

PT Vale reports higher production and sales in the second quarter of 2016

Jakarta, July 28, 2016 – PT Vale Indonesia Tbk (“PT Vale” or the “Company”, IDX Ticker: INCO) today announced its unaudited results for the second quarter of 2016 (“2Q16”). Nickel in matte production and sales volumes were about 15% and 23% higher respectively than the production and sales volumes realized in 1Q16.

“Our average price in this quarter was 3% higher than the average price in the previous quarter,” reported Nico Kanter, CEO and President Director of the Company. “While we were glad to realize that and see the recent nickel price rally on the London Metal Exchange, we remain focused on our efforts to improve efficiencies and reduce costs.”

The Company’s cost of revenue per metric ton of nickel matte sold declined by 9% from the previous quarter, driven mostly by reductions in major production cost components. Supplies and employment costs, which account for about 25% and 14% of production costs, were 3% and 7% lower, respectively.

Depreciation, amortization and depletion, the second biggest production cost component, also decreased on a per-unit-sold basis but increased in total amount. Similarly, slight increases in fuel, service and contract costs in total amount were offset by decreases on a per-unit-sold basis.

Please see PT Vale’s High Sulphur Fuel Oil (HSFO), diesel and coal consumption in 2Q16, 1Q16, 1H16 and 1H15 in the following table:

| | 2Q16 | 1Q16 | 1H16 | 1H15 |
|--------------------------------|------------------|-------------|------------------|-------------|
| HSFO volume (barrels) | 450,545 | 346,800 | 797,345 | 801,344 |
| HSFO average price per barrel | US\$34.26 | US\$36.84 | US\$35.38 | US\$65.71 |
| Diesel volume (kilo litres) | 17,192 | 22,631 | 39,823 | 32,767 |
| Diesel average price per litre | US\$0.38 | US\$0.40 | US\$0.39 | US\$0.61 |
| Coal volume (t) | 84,819 | 82,260 | 167,079 | 181,872 |
| Coal average price per t | US\$86.23 | US\$82.70 | US\$84.49 | US\$97.93 |

Higher HSFO consumption in 2Q16 corresponds mainly to the increase in production. In addition, a commercial trial of the Coal Conversion Project 2 (CCP2) in reduction kiln #3 in 2Q16 resulted in less displacement of HSFO by coal than in 1Q16, resulting in higher HSFO consumption per metric ton of production. The commercial trial will continue until the Company is confident that the configuration has achieved optimum performance. Therefore, while coal usage in 2Q16 increased by 3% from consumption in 1Q16, coal usage per metric ton of production in 2Q16 actually declined by 10% compared to consumption in 1Q16.

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PT Vale's EBITDA in 2Q16 was US\$26.1 million, which is higher than EBITDA in 1Q16 of US\$9.2 million. The Company's cash and cash equivalents as of June 30, 2016 and March 31, 2016 were US\$257.5 million and US\$232.6 million, respectively. In 2Q16 PT Vale disbursed approximately US\$16.8 million in capital expenditures, which is about 65% of capital expenditure spending in 1Q16. PT Vale will continue to exercise prudent control of its spending to preserve cash.

In 2016, PT Vale plans to produce approximately 80,000 t of nickel in matte. At the same time, the Company will maintain its focus on improving costs to sustain competitiveness in the long run without compromising the Company's foremost value: *Life Matters Most*.

Readers are encouraged to review the Company's results. Operational achievements as well as interim and unaudited financial results are summarized on the following pages – all figures are in US\$ except for nickel in matte production and deliveries which are in metric tons.

