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TCK.B.TO - Q3 2014 Teck Resources Limited Earnings Conference Call

EVENT DATE/TIME: OCTOBER 29, 2014 / 03:00PM GMT

OVERVIEW:

Co. reported 3Q14 profit attributable to shareholders of CAD84m or CAD0.14 per share and adjusted profit of CAD159m or CAD0.28 per share.

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PRESENTATION

Operator

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

(Operator Instructions)

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

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

Thanks much, Operator. And good morning, everyone, and thanks for joining us this morning for Teck's third-quarter 2014 investor conference call.

Before we start I would like to draw your attention to the forward-looking information on slide 2. This presentation contains 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*

Thank you, Greg. And good morning, everyone. I will begin with a brief overview, followed by highlights from our third-quarter results. Then Ron Millos, our Chief Financial Officer, will provide additional color on the quarter from a financial perspective. And we will conclude with a Q&A session where Ron, myself, and additional members of our senior management team would be happy to address any questions that you may have.

Starting with an overview on slide 3, we are continuing to execute well in difficult market conditions. Profits and cash flow continue be affected by steelmaking coal prices, as oversupply is keeping them at unsustainable levels.

We have updated our 2014 guidance ranges this quarter to reflect our progress year to date. We have raised our guidance for zinc mine production again, due to good results at Red Dog. And we have tightened up our guidance ranges for both coal and copper production towards the upper end of the original ranges. And we've also lowered the ranges for coal and copper costs, reflecting our cost reduction program.

And again, we've also reduced our planned CapEx expenditures for 2014 by approximately CAD375 million. Our focus on cost reduction is continuing to deliver results. And in total we have now realized CAD590 million of sustainable annualized operating cost reductions since our cost management program was implemented in the second half of 2012.

Teck is in a solid financial position. And I want to repeat that -- we are in a solid financial position to navigate current market conditions and a period of higher capital spending through 2017 as we invest in building a significant long-term asset in Fort Hills. We have approximately CAD5 billion of liquidity, including a current cash balance of about CAD2 billion as of October 28th, an unused revolving credit facility of $3 billion, and no substantial debt due over the next three years.

Turning to slide 4 and operational highlights from our third quarter, our operations are performing well. Coal production increased in the quarter, with record quarterly and year-to-date production at both Elkview and Greenhills. On a year-to-date basis, coal production is up 1 million tonnes, reflecting good market demand for our steelmaking coal products. Zinc mining production is also up due to an increase in mill throughput at Red Dog.

Our operations are continuing to achieve significant cost reductions, even while increasing throughput at 10 of our 13 operations on a year-to-date basis. We lowered total operating costs and unit costs in our copper and zinc business units. And Ron will speak to our cost-reduction initiatives later in the call.

Looking at slide 5, profitability for the quarter was down overall, driven by significantly lower coal prices compared with the same period last year. Despite these prices, all six of our coal mines are operating with positive cash margins. Total gross profit before depreciation and amortization was CAD750 million compared with CAD919 million in the same quarter last year. EBITDA was CAD651 million in the quarter and approximately CAD1.8 billion on a year-to-date basis. Our profit attributable to shareholders was CAD84 million, or CAD0.14 per share in the quarter. However, we are benefiting from improving zinc market fundamentals and higher zinc prices, with gross profit before depreciation and amortization in our zinc business up by 48% to CAD270 million.

As you can see from the bottom chart, there a several adjustments that we make to calculate adjusted profit. The largest item is a one-time non-cash charge of CAD64 million related to new Chilean tax legislation which was enacted into law in late September.

Including all the items in the quarter, adjusted profit was CAD159 million or CAD0.28 per share, compared with CAD252 million or CAD0.44 in the same period last year. In addition, the Canadian to US dollar exchange rate has moved in our favor, with a significant impact on a year-to-date basis. Our sales, of course, are denominated in US dollars while the majority of our operating costs are incurred in Canadian dollars. And, to a lesser extent, a stronger US dollar puts upward pressure on a portion of our operating expenses and our capital expenditures. Overall, each CAD0.01 change in the exchange rate affects our EBITDA by approximately CAD60 million on an annualized basis.

I'll now review our results by business unit, starting with steelmaking coal on slide 6. Coal sales were higher than guidance in the quarter at 6.7 million tonnes, but down from the record sales that we had in the third quarter last year. This is the second highest quarterly coal sales that we've achieved for this period.

However, oversupplied conditions in the market continue to impact coal prices. And while prices remained at similar levels to Q2, they declined significantly when compared with the same period last year. Our average realized price declined 21% on a US dollar basis to $110 per tonne, and 17% on a Canadian dollar basis to CAD119 per tonne. So, overall our revenue declined by 27% to CAD798 million.

Coal production increased in the quarter, with record quarterly and year-to-date production, as I mentioned, at both Elkview and Greenhills. And also as mentioned earlier, on a year-to-date basis coal production is 1 million tonnes higher than the same period last year. The last of our annual plant maintenance shutdowns was completed in Q3. And for the full year we now expect production to be in the range of 26.5 million to 27 million tonnes.

Our cost reduction efforts are producing significant results, but price increases for key inputs continue to put pressure on costs, as well. For the full year we now expect site costs to be in the range of CAD52 to CAD55 per tonne, and transportation costs to be in the range of CAD37 to CAD39 per tonne, which moves the mid points of the ranges lower than they were before.

Overall, gross profit before depreciation and amortization declined by CAD230 million to CAD187 million.

Now looking at coal markets, on slide 7, there continues to be too much steelmaking coal on the market. By our count, approximately 25 million tonnes of cutbacks and closures have been announced since the start of the year, but there has been a lag between announcement and implementation. And even when they are fully implemented through the first half of 2015, this will be insufficient to bring the market back into balance. With the additional production coming on in Australia and elsewhere, we expect the market in balance to still be in the 10 million to 15 million tonne range.

