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Conference Call Transcript

TCK.B - Q1 2009 Teck Cominco Limited Earnings Conference Call

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Operator

Ladies and gentlemen, thank you for standing by. Welcome to Teck's first-quarter 2009 earnings conference call. At this time all participants are in listen-only mode. Later we will conduct a question-and-answer session. This conference call is being recorded on April 21, 2009.

I would now like to turn the meeting over to Mr. Greg Waller, Vice President, Investor Relations and Strategic Analysis. Please go ahead, sir.

Greg Waller - Teck Cominco Limited - VP IR & Strategic Analysis

Thanks, Matt. Good morning, everyone, and thank you for joining us this morning on our first quarter investor conference call.

Before we start I'd like to draw your attention to the forward-looking information slides in our presentation package on pages 2 and 3. This presentation contains forward-looking information regarding our business. Teck does not assume the obligation to update any forward looking statement.

At this point I'd like to turn the call over to Don Lindsay.

Don Lindsay - Teck Cominco Limited - President, CEO

Thanks very much, Greg, and good morning. We first want to start by apologizing for the delay in the start of the conference call. But as most if not all of you will have seen, we have just made an announcement related to the extension of our bridge and term loan facilities. I will go through a description of that at the end of this presentation.

But first I will do a brief overview of the financial and operating results, and then I will turn the presentation over to Ron Millos, our Senior Vice President and CFO, to address in more depth some of the financial issues. And I should say a number of the other members of our management team are in the room this morning and available to answer your questions.

So turning to slide 5, I would like to start by covering the highlights from our earnings report which went out during the night. I have to say, considering how weak the first quarter was in the economy overall and in metals prices particularly at the beginning of the quarter, we were very pleased with the results in the quarter.

Cash operating profit before positive pricing adjustments was CAD765 million, and that was actually about 30% higher than last year. These results emphasize the strength of our operations and the effectiveness of the plan we announced last November to curtail uneconomic operations and reduce costs across the Company.

We received CAD800 million in tax refunds in the quarter, bringing our total refunds now to CAD980 million. Our cash balance at the end of March was CAD1.6 billion as a result of the cash flow from operations and the tax refunds. Remember, that is before some of the proceeds of recent asset sales.

We announced asset sales that will generate cash proceeds in excess of US\$300 million, and this is in addition to the US\$176 million in proceeds from asset sales that we have actually received so far this year. Lastly, we have signed a commitment letter to amend our bridge and term loans, and I will address this in more detail at the end of the presentation.

Turning to slide 6, earnings from continuing operations in the quarter on a fully diluted basis was CAD229 million or CAD0.47 per share. These results compare to net earnings of \$344 million or CAD0.78 per share in the same quarter last year. These results reflect very well on the strength of our asset base, as all of our operations generated positive cash operating profits in the quarter.

Slide 7 shows that our results for this quarter are based on improved operating results, and that revenues in fact are up 11% over last year, and cash operating profit is up 29%. Our operating margin actually improved from 36% last year to 45% this year.

I think just in the context of the general economic environment, people might not have noticed that our margins have actually increased revenues and cash operating profits.

Turning to slide 8, there are a couple of large unusual items that stand out that need to be adjusted for in order to understand the fundamental earnings of the business. We have recorded gains on our asset sales, and this should be removed from ongoing earnings, of course.

In addition, the slight weakening of the Canadian dollar this quarter contributed to a re-statement of the value of our debt in Canadian dollar terms. About half of this non-cash translation loss is taken into income. We remove this from adjusted earnings. In addition, there was a change in our provincial tax rate in the quarter that generated a one-time gain, and that should be removed from adjusted earnings as well.

As a result, adjusted net earnings were CAD270 million, or CAD0.55 per share. I believe this is about 20% better than the consensus estimate of the analysts who cover us.

At the comparative net earnings line, where we remove the impact of final pricing adjustments in the quarter, the higher copper price in the quarter mainly contributed to a slight positive pricing adjustment in the quarter. With the pricing adjustment removed, our fundamental earnings were within about 10% of last year's results.

Now, in slide 9 we show how much the change in the Canadian dollar impacted our results for the quarter. This is a very important factor in our results going forward, and we just wanted to demonstrate for shareholders and analysts just how much an effect it can be.

The actual quarter end exchange rate was about CAD1.26. But just a few days earlier or a few days later, the exchange rate was CAD1.22, which was the same as the year end. So we have shown here that on that basis, we would have had no exchange rate loss on the debt in our earnings, and earnings would have been CAD200 million higher. We simply show this to show that from quarter-to-quarter what happens literally on the end date of the quarter can have a big affect on net earnings.

Turning to slide 10 and looking at prices for the quarter; all of our metal prices were down, but the coal price was up compared to the same quarter last year. The Canadian dollar was weaker this quarter compared to being at almost par last year, and that mitigated somewhat the impact of lower metal prices.

For example in copper, our most important metal product, the price was 55% lower than last year in US dollar terms, but 45% lower in Canadian dollar terms. The year-over-year change in zinc and lead has also been severe, in the 40% to 45% range for both in Canadian dollar terms. The realized coal price was 147% higher than last year's first quarter price in Canadian dollar terms.

During the quarter, base metal prices did strengthen somewhat, as is shown in the next charts on page 11. As these charts show, the copper price ended the quarter CAD0.44 per pound higher than what it started the quarter at. Zinc and lead saw less of an increase.

