OVERVIEW:
Co. reported 1Q16 revenues of CAD1.7b and profit attributable to shareholders of CAD94m.
Welcome to Teck Resources Q1 2016 earnings call. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. This conference call is being recorded on Tuesday April 26, 2016. I would now like to turn the conference call over to Greg Waller, Vice President Investor Relations and Strategic Analysis. Please, go ahead.

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

Thanks very much, operator, and good morning, everyone, and thanks for joining us this morning for our first quarter 2016 results conference call. Before we begin, I'd 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 and 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.

Don Lindsay - Teck Resources Limited - President & CEO

Thanks, Greg, and good morning, everyone. I will begin with a brief overview of our first-quarter results and then Ron Millos, our CFO, will provide additional color from a financial perspective. We will then conclude with a Q&A session where Ron, myself and several additional members of our senior management team would be happy to answer any questions.
The near-term priorities that we set out in February when we reported our fourth-quarter and full-year 2015 results have remained our focus in the first quarter. All of our mines were cash positive with the exception of Pend Oreille, which is ramping up production after a restart. And when I say cash positive, that means it is after sustaining capital and capitalized stripping.

Now, this is a reflection of our cost management program. Unit costs are down in each of our coal, copper and zinc business units. Construction on the Fort Hills project continues to progress well. We funded our share of the project capital from cash in Q1 and our target for the full year is to fund all of our share of the project capital's expenditures internally. In total, there's only $1 billion currently remaining to project completion.

Our liquidity remains strong at over $5 billion, with our current cash balance of $1.3 billion and undrawn US$3 billion committed line of credit.

Looking at an overview of Q1 results on slide 4, compared with the same quarter last year, revenue declined 16% to $1.7 billion, primarily due to lower prices for all of our principal products. Overall, gross profit before depreciation and amortization was $464 million, and bottom-line profit attributable shareholders was $94 million. After removing unusual items, adjusted profit attributable to shareholders was $18 million or $0.03 per share.

Touching on some operational highlights from the first quarter on slide 5, our operations continue to perform well. The key story is cost management, which I touched on earlier. On a USD basis, total cash unit costs including capitalized stripping were US$68 per tonne for coal, that's down US$12 per tonne from Q1 last year. Copper cash unit costs including capitalized stripping are currently US$1.49 per pound, and that's down US$0.26 per pound from the same period last year. And this reflects the impact of our cost reduction program, as well as a weaker CAD and lower oil prices compared with the same period last year.

Turning to slide 6, and running through some additional highlights and the market outlook by business unit, starting with steelmaking coal, coal sales were higher than we originally expected as demand strengthened towards the end of the quarter. However, the coal price was lower in the first quarter, reflecting market conditions in December when the Q1 benchmark price was struck. On a CAD basis, our average realized price was down $26 per ton to $102.

Production was down slightly, consistent to being weighted more heavily to the second half of the year as we had indicated last quarter. However, Line Creek had record quarterly production, and Elkview and Greenhills both set new first-quarter production records. The water treatment facility at Line Creek is now achieving 100% of its designed target, so we are very pleased with that.

Our cost reduction efforts continue to produce significant results in coal, helped by lower diesel prices. In CAD terms, we lowered site costs by $6 per tonne and transportation costs were down $2 per tonne. Looking forward to Q2, coal prices have been agreed with the majority of our customers based on US$84 per tonne for the highest quality products, and we expect total sales of at least 6.5 million tonnes. We also expect that our Q2 realized price will reflect a smaller discount to the benchmark price, and as spot price assessments are currently significantly above the quarterly contract price.

Looking at slide 7, the outlook for steelmaking coal market has improved in the last two months, quite significantly. The quarterly contract price of US$84 per tonne represents the first increase since Q3 2013. Spot price assessments have continued to rise since that price was set in mid-March, and are now significantly higher than the benchmark price. Remember every US$1 increase in coal price generates around $35 million in additional EBITDA for us, depending, of course, on exchange rate and sales volumes.

The market continues to get closer to being balanced. On the demand side, hot metal production improved in March with hot-rolled coil prices rising 20% to 55% from the lowest at the end of 2015 or early 2016. Coking coal demand from a number of market areas, including China, also appears to be improving. The March numbers issued last week show Chinese imports of coking coal rebounded to over 5,000,000 tonnes in the month, and in fact, they were up 73% so far for the first quarter this year. On the supply side, closures of uneconomic mines have continued, as the US coal companies work their way through bankruptcy proceedings. And then recent weather issues in Australia also seemed to have disrupted more production than was originally understood.

In addition, there have been announcements in China that are supported to steelmaking coal. A severe mining accident has focused the government on health and safety issues, resulting in a one-month production halt at some Shanxi mines that could potentially eliminate some capacity. And importantly, the government has also requested mines to cut operating days from 330 days per year to 276 days, as part of a supply-side reform. This has reportedly created coal supply tightness in the domestic market. Longer-term the 13th Five-Year Plan calls for total coal capacity to be significantly reduced as part of the rationalization of the coal and steel industries. And again, this would be positive for seaborne coal.

We are encouraged by these developments, which have driven the recent improvements in coal price assessments that have finally broken the US$100 mark. We're excited about that.

