Company Participants

- Clovis Torres, Executive Director-HR & General Counsel
- Gerd Peter Poppinga, Executive Director-Ferrous Division
- Jennifer Anne Maki, Executive Director-Base Metals Division
- Luciano Siani Pires, Chief Financial Officer
- Murilo Pinto de Oliveira Ferreira, Chief Executive Officer
- Roger Allan Downey, Executive Director-Fertilizers & Coal

Other Participants

- Alfonso Salazar, Analyst
- Andreas Bokkenheuser, Analyst
- Daniel Lurch, Analyst
- David Wang, Analyst
- Ivano Westin, Analyst
- Jonathan Brandt, Analyst
- Marcos Assumpção, Analyst
- Thiago Lofiego, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. Welcome to Vale's Conference Call to discuss the First Quarter of 2017 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. As a reminder, this conference is being recorded and a 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 May 3, 2017, on 55-11-3193-1012 or 2820-4012, access code 4474554#. 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, the CEO; Mr. Luciano Siani, Executive Officer of Finance and Investor Relations, CFO; Mr. Peter Poppinga, Executive Officer of Ferrous Minerals; Mr. Roger Downey, Executive Officer of Fertilizers and Coal; Mr. Humberto Freitas, Executive Officer of Logistics and Mineral Research; Ms. Jennifer Maki, Executive Officer of Base Metals; and, Mr. Clovis Torres, Executive Officer of Human Resources, Sustainability, Compliance, and General Counsel.

First, Mr. Murilo Ferreira will proceed with the presentation. And after that, we will open for questions-and-answers. It's now my pleasure to turn the call over to Mr. Murilo Ferreira.

Sir, you may now begin.

Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

Ladies and gentlemen, welcome to our webcast and conference call. Thank you all for joining us. It's a pleasure to be here presenting Vale's 2017 first quarter results. Now, moving to the first quarter results. First I will talk about our financial operational performance.

Vale delivered a sound operational performance in the first quarter of 2017 with production records for our first quarter in iron ore with highlights to their record achievement the North System in Mozambique with quarterly co-production record.

We are on track to achieve our net debt target of US$15 billion to US$17 billion. In the first quarter of 2017, our net debt amounted $22.8 billion with a big reduction of roughly $2.3 billion when compared with the fourth quarter of 2016.

Vale's cash balance will be used to continue the implementation of a liability management program reducing gross debt in 2017. The reduction in our net debt was driven by our strong cash generation in the quarter. EBITDA amounted to US$4.3 billion despite the seasonally lower volumes.

Cost and expenses amounted $4.2 billion in the first quarter 2017. Cost decreased by $263 million when compared to the fourth quarter 2016, driven by lower sales volume notwithstanding the unfavorable impact of exchange rate variations, higher price related cost factors, such as leasing of the pellet plants, royalties, feed purchase from third-parties, higher bunker oil prices and lower dilution of fixed costs and seasonally lower production volume.

Expenses decreased by about $150 million in the first quarter 2017 when compared to the fourth quarter 2016 with a reduction in SG&A, R&D, pre-operating expenses and others. Capital expenditure amounted $1.1 billion in the first quarter of 2017. The S11D project continued its successful ramp-up, advancing according to plan. In line with our divestment plan, the proceeds from the net disposal of assets amounted $770 million, mainly as a result of the conclusion of the divestment to Mitsui of part of our interest in Moatize coal mine and the Nacala Logistics Corridor.

Our focus remains on the strengthening our balance sheet while maintaining our commitment to shareholders returns and dividends. In that regard, we paid out BRL 857 million of shareholders remuneration in 2016. And we will pay an additional remuneration of BRL 4.667 billion in the next few days.

EBITDA from Ferrous Minerals was $4 billion in the first quarter of 2017, it's slightly below the previous quarter, mainly as a result of the negative impact of seasonally lower sales volume, exchange rate variations and the higher bunker oil price, which were partially offset by higher realized price. Despite the recent drop in the Platts IODEX 62%, the price differentials between the high grade of ore (06:38) with 65% Ferrous content and low grade ore with 58% Ferrous content, remain at around $40 throughout the quarter.

Our EBITDA breakeven for iron ore and pellets landed in China remaining in line with the fourth quarter 2016 at $30.50 per dry metric ton in the first quarter 2017. In this quarter, we are able to capture higher pellet premiums as we renewed our sales contracts. Pellets CMF/FOB (sic) [CFR/FOB] (07:22) price increased by almost $25 (sic) [$24] (07:23) per ton to $116 per ton in the first quarter of 2017, whereas the Platts IODEX iron ore reference price increased by $15 per ton in the quarter.

