S&P Global
Market Intelligence

Glencore plc LSE:GLEN

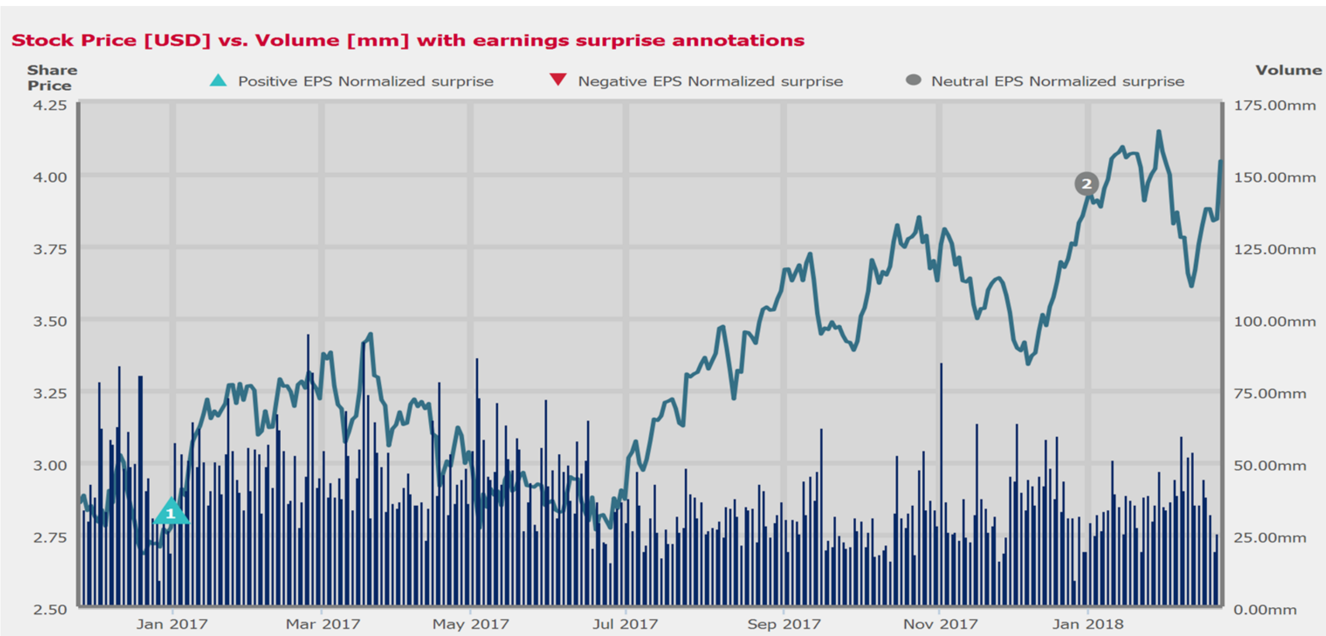
FY 2017 Earnings Call Transcripts

Wednesday, February 21, 2018 8:00 AM GMT

S&P Global Market Intelligence Estimates

	-FY 2017-			-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.38	0.38	0.00	0.45
Revenue (mm)	201224.72	205476.00	2.11	234639.00

Currency: USD
Consensus as of Feb-21-2018 7:55 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FY 2016	0.12	0.14	16.67 %
FY 2017	0.38	0.38	0.00 %

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CEO & Director

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Presentation

Paul Smith
Former Head of Investor Relations

Good morning, ladies and gentlemen, and welcome to Glencore's Preliminary Results for 2017. The format this morning will be, as usual, presentation by Ivan and Steve, and then followed immediately afterwards by questions and answers.

So with that, over to Ivan.

Ivan Glasenberg
CEO & Director

Okay. Okay, good morning. Thank you for coming this morning, and we're pleased to announce a pretty good set of results. And as you can see, it's the strongest results Glencore has produced, I think, since its inception, definitely since we've been a public company.

You can see the adjusted EBITDA of the group is $14.8 billion, which is up 44%; and adjusted EBIT is $8.6 billion, up 118% from 2016. Net income is $5.8 billion, which is up 319%. Funds from operation, $11.6 billion, up 49%. And we're pleased that we will recommend a dividend for 2018, a distribution of $2.9 billion, which is $0.20 per share payable in 2 tranches in May and September.

Marketing. Once again, the [crux period], a differentiation of Glencore, performs very well again. And as we always said, at higher commodity prices, we're more towards the top end of the range. We always guide between $2.2 billion to $3.2 billion on the Marketing. And when markets are tighter, commodity price is higher, we're up towards the top end of the range. And as you can see, we got an EBIT of $3 billion, which is up 3% from 2016. And like-for-like, because of adjustment for the ag business because we only account for 50% of the ag business during 2017 as opposed to 2016, is already 10% up.

Strong performance across the board on the metals and minerals and the energy product business on the trading, up 28% and 9%, respectively. And as I said, the agri business was broadly consistent on a like-for-like basis in difficult market conditions. And as you can see, against our competitors who have had difficult years, the ag business performed very well.

Strong point of Glencore is a strong unit cost, and our margin performance has naturally boosted the Industrial earnings, and Industrial EBITDA is up 60% to $11.5 billion. Our mine unit cost and margins are generally better than the previous year. And as you can see, our cost of production across the board on our various commodities is really at the low end of our competitors, et cetera. Really, Tier 1 assets performing very well on the cost side of the curve. And post credits, our copper is $0.87 per pound; zinc, negative $0.16 per pound; post credits, $0.10 per pound; ex the credit, nickel $0.191; and coal, we're realizing $32 margins. So exceptionally strong on the cost performance across the board, which once again proves we really have Tier 1 assets low cost and long reserves.

Naturally, there were some emerging inflationary pressures and ForEx impacts across the board on the costs. However, we're fortunate these were more than offset by the higher by-product credits, which we're getting on the various commodities that we produce, and that has counteracted the inflationary cost pressure, which all miners are seeing across the board.

As we've always said, Glencore has a conviction to create value through partnerships, M&A and organic reinvestment. We're not sitting on our hands if opportunities present themselves. We always will react. And if they make sense and they fit our business model, we'll look at them, but we do have strong criteria, investment criteria, whether we do go ahead with them.

We've created conservative financial policies which underpin our balance sheet strength today and -- but also given us flexibility. And as you are aware, our net debt is now down at $10.7 billion. And we have set a range, we'd like the debt to stay within the $10 billion to $16 billion range. Even though we want to keep it 2:1 net debt maximum to EBITDA ratio, we will still want to keep it within that $10 billion to $16 billion range, so it keeps it capped. Even if the EBITDA goes up, we will still not allow the debt to go above $16 billion.

If you just look historically, what we did during the year and improved opportunities presented themselves to us, and we invested $1.6 billion in capital-efficient growth. You saw we bought the Volcan stake, we bought the Mutanda stake. But along the way, we also did other partnership-type transactions. And that's a strength of Glencore because of our relationships across the board, our strong trading activities and our relationship with various parties around the board, we were able to do this type of partnership where we don't give up the entire asset. We form partnerships.

We did the Trevali transaction where we merged our assets into Trevali, and we still hold a 25% stake and we have the marketing rights. We did the oil storage business with HNA, which is now HG Storage, and we own 49%, they own 51%. But we still utilize their storage tanks and we have the benefit of that. And we have a strong partner for future growth in those businesses. We formed BaseCore, our royalty stream business with Ontario Teachers, and we'll use that as another vehicle where we can grow our business.

So we'll continue to look at these partnership-type operations, where we can grow our business together with partners and we can utilize the strength of them. We did in agricultural business the year before, we formed a joint venture with the 2 Canadian pension funds, and we use that as a vehicle to grow our business. So this is the strength of Glencore where we can form these type partnership opportunities to grow. Expansionary CapEx was $1 billion with a total CapEx of $4.2 billion.

Safety, once again, an important feature of Glencore. We do employ 146,000 employees, so we have a large amount of employees as opposed to our peers. We do operate in difficult areas around the world and what we call our focus areas, where we really got to change the culture in those particular regions. And we did unfortunately have 9 fatalities during the year. That's a big improvement since 2016 where we had 16 fatalities. But we -- it's the first year without a multiple fatality incident. We continue work in this area. The one area we did have a lot of success is African copper, where we only had 1 fatality in 2017, which is the lowest in history in one of these focus asset regions. And this is where we have spent a lot of work. It seems that we are achieving success there, but we still have a long way to go having 9 fatalities through the group.

So that gives you an idea where we sit overall, our position of the company, and Steve will take you through more financial details. Thanks.

Steven Kalmin
Chief Financial Officer

Thanks, Ivan. Good morning, good evening to those that are on the webcast or on the call as well. And I'd like to take you through Glencore's financial performance for 2017 as well as provide some forward illustrative guidance in respect to volume, costs and EBITDA generation in the business as well. All these points on the financial highlights page are otherwise addressed on the pages to come, so not going to dwell too much.

In terms of that improving momentum and trajectory in Glencore, the $14.8 billion of EBITDA, it's quite interesting just to look at it in the 2 halves as well as we had during the year. So the first half of 2017 was $6.7 billion, second half already was $8.1 billion of that $14.8 billion. So you can already see that trajectory in terms of margins, in terms of volumes, in terms of marketing performance, we're on the right track. And as we look forward, particularly on the Industrial side, we'll sort of show you what the capability of this business is from obviously '18 and beyond.

