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TCK.B.TO - Q2 2014 Teck Resources Limited Earnings
Conference Call

EVENT DATE/TIME: JULY 24, 2014 / 03:00PM GMT



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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Teck's second-quarter 2014 conference call.

(Operator Instructions)

This conference call is being recorded on Thursday, July 24, 2014. I would now like to turn the conference call over to Greg Waller, Vice President, Investor Relations and Strategic Analysis. Please go ahead.

Greg Waller - *Teck Resources Limited – VP, IR & Strategic Analysis*

Thanks very much, Melanie, and good morning, everyone. Thank you for joining us for Teck's second-quarter 2014 investor conference call. Before we start, I'd like to draw your attention to the forward-looking information on slide 2. This presentation does contain forward-looking statements regarding our business. However, various risks and uncertainties may cause actual results to vary. Teck does not assume the obligation to update any forward-looking statements. At this point, I'd like to turn the call over to Don Lindsay, our President and CEO.

Don Lindsay - *Teck Resources Limited - President & CEO*



Thanks very much, Greg, and good morning everyone. I'll start with a brief overview and then go through the highlights of our second-quarter results. Ron Millos, our CFO, will then provide additional colour on the quarter from a financial perspective, and we'll conclude with a Q&A session when Ron and myself and a number of additional members of the senior management team would be happy to address any questions that you might have.

Starting with a brief overview on slide 3, we continue to execute well in difficult market conditions, particularly in steelmaking coal, where oversupply continues to impact prices.

Teck itself, though, is in solid financial position with CAD2.1 billion in cash at June 30 and no substantial debt due over the next three years. We've also further strengthened our liquidity this quarter by increasing our revolving credit facility to \$3 billion, and this gives us approximately CAD5 billion of liquidity while we navigate the current market conditions.

Last quarter, we increased our focus on reducing our planned operating cost and capital expenditures, and these efforts are reflected in our updated full-year guidance, with lower cost guidance for each of our coal and our copper business units. We've also increased our full-year production guidance for zinc in concentrates, given the strong performance in the first half of the year.

Of course, we also remain mindful of returning cash to shareholders. We did pay another semi-annual dividend of CAD0.45 in July, which is CAD0.90 on an annualized basis. We also repurchased CAD5 million worth of shares in the quarter, and renewed our Normal Course Issuer Bid in place for the repurchase of up to 20 million class B shares through July 2015.

Turning to slide 4 and the operational highlights from our second quarter, we had a good quarter, with increased throughput at 10 of our 13 operations. Production was up 400,000 tonnes in coal, and 2,000 tonnes in copper.

We also made significant progress in our ongoing cost reduction efforts, which Ron will speak to in more detail a little later on.

Profitability was down overall, primarily due to significantly lower coal prices. However, our gross profit before depreciation and amortization was up 61% in zinc to CAD140 million, reflecting the improving market fundamentals and higher zinc prices, and of course zinc prices have continued to perform since the end of the quarter, and hit CAD1.08 per pound today.

Looking at our profitability in the quarter on slide 5, gross profit before depreciation and amortization was CAD633 million, compared with CAD871 million in the same quarter last year. EBITDA was CAD558 million, and our profit attributable to shareholders was CAD80 million, or CAD0.14 per share.

As you can see from this chart, there are just a couple of adjustments to make to calculate comparative earnings figures for the second quarter. Including these items, adjusted profit was CAD72 million or CAD0.13 per share, compared with CAD197 million or CAD0.34 per share in the same period last year. This decline was primarily due to significantly lower coal prices, partially offset by the positive effect of the stronger US dollar, reduced corporate overhead and reduced interest expenses, and positive pricing adjustments.

I'll now review our results by business unit, starting with steelmaking coal on slide 6. Sales were up 500,000 tonnes to 6.8 million tonnes. However, oversupply conditions in the market continued to impact our average realized price, which declined 23% to CAD122 per tonne. Overall, our revenue declined by 17% to CAD833 million.

Given current market conditions, it won't surprise you that we are currently running below capacity. Production did increase, though, by 400,000 tonnes, to 6.4 million tonnes, with record production in the first half of the year at both Elkview and Greenhills.

Our cost reduction efforts have continued in coal, and are producing significant results. However price increases for key inputs continue to put pressure on cost. Site costs were up CAD3 per tonne in Q2 to CAD53, given higher prices for diesel and natural gas, and partially due to the strengthening of the US dollar, and to a higher level of maintenance activities, including annual shutdowns at five of the six operations. We are still tracking better than our original guidance range for the full year, and this is reflective of the impact of our cost reduction efforts against our planned expenditures. As a result, we are now lowering our site cost guidance for



the full-year to CAD52 to CAD57 per tonne. Transportation costs of CAD37 per tonne were also below our original full-year guidance, and so we are now lowering that to CAD37 to CAD41 per tonne. Overall gross profit before depreciation and amortization declined by CAD244 million to CAD200 million.

