We have delivered both record Adjusted EBITDA and significant cash returns to shareholders in 2018. With our attractive commodities and high margin assets, we look to the future with confidence.

A record performance in a challenging environment

We are pleased to report that we have delivered both record Adjusted EBITDA and significant cash returns to shareholders in 2018. Reflecting the strength of our uniquely diversified business model and commitment of our people, we achieved these results in a challenging operating environment, marked by deteriorating market sentiment as well as some company specific challenges.

The prospect of synchronised global economic growth greeted the start of 2018, supporting positive commodity fundamentals and prices. However, by the end of H1 and into Q3, a strong US dollar, increased volatility and heightened US trade policy tension, began to weigh on broader markets, with widespread concern around sustainability of Chinese growth also resurfacing.

Industrial metals bore the brunt of increasingly negative sentiment in the second half, although average 2018 prices were generally higher year-on-year, e.g. nickel +26%, thermal coal +22% and copper +6%. While most commodities ended the year materially lower than where they started, thermal coal was broadly unchanged, as demand for high quality coals remained robust against a backdrop of limited reinvestment in supply.

Notwithstanding the volatility in commodity prices, like previous years, underlying demand for our key commodities remained generally healthy throughout the year.

The year also brought specific challenges for Glencore, commencing in the form of a number of issues at our copper and cobalt operations in the Democratic Republic of Congo (DRC), including those arising from sanctions imposed on Dan Gertler, Katanga’s deliberations with Gécamines over the required recapitalisation of its main operating subsidiary (see note 33), a new mining code introduced in 2018 and the recent appearance of excess levels of uranium in the cobalt hydroxide being produced at Katanga.

Katanga resolved the matter with Gécamines in a constructive manner, while after careful consideration of its legal and commercial options and obligations to a broad stakeholder universe, Glencore settled its dispute with the various entities affiliated with Dan Gertler, in a manner that sought to appropriately address all applicable obligations and concerns.

In contravention of the applicable stabilisation protections afforded by the previous mining code, the new mining code includes significant immediate changes to royalties, various taxation requirements and repatriation of profits. Given the legal risks of non-compliance, our DRC subsidiaries are currently complying with the new code “under protest”. We hope to be able to negotiate a reasonable resolution with the DRC government on various key issues during 2019, but remain willing to take the necessary steps to protect our legal rights.

In early July, a Glencore subsidiary received a subpoena from the United States Department of Justice (DOJ) to produce documents and other records with respect to compliance with the Foreign Corrupt Practices Act and United States money laundering statutes. A committee comprising only Independent Non-Executive Directors, led by our Chairman, Tony Hayward, is overseeing the Company’s response to the DOJ investigation. We take ethics and compliance seriously and are cooperating with the DOJ.
Commodity fundamentals still positive
Post the peak in mining sector capex some six years ago, sector reinvestment has remained limited, the growth capex pipeline has contracted and the demand backdrop has been solid.
This underpinned favourable fundamentals for a number of our key commodities, including copper, nickel and thermal coal. In the case of our key base metals, inventory drawdowns have reduced stockpiles to record lows in some instances.
As we move through 2019, should market supply side data prove correct, inventory drawdowns are likely to continue beyond already critical levels for some commodities, in the absence of a material demand slow-down.

Strong financial performance
Higher average commodity prices in 2018 underpinned an 8% increase in Adjusted EBITDA to $15.8 billion. Net income before significant items rose 5% to $5.8 billion, while significant items reduced Net profit attributable to equity holders to $3.4 billion, mainly due to non-cash impairments of $1.6 billion, primarily reflecting impairments of the carrying values of our Mutanda and Mopani assets.

Our performance reflects our continuing efforts to maximise and optimise the cash generating capability of our unique business model.
Our Marketing business reported Adjusted EBIT of $2.4 billion, down 17% compared to 2017. Reasonable market conditions in our Energy Products and Metals and Minerals businesses were hampered by a “basis risk” hedging breakdown related to alumina sourcing into medium-term % LME linked legacy sales contracts as well as cobalt market challenges in H2 2018.
Looking ahead, we maintain our long-term Marketing Adjusted EBIT guidance range of $2.2 to $3.2 billion. We are confident of an improved year-over-year performance, suggesting a 2019 result towards the middle of our guidance range.
Industrial Adjusted EBITDA of $13.3 billion in 2018 was 15% higher than 2017. Our asset portfolio continued to deliver overall competitive all-in unit costs which, despite some minor production challenges during the year, allowed the Company to capitalise on healthy average commodity prices and generate attractive margins.

Enhancing corporate governance and sustainability
We recently established an Ethics, Compliance and Culture committee to provide oversight and leadership of the Group’s key ethics, compliance, culture and governance matters.
The new committee will assume responsibility for implementing the new Corporate Governance Code, including, amongst other matters, assessing and monitoring our culture to ensure alignment with our purpose, values and strategy.
We have continued to strengthen our controls and made substantial investments to enhance our compliance programme across the Group. In this regard, we were disappointed by the conduct that led to Katanga’s settlement with the OSC. Glencore is working with Katanga to implement the various changes to improve its reporting and control functions and to address some cultural failures that contributed to this conduct.
Our commitment to operate transparently and responsibly is reflected in our ambition to integrate sustainability throughout every aspect of our business. This is a key strategic priority for the Group.
This commitment to sustainability also encompasses our desire to uphold respect for human rights, protect the wellbeing of our people, our host communities and the natural environment, while sharing lasting benefits with the regions where we work and society as a whole.

