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07/31/2014

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Vale's performance in 2Q14

Iron ore production reached the best performance for a second quarter ever and Carajás' production reached 29.3 Mt due to the successful ramp-up of Plant 2

Vale delivered a strong operational performance in 2Q14, with iron ore production reaching 79.4 Mt, the best performance for a second quarter ever, with Carajás production reaching 29.3 Mt, due to the successful ramp-up of Plant 2.

Despite lower iron ore prices, Vale comfortably paid dividends in the amount of US$ 2.1 billion, while maintaining its total debt level at US$ 30.257 billion and preserving a similar cash position to the one in 1Q14 in the amount of US$ 7.067 billion.In 2Q14 Vale posted an adjusted EBITDA of US$ 4.104 billion, including an improved contribution of US$ 609 million from the base metals business, on the back of improved EBITDA at Salobo (US$ 87 million), Onça Puma (US$ 106 million) and PT Vale Indonesia (US$ 107 million), and despite the effects of major planned maintenance in our Sudbury operations. Gross sales revenues were US$ 10.079 billion, an increase of 4.1% vs. 1Q14, despite the lower prices of iron ore.

In 1H14, we managed to reduce costs and expenses by US$ 249 million vs. 1H13, with savings of US$ 31 million in 2Q14 vs. 2Q13, despite the maintenance stoppage in Sudbury and the additional costs associated with the interruption of production in VNC. Comparing 1H14 with 1H13, SG&A decreased by US$ 144 million (25.3%), above our 10% reduction target for the year. R&D decreased by US$ 22 million (6.7%) and pre-operating and stoppage expenses decreased by US$ 282 million (39.9%), still short of our 50% savings target.

In the first half of 2014, Vale's capital expenditures totaled US$ 5.056 billion, representing a decrease of US$ 2.105 billion when compared to the US$ 7.161 billion spent in the first half of 2013. In the semester, sustaining capex amounted to US$ 1.658 billion, showing a decrease of about 21% when compared to 1H13.

Net income totaled US$ 1.428 billion against US$ 2.515 billion in the previous quarter, reflecting the effects of impairment on assets related to Simandou and the Integra Coal mine. Discussions with the Government of Guinea are advancing towards the recognition of and some sort of compensation for Vale´s investments made in the country. We remain diligent in developing alternatives that may enable us to retrieve value from those assets in the future.

We achieved solid results in ferrous minerals albeit at lower prices

. Adjusted EBITDA for iron ore in 2Q14 of US$ 2.679 billion, in line with 1Q14, despite the lower iron ore prices.
. Iron ore production of 79.4 Mt[1] in 2Q14, mainly due to the ramp-ups of Plant 2 (Additional 40Mt) and Conceição Itabiritos.
. Iron ore and pellet sales volumes of 76.9 Mt in 2Q14, 13.4% higher than in 1Q14.. Average realized price for iron ore fines (ex-ROM[2]) of US$ 84.6/wmt vs. the average Platt's IODEX 62% of US$ 102.6/dmt (CFR China) in 2Q14, indicating a softer drop in Vale´s realized prices than the drop in the IODEX reference price.
. Over 2Mt of inventory stockpiled in the Malaysia distribution center to blend different quality ores, facilitate logistics and generate stronger cash flow in the near future.

Achieving consistent cash flows in base metals

. Adjusted EBITDA reached US$ 609 million in 2Q14 despite major planned maintenance work in Sudbury, accumulating US$ 1.158 billion in 1H14.
. During this year's scheduled maintenance at some surface facilities, the Sudbury mines - which are the bottleneck in the Sudbury system - did not stop producing, building up inventory of ore and concentrates to be smelted and refined in the second half of the year. As a result, a stronger refined nickel output is naturally expected for the 2H14, compensating the planned lower production from 2Q14.
. Salobo I and Onça Puma[3], which are still in ramp-up, generated consistent cash flows and contributed with 32% of Vale´s base metals EBITDA in 2Q14.
. Sales revenues achieved US$ 1.889 billion, 9.3% higher than in 1Q14, due to better sales prices, which more than offset the effect of lower sales volumes, due to the maintenance stoppage in Sudbury and in Clydach.
. Salobo II was concluded on time and under budget, with total capex of US$ 1.220 billion as of the end of the 2Q14, marking a successful phase of investments in our copper operations. Investments in Salobo I and II totaled US$ 3.727 billion, out of a budget of US$ 4.214 billion.. First production of copper concentrate at Salobo II was achieved on June 5, 2014.

Focusing on long term profitability of coal business

. Negative adjusted EBITDA of US$ 154 million due to low coal prices and the low utilization of the Moatize asset base as a result of the restricted rail and port capacity, which will only be achieved with the conclusion of the Nacala Corridor.
. Placement of the Integra Coal mine in care and maintenance, as part of an ongoing turnaround, with the recognition of an impairment loss of US$ 274 million in 2Q14.
. Total coal output in 2Q14 of 2.2 Mt, 23.8% higher than in 1Q14, mostly due to the stronger performance of Carborough Downs, after the longwall move in the previous quarter.

. Capex of US$ 150 million incurred in Moatize II in 2Q14, achieving 66% of physical progress, with the start of the assembly of the steel structure on the primary crusher and conclusion of the civil construction work for the rail loop.
. Achievement of 77% physical progress at the greenfield sections of the Nacala Corridor Railway (first train expected in 4Q14), and 68% at the Nacala Port (first shipment expected in 1Q15).

Improving fertilizers operational results

. Adjusted EBITDA for the fertilizer business increased to US$ 72 million in 2Q14 from US$ 35 million in 1Q14, mostly due to the positive impact of sales prices.
. Production of phosphate rock reached 2.1 Mt, a record output for a second quarter, and represented a production increase of 9.9% and 11.9% when compared to 1Q14 and 2Q13, respectively. Production grew in Brazil and Peru.

In 2Q14 Vale advanced its projects under execution, continued the ramp-up of important operations and further reduced costs, expenses and capital expenditures, reinforcing its objective of generating positive cash flows in any price scenario.

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More information

Mônica Ferreira
monica.ferreira@vale.com
Rio de Janeiro
+55 (21) 3845-3636

Fatima Cristina
fatima.cristina@vale.com
Rio de Janeiro
+55 (21) 3485-3621