In addition, in July, we entered the commissioning phase of the West Line Creek water treatment plant, and we also submitted our Elk Valley Water Quality Plan to the BC government, so we're very pleased to reach that threshold.

Looking at coal markets on slide 7, there continues to be too much steelmaking coal in the market. You are all aware that there have been numerous cutbacks and closures announced since the start of the year. By our count, it is now approaching 20 million tonnes.

It is important to note, though, that only a fraction of these cuts have actually been implemented at this point. As you can see in the graph on the left, the bulk of the impact won't take effect in the market until early 2015. While most of the cuts are coming from the US, Australia has also announced some cuts, but other Australian producers have significantly increased production and exports as well.

At the same time, Chinese imports are down. We think in the order of 10 million tonnes of additional cuts need to be made and implemented to bring the market back into balance. Current market conditions could persist for a couple of quarters, or longer in the meantime.

Looking forward to Q3, prices have been agreed to with the majority of our quarterly contract customers, at \$120 per tonne for the highest quality product, and we expect our coal sales to be at or above 6 million tonnes.

Turning to a review of our base metals businesses, starting with copper on slide 8... Sales were similar to last year, but our average realized copper price was 9% lower in US dollar terms. Revenue declined 6% to CAD650 million.

Copper production rose slightly over the prior-year quarter, despite 25% reductions in production at Quebrada Blanca, which was anticipated in the respective mine plan, and also Antamina, due to the expected lower ore grades. This was accomplished with significantly higher production at Highland Valley, as we start to see the benefits from the mill optimization project.

Total cash unit costs before by-product margins are down about 5% year to date, but lower by-product prices and volume are resulting in slightly higher costs overall. Our cost reduction efforts have also been successful in copper, and we are reducing our full-year cost guidance to a \$1.65 to a \$1.75 per pound, net of by-product margins.

In addition, the SEIA to extend the mine life of the current cathode producing operations to 2020 was submitted in July, and the approval process is assumed to take 12 months, but it could be quicker if all goes well.

Looking at slide 9, and the mill optimization project at Highland Valley, commissioning of the flotation plant is now complete, and we continue to be very pleased with the performance of the new plant. The benefits of the project are reflected in a substantial increase in mill throughput, which exceeded the design capacity by 10,000 tonnes per day in Q2, averaging 140,000 tonnes per day. Further process optimization will be done through the second half of the year.

Turning to our zinc business unit on slide 10, I should first note that Antamina and Duck Pond's zinc related results are recorded in our copper business unit, as zinc is considered to be a by-product of both operations.

As I mentioned earlier, the fundamentals for zinc are improving, and that is reflected in the profitability of our zinc business unit. Gross profit before depreciation and amortization increased 61% to CAD140 million, driven by higher prices, by the impact of a stronger US dollar, and increased sales, and then partially offset by higher profit-based royalties.

Over the first half of the year, total production of zinc in concentrate, including contributions from Antamina and Duck Pond, is up 4% compared with the same period last year. As a result, we are increasing our full-year guidance for zinc in concentrate production to 600,000 to 615,000 tonnes for the year.



Production of refined zinc and lead each rose 2,000 tonnes in Q2. We are seeing the benefits that Trail's new acid plant, which was commissioned in May, and has been operating at design rates since June.

The Red Dog shipping season commenced on June 29th, and we are off to a record start. For the full year, we expect shipments of around 1 million tonnes of zinc concentrate and 184,000 tonnes of lead concentrate. And our Pend Oreille lead-zinc mine in Washington state is being prepared for restart. The project is on schedule for first ore by year end, and it's on budget. Pend Oreille's capacity is 44,000 tonnes of zinc in concentrate annually.

Looking at base metal markets on slide 11, LME prices for copper zinc and lead are all up in the quarter. In particular, zinc prices are now well above last year's levels, reflecting improved fundamentals.

LME stocks have been falling. Copper inventories have fallen in the last 12 months by about 500,000 tonnes. Market expectations for 2014 have moved from a significant surplus to a balanced market, or a slight deficit. Some analysts believe that we are already in deficit in the copper market.

LME zinc inventories are down significantly as well, with a 550,000 tonne drop over the past 18 months, including 264,000 tonnes in the first half of this year. We expect the zinc concentrate market to also move into deficit this year, which will limit refined production, and push the metal market further into deficit from 2015.

Turning to our energy business unit on slide 12, and an update on Fort Hills...Construction is on schedule and spending is consistent with the project budget. Engineering and procurement is almost 50% complete. Major contracts are in place, or in final negotiations, with pricing substantially as expected. The construction manpower is approximately 2,000 strong currently, and will continue to ramp up to 2016. First oil is still expected as early as Q4 2017.

So I'll now turn it over to Ron, to provide additional color on the quarter from a financial perspective.