Average prices were only moderately higher than the start of the quarter, so settlement adjustments were minimal this quarter, but positive overall. These charts also show the leveling off of LME inventories in the quarter. Curtailments and closures announced in the past months have curtailed supply, and restocking activity has supported the demand side.

Turning to slide 12, the impact of our acquisition of the Fording coal assets; stronger coal prices, and weaker base metal prices relative to last year's quarter, can be seen in the relative contributions to our operating profit. Coal contributed 68% of our operating profit this quarter versus only 4% last year. Copper and zinc contributions declined to 25% and 8%, respectively. The contribution from gold now reflects only the Pogo mine.

I think the real message from this slide is it shows the benefit of diversification. In each particular year, we don't know which commodity will be most favoured, but it's nice to have a diversified portfolio.

Turning to slide 13 and looking at our coal business. Our share of production and sales increased, reflecting the acquisition of Fording's share of the coal assets in the previous quarter. On a 100% basis though, sales declined approximately 35% compared to the first quarter last year, as customers continued with the significantly reduced rate of coal shipments that started in the fourth quarter of 2008.

The unit cost of product sold increased compared to last year, primarily due to lower production volumes, higher strip ratios, and higher input costs. Unit transportation costs decreased marginally compared to last year, primarily due to the coal price participation provisions in our port

contracts. Operating profit increased substantially over last year due our greater share of sales volumes resulting from the 100% ownership interest and due to the higher coal year prices.

Turning to copper on page 14, overall production was 4% higher than the same quarter last year, with all operations making a contribution to the higher level of production. The operating profit before depreciation and pricing adjustments is equivalent to a cash margin of US\$0.92 per pound of copper sold, compared to the quarter end mark-to-market price of US\$1.83.

This cash margin changes, of course, with operating costs, treatment charges, and by-product credit. But it does demonstrate the continued strength of our copper division, with an indicated overall cash cost for the quarter under CAD1.00 per pound.

Turning to zinc on page 15, zinc and lead concentrate production was lower than the same quarter last year, due to the closure of the Lennard Shelf operation in mid-year 2008 and the Pend Oreille mine in mid-February of this year. Production of refined zinc and lead metal at Trail was also lower than in Q1 2008, as we announced previously a curtailment of metal production commencing in November in order to adjust to the customer demand levels. Our zinc business continued to be cash positive in the quarter despite reduced sales volumes and significantly lower prices, demonstrating the low-cost position of this business.

Turning to slide 16 in our gold business, operating profit before depreciation increased this quarter compared to last year, primarily due to lower US dollar unit costs at Pogo and a weaker Canadian dollar, as in fact the US dollar gold price was 2% lower this quarter than last year.

We have sold the Hemlo operation effective January 1. And even though the sale has not closed, we have classified it as a discontinued operation.

I will now turn the call over to Ron Millos to address some financial issues.

Ron Millos - Teck Cominco Limited - SVP Finance, CFO

Thanks, Don. I will be starting with slide 18, which shows our final pricing revenues for the first quarter. As we highlight each quarter, pricing adjustments on sales of our various products can have a significant impact on our revenues. Outstanding receivables from one quarter can be settled at different prices than they were originally booked at, and sales booked during the previous quarter are re-priced at quarter end, reflecting the market prices.

Final pricing adjustments this quarter overall were positive, but rather minimal compared to the volatility we have seen over the past nine months. The largest change was in copper, where we had 151 million pounds of copper receivables which were settled in the first quarter at US\$0.13 cents per pound higher than the price they were booked at in Q4. In Canadian dollar terms, this increased our revenues in the quarter by CAD21 million.

We also incurred a small positive adjustment in lead. That was somewhat offset by a smaller negative adjustment in zinc.

We also record final pricing adjustments on sales booked during the quarter as these are marked to market at quarter end. A substantial portion of our sales from one quarter settle in the following quarter, and much of our revenue is therefore effectively booked at the quarter end forward curve. With the increases in metal prices at quarter end, this contributed an additional CAD51 million pre-tax in revenue relative to the monthly average price.

Remember, when analyzing the impact of price changes on our final pricing revenues, refining and treatment charges, the Canadian/US exchange rate must be included in your calculations. In addition, when trying to analyze the impact on our net earnings, you need to consider taxes and royalties.

On slide 19, we have summarized our changes in cash for the quarter. Cash flow from operations was CAD560 million in the quarter. Our working capital change is normally negative at this time of year due to the seasonality of our business; but this was offset by the large tax refund in the first quarter, resulting in an overall positive change in working capital of CAD567 million.

We repaid debt from the proceeds of sale assets in the quarter of US\$66 million or CAD82 million.

Our capital expenditures were CAD132 million in the quarter, and we believe we are on track for overall capital spending this year of CAD500 million. Investments were CAD232 million, primarily for our share of funding of the Fort Hills project. Our guidance for the year of CAD330

million is still good, as the bulk of the capital spending was expected to be front-end loaded, reflecting contract cancellations due to the project deferral, and deferred cash calls from the managing partner.

After proceeds from asset sales and allowing for the effect of exchange rate changes on our cash, our net change in cash in the quarter was an increase of CAD782 million.

Moving to slide 20. At the end of March we had US\$39 million in currency hedges outstanding at an exchange rate of CAD1.02 per US dollar. All of those have matured already in April. Approximately CAD1 billion of contracts matured in the quarter.

Some of currency exchange loss had been accounted for in the purchase accounting for Fording, so the impact on the effective Canadian dollar coal price for the quarter was not as great as would otherwise be expected.

