

# GLENCORE

## GLENCORE PLC

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Baar, Switzerland

11 April 2023

## Glencore submits reply to Teck and proposes modifications to offer cash in respect of value of coal business

Glencore plc (“Glencore”) announces that it has submitted a reply to the letter from the Board of Directors of Teck Resources Limited (“Teck”) dated 3 April, in which it responds to certain of Teck’s stated concerns regarding the Proposed Merger Demerger and proposes certain modifications to the terms of the Proposed Merger Demerger.

Glencore continues to believe that CoalCo’s combined thermal and coking coal assets would position it as a leading, highly cash-generative bulk commodity company which would attract strong investor demand given its yield potential. However, Glencore acknowledges that certain Teck investors may prefer a full coal exit and others may not desire thermal coal exposure.

Accordingly, Glencore has proposed to the Teck Board to introduce a cash element to the Proposed Merger Demerger to effectively buy Teck shareholders out of their coal exposure such that Teck shareholders would receive 24% of MetalsCo and US\$8.2 billion in cash. This valuation is in line with both (i) the implied enterprise value of Elk Valley Resources (“EVR”) and the Transitional Capital Structure owned by Teck shareholders based on the Nippon Steel investment under the proposed standalone separation into Teck Metals and EVR (the “Proposed Teck Separation”), and (ii) the upper end of the valuation ranges of EVR provided by Origin Merchant Partners, in its fairness opinion to the Special Committee of the Teck Board.

As Glencore remains enthusiastic about the merits and prospects of CoalCo and expects a significant proportion of Teck shareholders to share our view, Glencore is also prepared to offer a combination of cash and/or CoalCo shares (up to 24%, if all Teck shareholders were to elect shares rather than cash) on the basis of the above.

If a transaction were to materialise, Glencore would manage its balance sheet through to closing, consistent with its current Shareholder returns framework, such that MetalsCo would continually consider the above cash element (from zero up to US\$8.2 billion) as part of its previously highlighted c.US\$8 billion pro-forma net debt cap, down from Glencore’s currently applied optimum net debt maximum level of c.US\$10 billion.

Glencore continues to believe that the respective Glencore and Teck businesses are uniquely complementary and that the creation of MetalsCo and CoalCo through the Proposed Merger Demerger is a compelling opportunity to create material value for the companies’

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shareholders, through delivering a truly standalone MetalsCo and CoalCo, and that opportunity will be lost if Teck instead proceeds with the Proposed Teck Separation.

The full text of the letter from Glencore to the Teck Board is set out below and available on our website.

### **Letter to the Teck board**

Board of Directors  
Teck Resources Limited  
Vancouver  
British Columbia  
Canada

Attention: Ms. Sheila A. Murray, Chair of the Board  
Mr. Jonathan Price, Chief Executive Officer and Director

11 April 2023

Dear Directors

### **Re: All-Share Merger between Glencore and Teck and simultaneous demerger of combined coal and carbon-intensive businesses**

We refer to your letter dated 3 April 2023 and subsequent public announcements and presentation that reject our proposal for an all-share merger between Glencore and Teck and the simultaneous demerger of combined coal and carbon-intensive businesses (the "Proposed Transaction").

### **Glencore is Willing to Provide Teck Shareholders with a Cash Alternative to Coal**

Glencore continues to believe that CoalCo's combined thermal and coking coal assets would position it as a leading, highly cash-generative bulk commodity company which would attract strong investor demand given its yield potential. However, we acknowledge that certain of your investors may prefer a full coal exit and others may not desire thermal coal exposure.

Accordingly, we are prepared, as a modification to the Proposed Transaction, to introduce a cash element to buy your shareholders out of their coal exposure such that Teck shareholders would receive 24% of MetalsCo and US\$8.2 billion in cash. This valuation is in line with both (i) the implied enterprise value of Elk Valley Resources ("EVR") and the Transitional Capital Structure owned by Teck shareholders based on the Nippon Steel investment under the proposed standalone separation into Teck Metals and EVR (the "Proposed Teck Separation"), and (ii) the upper end of the valuation ranges of EVR provided by Origin Merchant Partners, in its fairness opinion to the Special Committee of the Teck Board.

As we remain enthusiastic about the merits and prospects of CoalCo and expect a significant proportion of Teck shareholders to share our view, we are also prepared to offer a combination of cash and/or CoalCo shares (up to 24%, if all Teck shareholders were to elect shares rather than cash) on the basis of the above.

### Issues Raised by Teck are Overstated

We believe that the majority of the issues that you have identified in your letter and subsequent communications are overstated, based on incorrect assumptions and facts regarding both Glencore and the Proposed Transaction, and could easily have been addressed had the Teck Board engaged with us. The following are a few examples of these incorrect assumptions and facts:

1. **Synergy and Re-Rating Potential.** We believe that our synergy and re-rating estimates are conservative and build on the work that we completed in 2020. Our synergy estimate is supported by our experience with the Xstrata transaction and recent Cavilon transaction, where we have seen first-hand the level of synergies that we are able to achieve;
2. **Separation Timing.** We have done detailed structuring work on the Proposed Transaction, the demerger would be effected within days of the merger of Glencore and Teck, and there would be no risk of MetalsCo continuing to hold the coal assets;
3. **Regulatory Risk.** We have done detailed regulatory analysis with our advisors based on publicly available information and our extensive knowledge of these markets, leveraging the work that we did in 2020. Based on this work, we are of the view that the antitrust risk in relation to the Proposed Transaction is not material, and that completion should be achievable within 12 months from the announcement of a transaction;
4. **Operating Jurisdictions.** Glencore has no operations in Russia and only immaterial investments in Equatorial Guinea, which we do not operate. Our assets in the DRC and Kazakhstan would represent only c.15% of MetalsCo's EBITDA; and
5. **Oil Trading.** Oil marketing forms part of our Energy Marketing division where oil is becoming less material versus the growing business lines of LNG, Carbon and Power (key elements in the energy transition). Oil would therefore be immaterial for MetalsCo with traditional crude oil and products marketing accounting for less than 10% of MetalsCo's cashflow in the medium term. Glencore does not have any managed upstream oil exposure and its oil business is mainly made up of pure merchant/distribution trades (note that Glencore no longer trades Russian origin oil as per our policy on Russian origin business). In contrast, Teck Metals is expected to have more than 50% of its cashflow derived from EVR's coal operations for a number of years. This is multiples higher than Energy Marketing's contribution to MetalsCo, and, as a result, exposure to carbon-intensive businesses is materially more likely to have a negative impact on Teck Metals' trading performance than on MetalsCo's trading performance.

## The Proposed Transaction Offers Teck Shareholders a Superior Alternative

We continue to believe that the Proposed Transaction, being a merger and not a takeover, provides a compelling value proposition to Teck shareholders who will fully/disproportionately participate in the value creation, synergies and upside, and is a superior transaction to the Proposed Teck Separation:

- **Creates Two World-Class Companies.** Our Proposed Transaction creates two world-class standalone companies that would independently operate at scale;
- **Pathway to Truly Separate CoalCo from MetalsCo and Provide Investors with a first class ESG Investment Option.** Our Proposed Transaction truly separates CoalCo from the Metals business whereas the Teck Separation Proposal requires material intercompany funding arrangements for a period of 7-11 years;
- **Immediate Premium to Shareholders and Long-Term, Sustainable Value Enhancement.** The proposed exchange ratios provide a compelling and immediate premium of 22% to Teck B's undisturbed share price prior to your disclosure of our proposal on 3 April 2023;
- **Material Synergies.** On a per share basis, Teck's share of the US\$4.25-5.25 billion of post-tax synergy value equates to an additional 5-7% of Teck B's undisturbed share price; and
- **Re-rate and Value Creation Opportunity.** On a per share basis, Teck's share of the potential re-rate of at least 0.5x EBITDA, or US\$15bn of value, over the near term equates to an additional 19% of Teck B's undisturbed share price, and over time, we firmly believe that the scale and quality of MetalsCo and CoalCo would result in further outperformance.

In aggregate, the Proposed Transaction would therefore deliver Teck B's shareholders an aggregate value uplift of c.48% relative to Teck B's undisturbed share price (or the equivalent of US\$9 billion).

In contrast, we believe that the Proposed Teck Separation will not result in any material value uplift to Teck shareholders. As noted above, Teck Metals is expected to have more than 50% of its cashflow derived from EVR's coal operations for a number of years, so it is far from a pure-play metals company.

Further, the trading activity in the shares of Teck indicates that the market agrees with our view that the Proposed Transaction represents a superior opportunity to the Proposed Teck Separation. On 21 February 2023 (the date of Teck's announcement of the Proposed Teck Separation), Teck B's share price declined 2%, and from that date through the day prior to 3 April 2023 (the date of Teck's disclosure of our proposal), Teck B's share price underperformed its diversified mining peers' share prices<sup>1</sup> by 8%. In contrast, on 3 April 2023, Teck B's share price increased by 20%.

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<sup>1</sup> The median change in share price of Anglo American, BHP, Glencore, Rio Tinto, South32 and Vale.

\* \* \*

We therefore believe that there are sufficiently clear merits to the Proposed Transaction that it is worth engaging to ensure that we are able to fully explore all aspects of the Proposed Transaction and that there are no misconceptions regarding the Proposed Transaction.

In this regard, we acknowledge that there is limited time before the vote on the Proposed Teck Separation. We believe that it is in your shareholders' interests to engage with Glencore and we see no valid reason not to delay your shareholders meeting in respect of the Proposed Teck Separation in order to allow for discussions and due consideration of our Proposed Transaction for the benefit of all of your shareholders.

Yours faithfully,

Gary Nagle  
Chief Executive Officer  
**GLENCORE** plc

**For further information please contact:**

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This announcement contains inside information.

**Glencore LEI:** 2138002658CPO9NBH955

**Notes for Editors**

Glencore is one of the world's largest global diversified natural resource companies and a major producer and marketer of more than 60 commodities that advance everyday life. Through a network of assets, customers and suppliers that spans the globe, we produce, process, recycle, source, market and distribute the commodities that support decarbonisation while meeting the energy needs of today.

With around 140,000 employees and contractors and a strong footprint in over 35 countries in both established and emerging regions for natural resources, our marketing and industrial activities are supported by a global network of more than 40 offices.

Glencore's customers are industrial consumers, such as those in the automotive, steel, power generation, battery manufacturing and oil sectors. We also provide financing, logistics and other services to producers and consumers of commodities.

Glencore is proud to be a member of the Voluntary Principles on Security and Human Rights and the International Council on Mining and Metals. We are an active participant in the Extractive Industries Transparency Initiative.

We recognise our responsibility to contribute to the global effort to achieve the goals of the Paris Agreement by decarbonising our own operational footprint. We believe that we should take a holistic approach and have considered our commitment through the lens of our global industrial emissions. Against a 2019 baseline, we are committed to reducing our Scope 1, 2 and 3 industrial emissions by 15% by the end of 2026, 50% by the end of 2035 and we have an ambition to achieve net zero industrial emissions by the end of 2050. For more detail see our *2022 Climate Report* on the publication page of our website at [glencore.com/publications](https://www.glencore.com/publications).

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