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Vale's performance in 2016

Net operating revenues in 2016 were US$ 29.363 billion, 14.7% higher than the US$ 25.609 billion registered in 2015

Vale delivered a sound operational performance, with several production records in 2016, namely: (i) iron ore production of 348.8 Mt; (ii) Carajás iron ore production of 148.1 Mt; (iii) nickel production of 311,000 t; (iv) copper production of 453,100 t ; (v) cobalt production of 5,799 t; (vi) contained gold as a by-product in the copper and nickel concentrates of 483,000 oz and (vii) Moatize coal production of 5.5 Mt.

Vale's CFO comments on 2016 financial results

Net operating revenues in 2016 were US$ 29.363 billion, 14.7% higher than the US$ 25.609 billion registered in 2015. The increase in sales revenues was mainly due to higher realized prices of iron ore fines and pellets (US$ 2.966 billion), and higher volumes of iron ore fines and pellets (US$ 715 million) and base metals (US$ 407 million) partially offset by lower base metals prices (US$ 431 million).

Quarterly net revenues totaled US$ 9.694 billion in 4Q16, 32.4% higher than in 3Q16. The increase in sales revenues was mainly due to higher sales prices for iron ore fines and pellets (US$ 1.613 billion), for coal (US$ 200 million) and base metals (US$ 123 million), and higher sales volumes in ferrous minerals (US$ 441 million), in base metals (US$ 58 million) and in coal (US$ 13 million).

Costs and expenses decreased by US$ 1.841 billion[2] to US$ 17.379 billion in 2016, mainly due to: (i) the impact of exchange rate variations in COGS and SG&A (US$ 399 million), (ii) cost savings initiatives (US$ 1.623 billion) and (iii) a reduction in expenses3 (US$ 387 million). These reductions were partially offset by higher sales volumes (US$ 942 million).

Quarterly costs and expenses, net of depreciation charges, totaled US$ 5.003 billion in 4Q16, increasing 16.3% from the US$ 4.301 billion in 3Q16, impacted by higher costs (US$ 362 million) and higher expenses (US$ 255 million). The increase was driven mainly by higher freight costs and by some one-off effects such as the collective bargaining agreement settled with our employees in Brazil and a higher provision for profit sharing, which was impacted by the sharp increase of commodity prices at the end of year, leading to a much higher provision in comparison to previous quarters.

Adjusted EBITDA was US$ 12.181 billion in 2016, 72.0% higher than the US$ 7.081 billion in 2015 mainly as a result of improvements in the Ferrous Minerals EBITDA (US$ 4.577 billion), Base Metals EBITDA (US$ 460 million) and Coal EBITDA (US$ 454 million). Adjusted EBITDA margin was 41.5% in 2016, improving from the 27.7% recorded in 2015.

Quarterly adjusted EBITDA was US$ 4.770 billion in 4Q16, 57.8% higher than in 3Q16 mainly as a result of improvements in the Ferrous Minerals EBITDA (US$ 1.616 billion) and Coal EBITDA (US$ 163 million). Adjusted EBITDA margin was 49.2% in 4Q16, improving from the 41.3% recorded in 3Q16.

Capital expenditures totaled US$ 1.408 billion in 4Q16 and US$ 5.482 billion in 2016, decreasing US$ 2.919 billion vs. 2015. Investments in project execution totaled US$ 614 million and US$ 3.179 billion in 4Q16 and in 2016, respectively. Sustaining capex totaled US$ 794 million and US$ 2.302 billion in 4Q16 and in 2016, respectively. The S11D project started up successfully in December 2016 with the first shipment in January 2017 of S11D ore blended with ore from other Northern System mines.

Announced asset sales totaled US$ 3.842 billion in 2016, with US$ 2.500 billion stemming from the sale of part of the Fertilizers business, US$ 820 million from another goldstream transaction, US$ 269 million from the sale of three very large ore carriers, US$ 140 million from the sale of four capesize carriers and US$ 113 million from additional payments received from the sale of Mineração Paragominas.

Net income totaled US$ 3.982 billion in 2016 vs. a net loss of US$ 12.129 billion in 2015. The US$ 16.111 billion increase was mostly driven by: (i) higher EBITDA (US$ 5.100 billion), (ii) higher gains on foreign exchange and monetary variation (US$ 10.629 billion), and (iii) lower impairment of non-current assets and onerous contracts (US$ 6.014 billion). This increase was partially offset by higher taxes (US$ 7.251 billion) due to the net earnings generated in the period.