However, the margin curve shows that around one-third of seaborne met coal is being produced at a negative cash margin. And the amount of negative margin production indicates that further cuts are warranted. And getting the market back into balance is dependent on additional production cuts, and given how much production is currently at negative margin, we think there is a good likelihood that this will happen. There is potential for the coal market to be back in balance as early as mid-2015 if further cuts are announced and implemented.

Teck is well positioned on the margin curve, as indicated on this chart.

And looking forward to Q4, we have reached agreements with our customers to sell 6.3 million tonnes of coal in the quarter based on $119 per tonne for the highest quality products. We expect our coal sales to be at or above 6.5 million tonnes, resulting in full-year sales of approximately 26.2 million tonnes.

I'll now review our base metals business, starting with copper on slide 8. Sales and production were each down 13,000 tonnes. Our average realized copper price was slightly lower in US dollar terms, and revenue declined 12% to CAD628 million.

The decline in production was primarily due to the mine plant at Antamina shifting to a lower-grade zone and a lower amount of copper-only ore. It was also impacted by unexpected mill downtime at Carmen de Andacollo in September, due to failure of key electrical equipment which has been repaired. The mill has operated at full production rate since the end of September. This was partially offset by higher production at Highland Valley, primarily due to increased throughput following the commissioning of the Mill Optimization Program. Mill throughput averaged 139,000 tonnes per day in Q3 compared with design capacity of 130,000 tonnes. And we now expect our full-year copper production to be in the range of 330,000 to 340,000 tonnes.

Our cost reduction efforts have been successful in copper. Total cash unit costs before by-product margins are down about 5% compared with last year, primarily due to our cost reduction efforts. We're lowering our full-year guidance for copper cash unit costs net of by-product margins to between $1.60 and $1.70 per pound. Overall, gross profit before depreciation and amortization declined by CAD26 million to CAD292 million in our copper business.

Turning to our zinc business unit on slide 9, I should first note that Antamina and Duck Pond zinc-related results are reported in our copper business unit, as zinc is considered to be a by-product at both operations.

Significant improvements in zinc fundamentals and pricing are reflected in the profitability of our zinc business unit. Gross profit before depreciation and amortization increased 48% to CAD270 million.

Zinc mine production is up 6,000 tonnes as processing of softer ore has allowed for an increase in mill throughput at Red Dog. The shipping season was completed on October 20th, with 1,025,000 tonnes of zinc concentrate and 205,000 tonnes of lead concentrate shipped this year. Given the strong production performance at Red Dog year to date, we are increasing our full-year guidance range for zinc in concentrate production for the second time this year, to between 615,000 and 630,000 tonnes.

We also expect first ore from Pend Oreille in December, with the capacity to produce 44,000 tonnes annually. Development work is progressing very well and it's on schedule and on budget.

Refined zinc production was impacted in Q3 by a shift in the timing of Trail's annual maintenance shutdown of the zinc feed roasters, which occurred in Q2 last year. We now expect refined zinc production to be between 275,000 and 280,000 tonnes for the full year, as production the first half of the year was affected by the aging acid plant prior to its replacement in June.

Now, looking at base metals markets on slide 10, tight market conditions and concerns over the ownership of certain warehoused metals in China led to LME copper prices declining after mid-July. At the same time, LME inventories have fallen by around 57% or 209,000 tonnes year to date. For the full year, the International Copper Study Group forecasts a deficit of 307,000 tonnes for the year.

LME zinc prices are now well above last year's levels, as you can see, reflecting improved fundamentals. Mine closures continue through this year and into 2015, which is expected to move the global zinc market further into deficit. LME zinc stocks are down approximately 210,000 tonnes or 23% on a year-to-date basis. The International Lead and Zinc Study Group forecasts a deficit of 403,000 tonnes this year and 366,000 tonnes next year.

LME lead prices were down in the quarter and LME lead stocks are up around 11,000 tonnes, or 5% year to date. The global lead market has been expected to move into deficit from 2014 onwards. The International Lead and Zinc Study Group forecasts a deficit of 38,000 tonnes this year and 23,000 tonnes next year.

Turning to slide 11 and a quick update on Fort Hills, the project remains on schedule and on budget. The project is achieving and tracking to key milestones. Engineering is now over 50% complete. A number of the major engineering, procurement and construction contracts have been signed, with costs substantially within expectations. Construction is progressing per plan. Manpower is now around 3,000 strong and will continue to ramp up to a peak in 2016. And first oil is still expected in Q4 2017.

During the quarter, over CAD4.5 billion in major contracts were awarded. The single largest was for the secondary extraction component, at CAD2.6 billion to SK Engineering in Korea. Fluor was awarded the CAD1.5 billion utilities contract, and a CAD244 million cogeneration plant contract was also awarded. These contracts have all been awarded in line with budget, and are indicative of the project tracking to overall budget.

On a year-to-date basis, our share of cash expenditures was CAD421 million. And note that cash expenditures tend to lag incurred costs in the initial phase of construction and then catch up after completion of the project. So we now expect Teck's share of incurred costs for the full year to be CAD800 million, including our remaining earn-in.

Following construction, Fort Hills will be a significant long-term asset and we will benefit from 50 years of strong, stable cash flow.

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

Ron Millos ***- Teck Resources Limited - CFO***

Thanks, Don.

I've summarized our changes in cash for the quarter on slide 12. Our cash flow from operations was CAD492 million in the quarter. We spent CAD343 million on capital projects, half of which was for Fort Hills, and capitalized stripping costs were an additional CAD145 million. We paid CAD156 million in interest payments and CAD16 million in principal on our debt. And the payment of our semi-annual dividend used CAD259 million of cash in July.