Ron Millos - Teck Resources Limited – SVP Finance & CFO

Thanks, Don. I have summarized our changes in cash for the quarter on slide 13. Cash flow from operations was CAD520 million, and we spent CAD355 million on capital projects. Capitalized stripping was CAD199 million in the quarter. We paid CAD57 million in principal and interest payments on our debt, and repurchased CAD5 million worth of our Class B shares.

After these items, distributions to non-controlling interests, foreign exchange translation, and other changes in working capital, we ended up the quarter with cash and short-term investments of approximately CAD2.1 billion. However we did use CAD259 million to pay the semi-annual dividend on July 2nd.

As Don mentioned earlier, we have further strengthened our liquidity this quarter. We increased the revolving credit facility by \$1 billion to \$3 billion and extended its term to July 2019. As a result, we now have approximately CAD5 billion of available liquidity.

Our pricing adjustments for the second quarter are summarized on slide 14. Base metal markets improved from the end of the first quarter, resulting in positive CAD31 million in pricing adjustments in the second quarter. Copper was up CAD0.14, and zinc was up CAD0.10. These adjustments are included in our income statement under other operating income and expense.

As a reminder, refining and treatment charges, and the Canadian-US dollar exchange rate should be considered in your analysis of the impact of price changes and the adjustment, and you should also consider taxes and royalties when analyzing the impact on net earnings.

The chart on the right side of the slide represents a simplified relationship between the change in copper and zinc prices and the reported settlement adjustment provides you with a good estimate of our pricing adjustments each quarter.



Turning to slide 15 and our operating cost and capital expenditures, we began a cost program in the second half of 2012, and exceeded our initial goals. We achieved about CAD360 million of annualized reductions to the end of 2013.

Last quarter, we announced that we were increasing our efforts on reducing our costs and capital spending, to maintain our competitiveness, in light of the current market conditions. We've realized an additional CAD150 million of annualized reductions year to date, and a further CAD50 million is targeted for 2014. We've reduced our workforce by 535 positions so far, and will achieve the remaining workforce reductions towards our target of 600 positions this year, through attrition, where possible. We've also achieved significant cost reductions in all areas towards our target of 5% across our other operating costs. This includes G&A, and other cost reductions out of the corporate office. In addition, we successfully transferred Quintette coal restart project to care and maintenance.

We're also on track for reducing our sustaining and development capital by approximately CAD150 million. We have deferred equipment purchases, and reduced spending on certain development projects, where it makes sense. We're investing in our Pend Oreille mine restart as it is a high return project, with a relatively low capital investment of approximately \$45 million. All production from Pend Oreille will be processed at Trail. The combined benefits of reducing transportation costs and enhancing concentrate feeds provide us with approximately CAD15 million of annual benefits that cannot be obtained from other sources of concentrate.

Looking at our updated guidance for the full year on slide 16, I won't speak to these in detail. Don had spoken to them in his previous comments, but we thought it would be helpful just to summarize them on one page. These are our updated guidance, as disclosed throughout the quarterly news release.

And with that, I'll turn the call back to Don for closing comments.

Don Lindsay - Teck Resources Limited - President & CEO

Thanks, Ron. So looking at slide 17 and a summary of our near-term priorities, we are, first focused intensely on cost reduction, as you have heard. We are prudently managing our capital spending profile, and we're executing the planned restart of our Pend Oreille lead zinc mine.

So with that, we'd be happy to answer your questions. And please note that some of our management team members are on the line in different locations, so there may be a pause after you ask your question, as we sort out who's going to be answering from where. And with that, back to you, operator, for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Greg Waller - Teck Resources Limited – VP, IR & Strategic Analysis

Operator while we're waiting for our first question, I'd like to make a comment. Many of you are aware that because of Canada's anti-spam legislation we had to go out to ask people to confirm that they wanted to be on our email distributional list. I suspect we probably lost a lot of you through that whole process. If you didn't get an email of our news release, and you want to be on that distribution, please go to our website, Teck.com of course, and you can get registered there. Thanks very much.



Operator

Mitesh Thakkar of FBR.

Mitesh Thakkar - FBR & Co. - Analyst

Congratulations on the quarter. My first question is just on the coal market. Obviously, a lot of production cuts have happened but we haven't really seen a rebound. When do you think from a timing standpoint, given the inventory build and stockpiles, and some of the mines which have now been idled, how should we think about seeing that pent-up supply being taken off of the system?

Don Lindsay - Teck Resources Limited - President & CEO

Okay, Real Foley, over to you.

Real Foley - Teck Resources Limited - VP, Coal Marketing

Thanks Mitesh. That is a very good question, and it's one that is difficult to give exact timing on. I guess, as we explained in the presentation, we've seen around 20 million tonnes announced year to date. However, there's been less than 3 million tonnes implemented. In the second half of the year, we're expecting to see more cuts being implemented. That will help to improve the demand-supply balance in the market. And as demand continues to improve as well, that will help with taking some tonnes off of the market.