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PT Vale Indonesia Tbk Production and Financial Highlights

| | <u>2Q16</u> | <u>1Q16</u> | <u>1H16</u> | <u>1H15</u> |
|---|-----------------|-------------|-----------------|-------------|
| Nickel in matte production ¹ | 19,362 | 16,894 | 36,256 | 36,727 |
| Nickel matte deliveries ¹ | 20,245 | 16,427 | 36,672 | 37,046 |
| Average realized price ² | 6,823 | 6,618 | 6,731 | 11,058 |
| EBITDA ³ | 26.1 | 9.2 | 35.3 | 129.7 |
| Revenue ³ | 138.1 | 108.7 | 246.8 | 409.7 |
| Earnings ³ | (4.6) | (15.4) | (20.0) | 41.8 |
| Earnings per share ⁴ | (0.0005) | (0.0016) | (0.0020) | 0.0042 |

¹ metric ton (t)

² US\$ per t

³ US\$ million

⁴ US\$

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PT Vale Indonesia Tbk
Unaudited Interim Statements of Profit or Loss and Other Comprehensive Income
(In thousands of US\$ except basic (loss)/earnings per share)

| | <u>2Q16</u> | <u>1Q16</u> | <u>1H16</u> | <u>1H15</u> |
|--|------------------|------------------|------------------|------------------|
| Revenue | 138,122 | 108,715 | 246,837 | 409,656 |
| Cost of revenue | <u>(137,289)</u> | <u>(122,833)</u> | <u>(260,122)</u> | <u>(328,958)</u> |
| Gross profit/(loss) | 833 | (14,118) | (13,285) | 80,698 |
| Other income | 469 | 492 | 961 | 709 |
| Operating expenses | (2,946) | (3,196) | (6,142) | (6,471) |
| Other expenses | <u>(1,909)</u> | <u>(558)</u> | <u>(2,467)</u> | <u>(13,109)</u> |
| Operating (loss)/profit | (3,553) | (17,380) | (20,933) | 61,827 |
| Finance costs | <u>(2,307)</u> | <u>(2,336)</u> | <u>(4,643)</u> | <u>(5,797)</u> |
| (Loss)/profit before income tax | (5,860) | (19,716) | (25,576) | 56,030 |
| Income tax benefit/(expense) | <u>1,241</u> | <u>4,292</u> | <u>5,533</u> | <u>(14,195)</u> |
| (Loss)/profit for the period | (4,619) | (15,424) | (20,043) | 41,835 |
| Other comprehensive loss | | | | |
| Items that will not be reclassified to profit or loss: | | | | |
| – Re-measurement of post-employment benefit liabilities | - | - | - | (450) |
| – Income tax on other comprehensive loss | - | - | - | (112) |
| Total other comprehensive loss | <u>-</u> | <u>-</u> | <u>-</u> | <u>(562)</u> |
| Total comprehensive (loss)/ income for the period | (4,619) | (15,424) | (20,043) | 41,273 |
| (Loss)/earnings per share | | | | |
| - Basic (in US Dollars) | <u>(0.0005)</u> | <u>(0.0016)</u> | <u>(0.0020)</u> | <u>0.0042</u> |

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PT Vale Indonesia Tbk Interim Statements of Financial Position (In thousands of US\$)

| | June 30, 2016 (Unaudited) | March 31, 2016 (Unaudited) | December 31, 2015 (Audited) |
|---|---------------------------------|----------------------------------|-----------------------------------|
| Assets | | | |
| Cash and cash equivalents | 257,514 | 232,562 | 194,754 |
| Short-term investments | 10,047 | 55,158 | 90,154 |
| Restricted cash | 28,594 | 16,386 | 32,863 |
| Trade receivables - Related parties | 58,306 | 46,995 | 78,200 |
| Inventories, net | 120,176 | 117,759 | 104,066 |
| Prepaid taxes - Corporate income tax | 28,921 | 10,634 | - |
| - Other taxes | 59,779 | 64,681 | 91,137 |
| Prepayments and advances | 2,296 | 3,279 | 5,045 |
| Other current financial assets | 3,369 | 3,591 | 3,742 |
| Total current assets | 569,002 | 551,045 | 599,961 |
| Prepaid taxes - Corporate income tax | 20,083 | 58,829 | 28,976 |
| - Other taxes | 51,540 | 16,030 | 43,578 |
| Non-trade receivables - Related parties | 211 | 231 | 263 |
| Fixed assets, net | 1,563,853 | 1,583,060 | 1,603,302 |
| Other non-current financial assets | 12,111 | 12,811 | 13,081 |
| Total non-current assets | 1,647,798 | 1,670,961 | 1,689,200 |
| Total assets | 2,216,800 | 2,222,006 | 2,289,161 |
| Liabilities and Equity | | | |
| Trade payables - Related parties | 5,379 | 4,665 | 8,712 |
| - Third parties | 51,064 | 50,116 | 76,924 |
| Accruals | 16,602 | 15,405 | 16,802 |
| Short-term employee benefit liabilities | 4,126 | 7,256 | 5,600 |
| Taxes payable | 102 | 975 | 1,806 |
| Current portion of long-term bank borrowings | 36,219 | 36,219 | 36,219 |
| Share-based payment liabilities | 181 | 181 | 176 |
| Other current financial liabilities | 3,770 | 3,195 | 2,260 |
| Total current liabilities | 117,443 | 118,012 | 148,499 |
| Long-term bank borrowings | 91,598 | 91,352 | 109,858 |
| Long-term post-employment benefit liabilities | 15,928 | 15,389 | 14,383 |
| Deferred tax liabilities, net | 119,137 | 120,488 | 124,780 |
| Provision for asset retirement | 58,780 | 58,232 | 57,684 |
| Total non-current liabilities | 285,443 | 285,461 | 306,705 |
| Total liabilities | 402,886 | 403,473 | 455,204 |
| Equity | 1,813,914 | 1,818,533 | 1,833,957 |
| Total liabilities and equity | 2,216,800 | 2,222,006 | 2,289,161 |