After these items, distributions to non-controlling interests, foreign exchange translation, and other changes in working capital, we ended the quarter with cash and short-term investments of approximately CAD1.9 billion. Including our unused $3 billion revolving line of credit that matures in 2019, we currently have over CAD5 billion of additional liquidity.

In addition, our $6 billion debt shelf prospectus expired in August and as noted in our news release, we renewed it this month. This qualifies us to issue debt securities for sale in Canada and the US over the next 25 months, which enables us to access the debt markets, if and when deemed appropriate.

Looking at slide 13, we are committed to our investment grade credit rating. Our targets are consistent with maintaining our current rating of mid-BBB. We think this is the right rating for Teck, as it leaves a cushion in the event of a general industry downgrade or some other event beyond our control. These are long-term targets. We expect our ratios to vary from target from time-to-time, reflecting commodity price cycles and corporate activities such as development of major projects like Fort Hills. There are no financial covenants in our public debt indenture, and just one financial covenant in our bank credit agreement, which requires us to maintain a debt to debt-plus-equity ratio below 50%. As of the end of Q3, we were at 30%, and we were at 29% on a rolling three-year basis, consistent with our target and current credit rating.

Of course the rating agencies assess Teck based on a number of qualitative and quantitative factors, including their own forecasts for commodity prices for the next few years. However, these ratios are guidelines, not hard and fast rules, and only one part of their decision-making process. The agencies understand the cyclical nature of the mining industry and are aware of our capital spending plans and our strong liquidity position of CAD5 billion.

Moving on to slide 14, I've summarized our pricing adjustments for the third quarter. Lower copper prices resulted in CAD28 million of negative pricing adjustments this quarter compared with positive pricing adjustments of CAD24 million in the same period last year. Copper was down $0.11 and zinc was up $0.04 compared with Q2. 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 in the adjustment. You should also consider taxes and royalties when analyzing the impact on net earnings.

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

Turning to slide 15, our cost reduction program continues to deliver results. We've realized lower total operating and lower unit costs in both our copper and zinc business units this quarter. Overall, we've exceeded our target to realize CAD200 million of additional annualized operating cost reductions this year. This includes workforce reductions and significant cost reductions in all areas, including corporate business units through reduced staffing levels, travel, and lower discretionary spending. In addition, we've successfully transferred the Quintette coal restart project to care and maintenance. The progress year to date has enabled us to decrease our full-year cost guidance ranges for both coal and copper that Don spoke to earlier.

We have realized a total of CAD590 million of sustainable annualized operating cost reductions since our cost management program was implemented in the second half of 2012. However, there are offsetting factors, such as lower grades, increased waste haul distances, contractual labor rate increases, and higher fuel prices -- although the recent drop in oil prices will start to minimize our fuel bills if they stay in place for some time. On a year-to-date basis we have reduced or maintained our unit costs at similar levels to last year, while increasing throughput at 10 of our 13 operations.

We've also reduced our planned capital expenditures for 2014 by approximately CAD375 million since the start of the year, down to approximately CAD1.5 billion, plus the capitalized stripping which we still expect to be around CAD700 million. This includes our commitment to Fort Hills and our Pend Oreille restart. Timing of expenditures at Fort Hills represents approximately CAD225 million of the reduction, with the balance due to our cost reduction program. The table on page 22 of our news release provides more detail on our capital spending by each of our business units.

Looking at a summary of the updates to our full-year guidance, on slide 16...As Don mentioned, we've tightened up our guidance ranges, reflecting our performance on a year-to-date basis.

In coal and copper the midpoints of our production guidance are now higher than our original guidance, and the midpoints of our cost guidance items are now lower. In particular, we have lowered our copper cash unit cost guidance range to $1.60 to $1.70 per pound compared with our original guidance of $1.70 to $1.90 per pound.

In zinc, we have increased our zinc mine production guidance range for the second time this year, given Red Dog's increased mill throughput. The midpoint of our zinc mine production guidance is now significantly higher, and we expect 615,000 to 630,000 pounds of zinc in concentrate for the full year compared with our original guidance of 555,000 to 585,000 tonnes. We've also lowered our refined zinc production guidance range from 275,000 tonnes to 280,000 tonnes due to the impact of Trail's aging acid plan on production prior to its replacement in June this year.

And with that, I'll turn it back over to Don for some closing comments.

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

Okay, thanks, Ron. Looking at slide 17 and a summary of our near-term priorities, we are continuing our focus on our cost management program; we are reducing our capital spending for 2014; and we are executing the restart of the Pend Oreille lead-zinc mine to benefit from improving zinc fundamentals.

And 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 well be a pause after you ask your question as we sort out who's going to answer from where.

Okay, over to you, Operator.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Sal Tharani, Goldman Sachs.

Sal Tharani *- Goldman Sachs - Analyst*

Thank you. Good morning. I wanted to ask you two things. One is, there has been some recent news about a possible strike at Antamina. You haven't mentioned it in the prepared remarks. Any color on that?

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

I will turn that one over to Dale Andres, Senior Vice President of Copper.

Dale Andres *- Teck Resources Limited - SVP of Copper*

Yes, Antamina did receive some notice from the union yesterday about a potential strike on November 10. I want to reiterate our mining operations are currently operating normally. The concern raised by the union is really around worker profit-sharing. Our profits are down at Antamina this year due to the lower grades, and that's the concern raised by the union. I just want to also reiterate that worker payments are governed by law and an established agreement. The strike, if it were to happen, would be illegal.