During the first quarter and into this quarter, we have continued to hedge a portion of our copper production. Approximately 50% of our copper production for the quarter has been hedged at an overall price of US\$1.86 per pound into July.

With that I will now turn the call back to Don.

Don Lindsay - Teck Cominco Limited - President, CEO

Thanks very much, Ron. I do want to highlight some corporate developments during the quarter. But first I would like Tim Watson to give a brief update on the status of the Andacollo concentrate project which we are quite excited about.

Tim Watson - Teck Cominco Limited - SVP Project Development

Thank you. There are three photographs that show the progress of the Andacollo project. The first one shows the tailings thickener on the left hand side. In the middle towards the back is the pebble crusher circuit. Then as we move to the right hand side of the photograph, you'll see the grinding circuit with the wrap-around drive installed on it and the two ball mills now in place and much of the structural steel in the cyclone area complete.

Overall we've advanced very, very well on the concrete and steel erection activities associated with the project. We are now into the siting of the detail equipment and advancing on the piping and electrical installation.

Moving on to the second photograph, you see the flotation portion of the plant, where again much of the mechanical equipment is installed. We began installing all the launders for the flotation circuit. On the far right hand side of the photograph you can see the concentrate storage shed and the concentrate thickener ahead of that.

The third and final photograph is a more detailed section of the milling area on the left, the cyclone area on the left, and the flotation circuit on the far right hand side. We are still on track for mechanical completion of the project in mid-October of this year, moving into commercial production the first quarter of next year. Thank you.

Don Lindsay - Teck Cominco Limited - President, CEO

Thanks very much, Tim. I guess the message that we are sending is that while we do have a refinancing challenge to complete, the underlying assets of the company are operating very well. Indeed, there is new growth coming that we are particularly pleased with.

Just turning to slide 25, very briefly on Fort Hills, because obviously there are a lot of developments in the corporate world there. We do highlight that the lease terms were extended to 2019, which I think was very important. Most of the spending that we had budgeted for 2009 has already occurred, and the spending will be reduced quite dramatically for the balance of the year.

Turning to slide 26. An update on our asset sales. We announced in the quarter that we closed the sale of our interest in the Lobo-Marté property, and we sold the Kinross shares that we received as part of the consideration. So we have now realized total proceeds of US\$141 million and took a substantial gain on that sale.

We also announced the sale of the Hemlo Mine for US\$65 million in the quarter. We expect this to close actually tomorrow.

We also announced the sale of an interest in the gold stream in the Andacollo copper concentrate project. Subsequent to Royal Gold's equity issue, the transaction will now generate cash proceeds of US\$218 million and 1.2 million Royal Gold shares, which we expect to sell at some point in the near future.

Turning to slide 27, we are in advanced discussions regarding the sale of our interest in the Pogo Mine. We are progressing the marketing of the Morelos Project in Mexico, which is an advanced exploration project with a feasibility study, and also exploration properties in Turkey which we share with Frontier. Unfortunately, we won't be able to tell you much more on the status of these until we complete the transactions and have something to announce.

Now, slide 28 and turning to our balance sheet. We have announced just a little while ago this morning that we had received a commitment letter from our lenders to amend the terms of our bridge and term loans. The key here is that we've deferred US\$4.4 billion of payments that otherwise would have been due in 2009.

If you look at the chart on the bottom of this slide, you'll see that previously we had mandatory payments of \$6.274 billion. That has now been reduced to \$1.862 billion. Now, those are US dollars; but I should highlight that we have CAD1.6 billion on our balance sheet. Plus we have amounts from the asset sales that we've announced still to come in. Plus we have the cash flows on an ongoing basis.

So we believe the US\$1.86 billion that is due for the rest of the year will be quite manageable, and we haven't finished the asset sale programs that we are on.

Also I would like to highlight that in 2010 and 2011, the amortization payments for the term loans for the banks that participate in this extension are reduced substantially. The amortization payments are heavily weighted to 2012, so it's pushed out literally to the last payment to 3.5 years from now.

The bridge extension -- instead of the bridge coming due in six months it is now due in 2.5 years, which judging by the way the world changes these days is quite a long time.

So you see on the bottom line -- or in this chart, the top line, the payments each year go from US\$1.86 billion this year down to US\$1.075 billion next year. Then the bridge comes due in October, end of October 2011; and so we have that plus the amortization payments. And then US\$1.67 billion in 2012. So this is a much more manageable schedule.

The situation that Teck has goes back to the structure of the financing related to the deal that was announced in July. Due to regulatory requirements any takeover bid or such transaction needs to be fully financed, and the customary way in doing that, is putting a bridge facility in place.

As you may recall, the plan was that between September 30 and October 30 we would do a series of bond deals with 5-year, 10-year, and 30-year maturities, to more appropriately schedule our payments and match it to our long-life resources; that these coal resources in Teck Coal are likely to go on possibly for 100 years. So having a longer payment schedule would be more the norm.

Unfortunately, because of what occurred in October we were unable to do that and it's been difficult markets since then. So what we've been working on is the first phase of stretching out the payment schedule, and that's what we've announced today. We believe that that will give us the time to more suitably put permanent financing into place that have staggered maturities, much longer-term, and matched to the life of the resource.

There are various fees involved that are detailed in the press release. We believe those are competitive with the market for these things. There has been a lot of negotiation, as you might imagine.

