OVERVIEW:
Co. reported 2Q17 revenues of CAD2.8b and bottom-line profit attributable to shareholders of CAD577m.
CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Welcome to the Teck Resources Q2 2017 Earnings Call. (Operator Instructions) This conference call is being recorded on Thursday, July 27, 2017. I would now like to turn the conference call over to Fraser Phillips, Senior Vice President Investor Relations and Strategic Analysis. Please go ahead.

Fraser Phillips - Teck Resources Limited - SVP of IR & Strategic Analysis

Thanks very much, Paul. Good morning, everyone, and thank you for joining us for Teck's Second Quarter 2017 Results Conference Call. Before we begin, I'd like to draw your attention to the forward-looking statements 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 statement.

With that, I'd like to turn the call over to Don Lindsay, our President and CEO.

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director

Thanks, Fraser, and good morning, everyone. I will begin on Slide 3 with some highlights on of our second quarter results, and then Ron Millos, our CFO, will provide additional color from a financial prospective. We will conclude with a Q&A session and Ron and I and additional members of our senior management team would be happy to answer any questions.
You may recall that we characterize Q1 as one of the most difficult starts to a year. We believe that our second quarter results demonstrate that the issues experienced during the year are largely now behind us. We set second quarter records for coal production, records for coal sales and for zinc production in Antamina. And with these strong operating results and improving prices, our gross profit before depreciation and amortization was almost $900 million higher in Q2 than the same quarter last year, and we are generating significant free cash flow at current prices.

At Fort Hills, construction is now more than 92% complete and we are 5 months away from first oil. We are being careful in our capital allocation and strictly managing our sustaining and development CapEx.

For more than a year, we have indicated that debt reduction was the priority and we have continued to act on that. With an additional USD 260 million in notes purchased during the quarter, we have now achieved our target of notes outstanding below USD 5 billion. We’re now at USD 4.8 billion, that’s down from USD 7.2 billion. We have also increased returns to shareholders. We announced a new dividend policy in April that doubles our base dividend to $0.20 per share annually and it considers the potential for a supplemental amount in the fourth quarter each year at the discretion of the board and depending on our outlook and future capital needs. We also announced today that our next quarterly base dividend of $0.05 per share will be paid on September 29.

In May, we announced an agreement to sell our 2/3 interests in Waneta Dam for $1.2 billion in cash. In June, we announced the acquisition of Goldcorp’s 21% interest in the San Nicolás copper-zinc project for USD 50 million, which is one of the 5 base metals properties in our Satellite Project. We view this as prudent housekeeping that consolidates control and gives us additional flexibility in advancing the project. We continue to consider all options to generate additional value for our shareholders at each of the Satellite Project properties.

Finally, we were pleased to be named to the 2017 Best 50 Corporate Citizens in Canada, based on 14 different sustainability metrics. It is the fifth consecutive year that we’ve been recognized by Corporate Knights on this list.

Now looking at the overview of our second quarter financial results on Slide 4. Revenue was up 62% compared with the same quarter last year to $2.8 billion, primarily due to significantly higher steelmaking coal prices and also helped by higher zinc and copper prices. Bottom line profit attributable to shareholders was $577 million.

After removing unusual items, adjusted profit attributable to shareholders was also $577 million or $1 per share. That’s a very significant increase from the $0.01 per share in Q2 last year.

I’ll now run through our quarterly results by business unit, starting with Steelmaking coal on Slide 5. Revenues grew by more than $900 million, compared with Q2 2016, again principally due to significantly higher prices. Our realized price doubled to an average of USD 169 per tonne. And as I mentioned earlier, we set second quarter records for both sales and production at 6.962 million tonnes and 6.8 million tonnes, respectively. And this was achieved even though we had an extended winter period in the Elk Valley, with snow that was seen right through to the middle of June.

We elected to advance some of our annual processing plant maintenance shutdowns into the quarter from later in the year to draw down on-site inventories and restore operational flexibility. This resulted in slightly lower production than we had expected and increased our site costs, which came in at $53 per tonne and transportation costs were also up $2 per tonne. But by advancing those plant maintenance shutdowns, this really sets us up for a good run in Q3.

Overall, gross profit before depreciation and amortization was up more than $700 million over the last year’s second quarter.