Sal Tharani *- Goldman Sachs - Analyst*

Great. The next thing, on zinc. Don, you mentioned that you increased your zinc forecast a couple of times this year. And you mentioned that the efficiency at the Red Dog has been the player in that. I was wondering, is the market demand also requiring you to do that or is it really a function of Red Dog doing better than really expected, that you raise the guidance a couple of times this year?

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

I think it's a two-part answer to your question. First -- and I can turn it over to Rob Scott for a bit more detail -- but the increased production at Red Dog is due, as we said, to softer ore allowing increased throughput through the mill. But in terms of demand, which was the first part of your question, we've seen strong demand, particularly strong demand in China. And the market is forecast to be at about a 400,000 tonne deficit. Andrew Stonkus is here from our marketing side. So, Rob, Scott, do you have anything you want to add on Red Dog? And then Andrew on the market.

Rob Scott *- Teck Resources Limited - SVP of Zinc*

Thanks, Don. That's quite correct on the Red Dog situation. The ore is softer than we expected this year and, so, largely a function of more barite in the ore, which is a softer material than silica. We are in a new deposit, as you might recall, the Aqqaluk deposit, we started mining perhaps a little over three years ago. Our experience with the Aqqaluk is new within the last three years and there is more barite in the Aqqaluk. The softer grinding ore is an unexpected upside surprise to us. So, that's what accounts for the additional zinc production from Red Dog this year.

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

Andrew, do you want to comment on the markets?

Andrew Stonkus *- Teck Resources Limited - VP of Base Metals Marketing*

On the markets, Sal, without question. The International Lead and Zinc Study Group has put out their forecast for 2014, as Don mentioned. It's just over a 400,000 tonnes metal deficit for this year and close to a 400,000 deficit again for next year's forecast. The other key thing to remember is we're still going to face some significant mine cultures coming up. I think we're all aware of the additional mine closures we're seeing. So, the demand for concentrate is strong, the spot market for concentrates is very active, very strong. Chinese imports are up 9% at the end of September. So, demand for metal is strong and growing, and supply of concentrate is going to be constrained as we see these mine closures continuing to evolve. Demand overall of concentrate to metal seems to be very robust.

Sal Tharani *- Goldman Sachs - Analyst*

Thank you. I appreciate the color.

Operator

Jorge Beristain, Deutsche Bank.

Jorge Beristain *- Deutsche Bank - Analyst*

Good morning, guys. Jorge with DB. My question was really related to the recent tax code changes in Chile. And we saw a pretty significant jump quarter on quarter. Could you give us some guidance as to, at the end of the day, how much the Chilean tax changes affect your overall corporate tax rate? Is this an issue of bump up of 1, 2 or 5 percentage points on a corporate-wide basis?

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

Over to Ron Millos.

Ron Millos *- Teck Resources Limited - CFO*

The effective rates in Chile will now be 35%, Jorge. And it will be a 28% tax in Chile, and then 7% if we bring money out of Chile back to Canada or another location. So that shouldn't change -- maybe push the overall effective tax rate up 1% at best. But, again, that depends on where the profits come from down the road.

Jorge Beristain *- Deutsche Bank - Analyst*

Great. Thanks. Maybe, as well, if you could comment a little bit on the sensitivity to the copper projects down there, and your current mines. Does this higher tax rate impact some of the economics for your projects that are still to be built and any of your ongoing operations? In other words, would there be any further write-down to be expected maybe in the fourth quarter?

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

I think we will go to John Gingell for the last part of that. And then the first part either Dale or Tim -- Dale for current operations and Tim for projects. There's about three parts to that question. We will work backwards if that's okay.

John Gingell *- Teck Resources Limited - VP & Controller*

The increase in the first stage taxes, which is the thing that affects the economics primarily, does have a negative effect on some aspects of our mines. However, we have done our impairment reviews in the third quarter of all our projects in Chile and we're not taking any write-downs. We have some room there. And, so, I wouldn't expect anything. Things can always change so we will continue to monitor these things but based on current conditions there won't be any write-downs.

Dale Andres *- Teck Resources Limited - SVP of Copper*

Just a quick comment on operations as a result of the tax change we don't anticipate any change to our long-term mining plans.

Tim Watson *- Teck Resources Limited - SVP of Project Development*

With respect to the capital projects, QB2 in particular, certainly we have updated the model for the new tax regime. And we certainly still see it as a very positive project going forward.

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

I might also add just another bit of color. While we've done all the numbers to very conservative assumptions for our auditors and the rest of it, if I look out at what's actually happening in the market in terms of transactions and recent sales of copper assets, they've gone for some pretty good values. So, we always have that as a market sanity check that indicates we've got some very valuable assets.

Jorge Beristain *- Deutsche Bank - Analyst*

Thank you. And I again apologize for the multi-part nature of the question.

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

That's fine. We've got all the team here.

Operator

Curt Woodworth, Nomura.

Curt Woodworth *- Nomura Securities - Analyst*

Hi, good morning. Don, I just wanted to follow up on the comment on the coking coal market in terms of potential balance by middle of 2015. I just want to know how you guys are thinking about aggregate seaborne trade flows into China. Because if you look at the coke export number and the steel export number this year on a met coal equivalent basis, it's almost a 20 million tonne negative impact on the market if you assume that's supplied with domestic met coal. And obviously the aggregate seaborne number is down about 15 million tonnes. Do you think that if you continue to see holistically all those things continue to go against you in China that you would still be balanced? Or how should we think about that?

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

That's a very important question, one that I spend a lot of time on and visiting actual customers in China and the rest of it. But I am still going to turn it over to Réal Foley to start.

Réal Foley *- Teck Resources Limited - VP of Coal Marketing*

All right. Curt, you're right, steel exports from China this year are running at a quite high level. However, what we're seeing in other markets, as well, is steel production is also up around the world. So that would indicate that demand is actually improving overall in the world. And the steelmakers in other market areas are still able to compete with the Chinese steel producers.

