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Vale's performance in 2Q17

Costs and expenses totaled US$ 4.588 billion in 2Q17 increasing US$ 381 million vs. 1Q17

CFO Luciano Siani Pires comments on the 2Q17 results

Strong free cash flow of US$ 2.151 billion in 2Q17, despite the sharp decrease of the Platts IODEX and the payment of SUMIC put option on Vale New Caledonia, enabling dividend distribution and net debt reduction of US$ 655 million in 2Q17. By the end of 2017, Vale will reach a comfortable leverage level.

Adjusted EBITDA was US$ 2.729 billion in 2Q17, 36.7% lower than in 1Q17, mainly as a result of the 26.6% reduction of the Platts IODEX. Adjusted EBITDA for Ferrous Minerals represented 82% of total adjusted EBITDA.

Costs and expenses totaled US$ 4.588 billion in 2Q17 increasing US$ 381 million vs. 1Q17, mainly as a result of non-recurrent effects. In order to consolidate a systemic and sustainable approach to cost management, Vale retained the services of Falconi consulting company to conduct a pilot project in its pelletizing business that can then be expanded to the whole company in the future.

Iron ore price realization decreased by US$ 24.4/t due to the US$ 22.7/t reduction in the Platts IODEX. Vale's significant premiums for its 65% iron ore were offset by large discounts on some low grades/high silica material, which had to be sold directly without blending. "As a response to such market conditions, Vale will from 2H17 onwards reduce its production of high silica products by an annualized rate of 19 Mt to increase price realization, keeping the long term production guidance limited to 400 Mtpa", commented Mr. Peter Poppinga, Executive Officer for Ferrous Minerals and Coal. "Rebalancing the portfolio according to market conditions through product management and increasing offshore blending will continue to maximize our margins".

Iron ore and pellets shipments[1] totaled 81.6 Mt in 2Q17 while iron ore fines sales volumes reached 69.0 Mt leading to the build-up of 5.3 Mt of offshore inventories to further support higher levels of blending activities, especially in 11 Chinese ports, in which we are already blending.

Iron ore C1 cash cost increased by 6.9% to R$ 49.3/t (USD 15.2/t), as a result of a one-off railway tariff charge (MRS[2]), higher demurrage costs and seasonally higher maintenance costs. Costs are expected to decrease to the range of R$ 46 - 47/t in 2H17, back to the BRL levels of two years ago, due to the combination of higher production, seasonally lower maintenance costs and productivity gains.

Adjusted EBITDA for Base Metals was US$ 386 million as the impact of lower nickel and copper prices (US$ 112 million) was partially offset by lower expenses (US$ 34 million), higher volumes (US$ 29 million), favorable exchange rate variation (US$ 11 million) and higher by-product prices (US$ 10 million).

Nickel production guidance for 2017 was reduced to 295 kt, 7% lower than our Vale Day guidance, as a result of actions to adjust our supply of nickel to a lower price environment including placing non-competitive mines, such as Stobie in Sudbury and Birchtree in Manitoba, on care and maintenance, and also reflecting lower than planned first half production in Manitoba, New Caledonia and Indonesia.

Adjusted EBITDA for Coal was US$ 157 million in 2Q17, recording a positive result for a third consecutive quarter on higher prices, higher volumes and lower costs at the mine and processing plants, which decreased by 16% in 2Q17 vs. 1Q17, due to the successful ramp-up of Moatize II and the strong performance of both processing plants.

Capital Expenditures were US$ 894 million in 2Q17, breaking through the sub US$ 1 billion mark and the lowest for a quarter since 3Q06. "With the further reduction in S11D expenditures and in other large sustaining investment programs such as the Nickel Atmospheric Emissions Reduction - AER project in Sudbury, we can aim for further CAPEX reductions in 2018. This means that Vale's free cash flows can continue to increase even in an environment of lower prices", highlighted Chief Financial Officer Luciano Siani Pires. "This provides breathing space while we tackle and reverse the recent increase in costs".

Chief Executive Officer Fabio Schvartsman commented on the first results partially under his oversight: "I feel there is a lot of energy in the company to take performance a step further, building on the strengths of previous efforts. A strong focus on execution will continue to boost cash flows. In the meantime, we are about to conclude our 60-day strategic diagnosis, which will guide us in our implementation of important strategic initiatives aiming at results in the short-term."

Production Report

Infographics

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More information

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