If we move on to the next page, as Ivan mentioned, Marketing is starting to continuously hit its straps. It's done it over the last sort of couple of years. It's been a while since we've had a 3 in front of that number as well as the EBIT side, notwithstanding that we sold 50% of the agricultural business effective 1 December 2016.

So the sort of product's [facing] 3%, we just converted it and also like-for-like to show you that there's been underlying, at least in the metals and the energy side, we've seen some decent growth. But like-for-like, had we still had 100% of agricultural this year, if you just double the $192 million, you would have seen a 10% improvement year-on-year there.

Metals and minerals, as you can see, continues to be the engine room with sort of $2 billion. That does reflect the fact that -- underlying that sort of engine is many different facets and many different businesses and many different commodities. You've got very big-scale global franchises within that business across copper, across zinc, across aluminum, across nickel, increasingly iron ore, you've got the cobalt, you've got ferroalloys, you've got manganese. There's many facets of that particular business, some of which have been sort of contradicting at levels not seen in recent periods of time. So good performances generally across the board.

Energy, also solid performances across both coal and oil, with meaningful contributions in that close to $1 billion performance. Pleasingly, we've seen some volume kickers come through, having been a little bit more slow in terms of volume growth inasmuch as the market itself was sort of slow, our own suspension and curtailment of some facilities in zinc and copper, which we did through '15 and '16, ferroalloys, [slow planks], some of those things, to some extent. This year, if you look through the marketing attributes, you can see some good volume growth: copper, 14% up; zinc, 40% up; ferroalloys, 14%; and on the crude oil side, we saw 33% increase. Of course, transactions and partnerships like we had with Rosneft and the structure with the Qataris that was formed last year, some of the African business development opportunities that we've had as well across the board is contributing meaningfully on the volume side within oil.

Agricultural side, it's not particularly material in the overall scheme of things, but just to sort of shine a little bit of a light on it, given the market dynamics and the general challenging environment, at the cash generation aspects of this business, at an EBITDA level, you actually saw year-on-year improvement. You can see a 7% there if we just double up 2016 to 2015. There was additional depreciation this year. So at the EBIT level, you can see that contraction of 26% because as part of the accounting for that 50% retention of that stake we had in December 2016, we effectively had to remeasure the historical base of the business to the same entry price that the Canadians bought in that business. So we have got an artificial extra depreciation charge noncash that's coming through like-for-like in the Marketing side. That's just a feature, a little bit of a weight that the business is going to bear relative to its historical costs. But on an EBITDA level, we've actually seen a 7%, which is quite pleasing in the context of that business as well.

If we look then at the Marketing, just another page on it. You've seen that sort of $3 billion. We're maintaining the guidance, $2.2 billion to $3.2 billion, that is supposed to be an all-season guidance range. As we sit now in 2017, you would sort of -- there'd be an instinct to say we'll chop off the bottom and increase the bottom, but it is supposed to be there for all seasons. Memories are still fresh in terms of cycles that can happen in this industry. $2.2 billion to $3.2 billion, we're suggesting that based on current conditions, we should certainly be towards the upper end of that range as we look in 2018.

And we've always pointed to a few factors that would get us to and that would lend support to that upper end of that range, all of which we can now put a tick next to those factors. We've said production volume growth, we've seen that come through, as I've said on the previous slide; tighter physical market conditions, we've seen that in many commodities; deployment of additional working capital, I'll show you a little bit of a slide and talk a little about RMI and higher interest rates, which is starting to come through in terms of some tightening cycles. All of that is factoring into attributes that will take us more towards the upper end.

And this is a business that has consistently produced very high returns on equity, continues to do so, notwithstanding sort of discussions and debates around at some point barriers to entry, when do people want to come and grab that sort of -- I think we've created quite a unique franchise around high barriers to entry and ability to generate consistently high returns on equity in that business.

If we just turn over to the Industrial side. As Ivan said, we're up 60% to $11.5 billion. We'll look at some cost and production numbers on the next few slides as well. As you would expect, given the scale and franchises we have, particularly in coal and some of the bigger metal businesses, that's where we've seen increases on that particular side. So clearly, higher commodity prices is the primary driver. There's no denying that clearly, there's that leverage to that business because, of course, higher prices is going to have you -- what you take in one hand, you're going to give away a little bit on the other hand through some inflation as those very high commodity prices themselves are feeding through into some of your input costs. And we are a big consumer and procurer of the likes of diesel and explosives, and general CPI is going to work its way through the system, cost of construction materials, steel, developing projects, if you like as well.

So that's the nature on the way down. We sort of say, while you're getting some sort of relief from lower cost inputs, now you're seeing some of that sort of stuff. But we'd still categorize it as fairly modest, as not particularly tight, as not something that is overly material in terms of the business. And we'll talk about that cost trajectory as we go through as well.

Very strong EBITDA margins. We [followed] the 38%, that's a blend across the metals and mining business. Of course, there's highs and lows, depending on the structure of those markets. We've got copper and zinc at higher levels. I think ferroalloys and nickel might be slightly low, which brings the blend to 38%. And of course, prices has had a big factor. You can see on the waterfall chart, $6.3 billion of pricing variance that is made up in the copper/cobalt, which is where that commodity that more than doubled this year is manifested in terms of results, that was $1.9 billion; zinc, $1.1 billion of price variance; nickel, $0.3 billion; ferroalloys, $0.4 billion; coal, $2.5 billion; and other, $0.1 billion; so $6.3 billion is clearly the big factor that's gone into those.

As we'll work through some of the numbers on the next chapter on that graph on the top right, we would expect to be here through August and hopefully, in 12 months' time, on spot illustrative 2018 prices towards the end of January. And volume guidance, we're showing $16.8 billion of industrial EBITDA for 2018 on an illustrative sense. That would be another 46% potential tick-up based on spot price at the moment and the volume guidance, which we'll talk about a little bit on the next page.

The Industrial bridge, there were some negative factors, of course, on volume and cost volume, we -- it was primarily copper and coal, 8% down in copper. Factors that have been well-reported on and discussed during the ongoing production performance. We saw lower production through consumable and power available in Africa; Mutanda and Mopani, a little bit as well; Antapaccay, a little bit slower on that side; and coal, down 3%, primarily due to weather and strike-related actions. So that clearly is going to have a volume impact and the associated cost impacts. But you can see on a unit performance, it's still being very solid as we work our way through the system.

If we then look at what our cost trajectory -- I think, Paul, if you can just go to Page 21, I think it's important to just look at volume, which is clearly a driver of that. It's in the appendix. But I think it's important not just to -- just to focus for a minute as well. Nothing has changed here in terms of volume and production guidance we gave at the investor update back in December last year. So the near-term volume pickup, which is going to have a factor in terms of both performance, EBITDA and value, is in near term, we've got copper, 1.31 up to 1.465, that's up 12% volume growth, primarily due to Katanga now coming on line with its first train; 150,000 tonne copper, 11,000 tonnes cobalt; performance is going -- there's been a successful commissioning down there.

We've also got material volume growth in cobalt, clearly, up 42% this year; 27% to 39%, given the pricing environment there, that's quite a material catalyst; that's primarily Katanga, 11,000, a little bit over at Mutanda and some of the other operations as well. And coal itself, if we look second from the bottom, up around 11%, from 120 to 134. You've got HVO that's baked in there, 49% share, which would be between 7 million and 8 million tonnes on an annualized basis. We're assuming we're going to get about 9 months or so of that coming in, plus the restoring of normal operations post summer weather and strike-related actions during the course of 2017.

Longer term, which will also feature into some of the modeling and thinking, so you've got more the 2017 to 2020 production outlook at the bottom right, you can see copper, 25%; cobalt, 133%; zinc, 19%; lead, 25%; nickel, 30%; ferrochrome, 6%; coal, 14%; and oil, 39%. So quite material volume growth across all the commodities. We went through this back in December. I'm not going to repeat it. But you can see the projects, and we did spend a bit of time on some of the projects, and we got a page on each of those to do with Zhairem in Kazakhstan, the [iron ore] on the nickel side, of course, the African business as well.

So if we then jump back to the unit cost, which is clearly a factor as well. You can see some improvements generally in mine cost and margins across the businesses from '16 to '17 and continuing on through 2018. Some of that, inflationary pressure; some of which, which is passive, I would regard as sort of good inflation because it's really getting offset through the price, and that's a function of just the CPI impact, the weaker U.S. dollar on the currencies that's coming through some of the diesel and fuel costs that's coming through. Nothing we can do about that. That's a factor. It's as good as we run the businesses, and it's good efficiency drivers. If you do, you're going to have that coming through. But as I said, you sort of get 3 in one hand and pay out 1 in the other hand.

So copper, we're sort of -- we were flat unit costs. This is, as we've discussed, is a feature of Glencore's building blocks that we've given out the last few years. These are fully loaded, fully baked-in numbers from which to sort of mathematically calculate the volume tonnes price expectations you have for a full EBITDA. So it captures all the cash costs, all the ancillaries, all the royalties, all the freight costs, the TCRCs, the smelting businesses that we have within the business as well.

