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07/30/2015

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Vale's performance in 2Q15

Gross revenues totaled US$ 7.084 billion in 2Q15, increasing US$ 726 million vs. 1Q15

Vale reached iron ore production of 85.3 Mt in 2Q15, the highest output for a second quarter in Vale’s history with Carajás production reaching 31.6 Mt, also a record for a second quarter.

Gross revenues totaled US$ 7.084 billion in 2Q15, increasing US$ 726 million vs. 1Q15, as a result of higher sales volumes and better price realizations in spite of lower iron ore and nickel reference prices.

Costs and expenses, net of depreciation charges, at US$ 4.937 billion in 2Q15 were in line with 1Q15[1], despite the growth in sales volumes, and decreased by US$ 1.630 billion[2] in 1H15 vs. 1H14. Costs[3] decreased by US$ 1.367 billion (13.8%) when compared to 1H14. SG&A[4] and other expenses decreased by US$ 128 million[5] (15.9%), R&D decreased by US$ 68 million (22.3%) and pre-operating and stoppage expenses[6] decreased by US$ 67 million (15.8%) in 1H15 vs. 1H14.

C1[7] cash cost FOB port per metric ton for iron ore fines ex-royalties reached US$ 15.8/t in 2Q15 vs. US$ 18.3/t in 1Q15, driven by the ongoing cost reduction initiatives and the ramp-ups of both the N4WS mine and some of the Itabirites projects.

Adjusted EBITDA was US$ 2.213 billion, 38.1% higher than in 1Q15 mainly as a result of lower costs and higher sales volumes in most of the business segments, which impacted positively EBITDA by US$ 236 million and US$ 184 million, respectively.

Capital expenditures amounted to US$ 2.119 billion in 2Q15 and US$ 4.329 billion in 1H15, decreasing US$ 727 million vs. 1H14. Investments in project execution totaled US$ 1.434 billion in 2Q15, while sustaining capex totaled US$ 685 million.

Divestments accounted for US$ 445 million in 2Q15, as Vale concluded the sale of four very large ore carriers to China Ocean Shipping Company (Cosco).

Net income was US$ 1.675 billion in 2Q15 against a net loss of US$ 3.118 billion in 1Q15. The US$ 4.793 billion improvement in net income was mostly driven by the non-cash effect on financial results of the 3% end to end appreciation of the BRL against the USD in 2Q15 versus the 21% depreciation of the BRL against the USD in 1Q15. Underlying earnings totaled US$ 973 million in 2Q15, against an underlying loss of US$ 678 million in 1Q15.

Gross debt totaled US$ 29.773 billion as of June 30th, 2015, increasing US$ 1.286 billion from the debt position as of March 31st, 2015. Net debt totaled US$ 26.509 billion given a cash balance of US$ 3.264 billion. Average debt maturity was 8.4 years with an average cost of debt of 4.43% per annum.

EBITDA from the Ferrous Minerals business segment increased with higher realized prices and further reductions in costs and expenses

