

DIVISIONAL REVIEW COPPER – INDIA / AUSTRALIA

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FY2017 WAS A STRONG YEAR FOR COPPER INDIA FROM A VOLUME PERSPECTIVE.



P RAMNATH
CEO, COPPER INDIA

The year in summary:

FY2017 was a strong year for Copper India from a volume perspective, where record delivery of copper cathodes and phosphoric acid were achieved.

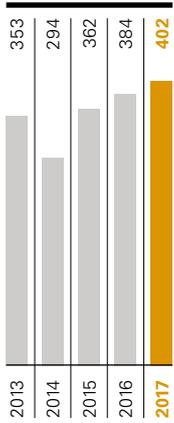
Although the unit conversion costs were higher, these were partially offset by various operational efficiencies. The business was also successful in reducing environmental waste, and making measurable improvements in safety.

With positive fundamentals in place, we will now be exploring the feasibility of expanding our smelter capacity.

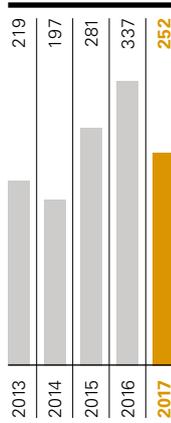


Copper smelter at Tuticorin

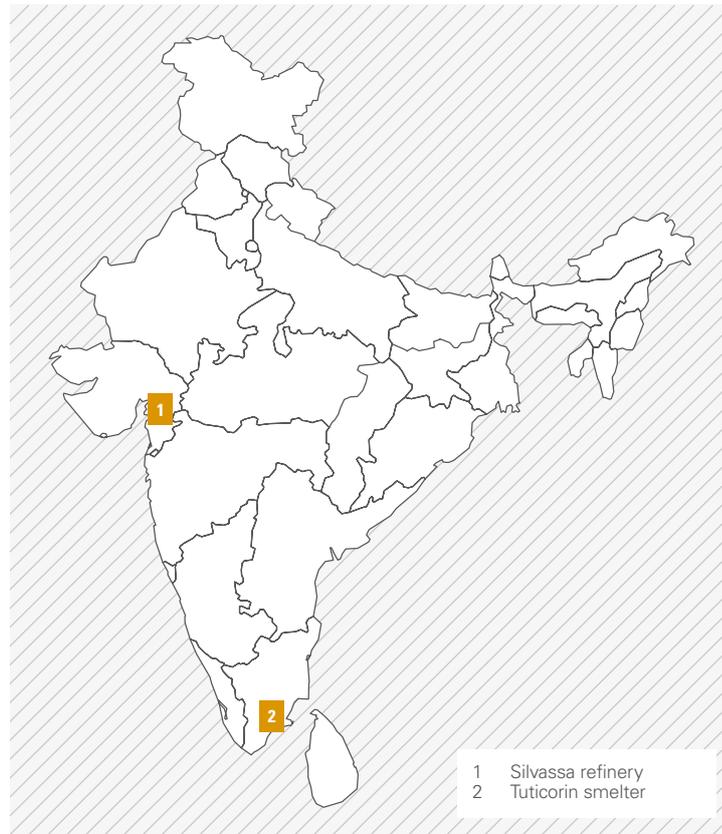
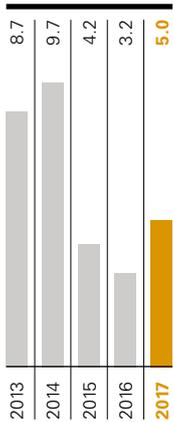
PRODUCTION
(KT)



EBITDA
(US\$ MILLION)



UNIT COSTS
(US CENTS PER LB)



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In FY2017, copper cathode production achieved a record level of 402,000 tonnes through in-house technological upgrades at the refinery.

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CEO, COPPER INDIA

SAFETY

Consistent with the previous year, our lost time injuries again numbered four, with the frequency rate standing at 0.37 (FY2016: 0.49).

During the year we launched a number of safety programmes, including one focusing on the basic and essential area of knowing how to treat tools properly and safely. One example was the 'Centralisation of Lifting Tools and Tackles', with the emphasis on the pre- and post-use of all relevant lifting tools

and tackles, including proper handling, storage, tracking and competency certification.

ENVIRONMENT

The water recycling rate recorded for the reporting year was 13%, compared with 18% in the previous year. The waste recycling rate stood at 101.18%, due to the additional recycling of historic as well as current operational waste stored at the site.

¹ Under care and maintenance.