Base Metal adjusted EBITDA amounted $410 million in the first quarter of 2017, decreasing by a $130 million when compared to the fourth quarter of 2016, negatively impacted by lower volumes, unfavorable exchange variations and one-off provisions for cost normalization in Thompson after the operational issues there. In the second quarter of 2017, nickel and copper production will be impacted by the transition to a single furnace operation at Sudbury and three-week long surface plant wide scheduled maintenance shutdown, which occurs every 18 months. We took one of the furnace offline in mid-March and we are rebuilding and expanding the furnace. The rebuilt furnace will remain in operation post the transition to one furnace in the second half of the year.

With Coal, we managed to turn the business around. Coal EBITDA was US$61 million, reaching a positive result for the second consecutive quarter despite lower coal prices. Sales volumes of metallurgical coal amounted 1,54,000 tones in the first quarter 2017, increasing 11% when compared to the fourth quarter 2016, as a result of the quarterly production record achieved in the first quarter of 2017.

Production cost per ton of coal shipped through the port of Nacala decreased 14% to $83.09 per ton, as a result of the successful ramp-up of Moatize II and Nacala Logistics Corridor. We stand firm on pursuing lower net debt while we conclude the investment cycle and prepare the foundations for even stronger free cash flow generation from 2017 onwards. In first quarter 2017, we managed to reduce debt by roughly US$2.3 billion when compared with the fourth quarter of 2016. Vale's cash balance will be used to implement a liability management program, further reducing gross debt in 2017.

Thank you for your attention. And now let us open this webcast for your questions.

Q&A

Operator

Our first question comes from Mr. Jon Brandt with HSBC.

Q - Jonathan Brandt {BIO 17988091 <GO>}

Hi. Good morning. Thanks for taking my questions. I first wanted to ask you about Samarco. I understand you are temporarily suspending some workers. I'm wondering if, what the new expectation is for a start up of Samarco and if you could remind us of what Vale's obligations are under the agreement with the Court? And then, secondly, reading through your press release, it seems like you are pretty optimistic on copper prices in the medium to longer term. I'm wondering if you could give us an update on a potential expansion of Salobo project. At what point do you think you'd make a decision? How much would it cost and how long would it take you to actually bring that brownfield project on? Thank you.

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

Thank you Jon. I think that that's Samarco. We are working hard in order to see Samarco going back to the operations in the second half of this year and about the court issue I leave with Clovis Torres.

A - Clovis Torres {BIO 17711179 <GO>}

Well the issue on the court actually, what we're doing is that we're extending what is already in place, is keeping the suspension of contract of certain employees, it's not really in court. So there's nothing new about it. We're just renewing it. We had it for a year and now we are asking for another six months. We negotiated with employees. And the agreement is in line as you know the foundation is up and running, is carrying all the works for remediation and compensation as agreed with the different plaintiffs in the lawsuit. So there's nothing new about it either.

Q - Jonathan Brandt {BIO 17988091 <GO>}

And Jennifer please about copper mainly and expansion in Salobo?

A - Jennifer Anne Maki {BIO 16392645 <GO>}

On Salobo III we've just finished our – what we call our FEL 2 study and we're moving to the final feasibility study shortly and we expect that to take about a year and we will be looking at an investment decision in Salobo in the second half of 2018. And I think the interesting thing about Salobo obviously is it's a world-class asset and we've done a number of streaming transactions with regards to Salobo. And as part of this transaction, we pre-negotiated a payment that would offset some of the capital costs associated with Salobo from Silver Wheaton and that payment varies depending on the time you bring on the production and the amount of production brought on.

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

Thank you Jon.

Operator

The next question comes from Andreas Bokkenheuser with UBS.

Q - Andreas Bokkenheuser {BIO 7182883 <GO>}

Yes. Thank you very much. Good morning and thank you for taking my question. Basically two questions. The first one is, we had some headlines this morning from BHP talking about iron ore prices and talking it's down a bit, talking about growing supply and so on and so forth. I got the sense from the Portuguese call earlier this morning that you mention that using iron ore prices are going to go up from here. I guess I'm just wondering what is it that you guys are seeing that makes you slightly more bullish than someone like BHP for example on iron ore? So that would be my first question.

And my second question is on the iron ore inventories, it's something we've talked about before. But they obviously seem pretty high even on inventory day basis and moving into the second half of the year, there is some concern among investors that we're going to see a destocking and then inventory liquidation. I guess the question is to what point and to what level does that concern you going into the seasonally weaker period of the second half of the year? Thank you very much.