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

Did that answer your question or was there another part to that?

Curt Woodworth *- Nomura Securities - Analyst*

No. That's helpful. And then just a question also on the coke side. There's been some discussion of Japanese steel companies shutting down some coke capacity to import Chinese coke because it's cheaper. Are you guys seeing any signs of that occurring?

Réal Foley *- Teck Resources Limited - VP of Coal Marketing*

What is happening in Japan, Curt, and also in some other regions of the world, is the installed coke batteries are aging. And as a result, when they get to 40 years old or more, the production that is coming from those coal companies, those coke batteries, is actually lower than they were originally designed for. And, as a result, when steelmaking is running at a high level they need to compensate their domestic coke production with imports, and a lot of imports are coming from China.

Curt Woodworth *- Nomura Securities - Analyst*

Okay. Great. Thanks a lot.

Operator

Mitesh Thakkar, FBR Capital Markets.

Mitesh Thakkar *- FBR & Co. - Analyst*

Good morning, gentlemen. My first question is on capital spending. The CapEx which is deferred, I think it's about CAD200 plus million-plus, should we just put it in 2015, or should we push off some more CapEx from 2015 to 2016, as well? And on the maintenance CapEx side, is CAD500 million a good number for all your businesses going forward, or are there any variances going forward such as selenium or replacement cycles of equipment that we need to be aware of?

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

Ron Millos?

Ron Millos *- Teck Resources Limited - CFO*

I will take the first part of the question on that deferral. Yes, it will flow into next year. But then the actual incurred costs next year on Fort Hills, a good chunk of that will likely not get paid until 2016, and so on each year. A good chunk of the Fort Hills total spend, when the project is completed, you're going to end up having bills coming in late 2017 and sometime into 2018. The key point is that that deferral is just due to the timing of when we get the invoices from the various suppliers. As you can appreciate, with a number of subcontractors and 3,000 employees and time sheets it takes time to accumulate the bills and get them ultimately to the Fort Hills project. That's a deferral that likely will bounce around from each year and ultimately catch up after the project is completed.

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

So, too add some clarity-- the answer to your question is no, do not put it into 2015. (laughter)

Mitesh Thakkar *- FBR & Co. - Analyst*

Okay. And how about the second part on the maintenance CapExside?

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

The maintenance CapEx side, we are doing our budgets right now so we haven't given any guidance for 2015 as yet. What I can tell you there is that there's intense scrutiny on it. I've got some early numbers that I'm quite pleased with, so that would indicate that it's likely going to be less than what you're assuming. But we're not done yet and we haven't published those numbers yet. So, we'll have to just wait until they come out officially.

Mitesh Thakkar *- FBR & Co. - Analyst*

Great. Thank you very much, guys, and good luck.

Operator

Orest Wowkodaw from Scotia Bank.

Orest Wowkodaw *- Scotiabank - Analyst*

Hi, good morning. First question around the coal business. Very good cost here at CAD88 a tonne, excluding those inventory write-down. My question is, are those sustainable, and if so, for how long? And then, also, you mentioned that all six of your mines were running in a cash margin positive position in the quarter. Just want to clarify if that includes sustaining capital and capitalized stripping?

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

I'm going to turn it over to Ian Kilgour but the quick answer to your last question is yes. Over to Ian.

Ian Kilgour *- Teck Resources Limited - EVP & COO*

Thanks, Don. Yes, that's right. Those numbers include our sustaining capital and capitalized stripping. In terms of moving forward we are continuing to work on every aspect of the costs of the business -- labor contractors, equipment efficiency, consumables... And we expect to be able to keep making progress as we move into the next year. Right now we're going through detailed examination of our 2015 budget and our five-year plans, and looking for every opportunity to improve them.

Orest Wowkodaw *- Scotiabank - Analyst*

Is there anything you are aware of that would make those costs increase in 2015, at this point?

Ian Kilgour *- Teck Resources Limited - EVP & COO*

Nothing we're aware of right now. The one factor that has increased costs this year is fuel costs, but that appears to be mitigating at the moment, and hopefully that will continue into next year.

Orest Wowkodaw *- Scotiabank - Analyst*

Okay. And a separate question, if I could, on the balance sheet, for Ron. In terms of your investment-grade debt metrics, obviously we're starting to push some of those in terms of your long-term targets. Can you give us any color in terms of how far you think you can push those on a short-term basis before there could be some pushback from the rating agencies in terms of investment-grade?

Ron Millos *- Teck Resources Limited - CFO*

We think we've got a fair amount of cushion for investment grade. Clearly, in this low-price environment, the rating agencies, depending on their views of what future near-term coal prices are, we've got a negative outlook from a number of the agencies right now. Still BBB-mid. In this environment there will be some pressure for them to watch it closely. And we could see in a low-price environment a potential notch knocked down to BBB-low. I think we're relatively safe from non-investment grade, but you never know what bothers the rating agencies at any point in time.

Orest Wowkodaw *- Scotiabank - Analyst*

Okay. In terms of debt to EBITDA is there a level that you'd be comfortable taking the balance sheet to on a short-term basis before you would look at other vehicles to reduce the debt load?

Ron Millos *- Teck Resources Limited - CFO*

Our targets are well within the investment-grade range. And certainly we expect that at certain points in time that we're going to be bouncing up and down above the target. But the agencies look at it on a three-year average type thing. We've also said that on occasion we will exceed our targets for a short period of time if we see a way back to those targets within a year or two. And the agencies are clearly aware of that. We discuss that with them on a regular basis. They're aware of all our capital spending plans and our cash position, our liquidity position. We can stretch it for a bit but if you end up with two and three years where you're over their targets that's when they start to think about whether they should change the rating or not.