I know that people won't have had that much time to read the details of it, and we will be going on the road to explain things in more detail. But I think it's probably best right now to open it up for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions) David Charles, GMP Securities.

David Charles - GMP Securities - Analyst

Yes, no, I'm just wondering. You say in your press release this morning that lenders under the term facility that do not agree to reschedule will receive the 11 equal quarterly payments starting April 30. You said earlier on that 83%, so let's say 84% of the term loan facilities people have agreed to the commitments.

Does that mean then that you fully expect to have some payments to make? Or do you think that based on this news today that the remaining lenders will line up on the term loan facility, and you won't really have any quarterly payments to make?

Don Lindsay - Teck Cominco Limited - President, CEO

Unfortunately, we don't have the answer to that question right now, but I'll give you some background. The reason it is structured the way it is, is there are 11 banks in the bridge facility; and then a total of, I think, 25 banks in the term loan. The 11 banks have 83% or 84% of the term loan.

So negotiating with such a long list of parties is difficult in the best of times. So we chose to deal with the 11 banks first. Then having come to an arrangement with them, we have literally just notified the other banks on the term loan within the last hour.

We do hope that they also sign up to the extension of the term loan, but we won't know that until sometime between now and April 30. So we made a disclosure as if none of them do; but we do expect some of them will, but we can't be sure until they do.

David Charles - GMP Securities - Analyst

Is there anything in this, the extension that you've announced, that some of those banks that you haven't approached -- i.e., basically 13 or 14 banks -- that they try to exit the syndicate completely? Would that mean that the 11 banks that have agreed would assume all the remaining portion of the debt?

Don Lindsay - Teck Cominco Limited - President, CEO

No, I think that would be highly unlikely, because the deal that's been offered to those other banks is quite attractive. They get increased returns; and clearly our credit profile is improving substantially over the past months.

We've re-run our financial models, as we do frequently. But if you did it at prices of last Friday, which is the most recent one that we did, all of the acquisition debt, the term debt, and the bridge facility can be repaid in a four or five year time frame. I think analysts who do their revised models will see that it's quite manageable.

So I think as they look at the credit profile of the company and the increased returns available to them, they will find this deal quite attractive.

David Charles - GMP Securities - Analyst

Just one final question. Obviously, there were a number of rumours in the marketplace that you might have needed to do an equity issue to get out of the problems that you were in. I mean, you've spread out the payments. The reality is though, the bridge loan and the term loan -- if I'm not mistaken -- 100% of the net proceeds of any sales or anything else you do will go to pay that down.

I'm just wondering. Where do you think from a strategic point of view Teck sits at the moment? Given that you've done a great job in extending the loans, but going forward you are still going to be handicapped to some extent to what you can do.

Don Lindsay - Teck Cominco Limited - President, CEO

We have consistently said that we have no plans to do an equity issue, and that remains the case. I think if people redo their models that at spot prices of today and (inaudible) exchange rates, they will see that the debt repayments are very manageable and that the debt repays actually quite quickly.

So that is something that we would encourage people to do. Always these depend on which commodity prices you assume, but certainly our models look like things are very manageable.

In terms of where it sits strategically, we are going to continue to focus on repaying this debt, and that is our singular focus. And to eliminate the bridge. We will continue to focus on the refinancing of the bridge, and we will be starting that activity immediately. That was part of the plan all along.

We are also continuing to focus on bringing in a partner in the coal assets that we originally planned back in July when we did the transaction. So those are our main objectives for the year. They are detailed in our annual report, and nothing has changed there.

David Charles - GMP Securities - Analyst

Thank you very much.

Operator

Orest Wowkodaw, Canaccord Adams.

Orest Wowkodaw - Canaccord Adams - Analyst

Hi, good morning and congratulations on restructuring the debt. I'm just curious how the restructuring of the debt changes your thinking about selling a stake in Elk Valley. You mentioned a few seconds ago that you might be able to meet these debt repayments just from cash flow. Have you taken that sale off the table, or are you still thinking of selling 20%?

Don Lindsay - Teck Cominco Limited - President, CEO

No, we haven't taken it off the table because we think it's the right thing to do in the first place, and we did last July as well.

At this point if you looked at our portfolio and the diversification of it, we are fairly heavily weighted to coal relative to our copper and zinc businesses, and the energy business still to be developed.

I think while copper is going to continue to grow and Andacollo will come on stream, I think that having a partner in the coal business would be a good thing. We have had a lot of expressions of interest, and a number of potential partners really bring something to the table in terms of making the business a more valuable business.

We have spent a lot of time looking at the market for the seaborne high-quality hard coking coal. It's a product that is really quite scarce. It doesn't occur in that many places in the world, and we know that people have an interest in it.

We still believe that over the long term the world will always fix itself, and the people in China and India and other emerging markets will continue to want to have a better life, and that will require quite a bit of steel.

In fact, even on Bloomberg this morning, I see senior authorities in China talking about how it's now cheaper to import hard coking coal than it is to get it domestically. And that is another encouraging sign.

So I think that we are going to stick with the plan that we have announced before and that is detailed in our annual report.

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Orest Wowkodaw - Canaccord Adams - Analyst

Okay, thank you very much.

Operator

Tony Robson, BMO Capital Markets.

Tony Robson - BMO Capital Markets - Analyst

Thank you. Gentlemen, thank you for your time and great to hear on the restructure of the debt. Given the lenders' ability to sweep cash flow out of Teck, there is I think, a throwaway line that mentions distributions. What will the dividend policy going forward be, please?

