

## Improved costs provide support to PT Vale earnings in 2016

**Jakarta, February 23, 2017** – PT Vale Indonesia Tbk (“PT Vale” or the “Company”, IDX Ticker: INCO) today announced its audited results for 2016. The Company’s cost of revenue performance continued to improve, falling 18% in the year from cost of revenue incurred in 2015. This provided support against a lower nickel price, which fell by 22% on the year over 2015 levels.

“Our improved cost performance helped us record positive earnings and EBITDA despite the challenges we faced throughout the year including a very challenging nickel market,” reported Nico Kanter, CEO and President Director of the Company. “This experience underlines the importance of remaining focused on optimizing production capacity, improving efficiency and reducing costs. We believe the nickel price in 2017 will remain low considering the high inventory levels on the London Metal Exchange (“LME”) and Shanghai Futures Exchange (“SHFE”). There is also uncertainty in the global nickel market over whether the Indonesian ore export quota will add additional volume or simply replace a diminishing ore supply from the Philippines to China.”

The cost of revenue decrease in 2016 was driven mainly by lower costs of fuels, supplies and services offset to a lesser extent by higher employment, depreciation, amortization and depletion costs. Fuel costs, which decreased by 38%, contributed more than 47% of the cost of revenue decrease. The Company achieved more efficient fuel consumption in the year with both High Sulphur Fuel Oil (“HSFO”) and diesel consumption falling per metric ton of nickel in matte produced. At the same time, costs for diesel and HSFO fell by 24% and 34%, respectively. While benefiting from a low global oil price, the Company also improved its procurement practices, particularly for strategic material purchases including diesel and HSFO.

On a quarterly basis, the Company’s sales volume in the fourth quarter of 2016 (“4Q16”) was 5% higher than the sales volume in 3Q16, despite a 10% production decline in those respective periods. A 7% increase in the average realized nickel price in the quarter contributed to a 13% increase in revenue in 4Q16 over the previous quarter.

Cost of revenue per metric ton of nickel matte sold in 4Q16 increased by 9% from the previous quarter. Contributing to this was a transformer failure in one of the Company’s furnaces, as disclosed in the Production Report issued on February 16, 2017. This led to lower-than-plan production. The cost per metric ton of production increases in 4Q16 ranged from 7% for fuel costs to 25% for supplies.

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The following table provides details on PT Vale's HSFO, diesel and coal consumption in 4Q16, 3Q16, 2016 and 2015 as follows:

	<b><u>4Q16</u></b>	<b><u>3Q16</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
HSFO volume (barrels)	<b>351,503</b>	407,186	<b>1,556,034</b>	1,732,274
HSFO average price per barrel	<b>US\$43.99</b>	US\$39.86	<b>US\$38.50</b>	US\$58.40
Diesel volume (kilo litres)	<b>18,514</b>	19,306	<b>77,620</b>	86,628
Diesel average price per litre	<b>US\$0.45</b>	US\$0.43	<b>US\$0.41</b>	US\$0.54
Coal volume (t)	<b>104,908</b>	104,056	<b>383,558</b>	441,777
Coal average price per t	<b>US\$104.94</b>	US\$84.12	<b>US\$88.33</b>	US\$90.33

Efficiency in consuming fuel in 2016, as measured by fuel (either HSFO or diesel) consumption per metric ton of nickel in matte produced, improved when compared to 2015. PT Vale consumed 20.06 barrels of HSFO to produce a metric ton of nickel in matte in 2016 compared to 21.34 barrels in 2015 as the Company succeeded in replacing more oil with coal in reduction kiln #3. As part of the commercial test in using more coal in the reduction kilns, the Company saw coal usage per metric ton of production increase gradually from 4.78 t in 1Q16 to 5.36 t in 4Q16.

PT Vale delivered EBITDA of US\$135.0 million in 2016, approximately 74% of which was generated in the second half of the year. The Company's cash and cash equivalents as of December 31, 2016 and September 30, 2016, were US\$185.6 million and US\$200.4 million, respectively. In 2016, PT Vale disbursed approximately US\$70.2 million in capital expenditures, with approximately 61% of that amount spent in the first half of 2016. PT Vale will continue to exercise prudent control of its spending to preserve cash.