Turning to our base metals business, starting with copper on slide 8, compared with Q1 last year, revenue was down due to a substantially lower realized price, even
though sales volumes were up.

Copper production was up overall, with higher grades and recoveries at Antamina, and higher mill throughput at Highland Valley and Andacollo. This was partially offset by lower production at Quebrada Blanca.

Our cost-reduction efforts have also produced significant results in copper, C1 unit costs, net of byproduct credits were down US$0.24 to US$1.29.

Looking at the copper market on slide 9, consensus estimates of the oversupply for 2016 is small at 300,000 to 400,000 tonnes. This typically incorporates a disruption allowance of around 6%, based on a 20 million tonnes of global production plans. An additional 2% of disruption would eliminate the surplus completely. Historically, annual disruptions have actually been 7% to 9%. In 2015 disruptions were at the top end of historical range at 8.5%. Year to date, we are already at around 5%, but that is before the impact of more recent news out of Chile.

Post 2016, new mine supply declines significantly. Little new capital has been committed to mine development over the past three years. Consensus estimate is that the market will move into a significant deficit beginning in 2017. Copper inventories on the terminal markets are not substantial at around 500,000 tonnes on a combined basis, which is less than two weeks of consumption.

Every US$0.01 per pound change in copper price impacts our EBITDA by $9 million, again, depending on exchange rates and sales volumes.

Our zinc business unit results are summarized on slide 10. And please note that Antamina's zinc-related results are reported in our copper business unit, as zinc is considered to be a byproduct.

Revenues were down, with lower sales volume from Red Dog due to timing of shipments and a lower-realized zinc price.

Zinc in concentrate reproduction, though, was up due to higher zinc grade and higher throughput at Red Dog. Refined zinc production was also higher, reflecting good operating performance at Trail.

Overall, gross profit before depreciation and amortization was down due to the lower average zinc price.

On slide 11, the zinc market is poised for change due to rapidly depleting inventories. A supply-demand imbalance has been in place since around late 2012, and it has recently accelerated due to additional mine closures. Around 1.5 million tonnes of capacity has been removed from the market over the past three years. At the same time, demand growth remains positive and is expected to outpace supply curtailments.

There's been sufficient inventory to fund the deficit to date, but that may not continue for much longer. We will likely see combined terminal market stocks go below the 600,000-tonne level within the next month. Zinc metal stocks could be at critical levels within the year.

The market tightness should also continue to draw out additional unreported stocks, as we have seen recently. It has also moved treatment charges significantly in favor of the mines.

A major portion of the concentrates imported to China last year is simply not available this year. To source the same number of zinc units, China will be forced to import zinc metal instead. And this shift has already started, as reflected in the import numbers of the past few months. The March numbers issued last week show net imports of zinc concentrates are down 30% from Q1 last year, as you would expect, and net imports of zinc metal are up almost 200% year to date.

Every US$0.01 per pound increase in the zinc price generates an additional $14 million of EBITDA, again, depending on exchange rates and sales volumes.

Turning to an update on Fort Hills on slide 12, the project continues to track closely to plan. We are now more than 55% through construction. Modularization programs are due to reach their peak activity in Q2.

Our share of the remaining CapEx to project completion is currently $1 billion. We look forward to the completion of the project in the second half of 2017 and the additional earnings in cash flow that we expect it to generate.

With that, I'll turn it over to Ron Millos
Ron Millos - Teck Resources Limited - SVP, Finance & CFO

Thanks, Don. I've summarized our changes in cash for the quarter on slide 13. Our cash flow from operations and working capital was $373 million.

On the outflow side, we spent $298 million on capital projects, including Fort Hills. We also paid $215 million interest and principal on our debt. Our capitalized stripping costs were $159 million and the effect of exchange rate changes on our cash and cash equivalents was a reduction of $97 million.

After these items, proceeds from sale investments and other assets, expenditures on financial investments and other assets, and distributions to non-controlling interests, we ended the quarter with cash and short-term investments of around $1.5 billion, and are now, as Don mentioned earlier, at about $1.3 billion.

This is consistent with our year-end target for a cash balance of greater than $500 million, and for our US$3 billion credit facility to remain drawn. That assumes our budgeted commodity prices and exchange rates and that we meet our 2016 guidance for production costs and capital spending. It also assumes that we maintain our existing US-debt levels and have no unusual transactions.

Moving on to the next slide, our first-quarter pricing adjustments are summarized on slide 14. We had positive pricing adjustments for the first time since the second quarter of 2014, and that's all due to the rise in the prices for our key commodities since the end of 2015.

We had $27 million in positive pricing adjustments compared with a negative pricing adjustments of $44 million in the same quarter last year. Please note that these adjustments are based on the change in the quarter end prices, as opposed to averages. Copper was up US$0.06 per pound from the end of 2015 to the end of Q1 of 2016, and zinc was up US$0.08 per pound in the same period. And these adjustments are included in our income statement under Other Operating Income and Expense.

The chart on the right represents the simplified relationship between the change in copper and zinc prices and the reported settlement adjustment. It usually provides a good estimate of our pricing adjustments each quarter. In the first quarter, settlement adjustments were right on the line.