Looking forward, Q3 sales are expected to be at least 7 million tonnes. And for the full year, we now expect total production to be 27.0 million to 27.5 million tonnes versus the 27 million to 28 million tonnes we had guided to previously. And this reflects stronger production in the second half of the year, given that annual maintenance shutdowns are largely behind us, as I mentioned. Please note that sales could be up to 0.5 million tonnes higher than production for the full year due to inventory drawdowns. And we also now expect site costs to be $49 to $53 per tonne for the full year, and we continue to expect transportation costs the be in the $35 to $37 per tonne range.
Looking at the steelmaking coal market on Slide 6. Cyclone Debbie hit Australia in April, generating panic buying again and resulting in prices exceeding USD 300 per tonne for the fourth time since 2008. The extreme price volatility led to irregular purchasing, and very few transactions were observed in the 5-week period from mid-April to mid-May. After covering short-term requirements, mainly with resold cargoes originally destined to China, and increased supply from North America and Mozambique, customers retreated from the market until spot prices returned nearer to the pre-cyclone levels. As a result, we also experienced weak sales during that 5-week period, slightly reducing volume shipped totally in the quarter.

Cyclone Debbie also delayed the quarterly benchmark negotiations and triggered a change in pricing practice. For coal sold under quarterly contracts, the pricing mechanism has changed from a negotiated quarterly benchmark to an index-linked pricing mechanism based on the average of key premium steelmaking coal spot price assessments effective April 1, 2017. We currently expect our overall realized price relative to the price assessments to be similar to what it has been relative to the negotiated quarterly benchmark, but further changes could still occur.

More recently, we have been seeing good demand for our products, with first-half global crude steel production increasing 4.5% year-over-year and China crude steel production reaching a new monthly record high at 73 million tonnes in June. New supply disruptions are also impacting Australia and U.S. steelmaking coal exports, as a result, spot prices have increased by more than USD 30 per tonne from the lows and they are currently trading well above USD 170 per tonne for the highest-quality products. Actually, USD 178 today.

Turning to our base metal businesses, starting with copper on Slide 7. Production and sales declined from Q2 last year, driven by lower production at Highland Valley as a result of the lower ore grades that have been anticipated in the mine plan.

At the same time, revenue and gross profit were up and cash costs, net of byproduct credits, were down from Q2 last year. And this was primarily due to higher realized prices and substantially higher zinc sales from Antamina as a result of record zinc production there.

Looking forward, copper production is expected to be higher in the second half of the year, gradually improving as the year progresses as grade now starts to improve. There is no change to our production or our cost guidance to the full year.

Our zinc business units are summarized on Slide 8. And as a reminder, Antamina zinc-related financial results are reported in our copper business unit. Revenues were up 21% to $660 million, reflecting the higher zinc prices.

At Red Dog, zinc sales came in slightly higher than guidance at around 83,000 tonnes, as smelters continued to draw down consignment inventory due to tightness in the concentrate market. However, our zinc and concentrate production was down. We had reported last quarter, as you’ll remember, that we had to lower the amount of higher grade Qanaiyaq ore processed due to some metallurgical issues. We expect to be able to include more of this material in the ore feed as we gain more processing experience with it week-by-week.

At Trail, refined zinc production was up primarily due to higher feed rates. Operating disruptions at some mines that supply lead concentrates did impact our refined lead and silver production.

Overall, gross profit before depreciation and amortization was up 50% to $196 million.

Looking forward, Red Dog’s concentrate shipping season commenced in July, with the first sailing on July 4. We expect Red Dog sales of contained zinc to be around 145,000 tonnes in Q3 and 165,000 tonnes in Q4, and that would reflect our normal seasonal pattern. There is no change to our production guidance for the full year.

Now turning to an update on Fort Hills on slide 9. As I mentioned earlier, we are now 5 months from first oil. Construction is now more than 92% complete. 4 of the 6 major project areas have now been turned over to operations, and the focus remains on the completion of the utilities area and secondary extraction. Over 90% of operations personnel have now been hired.

In the second quarter, our share of capital expenditures was $201 million.
As noted in our release, there is a recent disagreement among the Fort Hills partners regarding ongoing funding for the project. What I can say is that with the project 92% complete, logic suggests that it will get built. We remain comfortable with our guidance regarding our $780 million share of Fort Hills cost for 2017. We are not obligated to fund more than our 20% share of project costs. And at this point, I should say that we are not in a position to discuss details of the funding issue, while the matter is under discussion among the Fort Hills partners.