Sadly, we recorded thirteen fatalities at our operations in 2018, an increase on 2017. This is disappointing and unacceptable. We have created a new position with oversight and responsibility for all of Glencore’s industrial mining assets and have appointed Peter Freyberg to this role. Peter brings a wealth of operational experience from his management of our coal assets and will focus his attention on co-ordinating our goals of producing safely, productively and sustainably. Our goal remains one of zero fatalities.

We have also made progress on our post-2020 climate change strategy. Following consultation with the investor signatories of the Climate Action 100+ initiative, we have agreed steps to further our commitment to the transition to a low-carbon economy.

As one of the world’s largest diversified resource companies, we have a key role to play in enabling transition to a low-carbon economy. We do this through our well-positioned portfolio that includes copper, cobalt, nickel, vanadium and zinc – commodities that underpin energy and mobility transformation. We believe this transition is a key part of the global response to the increasing risks posed by climate change, which must pursue the twin objectives of both limiting temperatures in line with the goals of the Paris Agreement and supporting the United Nations Sustainable Development Goals, including universal access to affordable energy.

**Conviction to create value**
In 2018, we complemented our portfolio with acquisitions (and some non-core disposals) designed to create long-term value for shareholders, a number of which were first announced in 2017. These include:

- 49% of Rio Tinto’s Hunter Valley Operations (thermal coal) with Yancoal retaining 51%, gaining access to sizeable high quality energy coal resources, operatorship and marketing rights
- 82% of Rio Tinto’s interest in the Hail Creek mainly coking coal mine
- 78% in ALE Combustiveis (ALE), Brazil’s fourth largest fuel distributor
- Chevron’s South African and Botswana mid/down-stream oil business (funded already in the two-stage process, with final ownership transfer expected to Glencore in H1 2019)
- Non-core disposals during the year included our Tahmoor coal mine and our interest in the Mototolo platinum operation

Both Hail Creek and HVO have been successfully integrated into our portfolio and we have identified some $185 million of managed annual cost savings/margin improvements to be realised upon completion of the restructure plans at these assets. These low-cost high-quality assets are expected to play an important role within our coal portfolio in the coming years.

**Record shareholder cash returns**
Reflecting the strength of our operating cashflow, we announced $5.2 billion of distributions and buybacks in 2018, comprising a $0.20 per share ($2.84 billion) base distribution (in respect of 2017 cash flows), $0.32 billion of share trust purchases and $2 billion of share buy-backs.

Consistent with the continued strong cash flow generation seen in 2018, we are again recommending to shareholders a 2019 base distribution of $0.20 per share (~$2.8 billion), payable in two equal instalments in 2019.

2018 announced distributions and buybacks
$5.2bn

Minimising our impact on the environment
5% reduction in carbon emissions intensity by 2020 vs 2016
This payment comprises a fixed $1 billion pay-out in respect of Marketing activities and a variable component of ~$1.8 billion, representing ~35% of industrial free cash, compared to our policy minimum of 25%.

**Near-term focus on deleveraging and shareholder returns**

The dislocation between our current share price levels and the prospects, strength and embedded optionality in our business leads us to conclude that it is difficult to find a better investment than buying back our own shares.

Outside of our base distribution policy, for the balance of our equity cash flows, we currently envisage prioritising:

- Buybacks funded by cash generation
- Net funding: focus on consistently maintaining Readily Marketable Inventories (RMI) at levels below $20 billion
- Net debt: maintain in the $10 billion–$16 billion guidance range, while limiting Net debt/Adjusted EBITDA to around 1x, in the current uncertain economic cycle backdrop

Reflecting this, and taking account of the illustrative annualised free cash that the business generates at current spot commodity prices, we announced on 20 February 2019 a new $2 billion buyback program, which will run until the end of the year. We will proactively look to top this up (in August, or otherwise) as market conditions support, including automatically from a targeted $1 billion of non-core asset disposals in 2019, from a range of candidate assets.

**Management changes and succession**

2018 has also been a year of change in the management of the Group, notably with the retirement of two of our longstanding Department Heads, Telis Mistakidis in Copper and Stuart Cutler in Ferroalloys, resulting in the most meaningful implementation of our development and succession plans since our IPO.

Telis has been succeeded by Nico Paraskevas and Stuart by Jason Kluk and Ruan van Schalkwyk. With Peter Freyberg’s appointment to the role of Head of Industrial Mining Assets, Gary Nagle replaces Peter as Head of Coal Assets, while Japie Fullard succeeds Gary as Head of Ferroalloys assets.

We wish Telis and Stuart well in their retirement. I look forward to working with our new team and colleagues in developing our business in the coming years and nurturing the next generation of leadership at Glencore.

**Looking forward**

We look ahead with confidence, remaining focused on creating sustainable long-term value for all our shareholders.

Ivan Glasenberg
Chief Executive Officer
28 February 2019