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PT Vale Indonesia Tbk

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PT Vale Indonesia Tbk
Unaudited Interim Statements of Cash Flows
(In thousands of US\$)

| | <u>2Q16</u> | <u>1Q16</u> | <u>1H16</u> | <u>1H15</u> |
|---|-----------------|----------------|-----------------|-----------------|
| Cash flows from operating activities | | | | |
| Receipts from customers | 126,811 | 139,920 | 266,731 | 412,086 |
| Payments to suppliers | (78,559) | (93,829) | (172,388) | (260,871) |
| Payments of corporate income tax | (9,449) | (10,634) | (20,083) | (18,129) |
| (Payments)/refunds of taxes, net | (2,994) | 22,952 | 19,958 | 1,367 |
| Payments to employees | (23,133) | (19,314) | (42,447) | (52,776) |
| Withdrawal/(placement) of financial guarantee | - | 4,166 | 4,166 | (11,463) |
| Other receipts | 469 | 492 | 961 | 709 |
| Other payments | (5,201) | (5,234) | (10,435) | (22,641) |
| Net cash flows from operating activities | <u>7,944</u> | <u>38,519</u> | <u>46,463</u> | <u>48,282</u> |
| Cash flows from investing activities | | | | |
| Payments for acquisition of fixed assets | (16,805) | (25,860) | (42,665) | (57,887) |
| Withdrawal of short-term investments | 45,111 | 34,996 | 80,107 | - |
| Net cash flows from/(used in) investing activities | <u>28,306</u> | <u>9,136</u> | <u>37,442</u> | <u>(57,887)</u> |
| Cash flows from financing activities | | | | |
| Payments of dividends | - | (1) | (1) | (33) |
| Placement of restricted cash | (12,208) | (8,132) | (20,340) | (20,382) |
| Usage of restricted cash | - | 20,314 | 20,314 | 20,486 |
| Payments of long-term borrowings | - | (18,750) | (18,750) | (18,750) |
| Payments of finance costs | - | (2,720) | (2,720) | (3,158) |
| Net cash flows used in financing activities | <u>(12,208)</u> | <u>(9,289)</u> | <u>(21,497)</u> | <u>(21,837)</u> |
| Net increase/(decrease) in cash and cash equivalents | <u>24,042</u> | <u>38,366</u> | <u>62,408</u> | <u>(31,442)</u> |
| Cash and cash equivalents at the beginning of the period | <u>232,562</u> | <u>194,754</u> | <u>194,754</u> | <u>302,256</u> |
| Effect of exchange rate changes on cash and cash equivalents | <u>910</u> | <u>(558)</u> | <u>352</u> | <u>(701)</u> |
| Cash and cash equivalents at the end of the period | <u>257,514</u> | <u>232,562</u> | <u>257,514</u> | <u>270,113</u> |