Impairments of non-current assets and onerous contracts caused non-cash losses of US$ 2.912 billion in 2016 vs US$ 8.926 billion in 2015. In 2016, impairments were mainly driven by the impact of: (i) the agreement to sell certain Fertilizers assets for US$ 2.5 billion announced in December 2016 (US$ 1.738 billion); (ii) lower price projections for certain products, which reduced the recoverable values of the Vale Newfoundland and Labrador - VNL (US$ 631 million) and Vale New Caledonia - VNC (US$ 284 million) assets, and (iii) the provision related to contracts with minimum guaranteed volume for port services in the Midwestern system (US$ 183 million) and for manganese ore supply (US$ 74 million), which were partially offset by the impairment reversal driven by the impact of the decision to re-start the São Luis pellet plant at the beginning of 2018 (US$ 160 million).

Impairments of assets in discontinued operations, with no cash effect, totaled US$ 1.738 billion as a result of the difference between the carrying value and the recoverable amount of the Fertilizer assets held for sale.

Quarterly net income totaled US$ 525 million in 4Q16 vs. US$ 575 million in 3Q16, decreasing by US$ 50 million, mainly as a result of the impairment of non-current assets and onerous contracts (US$ 2.912 billion), which were partially offset by the positive impact of higher EBITDA (US$ 1.151 billion).

Cash flow from operations amounted to US$ 3.715 billion in 4Q16, US$ 1.055 billion lower than the EBITDA due to the negative impact of the increase in accounts receivable in 4Q16 vs. 3Q16, mainly driven by the: (i) final invoices not yet collected (with higher prices than the ones provisionally invoiced at the end of 3Q16); (ii) concentration of iron ore sales volumes provisionally invoiced at the end of 4Q16 (sales not yet collected); and (iii) higher prices on volumes provisionally invoiced at the end of 4Q16 vs. 3Q16.
Working capital changes should have a positive impact on cash flows in 1Q17 as sales collections increase throughout the quarter.

Net debt totaled US$ 25.075 billion vs. US$ 25.234 billion as of December 31st, 2015 and US$ 25.965 billion as of September 30th, 2016, with a cash balance of US$ 4.280 billion as of December 31st, 2016. Average debt maturity was 7.9 years with an average cost of debt of 4.63% per annum. Leverage ratio improved significantly to 2.4x as of December 31st, 2016 from the 4.1x as of December 31st, 2015.

In 2016, Vale distributed R$ 857 million (US$ 250 million) of shareholder remuneration in the form of interest on equity. Vale's Board of Directors approved, subject to the ratification by the General Shareholders Meeting, the additional distribution of R$ 4.667 billion, to be paid at the end of April 2017, in the form of interest on equity.

The main highlights of Vale's performance by business segment were:

EBITDA from the Ferrous Minerals business segment increased 78% in 2016 vs. 2015, mainly driven by higher prices and gains in competitiveness

- Adjusted EBITDA for Ferrous Minerals was US$ 10.476 billion in 2016, US$ 4.577 billion higher than the US$ 5.899 billion achieved in 2015, mainly as a result of higher market prices (US$ 2.727 billion) and gains in competitiveness (US$ 1.259 billion).

- Adjusted EBITDA per ton for Ferrous Minerals, excluding Manganese and Ferroalloys, was US$ 30.5/t in 2016, 73% higher than the US$ 17.7/t recorded in 2015, positioning Vale better or on par with its Australian peers, despite its geographical disadvantage.

- Cash flow generation, simplified by measuring adjusted EBITDA less sustaining and growth capex, was US$ 7.229 billion in 2016, increasing by US$ 6.277 billion (559%) from the US$ 952 million recorded in 2015.

- Sales volumes of iron ore fines increased 5%, from 276.4 Mt in 2015 to 289.9 Mt in 2016, as a result of the better operational performance in the Northern System.

- Vale's realized CFR/FOB wmt price for iron ore fines (ex-ROM) increased US$ 9.8/wmt, from US$ 44.6/wmt in 2015 to US$ 54.4/wmt in 2016, while average Platts IODEX 62% increased US$ 3.0/dmt, mainly due to marketing and commercial initiatives, the positive impact of the different pricing systems and the increase in the Northern System sales volumes.

- C1 cash cost FOB port per metric ton of iron ore fines in BRL reduced by 7% to R$ 45.9/t in 2016 vs. R$ 49.3/t in 2015, despite inflationary pressures of 6.3%[6], mainly due to improvements in operational performance and ongoing cost-cutting initiatives.