With the expected completion of the utilities component of the project in Q3, Suncor plans to initiate froth production in September. And froth is the product from the primary extraction plant at Fort Hills. It will trucked to Suncor’s Base Plant for further processing until the last component of the project, that is the secondary extension area, is completed. And this will allow for the majority of the plant to be fully commissioned and operating when the secondary extraction plant starts operation later in the year. The focus of commissioning will then be able to shift secondary extraction at that time.

And with that, I will turn it over to Ron for additional color from a financial perspective.

Ronald A. Millos - Teck Resources Limited - CFO and SVP of Finance

Thanks, Don. Slide 10 summarizes our second quarter pricing adjustments. And overall, we had $3 million in negative adjustments this quarter compared with $1 million in negative adjustments in the second quarter of 2016. The adjustments are small in both of these quarters as copper and zinc prices did not change much during the quarters. And these adjustments are included in our income statements under other operating income and expense.

The chart on the left represents a simplified relationship between the change in copper and zinc prices and the reported settlement pricing adjustment, and continues to provide a good estimate each quarter. And in the second quarter, our pricing adjustments is right on the line as suggested by our model.

Moving on to Slide 11, we've summarized our changes in cash. Our cash flow from operations was $1.4 billion in Q2. And please note that this includes USD 144 million of provisional pricing payments made by our coal customers on second quarter sales, which will be refunded to our customers in the third quarter now that there's clarity on the second quarter coal price.

Proceeds from the sale of investments and the other assets totaled $13 million. We repaid a total of $382 million in debt in the quarter in Canadian dollar terms, which included the repurchase of $260 million principal amount of outstanding notes that Don mentioned earlier.

We spent $329 million on capital projects, including Fort Hills, and capitalized stripping costs were $173 million. And we also paid $87 million on interest and finance charges and $58 million in dividends.

After these and other minor items, we ended the quarter with cash and short-term investments of around $850 million.

Our liquidity remains strong at $4.5 billion, including our current cash balance of $930 million, and that's net of the refunds that we expect to provide to the customers for the steelmaking coal settlements and also includes the undrawn USD 3 billion credit facility that we have.

Moving on to the next slide, looking at an update on our debt reduction. As Don mentioned earlier, we've achieved the target that we had set, reducing our outstanding notes to below USD 5 billion. We currently have USD 4.8 billion in public notes outstanding, which represents a substantial USD 2.4 billion reduction from what was outstanding in September of 2015.

As a result, our debt to debt-plus-equity ratio is now down to 26% and our debt to adjusted EBITDA ratio is about 1.2%, and that's well into investment grade territory. Our net debt to debt-plus-equity ratio is currently 23% without taking into account proceeds from the Waneta transaction. And this meaningful progress that we have made in reducing the debt and our strong free cash flow were noted by Moody’s when they upgraded our debt by 1 notch to Ba2 with a stable outlook last week.

And it’s important to note that we've deliberately managed our debt profile to ensure that we have very little debt due before 2021, which covers the majority of the QB2 construction period if that project ultimately goes forward.
So going forward, we may continue to reduce debt on an opportunistic basis depending on our view of the outlook and commodity prices in the near future.

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

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director

Thanks very much, Ron. So in summary on Slide 13. I'm very excited about the outlook for the second half of the year and beyond. We’re set up particularly well for Q3.

We have overcome what was a very difficult start to the year and set second quarter production records for coal and zinc.

We are generating strong free cash flow at current prices, and as the world's largest net miner of zinc, we have exposure to the potential upside in what we believe remains a very tight market.

First oil from Fort Hills is now only 5 months away.

And we are in a solid financial position for the future. We have achieved our target for debt reduction. And really importantly, we've eliminated essentially all of our note maturities out to 2021. So in 2017, 2018, 2019, 2020, essentially all the maturities are gone, and even in 2021, it's only a little bit over USD 200 million. We currently have over $4.5 billion in liquidity.

And with that, we'll be happy to answer your questions. And please note that some of our management team members may be on the line at different locations. Well, in fact, they are on the line in different locations, so there may be a brief pause after you ask your questions as we sort that aspect out. Back to you operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Chris Terry from Deutsche Bank.

Christopher Michael Terry - Deutsche Bank AG, Research Division - Research Analyst

Just interested in Red Dog with the Qanaiyaq ore and how that's going. Did you learn much over the quarter on the recovery side? Or is it more just about managing the blend of it going forward?

