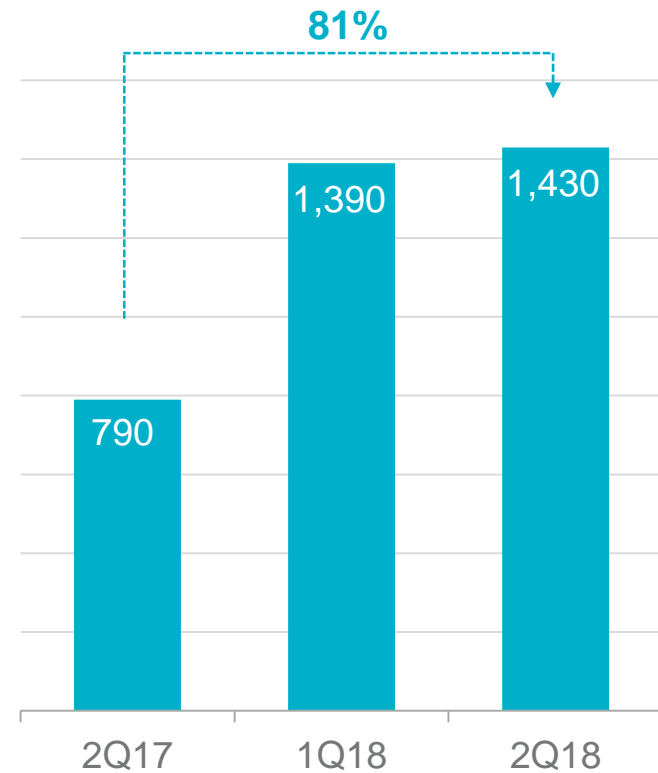


¹ Include the effects of Vale’s higher Fe content, premiums for lower alumina and phosphorous, discounts and commercial conditions.

Continuous growth in nickel quality premiums over the last quarters

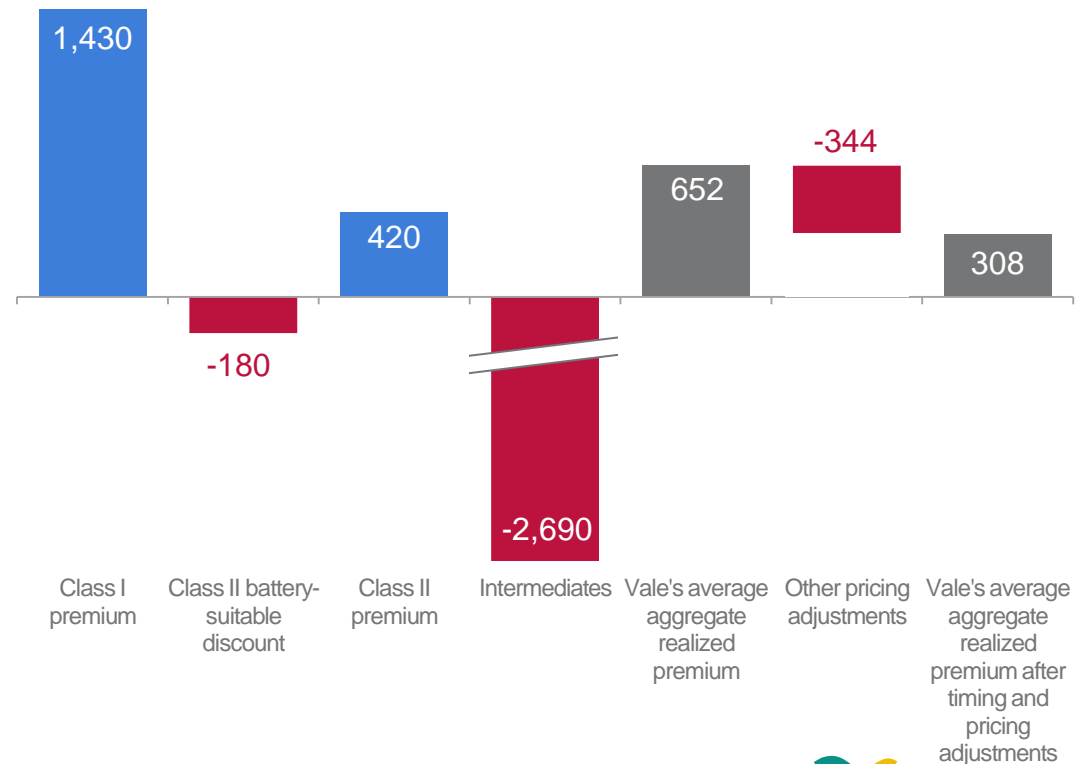
Class I nickel products premium

US\$/t



Nickel premium/discount by product and average aggregate realized premiums

US\$/t, 2Q18



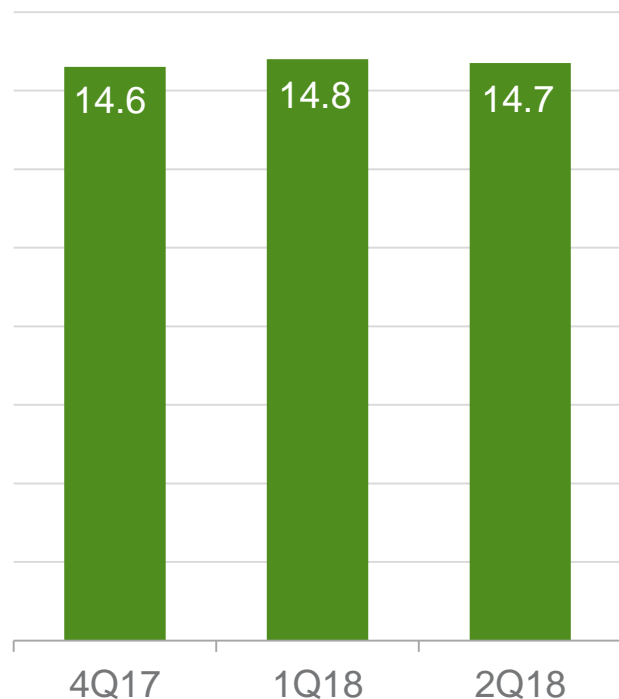
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Cost management

Vale managed to overcome the challenges faced in 2Q18 and delivered a C1 cash cost in line with previous quarters

Iron ore fines C1 cash costs

US\$/t



Highlights 2Q18

Effects of the **BRL depreciation and higher dilution of fixed costs** on higher production volumes **were offset by:**

- **Impact of the truck drivers' strike** in demurrage costs, as a result of the adjustment in production plans affecting the availability of certain products at Brazilian ports
- Consumption of **inventories with higher average costs**
- **Seasonally higher maintenance costs**

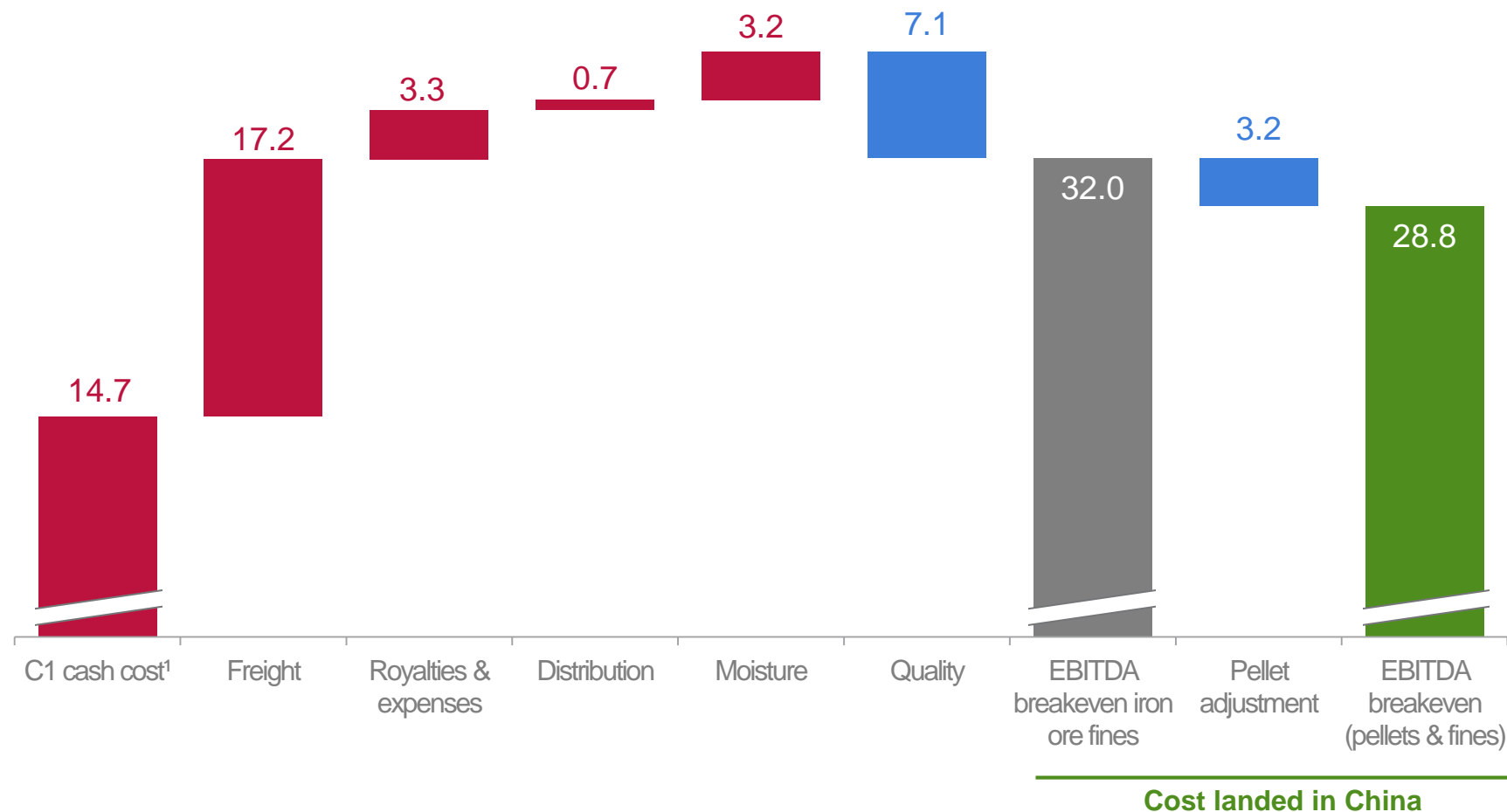
C1 cash cost¹ is expected to decrease to an average **distinctly lower than US\$ 13.0/t in 2H18**, benefiting from the competitiveness of growing S11D volumes, seasonally lower costs and higher production