DIVISIONAL REVIEW CONTINUED

COPPER – INDIA / AUSTRALIA

PRODUCTION PERFORMANCE

	FY2017	FY2016	% change
Production (kt)			
India – cathode	402	384	4.9%

PRICES

	FY2017	FY2016	% change
Average LME cash settlement prices (US\$ per tonne)	5,152	5,211	(1.1)%
Realised TC/RCs (US cents per lb)	22.4	24.1	(7.2)%

UNIT COSTS

	FY2017	FY2016	% change
Unit conversion costs (CoP) – (US cents per lb)	5.0	3.2	56.3%

FINANCIAL PERFORMANCE

(IN US\$ MILLION, EXCEPT AS STATED)

	FY2017	FY2016	% change
Revenue	3,133.7	3,197.2	(2.0)%
EBITDA	252.2	336.6	(25.1)%
EBITDA margin	8.0%	10.5%	–
Depreciation and amortisation	28.9	32.3	(10.5)%
Operating profit before special items	223.3	304.3	(26.6)%
Share in Group EBITDA %	7.9%	14.4%	–
Capital expenditure	23.5	17.6	33.5%
Sustaining	16.5	14.4	14.6%
Growth	7.0	3.2	–

OPERATIONS

In FY2017, copper cathode production achieved a record level of 402,000 tonnes through in-house technological upgrades at the refinery that raised the previous design level density of 310Amp/m² to 350Amp/m². This was offset by lower copper grades and a few unplanned outages spread over the year. Our plant utilisation touched a record level of 94% with overall equipment effectiveness (OEE) of 86%. Sulphuric acid availability was at record levels of 100% throughout the year.

In FY2017, phosphoric acid production was at 200,000 tonnes, its highest ever.

Additionally, as a process enhancement and with the objective of reducing environmental waste, scrubber cakes generated at the smelter were transformed from a hazardous to a non-hazardous state through the installation of bag houses before the scrubbers. This has led to a significant reduction of hazardous cake generation, enhancing secured land fill (SLF) life. We continued to focus on safety and environmental performance.

There were zero liquid discharges, and we recorded our lowest ever lost time injury frequency rate (LTIFR) and total injuries were down by almost 50%.

The 160MW power plant at Tuticorin operated at a plant load factor (PLF) of 56% in FY2017 compared with 71% in FY2016. This was primarily due to a lower offtake from the Tamil Nadu Electricity Board (TNEB) and the Telangana State Electricity Board (TSEB), owing to weaker power demand in the region.

The Company entered into a contract with TSEB for power supply from June 2016 to May 2017, following the completion of the sales contract with TNEB. The Company is entitled to compensation at 20% of the contracted rate for offtake below 85% of the contracted quantity.

Our copper mine in Australia has remained under extended care and maintenance since 2013. We continue to evaluate various options for its profitable restart given the current favourable government support and prices.



Employees at copper cellhouse

In CY2016, world mined production of copper is estimated to have risen by 5.2% to 20.18 million tonnes, while refinery production is estimated to have increased by 4.3% to 22.855 million tonnes. World refined copper consumption grew by 2.5% in 2016 while that of China, the largest consumer of copper, grew by 4.9%. Also, the materially stronger fundamental developments that contributed to this surge have increased demand in China, due to a greater impact of government stimulus on the power grid investments, as well as higher end-use demand, particularly for appliances and consumer goods. Copper prices have also firmed up on the prospects of infrastructure plans in the US.

Average LME copper prices decreased by 1.1% and treatment and refining charges (TC/RCs) reduced by 7.2% compared with FY2016.

In concentrates, annual benchmark settlements for CY2017 concluded at 92.5/9.25 TC/RCs of payable copper.



This is approximately a 5% reduction over the previous year, mainly due to mine disruptions resulting in a decline in concentrate availability. Mine supply of copper concentrate has been significantly affected by disruptions such as the suspension of exports from PT Freeport Indonesia and a strike at the Escondida mine during Q4 2016–17. Conventional disruptions in concentrate production for CY2016 was 925kt. Additions to the global mine supply of concentrate, such as through new mine projects and expansions, outpaced the increase in smelter capacity in 2016. This situation is set to reverse from 2017 as the current wave of mine construction comes to an end, while Chinese primary smelter capacity continues to grow.

At the Tuticorin smelter, the cost of production increased from 3.2 US cents per lb to 5.0 US cents per lb, due mainly to lower by-product credits, higher petro prices and an increased Clean Energy Cess on coal.

According to the Wood Mackenzie Report CY2017, we are positioned in the first quartile of the cost curve.

Sulphuric acid realisation was impacted significantly with Abu Dhabi National Oil Company (ADNOC) prices reduced from US\$142 per tonne to US\$84 per tonne year-on-year.

During the year, EBITDA was US\$252 million, a decrease of 25% on the previous year's US\$337 million. The reduction was mainly due to lower TCs/RCs and lower by-product credits, the Clean Energy Cess on coal consumed in the Thermal Power Plant (TPP), and one-off benefits of the Target Plus export incentive scheme. These were partially offset by improved operational efficiencies.

OUTLOOK

Production is expected to remain at around 400,000 tonnes.

STRATEGIC PRIORITIES

- › To set up a brownfield 400ktpa capacity copper smelter;
- › To sustain operating efficiencies, reducing our cost profile; and
- › A continuous upgrade in technology to ensure high-quality products and services that sustain market leadership and surpass customer expectations.