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

Please Peter.

A - Gerd Peter Poppinga {BIO 17245689 <GO>}

Thank you, Andreas. There might be some different assumptions on the timing. On the timeframe what we are saying here is not the long-term iron ore price, this is a different dynamics. What we were referring to here is the short-term 2017. And what we think because of the steel demand which is really going up this year in China 3% steel production, the recent downturn this is a hiccup in our opinion. Housing is okay. Infrastructure is strong. Capacity closures are going on, which actually helps seaborne supply because of the quality and the stocks in the mines are low. The stocks in the mills are low as well. And the stocks in the ports are imbalanced in quality and not so high at all, if you measure them against the days of consumption. It's 45 days against 40 days in historical terms. So there's everything there in order to have a healthy average in the whole year.

In terms of supply, the cards are on the table. There is no big surprises here. If you add up the competitors and what are their plans (16:44) you come to Vale itself, you have some marginal increase in Australia (16:53) that you also have some people exiting. So you have much less actually coming into the seaborne market than came last year and what easily absorbed, last year it was

150 million tons. This year we are calculating around 70 million tons coming in. And because of the strong market demand, we think it's going to be absorbed as well.

So what we said is there is no reason – first of all there's no reason why prices should be lower than last year. Actually, we think they are going to be significantly higher than last year, and you can look around and that we said it should be something around a $70 ton, which actually is the breakeven when you look to some seaborne – low quality seaborne marginal players and which is also not so far away from the breakeven in terms of Chinese concentrates.

About inventories, no there would be no liquidation at all. We said, this is a trade-off, which we always said from the beginning, actually before (18:10) a trade-off we deliberately made between investing very high CapEx into the Southern system. And then there is the trade-off a which is lower quality, but since we have the courage to blend offshore we will do that and it is a highly positive NPV. So momentaneously maybe for some quarters you will see an increase in stocks. But as soon as the stocks formation stabilized outside offshore then you'll see it coming back to normal levels. Thank you.

Operator

The next question comes from Daniel Lurch with BNP Paribas.

Q - Daniel Lurch {BIO 17122284 <GO>}

Hi. Thank you very much for taking my question. Just two quick questions for my side, firstly on coal. So could you maybe outline how you expect that fixed price sales will develop over the next coming quarters? Do you expect that they will decrease in the next quarter? And the second one just quickly in relation to S11D you've outlined that ramp up is focusing according to plan. Could you provide some details on production volumes achieved in Q1 and potentially what your target is in 2017? Thank you very much.

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

Roger, please.

A - Roger Allan Downey {BIO 7419641 <GO>}

Yeah. The question was a bit garbled. I didn't really understand what the question was about coal there. If you could repeat it slowly please, I think the line is a bit garbled.

Q - Daniel Lurch {BIO 17122284 <GO>}

I'm sorry. So the question in relation to coal was, what do you expect your fixed priced sales to develop? There was a mismatch between the hard coking coal benchmark price and your realized price and that appeared to be due to the fixed price sales. Would you expect that this is normalizing going forward? Or do you expect that fixed price sales might remain at higher levels? And the second question was in relation to the S11D, and the production volume in Q1 and your target in 2017 if you could provide some details? Thank you.

A - Roger Allan Downey {BIO 7419641 <GO>}

Okay. Thank you. Just on the coal then to just start off with. It's difficult to say right now with the changing landscape in terms of the benchmark. I think assuming things will carry on as they are is a difficult assumption to adopt to work with. We have several – a large proportion of our sales already are indexed, and therefore not benchmarked. With good price realization, as you can see the price realization in the first quarter of this year was very close to the benchmark, and there isn't really any reason why (21:30) any difference. So I think what we'll probably see is a bit more of what we've been seeing in markets outside of Japan. Remember we do not sell into China yet. We haven't had any need to sell into China. Most of our sales go to Korea, Taiwan, Japan, India, South

America, Europe where we have been able to become an important part of our customers plans. So we don't - other than the benchmark contracts in Japan, we don't expect a big difference in relation to the other markets.

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

Peter?

A - Gerd Peter Poppinga {BIO 17245689 <GO>}

Regarding to the S11D, as I said in the previous call, we are still producing and commissioning at the same time. There are equipments which are almost finalized, but other equipments like the truckers, the mobile crusher and some conveyor belt, they are being commissioned as we speak. So there's no - in one of them - and in some equipment there is no production going on at all, in others there is. So it is very difficult to actually say how much you are producing because of production or how much is being produced due to commissioning.

