Forward Looking Information

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China’s Economic Outlook

China Strives to Become a High-Income Economy
• It aims to avoid the middle-income trap
• Strong growth drivers remain

Steady Growth is Expected in 2018
• Key risks are under control
• Coal & steel benefit from supply side reforms
China Strives to Become a High-Income Economy

Top 10 Economies in 2016

<table>
<thead>
<tr>
<th>Country</th>
<th>GNI Per Capita (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>18.62</td>
</tr>
<tr>
<td>China</td>
<td>11.20</td>
</tr>
<tr>
<td>Japan</td>
<td>4.94</td>
</tr>
<tr>
<td>Germany</td>
<td>3.48</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.65</td>
</tr>
<tr>
<td>France</td>
<td>2.47</td>
</tr>
<tr>
<td>India</td>
<td>2.26</td>
</tr>
<tr>
<td>Italy</td>
<td>1.86</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.80</td>
</tr>
<tr>
<td>Canada</td>
<td>1.53</td>
</tr>
</tbody>
</table>

China’s Gap by GNI Per Capita

The World Bank classifies high-income economies as those with a GNI per capita of >US$12,236 in 2018.

Gap to fill

China’s GNI per capita was US$8,250 in 2016.
Urbanization Will Continue to be a Growth Driver
Regional disparity remains

Urbanization Rates

- Urbanization rate based on residency
- Urbanization rate based on "Hukou"

GDP Per Capita, 2016

- Top 5: Tianjin, Beijing, Shanghai, Jiangsu, Zhejiang
- Bottom 5: Shanxi, Tibet, Guizhou, Yunnan, Gansu
"A major historic and strategic choice" that would be “crucial for the millennium to come”

The decision is an integral part of measures to transfer non-capital functions out of Beijing

Innovation will be the fundamental driver in building and developing the Xiongan New Area

Xiongan will be of national significance
Xiongan will be Larger than New York

Xiongan

2018
Xiongan will be of National Significance
Similar to Shenzhen and Pudong

Shenzhen
Special Economic Zone¹
Established 1980s

Shanghai
Pudong New Area¹
Established 1990s
“Belt and Road” to Boost Infrastructure Significantly

• The Asian Infrastructure Investment Bank (AIIB) has **84** approved members

• China has invested **>US$50 billion** in countries along the routes from 2014-2016¹

• The Asian Development Bank forecasts that “developing Asia will need to invest **US$26 trillion** from 2016 to 2030, or **US$1.7 trillion per year**, if the region is to maintain its growth momentum, eradicate poverty, and respond to climate change”
China’s High Savings Rate Underpins Robust Growth

China’s debt is being brought under control

**Gross Domestic Savings (% GDP)¹**

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>China</th>
<th>India</th>
<th>Korea, Rep.</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>20%</td>
<td>32%</td>
<td>36%</td>
<td>47%</td>
<td>16%</td>
</tr>
<tr>
<td>2014</td>
<td>15%</td>
<td>32%</td>
<td>35%</td>
<td>47%</td>
<td>17%</td>
</tr>
<tr>
<td>2015</td>
<td>20%</td>
<td>37%</td>
<td>41%</td>
<td>47%</td>
<td>17%</td>
</tr>
<tr>
<td>2016</td>
<td>13%</td>
<td>37%</td>
<td>42%</td>
<td>47%</td>
<td>17%</td>
</tr>
</tbody>
</table>

**Debt-to-GDP Ratio²**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>44%</td>
<td>45%</td>
<td>48%</td>
<td>48%</td>
</tr>
<tr>
<td>Q2</td>
<td>56%</td>
<td>56%</td>
<td>56%</td>
<td>55%</td>
</tr>
<tr>
<td>Q3</td>
<td>58%</td>
<td>58%</td>
<td>59%</td>
<td>58%</td>
</tr>
</tbody>
</table>

**Notes:**

¹Gross Domestic Savings (% GDP)
²Debt-to-GDP Ratio

**Source:** Teck
Coal & Steel Benefit from Supply-Side Reforms

Industrial Profit Gains

% share of total

39% Other 29 industries
61% Coal and Steel

Total profit (USD billion)

Total profit (USD billion)

Coal mining
Steel production

Jan-Aug 2015  Jan-Aug 2017

Other 29 industries
Coal and Steel

Total secondary sector with 31 industries
Summary: China

- The *will, leadership* and *growth potential* to become a high-income economy in the medium term
- Steady growth in 2018; moderately softer than 2017
- Additional financial de-risking but access to credit will remain ample
- Supply-side reforms and crackdown on polluters ongoing
- Commodity sector strength underpinned by steady demand and continuous supply-side reforms
Notes

Slide 4: China Strives to Become a High-Income Economy

Slide 5: Urbanization Will Continue to be a Growth Driver
2. Source: National Bureau of Statistics, CEIC database. Note: 2016 GDP per capita is the most up-to-date data.

Slide 6: A New Megacity will be Built: Xiongan

Slide 7: Xiongan will be Larger than New York
1. Source: Baidu.