¹ At current exchange rate of BRL 3.85 / USD

EBITDA breakeven decreased by US\$ 1.7/t and broke the US\$ 30/t barrier

US\$/t, 2Q18



¹ Ex-ROM

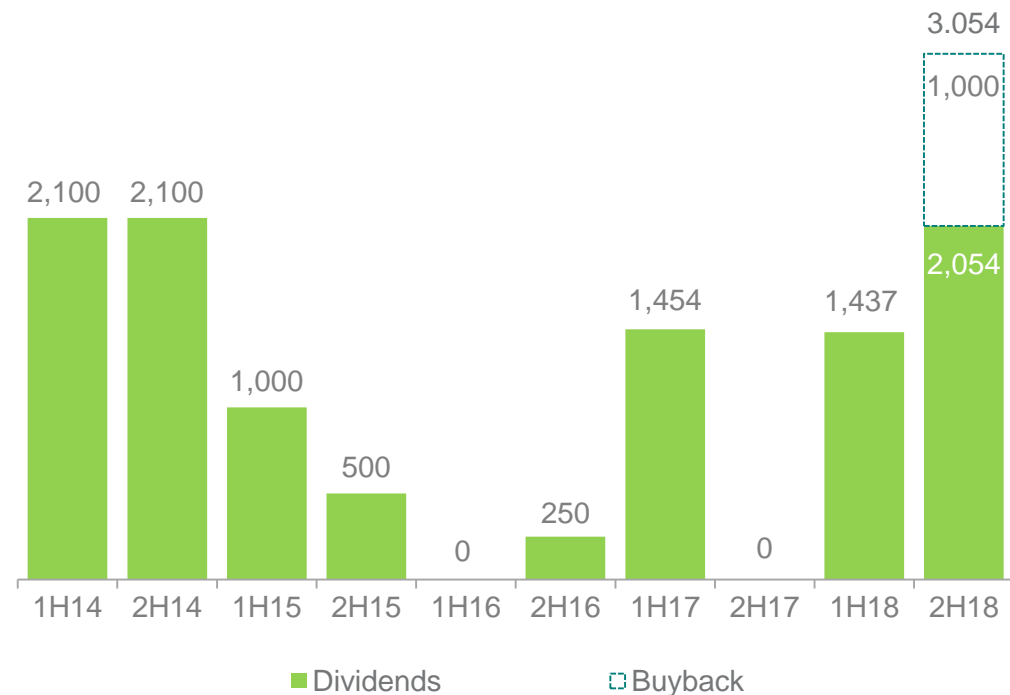
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Capital allocation

2Q18 marked the beginning of a new era of shareholder remuneration

Shareholder remuneration

US\$ million



Highlights

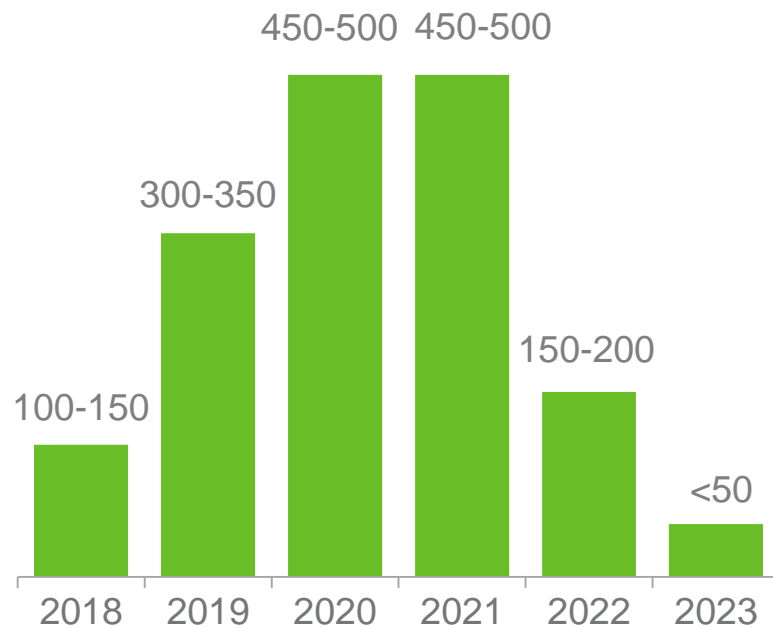
Pursuant to the new dividend policy, **US\$ 2.054 billion** will be paid in September, the **highest remuneration for a semester since 2014**

Announcement of a **share buyback** program of **US\$ 1 billion** to be executed within the period of one year, the **best investment for our excess cash**

Voisey's Bay underground (VBME) was transformed into a high return investment of more than 35% p.a. by the cobalt stream transaction

Voisey's Bay Underground (VBME) sustaining capex

US\$ million



Cobalt stream Highlights

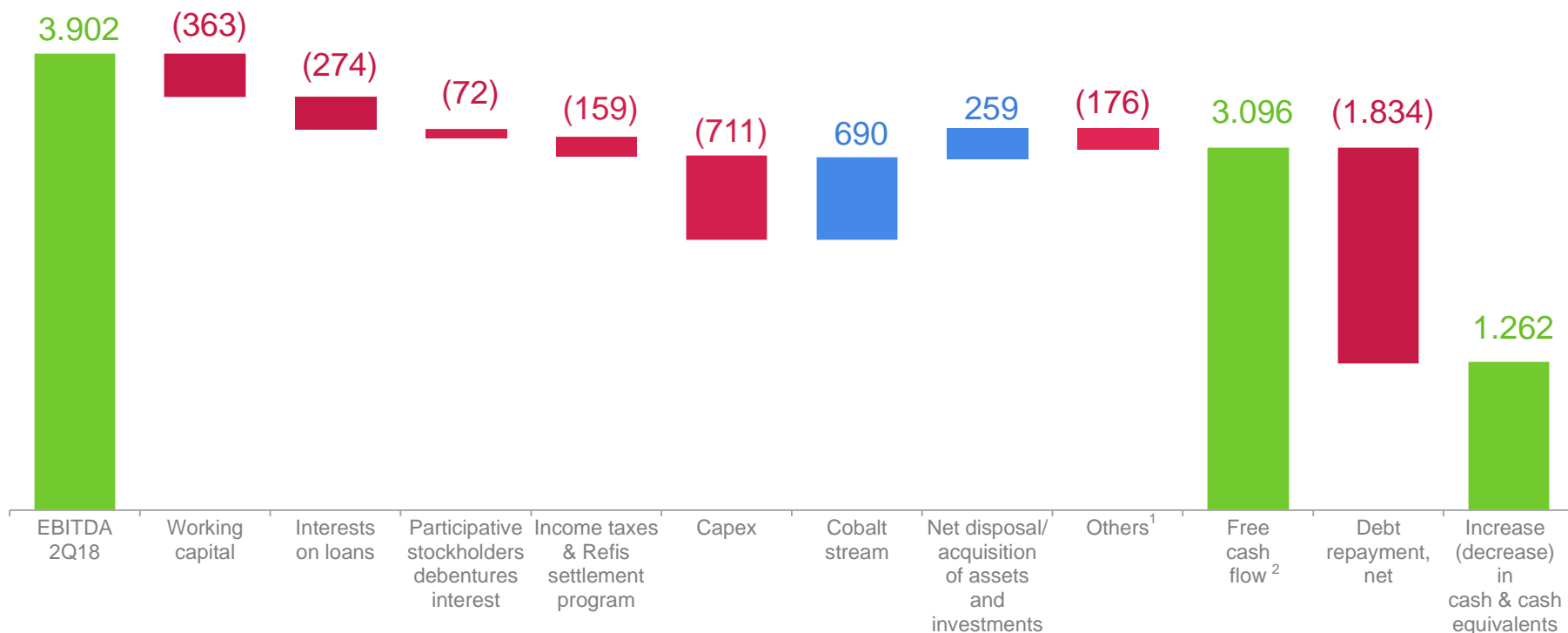
Sale of **75% of the cobalt stream** from Voisey's Bay for a total upfront payment of **US\$ 690 million plus additional payments of 20%**, on average, **of cobalt prices upon delivery**

The transaction guarantees a significant share of the total capex required for VBME while **maintaining 40% of future cobalt exposure** in the mine

Commitment to optimizing margins and **maintaining the optionality** for the scenario of higher demand for **nickel**

The highest FCF for a 2Q in 10 years enabled US\$ 1.8 bi of debt repayment and a simultaneous cash increase of US\$ 1.3 bi

US\$ million



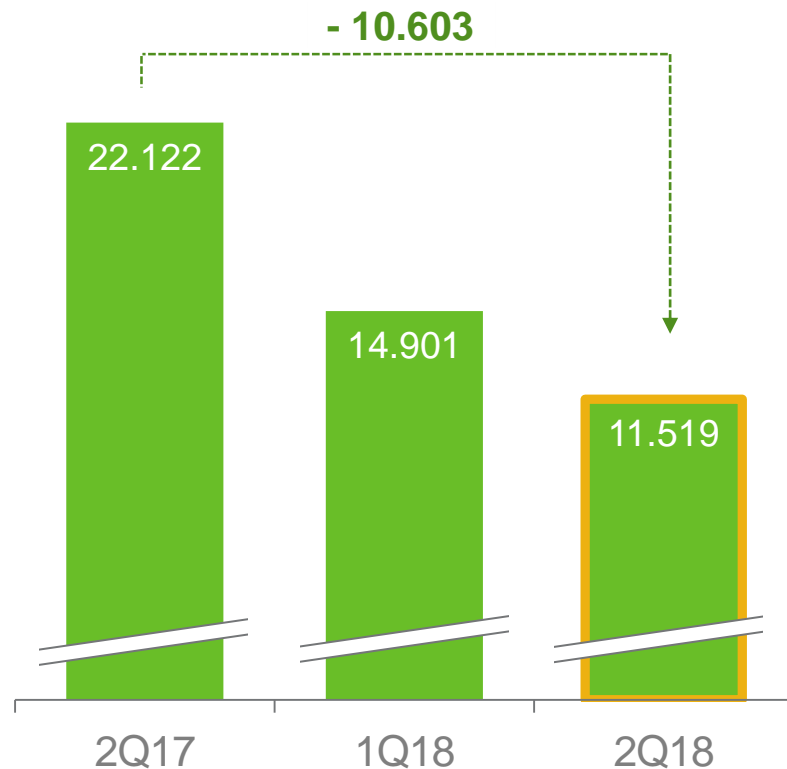
¹ Includes derivatives and financial instruments, dividends and interest on capital from associates and JVs and other loans, loans and advances receivable from noncontrolling companies, dividends and interest on capital attributed to noncontrolling interest, Samarco and others.