So copper is -- was sort of steady year-on-year, clearly helped us. Some of the byproducts both in zinc and cobalt, we've seen quite a material downshift from $0.87 to $0.80. Katanga, of course, through volume and others, is a factor; byproducts is helping there. The only change we've done relative to December is that now Katanga, Mopani are part of this all-in unit cost blended calculation at the 1.5 million tonnes or so we dug. We previously had it excluding those, given their ramp-up phase, and we had a placeholder, I think, of around 500 million, but that's fully in those numbers as well.

The coal, the other big part of the business, now bases some Newcastle benchmarks pricing at the end of January. And our mix, we're looking at around a 37% margin there. You've got some cost increases. But again, it's really passive coming through, through royalty-related increases, which is based on the price itself. So that's just a flow-through as you add that to the prices as well. We should -- could maybe separately itemize them in the future as well just to show the linkage against that.

You've got the higher diesel costs, you've got the currency movements. Clearly, there, you've seen quite big strength in rand, which is sort of a double-edged sword there. It's good in terms of what's happening down in the country, but the strength of the rand is clearly having a material impact down there in a market where it's not necessarily the price set like it is in ferrochrome. You'd expect ferrochrome potentially to be able to pass that additional cost benefit.

So on nickel, also improving through byproducts and some increased volumes, which we'll see coming through in 2018. And zinc continues to power along, byproducts is a big factor there; lead and the various precious metal streams as well.

So if we look at actuals and then later on, on the slide, you'll see [later] the spot generation using those volumes, you'll see a big shift. We've got copper, $4.4 billion was the EBITDA of Industrial 2017, going to $7.1 billion illustratively 2018; zinc goes $2.6 billion to $3.5 billion; nickel, $0.6 billion to $1 billion, which is a nice movement and starting to present itself in a more positive light; and coal, $3.9 billion up to about $5 billion as well.

If we look on the next page, just to highlight the CapEx, nothing new beyond what was said at the investor update in December last year. We're looking at a $4.5 billion average CapEx 2018 to 2020 to deliver the sustained business and that growth that we were talking about on the previous slides. That was lifted up from the previous, about $4 billion, we gave the reasons back in December and highlighted the various projects that were part of that particular project. 2017 CapEx on the Industrial side was $4 billion, which is bang in line with where we've been guiding throughout the year. So nothing to add there, unchanged from the December.

Obviously, from a financial perspective, a nice slide to look at. And presiding over, my day job is getting very easy in this company, as you can see, very conservative capital structure, high liquidity levels, manageable maturity profiles, no debt maturing in terms of maturities more than about $3 billion. The shape of net funding and net debt from where it peaked in about 2013, '14, to where it is at the moment, we maintain our financial policies around commitment to strong BBB, Baa. I think we're on target with these metrics to get there. S&P, we're BBB with a positive outlook; Moody's at Baa2. I would suspect these ratios would -- and trajectory and financial policies would be rerunning the numbers in the next month or so post the thing.

Just to spend a couple of minutes just on RMI. You would have seen that go up the sort of $5 billion. If you looked at pricing movements during the course of 2017, from the start of the year to the end of the year, collectively, you would have to come up with a number that says it's not going to stay at '17. We've got prices in our core commodities. Copper was up 30% during the year, start to finish. Zinc, 30%; cobalt, 130%; aluminum, 32%; nickel, 28%; lead, 24%; oil, about 25%. These are big movements. They all blend out to anywhere between 25% and 30%. RMI itself was up 30% during the year. So there's a very strong correlation between pricing and where we ended up the year.

We've attributed and calculated RMI down to -- of that increase of around $5 billion. $3.5 billion would be passively attributable based on volumes in your core sort of supply chain that are working through the system at roughly 45 days. If you take the volumes, we even give the volumes in copper and nickel and everything that we do, take annual volumes, put 45 days or so as an average sort of conversion cycle across this new time of the movement, you're going to get to a number of sort of around $3.5 billion.

In terms of RMI, that's reflecting the price environment at the end of December. It was around $1.5 billion, which we would attribute to deploying some inventory funding around some attractive risk-adjusted opportunities that invariably happen in markets also from time to time. Some of the timing can also equally present themselves during a 31st of December period when you've got the industry itself is looking to do a little bit of housekeeping and you find some loose tonnes, and there's clearly an opportunity temporarily to go in there. The returns on equity from a Glencore business in terms of our core competencies, take that inventory, fund it for a few months and eventually generate some meaningful EBIT. There was some of this clearly contributing to that good marketing performance, a $3 billion performance we were setting at the beginning of December and still sort of talking towards a $2.8 billion. You've got all these positive effects that were coming, that we're hitting us towards the end of the year as we ultimately delivered at the $3 billion.

If prices stay where they sort of are at the end of January, driving that $19.7 billion of spot EBITDA, we were generating about free cash flow towards the $10 billion, there'd be no reason and nor would we allow RMI to sort of go up from these levels. If anything, I think that's a cyclical cap. If prices go up, copper is [$10,000], oil is [$140], well, different story, all bets are off, you're going to see that, but our EBITDA will be $25 billion or so at that stage.

So these are the factors we have out, that's a natural consequence. We've seen the reverse side of that as we've gone through the last couple of years. A couple of years ago, standing up here saying there's been a sort of a $5 billion release of working capital by the same factor in those business. So that free cash flow now is going to flow through. We're at these periods that reflect now the prices of the day. Even as we look towards -- this was a particular point at the end of December, as we closed at the end of January, we'd already reduced RMI by about $1.5 billion or so just from that 1 month really as we rolled out some of these opportunities that were there at the end of the year.

If we go onto the next page, again a slide that would be reasonably familiar, the capital allocation slide and the cycle, the circle, it's more of a square now, as we've gone, Martin, thanks for squaring it up. 2017, those factors, Ivan alluded to some of those, we paid out the fixed distribution last year. We did $1.6 billion acquisitions, made up of Mutanda, Volcan and the likes, a bit of Yancoal as well, that was part of the two-tiered transaction that we did with the purchase of HVO. We've also had to put $300 million into capital raising that [they've done], so we're still the proud holder of about 7% of Yancoal as well, which is nicely in the money at the moment. And our net debt, $4.8 billion of the free cash flow generation, aside from those few things we've done, has moved towards debt reduction, getting us down to the lower end of that $10 billion to $16 billion range.

As I've always said, that would be a trigger getting through $10 billion, would be a trigger or catalyst in the absence of some other deployment opportunities that may present themselves. But irrespective of that, the numbers are just going to be big by virtue of applying the $1 billion and 25% of industrial free cash flow, that would be a catalyst to potentially materially increase the payout ratios beyond what they've been. And already now, it went from 25% to this 36%, the potential would be to materially increase. And conceivably, it could be 100% payout ratios. There's no upper limit here in terms of we've seen other ones, say, 40% to 60%, or no more than 50%, whatever, could be 100%. Let's see how we sort of present themselves going forward.

So we've got all the equity cash flows, bottom right, $7.7 billion, and it just flows itself around the circle as we've -- which is translated into those improved graphs around the debt trajectory, debt coverage ratios. Our net debt-to-EBITDA is now 0.7. It's going to be sort of -- it will be an M soon in terms of being able to mathematically calculate that ratio. Ivan's probably working out, $20 billion net debt x2, there's a lot of...

Ivan Glasenberg
CEO & Director

[indiscernible] [16].

Steven Kalmin
Chief Financial Officer

There's a lot of surplus capital, there's a lot of surplus capital that's currently being generated relative to financial targets as well. Clearly, there's an opportunity come the interim results in August to look at a top up of that distribution of the $0.20 we've come up with, given that financial strength and how we see the world at the moment. But we can take -- so August is always going to be our live date also in terms of looking at some of those distributions. As a sort of mechanical payout ratio as a percentage of net income, it's come out at 52%. But at the end of the day, you're paying distributions out of cash flow, not net income, which is how our approach tends to work, which is mathematically, if you want to look at that, and some people focus on it, it is a number out there.

Just to close it out here, just to add a little bit of complexity to the team here and how we're looking at balance sheet and numbers. If we go to the next page, just to show you the Volcan, sort of the accounting mechanics and the treatment of this particular acquisition. As we said, as Ivan mentioned on the 9th of November, we were -- there was a tender process for us to secure a decent chunk of the voting shares, which we had already pre-agreements to almost go beyond the 50% as part of that tender. This -- the devoting Class A, we move from 21% to 63%. There's a huge nonvoting float within the Volcan continuing. So with all that, that the voting moving up to 60-odd percent, we still only have an ultimate economic interest in the business. It moved up from 7.7% to 23%. So it's still a relatively low economic participation. There's a big free float. It's a public company, as you all know, listed on the Lima Stock Exchange. It has all the checks and balances. It is not a Glencore entity for purposes of financial inclusion. They have their own structure that are ring-fenced. They need to fund themselves, and we'll be a participant for the foreseeable future in a financial sense through some dividends. Not too dissimilar, if you like, from Century Aluminum, in which we have the 50% stake with an equity accountant from our own business, and that's where you see it come in the numbers themselves.