Slide 8: Xiongan will be of National Significance
1. Source: Baidu.

Slide 9: “Belt and Road” to Boost Infrastructure Significantly
1. Source: Xinhua News; Xi’s speech at the 2017 Belt and Road Forum; the official website of AIIB and ADB report 2017: “Meeting Asia’s Infrastructure needs”.

Slide 10: China’s High Savings Rate Underpins Robust Growth
1. Source: World Bank, World Development Indicators.

Slide 11: Coal & Steel Benefit from Supply-Side Reforms
1. Source: China Academy of Social Sciences, CEIC database.
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Zinc
Steady Demand Growth & Increasing Zinc Intensity

Chinese Zinc Demand to Grow ~2-4%¹

<table>
<thead>
<tr>
<th>Year</th>
<th>Thousand Tones</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
</tr>
<tr>
<td>2018E</td>
<td></td>
</tr>
<tr>
<td>2019E</td>
<td></td>
</tr>
<tr>
<td>2020E</td>
<td></td>
</tr>
</tbody>
</table>

More Cars Expected to be Galvanized²

<table>
<thead>
<tr>
<th>Year</th>
<th>Thousand Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
</tr>
<tr>
<td>2018E</td>
<td></td>
</tr>
<tr>
<td>2019E</td>
<td></td>
</tr>
<tr>
<td>2020E</td>
<td></td>
</tr>
</tbody>
</table>

1. Chinese Zinc Demand to Grow at a rate of 2-4% annually.
2. More cars expected to be galvanized in the coming years.
Environment/Safety Inspections & Depletions
Constraining zinc mine production

- Entire country under environmental & work safety inspections
- Blue regions are also suffering from depletion
- 2017 mine production down 1% YoY

Most Regions Reporting Negative Growth

- Huoshaoyun
  - -43kt, -22%
  - -50kt, -15%
  - -33kt, -31%
  - -58kt, -25%
  - -144kt, -20%
  - +4kt, -1%
  - +8kt, +3%
  - -17kt, -12%

Estimated Zinc Mine Growth Rarely Achieved

- Early-year estimate
- Adjusted estimate


100: Early-year estimate, 200: Adjusted estimate, 60: Early-year estimate, -50: Adjusted estimate
Zinc Mine Projects Increasingly Delayed
Impacted by inspections and low zinc ore grades

Future Mine Growth Heavily Dependent On One Single Project

<table>
<thead>
<tr>
<th>Year</th>
<th>Existing mines</th>
<th>New projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>145kt</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>136kt</td>
<td></td>
</tr>
<tr>
<td>2019-2020</td>
<td>886kt</td>
<td></td>
</tr>
</tbody>
</table>

Mine Depletion & Low Grades of Projects

- **Existing mines**
- **New projects**
China to Require More Zinc Concentrate Imports

Concentrate Stocks Rise, Seasonal Build Insufficient

The seasonal winter build in concs stocks was done at high cost (low TCs) to smelters; 2017 build was insufficient to cover requirements, increasing scope for imports.
Increasing Demand for Zinc Metal Imports

De-stocking to Continue Despite Seasonal Rebound

More Imported Zinc Metal Required to Fill the Gap

Seasonal metal build heavily weighted to imported bonded stocks;
If China does import 1.4 Mt of concentrates, still requires 1.3 Mt of metal imports
Copper
Steady Demand Growth & Increasing Copper Intensity

**Chinese Copper Demand to Grow ~3-4%¹**

- **2013**
- **2014**
- **2015**
- **2016**
- **2017**
- **2018E**
- **2019E**
- **2020E**

<table>
<thead>
<tr>
<th>Year</th>
<th>Thousand Tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>8,000</td>
</tr>
<tr>
<td>2014</td>
<td>9,000</td>
</tr>
<tr>
<td>2015</td>
<td>10,000</td>
</tr>
<tr>
<td>2016</td>
<td>11,000</td>
</tr>
<tr>
<td>2017</td>
<td>12,000</td>
</tr>
<tr>
<td>2018E</td>
<td>~13,000</td>
</tr>
<tr>
<td>2019E</td>
<td>~14,000</td>
</tr>
<tr>
<td>2020E</td>
<td>~15,000</td>
</tr>
</tbody>
</table>

**Increasing Copper Intensity with Booming Electric Vehicles²**

- **2011**
- **2012**
- **2013**
- **2014**
- **2015**
- **2016**
- **2017**
- **2020E**
- **2025E**

<table>
<thead>
<tr>
<th>Year</th>
<th>Thousand Tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>100</td>
</tr>
<tr>
<td>2012</td>
<td>150</td>
</tr>
<tr>
<td>2013</td>
<td>200</td>
</tr>
<tr>
<td>2014</td>
<td>250</td>
</tr>
<tr>
<td>2015</td>
<td>300</td>
</tr>
<tr>
<td>2016</td>
<td>350</td>
</tr>
<tr>
<td>2017</td>
<td>400</td>
</tr>
<tr>
<td>2020E</td>
<td>2 million EVs</td>
</tr>
<tr>
<td>2025E</td>
<td>7 million EVs</td>
</tr>
</tbody>
</table>