² Net cash provided by operating and investing activities from continuing operations, including dividends and interest on capital paid to noncontrolling interest.

Significant reduction in net debt of US\$ 3.4 billion, the highest decrease on a quarterly basis

Net debt

US\$ billion



Highlights

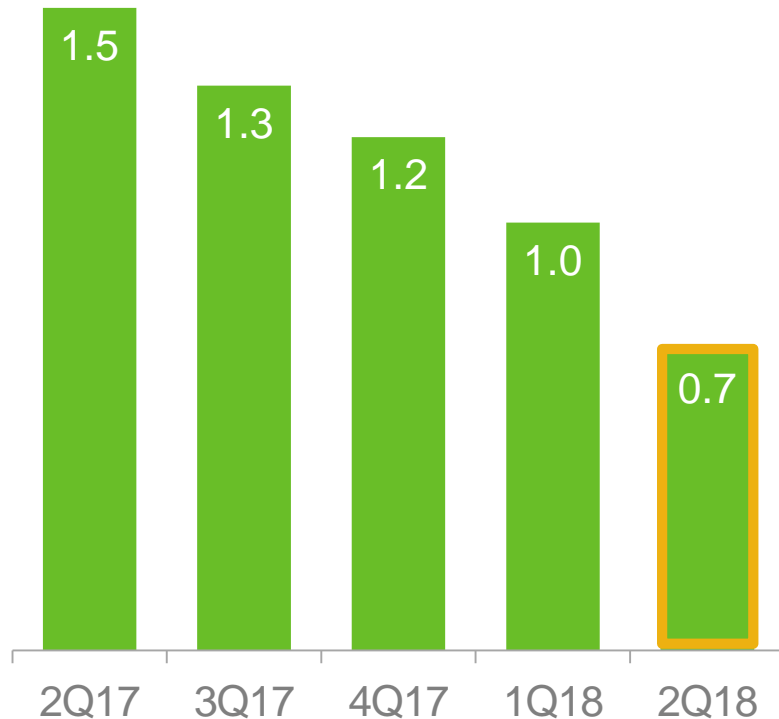
Cash position on June 30th, 2018 of **US\$ 6.387 billion**


Net debt has reached the **lowest level since 2Q11**, **reducing** by almost **US\$ 11 billion** over the last **12 months**

Vale is **close to achieving** its **net debt target of US\$ 10 billion** and it can already perceive the benefits of carrying lower indebtedness on its **gross interest**, which were **reduced by 30%** from about US\$ 900 million in 1H17 to US\$ 630 million in 1H18

Leverage decreased to 0.7x and will reduce further as net debt target of US\$ 10 bi is reached in the short term

Net debt / LTM¹ EBITDA Ratio





 Net debt in
 2Q18:
 US\$ 11.519
 billion



 LTM EBITDA /
 LTM gross
 interest:
 11.4x



 Average
 maturity:
 8.9 years



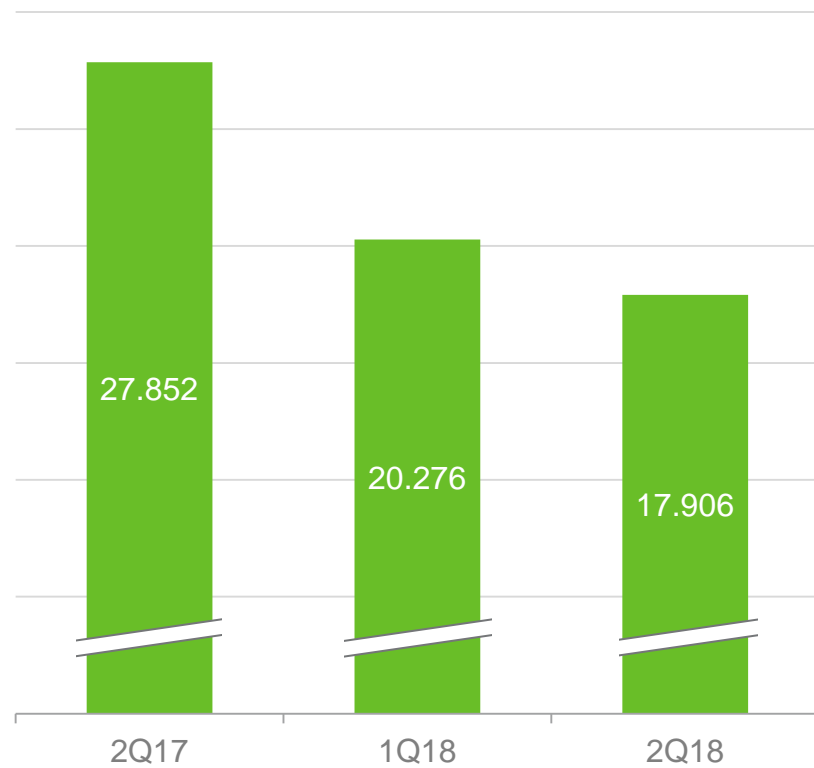
 Average cost of
 debt:
 4.96% per annum

¹ LTM – last twelve months

The decrease in gross debt against the end of last quarter was mainly due to repayments of US\$ 2.1 billion in 2Q18

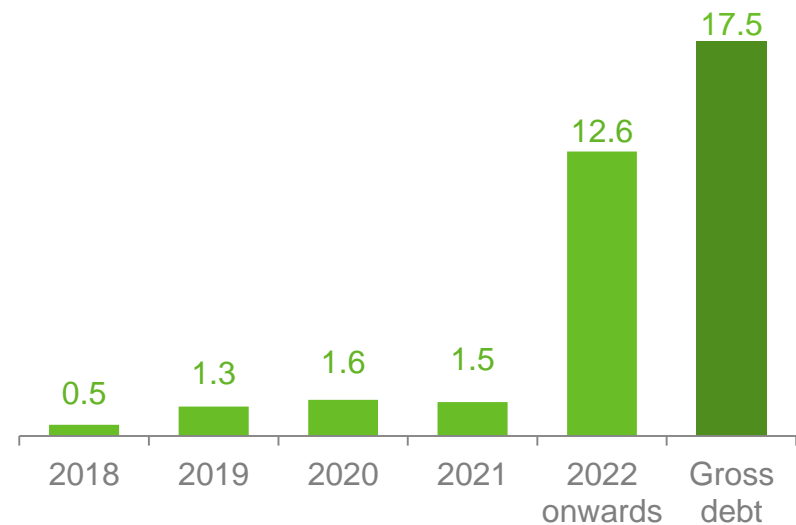
Gross debt

US\$ billion



Gross debt amortization schedule¹

US\$ billion



72% of our debt settlement will occur **after 2022**



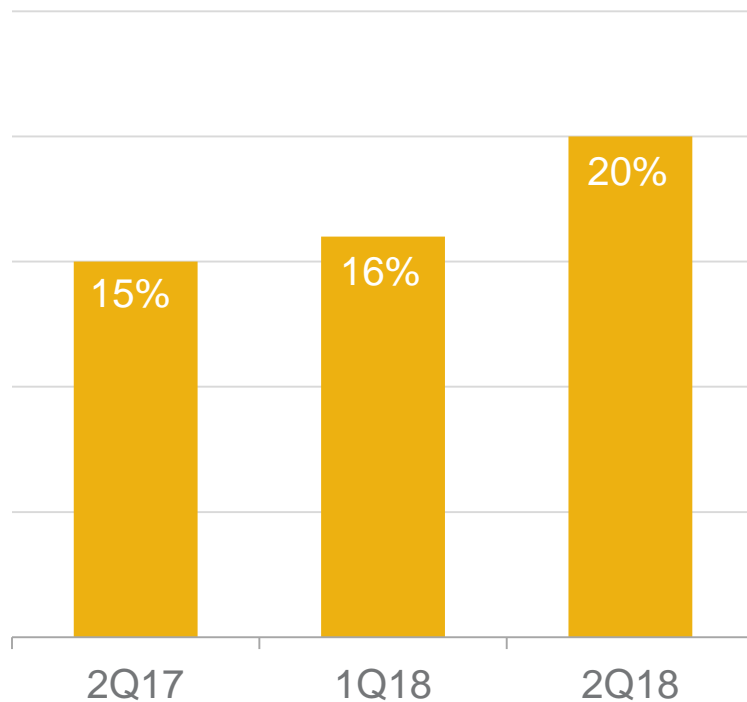
¹ As of June 30st, 2018. Does not include accrued charges.