By virtue of having moved over the 50% threshold on the voting shares, under IFRS, we've had to consolidate the business into [ours]. And the financial impact, if you just look at that page on the right there, it has had the effect of having quite a material explosion in a couple areas of the balance sheet as well. So despite only putting $730-odd million towards the purchase of those shares, we've had to take in financially under IFRS $4.6 billion of property, plant and equipment, consolidate the whole lot. And you can see a very big $1.7 billion noncontrolling interest, which reflects the big 77% free float there.

By virtue of the ring-fenced nature and because it was -- I mean, cash flow and EBITDA, there was nothing that came into Glencore's financials in 2017, we booked a bit of revenue, but EBITDA, net income was 0. Through the course of 2018, our current intention is, yes, we've got to IFRS consolidate, but we'll disaggregate that and present this business as if it's an associate. So just picking up our share of the 23% of that business through the net income, through the cash flows of that business. And you've seen we've made the adjustment then to the statutory net debt numbers. We've included our -- we would have been $703 million higher, but we've taken out the $703 million, which is the Volcan net debt that's found its way onto our balance sheet at the end of December. We're not doing this from any being clever or through magic. In fact, Volcan's -- it's a zinc business at the moment, and so that's generating a lot of cash. It has

$700 million of net debt, so for a while, it's going to continue. If we continue in that vein, this business it's going to be net debt free in a little while as well.

So as a mathematical translation and contributing to our business, it could be -- it's just not appropriate for us to be bringing $350 million, $400 million worth of EBITDA into Glencore's business when we've got this 23% economic ownership. So that's where we're going to be in the foreseeable future. It's obviously a watching file in terms of whether there's some increases in terms of how the governance actually functions in that particular company as to whether it starts looking and feeling like a Glencore entity over time. At the moment, we're clearly integrating. We've got board representation. We're parachuting in people to help across various financial, technical and operational sides. We would hope that, that adds. It was clearly a synergy angle to this business and where we can work closely with this company. We have operations in Peru. We've been a commercial partner with these guys as well. But this again provides all the building blocks in how we've treated that and how we internally look at this business as well, which is how the financials are ultimately there to present to everyone.

So with that, we will hand back to Ivan for some closing remarks. Thanks.

Ivan Glasenberg
CEO & Director

Thanks, Steve. Okay. Now that we've all had an accounting exercise on Volcan, let's look at the overall business of Glencore.

As you can see, I think we've got a great commodity mix. It's very compelling going forward. We believe we're in the right commodities. What we have not determined Tier 1 commodity mix, we just talk about Tier 1 assets. Now we can talk about Tier 1 commodities, which I believe is very important. We're the most exposed to mid- or late-cycle commodities, and it's clear that's the area we're moving into. So we're going into the mid-cycle commodities, copper, zinc, nickel, aluminum; and the late-cycle commodities, cobalt, thermal coal, agricultural products. We don't have the PGMs and diamonds, but we definitely have a compelling commodity mix.

And breaking down the different commodities, if we look at where the markets are sitting, et cetera, copper is clearly is a looming supply challenge. We all know that demand for copper is going to go up, with some copper market today run about 23 million tonnes, if we get 2%, 3% growth around the world, depends on what happens in China, but you're talking about another 500,000 tonnes, 600,000 tonnes of copper is required per year.

If you look at the supply, we all know there's been a massive underinvestment in new mines in copper. The only new mine that we see coming is in Panama, and that should come on stream. But besides that, there's been a total underinvestment in new copper mines. We all know the grade declines, which is occurring around the world. And we know the elevation of strike risks, which will occur in Chile, especially during this year. So the rest are supply disruptions, but no new supply is very relevant in copper. And if demand does grow to 500,000 tonnes, it will be an interesting outcome there.

Cobalt is clearly electric vehicle story. We all know the studies that have been done on the growth of electric vehicles and where it will end up being. We've seen the investments of motor car companies are making in electric vehicles, and they will need battery supply, so the demand for electric vehicle is strong. It will require a lot of cobalt. And we all know the geographic -- or geological scarcity of cobalt. You can't mine pure cobalt, it's not like lithium. It's a byproduct mainly of copper and nickel around the world, and the bulk of it comes from the DRC. So we know the demand for cobalt and this is an alternative method of making batteries will be strong, and the supply is relatively constrained.

Zinc, demand is increasing in emerging markets. We know that for galvanizing, and there's been an underinvestment in new zinc mines. The growth that we were expecting in China did not occur because of the environmental restrictions taking place at the zinc mines in China. So therefore, the big growth that people were thinking would come in zinc is not coming. And the demand grows once again. The commodity, we believe, there are supplier restraints.

Lead. The same applies to lead, with a robust battery and energy story dynamics. And once again, mainly also a byproduct of the zinc mines, underinvestments, and once again the environmental restrictions which are occurring in China.

Nickel demand, once again, electric vehicle, batteries, critical alloy -- it's a critical alloy, austenitic stainless steel growth, et cetera, that's occurring in the year -- in the world. And once again, no new nickel mines being opened around the world, but -- which we're getting in Indonesia. You -- the pig iron production that's occurring, nickel pig iron occurring in Indonesia, but it's taking it time and not growing as fast as people expected, so limited supply coming in nickel.

Sulphides are declining around the world, so therefore, we see it already there's a shortage. We're reducing the stockpiles around the world. And we believe there's going to be an undersupply once again during this year. And we're going to have to reduce the stockpiles around the world in order to feed the demand for nickel that's occurring around in the market. So once again, undersupply there.

Thermal coal. I know that's not a loved commodity, but once again, it is parring the Asian growth and urbanization which is occurring in the emerging markets. Demand continues to grow in emerging markets. And once again, underinvestment in supply, you don't see new coal mines being built around the world. And where you do see the increase of new production of coal, it is occurring in Indonesia. However, in volume terms, in metric tonnes, it is growing; but in heating value, in fact, there's no growth because we're getting decline in calorific value being mined from these various mines. And the CV is reducing considerably. So really, when you see production increase, it's not really heating value increase which the world needs. So looks very good.

Also, we see what's happening in China where they did restrict demand of coal being produced because of the pricing. We now have higher prices in China. They put a cap on around about RMB 750 that accounts, if you work back and do the adjustments on quality, it gets back to Australia around about $100 if they maintain the RMB 750 in China. So looking pretty strong in thermal coal. And one thing I emphasize, you've got to remember, there's no new mines being produced around the world, developed, besides in Indonesia, which is lower heating value. And you do have decline in production because the mines eventually will come to an end and they have a life of 20, 25 years, and some of them are soon coming to an end. So we see it in South Africa, we see it in various parts of the world, where you will have reduction of coal production occurring there.

Okay, looking at the next slide. The business of Glencore, once again, resilient and proven cash-generative business. I talked about industrial Tier 1 assets and Tier 1 commodities. It's a new term that we've introduced. We always used to talk about Tier 1 assets, and I believe Tier 1 commodities is important, as I emphasized on the previous slide. Glencore's diversified by geography and commodity mix, you've seen it. We are today, and you saw the numbers, Steve showed the production numbers going forward, whereby copper will grow to 1.6 million tonnes; coal, 134 million tonnes; cobalt, 65,000 tonnes. So really, we are the major producer of cobalt in the world. Cobalt, zinc, nickel, we may a bit lower down, #3. Thermal coal, seaborne thermal coal, the largest in the world. So we're really a major producer of what I believe are the Tier 1 right commodities that the world is going to need going forward.

And as I said before, these commodities have persistent industry supply challenges and robust underlying demand, which therefore deems well for the company. We have sustainable low costs. You saw the numbers, where our costs are going. And we're the byproduct creators, so we have low cost -- the lowest -- I believe the lowest cost in most of those commodities produced in the world. And we have long-life assets. There was always concerns, we don't have long-life assets and our reserve base is not as long as people expected. But you can see, we have long-life, low-cost assets and clearly, Tier 1 assets and Tier 1 commodities.

I don't need to talk much more about the Marketing. It's been proven that it is a high return on equity type business. It's unique. We're one of the few mining companies who have this alongside our production side business, which assists us in all part of the business. It helps us recognize asset opportunities for future growth. We know what is happening in the markets, and that gives us a lot of insight. And once again, it's resilient. And as we said, the $2.2 billion to $3.2 billion EBIT to the business, and that is very defensive. As you can see in the slide on the right, it's resilient even when commodity prices fall, drop. It has been resilient and it is not linear to commodity prices.

The big feature, as we said, at today's spot prices on coal, the forward curve, they act more towards the forward curve on the coal price, we will generate around about $19.7 billion of EBITDA, generate $9.6 billion of free cash. And that's how we look for 2018. [Post that out to] 2019, as Steve indicated, with higher production figures that are occurring in 2019, that will even be higher than that level. So very cash-generative at current commodity prices and very high EBITDA going forward.

So what is our outlook? I think I've summed up most of it in the discussion. And as I say, leading Tier 1 commodities, once again, we have great assets. And the Tier 1 commodity outlook is underpinned by this limited supply. We don't see where the supply is coming from. And we believe the demand is there, the demand in China continues to grow, once the Chinese consume close to 50% of most of the commodities that we produce. What's happening in the electric vehicle industry, we're the best place for that out of all the large caps. We get the advantage what's going to happen in electric vehicles with the demand that's required for them in copper, cobalt and nickel.