Don Lindsay - Teck Cominco Limited - President, CEO

There will be no change in our current suspension of the dividend until we have retired the bridge. We will be focused on all of our cash flow and all of our efforts on paying back the bridge.

Tony Robson - BMO Capital Markets - Analyst

Okay. Thank you, and if I could just go off the deal; although I understand that is the focus of attention here. Depreciation for Elk Valley for the quarter seems to be running at an annualized rate of a little under CAD400 million, somewhere in the range of CAD350 million, to CAD400 million per year. Would that be your guidance going forward?

Don Lindsay - Teck Cominco Limited - President, CEO

John Gingell?

John Gingell - Teck Cominco Limited - Controller

Depreciation is directly related to the coal sales volumes. So we had coal sales volumes which were a little bit lower this quarter, and as those rise you'll find the depreciation rises in direct proportion.

Tony Robson - BMO Capital Markets - Analyst

Okay. So I think from memory -- I don't have the numbers in front of me -- 24 dollars per tonne would be a reasonable guide going forward?

John Gingell - Teck Cominco Limited - Controller

Yes, I think that's right.

Tony Robson - BMO Capital Markets - Analyst

Okay, great. Thank you, gentlemen.

Operator

Haytham Hodaly, Salman Partners.

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Haytham Hodaly - Salman Partners - Analyst

Thank you, operator, and congratulations, Don, for renegotiating the debt. I've got a few quick questions. When does the US\$96 million payment for the debt extension actually come out?

Don Lindsay - Teck Cominco Limited - President, CEO

At closing on April 30, on whichever date it closes.

Haytham Hodaly - Salman Partners - Analyst

Right, okay. So in the second quarter more than likely?

Don Lindsay - Teck Cominco Limited - President, CEO

Yes.

Haytham Hodaly - Salman Partners - Analyst

With regards to carryover pricing, is that 1.5, 1.6 million tonnes at carryover pricing, is that fairly secure? Can they come back to you and attempt to renegotiate that still?

Don Lindsay - Teck Cominco Limited - President, CEO

Boyd, would you like to talk?

Boyd Payne - Teck Cominco Limited - SVP Coal

I think it's important to note that there are two parallel discussions going on with customers. One, carryover tonnes on 2008 terms; and the second, pricing for 2009.

So as you will have seen in the release, we currently have obligations lined up for 1.6 million at full 2008 pricing. Our top-quality products settled at a clean new price of US\$128. Of course, that is our top brand and we have other brands as well.

Don Lindsay - Teck Cominco Limited - President, CEO

I might just highlight that that US\$128 versus benchmark announced earlier by our competitors at US\$129, we're very, very pleased with that. If you went back a couple of years, there was a much greater discount related to coal quality. But Boyd and his team have done a terrific job in the last two years of improving quality and consistency, and that has been recognized by our customers this year. So we were very, very pleased with the results and the negotiations in Asia.

Haytham Hodaly - Salman Partners - Analyst

Thanks, Don, maybe I will just follow up with one further question for Boyd. Boyd, with regards to ramping production back up to, let's say, 20-plus to 22 million tonnes, in that range, what's the bottleneck to get you there?

Boyd Payne - Teck Cominco Limited - SVP Coal

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In that range, there wouldn't be much of a bottleneck because we've really reduced production by taking a series of rolling shutdowns. So we've retained pretty well most of our permanent staff, and in that range we could be fairly responsive.

Haytham Hodaly - Salman Partners - Analyst

So would you expect next year's number to be again at the high end or above the current 18 to 20 million tonne guidance?

Boyd Payne - Teck Cominco Limited - SVP Coal

I wish I could say something about that, but it's a pretty uncertain world out there.

Don Lindsay - Teck Cominco Limited - President, CEO

We have in the press release put a range, but we are really moving off of guidance. I think, as we have said, that the outlook is uncertain. And we need to get away from people kind of analyzing us on a shift-by-shift basis.

At this stage, we aren't going to give formal guidance on volumes. We are just going to report the results.

Haytham Hodaly - Salman Partners - Analyst

Okay, fair. One further question, just to touch on your comment regarding further asset sales, etc. Pogo is one which many expect to be on the chopping block, given the fact that there has already been some sales on the gold and gold is a much smaller component of your overall revenue stream -- or operating profits stream for that matter.

How are things going at Pogo? Is there anything you can report there?

Don Lindsay - Teck Cominco Limited - President, CEO

Well, I'll make an overall comment, and then turn to Rob Scott on how the operation is doing. Our approach on gold was discussed -- goes back a couple of years that gold traditionally trades at different valuation levels than a diversified metals company. So the real way to protect shareholders, to get the full value for gold assets and for finding and developing a gold asset is ultimately to harvest or sell.

So the sale of the different gold assets we have has been part of the plan for some time. We think it's a pretty good time now. The gold price is up. There is a lot of interest. So this is something that is part of the plan and shouldn't be unexpected.

Now in terms of how Pogo is doing, Rob?

Rob Scott - Teck Cominco Limited - VP Gold

Yes, Pogo for the first quarter, we produced right around 90,000 ounces which is right on plan for the year. Our cash costs were US\$500 an ounce; again, right on plan.

The only area that still requires some improvement is the mill recoveries, they are in the low 80s; and we think we've developed a plan to improve those recoveries back up into the high 80s, perhaps low 90s over time.

Haytham Hodaly - Salman Partners - Analyst

Perfect. Thank you.

Operator

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[Ed Holtz], BlackRock Capital.