• Adjusted EBITDA for Ferrous Minerals reached US$ 1.811 billion in 2Q15, representing an increase of US$ 784 million from the US$ 1.027 billion recorded in 1Q15, mainly as a result of higher realized prices (US$ 216 million), higher volumes (US$ 171 million), and lower costs (US$ 173 million).
• Adjusted EBITDA exceeded total capex in the Ferrous Minerals business segment by US$ 534 million in 2Q15 vs. a negative US$ 455 million in 1Q15.
• Vale's CFR dmt reference price for iron ore fines (ex-ROM) increased by US$ 3.3/t from US$ 58.2/t in 1Q15 to US$ 61.5/t in 2Q15. Vale's CFR/FOB wmt price for iron ore fines (ex-ROM) after adjusting for moisture and the effect of FOB sales on 38% of the total sales volumes increased by US$ 4.6/t from US$ 46.0/t per metric ton in 1Q15 to US$ 50.6/t in 2Q15. This US$ 4.6/t increase was higher than the US$ 4.0/t decrease in the average Platts IODEX 62% which came down from US$ 62.4/t (CFR China) in 1Q15 to US$ 58.4/t in 2Q15.
• Product quality measured by Fe content improved from 63.0% in 1Q15 to 63.2% in 2Q15 mostly due to the ramp-ups of the N4WS mine and the Itabirites projects.
• Unit cash costs and expenses (adjusted for quality and moisture) landed in China reduced from US$ 43.4/t in 1Q15 to US$ 39.1/t in 2Q15 for iron ore fines on a dry metric ton (dmt) basis.
• Carajás production costs FOB port amounted to less than US$ 12/t in June 2015.
• Unit freight cost for iron ore, ex-hedge impact of US$ 2.0/t, was US$ 16.8/t in 2Q15 vs. US$ 17.2/t in 1Q15, driven by the renegotiation of chartering contracts.
• Sustaining capex for iron ore fines totaled US$ 262 million (US$ 4.1/ wmt) in 2Q15.
• Physical progress on the S11D mine and plant project reached 67% whilst the physical progress at CLN S11D, railway and port, achieved 41%, with 62% on the railway spur.

EBITDA from the Base Metals business segment decreased with lower nickel prices

• Sales revenues totaled US$ 1.648 billion in 2Q15, US$ 62 million lower than in 1Q15 mainly as a result of lower nickel prices.
• Adjusted EBITDA was US$ 406 million in 2Q15, having improved by US$ 43 million after deducting the effects of the goldstream transaction (US$ 230 million) in 1Q15 and of the lower prices (US$ 85 million) in 2Q15.
• Production of nickel at 67,100 t in 2Q15, was in line with the previous quarter, despite production interruptions in Sudbury and planned maintenance shutdowns in Indonesia and New Caledonia.
• Production of copper and gold reached 104,900 t and 100,000 oz in 2Q15, respectively, the best performance for a second quarter.
• Salobo reached US$ 119 million in EBITDA, a record for a quarter, as the operation continues its ramp-up.

EBITDA from the Coal and Fertilizers business segments improved further driven by lower costs and lower expenses

• Adjusted EBITDA for Fertilizers increased to US$ 163 million in 2Q15 from US$ 90 million in 1Q15 mainly driven by lower costs (US$ 33 million[8]), higher sales volumes (US$ 23 million) and lower expenses (US$ 15 million).
• Adjusted EBITDA for Fertilizers totaled US$ 253 million in 1H15 vs. US$ 107 million in 1H14, creating a positive expectation for 2H15 alongside the upcoming crop season.
• Adjusted EBITDA for coal improved to a negative US$ 102 million in 2Q15 vs. a negative US$ 128 million in 1Q15, mainly as a result of lower costs[9] (US$ 55 million), despite the lower coal prices, which negatively impacted results by US$ 18 million.
• Coal costs decreased driven by lower FOB costs in Mozambique and the good operational performance of Carborough Downs.
• Moatize II reached 93% of physical progress in 2Q15 with a capital expenditure of US$ 172 million in 2Q15 while the Nacala Corridor reached 89% physical progress with capital expenditures of US$ 206 million in 2Q15.

2Q15 was marked by a substantial reduction in cash costs, especially in iron ore, and by further progress in the implementation of our project portfolio, laying down the foundations of an even more competitive and profitable company in the near future.

[1] After adjusting for the positive impact of the goldstream transaction in 1Q15.
[2] Amount is net of depreciation. Reduction calculated after adjusting for the US$ 230 million one-off positive impact from the goldstream transaction in 1Q15.
[3] Net of depreciation.
[4] Net of depreciation.
[5] Net of the effect of the goldstream transaction.
[6] Net of depreciation.
[7] C1 cash cost at the port (mine, plant, railroad and port, before royalties)
[8] After adjusting for the effects of higher volumes.
[9] Net effect on costs, after adjusting the volume and exchange rate impacts

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