Cash-generative unique business model, as I said, Tier 1 Industrial assets, very low-cost producing, long-term life; Marketing, highly generative; and once again, emphasize how the EBITDA will look during this year at these current commodity prices and the free cash flow that is going to generate.

We've always said we're able and willing and we wish to grow our business. We're not going to sit on our hands. We see a lot of opportunities because of the trading side of the business where we know what everyone -- what's happening in the business, we see what opportunities are around. And when they do come around, we will react on them. You just got to look last year, Volcan, because of our strong relationship with the people in Volcan, when the family was ready to sell, we knew about it and we were able to pounce and take advantage of that situation.

We look at growth. We don't just look at growth for growth's sake. It's got to be cash flow-generative and we look at cash flow and we will look to grow our business, that's why we are more M&A rather than building Greenfields. You know my feeling about building new assets and Greenfields. You don't get the cash flow for a while. And eventually, when you do get it, you may have overspent it and it doesn't generate the returns you want.

We've always said, we agree we -- I will cut back capacity, we think we're over supplying a market and we'll do the same on the other side, and we'll reactivate the idle capacity, as you saw we did with our zinc operations, when we believe it's appropriate. We have a lot of low cost Brownfield options that we can add to our existing business, bolt-on acquisitions. We always look at different synergies we can have with next door neighbors, as you saw with Hunter Valley, the opportunity occurred last year to purchase the Hunter Valley Operations. The main reason to purchase Hunter Valley, we have the mines next door, we all know about the synergies that exist there. So we're always looking for those opportunities. And if you look at our track record on investments, it's been pretty good in the past. So we'll continue to look opportunistically, see what opportunities come out there. There's no big situation to come where we want to grow just for growth's sake. We wait. If the opportunity presents itself, we will look at it, and provided that it's cash flow-generative and meets our high hurdle rates that we have within the company, we'll go forward with it. And as you can see, 2017 was a good example of which opportunities presented itself to us and we reacted on them. And they're very good cash generative assets we added to the group during 2017.

As Steve mentioned, we have a conservative financial policy today. Optimal net debt, $10 billion to $16 billion. Net debt-to-EBITDA, less than 2x. Steve said, we want to have ourselves rated and he's not allowing me to have that big dividend, because as you can see, he's put the cap on the net debt at $16 billion. And we'll maintain the dividend type policy, $1 billion on the marketing, a minimum 25% on the free cash flow from the industrial side of the business. And as you saw, this year, we delivered a 36% free cash flow. And as Steve says, later on in the year, we'll have a look at the balance sheet, and we'll see what we do, whether we increase it, or, what type of investment opportunities present themselves.
So I think that gives you a summary how the group operates and how we intend looking at the future, looking very strong with the right commodities; very low-cost production, as you saw on the cost

production slides; growth going forward in those commodities. So I think we're well placed for the future. Thank you.

Question and Answer

Paul Smith
Former Head of Investor Relations

Carry on to Q&A.

Liam Fitzpatrick
Deutsche Bank AG, Research Division

It's Liam Fitzpatrick from Deutsche Bank. Two questions. Firstly, the obvious one on the DRC. Post the news, can you just give us an update on the situation timeline from here and so on? And also linked to that, have you seen any reaction from your cobalt customers to that news? And then separately on zinc, the market is very tight. So far, you've only restarted Lady Loretta. Is the 2018 volume guidance set in stone? Or is there potential for further restart as we go through the year?

Ivan Glasenberg
CEO & Director

Yes, on the DRC is what you read. It's clear they wanted to change the mining code. We've seen the ideas that they got in the Mining Code. The industry have got together and believe there should be consultation with us, the mining industry. It's been sent to the President, from what we hear, I'm not sure, but what we're hearing, he has not signed it yet. Hopefully, it will be consultation and the mining industry and the DRC has got together to discuss this with him, and it's the wait-and-see situation, so we don't know much more than you hear in the press as well. How would the motor vehicle companies feel about it? It's a concern, I am sure. We haven't heard, but I'm sure they've got to look at it and monitor just like what we're doing, because it's going to create an investment in the country, of course, if the Code comes in at the way it's being drafted the way we see it. And yes, that will be a concern that can the world produce as much cobalt that it's going to need if the belief is that electric vehicles by the year 2030 will be 30% of the vehicles produced, you'll need a lot of cobalt for that. So what happens in the DRC is going to be very important going forward. On zinc, Steve...

Steven Kalmin
Chief Financial Officer

I don't think anything into '18 now, Liam, because you've got some lag times on these sort of things as well. So I think the 2018 is largely baked in with the Lady Loretta restart through the first half of this year. And we said, what 100,000 tonnes so that sort of features in. Obviously, we sold the African assets to Trevali, which is why we are net-net flattish, but sort of like-for-like, we would have made about 100,000 or so up and [to me that's] also going through some higher zinc areas. So the other areas is really Peru and some other Australian sort of options that will weigh up as time goes on. So I think, as we get towards our -- in May we'll do that Q1 production, that could be an opportunity to the extent that there's any material adjustments, we'd obviously do that. But as we stand at the moment, even we're holding the zinc production for 17 to 20.

Sergey Donskoy
Societe Generale Cross Asset Research

Sergey Donskoy, SocGen. Two more questions on DRC, if I may. One, if you could provide some color on how the ramp-up of Katanga is progressing. And if you could provide any updated cash guidance, cash cost guidance. And second question on DRC, more generally, there are reports of political situation that's becoming less stable and some parts of the country are becoming less -- becoming more violent, maybe. What is the situation around your operations there? Do you see any risk of disruptions because of all this instability?

Ivan Glasenberg
CEO & Director

Production...

Steven Kalmin
Chief Financial Officer

I mean just in terms of Katanga, it's a separately listed company. So that we're obviously limited to what we can say beyond their own reporting requirements. They have their -- they'll be reporting their own full year results with 60-days Canada, so by the end of February they'll have their own results. So you'll need to go by their latest guidance which is still the 150, 300, 11,000 tonne cobalt this year 34 and being able to average around that period. They're under the same continuous obligations as anything, so if there's anything material to update beyond that, they would have done that already. So you can assume that, that's still the way it is in terms of their cost guidance. Again, we can't give specific cost guidance beyond what they may give as a standalone entity. But from what numbers are fed up, we've baked in their cost performance and numbers into our $0.80 as we look into 2000, but we're not able to go into more granularity on the Katanga entity and so. But in terms of news on the ground?

Ivan Glasenberg
CEO & Director

Yes, news on the ground, you've got to remember, Katanga, we sit down in the Lubumbashi region, it's right down on the South, close to the Zambian border. We haven't seen disruptions over there. So there's no -- even when there have been further problems in the Northeast of the country, that's been -- it's happened there, very little happened down in the Lubumbashi area, so we haven't seen it for the moment. Now it's clear we cannot talk about the politics or what's going to happen there, so we just got to wait and see whether the elections take place at the end of the year.

Jason Robert Fairclough
BofA Merrill Lynch, Research Division

Just 2 quick ones for me. First on dividend. So Ivan, last year, you're talking about $20 billion.

Ivan Glasenberg
CEO & Director

Yes, screwed me.

Steven Kalmin
Chief Financial Officer

It was always just a timing issue, that's all.

Jason Robert Fairclough
BofA Merrill Lynch, Research Division

It just feels stingy, throw it out.

Ivan Glasenberg
CEO & Director

Talk to my CFO.

Jason Robert Fairclough
BofA Merrill Lynch, Research Division

Just the other one for me is on marketing. You did 3, 4 acquisitions last year. A lot of those seem to be designed to feed into marketing. So I'm surprised with Volcan, with the HVO operations that you're not raising the guidance band on those marketing earnings.

Ivan Glasenberg
CEO & Director

Yes, look, for the dividend, as we said, we already said 2:1 net debt-to-EBITDA, that was where the joke occurred, where I said the earnings would be -- EBITDA almost probably be $15 billion, the $14 billion, $15 billion, whatever we said on this. So 2x could have allowed us to pay a $20 billion dividend, there was the joke. But now we have said we want the debt to run between $10 billion to $16 billion, net debt. We will still maintain the 2:1 net debt-to-EBITDA, so that gives you an idea. Yes, it could be stingy, because we will generate $10 billion free cash this year. We'll take the debt down to 0. But then you do have the dividends and you do have -- we've still got to pay for HVO, potentially, the Chevron assets in South Africa. So most probably net debt would be down to $5 billion unless we do nothing else. And if you work on Steve's 16 year, it does give you room, of course. But we've got to sit tight. We will wait and see what happens in August, what other M&A may or may not occur in the company and then Steve will have to review the dividend in August, you said.