Ed Holtz - BlackRock Capital - Analyst

Hi, thanks for taking my question. So I have a couple quick questions. The first one is on the US\$1.9 billion of mandatory payments. Can you walk us through a buildup of that?

Or I guess my question is, is the US\$1.7 billion you need to pay down on the bridge loan included in that?

Ron Millos - Teck Cominco Limited - SVP Finance, CFO

It's basically the remaining balance of the bridge plus the three installments on the term for that for 14% that we don't know if they will participate or not.

Ed Holtz - BlackRock Capital - Analyst

So that could go down to as low as just the US\$1.7 million?

Ron Millos - Teck Cominco Limited - SVP Finance, CFO

That's right. But right now the bridge is at US\$5.183 billion. It's to get to the US\$3.5 billion, plus whatever we have to make on that stub of the term loan.

Ed Holtz - BlackRock Capital - Analyst

Right, okay. Great. Then my second question is, in the press release you mentioned security falling away once the bridge and the facility are paid down and Teck gets investment grade ratings. I was just kind of curious.

Could you just walk us through what that means, security is going to fall away right there?

Don Lindsay - Teck Cominco Limited - President, CEO

I think it's as described, that if we get investment grade rating with a stable outlook and we have repaid the bridge, then the security falls away.

Ed Holtz - BlackRock Capital - Analyst

So the bridge and the term have security until they are fully paid down?

Don Lindsay - Teck Cominco Limited - President, CEO

Until the bridge is fully paid down.

Ed Holtz - BlackRock Capital - Analyst

Okay. Thank you very much. Thanks for the call.

Operator

Harry Mateer, Barclays Capital.

Harry Mateer - Barclays Capital - Analyst

Hi, guys. Thanks. I guess my first question is a follow-up related to the ratings. Can you just give us a sense for your discussions with the rating agencies? Where you are working with them on this transaction to reschedule the debt, and when should we expect to hear from them?

Second, on your refinancing plans, do you have an expectation at this point as to when you might try and come to the bond market? When do you start approaching high-yield bond investors to pave the way for an eventual issuance?

Then lastly, the press release mentioned a couple of new covenants in the renegotiated bank lines. Just curious if you can tell us specifically what those covenant values are for the interest coverage and maximum leverage; and also whether or not they will apply to your existing revolving credit agreement.

Don Lindsay - Teck Cominco Limited - President, CEO

Okay. Three good questions. On the first one, we haven't had discussions with the rating agency at this point. We plan to do so in the very near future.

On the second one in terms of going to the market, we can't be too definitive. But I go back to my original comment, saying it is our intention to get the bridge paid down as fast as possible. So while we haven't got an exact date for you, you can assume that it will be soon.

The third question on the covenants, those are pretty much nailed down. But we won't actually disclose them until the final definitive agreements are signed, which won't be too long from now.

Harry Mateer - Barclays Capital - Analyst

Okay. Thanks very much.

Operator

Fraser Phillips, RBC Capital Markets.

Fraser Phillips - RBC Capital Markets - Analyst

Thanks. What I was wondering was with respect to the carryover tonnage at Elk Valley. In the trade press, there's been some suggestion that for other deals that there was an extension of time that carryover might be delivered, over a two-year period.

I was wondering if there is any time frame in terms of that carryover tonnage?

Boyd Payne - Teck Cominco Limited - SVP Coal

Yes, it's Boyd Payne here. I would rather not comment. We've settled Asia, most of Asia; but we're still in on ongoing negotiations with many of our customers, and each of those arrangements will be individual. So I just don't feel it's appropriate to comment on that this morning.

Fraser Phillips - RBC Capital Markets - Analyst

Okay, fair enough. The other question I had, Don, was with respect to your strategy. Again, Elk Valley, Canadian dollar hedging. Are you going to hedge the dollar out, or have you? What is your thought there?

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Don Lindsay - Teck Cominco Limited - President, CEO

At this point, we have not. So we are benefiting from the other hedges from last year, that with the Trust that we're at about par. Now that those have or are almost fallen away, that it reduces our cash cost in US dollars quite substantially.

Having said that, I think you asked a very good question, and we will be considering it quite seriously. But we haven't taken a decision as yet.

Fraser Phillips - RBC Capital Markets - Analyst

Okay, thank you, sir.

Operator

Greg Barnes, TD Newcrest.

Greg Barnes - TD Newcrest - Analyst

Yes, thank you. I guess it's to Boyd again. I don't know if you can answer it. But on the carryover tonnage, the 18 to 20 million tonnes guidance for sales this year, does that include the carryover? Or is that all new tonnage?

Boyd Payne - Teck Cominco Limited - SVP Coal

No, that includes all tonnes we would sell in the calendar year.

Greg Barnes - TD Newcrest - Analyst

Okay. And the pricing on that, your price last year was \$275. Is that the kind of price you expect on the carryover?

Boyd Payne - Teck Cominco Limited - SVP Coal

The carryover is what it was, whatever price was agreed to buy brand. And the new price is indeed a new price.

Greg Barnes - TD Newcrest - Analyst

So the blended price you received last year was \$275; so we could apply that to the carryover tonnage more or less?

Boyd Payne - Teck Cominco Limited - SVP Coal

Yes, more or less.

Greg Barnes - TD Newcrest - Analyst

Okay. That's fine.

Operator

Todd Gilbert, Guggenheim Partners.