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**Diversification
through own assets**

Base Metals EBITDA amounted to 20% of the company's EBITDA

Base Metals EBITDA share of Vale's EBITDA



Highlights 2Q18

Base Metals EBITDA totaled US\$ 778 million, anchored in higher volumes of nickel, copper and gold and higher realized premiums for nickel

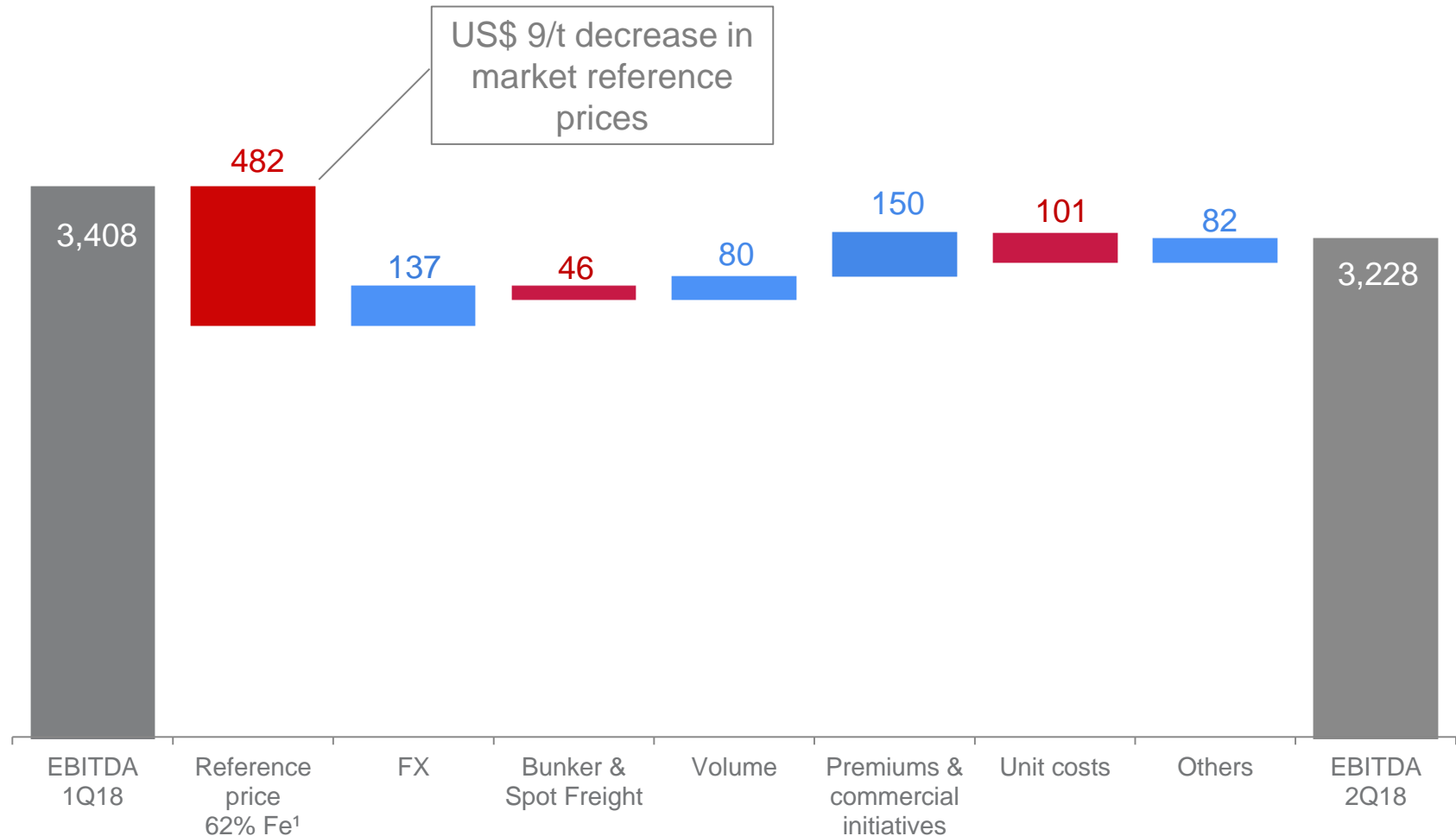
Optimization in nickel and the overall good performance of copper drove EBITDA up 21% (US\$ 134 million) q-o-q



**Business segment
performance**

Ferrous Minerals EBITDA was practically in line with 1Q18, mainly due to record premiums and higher volumes

US\$ million

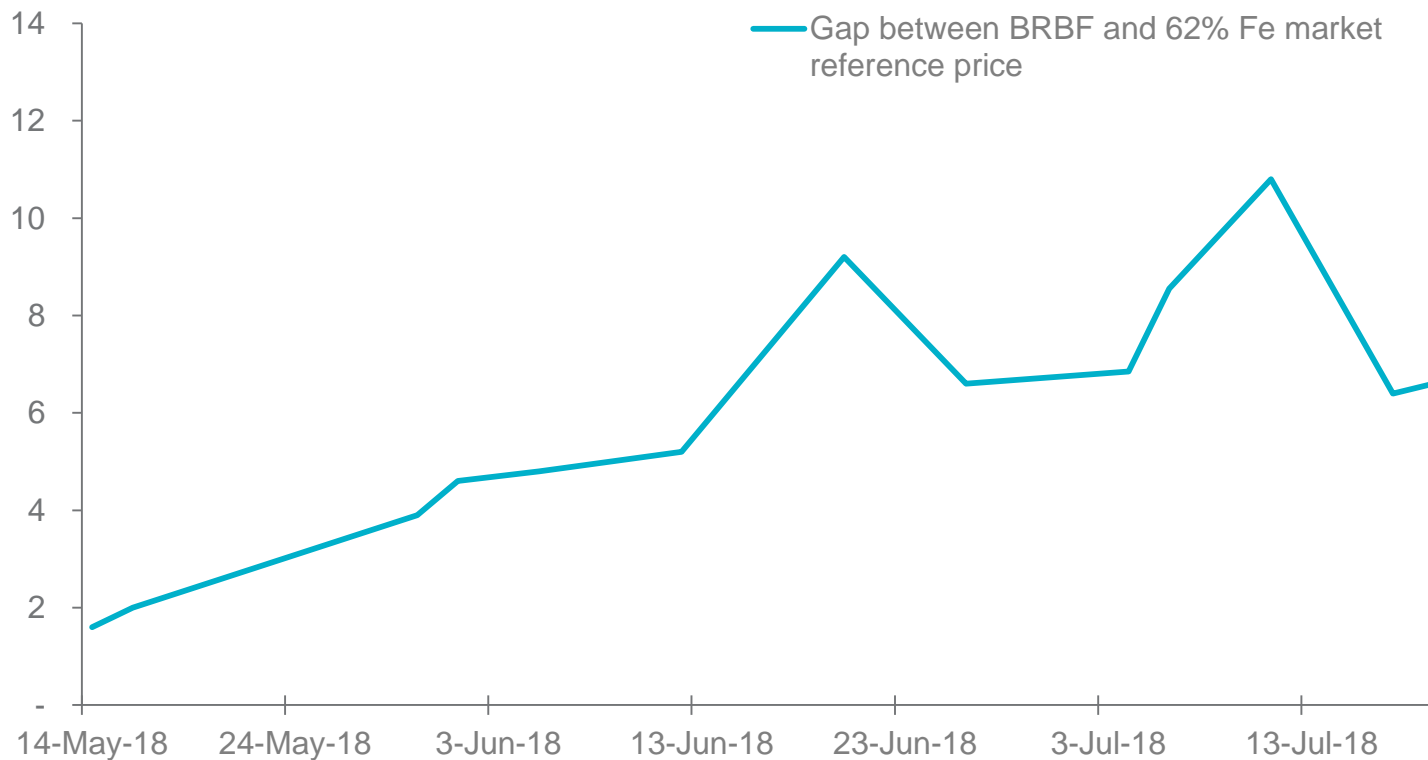


¹ 62% Fe market reference price net effect in both revenues (-US\$ 467 million) and costs (-US\$ 15 million).

Vale's realized premiums were also supported by stronger market premiums, especially by spot sales of the Brazilian Blend Fines

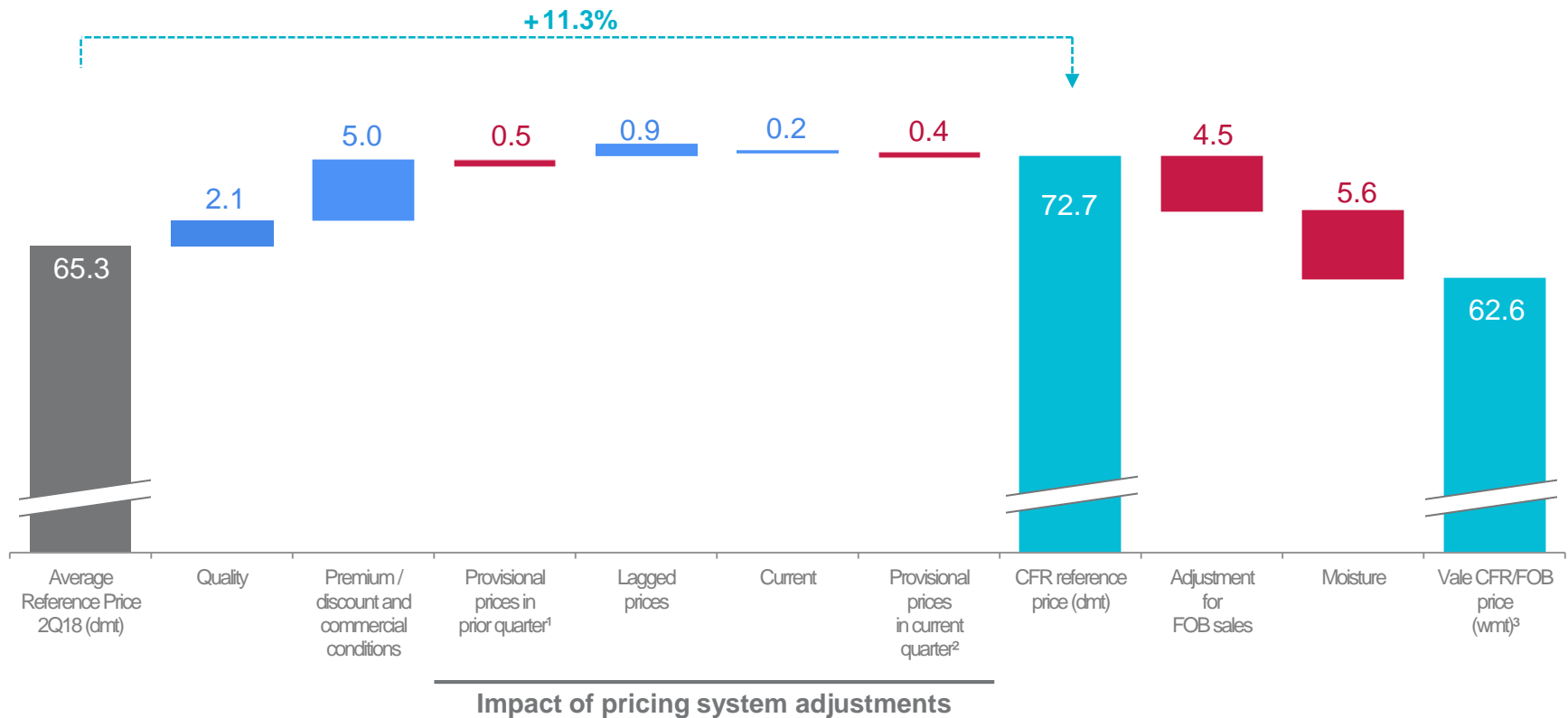
Brazilian Blend Fines (BRBF) premiums (spot sales)

US\$/t, 2Q18



Higher premiums led to a CFR price 11% higher than the 62% reference price

US\$/t, 2Q18



¹ Adjustment as a result of provisional prices booked in 1Q18 at US\$ 64.8/t.