- Unit maritime freight cost per iron ore metric ton was US$ 12.2/t in 2016, US$ 3.8/t lower than the US$ 16.0/t recorded in 2015, mainly due to the lower bunker oil prices (US$ 1.7/t) and the lower spot freight rates (US$ 0.7/t).

- Iron ore fines and pellets EBITDA break-even, measured by unit cash costs and expenses on a landed-in-China basis[7], decreased US$ 5.7/dmt[8] to US$ 28.9/dmt in 2016 when compared to 2015.

Quarterly EBITDA from the Ferrous Minerals business segment increased 65% in 4Q16 vs. 3Q16, mainly driven by higher realized prices and higher sales volumes

- Adjusted EBITDA for Ferrous Minerals was US$ 4.109 billion in 4Q16, US$ 1.616 billion higher than the US$ 2.493 billion achieved in 3Q16, mainly as a result of higher realized prices (US$ 1.647 billion) and higher sales volumes (US$ 247 million), which were partly offset by higher costs and expenses[9] (US$ 354 million).

- Adjusted EBITDA per ton for iron ore fines was US$ 42.2/t in 4Q16, 58% higher than the US$ 26.8/t recorded in 3Q16, mainly as a result of higher CFR/FOB wmt price.

- Vale's CFR/FOB wmt price for iron ore fines (ex-ROM) increased 36.5% (US$ 18.6/t) from US$ 50.9/t in 3Q16 to US$ 69.5/t in 4Q16[10], while average Platts IODEX 62% increased 20.8% in 4Q16 vs. 3Q16, mainly due to the positive impacts of Vale's provisional pricing system.

- C1 cash cost FOB port per metric ton for iron ore fines ex-royalties increased US$1.4/t, from the US$ 13.0/t recorded in 3Q16 to US$ 14.4/t in 4Q16, mainly as a result of non-recurring events (US$ 0.9/t) such as: the adjustments in inventory, the collective bargaining agreement with employees in Brazil and the provision for profit sharing, which was impacted by the sharp increase of commodity prices at the end of the year, leading to a much higher provision in comparison to previous quarters.

- Unit maritime freight cost per iron ore metric ton was US$ 13.2/t in 4Q16, US$ 1.2/t higher than in 3Q16, mainly due to the negative impacts of: (i) higher bunker oil prices (US$ 0.5/t); (ii) higher spot freight rates (US$ 0.2/t); (iii) higher costs on the freight contracted to replace the transportation capacity of the vessels sold[11] (US$ 0.2/t).

EBITDA from the Base Metals business segment increased significantly in 2016 as a result of lower costs and expenses despite lower prices

- Adjusted EBITDA for Base Metals was US$ 1.848 billion in 2016, US$ 460 million higher than the US$ 1.388 billion in recorded in 2015, positively impacted by lower costs and expenses (US$ 618 million), higher volumes (US$ 148 million) and favorable exchange rate variations (US$ 126 million), which were partially offset by lower base metals prices (US$ 431 million).

- . Base Metals realized prices were severely impacted by the decrease in nickel and copper LME prices, which decreased by 19% and 11%, respectively, in 2016 vs. 2015.

- . Salobo's EBITDA totaled US$ 736 million[12] in 2016, increasing US$ 135 million vs. 2015, mainly due to higher volumes[13] (US$ 92 million).

- Salobo achieved a yearly production record of 175,900 t in 2016 after completing its ramp-up and reaching nominal capacity as of September 2016.

- Adjusted EBITDA for VNC totaled negative US$ 169 million in 2016 improving by US$ 240 million when compared to the negative US$ 409 million in 2015, in spite of the 19% decline in nickel price.

- VNC's unit cost net of by-product credits reached US$ 11,017/t at the end of 2016 compared to US$ 17,380/t by the end of 2015.

Quarterly EBITDA from the Base Metals business segment increased with higher nickel and copper prices

- Adjusted EBITDA was US$ 543 million in 4Q16, increasing US$ 93 million vs. 3Q16[14], as a result of higher prices (US$ 123 million) and exchange rate variation (US$ 17 million), which were partially offset by higher costs[15] (US$ 21 million) and SG&A expenses (US$ 13 million).

- Salobo's EBITDA was US$ 203 million increasing US$ 72 million vs 3Q16 (excluding the US$ 150 million impact from the goldstream transaction in 3Q16), mainly due to lower costs and expenses (US$ 31 million), higher prices (US$ 27 million) and higher volumes (US$ 11 million).

- Salobo achieved a quarterly production record of 49,800 t in 3Q16 and a monthly production record of 17,500 t in December 2016.

- VNC's EBITDA was negative US$ 32 million, improving compared to the negative US$ 39 million in 3Q16, as a result of lower costs.