What I offered since the beginning - and later we can go down the road when we have a clear cut, we can go in more detail. But what we said is the bottleneck is the railway. The bottleneck is the railway in terms of duplication. And this year there is the capacity and we will fully utilize it, is 175 million tons. And if you'd look into 2016, we roughly produced in the Northern system 155 million tons, so it is not difficult to calculate what is the additional tonnage coming, which mostly will come from S11D, but can also come a little bit from the Northern system. But it will be determined by the speed of the ramp up and also by the margin optimization. Thank you.

Q - Daniel Lurch {BIO 17122284 <GO>}

Thank you

Operator

The next question comes from Mr. Alfonso Salazar with Scotiabank.

Q - Alfonso Salazar {BIO 18358082 <GO>}

Thank you. I have two questions. The first one is a follow up on Salobo. You mentioned in your production report that there were some repairs and there were also the negative impact of lower grades. And I was wondering, if you can tell you us, if this is something that you see is temporary and what do you expect in terms of copper and gold production in 2017?

The second question is regarding inventories - the ramp up (24:29) of iron ore inventories, what can - if you can give us some clarity what to expect in terms of - what follows in the next quarters. What do you - you have provided guidance for production, but where do you see shipments for the rest of the year. Do you think you're going to catch up and have production and shipments similar for the year or higher shipments, if you can give us some color on that? Thank you.

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

Jennifer Maki, please.

A - Jennifer Anne Maki {BIO 16392645 <GO>}

I think on the level that conveyor belt issues we experienced are normal maintenance repairs and they happen from time to time as we replace the splices (25:13) in the conveyor belt, so you know we do that probably 3 times a year and take it down for a couple of days. And in terms of the grade variability, I think it's normal grade variation in a pit of that size at Salobo and the forecast for the year is about 200,000 tons of copper for Salobo.

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

Okay. Shipments in this year will be higher than last year roughly in the same proportion and the production is going up.

Q - Alfonso Salazar {BIO 18358082 <GO>}

Thank you.

Operator

The next question comes from David Wang with Morningstar.

Q - David Wang {BIO 19190330 <GO>}

Hi, good morning. Thank you for taking my question. My first is on cash costs. It looks like your iron ore cash costs are a little bit higher versus last year, despite the ramp up of Carajás. Can you just discuss how the overall cash cost is set to play out with Carajás ramping up. I guess I would expect with a lower cost system coming online that should somewhat offset the inflationary pressures that you might be seeing?

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

Please Peter.

A - Gerd Peter Poppinga {BIO 17245689 <GO>}

Thanks for the question, David. You know, we were heavily penalized by the bunker going up and also by the exchange rate which is not playing in our favor. But, if you look to the cash cost and the C1 cost in reals, you can see that we reduced our – from one quarter to the other, our C1 cost in reals, in spite of the inflation and some non-recurring costs. I would say that under similar FX conditions and bunker conditions we have today. I would say for the first half of the year, we will be around in the range of 14 to 14.5 that is because of lower volumes in the first half. And then in the second half, aiming to come back to 13.5 again but again, under similar conditions for FX and bunker. On the freight rate, there was a recent uptick but freight is very volatile and again it is about the bunker.

On the sustaining CapEx, if you look carefully and if you make – it is very difficult to judge from one quarter to the other, but if you go and check what happened in 2015, we had a sustaining CapEx of $3.4 per ton. In 2016. We have – we came down to $2.6 per ton. And of course, the number will be higher in 2017, but mainly also because of the FX. If you equalize for the FX, you will have – you will see on the average of the year, probably sustaining numbers very similar to 2016. Thank you.

Operator

The next question comes from Thiago Lofiego with Bradesco BBI.

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you, gentlemen. Peter, just one follow-up question. What do you think could trigger a destocking at Chinese ports? We know that most of that material is low grade and so we haven't actually seen any kind of significant destocking happening. And then, when we think about fuel makers margins in China, they have been tightening up right.

I mean, we are seeing lower steel prices, higher coking coal when we compare it to a few months ago – a couple of months ago so margins are tighter in China. Do you think that could be a driver or a trigger for fuel makers finally wanting to procure cheaper low grade ore versus some more expensive high grade ore and then that could trigger destocking. What's your view about that. Thank you.

A - Gerd Peter Poppinga {BIO 17245689 <GO>}

Thank you Thiago. I think the port inventory, as we said, is in better quality. But, when you look at the port - when you look at the stock in the mine - in the mills, they are very low level now. So, you can see already a restocking in the mine and in the mill. The mines are catching up in terms of production, the domestic concentrates and the mills restocking as well.