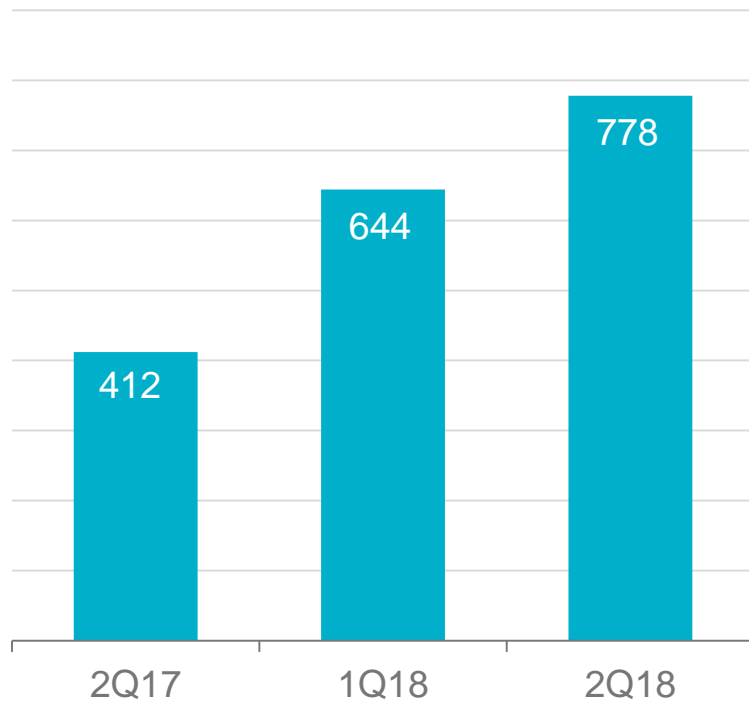
² Difference between the weighted average of the prices provisionally set at the end of 2Q18 at US\$ 64.0/t based on forward curves and US\$ 65.3/t from the 2Q18 62% reference price.

³ Vale price is net of taxes.

Optimization in nickel and the overall good performance of copper drove EBITDA up to 21% q-o-q

Base Metals EBITDA

US\$ million



Highlights 2Q18

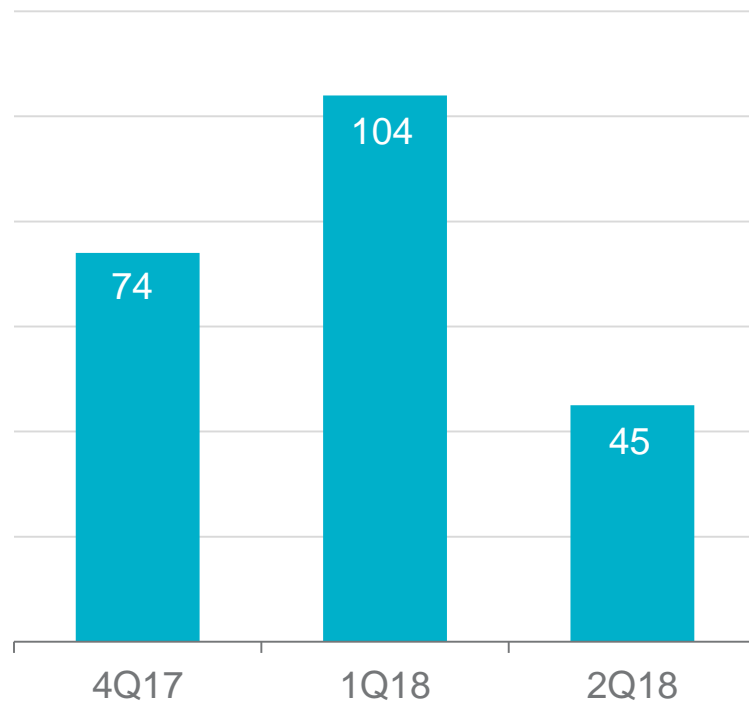
Base Metals EBITDA increased US\$ 134 million vs. 1Q18, mainly as a result of higher nickel and copper realized prices, higher by-product volumes and higher nickel and copper volumes, partially offset by higher costs

Nickel optimization strategy seeks higher value opportunities for **Class I and Class II Battery-suitable products**, as well as an **active discipline in production output** to dynamically address market demand and margin maximization

Coal EBITDA was impacted by lower NLC¹ debt service, as anticipated, and lower prices, partly offset by lower operational costs

Coal Adjusted EBITDA

US\$ million



Highlights 2Q18

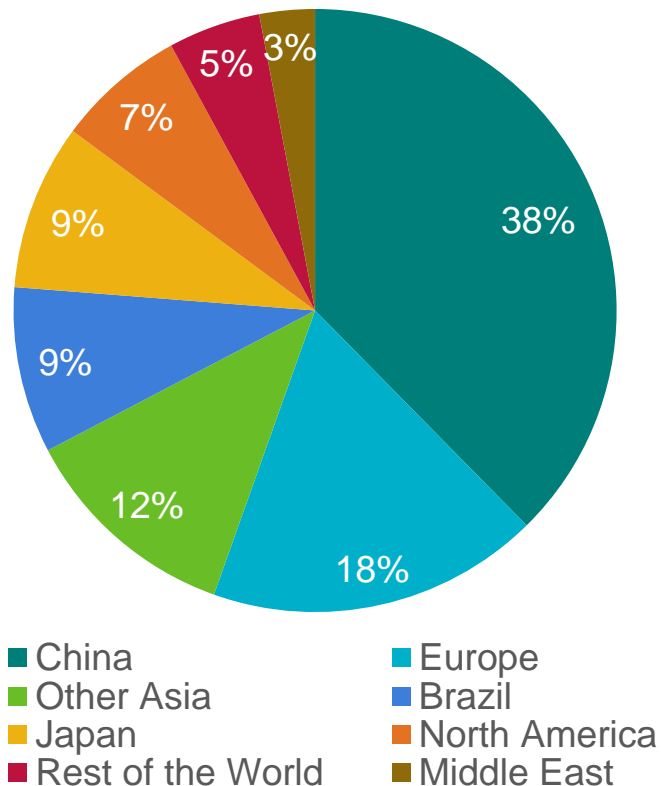
The effect of lower market prices on revenues was partially offset by **higher metallurgical coal price realization** from 89.5% of the market index in 1Q18 to 97.7% in 2Q18

Pro-forma **operational cost decreased to US\$ 79.3/t in 2Q18 from US\$ 90.8/t in 1Q18**, mainly due to higher dilution of fixed costs as production volumes increased

**Additional
information**

Even in the adverse environment caused by the truck drivers' strike, Vale managed to bring in revenues in line with 1Q18

Net operating revenues by destination in 2Q18



Highlights 2Q18

Net operating revenues of **US\$ 8.616 billion**

Revenues were in line with 1Q18, mainly due to higher sales volumes for Ferrous Minerals and Base Metals and higher sales prices for Base Metals, being offset by lower Ferrous Minerals sales prices

59% sales to Asia and 9% domestic sales

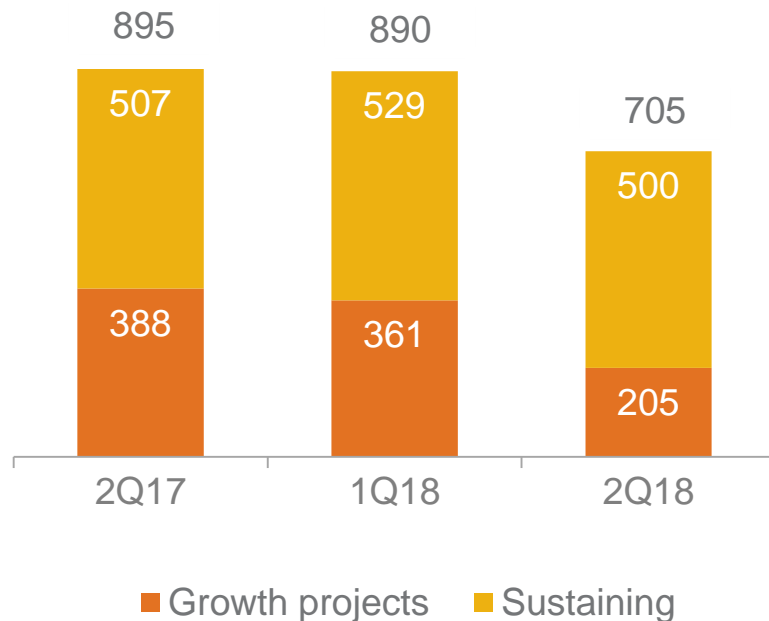
Ferrous Minerals accounted for 73% of revenues

Base Metals accounted for 22% of revenues

Capital expenditures have reached the lowest level for a second quarter in the last 13 years