Orest Wowkodaw *- Scotiabank - Analyst*

Okay, I appreciate the color. Thank you.

Operator

David Charles, Dundee Capital Markets.

David Charles *- Dundee Securities - Analyst*

Yes, good morning. Just a quick question going back to capital expenditures. Maybe I'll ask the question slightly differently than how it was posed before. How should we look at capital expenditures in 2015? Should we look at it simplistically, that it's roughly CAD2.2 billion, that is similar to this year at CAD1.5 billion in spending on all the major projects, and then add on another CAD700 million for capitalized stripping?

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

I'm afraid the answer is going to be a bit similar to the last one in that we haven't finished the budgeting exercise. I think you're definitely in range, David. We hope obviously to do better than that. We've just spent a fair bit of time focusing on sustaining capital in all the businesses. And as I said it's been intense scrutiny and I am pleased with where we are ending up, but we can't give you a number on that yet. The deferred stripping order of magnitude, same as last year, as you've mentioned. And the only major project going forward is Fort Hills. We've talked about that earlier in this call that, while, yes, we incurred expenses we didn't lay out the cash for all the expenses, which would be about the same or within the order of magnitude next year as this year. So, when you add that up actually you come to a bit less than what you just said, but we're not done yet. I'm sorry that we can't be more detailed than that in the answer but generally I think you are in line.

David Charles *- Dundee Securities - Analyst*

No. That's fine. I just wanted to be sure that there was nothing further than the ones that we've seen so far that would come in next year that would change numbers. So that's a good answer. Thank you very much.

Operator

Lucas Pipes, Brean Capital.

Lucas Pipes *- Brean Capital, LLC - Analyst*

Good morning, everybody. Just to follow-up on the cost side, in the release there was a sentence about cost pressures will become more significant as mining progresses at each of our sites. I was just wondering if you had any specific segment or operation in mind with that sentence. And then if you could maybe provide some quantitative parameters around that and maybe also some timing.

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

I'll turn it over to Ian Kilgour on that one.

Ian Kilgour *- Teck Resources Limited - EVP & COO*

Yes, thanks. The mining plans at each of our mine sites are constantly under scrutiny. As you develop an ore deposit, typically you start in the best place, and as the mine plan progresses, you continue it. In general, as we know from trends in the industry, head grades are decreasing in the copper industry, for example, and these are things that you have to cope with. So, I think that comment is really just reflecting the fact that we're required to keep working on our mine plans to optimize them over time.

Lucas Pipes *- Brean Capital, LLC - Analyst*

And if there is a difference between the output for these various mine plans between copper, coal, zinc?

Ian Kilgour *- Teck Resources Limited - EVP & COO*

No, I don't think there's any particular aspect that's outstandingly different between the different business units.

Lucas Pipes *- Brean Capital, LLC - Analyst*

Thank you. And then maybe a follow-up question for Réal. Réal, there's been a lot of talk about this Chinese import tax that was instigated. What is your opinion about that and how it could impact Teck Resources going forward?

Réal Foley *- Teck Resources Limited - VP of Coal Marketing*

Thanks, Lucas. So far we've seen no impact from the 3% tariff on steelmaking coal. Our selling prices in China have remained pretty steady compared to where they were pre-tariff. This tariff became effective on October 15. And we understand that the domestic suppliers have actually increased their prices commensurate with the 3% tariff, as we expected would happen.

Lucas Pipes *- Brean Capital, LLC - Analyst*

Great. Thank you very much.

Operator

Greg Barnes, TD Securities.

Greg Barnes *- TD Securities - Analyst*

Yes, thank you. Don, when I meet with investors I'm repeatedly asked about Fort Hills and whether Teck would either sell their stake or dilute down. I know what my answer is, I was just wondering what your response is to that question?

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

No and no. Fort Hills is, in our view, looking better and better. We're particularly encouraged by the progress one year in. Suncor, in our view, is doing a good job. And as we mentioned earlier in the call, it's on track, and all the major contracts are coming in within expectations. And when we rerun the models, we've seen quite a contraction in the discount for Western Canadian Select from as much as $40 two years ago to $14 today. So, that more than neutralizes the decline in WTI. And we've rerun the numbers, and currently we would get a higher netback today than we did when we sanctioned the project. So, we're all systems go on that one, and looking forward to having it as part of our portfolio. It will be the fourth leg, a very strong asset for 50 years in a good jurisdiction. We like it.

Greg Barnes *- TD Securities - Analyst*

Okay. And just a follow on question -- and this is probably for Ron. On the balance sheet you've CAD807 million in investments and other stuff. I'm just wondering what that is.

Ron Millos *- Teck Resources Limited - CFO*

John?

John Gingell *- Teck Resources Limited - VP & Controller*

I'm just flipping pages here.

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

Hang on a second. We're just rounding up the details for you, Greg. Do you have another question? Maybe we can follow up with the answer on this one.

Greg Barnes *- TD Securities - Analyst*

I don't have another question.

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

Operator, if we can go to the next question and we'll come back with an answer on this.

Operator

Oscar Cabrera, Bank of America Merrill Lynch.

Oscar Cabrera *- BofA Merrill Lynch - Analyst*

Thank you. Good morning, everyone. Just with regards to Fort Hills, with the increase in oil production in the US, are there any concerns with regards to the assumptions that I believe most of us are working with in regards to pipeline spreads between oil prices or increasing logistic costs that could result in a reduction in margins?

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

I'm going to turn that over to Ray. I will preface his remarks by saying we are working on the marketing plan. We have some very encouraging results. But we won't be releasing our overall plan for quite some time yet. And when we've got it finished we don't want to be giving it piecemeal where things could be taken out of context. But, Ray, how would you like to answer that?