Mitesh Thakkar - FBR & Co. - Analyst

Great. And just on the copper side, if you think about the way the markets are right now, it's definitely looking better than a quarter ago, and some of the expectations for oversupply has been pulled back a little bit. How should we think about QB2 and Relincho and are those projects contingent on the recovery in the coal market to fund that CapEx?

Don Lindsay - Teck Resources Limited - President & CEO

Just working backwards. Relincho is pretty straightforward. We aren't really spending anything to speak of on Relincho as this time. We finished the feasibility study and put the project on hold. There is just a minor bit of optimization work taking place. So there'll be no decisions for that on quite some time. QB2 is our priority, and we've got a fair bit of disclosure in our quarterly about that. And we will have to wait to get the results from having filed the SEIA on the current operation before we can then proceed to file the SEIA on QB2, and so it will be probably at least two years before we can get to a construction decision on QB2. So I think an awful lot will happen in the copper market between now and then.

Mitesh Thakkar - FBR & Co. - Analyst

Okay, great. Thank you very much.

Operator



Orest Wowkodaw, Scotiabank.

Orest Wowkodaw - Scotiabank - Analyst

I was hoping to get a more color on your cost cutting initiatives. Specifically, in your revised guidance for coal and copper, how much of the cost production initiatives is already captured in that guidance, and does it capture, for example, everything to date but not the additional CAD50 million that you are targeting? Or what can we anticipate?

Don Lindsay - Teck Resources Limited - President & CEO

Ian Kilgour, over to you.

Ian Kilgour - Teck Resources Limited - EVP & COO

Thanks, Don. The revised guidance includes the cuts that we have made to date, but in general, it doesn't include the cuts that we expect to continue to achieve as the year progresses, and that's why we've kept a bit of a range there. We're continuing to work with all the sites to reduce our cost. The efforts are being coordinated centrally, but obviously driven by the mine sites. We're endeavoring to make sure the improvements we make at one mine site are transferred to all the other mines so that there's learnings and achievements being made that are useful all of the mine sites. We're doing our best to make sure that we are moving forward on all fronts.

Orest Wowkodaw - Scotiabank - Analyst

Okay, and then how should we reconcile that then -- in the first half of the year you did on site costs of CAD53 a tonne, and your guidance for the year is CAD52 to CAD57. Are you just being conservative with that new guidance or do you really anticipate costs to increase in the second half of the year? And I do understand, you're heading into maintenance season here, but any color would be appreciated.

Ian Kilgour - Teck Resources Limited - EVP & COO

I guess, we're not able to foresee all circumstances that might arise in the second half of the year. We have talked about the market, and we can't predict exactly how that's going to work, so that changes in the market may affect our ability to, or our desire to produce at the same level as we're producing now, which may affect cost. I guess in all predictions, you try to take into account various contingencies, so you leave a little bit of conservatism in there.

Orest Wowkodaw - Scotiabank - Analyst

Okay, fair enough. A final question for me. In the quarter, I think there was CAD27 million of expenses related to care and maintenance costs that was in the other line. Do you anticipate that to be a recurring number, or is that more of a one off?

Ron Millos - Teck Resources Limited - SVP Finance & CFO



The care and maintenance was dropping off, with the closure -- or the setting Quintette off, and not doing the work there, is the major savings going forward. So it's a little bit heavy at the end of the year, because the decision to put it on complete hold had not been made at that time, Orest. Now that it's on hold, the amount of work that is being done there is going to be reduced.

Orest Wowkodaw - Scotiabank - Analyst

So we should see that expense decline materially, going forward?

Ron Millos - Teck Resources Limited – SVP Finance & CFO

That's right, and there was a bit of care and maintenance at the Pend Oreille operation in the first part of the year, as well, and with that operation now moving toward start up at the end of the year, those costs won't be care and maintenance anymore.

Orest Wowkodaw - Scotiabank - Analyst

Great. Thank you very much.

Operator

Lucas Pipes of Brean Capital.

Lucas Pipes - Brean Capital, LLC - Analyst

Congratulations on a really another good quarter, and confirmation off your CapEx reductions. And on that note I had two questions. One, first, could you remind us in terms of what your sustaining capital targets are for your various business units in 2014? And then, how sustainable you think those levels of spending are, going forward considering they're maybe a little bit at a lower level of spending now, versus the life of the operation?

Don Lindsay - Teck Resources Limited - President & CEO

Okay, that may be a combination of Ian and Ron, and Ian why don't you start, perhaps on the second part of the question, or if you want to answer the whole thing, that would be fine too.

Ian Kilgour - Teck Resources Limited - EVP & COO

Okay, thanks, Don. Sustaining capital, I guess, is at a lower level in 2014 than previous years, in particular, in the coal business, because of the considerable investment we've made in improving our mining fleets and processing plant capabilities. So we have a target of around CAD250 million to CAD300 million for this year, and expect to maintain that for next year, as well, and then we're going to have to see what needs we have following on from that.