And as a reminder, our refining and treatment charges in the CAD-USD exchange rate should be considered in your analysis of the impact of price changes in the adjustment, and you should also consider taxes and royalties when analyzing the impact on our profits.

Turning to the balance sheet and liquidity on slide 15, Teck is in solid financial position with over $5 billion of liquidity as of today. We currently have roughly $1.3 billion in cash, and no debt due until 2017. Further out, our average maturities are less than US$600 million per year.

In the first quarter we have drawn an additional US$45 million on the US$1.2 billion facility, taking that total up to US$785 million, and our revolving credit facility of US$3 billion remains undrawn at this time.

As a reminder, 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%. We are well below our 50% debt-to-debt equity covenant at 35% at the end of March, and our net debt-to-net-debt-plus-equity ratio was 31%.

And with that, I will turn it back to Don.

Don Lindsay - Teck Resources Limited - President & CEO

Thanks, Ron. So, in summary on slide 16, our near-term priorities are currently: first, keeping all of our operations cash flow positive; second, funding the 2016 portion of Fort Hills from internal sources; and then third, maintaining a strong financial position, including our 2016 targets for a year-end cash balance of more than $500 million and for our US$3 billion credit facility to remain undrawn. And we are tracking to those goals.

With that, we'd be happy to answer any questions. I do want to say that some of our management team members are on the line in different locations, so there may be a pause after you ask the question as we sort out who's going to answer that particular question.

Thank you.
QUESTION AND ANSWER

Operator

Thank you. We will now take questions from the telephone line. (Operator Instructions). Please limit your inquiries to one question plus a follow-up question. After that if you have further questions please rejoin the key. There will be a brief possible the participants register. Thank you for your patience. The first question is from Sasha Bukacheva from BMO Capital Markets. Please go ahead.

Sasha Bukacheva - BMO Capital Markets - Analyst

Morning everyone and congratulations on a strong quarter. Wanted to ask a question regarding your plans for QB2. I understand your targets are for an SEIA submission by the end of the year so it would be helpful to get some of your thoughts on timing, copper price that might be required for the go-ahead decision, if I recall the last capital estimate was over $5 billion, what it might contain contribute your portfolio with respect to copper volumes and when it might go into production. Thank you very much.

Don Lindsay - Teck Resources Limited - President & CEO

Okay. I'm going to turn it over to tell Dale Andres, the head of our base metals operations.

Dale Andres - Teck Resources Limited – SVP, Base Metals

Thanks. We are targeting submitting the SEIA in the second half of 2016. There will then be a process and a sanction decision would not be before the end of 2017. First production would be towards the end of 2025, assuming it goes forward at that time. Far as copper production, the first 10 years would be an average of 240,000 to 250,000 tonnes per year of copper contained and that is good-quality concentrate and relatively low cash costs as well. We are still working on the final details for SEIA submission and on track to submit that in the second half of the year.

Sasha Bukacheva - BMO Capital Markets - Analyst

Okay, Dale, do you have a sense of the copper price required to make a go-ahead decision, or the range depending on where you think you could go with the CapEx and operating costs?

Don Lindsay - Teck Resources Limited - President & CEO

-- We have had a revision to the project and changes to the scope for example how we're going to be handling the tailings. That's going to reduce capital cost quite substantially, in the order of $1 billion. So as we finish the process and do all of our financial scenarios and look at different prices, it would be premature to give you an actual answer. But put it this way, we know that this is going to be a low-cost operation. In the first five years of operation, there is a dome of mineralization that is 50% higher grade than Highland Valley and a zero strip ratio effectively so it would be very economic. The key is to get the permit and get it built. As Dale says the earliest we could make a construction decision is really early 2018, so that depends on the process in Chile but that would be the sort of process that we expect.

Sasha Bukacheva - BMO Capital Markets - Analyst

Okay. Fair enough. Thank you very much.
Operator

Thank you. The following question is from Ralph from Credit Suisse. Please go ahead.

Ralph Profiti - Credit Suisse - Analyst

Good morning. Two questions if I may. The first Don is can you give an update on whether or not planned curtailments have actually been put in place in global coking coal and whether the markets are strong enough to be able to absorb a slowdown in the rate of implementation except for maybe the bankruptcies.

Don Lindsay - Teck Resources Limited - President & CEO

That is a great question. I get a report every week with exact numbers down to the decimal point which of course is a bit theoretical but I'm going to turn it over to Real Foley to give you an answer.

Real Foley - Teck Resources Limited – VP, Coal Marketing

Thanks, Ralph. There's been over 65,000,000 tonnes of production cuts since the start of 2014 and we estimate that around 60% of those cuts have been implemented to date. Pricing has started to improve from mid-February, but pricing remains low and the strong Canadian and Australian currencies have offset half of that. If you look at it from the start of 2016 there has already been an additional 18,000,000 tonnes of production cuts that have been announced. The reality of those cuts is that US producers continue to be impacted the most with exports year to date down around 31,000,000 tonnes on an annualized basis. That compares to 34,000,000 tonnes of exports for full-year 2015 and 44,000,000 tonnes in 2014. Expectations are that US exports could be down more in the remainder of the year as a result of those announcements of production curtailments that are continuing to come.

