Chief Executive Officer's review

Solid results in challenging pricing conditions for our key commodities, supported by an excellent oil marketing performance

Ivan Glasenberg
Chief Executive Officer

A challenging market backdrop for commodities

Rising trade barrier tensions and associated uncertainty weighed on sentiment and activity during 2019. In China and elsewhere, this amplified certain cyclical and structural slowdowns already underway, limiting 2019 global economic growth.

While price performances for our key commodities' benchmarks were largely lower year over year, with average copper price down 8%, zinc 13%, cobalt 57%, thermal coals 27% and ferrochrome 14% (nickel and gold were up), underlying fundamental market supply/demand balances for most commodities remained reasonably healthy. In particular, copper, zinc and nickel markets were tightly balanced, with global visible inventories falling to multi-year lows. Cobalt was weak and oversupplied in H1, however conditions improved towards year end, as the market rebalanced, while coal saw continued growth in Asian thermal demand, more than offsetting declining imports into Europe.

Transitioning to a low-carbon economy

In many markets, there continues to be a major drive and efforts underway to significantly reduce carbon emissions in energy supply, which is expected to require substantial growth in mobility electrification and the development of battery-backed energy storage systems to support meaningful renewables' market share. Getting to this point requires a seismic shift in how we power the world and that shift will, in part, only be enabled by the metals and minerals that the mining industry produces.

Our industry needs not only to ensure that the metals and minerals required are produced and sourced responsibly, but also that we are at the forefront of technology and process innovation, supporting further productivity gains and emissions abatement going forward. In this way, we can achieve a reduction in our own environmental footprint.

Glencore is well positioned to play a key role in aiding the various transitions to a low-carbon economy, with our responsible approach to producing and sourcing a diversified portfolio of commodities, some of which, are absolutely critical in enabling the shift to a low-carbon world.

We also believe that high-quality coal will continue to be part of the overall energy mix well into the future. Population growth, urbanisation and rising living standards are expected to contribute to increased global energy requirements in the coming decades. The need for affordable and stable baseload power generation is expected to underpin coal demand growth, primarily in Asia, even as it declines in Europe and the U.S. Our modelling, and indeed that of the International Energy Agency's (IEA) Stated Policies Scenario, indicates that thermal coal demand is expected to continue to grow to 2030, however, naturally given faster growth elsewhere, its share of primary energy demand is expected to fall to c.24% in 2030, from around 27% in 2018.

2019 Financial scorecard

Weaker year-on-year commodity prices were largely responsible for a 26% reduction in Adjusted EBITDA to $11.6 billion. Net income, before significant items, declined 58% to $2.4 billion, while significant items generated a Net loss attributable to equity holders of $0.4 billion, mainly due to $2.8 billion of impairment charges, largely related to our Colombian coal, Chad oil and African copper assets.

Our marketing business reported a steady year-on-year Adjusted EBIT result of $2.4 billion, reflecting a strong performance from oil, partially offset by the previously reported and recorded cobalt losses in relation to inventory writedowns on material sourced from Glencore mines in earlier periods. We maintain our long-term Marketing Adjusted EBIT guidance range of $2.2 to $3.2 billion

Industrial Adjusted EBITDA of $9.0 billion was down 32% compared to 2018, primarily reflecting the lower commodity prices noted above, particularly coal and cobalt. The benefit of a stronger US dollar against many of our key producer currencies provided some price offset. While most of our assets performed within expected ranges during 2019, earnings were also negatively impacted by operational and cost challenges in our African copper business and a poor production performance at our Koniambo ramp-up asset, in conjunction with a change to its accounting categorisation, whereby until the end of 2018, ramp-up development costs were still being capitalised.

Across these copper and nickel ramp-up/development assets, we have implemented detailed action plans targeting material improvement, with the aim of achieving consistent, cost-efficient production at design capacity. Performance at Katanga and Mutanda progressed to plan during the second half of the year, with the latter transitioning to care and maintenance in December.

Corporate governance and sustainability

At Glencore, we are committed to operating in a responsible manner across all aspects of our business.

Glencore upholds the dignity, fundamental freedoms and human rights of our employees, contractors and the communities in which we live and work, as well as others affected by our activities. Glencore is committed to working in line with the United Nations Universal Declaration on Human Rights and the UN Guiding Principles on Business and Human Rights.

The safety and security of our workforce and the communities living around our assets is a priority recognised in all of our operational activities.

We have taken far-reaching action to address the underlying issues that led to the tragic loss of 17 lives at Glencore's managed operations in 2019. This performance is unacceptable and we have implemented an enhanced and sharper focused fatality reduction programme, including safety interventions at our Mopani and Kazzinc operations during 2019. This programme builds on our investment in SafeWork, with the goal of achieving a step-change in performance. We are determined to be a fatality-free business.

Glencore is committed to supplying commodities in a transparent and responsible manner. To improve supply chain traceability, transparency and integrate good practice, with some of our industry partners, we joined the Responsible Sourcing Blockchain Network covering cobalt initially and key battery materials over time.

Climate change

We are pleased to report good progress over the past year against our commitments on the transition to a low-carbon economy.

Firstly, we are on track to exceed our current GHG target of reducing Scope 1 and 2 emissions intensity by at least 5% by 2020 compared to a 2016 base line. We expect to achieve a reduction of close to 10%.

New longer-term Scope 1 and 2 reduction targets that support the Paris Agreement ("Paris Goals") are being finalised and we expect to release these during 2020.

We have also, for the first time, disclosed our absolute Scope 3 emissions projections i.e. those arising from the sale and use of our own production, notably coal and oil. We project an approximately 30% reduction in these emissions by 2035, including the natural depletion of our underlying resource base (oil and coal). In this regard, our Colombian, and to a lesser extent, South African and Australian coal resource bases exhibit depletion profiles. Our high-quality product Australian business, however, is expected to maintain a longer and flatter production profile as a key supplier to Asia's growing steel and energy industries.

In terms of capital priorities, our capital expenditure in 2019 was heavily weighted towards energy transition materials, including copper and cobalt in Africa and nickel in Canada. Our coal capex was mainly aimed at maintaining existing assets.

Shareholder returns

In line with healthy operating cash flow generation in 2019, we completed $4.7 billion of distributions and buybacks, comprising a $0.20 per share ($2.7 billion) base distribution (in respect of 2018 cash flows) and $2 billion of share buy-backs.

We are again recommending to shareholders a 2020 base distribution of $0.20 per share (c.$2.6 billion), payable in two equal instalments in 2020.

The continuing dislocation between our share price and the prospects, strength and embedded optionality in our business means that we continue to favour buybacks as a means of returning excess cash to shareholders. As and when cash flow generation and balance sheet allow, potentially aided by some return of cash margin calls in respect of Marketing's hedging activities and monetisation of select non-core long-term assets, we will seek to implement a new buyback programme. In this regard, we would like to see our Net debt/Adjusted EBITDA ratio moving closer to 1x, and our Net debt reaching the c.$14–15 billion range, excluding Marketing related finance lease liabilities, before considering the same.

Looking ahead

We remain focused on our strategy to sustainably grow total shareholder returns while operating in a responsible manner across all aspects of our business. Clearly in the shorter term, we are closely watching coronavirus developments and potential scenario impacts on global growth and markets and what adjustments, if any, are appropriate in our business planning.

Ivan Glasenberg
Chief Executive Officer
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