Ron Millos - Teck Resources Limited – SVP Finance & CFO



The sustaining capital guidance for this year is approximately CAD600 million, Lucas. I don't have the breakdown handy by site, but the bulk of it, a couple hundred million or so would be it at the coal operations. And that doesn't include the deferred stripping as well, there's another CAD700 million for deferred stripping that goes into the total capital spending.

Lucas Pipes - Brean Capital, LLC - Analyst

That's helpful. Thank you, and then a quick follow-up. A really nice boost to your liquidity position. Can you maybe just remind us what the driving motivations were behind those moves during the quarter, we're just interested on your thought process there.

Don Lindsay - Teck Resources Limited - President & CEO

I'd say a couple of things. One is, we are looking at weak markets for the next couple of quarters, as we indicated, on the coal side. We had significant capital expenditures related to Fort Hills, and we want to make sure that we go through the cycle and come out still in very strong condition. The bank market was very much in our favor, as the availability was there at very attractive cost, so it was something we decided to take advantage of. Scott Wilson, you may want to comment more about what our levels were relative to competition, and other factors that we looked at before we decided to do that.

Ron Millos - Teck Resources Limited - SVP Finance & CFO

I'll take that, Don. It's Ron. Our level of our revolving line was a little bit low, compared to some of our peers, so we're now in about the middle of the pack. So that's where we sitting right now.

Lucas Pipes - Brean Capital, LLC - Analyst

Great. Keep up all the great work. I appreciate your time.

Operator

Oscar Cabrera, BofA Merrill Lynch.

Oscar Cabrera - BofA Merrill Lynch - Analyst

You had very helpful comments with regards to what your thoughts on supply-demand balances on the coal market. I believe, if I see my notes right here, you alluded to the fact that you thought the market was oversupplied by 35 million to 40 million tonnes. I was wondering if you still maintain those views?

Don Lindsay - Teck Resources Limited - President & CEO

Real?

Real Foley - Teck Resources Limited - VP, Coal Marketing



Thanks, Oscar. The market is oversupplied. We think, there's been roughly 20 million tonnes of cuts announced to date. We think that there is a requirement for an additional 10 million tonnes or so. And you can understand, we're not trying to imply a level of accuracy around that number, because there's a number of moving pieces. And those are inventories that still need to find their way through the system. Of course when plants are announcing closures, they also have inventory that they still need to push through the system. We've also seen increases -- I think Don alluded to that earlier - from Australian seaborne exports. They're up 8 million tonnes year-on-year for the first half. So that is compounding the oversupply. We've also seen an increased availability of a lower grade coking coal, so-called semi-hard coking coal. If you look at the gap in the price assessments between the premium hard coking coal and the semi-hard, Platt's refers to it as mid-vol 64, that gap has opened a lot from a low of about \$7 in March, at the low end of the market, to an average of about \$18 since late June. So that also illustrates, or makes it more complicated to estimate with a high level of accuracy, how much oversupply there really is.

Oscar Cabrera - BofA Merrill Lynch - Analyst

Great. That's very helpful Real, and you actually saved me the second question. I'll ask another one if I may.

Real Foley - Teck Resources Limited - VP, Coal Marketing

I said too much.

Oscar Cabrera - BofA Merrill Lynch - Analyst

No, it's perfect. Thank you very much. On the savings on the met coal costs, in the previous call again, you referred to using less equipment, but maintaining the same level of production. I think there was a quote in there naming shorter haul distances. What I'm trying to get at here is, do you think that your mining costs are sustainable at current levels, and if not, what sort of level should we be looking for going forward, like into 2015 and 2016?

Don Lindsay - Teck Resources Limited - President & CEO

You're talking about coal only?

Oscar Cabrera - BofA Merrill Lynch - Analyst

Coal only.

Don Lindsay - Teck Resources Limited - President & CEO

Ian?

Ian Kilgour - Teck Resources Limited - EVP & COO

Thanks, Oscar. I guess less equipment is being used as a result of a very strong push we've had to improve truck productivity, that is the amount of tonnes we move with each truck per 24 hours, and all the coal sites are working together very cooperatively, to improve productivity, and we're seeing that occur at all of the mines. And that's certainly something that we expect to be able to maintain over time, and to continuously improve.



So we don't see costs changing significantly in the next 18 months or so, and we're going to have to work hard from that point to keep things moving forward, in the face of cost pressures on things like diesel. Although we've also got a number of projects out there to reduce diesel consumption, and I guess the truck productivity project is helping very much. In that line, for example, we're working very hard to improve the payload, the amount of tonnes carried by each truck by replacing conventional truck bodies with lightweight truck bodies that actually carry more overburden, instead of carting steel around. So we're working very hard to keep cost trends as positive as possible.

Oscar Cabrera - BofA Merrill Lynch - Analyst

Thanks very much. Obviously that doesn't include any impact of selenium costs at this point, right?