Ralph Profiti - Credit Suisse - Analyst

Got it. Okay. Great color, thank you. The second question is on transportation costs on the coal business and how the fuel costs are reflected in the $34 per tonne reflected in Q1. It was in the low end or is there something that will keep us out below the guidance at current diesel prices?

Ian Kilgour - Teck Resources Limited – COO

Thanks. Transport prices are $1-2 dollars below budget. Most of that is in fact due to reduced diesel prices. We expect that to basically continue so far as the diesel prices stay low. No change we will see that trend continue.

Ralph Profiti - Credit Suisse - Analyst

Great. Ian thanks very much.

Operator

The following question is from Greg Barnes from TD Securities. Please go ahead.

Greg Barnes - TD Securities - Analyst

Think it. I want to go back to Real right now. Can you tell us in the coal market what is real and what isn't real? Is there some speculative element going on there pushing the coal prices as you get up over US$100 a tonne now?
Real Foley - Teck Resources Limited – VP, Coal Marketing

All right, Greg. The current market tightness is a result of improved and supply fundamentals and there's also stronger macro indicators in China that support the steel input. The hot metal production in March globally improved and hot-rolled coil prices also increased 25% to 60% depending on which market from the lows that we've seen in late 2015 and early 2016. Coal demand from a number of market areas, including China, also appears to be improving. In March, Chinese imports of coking coal, as Don mentioned, rebounded to over 5 million tonnes and year-to-date seaborne imports are up around 6% or about 500,000 tonnes. And that is due to domestic supply reportedly being tighter, due to longer lunar holidays, but also production curtailments at some of the mines in Shanxi after a severe mining accident. We're also seeing supply-side reforms being announced and those could further constrain the domestic supply. So, the latest announcements include a shorter working schedule at the mines, so reducing the working days from around 330 days to 276 days, and the 13th Five Year Plan is also calling for about 500 million tonnes of coal capacity reductions. The implemented supply cuts that I've talked about earlier are also removing tonnes from the seaborne supply, so out of the 65 million tonnes of supply cuts that have been announced to date, we estimate around 60% of those cuts have been implemented to date. And in addition, we saw some weather issues in Australia, during the first quarter, and those seem to have disrupted production more than was originally expected. We also need to mention that the Canadian and Australian currencies also offset around half the price gain that we saw in steelmaking coal so far. So, looking at all this, as Don mentioned, we are encouraged to see those developments and we see coal prices having gone up as a result.

Don Lindsay - Teck Resources Limited - President & CEO

So, Real, to put you on the spot a little bit, but if the reduction to 276 working days was implemented, what would that represent in tonnes of production reduction?

Real Foley - Teck Resources Limited – VP, Coal Marketing

So, that would bring the mines to about 80-85% of operating capacity. What is difficult to decide on is how much of that is steelmaking coal and how much of it is energy coal, because so far the announcements have not given a split between met coal and thermal coal.

Greg Barnes - TD Securities - Analyst

So, Real, the bottom line is, in your view, the market has tightened up dramatically and re-balanced, and the prices we are seeing today is supported by the fundamentals.

Real Foley - Teck Resources Limited – VP, Coal Marketing

Yes, that's about it, Greg. We are very close to the zone of balance, our estimate is somewhere around 5 million tonnes outside of the zone of balance on the hard coking coal side, so if you are looking at a total seaborne market of 165 million to 170 million tonnes, we're very close to that zone of balance. In fact, the fundamentals have improved.

Greg Barnes - TD Securities - Analyst

And, Don, just a follow-up question. At the beginning of the year, there seemed to be some urgency around infrastructure asset sales. I think you said it was priority number one for you. Is that still the case or are you less concerned about where your liquidity stands and the need to do any asset sales?

Don Lindsay - Teck Resources Limited - President & CEO

I think it was fairly common at the beginning of the year, particularly if you remember in the middle of January it was a pretty dark period, and infrastructure sales and related financing was a high priority. That's not to say it's not a priority now, but certainly we feel less urgency. We've got a strong tailwind in both coal and zinc, and our cost performance, I would have to say was excellent, and so we're going to take our time and get it right. But we're still looking at it, for sure. We're still working on it, but we don't feel we're in a rush.

Greg Barnes - TD Securities - Analyst

Okay. Thank you.
Operator

The following question is from Orest Wowkodaw from Scotia Bank. Please go ahead.

Orest Wowkodaw - Scotiabank - Analyst

Hey, good morning. Based on your guidance for Q2 you're going to do at least 13 million tonnes of coal in the first half of the year, you haven't commented at all about your annual guidance of 25 to 26 million tonnes. Is there a possibility of going over that 26, and if so, at what point does that start negatively impacting unit costs if you have to start, say, pushing overtime or extra shifts, that kind of stuff? Thank you.

Don Lindsay - Teck Resources Limited - President & CEO

Okay, maybe I'll take the first part, and then turn it to either Ian or Robin for the second part. You know, with steel demand as strong as we saw in March, and as Real just described, if that carries on, our customers are looking for products that will carry on at the same rate. Recall last year we did have a summer shutdown and reduced production to reduce inventories at mine site and ports and so on. We don't have anything like that planned this year, and at this rate it certainly doesn't look like there would be a need to do that. In terms of whether staying at that rate would affect cost -- Over to you, Ian.