And so, I think it's happening already, but you will - it will be a very painful slow process to get rid of all these lower quality ore. And so I think it's a gradual process and I have no doubt that, that market will come into balance once the - again, there comes an uptick because of the robust steel demand, especially maybe in the next weeks when there are some announcements again about the One Belt One Road initiatives and other fiscal stimulus for political reasons eventually - potentially coming. You will see those tons moving very quickly. Thank you

Q - Thiago Lofiego {BIO 16359318 <GO>}

Thank you.

Operator

The next question comes from Ivano Westin with Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

Hi, thanks for those questions. The first one is a follow up on the inventory level. You mentioned the Portuguese goal, the (31:20) inventory increase in the last years. I just like to clarify what was the exactly volume that will increase in quarter one? What is the total volume that we'll have in inventories? And what is the normalized inventory level you expect for achieving and when?

And the second question is for Jennifer if you could comment on the VNC cash cost. It rolled well in quarter one, especially due to higher cobalt by product price. There is a positive outlook for cobalt. So, I just wonder if you expect overall cash cost of VNC to be below $11,000? Thank you.

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

Thank you for the questions. We have not disclosed in detail our inventory, because it's along the whole supply chain. In the past we were focused on the inventory in Brazil, this went down drastically.

Actually, last year the inventory came down as well. This year as I said, there will be a slight increase in inventories and we don't know when this would stabilize, but we - it is part of our strategy to come to a certain level and to move the inventory downstream and at the same time try to reduce it.

The downstream move is succeeding well. The reduction cannot happen so easily this year because of the increase in lending, but it is a temporary situation and it will be will be sorted out probably in 2018 when we have a stable inventory level and then it will go down again. Thank you. Jennifer?

A - Jennifer Anne Maki {BIO 16392645 <GO>}

On Vale, New Caledonia definitely the benefit is from the doubling of the cobalt price from a year ago close to $55,000 a ton today. I do believe that in the second half of the year that we'll see that unit cash cost of VNC in the range of $10,500 to $11,000 a ton.

In the second half of the year, we have increased production on a monthly basis which will help dilute the fixed costs. And in addition, we're in the middle of executing taking out another I would say $30 million to $40 million of operating cost and VNC this year. So, with all that I expect it will be below $11,000 for sure.

Operator

The next question comes from Marcos Assumpção with Itaú BBA.

Q - Marcos Assumpção

Good morning, everyone. Two quick questions. The first one on coking coal – sorry, on the co-operation, if you could just confirm that the current logistic contract that you have on the Abeta on the San Abeta (34:25) corridor. When do you expect that to finalize and probably we will see significant improvement in profitability of the whole operation or the co-operation following that at the end of that contract?

And the second question for Murilo, more strategically – more strategic question. You spent the last 6 years in the company. Did a very good job like turning around the company, where would you like to see the company position in 5 years' time? Thank you very much.

A - Operator

(35:05)

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

The contract San Abeta (35:11) we will finish in the end of this year. After that, we will have lower cost and enough capacity to have all the material in the Nacala corridor.

A - Luciano Siani Pires {BIO 15951848 <GO>}

Marcos this is Luciano. Just to add with the interest of Mitsui there will be now the charging of tariffs from the corridor to the mine. So, therefore the coal business will have a hit in terms of EBITDA, because of this increasing tariff which starts now. Small increase, it will be higher after the project finance, but it will start in the second quarter. On the other hand, because of the relationships of Vale with the corridor being a 50% owner, we shall get some of the results of the corridor that will flow through the tariff. But in other lines all the financial statements, equity income and so on.

A - Murilo Pinto de Oliveira Ferreira {BIO 1921488 <GO>}

And about your question, Marcos, for sure, I would like to see Vale providing the best return in the mining industry and having a huge discipline in terms of capital and I believe that paying high dividends for sure. I think that instead of to accumulate cash or looking for some projects, not being so world-class projects, I think that the best that Vale can provide is a good returns in terms of dividends.

But in terms of for the company is being efficient, very efficient to be in the first quartile in all of the segments and to continue our leadership mainly in iron ore and nickel and looking for the future in terms of copper. I think that we have some exploration activities that can provide good opportunities mainly in Indonesia, in Brazil (37:21). And I think that in this (37:23) being the most efficient company in the world in terms of return to the shareholders.

I would like to express in the end of this call – to express my gratitude to the analysts, to the investors. I have reserved many comments in this period. I am extremely happy with the support and – but I would like to share with my colleagues and in the Executive Board and in the whole company. Thank you very much. I hope to see you soon.

Operator

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