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Vale's performance in 2014

2014 was a year of sound performance despite the challenges brought by declining commodity prices

In 2014 Vale S.A. (Vale) achieved several production records, further reduced expenses by US$ 1.218 billion[1], completed eight capital projects, reduced capital expenditures by another US$ 2.254 billion[2], negotiated a key partnership for our coal operation in Mozambique and still paid US$ 4.2 billion in dividends while preserving a healthy capital structure.

2014 was a year of sound performance despite the challenges brought by declining commodity prices

- Annual production records in iron ore, copper and gold and the highest annual production in nickel since 2008:

– Iron ore supply of 331.6 Mt[3], including Vale sourced production record of 319.2 Mt[4], mainly due to the record production in Carajás of 119.7 Mt.

– Nickel production of 275,000 t, the highest annual production since 2008.

– Copper production record of 379,700 t, with ramp-up in Salobo to 98,000 t of production.

− Gold production record of 321,000 oz.

• Record sales volumes of iron ore and pellets (313.6 Mt) and gold (351,000 oz), and the highest sales volume of nickel (272,000 t) since 2008.

• Reduction of US$ 1.2181 billion in expenses across all businesses in 2014.
− SG&A[5] decreased by US$ 234 million (21.1%).
− Pre-operating and stoppage expenses5 decreased significantly by US$ 747 million (45.9% reduction) from US$ 1.628 billion in 2013 down to US$ 881 million in 2014.

• Adjusted EBITDA of US$ 13.353 billion in 2014, a decrease of 40.8% from the US$ 22.560 billion in 2013, mainly due to lower commodity prices which negatively impacted adjusted EBITDA by US$ 10.580 billion in 2014.
− Base metals adjusted EBITDA totaled US$ 2.521 billion in 2014, an increase of 53.8% when compared to 2013 with higher nickel prices and volumes of both copper and nickel more than offsetting the weaker price scenario for copper in 2014.
− Fertilizers adjusted EBITDA improved from -US$ 54 million in 2013 to US$ 278 million in 2014, despite lower sales volumes and prices.

• Underlying earnings of US$ 4.419 billion in 2014 excluding one-time effects of (i) foreign exchange and monetary losses (-US$ 2.200 billion), (ii) impairment of assets (-US$ 1.152 billion), (iii) currency and interest rate swap losses (-US$ 683 million), (iv) mark-to-market of shareholder debentures (-US$ 315 million) and (v) relinquishment of land associated with the renewal of PTVI´s contract of work (CoW) in Indonesia (-US$ 167 million), among others.

• Reduction of US$ 2.254 billion in capex from US$ 14.233 billion in 2013[6] to US$ 11.979 billion in 2014, marking the fourth consecutive year of capex reductions.

• Improvement in Health and Safety indicators with Total Recordable Injury Frequency Rate (TRIFR) falling from 2.6 to 2.3[7].

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4Q14 was a quarter marked by production records, low prices and non-recurring effects on EBITDA and earnings

• Quarterly production records in:
− Iron ore output in Carajás of 34.9 Mt.
− Total iron ore production of 83.0 Mt, a record for a fourth quarter.
− Pellet production of 11.6 Mt, a record for a fourth quarter.

− Nickel production of 73,600 t.
− Copper production of 105,400 t, with ramp-up in Salobo to 31,600 t.
− Gold production of 93,600 oz.

• Adjusted EBITDA of US$ 2.187 billion in 4Q14 was negatively impacted by one-off costs and expenses of (i) US$ 98 million related to the write-down of thermal coal inventory, (ii) US$ 90 million due to the write-down of ICMS tax credits, (iii) US$ 107 million due to provision for current and long term environmental obligations and (iv) US$ 48 million of inventory adjustments and the opening of N4WS at Carajás. Excluding these one-off effects, the adjusted EBITDA would have been US$ 2.530 billion in 4Q14.

2014 was also a year of important accomplishments for paving the road towards strong free cash flow generation

• Granting of the operating license to expand the N4WS mine pit located in Carajás, supporting our iron ore production plan for 2015 and 2016.

• Completion of eight projects on time and on budget (Tubarão VIII, Serra Leste, the distribution center in Malaysia, Vargem Grande, the 5th line of Brucutu, Salobo II, Nacala and Long Harbour).

• Investment Agreement with Mitsui, whereby Mitsui will own 15% of Vale's stake in Vale Moçambique and 50% of Vale's stake in Nacala with an expected impact of US$ 3.7 billion in terms of capex avoidance and cash inflow.

• Renegotiation of an extension of PTVI's CoW and mining concession until 2045.

For 2015 we have optimized and revised down our capex plan and are intensifying our corporate simplification and cost cutting efforts, while accelerating the divestment and partnership initiatives to unlock value and build the foundations for strong free cash flow generation by 2017 onwards.

[1] Excluding depreciation and amortization and the one-off effect of the goldstream transaction in 1Q13 of US$ 244 million.
[2] Including US$ 602 million in capex for VLI in 2013.
[3] Excluding Samarco's attributable production and including third party ores.
[4] Excluding Samarco's attributable production.
[5] Net of depreciation.
[6] Including US$ 602 million in capex for VLI in 2013.
[7] Per million hours worked.

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More information

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