Ian Kilgour - Teck Resources Limited - EVP & COO

We've given advice what we expect those costs to potentially be, going forward over the next five years, and of course, that depends on the government approval on the Elk Valley Water Quality Plan, which we have submitted this month. We expect to get feedback on that fairly promptly. The government certainly has told us that it's a very high priority for them. and so actual costs will be dependent on both the government's response to our plan, and also our continued work to optimize the technology we are using to treat selenium. We have our first plant being commissioned at the moment, at the Line Creek operation, and we've also done a number of pilot tests on different types of technologies, and another technology is currently being piloted for the Fording River plant which is the next one in the sequence. And if that pilot is successful, we expect to be able to trim costs, to some degree, with that technology.

Oscar Cabrera - BofA Merrill Lynch - Analyst

Great. Thank you very much for the call. Thank you.

Operator

Alex Terentiew of Raymond James.

Alex Terentiew - Raymond James Financial Services, Inc. - Analyst

I just wanted to start with a question on Highland Valley. Mill throughput there was pretty impressive, as you noted, 140,000 tonnes per day especially given that the modernization plant has just been completed. Is this a sustainable rate? Or is this just a high rate because you're maybe in some softer ore, or something like that?

Don Lindsay - Teck Resources Limited - President & CEO

Ian or Dale?

Dale Andres - Teck Resources Limited – SVP, Copper



I'll take that, Ian. It's Dale. We're very very pleased with the performance of Highland Valley, and the new mill optimization plant and processing plant. Performance in the second quarter at 140,000 tonnes per day really reflects those improvements, and another key aspect of driving that throughput is our mine-to-mill program, and really that's looking at optimizing our blasting, crushing and grinding practices. And this plant is shown to handle those increased throughputs through our mine-to-mill program, very very well, and very good recoveries at this stage in the startup of that plant. We're very pleased. Going forward, it really does depend on the next of feeds from the three different pits that we feed the mill from Highland Valley. We will see some variation in throughput and grade, depending on those sources, but we're confident that will continue, if we get similar feeds as we've had, and they're generally reflective of the life of the mine over the second quarter, that we'll continue to get those kinds of rates going forward. At times, we get very soft material. Earlier this week, we had actually one day up to 175,000, and the plant was able to handle that. That's not always going to be the expectation going forward, obviously, but in general, we're quite pleased with that throughput, and we think we can maintain those rates going forward.

Alex Terentiew - Raymond James Financial Services, Inc. - Analyst

Okay, great. Thanks. Good to hear. Follow-up question and then on coal, thanks for all of your insight on the market today. You're guiding to potentially lower sales in Q3, you're saying at 6 million tonnes or higher. So potentially lower sales in Q3 then you had in Q2. So my questions are, are you seeing more of your customers defer purchases into future periods? Maybe due to softening demand or ample supply on the market and a preference to buy more on the spot market. Related to that, do you have a high level of confidence that your guidance of 26 to 27 million tonnes will be met since if Q3 comes in around 6 million to 27 million tonnes will be met, since if Q3 comes in around 6 million tonnes you have to have a fairly strong Q4 to hit that number.

Don Lindsay - Teck Resources Limited - President & CEO

Real?

Real Foley - Teck Resources Limited - VP, Coal Marketing

All right, Alex, so I guess the first thing on the market. We're not seeing deferrals from customers, and customers are taking their coal as they should. However, competition in the market is very intense as you can imagine right now, with the market being oversupplied, and availability also of lower grade product in the market. So steelmakers, as they tried to control their margins, also tried to use more of that cheaper semi-hard type material. But in terms of our relationships, we have long-term arrangements, long-term relationships in place, that give us a certain level of certainty on volume, and we try to place as much tonnes in the market as we possibly can, while still trying to protect the value of our products in the market.

Ian Kilgour - Teck Resources Limited - EVP & COO

Following up on the guidance question. The guidance of 26 million to 27 million tonnes is actually for production, not sales. We don't see any threat to that guidance at this point. One thing to realize is that we do need to maintain reasonable levels of inventory at the mine, and the ports, of product, because sales on a quarterly basis can vary significantly. We've seen quarterly sales in the high 5 millions, and in the low 7 millions. So to be able to cope with that, you do need a decent level of inventory, and we will be maintaining an appropriate level, as we move forward.

Alex Terentiew - Raymond James Financial Services, Inc. - Analyst

Okay. That's perfect. Thank you very much.



Operator

Greg Barnes, TD Securities.

Greg Barnes - TD Securities - Analyst

I guess this is for Don or Real. It sounds like to me from what I'm reading, the Chinese domestic coal price is the price-setter at the moment. It sounds like production there is going up and prices are going down. Do you have any comments on what is happening domestically in China on coking coal?

Don Lindsay - Teck Resources Limited - President & CEO

Real, why don't you start with that?

