

Osborne Says Asarco Reducing Costs by Adding Low-Cost Production, Pursuing Cost Reduction Programs

NEW YORK, N.Y., February 5, 1999 -- ASARCO Incorporated (NYSE:AR) is significantly reducing costs by expanding low cost copper production and aggressively pursuing cost reduction programs both at Asarco and Southern Peru Copper Corporation (SPCC), Asarco Chairman and Chief Executive Officer Richard de J. Osborne told financial analysts today.

Osborne said that the company continues to focus its investments on the core businesses that it believes have strong growth prospects for the future: copper, specialty chemicals and aggregates. Further, he said, Asarco is shifting its copper production base from higher-cost sulfide production to lower-cost solvent extraction/electrowinning (SX/EW) production and lower-cost sulfide production. The Company, he said, has targeted specialty chemicals and aggregates for growth and acquired DOT, a leading German specialty chemical business, as part of this strategy in 1998.

Osborne affirmed Asarco's continuing positive view of the copper market. "We believe," he said, "that the outlook for copper is better than is generally believed and that copper has been trading on market sentiment more than fundamentals. Like copper, we think that mining company stocks have been oversold, and they too will recover as perceptions about the industry change."

Cost Reduction Programs

Cost reduction programs at Asarco and SPCC resulted in annual pre-tax savings of \$72 million in 1998 or \$1.18 per share after tax, Osborne said, and an additional \$47 million of savings has been identified, increasing the total effect of the programs in 1999 to \$119 million pre-tax or \$1.94 per share after-tax. As a result of the programs, Asarco reduced its cash cost of producing copper to under 65 cents per pound in 1998 and expects its costs in 1999 to be another four cents lower as the full effect of the programs is realized.

The cost reduction programs, Osborne said, have included staff reductions, operational improvements and reductions in purchased service costs, and have touched all areas of the company. The Company sold its Missouri lead business, began the process of shutting down its Black Cloud mine in Leadville, Colorado, and is suspending operations at its El Paso copper smelter for three years. Workforce reductions at Asarco, exclusive of the Missouri sale and Leadville shutdown, have totaled 1,000 people at Asarco and 500 at Southern Peru.

Asarco President and Chief Operating Officer Frank McAllister said operational improvements have included equipment upgrades and other productivity enhancements. The Company also has reduced fuel, power and other material and service costs and significantly reduced general and administrative expense.

Low-Cost Copper Production

To increase low-cost copper production Asarco has more than doubled its SX/EW production since 1995, McAllister said, and increased new low-cost sulfide concentrate production by more than 14%. An example is the just-completed expansion of SPCC's Cuajone mine in Peru. Increases in SX/EW production have resulted from an expansion at Asarco's Ray mine in North America and from new SX/EW projects at Silver Bell mine in North America and Toquepala mine in Peru.

SX/EW production at Ray is expected to total 100 million pounds of copper in 1999 at a cash cost of under 50 cents per pound.

SX/EW production at Silver Bell is expected to be above 40 million pounds in 1999, more than 16% above design capacity, at a cash cost of less than 50 cents per pound.

SX/EW operations at Toquepala in southern Peru produced 104 million pounds of refined cathode in 1998 and a recently-approved \$45-million expansion project will add 26 million pounds of production annually. The resulting annual production will be 124 million pounds at a cash cost of less than 40 cents per pound.

McAllister noted that the Toquepala SX/EW expansion is only one part of a major expansion and modernization program at SPCC. First stage of the program, completed late last year, has added 130 million pounds per year of low-cost copper production. Total production at the Cuajone mine will increase to 455 million pounds in 1999.

SPCC also is proceeding with plans to modernize and expand its Ilo smelter, increasing smelter capacity to 1.25 million tons of concentrate to match SPCC's expanded mine output. When the \$875 million project is complete, the Ilo plant will be one of the world's largest, most modern smelters, with sulfur capture exceeding 99%. Engineering is underway and construction is expected to begin in 2000 for the smelter project.