Steven Kalmin
Chief Financial Officer

Jason, it's also a matter of priorities. I mean we've set our sort of sequence of priorities. Let's get the debt down to the $10 billion, that's the catalyst to lift it. Let's get the BBB, the strong BBB sort of locked in. So you could sort of looking after your, obviously, the different sort of constituents of the structure. The cash is not going anywhere. I think we're as good as stewards of that cash for now in terms of internal holding on. We've got the opportunity in August then to come back and say the outlook, let's see the cash flow generation. Let's see the sort of opportunity set as well around what happens, if that's a more benign environment, which it is, difficult to buy assets today that meet one's return and you do generate that sort of cash flow, then the top up is, as I said, well and truly alive in the August period. The money is not going anywhere. We're currently, we're on a free cash flow yield, I don't know, 12.5%, 13%, 14%, whatever money, I mean the dividend yield is moving to 4%. That gap is now, we've gone through $10 billion, let's lock in the positioning around the structure. That gap has the potential to significantly narrow. And it's not a matter of years, this is live in a matter of sort of months.

Ivan Glasenberg
CEO & Director

We'll know a lot more in August. Well have a look, is our $20 billion real? Is our free cash flow $10 billion real? Do these commodity prices hold? And then we can assess it. Marketing. Why wouldn't we -- yes, look, let's see, we've got the Volcan, we've got the Hunter Valley, of course they would present opportunities, especially, Hunter Valley, the blending opportunities, et cetera, with our own tonnes to party tonnes, et cetera. And we just got to really get to grips with that and see what it does give us, we don't own it yet. We're just getting to grips with Volcan. And we'll see how it will affect that. I mean, we do adjust.

Steven Kalmin
Chief Financial Officer

Yes, I think I mean the key thing is ultimately the scale of business, that would be at the time you sort of say you've got meaningful depreciation scale of business from 1 point to the next, is that the trigger then to take a 3 -- sort of a 2.2 up to 3.2? So you're starting to see signs of that scale improving, clearly in zinc, and we've always had baked in the organic side of the business. These were latent capacity that we had in Africa or in some of the [schatten] zinc, so that was never incremental. But just sort of Volcans and HVOs and you do Chevrons, and you had some of these things at some point. And let's see where the agricultural business goes. I'm sure there will be a question on that at some point, so I'm just preempting that sort of questions going to come at some point. If that business itself sort of changes a bit overtime and we keep 50%, where do we end up, does it do something, does it do nothing, I mean, obviously -- we're obviously alive to opportunities here that would be another sort of volume-scale catalyst to potentially move things up at some particular point in time. But for now, it's still a sensible range, given cyclicality in this business, but we're pointing towards the delivery in the upper end.

Sylvain Brunet
Exane BNP Paribas, Research Division

Sylvain Brunet with Exane BNP Paribas. You talked about the ROE of marketing. In the past, we had the equity base to work out the numbers. Could you confirm we're talking probably more than 30% ROE as a guide? The second question on cobalt debottlenecking. Would there be other opportunities to add more as the one you've announced? Or was that more of a one-off, without requiring more CapEx? And lastly, perhaps, on the DRC. Of course, a moving situation there, but what would you say is an acceptable -- would be an acceptable outcome for the mining court?

Ivan Glasenberg
CEO & Director

Yes, firstly, the last question, I cannot comment what's acceptable. We've got to get into this negotiation. If the negotiation takes place, just like what's happening in South Africa where the new President has agreed that the mining industry will discuss the new code together with the Minister of Mines, I hope the same occurs in the DRC. And if it does happen, all of us as a group we'll get together with the Mining Minister and try find a resolution. Exactly what that is naturally, I cannot say today. And that's what we would all accept, we would have to get together and see what is reasonable to adjust. And if we do want to adjust, because we do have an agreement in place already. The other question, I think, was to you on the ROE, Steve, [I can't]...

Steven Kalmin
Chief Financial Officer

30% plus, we haven't given a specific number on that. But you can -- I mean, you can see the sort of the marketing working capital and we've sort of historically had your 80%, 20% type we've shown on the dividend sheet at the back around the sort of earnings that sort of come from that. So certainly 30% plus comfortably on the marketing ROE this year.

Ivan Glasenberg
CEO & Director

And on the cobalt, I think, what we set out and the growth of the cobalt taken to 65,000 tonnes was the figure. I think that's about it. I wouldn't expect that to expand much more.

Steven Kalmin
Chief Financial Officer

Within our existing footprint.

Ivan Glasenberg
CEO & Director

Yes, within our existing, if we buy something or something like that happens, that's different.

Menno Gerard Cornelis Sanderse
Morgan Stanley, Research Division

It's Menno at Morgan Stanley. Three short ones. First you've surveyed the field out there, you see clearly no Greenfield, as you pointed out, but quite a bit of Brownfield, including your own. Is it starting to concern you a little bit in terms of the momentum that is all those Brownfield expansions are creating? So not only your own but also the others. Secondly, do you think as a company you are now too big in certain commodities to take a next step in terms of all M&A? Or do you think given the growth in the markets since the Xstrata deal, you now have sufficient room to act in all of those? And finally, on China, clearly environmental measures you mentioned a couple of times, they must have some positive outcomes also for your smelter fleet in the Rest of the World as they start clamping down. Is that business under earning at the moment within Glencore? Is there a big earning opportunities from these smelters going forward?

Ivan Glasenberg
CEO & Director

The smelters are doing well. They definitely -- with China -- with the CapEx in China, certainly smelting in the West is not as bad as it used to be. So smelting is good. We also...

Steven Kalmin
Chief Financial Officer

TC/RCs are so tight and others [at the moment].

Ivan Glasenberg
CEO & Director

Yes, they're still tight TC/RCs, but the smelters give us good trading opportunities also and that's why we like the smelters having that advantage there. But going forward, let's see what happens with the shutdowns and how many smelters do really shut down in China. And let's see what happens in the TC/RCs going forward. The other one, are we too big in certain commodities that could we grow -- sorry, let's just go to your Brownfield story. Yes, we have some Brownfield opportunities, not -- they're good. We were not going to bring them on, unless, as we say, we will always look at the markets, we don't want to be the one to bring on capacity and push down markets. So we'll be conservative and ascertain when is the right time to bring them on. I wouldn't -- I don't believe the industry has massive Brownfield opportunities, I don't know where you see them, Menno. If you look at cobalt, they definitely don't have them. And if you look at copper, I don't know where it is, as well as, zinc no one has them. So there's not many Brownfield opportunities in these commodities. Of course, there are Brownfield opportunities in some of the other commodities, we see it in iron ore, et cetera. But I don't see those Brownfield opportunities that you talk about in these commodities. And that's what I'm saying, in most of these commodities there is limited supply. Yes, the third part of the question...

Menno Gerard Cornelis Sanderse
Morgan Stanley, Research Division

Your own size, because the Xstrata deal somewhat big, are you now [full] enough to do [other ones]?

Ivan Glasenberg
CEO & Director

We've always said, we will look opportunistically and ensure what happened in 2017, opportunities presented themselves to us. Now if you had told me this that the beginning of the year in 2017, would those opportunities come, were they there, we don't know. The opportunity occurred was Volcan because of our relationship with the family, et cetera, that came. Yes, Hunter Valley, I can't remember exactly when we did the deal. But yes, we're trying to do the deal, but it wasn't certain, we do it. We did a deal with the Chinese, eventually, after they were the winning bidder. So that opportunity came. Chevron opportunity came, you didn't know. So I don't know what's going to come going forward. Are we too big in certain commodities? What's big? As long as you don't have antitrust problems, there are certain mines where you can't grow because of antitrust. And then we'd have to assess it and see where the difficulties would occur. When we did buy Xstrata because of antitrust, the Chinese did -- we did have to dispose of Las Bambas...

Steven Kalmin
Chief Financial Officer

And Nyrstar at the time.

Ivan Glasenberg
CEO & Director

And the same with Nyrstar, when we had to give up certain amounts there. So yes, it could happen. But let's see. You've got to remember, copper we're still 1.6 million tonnes in a 23 million tonnes market. We've got, I think, we have room to grow, put it that way.

Myles Allsop
UBS Investment Bank, Research Division

Myles Allsop, UBS. A couple of questions. First of all, could you talk about your ambitions in the agri space? So you're still as keen as ever to grow in the U.S. area? Obviously, there's some moving parts there. And second, maybe going back to DRC, because no one seems to ask [the question] but what's your relationship with Gecamines like at the moment and this contract review, is that something we should be concerned about? And what comeback do you have if they do implement a new mining code as it is? Do you have to go through to the courts? Or what's plan B for you guys?

Ivan Glasenberg
CEO & Director

Yes, yes, in the DRC, what is our relationship with Gecamines, it's a partner in Katanga. As you're aware, they still own 30% of Katanga.

Steven Kalmin
Chief Financial Officer

25%.

Ivan Glasenberg
CEO & Director

25%, sorry, 25% of Katanga. Still we are talking to them on the recapitalization. So we'll see where that gets to. We cannot comment much more than that. I mean, you saw on the Katanga board, not much more we can say about that. It is a separate company, as Steve said earlier. What can we do? Yes, you do have the process, go to the courts. Yes, we do have agreements in place and if the new mining code changes the existing agreement which is in place, there is an opportunity to go to court. Hopefully, we won't have to go there and I hope we will find a resolution. Now, this is similar to what happened in Australia with the mineral resource tax, which came in place. The mining industry got together and we eventually did have a discussion with the government and there was a solution for it. So I'm hoping that the same will occur here. But as you say, I cannot give you guarantees and we'll see where it ends up.