Project and sustaining capex

US\$ million



2Q18 Highlights

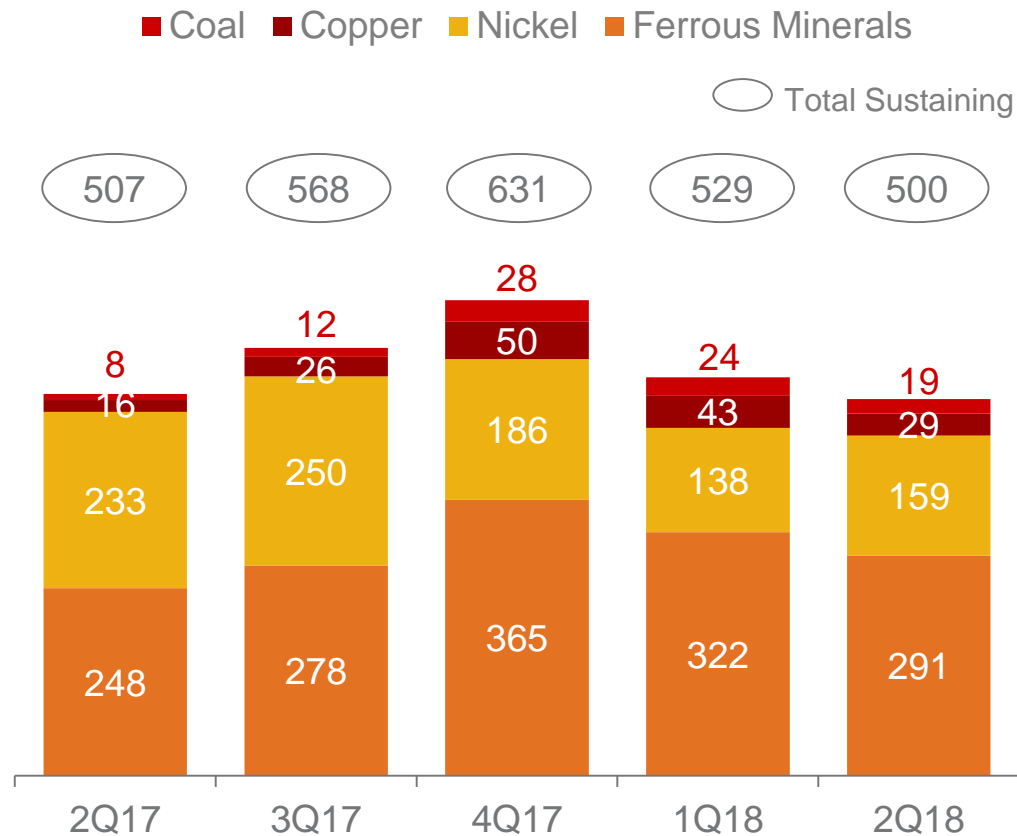
Capex totaled **US\$ 705 million in 2Q18**, mainly due to lower project execution, already planned for the quarter

2018 Capex guidance has been reduced to **US\$ 3.6 billion**

S11D achieved combined physical progress of 96% in 2Q18 with the **mine site concluded** and **94% progress at the logistic infrastructure sites**

Sustaining capex segmentation is consistent with the rigorous capital allocation process

US\$ million



Highlights 2Q18

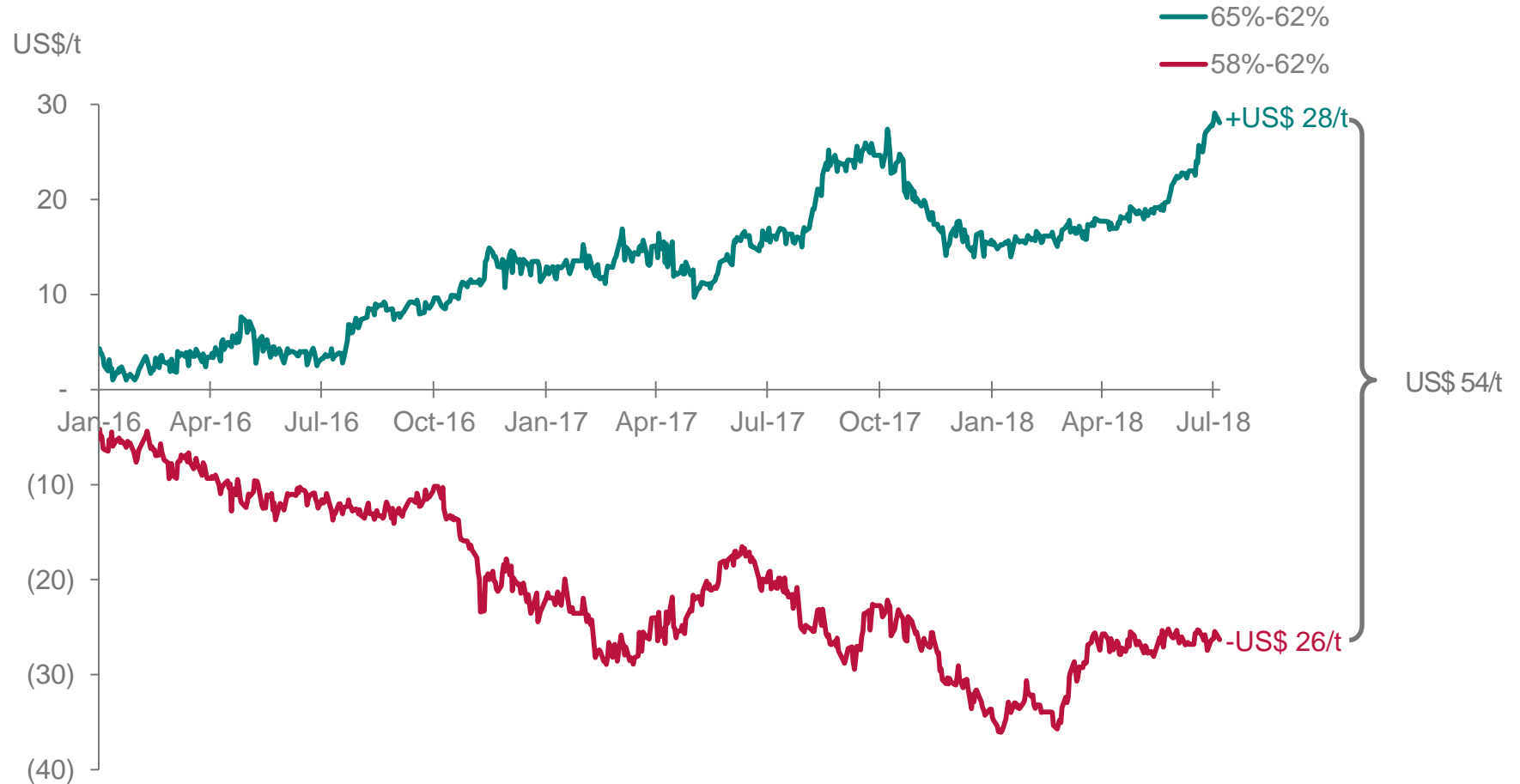
Ferrous Minerals and Base Metals business segments represented **58%** and **38%** of sustaining capex, respectively

The cobalt streaming deal announced in June enabled the development of the Voisey's Bay underground mine extension project (VBME), **Vale's first significant investment announcement in recent years.**

By 2Q18 Vale's Executive Board had approved a **Digital Transformation program** with: **61 projects in the Northern System, 56 projects in the Southeastern System and 44 projects in pellets**

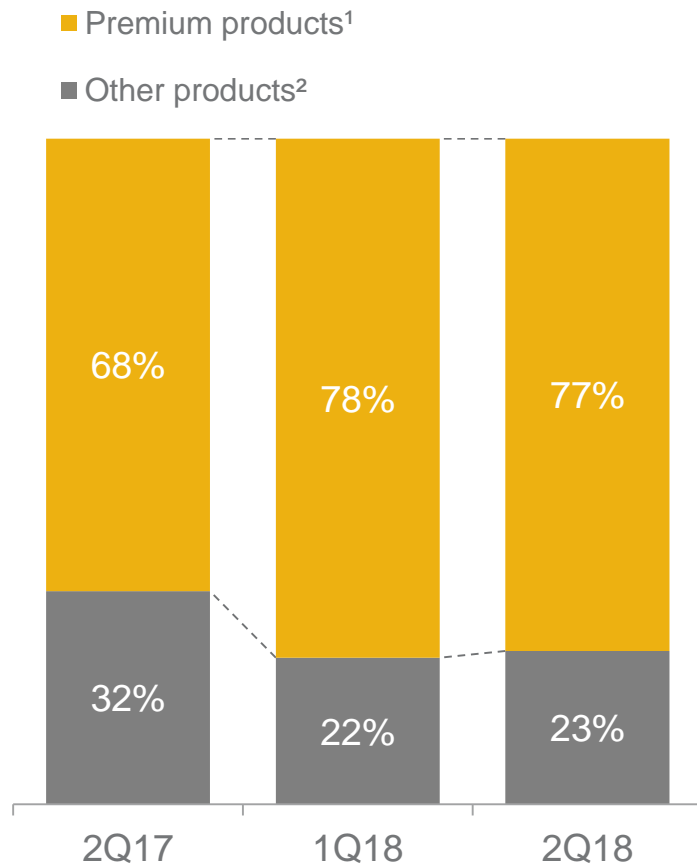
Vale's portfolio is benefiting from the increase in the “flight to quality” trend with rising market premiums

Premiums and discounts (daily basis)

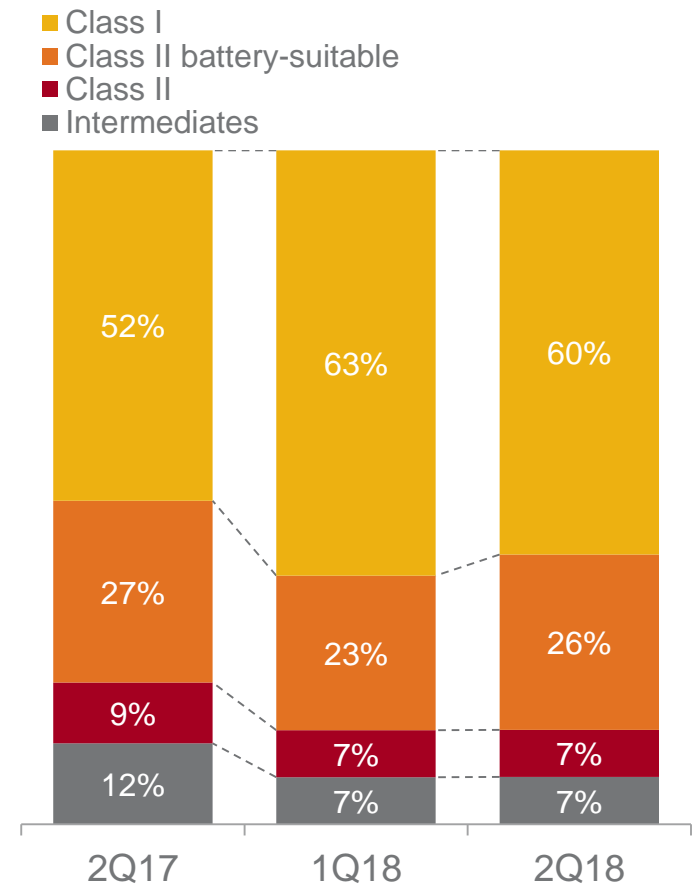


Vale continues to improve its sales mix composition in 2Q18

Iron ore sales product mix (%)