Ray Reipas ***- Teck Resources Limited - SVP of Energy***

Thanks for the question, Oscar. We are looking at our Fort Hills marketing and logistics plan. Of course we have to have that plan in place three years from now when we have Fort Hills start production. So, we do have some time to take a look at that. We are encouraged by the developments in the market access space over the last while. We think that there is progress being made. Particularly encouraged with Line 9 reversal coming along. The TransCanada's proposal at Energy East looks quite good solution to a tidewater port. And those projects, especially Energy East, will be coming on in about the timeframe that we'll be looking for capacity. The other thing that people should remember is that the common carrier line that Enbridge has from Hardisty into Superior is also going through maintenance and upgrades that's going to increase that capacity going forward, as well. When we take a look at the market in the timeframe that we need it, we think that those logistics solutions are going to be there, and be there at a cost that is going to be effective for getting our product to market

Oscar Cabrera ***- BofA Merrill Lynch - Analyst***

Okay. I would look forward to seeing that. And then a second question, going back to your comment on the balanced market for metallurgical coal in the second half of this year, understand that your assumptions for demand is basically an increase year over year. With BHP Mitsubishi increasing their supply, how much cuts to supply do you expect from the rest of the market to be balanced until the second half of next year?

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

Réal?

Réal Foley ***- Teck Resources Limited - VP of Coal Marketing***

Thanks, Oscar. Overall, if you look at the demand side, crude steel production is continuing to increase about 2% to 3% per year. That is the forecast. Year-to-date September it's running at about 2%. So, you're right, demand continues to increase. On the supply side, our view is that there is an additional 10 million to 15 million tonnes of production cuts that are required to bring the market back into balance. That's over and above the 25 million that have been announced.

Oscar Cabrera ***- BofA Merrill Lynch - Analyst***

25 -- I'm sorry, this is very short. So 25 million tonnes, plus 10 million to 15 million tonnes, how many of those have been actually implemented?

Réal Foley ***- Teck Resources Limited - VP of Coal Marketing***

Implemented to date to the end of Q3, out of the 25 million tonnes, is probably somewhere between 7 million to 8 million tonnes, in our estimate.

Oscar Cabrera ***- BofA Merrill Lynch - Analyst***

Okay, great. Thank you very much for the color.

Réal Foley - ***Teck Resources Limited - VP of Coal Marketing***

The important point, Oscar, is that as the production cuts are announced, that capacity is removed from the market. So, implementation is delayed, no doubt, and inventories need to work their way through the system, as well.

Oscar Cabrera - ***BofA Merrill Lynch - Analyst***

Great. Thank you.

Ron Millos - ***Teck Resources Limited - CFO***

Operator, we will follow up with the answer to the previous question before you move on to the next speaker. Greg, basically the major items in there are: our long-term receivables and various deposits that we have, pension assets -- there are about CAD200 million and the previous one was CAD200 million as well, our marketable securities and short-term investments that have a maturity of greater than 90 days. If you go to our annual report, there is a note disclosure in there. It's similar type items, and it's up about CAD50 million. Order of magnitude they're roughly the same percentage of items.

Ron Millos - ***Teck Resources Limited - CFO***

Hopefully that answers your question, Greg.

Operator

Ralph Profiti, Credit Suisse.

Ralph Profiti - ***Credit Suisse - Analyst***

Hi. Thanks for taking my question. Just to follow up on your just-given answer, Ron, is liquidation of any of these marketable securities behind the CAD1.85 billion in cash that you ended the quarter with, and the CAD2 billion that you have currently? Or are we strictly talking cash flow from operations as the difference?

Ron Millos - ***Teck Resources Limited - CFO***

I'm not sure I fully understood what the question was there, Ralph. Can you repeat it?

Ralph Profiti - ***Credit Suisse - Analyst***

Sure thing. Between the CAD1.85 billion at quarter end and the CAD2 billion that was cited in Don's statements as of October 28, is that strictly, that rise, attributable to cash flow from operations, or are we seeing some of these working capital and marketable securities non-operating being behind that increase?

Ron Millos - ***Teck Resources Limited - CFO***

It's mainly cash flow from operations.

Ralph Profiti *- Credit Suisse - Analyst*

Okay, great. And if you can just update me with the new estimate on the pace of Fort Hills spending, where do we stand on the earn-in?

Ron Millos *- Teck Resources Limited - CFO*

We would expect probably somewhere around the end of the first quarter. So, March, April we would move from the 27.5% contribution down to the 20% contribution.

Ralph Profiti *- Credit Suisse - Analyst*

Got it. That's great. Thank you very much.

Operator

Alex Kodatsky, CIBC.

Alex Kodatsky *- CIBC World Markets - Analyst*

Thanks, and good morning. A question for Réal. Curious to see if you're getting any difference of behavior on the buyers' side. Are you selling incremental quantities on contract than what you were? And are people still actively looking in the spot market, or have you started to see more people trying to source material under longer-term agreements?

Réal Foley *- Teck Resources Limited - VP of Coal Marketing*

All right, thanks, Alex. Over the past three-plus years, the spot market price has been below the quarterly benchmark. And that has driven more tonnes to be priced on shorter than quarterly basis in the market. And actually our sales profile reflects that. Now, at the same time as we say this, we are seeing good performance from customers, whether they are quarterly price customers or shorter-term price customers. We have a number of agreements in place -- long-term agreements in place -- with the majority of our customers that give us some certainty on volume. And in terms of split, if you look at the ratio of our sales on shorter than quarter, we're probably still selling about 50% or so for 2014 at quarterly price. And that's up from around 40% in 2013, and it was around 20% in 2012, and prior to 2012 it was 15% to 25%. Does that answer your question?