Readers are encouraged to review the Company's results. Operational achievements as well as audited 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>4Q16</u>	<u>3Q16</u>	<u>2016</u>	<u>2015</u>
Nickel in matte production <sup>1</sup>	<b>19,581</b>	21,744	<b>77,581</b>	81,177
Nickel matte deliveries <sup>1</sup>	<b>21,689</b>	20,615	<b>78,976</b>	82,907
Average realized price <sup>2</sup>	<b>8,238</b>	7,694	<b>7,396</b>	9,526
EBITDA <sup>3</sup>	<b>50.6</b>	49.1	<b>135.0</b>	214.8
Revenue <sup>3</sup>	<b>178.7</b>	158.6	<b>584.1</b>	789.7
Earnings <sup>3</sup>	<b>8.9</b>	13.0	<b>1.9</b>	50.5
Earnings per share <sup>4</sup>	<b>0.0008</b>	0.0013	<b>0.0001</b>	0.0049

<sup>1</sup> metric ton (t)

<sup>2</sup> US\$ per t

<sup>3</sup> US\$ million

<sup>4</sup> US\$

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

	<u>4Q16</u>	<u>3Q16</u>	<u>2016</u> <u>(Audited)</u>	<u>2015</u> <u>(Audited)</u>
Revenue	<b>178,684</b>	158,622	<b>584,143</b>	789,745
Cost of revenue	<b>(155,097)</b>	(134,799)	<b>(550,018)</b>	(671,389)
<b>Gross profit</b>	<b>23,587</b>	23,823	<b>34,125</b>	118,356
Other income	<b>443</b>	498	<b>1,902</b>	1,357
Operating expenses	<b>(3,273)</b>	(2,716)	<b>(12,131)</b>	(11,562)
Other expenses	<b>(5,901)</b>	(1,230)	<b>(9,598)</b>	(28,400)
<b>Operating profit</b>	<b>14,856</b>	20,375	<b>14,298</b>	79,751
Finance costs	<b>(2,216)</b>	(2,274)	<b>(9,133)</b>	(9,923)
<b>Profit before income tax</b>	<b>12,640</b>	18,101	<b>5,165</b>	69,828
Income tax expense	<b>(3,710)</b>	(5,082)	<b>(3,259)</b>	(19,327)
<b>Profit for the period</b>	<b>8,930</b>	13,019	<b>1,906</b>	50,501
<b>Other comprehensive loss</b>				
Items that will not be reclassified to profit or loss:				
– Remeasurement of defined benefit liabilities	<b>(1,699)</b>	-	<b>(1,699)</b>	(2,530)
– Income tax on other comprehensive loss	<b>425</b>	-	<b>425</b>	633
<b>Total other comprehensive loss</b>	<b>(1,274)</b>	-	<b>(1,274)</b>	(1,897)
<b>Total comprehensive income for the period</b>	<b>7,656</b>	13,019	<b>632</b>	48,604
<b>Earnings per share</b>				
- Basic and diluted (in US Dollars)	<b>0.0008</b>	0.0013	<b>0.0001</b>	0.0049