Nickel sales product mix (%)

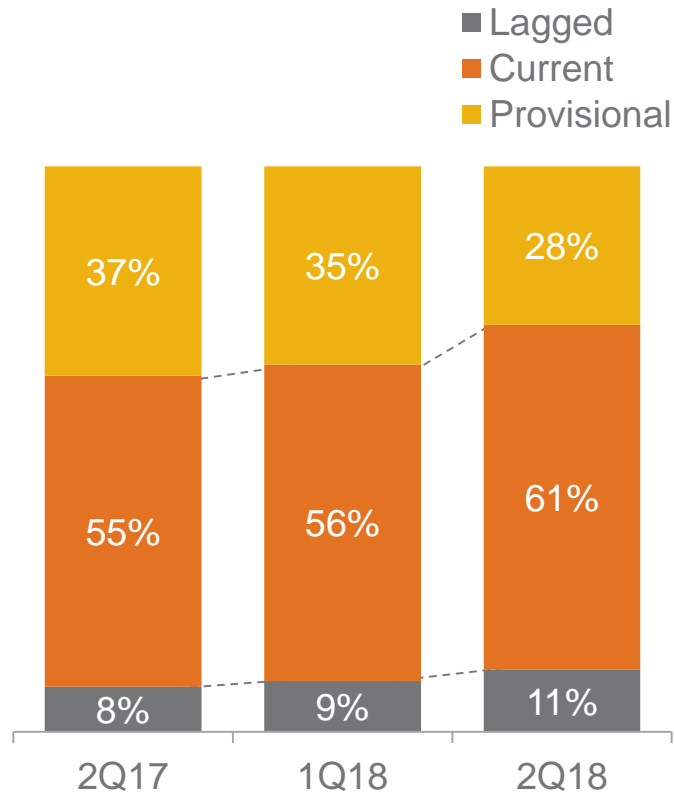


¹ Composed by pellets, Carajás, Brazilian Blend Fines (BRBF), pellet feed and sinter feed low alumina

² Composed by standard sinter feed, lump and high silica

Iron ore pricing systems

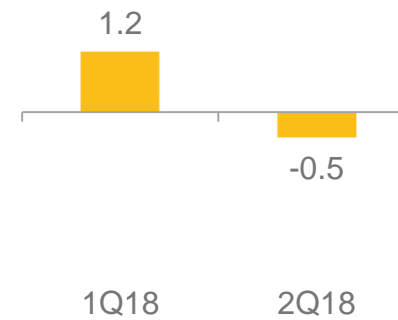
Pricing system breakdown (%)



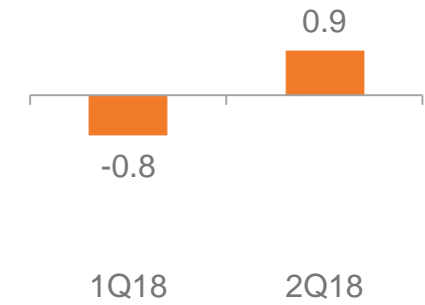
Impact of pricing mechanisms

US\$/t

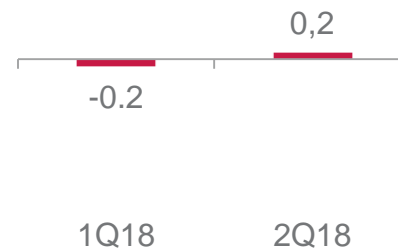
Provisional - prior quarter



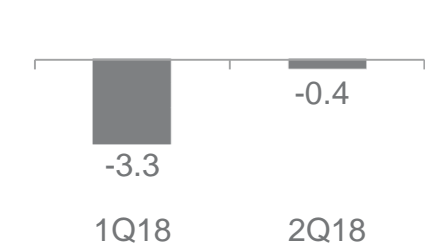
Lagged



Current



Provisional - current quarter



Evolution of iron ore fines cash cost, freight and expenses

US\$/t

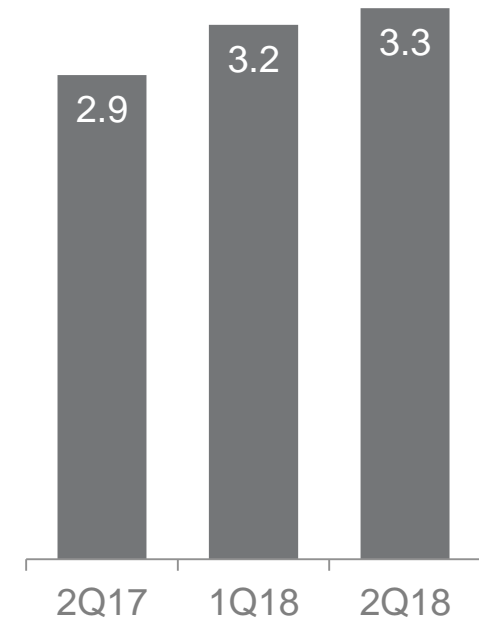
C1 cash cost FOB port¹



Freight



Expenses² & royalties

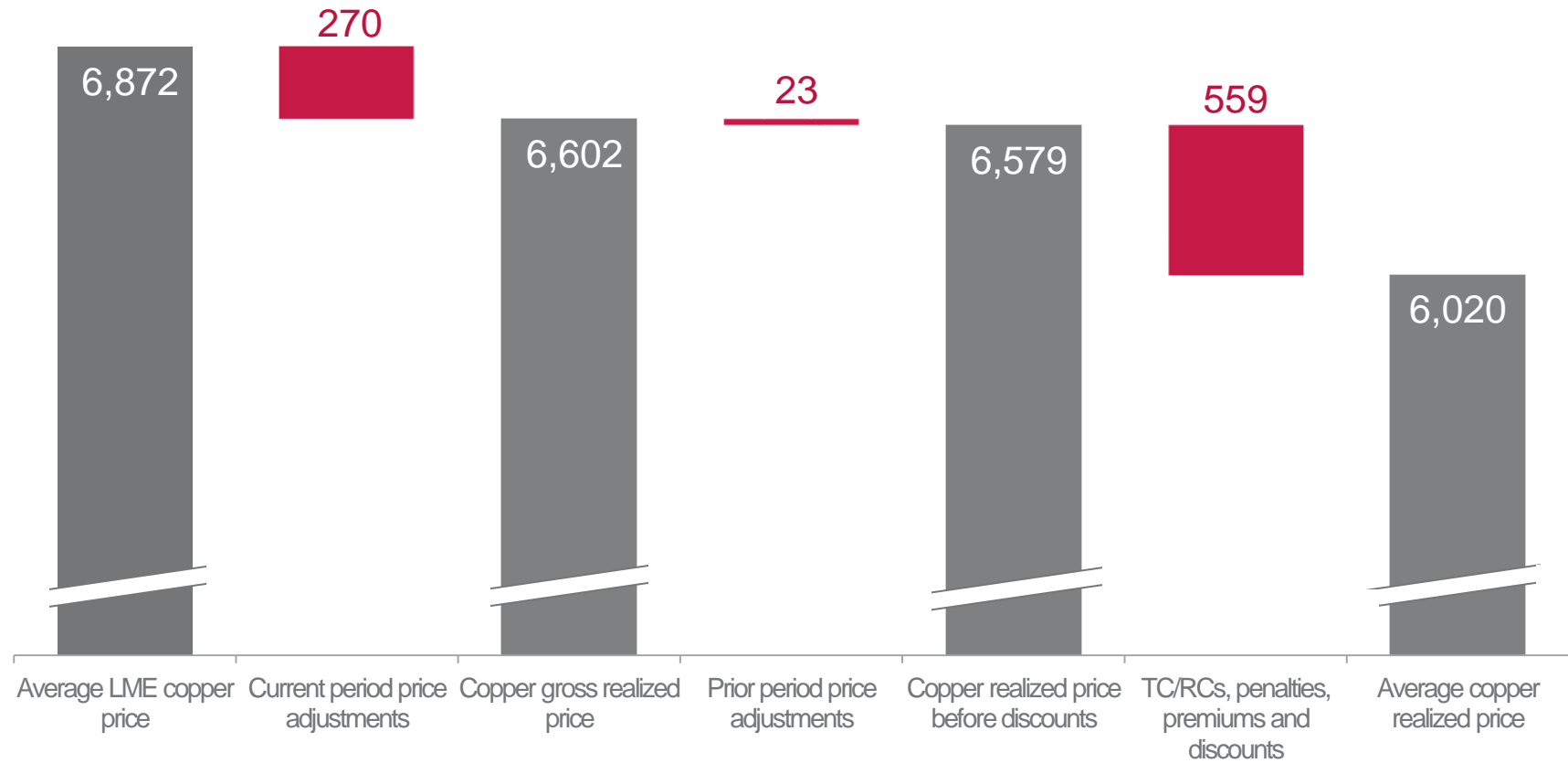


¹ Ex-ROM and ex-royalties.

² Including dividends received. Net of depreciation.