- VNC's unit cost net of by-product credits reached US$ 11,017/t in 4Q16 vs.12,425/t in 3Q16, reflecting lower maintenance costs of US$ 11 million in 4Q16.

EBITDA from Coal improved significantly in 2016, with the

EBITDA of coal shipped through the Nacala port reaching US$ 110 million

- Adjusted EBITDA for the Coal business segment improved significantly to negative US$ 54 million in 2016 from negative US$ 508 million in 2015, as a result of the ramp-ups of the Nacala Logistics Corridor and the Moatize II plant and the strong increase in coal prices.
- Adjusted EBITDA of coal shipped through the Nacala port reached US$ 110 million in 2016.
- Railed volume in Mozambique reached 8.8 Mt in 2016, being 113% higher than the 4.1 Mt recorded in 2015, and shipped volume totaled 8.7 Mt in 2016, being 136% higher than the 3.7 Mt recorded in 2015, as a result of the ramp-up of the Nacala Logistics Corridor.

Quarterly EBITDA from Coal improved significantly to US$ 156 million in 4Q16, as a result of higher coal prices

- Adjusted EBITDA for the Coal business segment improved significantly to US$ 156 million in 4Q16 from negative US$ 7 million in 3Q16. The EBITDA increase of US$ 163 million was mainly driven by the positive impacts of higher sales prices (US$ 200 million) which were partially offset by higher costs and expenses[16] (US$ 43 million), mainly in Carborough Downs (US$ 34 million).
- Sales volumes of metallurgical coal totaled 1.38 Mt in 4Q16, increasing 19.6% vs. 3Q16, as a result of the ramp-up of Moatize II, while sales volumes of thermal coal totaled 1.12 Mt in 4Q16, 11.9% lower than in 3Q16, as a result of the increase in the metallurgical coal volume transported through the Nacala Logistics Corridor with the ramp-up of Moatize II.
- The metallurgical coal realized price[17] increased 138% to US$ 217.01/t in 4Q16 from the US$ 91.04/t recorded in 3Q16, as a result of the significant increase of metallurgical coal prices and the higher sales volumes based on index linked prices.
- Production cost per ton of coal shipped through the Nacala port[18] increased 11% to US$ 97.8/t in 4Q16 from US$ 87.3/t in 3Q16, as a result of the constraint on explosives supply for blasting, which impacted production volumes and the dilution of fixed costs.
- The supply of explosives was reestablished and operational performance improved since then, with production totaling 0.6 Mt in December 2016 and reaching the monthly record of 0.8 Mt in January 2017.
- Production cost per ton of coal shipped through the Nacala port[19] decreased by US$ 21.0/t to US$ 76.8/t in January 2017, compared to the US$ 97.8/t recorded in 4Q16, as a result of the growing production and the ramp-up of the Nacala Logistics Corridor.

[1] Including third party purchases and excluding Samarco's attributable production.
[2] Net of the effects: (i) of the goldstream transaction recorded in 1Q15 (US$ 230 million), (ii) the goldstream transaction in 3Q16
(US$ 150 million) and (iii) of the adjustment in the Asset Retirement Obligations (ARO) recorded in 4Q15 (US$ 331 million)
and in 4Q16 (US$ 37 million).
[3] Net of the positive one-off effects from the goldstream transaction (US$ 150 million) in 3Q16 and the adjustment in ARO (US$
37 million) in 4Q16.
[4] Including US$ 150 million from the goldstream transaction.

[5] We expect to close the Fertilizers sale by the end of 2017.

[6]IPCA 2016.

[7] Adjusted for quality, pellet margins differential and moisture, excluding ROM

[8] Dry metric ton.

[9]After adjusting for the effects of higher sales volumes and exchange rate variations .

[10] After adjusting for moisture and the effect of FOB sales, which accounted for 32% of the total sales volumes in 4Q16

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[11] Three Valemax were sold in August 2016 and two capesizes in December 2016, with the remaining two capsizes delivered to

new ship owners in January 2017.

[12] Including US$ 150 million from the goldstream transaction.

[13] Including by products.

[14] 3Q16 net of the one-off positive effect of the goldstream transaction (US$ 150 million).

[15] After adjusting for impacts of volumes.

[16] After adjusting for the impacts of volumes and exchange rate variation.

[17] Including Moatize coking coal products and Carborough Downs hard coking coal .

[18] FOB cash cost at the port (mine, plant, railroad and port).

[19] FOB cash cost at the port (mine, plant, railroad and port).

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Production Report

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More information

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