Ian Kilgour - Teck Resources Limited - EVP & COO

Thanks, Don. We have some flexibility in our production right at the moment, but don't have any current plans to increase production. Of course we will take it as the market progresses during the year to see which way we should go. But essentially no change to guidance at this point. In terms of does the extra production cost more money in general no, at this point. We wouldn't expect that incremental production would be at a higher unit cost.

Orest Wowkodaw - Scotiabank - Analyst

Okay. And just as a follow up, your costs in Q1 of $77 a tonne were kind of well below the bottom end of the annual guidance. Is there anything that we should think about in terms of why costs would trend higher during the year assuming no change in diesel pricing from here?

Ian Kilgour - Teck Resources Limited - EVP & COO

Q1 is normally a fairly clean quarter in terms of maintenance, whereas Q2 and to some extent Q3 we tend to focus our plant maintenance during the summer months, so we expect to have slightly higher repair costs in those quarters. So, that's the reason why you might see that Q1 would be below average.

Orest Wowkodaw - Scotiabank - Analyst

Do you still think you're going to get to at least $80 a tonne for the year?

Ian Kilgour - Teck Resources Limited - EVP & COO

We're going to be trying as hard as we can to continue to reduce costs. Our teams at the mines have been practiced in reducing costs now since about August 2012, when this sort of change in direction first came, and they basically get better at it. The more you do it, the more things you think about, and, plus, we've got some specific focus areas on maintenance costs and supply costs. So, we're going to be working very hard to do better than guidance, but time will tell.

Orest Wowkodaw - Scotiabank - Analyst

Thank you very much.
Operator

The following question is from Lucas Pipes from FBR and Company. Please go ahead.

Lucas Pipes - FBR Capital Markets & Co. - Analyst

Good morning again, and good job on the first-quarter results. I wanted to follow up a little bit on the coking coal market. I know we've focused on this this morning, but it seems like if we are within striking distance, and let's say demand continues to maybe recover a little bit, some tonnes would actually have to come back, and I was curious to hear what price you think production would come back, or some of these shutdowns that you say are still ongoing might be reversed, and also where you see spare capacity in the system. Is it Western Canada, maybe your operations? Is it Australia? Is it the US? Where would the incremental tonnage come from? Thank you.

Don Lindsay - Teck Resources Limited - President & CEO

Excellent question, and we do a lot of work on that. Real, over to you.

Real Foley - Teck Resources Limited - VP, Coal Marketing

Thanks, Lucas. So, it is a good question on price, so maybe to put it in perspective, talk about margin curve|to start. Wood Mackenzie is estimating that a price of US$95, there are still around 20-25% of the seaborne hard coking coal operating at negative margins. So, it's still low pricing by all measures, and if you look at steelmaking coal prices from mid-February, they have improved, but as mentioned earlier, the stronger Canadian and Australian currencies are offsetting around half that gain. As to production, the US producers probably continue to be impacted most. We need to go back and look at when those production cuts were made, what the pricing levels were at that time, and the fact that there is a number of companies, actually most of the US producers now that are in bankruptcy or assets are being sold, so that would seem to indicate that at the current pricing level it is still not high enough to bring back capacity. And typically for capacity to return, it takes time, in a sense that users probably want to make sure that the price will continue, and will be at a level that allows them to be margin positive, not only for a short period of time, but also for medium to long-term if they would be to restart operations, rehire employees, bring back equipment onsite.

Lucas Pipes - FBR Capital Markets & Co. - Analyst

That's helpful. Thank you. Maybe just to stay on the macro side a little bit. It's been a lot discussion among market observers here as to what is exactly driving this rebound in demand. Is it ultimately a restock cycle in China? And, I was curious, Real, what are you hearing from your contact on the ground in China, is this demand uptick sustainable? Is this more something seasonal? What is kind of your feel at this moment?

Real Foley - Teck Resources Limited - VP, Coal Marketing

So, maybe to address the first part of your comment with respect to restocking, stocks in China are currently very low and they continue to be very low. So, whether it is on the coal or steel side, there hasn't been restocking at the end of 2015 or early 2016 as we typically see. If we go back and we look at the last two years, coking coal stocks, steelmaking coal stocks at ports are down 10-plus million tonnes. If you look at sample end-users, they are down 5 million tonnes plus. And to date, we're not seeing a big uptick in steelmaking coal prices, steelmaking coal stocks in China. Other markets, pretty much since the global financial crisis, anecdotal evidence would suggest that the steelmakers are running with pretty low inventory, and that was as a result of a pretty thin margin on steel, and the fact that the steel industry is actually in pretty tough shape right now, just like the coal industry has been for a number of years. So, as we look at what is happening in the market lately, steel prices are up 25% to 60% since the lows in late 2015 or early 2016, so we're seeing demand for steelmaking coal come back. We're seeing demand for steel products, also supporting those price increases on the steel side.