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director

Thanks. I guess I'll turn that over to Dale Andres on the line.

Dale E. Andres - Teck Resources Limited - SVP of Base Metals

Thanks, Chris. We did scale back in the second quarter after our experience in the first quarter with the amount of Qanaiyaq ore. The average percentage of that ore feed in the first quarter was kind of in the 18% to 20% range. We scaled that back to 10% or 11% in the second quarter, and the process did stabilize. Obviously, the grades were similar and a little bit lower as a result of that. But the ore does get better and less weathered as we progress through the new pit at depth. And we're starting to trial some blends going forward in the second half at a little bit higher grade. So we're encouraged by the progress in the second quarter. But right now, it’s still a metallurgically complex ore and we'll have to work our way
through that in the third and fourth quarters through this year. But quite hopeful and confident that we're going to be able to increase that as we go deeper.

Christopher Michael Terry - Deutsche Bank AG, Research Division - Research Analyst
Okay. And then just following up on the operational side, on the coal, you mentioned some geotechnical issues there. You've obviously given stronger guidance for the second half. So is that all behind now or still could push into Q3? Or where are those 2 issues at?

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director
Okay, I'll turn that over to Robin Sheremeta.

Robin B. Sheremeta - Teck Resources Limited - SVP of Coal
Thanks. Yes, they're not significant issues. There are 2 different geotechnical challenges we have, mostly up at Cardinal River, so it's pretty much isolated to one mine. Those issues can delay some of the release of coal at that particular mine site, but we've got capacity to make up some of that shortfall at the other mine sites. So on balance, I'm not too concerned about the issues we have. But they can, from time to time, disrupt some of the shorter-term release of coal.

Operator
The next question is from Matt Murphy from Macquarie.

Matthew Murphy - Macquarie Research - Analyst
I was wondering if you could elaborate a little bit on your thoughts on capital allocation now given since Investor day in Q1 we've had the additional financing from Waneta and we've got met coal rallying again. So pretty good free cash flow outlook and you've achieved your debt targets. So just wondering how you're thinking about dividend versus go even more conservative on the balance sheet versus your growth options, whether organic or acquisitions, your thoughts there.

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director
Okay. That's a fairly broad question, I'll try and break it down in sort of 2 or 3 sections. So first on Waneta, the deal won't close for some time yet. The earliest it might close would be the end of this year. And of course, depending on who the ultimate buyer is. You'll recall that while we have the transaction with Fortis, BC Hydro does have a right to first offer, and just working through that process. Now -- so depending on who it is, it might not go into next year before it closes. So that additional capital until it's on the balance sheet, I'm not going to spend it until we see it, or that you'll understand just our approach there. In terms of dividends, the November board meeting is when we would look at whether there is a supplemental dividend. That is the policy to look at once a year. And it's a board decision and depends on the outlook for the operations, for commodity prices and future capital needs. And the third part of your question on capital allocation. We're continuing to move ahead on permitting for QB2. We're encouraged, but we aren't expecting to have it until first half of next year. Hopefully, the earlier part of that first half. But we still have to work through that process. And as you know, those timelines have been unpredictable in the past and so we don't know if it'll be on that schedule or later, or in fact, even earlier. So I think we'll just kind of working through all those issues first before making any key decisions. I can say that -- to the extent that you mentioned acquisitions, we don't really see anything out there that's good value to be able to buy in the public markets. It always depends on what your outlook for commodity prices are. But even if you assumed a USD 3 copper price long term, it's tough to make the numbers work. And also, one of our key criteria, which I've talked about before, is mine life to pay back. And when you look at that ratio, most of what's out there trading publicly that would be in a size that we could manage, it doesn't really measure up on that key ratio. So we don't see much going on there. In terms of our project portfolio, we're very pleased with how our portfolio looks relative to competitors.
And that we have actually 4 projects between Quebrada Blanca 2, NuevaUnion, Zafranal and San Nicolás that, depending on how things proceed with regulators and so on, but all 4 are actually things that you could see built; if everything went perfectly, within a 5-year time frame. I don’t think there are many companies in that position. Our highest priority is QB2, as we talked about before, and we’re devoting a lot of energy towards that, but we don’t know exactly when it will be permitted. So that’s clearly a long answer, I hope I touched on the various parts of your question. But capital allocation is clearly the most significant factor that the board looks at, and we will continue to look at it quite intensely.

