Teck Resources

Canada, Mining

Accounting		Climate Assumptions		Audit		Date of analysis: April 19 2021
Judgements	Consistency with other reporting	Visibility	Paris alignment	Visibility in CAMs	Consistency check	Year end: December 2020 Report date: February 25 2021 AGM: April 28 2021
Significant concerns	Significant concerns	Some concerns	Significant concerns	Significant concerns	Significant concerns	CA 100+ company, so seen by investors as key to driving global net zero emissions

Summary view:

- In spite of an aim of being a carbon neutral operator by 2050 and some specific targets set on the way to this – and pride in the relatively low carbon intensity of operations – there is no clear read-across from the narrative reporting disclosures and the financials. The company appears to ignore the high Scope 3 emissions of many of its products.
- While the company provides useful insights on commodity prices and details on relevant sensitivities, there is no apparent linkage between these datapoints and climate-related expectations.

Background

The Business

- Teck is a diversified mining company with 4 principal mineral segments: metallurgical coal, copper, zinc and oil sands. Even given the pandemic-related downturn in demand in 2020, the metallurgical coal operation is the largest by revenues, followed by zinc and copper, though copper was the most profitable. In prior years, the metallurgical coal business has delivered around half of overall sales, and around two-thirds of profits. At the reduced levels of production, 2020 sales of metallurgical coal would have generated 64m tonnes of CO_2.
- The oil sands business, a minority stake in an operation led by Canada's Suncor, is small by comparison, and took a C$1.2bn impairment in the year; a wholly-owned oil sands project was abandoned in 2020, resulting in a C$1.1bn impairment taken in the 2019 financials.
- Teck's shareholder base is dominated by Japan's Sumitomo Metals & Mining, in joint venture with the Keevil family, and assisted by a dual class share structure enjoying 100x voting rights. China Investment Corp is a major shareholder in the lower-vote B class shares.

Approach to climate change

- Teck has a stated objective to be carbon neutral across all operations and activities by 2050.
- It already faces existing carbon pricing mechanisms on its Canadian operations (on emissions from the operations themselves not Scope 3 emissions), either at the state or territory level or under a federal approach. Prices are rising from at least C$30 per tonne of CO_2.
- The company acknowledges that climate change is already having physical impacts on its business, in particular in relation to water availability.

Accounting: judgements and consistency with other reporting

Accounting judgements		Significant concerns

- The company applies IFRS financial reporting standards.
- There appears to be no reference to climate change in the notes to the IFRS financials. It is not apparent that any consideration of climate has been built into the numbers.
- PP&E related to mining activities, and the mines themselves, are all depreciated on a units of production basis making valuations wholly sensitive to assumptions regarding the scale of the mineral bodies and their financial recoverability. Mines overall are valued at C$14.5bn on the balance sheet; at the lower levels of production in 2020 depreciation was C$288m (down from C$325m in the prior year), implying mine lives approaching 50 years. Climate impacts do not appear to be referenced in these assessments.

- The company has decommissioning provisions of C$3.2bn on its balance sheet, up almost C$1bn in 2020 predominantly because of (unspecified) changes to interest rate assumptions. A reduction in the life of some mining assets would bring these liabilities nearer and so potentially lead to a significant increase in liabilities. Furthermore, water quality management liabilities represent C$1.2bn of the total and some extend for periods of more than 100 years. These costs may be adversely impacted by the physical effects of climate change.

Consistency with other reporting		Significant concerns

- The Annual Report, incorporating financial statements and MD&A, is published alongside a proxy circular and annual information form.
- In contrast to the financials, climate change is discussed in the narrative element of the Annual Report, predominantly in relation to government actions, both in terms of taxes on carbon emissions (rising from C$30 per tonne) and a national aim to be net zero by 2050. As part of this plan, carbon prices are due to rise to C$170 a tonne by 2030.
- The MD&A also references physical impacts of climate change in terms of water shortages.
- The Sustainability Report was released two weeks after the other annual reporting. It is in this that the aim to be a carbon neutral operator by 2050 is broken down into nearer term goals, such as reducing carbon intensity of operations by 33% by 2030 and deadlines for using renewable energy.
- The proxy circular refers to climate change being a factor in executive bonus awards, but the metrics used to assess delivery, and the relevant assessment during the year, are not disclosed.
- None of these elements appears to be clearly reflected in the financial statements.

Climate assumptions in accounts: visibility and Paris alignment

Visibility of climate assumptions in accounts		Some concerns

- Despite a lack of linkage to climate issues, there are disclosures in Teck's discussion of impairments that are useful to investors. In particular, it reveals assumed future commodity prices. These include $150 a tonne for metallurgical coal and $46 per barrel for heavy oil. The latter is a reduction from the $50 assumed last year, though the biggest driver of impairments was a significant increase in the assumed discount rate, from 5.4-6% up to 6-8%.
- Teck provides specific sensitivity analysis for the Fort Hills oil sands operation, noting a C$100m reduction in value for each $1 reduction in the oil price per barrel. Sensitivities in relation to metallurgical coal reveal that a drop in prices greater than 5% would lead to potential impairments.
- There is no explicit discussion of climate in these disclosures, and the visibility of assumptions in other key areas, such as decommissioning provisions and PP&E, is weaker, and sensitivities absent.

Paris alignment		Significant concerns

- The pricing for the oil sands production does not appear to be aligned with the goals of the Paris Agreement.

Audit: visibility in CAMs and consistency check

Audit firm: PricewaterhouseCoopers LLP	Responsible partner: Mark Patterson
Audit standards: PCAOB standards	

Visibility in Critical Audit Matters		Significant concerns

- There is no explicit reference to climate change in the auditor's report.

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- There are 3 CAMs identified: (i) metallurgical coal goodwill impairment; (ii) Quebrada Blanca goodwill impairment; and (iii) impairment of Fort Hills oil sands unit.
- All 3 CAMs involve assessments of likely future cash flows and so require commodity price assumptions. Even the Fort Hills impairment CAM makes no reference to climate change matters and its implications for oil price assumptions and the recoverability of the resources.
- The references to the use of advice from specialists do not refer to specialists in climate change or CO2 markets. The only specialists referenced in the auditor report assisted on evaluating the discount rates used for the impairment assessments.

Consistency check		Significant concerns

- PCAOB audit standards require the auditor to read other information that is presented together with financial statements and the auditor's report thereon. The auditor's report is silent on the outcome of the review, which implies that no material inconsistency was identified in the other information within the Annual Report.
- The Annual Report appears to be internally consistent, given the minimal discussion on climate change in the narrative reporting and the fact it appears to be ignored in the financial statements.
- The Sustainability report is assured by the same office of PwC as performs the audit. The signing date was two weeks later.

$ are US$ unless otherwise stated

The Climate Accounting Project is an independent investor-led project to reinforce the statements of the IASB and IAASB that material climate change issues are incorporated within their standards. This analysis seeks to understand the extent to which companies and auditors are delivering against this aspect of these standards and similar local standards.		**Key**
		Good practice
		Few concerns
		Some concerns
		Significant concerns

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