Real Foley - Teck Resources Limited - VP, Coal Marketing

Thanks Greg. What we're seeing in China -- the current pricing levels, whether it's in China for domestic coal or on the seaborne market for seaborne coal, is putting pressure on all suppliers across the board. The pricing levels are unsustainably low right now. What we are seeing, specifically in China, is domestic suppliers are actually trying to very aggressively protect their market share. Our view, and the view of a number of analysts, is that a number of suppliers are actually supplying coal at uneconomical levels right now. How long can that last? I guess it's, again, a difficult question to answer, especially in China. On the positive side, however, what we're seeing is increased demand in markets outside of China, as the world economy generally is doing better. We're seeing growth areas outside China, the European Union -- their crude steel production is up this year, about 3 million tonnes. South Korea is very similar. Other countries are also doing well. Overall, I guess, we see positive signs outside of China.

Greg Barnes - TD Securities - Analyst

Okay. Thank you. And just switching to another topic. Don, copper M&A seems to be ramping up aggressively. What would be your ideal copper acquisition, if you were to make one?

Don Lindsay - Teck Resources Limited - President & CEO

I'm curious about the first part of your question -- the copper acquisitions ramping up dramatically. What were you referring to there?

Greg Barnes - TD Securities - Analyst

Not by you, but by the market in general. Las Bambas, rumours about Candelaria, First Quantum buying **Taca Taca**. That kind of activity.

Don Lindsay - Teck Resources Limited - President & CEO



Okay. No, you're quite right. I was thinking of those as old news at the moment. I was wondering if there was some new targets that came up that I hadn't heard about. So I was hopeful and curious. I'm not sure we can really answer your question, what the ideal one would be. But clearly, we are constructive on the copper market, medium to long-term. While we're thankful and optimistic for 2014 and it looks pretty solid at the moment, we still think 2015, there will be a surplus and prices could be weaker then. We'll just have to wait and see. If, during that time period, a copper acquisition, a producing asset -- we don't need another project but a producing asset, in the middle of the cost curve, or if it was in the third quartile, as Fording was, but we thought we could get it down to the cost curve or below, that would be terrific. We wouldn't want to go too small so probably thresholds are-- minimum thresholds would be in the 75,000 to 100,000 tonne range. All of these things are quite hypothetical and conceptual, as you know. There's only so many targets out there actually, and the consolidation phase of the industry a few years ago means that most things we'd be interested in are already held in strong hands. That's why I asked about your first comment, is that I'm not sure there will be that much more in the copper acquisition phase. I think what's done is done. We'll see.

Greg Barnes - TD Securities - Analyst

Okay. Thanks Don.

Operator

Kerry Smith of Haywood Securities.

Kerry Smith - Haywood Securities Inc. - Analyst

Real, in Q1 you had contracted for Q2 on the coal side at CAD120 a tonne. You did the same this quarter, and essentially for the same volume. Just directionally, are you thinking that as we move into the back half of the year or into Q4, let's say, that the price would likely be the same, given that we're not seeing a lot of the announced cutbacks actually occur? Directionally, are you thinking the price could probably stay flat, or maybe at the bottom here. How are you feeling about it?

Real Foley - Teck Resources Limited - VP of Coal Marketing

Thanks, Kerry. I guess -- I wish I had an answer for you on that. I guess many people wish they had an answer on where price will go. I guess maybe one way to look at this is, we're expecting the demand-supply balance to gradually improve, but the cuts need to be implemented, for that to happen. We need to see demand continuing to improve, as well, and with the inventories that are currently in the system, with the export increases are coming outside of Australia, and the lower seaborne imports from China -- all these pieces together are delaying a little bit the recovery, I guess, in coal pricing.

Kerry Smith - Haywood Securities Inc. - Analyst

Okay. That's helpful. Thank you.

Operator

Brian Yu, Citigroup.

Brian Yu - Citigroup - Analyst



Thanks. Good morning. My first question is just on the zinc markets, as you laid in the presentation, prices and inventories are moving in the right direction. Are there any projects that you're studying or considering beyond the Pend Oreille restart later this year?

Don Lindsay - Teck Resources Limited - President & CEO

The short answer is no - not at least that would have any effect on our production in the medium-term, in the next two to three years. We're obviously going to try to optimize the current operating assets at all times, and we're having a very good first half of the year at Red Dog, as you've seen. We do have tremendous exploration potential in the Red Dog area. I was just up there last week and visiting some of the sites, but those are going to be for the longer-term. So currently we're probably going to be capped out in terms of capacity, once Pend Oreille is restarted.

Brian Yu - Citigroup - Analyst

Okay, great. Second one is just on the selenium. In the disclosures you talked about submitting the new report, and correct me if I'm wrong, but it talks about having to maintain the water treatment for an indefinite period. Has that changed from the expectations previously, and can you share any changes to the CapEx or OpEx in the current plan that's submitted, versus the prior draft?

Ian Kilgour - Teck Resources Limited - EVP & COO

Ian here. The expectation that water treatment is going to be required over the long-term is not news. That's been I think well communicated over the last year or so. In terms of costs going forward, as we said, it's going to depend on the government's response to the plan that we submitted. And we can't preempt what comments they might have, although we've had very very good communication throughout the whole process with the government, and the stakeholders concerned, and we think that the plan is a very good one. And I guess the other aspect there is technological improvements. As I noted, we're piloting alternative technologies, and they may have the ability to help our costs moving forward.