Operator

The next question is from Greg Barnes from TD Securities.

Greg Barnes - TD Securities Equity Research - MD and Head of Mining Research

Don or Réal, if he’s on the phone. Given the volatility in the coal prices, where do you feel the equilibrium price? I’m not talking about the incentive price long term or things like that, just where you think the equilibrium price for the market actually is?

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director

Well, Réal is sitting right beside me, so I’ll let him start. And depending on what he says, I may have something else.

Réal Foley - Teck Resources Limited - VP of Coal Marketing

Yes, thanks, Greg. That’s a good question, one that we’re being asked quite often. And quite frankly, it’s a bit tough to come up with a specific price range. What I can say is, this year or in the last couple of months especially, we’ve seen a lot of volatility again but prices corrected maybe too much too quickly when they went to around the USD 140 level. Because if we look at the demand and supply side, I mean, it’s a bit of a story of both demand and supply that the price is where it is today. So on the demand side, crude steel production is up about 4.5% in the world and growth rates are very similar in China and outside of China. And China itself is importing nearly record levels. And if you look at seaborne year-to-date June, at 25.1 million tonnes, that's 4 million tonnes year-over-year higher. And then other market areas are also doing really well in terms of demand. On the supply side, Australia May year-to-date exports are down by 12 million tonnes and that's mainly due to Cyclone Debbie. But at the same time, U.S. and Mozambique exports are up 6 million tonnes and 2.5 million tonnes, respectively, for June year-to-date. But with that being said, Australia is recovering quicker than expected, and we're still seeing some supply disruptions in some of the areas, whether it's Australia or U.S. So there is still supply issues. Demand continues to be strong. Will the price stay at the levels that it is right now? Assessments are now sitting in the high USD 170s, just under USD 180, actually. I'm personally actually a little bit surprised by the level that they have gone to. I would've thought they would have been maybe a little bit lower than that. I thought the USD 140 was probably a little bit too low, but kind of somewhere, I guess, below the USD 170 level is what we were expecting to see. Don?

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director

Yes, and maybe the way I would phrase it, I don't dispute anything that Réal said. As in the past, I've said that the range of USD 140 to USD 160 seems to make some sense because it translates from the announced policy that the Chinese government NDRC has on what they want to do with thermal coal and it just goes back to the principles behind that, that they do want to have a profitable coal business in China. One of the big issues there is just the sheer amount of debt that, that coal industry carries. It’s actually measured in percentage points of GDP, and I saw one aspect number as high as 8%. And they want the companies to be able to service those loans and maintain employment and so on. So if they're managing thermal coal price to the range we announced, that translates to a met coal price of USD 140 to USD 160. That doesn't mean that it can't spike down below the USD 140 to USD 125 or something. And likewise, it doesn't mean it can't go above 160, which it currently is. But that seems to be the range that they want to manage. We don't see these really low prices that some of the analysts are calling for, down to USD100 or below, just because of the cost curve and what we witnessed the last time where the shutdown started to take place was significantly above that. And so that's the range we come to an end, USD 140 to USD 160. And at those levels and even with the increased Canadian dollar, that...
translates into a very healthy price for us and very strong cash flows. So that's the view from here.

Operator

The next question is from Orest Wowkodaw from Scotiabank.

Orest Wowkodaw - Scotiabank Global Banking and Markets, Research Division - Equity Research Analyst of Senior Base Metals

A question. I was looking for a bit of color on Fort Hills. Specifically, your CapEx estimate for this year went up by about $140 million from your release last quarter. Should we interpret that as a capital cost inflation? Or is that just an advancement of planned spending for 2018?

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director

I will turn that over to Tim Watson. I may have an additional comment after.

Timothy C. Watson - Teck Resources Limited - SVP

Yes. Thank you very much. I think the number here, the increase from the $640 to the $780 is a couple of things. It's associated with some sort of ongoing pressure in terms of the field labor productivity issues, which we continue to see. And also, there is a concerted effort to try to get as much of the construction completed within calendar year of 2017, to ensure that we have minimal construction required to complete in 2018.

