



January 11, 2005

Dear Fellow Employees,

You may have received information regarding our current negotiations with our Unions that may have created some confusion and uncertainty. Some of the information you have received is incorrect and causes a negative reaction among our employees towards Asarco and our position in these negotiations.

It is not a secret to anyone that Asarco has had very difficult years recently. The financial limitations that we have experienced have prevented us from fully benefiting from the recent upsurge in copper prices. This situation has made it imperative for the organization to reexamine its cost structure and take action to create a Company capable of competing in a very aggressive global economy.

We all understand that Asarco's benefits to the hourly workforce are some of the most generous, not only in our industry, but anywhere. Today, pension plans are uncommon in many organizations. In most cases they have been replaced by savings plans. Asarco still maintains both a pension plan and a savings plan. Health insurance is another difficult issue. Escalating cost and premiums are forcing everybody, companies and employees to pay more for health coverage every year. In spite of this reality, Asarco still provides an excellent and inexpensive health plan to its hourly employees. We want to keep having the ability to provide these valuable benefits to our employees at a fair and reasonable cost.

In the negotiations, the Unions representing our hourly employees have decided to ignore this reality and avoid meaningful discussions about the Company's proposal to restructure retirement and health benefits. While we understand the Union's desire to maintain current conditions, we feel this risks Asarco's competitive position in the future. Instead of discussing these issues at the table, the Union has embarked in a public campaign targeting and attacking Asarco on different fronts aimed at creating confusion and uncertainty within the Company and with the public. While this strategy might be perceived as a good idea by some, these actions go against our efforts to support Asarco and the jobs it creates.

The Union's latest communication to employees and the public regarding our negotiations contends that the Company has rejected proposals that would save the Company almost \$30 million. Here is the truth about these proposals and our response to them.

The Unions proposed that we merge the hourly and salaried pension funds in order to reduce the significant amounts Asarco will contribute to these plans in the near future. The Union's proposal makes the erroneous assumption that by doing so, funding for our combined plans would require less cash contributions in the short term. It is important to consider that the liability and overall funding requirements are still Asarco's obligation, and that obligation will never change unless the plan itself changes. Furthermore, Mercer, who is Asarco's pension plan consultant and actuary confirmed that the Union's proposal would actually require additional cash contributions to our plan during 2005, as opposed to what we would have to contribute if the funds are kept separate. The Union's proposal actually results in higher cash contributions for 2005.

The Unions also stated that they have made a proposal to Asarco to switch health plan providers and use Blue Cross Blue Shield (BCBS) instead of NAHP, which would save around \$2 million a year while keeping the same plan design. In 2002, when Asarco switched from CIGNA to our current provider, BCBS was asked to quote on Asarco's health plan. At that time, BCBS declined to submit a bid because of the Company's different plan designs, the locations of its employees, and the Company's financial condition. We have contacted BCBS again, and they stated that they have never entertained any formal discussions or extended any offers to our Unions to be our health plan providers, and that the same conditions that limited them from quoting two years ago, would still apply. Asarco's consultants on health benefits advise us that the Union's claims that savings of \$2 million achieved by merely switching providers are "impossible".

The Union's actions of advancing proposals with no support and accusing the Company of refusing to save millions of dollars by not agreeing to them, confirm their intentions to avoid meaningful discussions on the issues at hand to keep prolonging these negotiations.

Asarco remains committed to negotiate in good faith and to conclude a competitive and fair contract. It is important that our employees understand the Company's position and intentions, so I urge you to bring any questions or doubts you may have to me so we can help you to understand the different issues.

Sincerely,

Daniel Tellechea  
President