Lucas Pipes - FBR Capital Markets & Co. - Analyst

All right. That's very helpful. And maybe I can just add in one quick follow up, and that is could you give us a little bit more sense as to, on the back of this improving market, into the decision for Teck to potentially increase production over the course of the year, what are you looking for? And, maybe Don, you can comment on that. What would cause Teck to increase production for this year?
Don Lindsay - Teck Resources Limited - President & CEO

I think I'll just turn it back to Ian for that. No change to what we said before, but --

Ian Kilgour - Teck Resources Limited - EVP & COO

At this point, we have no intention to increase production. We do have a little bit of flexibility in terms of what our mines are capable of, but at this point we'll be continuing to really focus on cost reduction, continuing cost reduction through the rest of the year and maximizing our margin that way.

Lucas Pipes - FBR Capital Markets & Co. - Analyst

All right. Thank you very much and good luck.

Ian Kilgour - Teck Resources Limited - EVP & COO

Thank you.

Operator

Thank you. The next question is from Chris Terry from Deutsche Bank. Please go ahead.

Chris Terry - Deutsche Bank - Analyst

Hi, guys. Just a couple of questions from me. Just on the copper side, pretty similar I guess to thinking about the rest of the year and where you're lining up versus guidance. I recognize that Highland Valley copper costs may come up a little bit, but are you still comfortable with your guidance for copper cash costs; they seem a little bit conservative?

Don Lindsay - Teck Resources Limited - President & CEO

Dale, over to you.

Dale Andres - Teck Resources Limited - SVP, Copper

Thanks. I think similar to the comments Ian made on the coal division, we're having tremendous success in our cost-reduction programs. We are focused on similar initiatives and we're leveraging off of initiatives company-wide, so that would be across supply management, and maintenance as well. In our particular focus on our contracting costs within copper as well, so, we're quite pleased with the performance in the first quarter. As you mentioned, the grades at Highland Valley do decrease as the year progresses. I'd say it's going to be particularly noticeable in the fourth quarter, but we do anticipate cash costs as a result of that grade decline to go up as the year progresses, but particularly in the fourth quarter. Right now, we are targeting to come in at the low end of the range or below it, but it really does depend on exchange rates, fuel prices and the continued success of our cost-reduction program.

Chris Terry - Deutsche Bank - Analyst

Okay. Thanks very much. Just on slide 13, when you have the cash change waterfall, are you able to break up the $215 million of debt interest and principal repayments into the different components?
Ron Millos - Teck Resources Limited - SVP, Finance & CFO

It's substantially all interest. The principal payments would be less than $10 million, and that would just be on our capital leases, small amount of capital lease payments that we make.

Chris Terry - Deutsche Bank - Analyst

Okay. Thanks. And how do we think about other quarters for that component? Just against your interest expense that you're recording and paying now?

Ron Millos - Teck Resources Limited - SVP, Finance & CFO

The big payments would be in the first quarter and the third quarter for the interests, with the way the payments are scheduled out.

Chris Terry - Deutsche Bank - Analyst

Okay. Thanks for the color.

Operator

The following question is from Garrett Nelson from BB&T Capital Markets. Please go ahead.

Garrett Nelson - BB&T Capital Markets - Analyst

Thanks. Hi, everyone. It seems that steelmaker spreads, or their incentive to produce, has improved significantly since the beginning of the year in China, in North America and elsewhere, and that steel producers basically can afford to pay more for met coal and raw materials in general, and they're also looking to procure more raw materials given that improvement in their profitability. Would you agree with that statement?

Don Lindsay - Teck Resources Limited - President & CEO

I agree with that statement, and I put pressure on Real Foley to get our fair share.

Real Foley - Teck Resources Limited - VP, Coal Marketing

Yes, that would be a fair statement, Garrett.

Garrett Nelson - BB&T Capital Markets - Analyst

Okay. And as a company who speaks with steel companies on a daily basis, and a company that's particularly levered to Asia, maybe just some color regarding any shift in demand that Teck has seen personally in the last month or so since the Q2 benchmark was struck. Is the phone ringing a lot more? And how long do you think this positive momentum for met coal can last?

Real Foley - Teck Resources Limited - VP, Coal Marketing

Garret, we're seeing increased demand from a number of market areas, and I guess that reflects both improvements in pricing, improvements in demand. So far there's no change to our market distribution, really, compared to 2015, so our sales split is around 70% or so to Asia, around 20% or so to Europe, and then 5% each to North and South America. And as a reminder, our sales to North America are mostly on an annual contract basis, so that business has been set at the beginning of this year, or actually late in 2015. So far, not much of a change, but definitely more inquiries.
Garrett Nelson - BB&T Capital Markets - Analyst

Okay, and then are there positive implications from the improvement on the steel side that you see for your zinc segment also, given that 50% of zinc demand is steel galvanizing?

Don Lindsay - Teck Resources Limited - President & CEO

So, I've got to turn that one to Andrew Stonkus on the phone. Andrew, did you get that one?

Andrew Stonkus - Teck Resources Limited - SVP, Marketing & Sales

Yes. I got that, thanks, Don. Yes, we're seeing firm demand on our key North American markets, in particular now that trade actions have been implemented on galvanized products from our offshore into the United States, so the steel mills in North America are running at very solid rates, order books for steel mills are at high levels, so, and the metal premiums are holding up as well. Overall demand for zinc metal in North America is strong. Demand for Asian metal as well is holding up firmly. On the heels or on the back of the supply cuts we've seen in the mining sector with the zinc mines closing and the fact that we are well into the deficit market and the metal inventories are being drawn down quite rapidly.