¹ Steady Demand Growth & Increasing Copper Intensity
² Increasing Copper Intensity with Booming Electric Vehicles

**Categories:**
- Others
- Appliances
- Transport
- Construction
- Machinery
- Power
- Battery Electric CVs
- Battery Electric PVs
- Commercial Vehicles (CVs)
- Passenger Vehicles (PVs)
- Plug-in CVs
- Plug-in PVs

**Additional Notes:**
- 2 million EVs in 2020
- 7 million EVs in 2025

**Teck**
**Potential Annual Growth in Most Sectors**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Growth Rate (Thousand Tons / Year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power grid</td>
<td>282</td>
</tr>
<tr>
<td>Building &amp; construction</td>
<td>202</td>
</tr>
<tr>
<td>Renewable energy</td>
<td>71</td>
</tr>
<tr>
<td>EVs</td>
<td>60</td>
</tr>
<tr>
<td>Urban transit system</td>
<td>21</td>
</tr>
<tr>
<td>Railway</td>
<td>19</td>
</tr>
<tr>
<td>Road</td>
<td>-7</td>
</tr>
<tr>
<td></td>
<td>-75</td>
</tr>
</tbody>
</table>

**Significant Power Grid Investment**

- **11th - 5yr Plan Completed**: 20% (RMB Trillion)
  - Transmission: 23%
  - Distribution-Urban: 25%
  - Distribution-Rural: 52%

- **12th - 5yr Plan Completed**: 20% (RMB Trillion)
  - Transmission: 37%
  - Distribution-Urban: 43%

- **13th - 5yr Plan Estimate**: Up ~42% (RMB Trillion)
Rapid Growth in Chinese Copper Smelter Capacity
Limited domestic mine growth

Chinese Copper Mine Projects\(^1\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Dabaoshan</th>
<th>Hongniu</th>
<th>Zhibula</th>
<th>Shaixi</th>
<th>Pulang</th>
<th>Tongshan expansion</th>
<th>Duobaoshan phase II</th>
<th>Chengmengshan</th>
<th>Xiongcun</th>
<th>Chifeng Fubo</th>
<th>Hongjipo</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>104 kt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>36 kt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>123 kt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>121 kt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

+2Mt of Smelting Projects in the Pipeline\(^2\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Yantai Guorun</th>
<th>Heding</th>
<th>YCC Dianzhong</th>
<th>Zhongqi Copper</th>
<th>Lingbao Jincheng</th>
<th>Tongling Jincheng</th>
<th>Qinghai Copper</th>
<th>Nanguo Copper</th>
<th>Chinalco</th>
<th>Baijin</th>
<th>YCC Chifeng</th>
<th>Yantai Guorun</th>
<th>Chifeng Jijian</th>
<th>Zijn</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>280 kt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,640 kt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>230 kt</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
China More Important in Global Copper Market
Buying more copper from the rest of the world

Substantial Concentrate Imports Growth

Continuous Growth of Imported Copper Units

Demand for imported cathodes shifting towards concentrate and scrap;
Copper scrap imports to drop 300-400 kt under China’s ban
Notes

Slide 17: Steady Demand Growth & Increasing Zinc Intensity
2. Source: Mysteel, Teck.

Slide 18: Environmental/Safety Inspections & Depletions
1. Source: NBS/CNIA.

Slide 19: Zinc Mine Projects Increasingly Delayed
1. Includes mine projects with zinc capacity >20 ktpa. Source: BGRIMM, Antaike, Teck.
2. Source: BGRIMM.

Slide 20: China to Require More Zinc Concentrate Imports
2. Source: China Customs, Wood Mackenzie, Teck.

Slide 21: Increasing Demand for Zinc Metal Imports
2. "Smelter + consumer stocks" refers to zinc metal held in the plants of smelters and semi producers and those on the road; "Bonded stocks" refers to zinc stored in bonded zones and will need to complete Customs clearance before entering China; "Domestic commercial stocks" refers to zinc stored in SHFE warehouses and other domestic commercial warehouses not registered in SHFE.

Slide 23: Steady Demand Growth & Increasing Copper Intensity
2. Source: Government plans, CAAM, ICA, Teck.

Slide 24: 13th Five-Year Plan Driving Copper Demand (2016-2020)
1. Source: ICA.
2. Source: CEC, ICA.

Slide 25: Rapid Growth in Chinese Copper Smelter Capacity
1. Includes mine projects with copper capacity >10 ktpa. Source: BGRIMM.
2. Source: CRU, BGRIMM, SMM, Teck.

Slide 26: China More Important in Global Copper Market
1. Source: China Customs, Wood Mackenzie, BGRIMM, Teck.
2. Source: China Customs, Wood Mackenzie, SMM, Teck.
Focus on China
April 4, 2018
Michael Han, Chief Economist
Michael Schwartz, Manager, Market Research
Lily Lei, Senior Market Research Analyst