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

	Dec 31, 2016 (Audited)	Sep 30, 2016 (Unaudited)	Dec 31, 2015 (Audited)
<b>Assets</b>			
Cash and cash equivalents	185,560	200,432	194,754
Short-term investments	-	-	90,154
Restricted cash	29,725	10,004	27,802
Trade receivables - Related parties	146,616	127,683	78,200
Inventories, net	129,796	130,797	104,066
Prepaid taxes - Corporate income tax	28,921	28,921	-
- Other taxes	71,533	68,315	91,137
Prepayments and advances	3,940	5,974	5,045
Other current financial assets	3,063	3,280	3,742
<b>Total current assets</b>	<b>599,154</b>	<b>575,406</b>	<b>594,900</b>
Restricted cash	6,365	6,365	5,061
Prepaid taxes - Corporate income tax	22,631	24,838	28,976
- Other taxes	54,038	51,485	43,578
Non-trade receivables - Related parties	140	180	263
Fixed assets, net	1,532,653	1,545,916	1,603,302
Other non-current financial assets	10,511	11,527	13,081
<b>Total non-current assets</b>	<b>1,626,338</b>	<b>1,640,311</b>	<b>1,694,261</b>
<b>Total assets</b>	<b>2,225,492</b>	<b>2,215,717</b>	<b>2,289,161</b>
<b>Liabilities and Equity</b>			
Trade payables - Related parties	6,537	5,768	8,712
- Third parties	57,737	44,624	76,924
Accruals	16,542	17,078	16,802
Short-term employee benefit liabilities	10,700	7,495	4,922
Taxes payable	1,490	989	1,806
Current portion of long-term bank borrowings	36,462	36,201	36,219
Share-based payment liabilities	1,273	1,042	854
Other current financial liabilities	1,248	4,514	2,260
<b>Total current liabilities</b>	<b>131,989</b>	<b>117,711</b>	<b>148,499</b>
Long-term bank borrowings	73,095	73,111	109,858
Long-term post-employment benefit liabilities	17,729	16,405	14,383
Deferred tax liabilities, net	115,964	122,229	124,780
Provision for asset retirement	52,126	59,328	57,684
<b>Total non-current liabilities</b>	<b>258,914</b>	<b>271,073</b>	<b>306,705</b>
<b>Total liabilities</b>	<b>390,903</b>	<b>388,784</b>	<b>455,204</b>
<b>Equity</b>	<b>1,834,589</b>	<b>1,826,933</b>	<b>1,833,957</b>
<b>Total liabilities and equity</b>	<b>2,225,492</b>	<b>2,215,717</b>	<b>2,289,161</b>

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PT Vale Indonesia Tbk

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

	<u>4Q16</u>	<u>3Q16</u>	<u>2016</u> <u>(Audited)</u>	<u>2015</u> <u>(Audited)</u>
<b>Cash flows from operating activities</b>				
Receipts from customers	159,751	89,245	515,727	804,251
Payments to suppliers	(93,719)	(99,852)	(365,959)	(486,588)
Payments of corporate income tax	(7,214)	(6,535)	(33,832)	(56,427)
(Payments)/refunds of taxes, net	(9,154)	(7,398)	3,406	6,298
Payments to employees	(19,058)	(18,297)	(79,802)	(88,976)
Placement of financial guarantee	(7,448)	-	(3,282)	(16,612)
Other receipts	443	498	1,902	1,357
Other payments	(8,401)	(5,904)	(24,740)	(29,407)
<b>Net cash flows from/(used in) operating activities</b>	<b>15,200</b>	<b>(48,243)</b>	<b>13,420</b>	<b>133,896</b>
<b>Cash flows from investing activities</b>				
Payments for acquisition of fixed assets	(17,441)	(10,132)	(70,238)	(106,390)
Withdrawal/(placement) of short-term investments	-	10,047	90,154	(90,154)
<b>Net cash flows (used in) /from investing activities</b>	<b>(17,441)</b>	<b>(85)</b>	<b>19,916</b>	<b>(196,544)</b>
<b>Cash flows from financing activities</b>				
Payments of dividends	(2)	(5)	(8)	(36)
Placement of restricted cash	(12,157)	(8,122)	(40,619)	(40,704)
Usage of restricted cash	-	20,347	40,661	40,843
Payments of long-term borrowings	-	(18,750)	(37,500)	(37,500)
Payments of finance costs	(35)	(2,603)	(5,358)	(6,044)
<b>Net cash flows used in financing activities</b>	<b>(12,194)</b>	<b>(9,133)</b>	<b>(42,824)</b>	<b>(43,441)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(14,435)</b>	<b>(57,461)</b>	<b>(9,488)</b>	<b>(106,089)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>200,432</b>	<b>257,514</b>	<b>194,754</b>	<b>302,256</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(437)</b>	<b>379</b>	<b>294</b>	<b>(1,413)</b>
<b>Cash and cash equivalents at the end of the Period</b>	<b>185,560</b>	<b>200,432</b>	<b>185,560</b>	<b>194,754</b>