Garrett Nelson - BB&T Capital Markets - Analyst

Great. I appreciate that color greatly. Thank you.

Operator

Thank you. The next question is from Justine Fisher from Goldman Sachs. Please go ahead.

Justine Fisher - Goldman Sachs - Analyst

Good morning.

Don Lindsay - Teck Resources Limited - President & CEO

Hi, good morning, Justine.

Justine Fisher - Goldman Sachs - Analyst

This might be a question I feel like I keep asking over and over again, but is there any update on the discussions with the banks regarding that 2017 line of credit facility? And I know that there was a slightly larger amount drawn on that facility at the end of this quarter. What's the update on how much the company expects might ultimately be drawn on that facility? What sort of chance is there that the full amount is drawn?

Ron Millos - Teck Resources Limited - SVP, Finance & CFO

Sure. The draw this quarter is based on the spending of the counterparty building the pipelines and the storage tanks, so that amount will slightly increase. The maximum amount would be, that could be drawn on this is about $1.1 billion, and that assumes that all the Fort Hills counterparties ask for it under the terms of the agreement. They can ask for security. We have the ability to give them a plan that says we think we'll be able to honor this obligation. If they accept that, then we won't have to put the security in place, and some have accepted it and some haven't. I should point out that draws on this facility are not considered debt for purposes of the debt equity calculations. So, that $785 million that we have, we expect that will be growing as the counterparties spend the money. On the discussions on the two-year facility, we've been watching the improvements in the commodity markets and the debt markets, and we don't feel that we are in a huge rush to progress the discussion there, but we
have had some preliminary discussions with the banks to update them on our improvements in the business, and we expect that in the near-term that we will start discussions on that facility.

Justine Fisher - Goldman Sachs - Analyst

Okay. Thanks. The second question is on asset sales. Have the improvements in the commodity and the credit markets made the company less focused on asset sales, or have they made the focus on asset sales less urgent, or are you guys still pursuing them, let's say with the same kind of vigor and timeline that you were when you talked about them at your investor day?

Don Lindsay - Teck Resources Limited - President & CEO

Yes, so, another version of a similar question from before. The asset sales that we talked about at Investor Day -- they make sense, fundamentally, that if you can sell things at 15 times EBITDA and your company only trades between 5 times and 7 times EBITDA, it makes sense to do them anyway, whether there's an extremely low commodity-priced environment, or an improving commodity environment. So, we are still working on them, because theoretically they should make sense.

Do we feel less urgency? Yes, a little bit, but the thing makes sense anyway to look at and work on anyway, so, we're still working on it. And there are a bunch of sort of details related to it that you have to work through and discussions sort of go at a certain pace with potential buyers, and so we'll keep working on it, but we don't really have a timeline when you'd see a result. But in principle they make sense to do so. Yes. We'll likely do them at some point. But we don't feel as much urgency because, as I said earlier, there's a strong tailwind in both the steel-making coal business and zinc.

Justine Fisher - Goldman Sachs - Analyst

Great. Thanks.

Operator

Thank you. The next question is from Jeremy Sussman from Clarksons. Please go ahead.

Jeremy Sussman - Clarksons Platou Securities - Analyst

Hi. Thanks for taking my question. How much coal inventory do you guys have on the ground? And I guess how -- what levels would you be comfortable going to if spot prices were to continue to improve and you were looking to kind of take advantage of that market?

Ian Kilgour - Teck Resources Limited - EVP & COO

Yes, what we normally keep one to two weeks inventory at the mines and two to three weeks at the port. We need to do that, because a lot of our coal goes out as blends from each of our mines, and we have varying requirements from our customers to provide them with the different qualities of coal they like, so that we like to keep sufficient inventory, so that we can always provide the quality to our customers, which is fundamentally important to our reputation. We wouldn't be planning to take inventories down to any low level because of spot prices rising.

Jeremy Sussman - Clarksons Platou Securities - Analyst

Thanks. It's been a while since I've been able to ask a question like that on the coal front.

Ian Kilgour - Teck Resources Limited - EVP & COO

We're very happy to be able to contemplate that possibility.
Jeremy Sussman - Clarksons Platou Securities - Analyst

Exactly. Just a quick follow up on the cost side, obviously first quarter coal costs were strong, better than annual guidance implies. Clearly, I guess Q2 plant maintenance could affect things just a little bit quarterly speaking, but are you still comfortable with annual levels that you've given previously?

Ian Kilgour - Teck Resources Limited - EVP & COO

Yes. It's a little bit early to be modifying guidance going forward, we'll look to see what happens in Q2 and see where the situation changes.

Jeremy Sussman - Clarksons Platou Securities - Analyst

Understood. Good luck and thanks very much.

Ian Kilgour - Teck Resources Limited - EVP & COO

Thanks.

Operator

The following question is from Josh Golden from JPMorgan. Please go ahead.

Josh Golden - JPMorgan - Analyst

Hi. Good morning. Couple of questions. On the letter of credit facility last year, on the initial draws, there was some discussion about going back to the counterparties and potentially having some of it waived or renegotiated, I believe that these were some purchase power type of agreements. Can you comment on that?