Steven Kalmin
Chief Financial Officer

And ambitions in ag [business].

Ivan Glasenberg
CEO & Director

Ambitions in ag, sorry I forgot that, trying to avoid that one. Ambitions in ag, we did set up ag business with the joint venture partners with the 2 Canadian pension funds. The idea is to grow that business and we continue look at opportunities. We have clearly said, we would like to grow in the states. But as we said earlier, it's not growth for growth's sake. It's going to make economic sense. The ag business is in a poor state. It does need consolidation. We'd like to be part of that consolidation. And we'll wait for opportunities, like the rest of our business, if and when they come.

Alon Olsha
Macquarie Research

Alon Olsha, Macquarie. Just 3 questions, 2 related to costs. Cost inflation, obviously, establishing itself as a big theme now for those part of the cycle, certainly with your peers. Could you highlight areas in the business where you're feeling, I guess, the most acute cost pressures, what you're monitoring most closely. And just the second part of that question is, could you provide some of the assumptions underlying your cost guidance around some of the key byproduct prices and currencies? And then the third question is just on South Africa. New political dispensation there that's emerged, potentially very positive, still early days, but are you thinking potentially differently about South Africa? If things do develop in a positive direction, could you see yourselves reinvesting back in the country?

Ivan Glasenberg
CEO & Director

Steve can talk about cost. I'll take the first part of the question, South Africa. Yes, it is positive. It looks we are all sitting positive with Cyril Ramaphosa coming in as the President. It should be good for the country. Unfortunately, it's going to affect your cost because the rand has got stronger. So it has this win or -- win/loss on each side, but that is good for the country. So it does bode well for the country going forward. And so yes, we're happy to invest in South Africa. Even under the old regime, we still continue to believe South Africa would be okay as an investment opportunity. We did Chevron still under the old regime, so we've always happy to continue investing in South Africa. Of course, now you get more confident about the future with the new President. But we never pulled back out of South Africa and we continue to have big investments there with our coal, with our ferroalloys business over there and, hopefully, with oil refinery there and distribution units.

Steven Kalmin
Chief Financial Officer

Alon, on the costs, for the cost guidance that was used, it was all the macros, all the assumptions at the end of January. So if you look at what all the prices were end of January currencies at the end of January, that sort of set the markup from both the byproduct and the currency factor and all the other cost inputs, frankly, of which probably the oil price as a factor into the pricing of diesel and all the other attributes sort of clearly coming in. So it's a fairly up-to-date number around those cost assumptions. I would say all the cost pressures that we're seeing is generally those passive currency and commodity flow-through which is having that inflationary side in terms of dollar costs. We're not seeing any other particularly notable rampant areas of -- and CPI linked, CPI is going up in some [customer]. Some of your agreements are linked to sort of CPI adjustments that might be in contract, things that might be in some of the wage agreements that you might have as well. But the fact although the commodity prices are higher, it's not a -- given the capital that's being sent or administered, there's sort of competition for labor and work and intensity in the sort of normal factors that would feed into it is nowhere near where things were back in the 2007, '08 sort of period as well where you are having to scramble around just to get basic sort of talent around in the technical or geological or other sort of fashion that you have as well. So I would -- nothing particularly notable. It's 90% plus would be in just those passive sort of flow-throughs that would mathematically work through the system. We're not seeing anything that -- and individual countries, of course, to the extent that, I mean, Australia has obviously got energy. They've got high energy inflation down there because of some -- arguably some bad policy management around how they've managed sort of transitions and these things. So things like the refinery in Townsville, we have there had to go towards sort of getting a new long-term power agreement which could have been worse but it did -- it was quite a big increase because of what happened down there.

Christopher LaFemina
Jefferies LLC, Research Division

Its Chris LaFemina from Jefferies. I have a question about your EBITDA waterfall chart on Exhibit 9 and unit cost on Exhibit 10. And also a question about the cycle. So first on the EBITDA waterfall chart. If we take 2016 EBITDA $7.2 billion, add the impact of price that gets to the $13.5 billion. But then you have $2 billion of reductions due to cost inflation, et cetera, which is a little bit surprising when your unit costs in each of your segments other than coal are either flat or down. And when we think about our kind of 2018 on spot prices, that $19.7 billion of EBITDA, are we expecting what portion of that increase from 2017 to 2018 EBITDA is a function of price? And then what portion of it is a function of those other factors like volumes and costs actually being a tailwind for your revenue headwind? That's the first question. Does that make sense? Sorry. Second question on the cycle, maybe kind of related to what Jason was asking about projects. The fact that we're maybe entering a higher interest rate, higher inflationary environment, does that -- is there a danger here that mining companies begin to focus more on growth and less on capital returns? When we think about the benefit of 5% dividend yield, when interest rates are 0, that's great. When interest rates are 3%, 4%, suddenly there is maybe more an incentive to invest in growth rather than capital returns. And ultimately, do you think there is a risk here that higher interest rates, higher inflation is a catalyst to kill the cycle? Or is that not something that we really should be worrying about this point yet?

Steven Kalmin
Chief Financial Officer

Okay, quite detailed questions there, Chris. We probably need a few hours to run through, if we want to get into the weeds of some of those questions. I mean 2017 was a period where we were still adjusting volumes to being in sort of containment and supply constraints around sort of looking to sort of accelerate markets getting to a more sort of tighter period. So we -- if you take ferrochrome and some of these things, you've seen if you look quarterly across our different volumes there, you've got a very volatile market, and from time to time you'd accelerate maintenance, you'll bring things forward, then you'll sort of turn things on. So we went through a period over the last couple of years across most of our commodities where some of that was clearly also focusing on optimizing around the book. So we had see -- we did see some -- there was some volume reductions as we went from '16 to '17, which did feed into that, some of which was planned, some of which was unplanned. I mean, these things happen from time to time in the industry, I'm pretty confident about our volume guidance this time around as being sort of more on the conservative end. So let's see how we deliver there and we'll come through in quarter 1. So the volume impact we have there was power issues down in Zambia, which that operation then lowered output for a while, which in turn had the flow on effect of reducing asset supply across the border into Mutanda, which then impacted some cobalt and some copper production down there. So you've seen quite a material impact through that supply chain come through. You've seen the strike impact over in Australia, I think we've quantified that across the New South Wales, one was relatively short, we still have one up at Oaky Creek, I think that was the best part of 6 million, 7 million tonnes at least. Some weather-related issues in Colombia, a few sort of gray things. So those I would say sort of popped it down to specific sort of '17 and now we are going copper, coal, cobalt in particular, you'll see that not acting as a tailwind. And the 2 of them work together when you have those volume reductions, you'll have some impact on your cost as well. What we've had to do also in Australia during periods we have some strike action like you're bringing in the temporary workforces and contractors and alike. So you're just keeping the lights on in the sensibly way ultimately, but that's incurring shorter terms and added cost to the business [growth]. You've also got these other, which I would categorize as positive more passive cost impacts which would -- which we put into that cost line. Arguably, you can put net of pricing, some of the royalty adjustments, if you like, in coal as well. So we're paying higher royalties across Colombia, South Africa and Australia, they're feeding into our costs. They totally linked to that improvement in the coal price. Arguably, you can push that revenue linked over into as a net cost impact as opposed to some sort of headwind that you have. The increase in fuel cost, in [passive], in diesel and the weaker U.S. currencies which also contributed the sort of $322 million. I would also argue that, that's in the sort of that good consequential cyclical passive inputs that come through. So that should -- and obviously the byproduct helps in our business, and maybe we're more endowed in some of the byproducts, it's a function of pure geology on these things and you have it or you don't have it. And we happen to have a good portfolio mix across there which is sort of as we then march from '17 and hopefully moving up 46% you're going to see -- I don't think -- I mean, you shouldn't see other than that positive revenue linked inflation passive flow-through, I think you're going to see green, green, green as we sort of look towards that box in...

Christopher LaFemina
Jefferies LLC, Research Division

So we're definitely $11.5 billion going to the $19.7 billion roughly what portion of that is in price, what portion of that is [indiscernible].

Steven Kalmin
Chief Financial Officer

I can't give you specifics on that at the moment, but it's not going to look like this shape in terms of these things. It's going to have positive volume clearly. Cost is only going to be a function of inflation and those factors that come through. Byproducts, which we said, is the way that we've held our unit cost is going to come through the price line. The cobalts, the zincs, the leads, all these products and zinc and alike is going to come through price and not through the -- in terms of unit cost that's how the industry tends to report these things. Now we can report in a variety of ways, but that's how we look at these particular projects. And the quality of the cash generation from a Kazzinc, from a Katanga, from a Antamina, from all these other businesses that are contributing the significant byproducts. And then FX is going to be a bit of a tailwind from now, let's see what happens with the dollar.