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director

Yes, and I guess the part I would add to that, last point is really important because if you ended up having the project delayed for first oil into 2018, every month is very significant, fixed cost that you'll be carrying and that would really drive the project cost higher. So really all efforts are to get things done for first oil in December. I should say that Suncor is really the spokesperson there, the operator. And they earlier had a conference call. And I can say, earlier today on the Suncor call, Steve Williams said that the situation will not have any impact on the overall capital cost or the timing of the Fort Hills project. So they're obviously quite positive on the project, as are we.

Orest Wowkodaw - Scotiabank Global Banking and Markets, Research Division - Equity Research Analyst of Senior Base Metals

Okay. And I just have a follow-up, you mentioned earlier in your opening remarks that your position is that you don't need to fund more than a 20% proportionate share of Fort Hills. Does that imply that you've been asked to fund more than 20%?

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director

No. And I should say again, as I said in the opening comments, we aren't in a position to really discuss the details of the funding issue while this matter is under discussion. And I really have to leave it at that.

Operator

The next question is from Timna Tanners from Bank of America Merrill Lynch.
Timna Beth Tanners - BofA Merrill Lynch, Research Division - MD

I just wanted to revisit the topic earlier of capital allocation in light of obviously the improved commodity price outlook, very good debt reduction and the revenues or income that you should be expecting over the next 6 plus months. Have you been at all tempted to consider additional growth projects? Or can you give us above and beyond what you’ve talked about? Or you’re sticking to kind of the ones that you’ve talked about? If you could just elaborate on any possible areas of interest beyond what you've discussed in the past, given the improved results.

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director

Yes. So the short answer is the latter. We haven’t been tempted by anything as yet. It is true that in the normal course we identify opportunities and we have opportunities shown to us frequently by other companies and banks and so on. We do, as a matter of normal course, evaluate all of those things. Andrew Golding and his department are busy all the time. And Andrew’s nodding his head, I think, looking at all these things. But really, really nothing has sort of made it through our screen that would tempt us at the moment no matter how much cash we have. If coal prices were still USD300, I don’t think we’ve seen anything that would make a difference. So we continue to work away on QB2. We continue to partner with Suncor getting Fort Hills done. And we’ll keep looking at all these things and always measuring our current in-house opportunities against things that are out there. But particularly, because like in QB2’s case, we control the schedule. We own 76.5% of it. So if there was something better, then we could defer QB2 and go onto that. But right now, nothing’s on screen.

Timna Beth Tanners - BofA Merrill Lynch, Research Division - MD

Okay, that’s helpful. Can you elaborate also on the situation in Highland Valley and the potential for strike there? Just give us more of an update?

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director

Yes, I'll turn that over to Dale Andres.

Dale E. Andres - Teck Resources Limited - SVP of Base Metals

Yes, there was a strike vote held by the union earlier this month. We’re still in active discussions and negotiations. And because of that, I really don’t want to comment any further, as you could probably understand.

Operator

The next question is from Lucas Pipes from FBR and Partners.

Lucas Nathaniel Pipes - FBR Capital Markets & Co., Research Division - Analyst

So Réal, Don, typically you realize about 92% of the benchmark in coal. And now with quarterly benchmark system effectively being replaced with an index, how would you recommend we model the average selling price? I assume it’s still an 8% discount, but there’s been some volatility in the market. I wanted to make sure that we capture all those aberrations correctly.

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director

Over to Réal.

Réal Foley - Teck Resources Limited - VP of Coal Marketing
Thanks, Lucas. So at this point we’re expecting that our realized price will be within our historical range. And the only difference will be, instead of comparing to the quarterly benchmark, we will compare to the key premium hard coking coal price assessments. And just to add a bit of color on the mechanism. The majority of our quarterly price contract sales are based on the actual quarter lagged by 1 month. So what that means is that for Q2, for instance, the price is based on the average of the March 1 to May 31 period. Another important point is that those -- that the relationships with the customers have not changed and the contracted volumes for coal have not changed either, so we still have similar visibility on those volumes. The only thing that’s changed is the pricing mechanism. And as we’ve guided before, we have around 40% of our book that is priced on a quarterly basis.

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director

Réal, can I just ask you to comment -- I know the folks on the phone have models and they’re looking out past sort of the next quarter. As we get into next year and we stop mining at Coal Mountain and that production is made up at the other sites, how do you see the discount to the average price assessment evolving then?