And then what I'm very interested in is not only is the letter-of-credit facility due in 2017, but I'm also very interested, given the comments around asset sales, et cetera, and at year-end 2016 cash balance pro forma. I'm very interested in having you talk a little bit about addressing the US $300 million maturities in 2017. Thank you.

Ron Millos - Teck Resources Limited - SVP, Finance & CFO

Okay. The maturities in 2017, you know, we're hoping to end the year with at least the $500 million and no draws on the line of credit, depending on where commodity prices go. We could use cash from operations if commodity prices improve from where they're at today to a sufficient degree that we can -- we think we need about $350 million or so in cash to run the day-to-day affairs of the business. We could also look at funding that from the US$3 billion line of credit, if need be.

And then with regards to the power purchase agreements in Chile, if we can offsell the power that we have there to a credit-worthy counterparty, the counterparty of the power purchase agreement to waive the requirement that we put the letters of credit in place, but until we get to that position, there's not much that can be done there.

Josh Golden - JPMorgan - Analyst

Okay. Thank you for that color. Just circling back, and I know we'd spoken about this before, obviously the unsecured debt market is concerned about the potential issue in secured debt. You've spoken about your capacity and then there's been some comments about desire, so can you talk a little bit about your thoughts on secured debt and managing the liquidity going forward? Thank you.

Don Lindsay - Teck Resources Limited - President & CEO

That's an interesting question. We could turn to Ron or Scott. Scott, why don't you start with that, and I may have some follow-up comments.
Scott Wilson - Teck Resources Limited - VP & Treasurer

Sure. Thanks, Josh. The debt markets are clearly improving with respect to Teck's options, and I think we would have potentially alternatives in either the secured or the unsecured market. So, as we've said before, issuing secured debt would not be our preference, but we recognize that it is probably the lowest cost form of debt that we could issue at this time, but if there are other alternatives available, we would probably look hard at those as well.

Josh Golden - JPMorgan - Analyst

Thank you.

Operator

Thank you. The following question is from David Wang from Morningstar. Please go ahead.

David Wang - Morningstar - Analyst

Hi, everyone. Thanks for taking my questions. Just wondering on cost cuts, how much room left do think you have for additional cost cuts? I know diesel and currency are probably not controllable, but within your operations do you have plans for cuts beyond this year's targets? I know you guys have a slide in, back in investor day showing improvements from mine productivity, contractors and employee cost reductions. Do you see further improvements beyond the targets for 2016?

Ian Kilgour - Teck Resources Limited - EVP & COO

Ian Kilgour here. We're basically focused on the targets that we've set. As we explained in the investor day we don't want to take away future options. We don't want to damage our ability to produce in the future by doing things in the short-term, which would take away production options or cut our future production capacity, so we're very mindful of the need to carry on with cost reductions where we can, while maintaining our capacity for the future.

David Wang - Morningstar - Analyst

All right. Great. And on the coal market supply, I was wondering what your thoughts are on potential of supply remaining in place or coming online. Of that China's targeted capacity cuts, there is a lot of unused or non-operating capacity in China, do you think the bulk of the capacity cuts will come from that area? And we also are seeing production ramp-ups in Mozambique and, potentially, Mongolia as well as a deep bench of advanced projects in Australia that the higher prices might have incentivized. What do you think about these factors as offsets to the production that you see leaving the market?

Real Foley - Teck Resources Limited - VP, Coal Marketing

David, I guess the production cuts that have been announced in China, there's capacity reduction, you're right. Part of the 13th Five Year Plan. But there's also capacity reduction, it seems, in the short-term as well with the reduction in the number of operating days at the mines from 330 days to around 275 days. On the various projects around the world, we track what is announced, and while we see additional production coming from some of the supply areas that you mentioned, like Mozambique for instance. We also see that those announcements indicate that the ramp-up is slower than what was originally anticipated.

And with respect to projects, generally there hasn't been much capital invested into future production, let alone increased production at mine sites in the past couple of years, because pricing environment were so low that the focus was more on survival as opposed to expansion for future demand.

David Wang - Morningstar - Analyst

All right. Thank you.
Operator

Thank you.

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

Operator, since we are approaching the top of the hour. We are going to cut off questions here. We will turn it over to Don for some closing comments. If anybody still is in the call looking for questions, we're certainly happy to respond to your call separately after this.

Don Lindsay - Teck Resources Limited - President & CEO

Okay, thanks, Greg. I guess I just want to say in closing that we are feeling pretty good here. That change in direction is real in both coal and zinc, and the world is unfolding in a positive way, we see a lot of opportunities, so, looking forward to being able to report on that at the next quarterly call.

We did, after the last quarterly call, announce some retirements and evolution of our management team, and I have to say this that the changeover has gone extremely smoothly, and full credit to the guys in making that happen. While Tim Watson and Ray Reipas will be attending future quarterly calls, Rob Scott and Ian Kilgour, for those two this is their last quarterly call, so I just want to publicly say thank you to you guys for a tremendous contribution. Both of you are real class acts and we just want to acknowledge all of your efforts for getting us into really good shape here, so thank you very much to Ian and Rob.

And with that, I want to say thank you to all of you on the line and we look forward to speaking to you after the second quarter.

Operator

Thank you. The conference has now ended.

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