Ivan Glasenberg
CEO & Director

And then on the other part of your question, the growth and higher interest rates. So high interest rate naturally proves inflation that we're going to high commodity prices, so that's the upside. So there maybe with higher commodity prices, yes, our competitors and everyone's going to look to grow and you will eventually have the Greenfield starting. The world's going to have to have it at some stage. If you believe what we've said earlier, where the demand growth copper going, 500,000 tonnes, et cetera, and what's going to happen in a lot of the commodities and the decline rates in a lot of the existing assets today, we're going to have to Greenfields some say. However, if you look at the various different -- firstly, everyone has been put on hold, you guys have -- investors have ensured that now it's all about cash versus return of cash to shareholders, which everyone is disciplined and is doing that today. And there's not a big rush to build new operations. And it's one of the first times I've seen in the industry where if you look across the industry, how many new mines are being built today in all commodities. We already talked about Panama, where else is the new mine coming onstream. That there are a few Brownfield opportunities, which we discussed earlier but not many. There's not many. Maybe in iron ore there is but in our commodities in copper, in zinc, in nickel, maybe there's stuff where people can expand down in Indonesia, et cetera, is nickel ore and nickel pig iron can be produced. Thermal coal, Indonesia is tougher, as I said earlier. So I don't know where you're going to get these big -- okay, Brownfield's not there. Big Greenfields? Not that many. Who owns those reserves? So it's getting tougher. And most these Greenfields are going to be in the more difficult countries. Look where you're going to go today. We're not going to the easy countries, you're not going Australia, you're not even going South Africa. There's [empty] Greenfields down there. So where do you have to go? You're going to go to DRC, yes, and you have Ivanhoe over there trying to develop Kamoa. You're going to go Mongolia. You're going to the tough -- you're going to Russia. There will be potentially growth in Russia when does [indiscernible] eventually get developed. But I don't see many of the big mining companies running to those areas today. So people are going to have that courage, but it's going to be difficult, because you're going to areas, limited infrastructure, harder to develop the large mines and more difficult regions. And with the mining code, potential of mining code is changing, as we're just experiencing in the DRC today. We don't have the same stability that you get in the better countries. So I don't see many people running to these Greenfield areas today. So it's going to get tougher.

Tyler Anson Broda
RBC Capital Markets, LLC, Research Division

Tyler Broda from RBC. Just a quick one for me. Just on the coal portfolio mix, seeing the EBITDA reconciliation for spot, that it's a $16 impact at the end of January versus $10 at the full year. You mentioned the footnote is the hard coking coal and semi-soft as well as HVO, could you just talk about some of the dynamics going on there?

Steven Kalmin
Chief Financial Officer

That's a mathematical -- thanks, Tyler, I mean, for us it's -- I mean, we're trying to give a sort of putting into right buckets, so everyone sort of can see a Newcastle price on their screen, but coal is hugely segmented across different qualities, different markets, different grades, different blends, different origins, some markets stronger, some markets weaker any particular times. So you've seen some of the premiums and discounts between certain types of coal. I mean, I'm not going to say record levels, but they're at much high levels than maybe would have been either expected or even historically been witnessed, you're seeing it in iron ore, you're seeing it in various other grade factors. So what we do, we could have just given you an average realization and we could be done, but we always like to start at a Newcastle, a benchmark price because that drives the significant part of our volume, but that doesn't necessarily drive the Colombian realizations, it doesn't drive all of the South African realizations, it doesn't drive all of the Australian realizations either. I mean, the thing that HVO is actually it does tend to take you more towards -- way more towards that market which is ours. So just a mathematical calculation, when we do all our numbers, run all our pricings at a particular point in time, we started at a Newcastle benchmark and then work our way. So the higher that number may come at any point in time, clearly it's reflecting some of the indices and discounts between different origins and different realizations. And also the way what we do inside that number as well, we effectively treat the, because we're a small play in the Coking coal market, it's almost treated like a byproduct for the purpose of that buildup in EBITDA. So where you had the higher prices that we saw in towards last year when you saw what close to the high $300 or something in coking coal. Now we're in the sort of $200 or something in the semi-soft and that's been a very volatile market clearly as well. That the higher that is, it also mathematically narrows our discount there in terms of the byproduct, the sort of net realization if you apply it over the 130 or so tonnes. So it is a complicated overall buildup of cash generation given qualities and exposures and blends and at time, and it just reflects the byproduct of coking and the different quality at the particular point in time. And we'd look to -- that's why we do try and guide in that area as well we sort of can because it's not easy that's -- I mean, we obviously model it. We have all the drivers to be able to do that. It is the hardest one for you guys at the room and the marketplace itself to be able to at any point in time appreciating exactly what's happening across all the different blends and realizations. And some of it is lagging because you got pricing that might be quarterly. You've got some annual -- this sort of reflects also some of the realizations that we expect.

Ivan Glasenberg
CEO & Director

And there's so many different brands of coal within the group, even just within South Africa, if you talk API4, that's a guideline, but then we got many different coals which don't trade at API4 and the discount to API4 and you're selling today into India 4,800 kilocal coal as opposed to API4, which is a much higher kilocal coal, so the discounts and the discounts vary from time to time. So that's the tough one to sort of get to the right number.

Steven Kalmin
Chief Financial Officer

And we'll try and guide and update as regularly as makes sense because that is the one -- that one needs more of a steer around how things are developing in that market compared to the others much simpler.

Tyler Anson Broda
RBC Capital Markets, LLC, Research Division

And just as a follow-up. There's no real correlation then between higher prices meaning a higher portfolio mix discount in thermal prices if they go up? It's just been a dynamic of how the market has moved into...

Steven Kalmin
Chief Financial Officer

It's a dynamic relative to the gap between higher and lower pricing and what the coking coal impact is having in that particular mix as well [indiscernible].

Myles Allsop
UBS Investment Bank, Research Division

It's Myles Allsop. Just on zinc. Could you just give us a sense as to how you see the market evolving over the next couple of years? Because we have got Johannesburg, Dugald River. New Century and yourselves ramping up. There's quite a lot of supply of fields, more than we've seen for the last 5, 10 years sort of coming into the market sort of outside China. And then just the recent starts of domestical produce in China seems to step up a bit. Do you think China has sort of addressed some of the environmental issues? And would your base case be that China keeps grinding down in terms of mine supply?

Ivan Glasenberg
CEO & Director

Look, you've got to look at the zinc market was at 13 million tonnes, what is growth with the emerging markets and galvanizing which we spoke about. Assume it grows 3%, et cetera, so you do need more supply. Now the question is you talk about we've gone up. We haven't gone up much. What we're adding this year, okay, besides other things a 90,000 tonnes roundabout there, and we'll be cautious on the balance. What else is coming up? You do have the one mine shutting in South Africa and the other mine coming on from Mutanda that will add a bit, but nothing big, because you do have the one shutting down, what's it called, Johannesburg. So there's not having Century, we talked about Century, let's see what happens with Century. And I don't want to talk about another company. But they are taking on old pit, I don't know the exact numbers they are talking, they're going to be producing, let's see what eventually happens there. You talk about China, look, commodity prices, zinc rallied last year, we got up to where we got 3,500, et cetera, and everyone was expecting Chinese production to increase, it didn't. It, in fact, decreased. So the environmental restrictions are taking its toll. Going forward, hard to predict, we're just starting, okay, we've hit Chinese New Year -- [let's see] post Chinese New Year, with high zinc prices do we expect them to continue to grow? Talk to our zinc guys, it's hard one to call anything that happens in Chinese more difficult call, but we don't see it right now.

Paul Smith
Former Head of Investor Relations

Any more questions?

Myles Allsop
UBS Investment Bank, Research Division

One quick question on hedging. Any thoughts about especially in the case of thermal coal where the forward curve is pretty robust right now, any thoughts about hedging future production there?

Ivan Glasenberg
CEO & Director

Yes, look, we took a hedge a while ago when we -- when the balance sheet was in the [top] of shape it's in we wanted to [indiscernible] the cash flows there, derisking. We also sold a lot on index and we wanted to lock out the index. We do have fixed pricing today. We continue having fixed pricing. You don't see it on the hedging mark-to-market, the Japanese settlement is fixed pricing. Fortunately, you don't mark-to-market because you're selling actual physical coal, it's not the index. The other one was where we sold into Europe in a larger amount of coal sold on index and we wanted to hedge there. We continue to selling a large amount of coal on index. So I don't see anyone -- I don't -- we've no reason to hedge from a financial point of view. Where we see the market, we don't think it's necessary to hedge. So we're pretty relaxed, we don't have hedges right now. But we do have a lot of index sales and the opportune time may come where you may want to lock out some of those index sales, and then you will have your mark-to-market on hedge. But we have a lot of -- we will have, as we fix our Japanese pricing, we've done a certain amount, we will do more. I think it's toward April or whatever it is we will do our next pricing that will be locked in at a price. You won't see it, it will be announced as usual, but you won't see it on the mark-to-market on hedge. So these are bit of hedged coal in that type of area.

Steven Kalmin
Chief Financial Officer

But the drivers that sort of led to that sort of hedging derisk decision back in it was in the middle of second quarter 2016 or so at that time are sort of completely different with where we are today.

Ivan Glasenberg
CEO & Director

Yes. Different situation.

Steven Kalmin
Chief Financial Officer

So if there's any other things, it's more likely to be short term or tactical sort of things that happened but nothing on the...

Paul Smith
Former Head of Investor Relations

Okay. That completes the call. Thanks a lot.

Ivan Glasenberg
CEO & Director
Thank you. Thank you very much.