Réal Foley - Teck Resources Limited - VP of Coal Marketing

So we have capacity at the other mines to replace the production from Coal Mountain. Coal Mountain produces mainly lower-grade material. And production from our other mines, we’re in the process of looking at what that product release will look like. And so it’s a little bit early to say exactly what impact that might have on our realized price for next year, Don, but we’re looking at that very carefully, very closely between now and the end of 2017.

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director

Okay. So we’ll be back here with further details on that in the next quarter or so. The main point being that the lower-quality coal will deplete and we’ll stop buying that, we do have higher-quality coal at the other sites, but they’re all -- there are other factors that affect the pricing of those products.

Lucas Nathaniel Pipes - FBR Capital Markets & Co., Research Division - Analyst

That’s an interesting point. And may be to just peel the onion on that just one layer or so. If you look at your product -- and I know you do a lot of blending and mixing and such, but if you were to look at the discount versus the benchmark excluding Coal Mountain today over the past year, what would that discount has been? 5%? Or 4%? Or where would you put that?

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director

That’s a very good question, Lucas. I’d be guessing at an answer right now. I mean, the realization should be higher, but again, we need to complete our work, looking at which products are going to replace the Coal Mountain production.

Lucas Nathaniel Pipes - FBR Capital Markets & Co., Research Division - Analyst

Okay, well, but that’s something valuable to keep in mind. And maybe one last question, still on coal sales and marketing. I think there was a headline or report out over the past 3 months that referred to you speaking to the Indian market more and more actively. Is that something that you’re targeting? That you’re maybe looking for further inroads and opportunities? And how could that impact your longer-term outlook on the market?

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director

Okay, thanks, Lucas.
Yes, there were several headlines related to our visit. We had the Minister of Steel from India and the senior executives from Sail, the national steel producer, visit our sites earlier this month, I guess it was. And it seems to get into the press, but not from us. But we have an ongoing dialogue there. Our sales to India have increased quite a bit over the last 3 years. Clearly, the government of India has big plans for steel production, with a target of up to 300 million tonnes of annual steel production, which of course would require a large amount of steelmaking coal to be imported, given that they don’t have much themselves currently. So we’re optimistic about that. It of course does have increased transportation cost from here. But clearly, the customers want to diversify their sources and they value the reliability that we can provide. So we’ve had significant interest there. And I’ll just turn it back to Réal in terms of our outlook for what percentage of our coal sales might go to India this year going forward.

Réal Foley - Teck Resources Limited - VP of Coal Marketing

So thanks, Don. We started selling coal to India back in 2011. And we’ve been increasing sales annually into that market to the point where it now represents somewhere around 10% of our book or so. The fact, like Don said, that India is the largest growth market for seaborne, hybrid steelmaking coal is a market that we have a lot of interest in and we’ve invested time and efforts to continue developing, both with the privately-owned steel mills and the government-owned steel mills.

Operator

The next question is from Fawzi Hanano from Berenberg.

Fawzi Hanano - Berenberg, Research Division - Analyst

I have a couple of questions. Firstly, on CapEx. Just looking at your sustaining capital, it’s tracking well behind the annual guidance of $530 million. I just wanted to know if you’re expecting to recoup some of that into second half. And how on aggregate that plays in along with the increase in CapEx for Fort Hills as well as development of the Baldy Ridge towards your $2.2 billion initial CapEx guidance? And my second question would be for Ron, regarding cash tax. Looking at the cash tax paid of close to $300 million, which was the highest in quite a while north of very close to the P&L tax provision. Why wasn’t it reduced more by the available tax pools like in previous periods?

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director

Okay, Ron, over to you.

Ronald A. Millos - Teck Resources Limited - CFO and SVP of Finance

Okay. I’ll take on the cash taxes first. So the cash taxes -- it’s very difficult to pick a number because the payments made reflect the installments that we have to make for 2017. They will also include the settlement of additional payments that might be required or audits from the various tax regulators. And they will also include the final tax payments as we file our tax returns for the various countries for 2016. So the numbers can actually go all over the place. Buried in the cash tax numbers will be any refunds we might get from overpayment. And particularly, in South America, the installments can be based on revenue or prior year’s earnings, so that the numbers can swing quite wildly depending on what the requirements are in those countries. So it’s hard to give a number on exactly what the cash taxes will be. The other thing is we do have to pay the mining taxes in Canada. They are not sheltered by the tax pools. On the CapEx, the CapEx is -- generally, it’s somewhat back-end loaded in all of our years. In most of our operations, particularly, in the Northern Hemisphere, you’ve got the winter weather conditions, so it can be difficult to spend a lot of money in the earlier part of the year. But there will be catch-up in the latter half of the year.