Specialty Chemicals and Aggregates

Asarco has also targeted specialty chemicals and aggregates for growth, McAllister said.

Enthone-OMI, Asarco's specialty chemicals business, produces proprietary chemicals that are used in the electronics industry, in metal finishing applications such as corrosion protection, and in decorative applications, such as jewelry. Sales at Enthone-OMI have grown from \$98 million in 1988 to \$351 million in 1998 and earnings increased from \$3 million to more than \$30 million in the same period.

"We saw an improvement in Enthone-OMI's business in Asia during the fourth quarter," McAllister said, "as the economies in Singapore, Hong Kong, Australia and Taiwan strengthened. Sales of products to the decorative coating and printed wiring board industries also improved in North America and Europe late in the year."

Asarco's aggregates business, which sells construction aggregates, ready-mix concrete and agricultural limestone, also had strong growth, according to McAllister, with sales increasing from \$27 million in 1988 to \$57 million in 1998 and operating income

increasing from \$6 million in 1988 to more than \$14 million in 1998. Expected growth in road construction over the next five years is expected to further enhance growth in the aggregates business and Asarco intends to continue to invest in growth of this business, McAllister said.

Copper Market

Commenting on the current state of the copper market, Asarco Chairman Dick Osborne said the Company had carefully re-examined its market analysis and reached three key conclusions:

- 1) Although 2.3 million tons of new mine production is coming on stream in 1998, 1999 and 2000, only one million tons of new refined production will reach the market because of mine curtailments and lower scrap availability.
- 2) Increased consumption over this same period will consume most of this one million tons.
- 3) Virtually all of the terminal market inventory increases in 1997 and 1998 were the result of the smelting of excess concentrate inventories and the release of in-process inventories at curtailed smelters and refineries. Those excess concentrate inventories are now gone.

Osborne detailed Asarco's analysis which led to these conclusions. The growth rate of copper consumption declined from 4.9% in 1997 to 0.9% in 1998, he said. The healthy 6.1% growth of copper consumption in the West was impacted by a 12.5% decline in Asia. A modest recovery is expected to begin in Asia later in 1999; the United States is expected to experience economic growth in 1999, if somewhat slower than in 1998, and the economy may slow in Europe, particularly in the UK and Germany. Solid growth is expected in 2000 in most regions of the world, except Japan. Copper consumption should set new consumption records for the 14th and 15th straight years, in 1999 and 2000, Osborne said.

The Asarco chairman said that on the supply side, a great deal of attention has been focused on new mine supplies of copper coming on stream with little disagreement about the estimates. A cumulative total of 2.3 million tons of new mine supply is expected by 2000.

However, he said, a significant amount of mine production has been shut down or curtailed: On a cumulative basis, he said, there will be more than a million tons less copper produced at existing mines by 2000.

Refined supply, he said, also is being affected by a decline in Western World scrap availability: 294,000 tons less in 1998 and an anticipated 85,000 tons less in 1999. "Five refineries in Europe and three in the United States are now curtailed or shut down. We do not expect a significant easing in scrap supplies until 2000."

"On a cumulative basis," Osborne continued, "starting in 1997 much of the increase in new mine supply has been offset by mine closures, reduced scrap availability and lower net exports from the East. All of this translates into a much lower level of current supply than most observers of the market have realized and leads us to the conclusion that on a current production basis, the market was in balance last year, should show a modest surplus of about 62,000 tons this years and should return to a deficit in 2000.

"To this current market balance, however, must be added the inventory adjustments -- the inventory releases and buildup of copper inventory in Chile. The release of 540,000 tons of copper from previously accumulated copper concentrate inventories and from in-process inventory reductions as a result of smelter and refinery curtailments has created a total surplus of 566,000 tons in 1997 and 1998.

"Interestingly, these calculated surpluses are quite close to the increase in the terminal market stocks of 575,000 tons in 1997 and 1998.

"The rapid accumulation of LME and COMEX inventories should begin to abate as consumption picks up in Asia later this year, these inventories should begin to decline, and that trend should continue into the year 2000," Osborne concluded.

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