Greg Waller - Teck Resources Limited - VP, IR & Strategic Analysis

Brian, it's Greg. The only point I'd add to that is the guidance we gave now, I guess, 18 months ago or so, is that over the next five years it might grow to be in the range of CAD1 to CAD2 per tonne of coal produced. And that's well within the range of the guidance we gave on our site costs alone, that CAD52 to CAD57. So given our ability to forecast costs, it kind of falls within a rounding error, frankly, of where those costs are going to be.

Brian Yu - Citigroup - Analyst

Okay. Got it. Thank you.

Operator

Alexander Mak of FDA

Alexander Mak - FDA



Talking about zinc, a year ago, the company said farmers in China started to use zinc as fertilizer. How are the results? I mentioned that as a farmer use zinc in an area and has a crop increase of 30%, others will follow.

Don Lindsay - Teck Resources Limited - President & CEO

I'm not sure if I fully understood the question, but I can certainly comment on zinc and fertilizers. The Ministry of Agriculture in China has formally recommended that the farmers use roughly 1% zinc in fertilizers. It varies with the crop and the soil. And that has generated demand so far of about 150,000 tonnes per year of additional zinc that hadn't been used before, and we anticipate that will rise over time as each crop cycle goes through and more farmers adopt it, to as much as 500,000 tonnes a year, and that's fairly significant in the context of the size of the global zinc market, which is about 13.5 to 14 million tonnes. It is still early days, and they're still working their way up the learning curve, so I think we'll have to see a few more crop cycles before you really get to the full utilization of it. Does that answer your question?

Alexander Mak - FDA

Yes. Thank you very much.

Operator

Steve Bristo of RBC Capital Markets.

Steve Bristo - RBC Capital Markets - Analyst

I just wanted to come back to selenium, maybe asked a different way. Does the draft you've now submitted differ very much from what you outlined 18 months ago, with the CAD600 million capital cost, then I believe after five years, it's about CAD40 million operating costs, growing to CAD140 million annual costs after 15 to 20 years. I was wondering if those numbers are still comparable, or if the plans are very different?

Ian Kilgour - Teck Resources Limited - EVP & COO

I think we've covered the issue on costs in a couple of previous responses. But in essence, the plan has not changed significantly. We're still envisaging the construction of a number of water treatment plants. The costs have been based on the technology which we're currently implementing at Line Creek, and the plan also has an adaptive characteristic, in that what is actually required to meet the guidelines for selenium is going to depend on the actual levels of selenium, which occur over time in the coming years, and what we've submitted is based on a model which we think is good, but it may vary either way. So that's why we can't be too exact on the costs going forward.

Steve Bristo - RBC Capital Markets - Analyst

Okay, thanks. And then the CapEx for that, is that currently in your sustaining capital guidance, and what amount have you allotted for the current year?

Ian Kilgour - Teck Resources Limited - EVP & COO



It is in the guidance for the capital that we're expecting to spend this year. Basically, most of 2014 has been completing the Line Creek plant, which was substantially built in 2013, and the commissioning costs of that, and the investigations ongoing to look at the optimum technology for the next plant.

Steve Bristo - RBC Capital Markets - Analyst

Perfect. That's it for me. Thank you.

Don Lindsay - Teck Resources Limited - President & CEO

Just a reminder that when we first put out that CAD600 number, that included the West Line Creek treatment plant. So that's already behind us.

Operator

There are no further questions registered at this time. I'd like to turn the meeting back over to Mr. Lindsay.

Don Lindsay - Teck Resources Limited - President & CEO

Thank you very much for listening in today. I might just summarize that we are very pleased with the operating results, the sites are certainly delivering on not just production targets, but most importantly, on cost targets and capital reductions. So we're pleased with that, while we wait for the cycle to turn in coal. I'd emphasize that the 20 million tonnes of reductions have indeed been announced, and though only 3 million tonnes or so have been implemented, the rest of it will be implemented, and with such a huge percentage of the industry operating on a cash negative basis, we do anticipate that the 10 million tonnes of further reductions that we think are needed, will occur. We just can't predict the timing. Lastly, I do want to highlight that in this quarter we had two of our projects -- the Highland Valley mill optimization project and the Trail acid plant - both started up, and they started up extremely smoothly, and I think that's a credit to our project development team, and really gives us confidence that we have strong project development capability within the company. We'll look forward to applying those skills when we get the chance to in QB2, which is a project that we're still very keen to build given our constructive outlook on the copper market, medium to long-term. Last but not least, we remain excited about zinc, as I'm sure, a number of you on the phone are as well. Thanks very much. We look forward to talking to you again in October.

Operator

The conference has now ended. Please disconnect your lines at this time. We thank you for your participation.



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