Operator

The next question is from Alex Terentiew from BMO Capital Markets.
Alex Terentiew - BMO Capital Markets Equity Research - Analyst

I just got one follow-up question here for Réal on the timing of coal sales. I understand over the past year or so when we've had some of these spikes, you noted how sales volumes have gone down and the volumes have picked up when the prices have come back down. Is there a price below which you're seeing that buying interest stop? I mean, over the past couple of weeks, we've had coal prices go back up from, call it, USD 150 or so back to USD 170, USD 180 almost. So are you seeing a constant level of buying interest? And just there's a -- the timing of sales has a big impact, obviously, on your -- on the price that you realize relative to the new index-linked pricing mechanism.

Réal Foley - Teck Resources Limited - VP of Coal Marketing

So thanks, Alex. At the current pricing levels and the fact that the crude steel production has increased 4.5% year-to-date and demand is good in the market and we're seeing regular purchasing at this time. The irregular purchasing that we described happened when the price spiked very quickly following Cyclone Debbie. And then as soon as customers had covered their short-term requirements, there were very few transactions in a period of about 5 weeks until prices returned to somewhere near to the pre-cyclone levels. But at the levels where prices are right now, we're seeing demand from most market areas in the world. On the timing of sales, so overall in our book we have a variety of pricing arrangements. Some are index-linked directly. Actually, a larger portion now are index-linked. And some others also are negotiated on a fixed-price basis. So when we negotiate a fixed price, of course, it's the fixed price at the time of negotiations and we end up negotiating somewhere between 30 and 45 days before that coal will load on vessels because we need to allow time for the vessels to arrive. So you're quite right in that the timing of the sales impacts especially those fixed-priced sales.

Operator

There are no further questions registered at this time. I would now like to turn the meeting back to Mr. Phillips.

Fraser Phillips - Teck Resources Limited - SVP of IR & Strategic Analysis

Don, I'll turn it over to you for any closing remarks.

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director

Thank you. Thank you all for joining us this morning. I think it was a really solid quarter. I'm particularly pleased that we were able to advance the maintenance into the second quarter. So it sets us up for a really good Q3 and Q4. Second half of the year should be very solid as well. and we're starting with pretty solid prices in each of coal, copper and zinc and a very, very tight zinc market. So I'm feeling pretty good about the position the company is in and where the balance sheet is. And with essentially no debt due into 2017, '18, '19 and '20, it's a pretty good position. So we look forward to speaking to you in October.

But I do want to say that today is Greg Waller's last quarterly call. And Greg, of course, has been with us for 33 years. And as you all know, he's retiring at the end of September. I just want to say a special thank you on behalf of all of my colleagues and on behalf of all of you on the phone to Greg Waller for a terrific job done over many years. I don't know how many of these quarterly calls you've done, Greg, but I'm sure it's over 50 or 60.

Gregory A. Waller - Teck Resources Limited - SVP of IR & Strategic Analysis

50 or 60 now, I think.

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director

It must be getting up there. Greg, of course, has been one of the best in the business for many, many years and, in fact, in the last year or so has
won 2 key awards, the Belle Mulligan Award for Leadership in Investor Relations to recognize individuals who've shown singular leadership in one or more aspects of the practice of Investor Relations. And this year, he also won the CIRI Fellowship, which is the highest honor for Investor Relations professionals in Canada. I think it recognizes just the dedication and innovation, creative thinking that Greg’s put to this really crucial function for any public company. It’s certainly been very crucial for Teck. I just want to say a special thank you to you, Greg. You are absolutely a terrific friend to all of us, a terrific colleague and just a true class guy. Thank you, very much, Greg, for many years of dedicated service.

Gregory A. Waller - Teck Resources Limited - SVP of IR & Strategic Analysis

Thank you so much, Don. And it has been a great 33 years. And particularly, the last 12 years with this management team has been a real pleasure. And thanks to some of those who have retired over the last few years, who hopefully might be listening today. And I want to say a thank you to those that I’ve had the pleasure of working with including this management team. Thank you so much for those kind words.

Donald R. Lindsay - Teck Resources Limited - CEO, President & Director

Thank you, Greg. And thank you all on the phone. We look forward to speaking to you in October. Bye now.

Operator

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