Alex Kodatsky *- CIBC World Markets - Analyst*

Yes, that's great, it does in terms of long-term trend. But I'm just trying to gauge -- I guess the question may be asked this way -- with the production cuts that have been announced and the presumption that material would be less available in four-to-six months' time, are you starting to get any indications from the steelmakers that they may be concerned about getting their hands on material? Or are we not at that point yet?

Réal Foley *- Teck Resources Limited - VP of Coal Marketing*

We're starting to get anecdotal comments from customers who were buying larger quantity from the US. We've actually seen changes in our sales distribution if we look at 2014. There was quite a bit of US coal that was going into Asia for the past three years or so, and that has been reduced as a result of prices being at very low levels right now. We're also seeing additional demand coming from markets on the Atlantic side as a result of some of those cuts, as well.

Alex Kodatsky *- CIBC World Markets - Analyst*

Okay. That's very helpful. Thank you, Réal.

Operator

Paretosh Misra, Morgan Stanley.

Paretosh Misra *- Morgan Stanley - Analyst*

Thank you. I was wondering if you could share your thoughts on the iron ore market. Do you see any opportunity for Teck at these prices and valuation?

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

No. We spend a fair bit of time looking at the iron ore market -- well, we have looked at it over many years. We have reviewed different opportunities. We were never able to find an opportunity that met our value criteria. And that would still be the case.

Paretosh Misra *- Morgan Stanley - Analyst*

Great, thanks, Don.

Operator

Harry Mateer, Barclays

Harry Mateer *- Barclays Capital - Analyst*

Hi, guys. Ron, first question -- what cash balance would you be comfortable going down to before you would start wanting to use your credit facility or term debt to finance spending? And if you are still in a negative free cash position next year, would your expectation be to pay down the CAD300 million maturity with your credit line or instead to refi that with term debt?

Ron Millos *- Teck Resources Limited - CFO*

We think we could squeeze the cash balance down to the CAD300 million to CAD400 million range. We've talked in the past that we thought it would be CAD500 million, but we've had a good hard look at that and could move it down. As far as using the line of credit or refinancing that CAD300 million, both options are open to us, and I think we will just have to take a look at what circumstances are at that time.

Harry Mateer *- Barclays Capital - Analyst*

Okay, thanks. And then just as a follow-up, you don't seem particularly worried about investment-grade ratings, given where your metrics currently stand and your outlook. But you did acknowledge some risk to the current mid-BBB rating. So, should we take that to mean you're not going to look to try and defend the current ratings with whatever actions might be at your disposal, and then the true commitment is just to investment grade overall?

Ron Millos *- Teck Resources Limited - CFO*

We certainly would like to maintain that mid rating because of the cushion it provides, but there are a lot of things that are beyond our control on that one. And depending on where commodity prices go we'll just have to wait and see on that. But certainly it's a preferred position, but definitely we want to maintain the investment grade, for sure.

Harry Mateer *- Barclays Capital - Analyst*

Okay. Thanks. I appreciate it.

Operator

We have no further questions at this time.

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

Okay. Then maybe I'll wrap up with a couple of comments. And one is that Teck is in very strong condition. The operations are running very well. The balance sheet is very strong. The debt is termed out as far as 2042, I think. And I point out that six months ago, people were forecasting that our cash balance would get down to CAD1.2 billion or so, and here we are at a little over CAD2 billion today. And while it will go down by year end somewhat, we're starting next year 2015 in very strong position. We've taken the actions with the operations to ensure that we stay that way. And that means we will go through 2015 with a pretty good position. And next thing you know you are halfway through Fort Hills already and looking towards the end of it. And during that time, the odds of commodity prices changing are pretty high - and whether that's in zinc or whether that's in coal, we'll have to see. So, Teck is very strong condition, and I want to emphasize that.

Secondly, just the comment on commodity markets in general. And this could be coal, we've had a lot of questions on that today, but this could be zinc, this could be copper. Generally how it works -- and a lot of people who follow the industry may not realize this or may have started following the industry more recently -- but when a commodity is in surplus the prices tend to fall to somewhere around the 90th percentile on the cost curve. And if it's in a big surplus, it can fall for a period of time even lower to the 70th percent. And then inevitably what happens is a lot of people shut down because they are losing cash. If a commodity is in deficit -- and it doesn't have to be a very big deficit -- then you tend to get pretty healthy margins, sometimes 100% or better. And if it gets to be a little bit more significant deficit, you do even better. That has always been the case. Some people, even in the industry, may not understand that, but that's generally what occurs. As an example in coal -- because I know there are a lot of questions about that -- but if you went back in history to when the first floods occurred in Queensland, there were a lot of estimates on how much coal production was lost. No one knew at the time because it took a while for the place to dry out. But in the end, I think the calculation -- and this is one estimate, people can go back and check -- was only about 11 million tonnes of production was actually lost. And it drove the price up to $300. I think Réal's comments about how the steel industry continues to grow, and that requires a bit more coal each year, ultimately, as production is shutting down, from the announced shutdowns, and demand overall worldwide continues to increase, you'll get to a spot where balance is close to and then achieved, and then goes into deficit again. We see that coming in the ensuing years. Customers will see that and they will move to secure their supply, and prices will move up, as they always have in the past. The industry is cyclical. It always has been, it always will be. And we're looking forward to the cycle turn. And don't be surprised when it does. Again those comments could apply to zinc or to copper or coal, or oil for that matter, or any other commodity.

With that, we thank you for your questions. We look forward to the next quarterly call in February. Thank you, operator.

Operator

Thank you. The conference call has now ended. Please disconnect your lines at this time. We thank all who participated.