Price realization copper

US\$/t, 2Q18



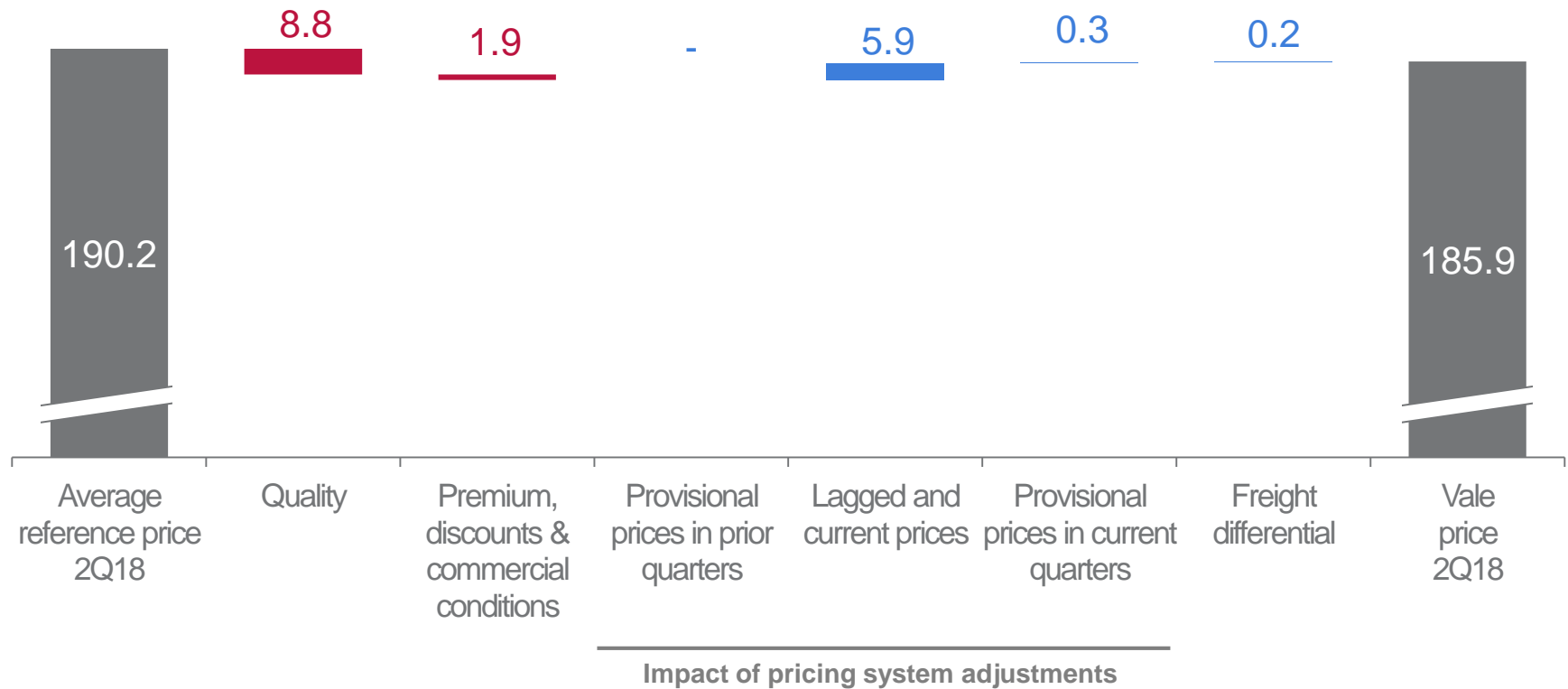
Unit cost of sales per operation, net of by-product credits

Operation (US\$ / t)	2Q18	1Q18	2Q17
North Atlantic Operations ¹ (nickel)	4,680	6,756	5,388
PTVI (nickel)	7,170	7,246	6,827
VNC (nickel)	12,515	8,874	11,222
Onça Puma (nickel)	7,957	7,685	10,164
Sossego (copper)	3,212	3,267	2,611
Salobo (copper)	937	1,155	1,274

¹ North Atlantic figures include Clydach refining costs.

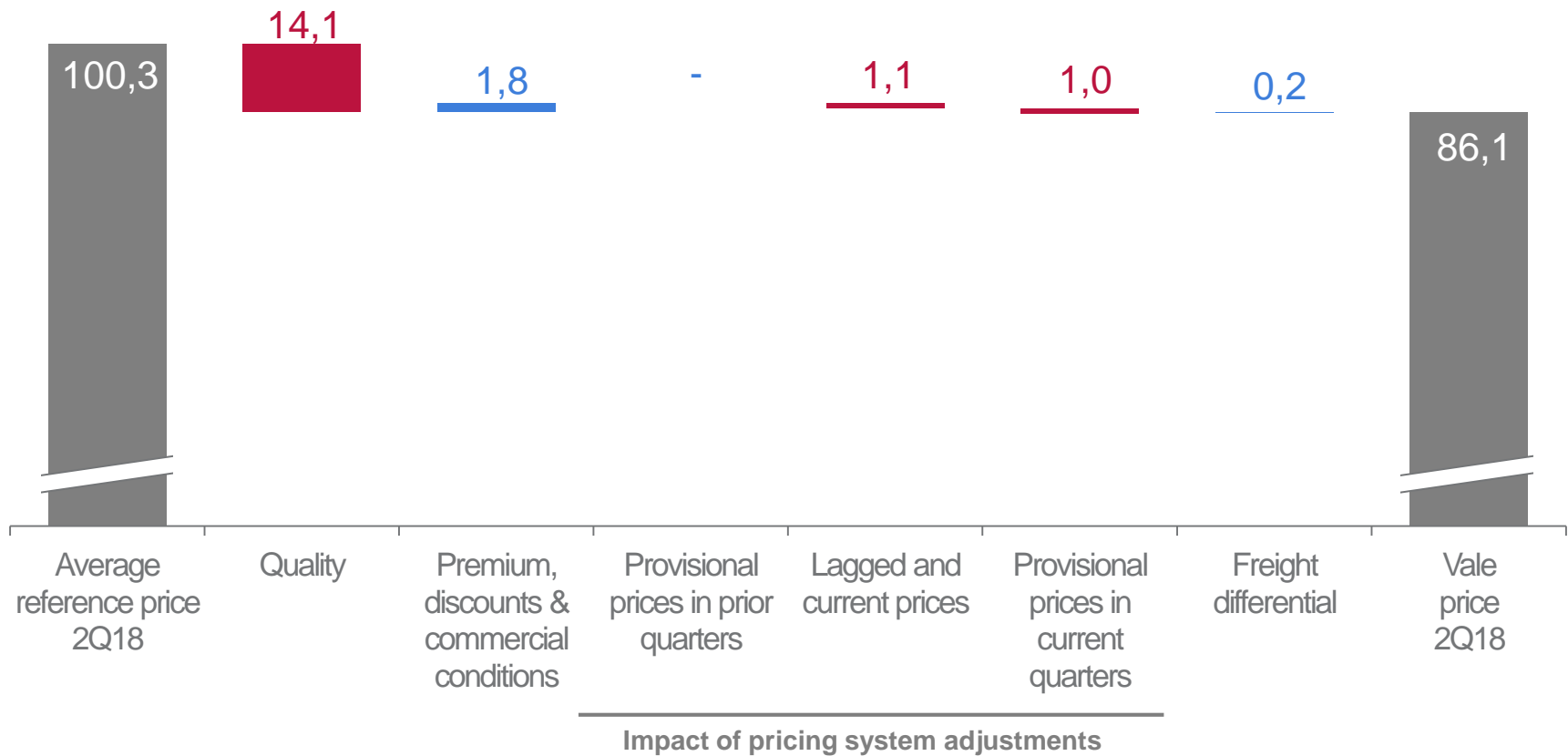
Price realization – Metallurgical Coal from Mozambique

US\$/t, 2Q18



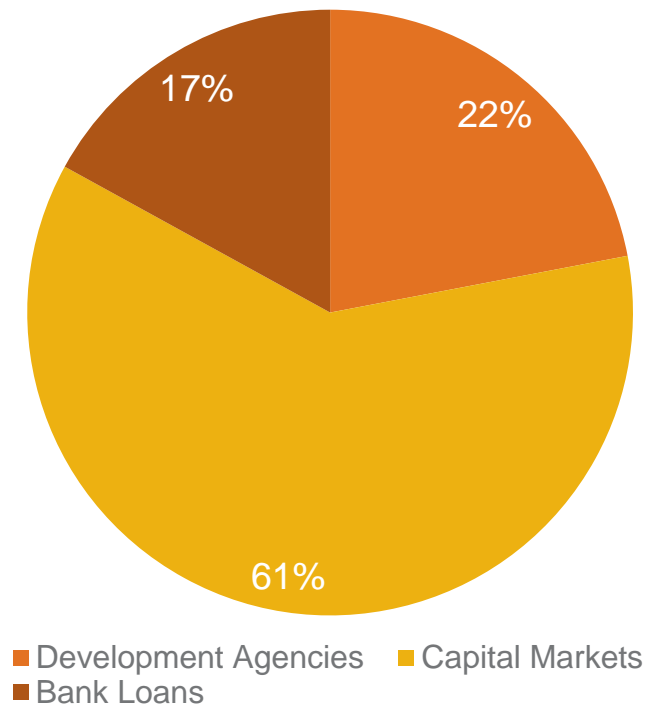
Price realization – Thermal Coal from Mozambique

US\$/t, 2Q18

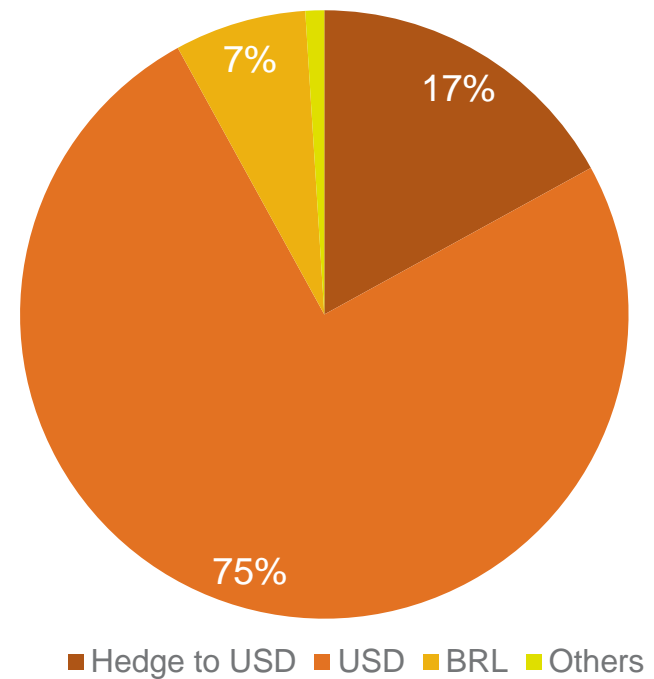


Debt position breakdown

Debt breakdown by instrument (%)



Debt breakdown by currency (after hedge) (%)





VALE