Todd Gilbert - Guggenheim Partners - Analyst

Hi. Just wanted to follow up on the securing of the term loan and bridge. In the press release it mentions that the existing bonds will be secured pari passu to the extent required under the negative pledge in the relevant trust indenture. I guess that is somewhat of a vague statement, as is some of the language in the trust indenture.

I guess at this point today, based on however you interpret it, are the bonds fully secured pari passu? Or I guess what is the extent, based on whatever carveouts for security? To what extent are the bonds secured? Or will be once this amendment gets passed.

Peter Rozee - Teck Cominco Limited - SVP Commercial Affairs

It's Peter Rozee speaking. As you know, there are a couple of carveouts in the negative pledge in the trust indenture, and we are in the process of working through how those are going to apply in the context of this transaction. We will clarify that when we come to a landing on this place.

Todd Gilbert - Guggenheim Partners - Analyst

Okay, that would be great if you could clarify that once it's final. Thanks.

Operator

Gaurav Bana, AllianceBernstein.

Gaurav Bana - AllianceBernstein - Analyst

Good afternoon. I had a question on the refinancing that you guys are planning. Is that going to be like the bridge secured financing, or is it going to be unsecured? What are you targeting there?

Don Lindsay - Teck Cominco Limited - President, CEO

We couldn't comment at this point. It depends on market opportunities and so on. It would be premature to comment at this point.

Gaurav Bana - AllianceBernstein - Analyst

Thank you.

Operator

Brian MacArthur.

Brian MacArthur - UBS - Analyst

Sorry to go back to the carryover tonnes, but I just want to be clear. Those 1.6 million tonnes that we can assume at \$275. Can I assume a lot of those are hard coking coal? Obviously what we are worried about is its lower grade stuff.

Don Lindsay - Teck Cominco Limited - President, CEO

Brian, you were cut off for a moment there. Could you repeat the question, please?

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Brian MacArthur - UBS - Analyst

Sorry, Don. I was just going back to the carryover tonnes. I just want to make sure the 1.6 is high-quality coking coal, which I think Boyd was inferring when he talked about getting a realized price on those tonnes close to the \$275 on a blended weighted basis.

Boyd Payne - Teck Cominco Limited - SVP Coal

Yes, I don't have that in front of me, but that is directionally correct. The carryover tonnes are similar in mix to what we have sold through the year.

Brian MacArthur - UBS - Analyst

Okay, great. Thank you very much.

Operator

Basu Mullick, Neuberger.

Basu Mullick - Neuberger - Analyst

Just wanted you to maybe help me understand what is in the marketplace, the desirability of the quality of that coal on a blended basis that you have left to sell. Is that coal that is sort of preferred over the lower versus the higher volume coking coal?

It seems to me that you are probably getting disproportionate share of that market given the quality of that coal. Just trying to understand are you, in effect, seeming to be getting a better volume share of the demand for met coal out there?

Boyd Payne - Teck Cominco Limited - SVP Coal

No, I think we've got to understand the changes in demand; the world is a different place from what it was six months ago. All steelmakers are facing issues.

Our coal is near the top of the quality spectrum. It's a low to mid volume high-quality hard coking coal with very strong coking characteristics. And that makes it very desirable as a strategic supply requirement for most seaborne steel producers.

So basically we compete head-to-head with the top qualities out of Australia. Our quality does give us preference in most markets. But every market is facing challenges, and so we're working through a lot of different steel issues in the world today.

That's why we basically are going to hold back from guidance on volume, because our customers are giving us estimates, but that's what they are -- they're estimates.

So you're correct in your statement. The quality is near the top. It is desirable. But that's really about all we can say.

Basu Mullick - Neuberger - Analyst

As the market normalizes, and assuming as the global economies begin to right itself in the second half or maybe in the fourth quarter, looking out to 2009, 2010, what are you thinking in terms of how you want to --?

The company's center of gravity has moved quite a bit towards coal, and 20 million tonnes of coal is a pretty big number. Are there things you are thinking which cannot be really hedged? How are you thinking about that, looking out?

Don Lindsay - Teck Cominco Limited - President, CEO

I think as we have discussed earlier, we will continue with the announced strategy of bringing in a partner, which will somewhat shift the center of gravity, I guess, to use your analogy.

But how long that takes is unpredictable. We will take our time and get it right and maximize value. We've seen very, very good interest based on what Boyd just said, that it's very high-quality coal.

We've seen a shift in the steel industry globally to more interest in having steel plants on the coast, which of course makes seaborne coal that much more in demand.

This will take some time to develop, but it certainly offers us encouragement for the future. So I think we will just carry on with that plan.

Basu Mullick - Neuberger - Analyst

Just lastly in terms of 2010, what kind of capital spending plan are you contemplating?

Don Lindsay - Teck Cominco Limited - President, CEO

It would be in the CAD400 million to CAD500 million range. We will have basically completed Andacollo or almost completed Andacollo, which was a big chunk of our spending this year. The plans for Fort Hills are unknown at this stage, so that was a large chunk this year, and it's really hard to predict whether it will be a lot less or more.

Sustaining capital will stay in about the CAD250 million range.

Basu Mullick - Neuberger - Analyst

Thank you and congratulations.

Operator

David Charles, GMP Securities.

David Charles - GMP Securities - Analyst

Yes, good morning again. Just very quickly on Fort Hills, and you just mentioned it there. Has Teck exercised its earning option on Fort Hills?

Could you give us maybe a little bit of colour as to when there might be further news in terms of the scope and the cost of Fort Hills, looking maybe into the second half of this year?

Don Lindsay - Teck Cominco Limited - President, CEO

On the second part of the question, I really don't think we can give you much more news than what you've seen related to both Petro-Canada and UTS. This situation is in transition.

We think what has occurred is very, very positive for the project. I think people on all sides have come to that conclusion, and it's clearly an indication that the project is going to be worth an awful lot once it's built and running. But we can't say much more than that. It's going to be in transition for several months yet.

David Charles - GMP Securities - Analyst

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And on the first part of the question in terms of the technical earn-in?

Peter Rozee - Teck Cominco Limited - SVP Commercial Affairs

On the earn-in, we have a general spending obligation over the first CAD2.5 billion of our project spending fulfills the earn-in obligation.

David Charles - GMP Securities - Analyst

So have you completed that now?

Peter Rozee - Teck Cominco Limited - SVP Commercial Affairs

No, the spend to date is in the -- we will get you that number.

Don Lindsay - Teck Cominco Limited - President, CEO

We will come back to you with that number.

David Charles - GMP Securities - Analyst

Okay. Can you just explain to me maybe as well, how that would all take into account the fact that you're looking at strategic options on this?

I suppose what I'm really driving at here, if you were to sell your future interest in Fort Hills, how would you adjust that for the amount of money that you are still required to spend on the project?

Don Lindsay - Teck Cominco Limited - President, CEO

That's a good question. A couple comments first. Yes, we're looking at strategic options related to the asset. But I do want to say we like the Fort Hills project. We think it's going to be very valuable in the long term.

You don't often in our business, in the mining business, find 50- or 60-year resources, and particularly in a stable jurisdiction such as Alberta. Relative to the choices that we have around the world, that one looks pretty good.

Having said that, we have to be open to all options and consider things, and so we will. At this stage we haven't been very active, because there is so much going on with the other parties. I think we have to see that stabilize.

To the specifics of your question relative to the earn-in, I think that is something that we couldn't comment on unless we were actually looking at a specific transaction; and then we could only comment once it was announced. So unfortunately, I can't really help you on that one.

David Charles - GMP Securities - Analyst

Okay. Thank you.

Operator

Tony Robson, BMO Capital Markets.

Tony Robson - BMO Capital Markets - Analyst

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Hi, gentlemen. Thank you for taking my question again. Could you lead me through, please, the duration fees on the amended bridge facility? 3.5% if the outstanding balance is over US\$3.35 billion. Is that 3.5% per six months, or is that an annual rate?

And in terms of how the analysts would view it, would you include that in your interest cost, please?

Don Lindsay - Teck Cominco Limited - President, CEO

Yes, it is for six months; and it would be disclosed under the total interest line.

Ron Millos - Teck Cominco Limited - SVP Finance, CFO

Yes, we would pay it and then amortize it until the next payment is due.

Don Lindsay - Teck Cominco Limited - President, CEO

It's there obviously to provide further incentive to us to repay the bridge.

Tony Robson - BMO Capital Markets - Analyst

Great. Thank you very much.

Operator

(Operator Instructions) John Hughes, Desjardins Securities.

John Hughes - Desjardins Securities - Analyst

Thank you, operator, and thanks for the collective sigh of relief that I'm hearing on the Teck shareholdership side following the recent announcement.

Most of mine have been answered. Just a quick one, sort of a cleanup on the Royal Gold. Do you still own the 1.2 million shares?

Tim Watson - Teck Cominco Limited - SVP Project Development

The transaction has not actually closed yet. We expect it to close in the second quarter, and we will get those shares on closing.

John Hughes - Desjardins Securities - Analyst

Last, on the zinc side, did you have a budgeted zinc production number for 2009?

Greg Waller - Teck Cominco Limited - VP IR & Strategic Analysis

It's in our annual report. I will just look to get you the details.

John Hughes - Desjardins Securities - Analyst

No, I just noted 120,000 I think that you had noted in inventory on the concentrate side.

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Greg Waller - Teck Cominco Limited - VP IR & Strategic Analysis

John, are you asking about zinc production in concentrate from Red Dog, or including Trail numbers as well?

John Hughes - Desjardins Securities - Analyst

Ideally just from Red Dog.

Greg Waller - Teck Cominco Limited - VP IR & Strategic Analysis

Yes, we typically produce about 560,000 tonnes of zinc in concentrate. Varies a little bit from year to year with grades, but that is a pretty steady-state rate there.

Greg Waller - Teck Cominco Limited - VP IR & Strategic Analysis

What the 120 is, is the concentrate that is not on-site because of the shipping season. So that is really all we can sell, John.

John Hughes - Desjardins Securities - Analyst

Yes, that's what you would expect to hold at this time of the year?

Greg Waller - Teck Cominco Limited - VP IR & Strategic Analysis

Yes.

Greg Waller - Teck Cominco Limited - VP IR & Strategic Analysis

That is in the normal range.

John Hughes - Desjardins Securities - Analyst

Okay. Very good. Thank you again.

Operator

Thank you. There are no further questions registered. I would like to turn the meeting back to the presenters.

Don Lindsay - Teck Cominco Limited - President, CEO

Okay. Well, we thank you all very much for your patience this morning and apologize again for the delay. But we will carry on with our plans and look forward to speaking to you again both at the Annual Meeting tomorrow and next quarter. Thanks very much.

Operator

Thank you. The conference call has now ended. Please disconnect your lines at this time, and we thank you for your participation.

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