

Osborne Says Asarco Focusing On Copper, Specialty Chemicals, Aggregates, Pursuing Cost Reduction Programs

LONDON, ENGLAND, March 25, 1999 -- ASARCO Incorporated (NYSE:AR) continues to focus its investments on the core businesses that it believes have strong growth prospects for the future: copper, specialty chemicals and aggregates, Asarco Chairman and Chief Executive Officer Richard de J. Osborne told financial analysts today.

Osborne said that the company 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.

Further, he said, Asarco 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).

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."

Earnings Enhancement Programs

Earnings enhancement programs at Asarco and SPCC resulted in annual pre-tax savings of \$81 million in 1998 or \$1.34 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 \$128 million pre-tax or \$2.12 per share after-tax. As a result of the programs, Asarco reduced its breakeven 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 cost-reduction programs and operating improvements is realized.

The earnings enhancement 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 in January, closed its Black Cloud mine in Leadville, Colorado, and in February of this year suspended operations at its El Paso copper smelter for three years. Workforce reductions at Asarco, exclusive of the Missouri sale have totaled over 1,000 people at Asarco and over 500 at Southern Peru.

Low-Cost Copper Production

To increase low-cost copper production, Asarco has more than tripled its SX/EW production since 1995, 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, and increased new low-cost sulfide concentrate production by more than 14%. An example of the low-cost sulfide concentrate production 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 increase to an annual rate of 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 \$45-million expansion project now underway will add 26 million pounds of production annually. The cash cost will be 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, adds 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. Earnings at Enthone-OMI have increased from \$3 million in 1988 to \$31 million in 1998.

"We completed the most recent acquisition for this business last year," McAllister said, "when we bought Deutsche Oberflächentechnik, a German specialty chemicals company whose product lines complement our existing business. This acquisition expands our presence in Europe and gives us technology which we are marketing elsewhere in the world."

Asarco's aggregates business, which sells construction aggregates, ready-mix concrete and agricultural limestone, also had strong growth, according to McAllister, with operating income increasing from \$6 million in 1988 to \$15 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 this business, McAllister said.

Copper Market

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

- 1) The underlying rate of production of copper from mines and scrap and material available from East-West trade is in approximate balance with consumption.
- 2) 457,000 tons of copper were released to the market in 1997 and 1998 from previously accumulated copper concentrate inventories. Smelter and refinery closures and curtailments have released an additional 90,000 tons of in-process inventory to the market. There is a severe shortage of copper and these inventories are no longer available to the market.
- 3) As properties now scheduled for shut-down or curtailment are closed, and as consumption increases later in 1999, we believe the market will come into balance and shift into a deficit in 2000.

Osborne detailed Asarco's analysis which led to these conclusions. The growth rate of copper consumption declined from 4.9% in 1997 to 0.5% in 1998, he said. Despite the decline in growth rate, 1998 was the 13th straight year of record copper consumption. The healthy 6.0% growth of copper consumption in the West was impacted by a 13.9% decline in Asia. A modest recovery is expected in Asia in 1999; the United States is expected to experience good economic growth in 1999, if somewhat slower than in 1998, and economic growth is expected to slow in Europe, particularly in Germany. Solid growth is expected in 2000 in most regions of the world, with the possible exception of 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 from expansions in 1998, 1999 and 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 almost 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: 314,000 tons less in 1998 and an anticipated 112,000 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 next year."

"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 new production reaching the market than is readily apparent and leads us to the conclusion that on a current production basis, there was only a modest surplus of 96,000 tons last year. There should be another surplus of about 108,000 tons this years and the market should move into a deficit of over 200,000 tons in 2000.

"To this current market balance, however, must be added the inventory adjustments. The release of 547,000 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 650,000 tons in 1997 and 1998.

In 1999, we expect a total surplus of 150,000 tons and we expect stocks will continue to increase through mid-year. However, later this year, probably in the fourth quarter, we expect the market to shift to a deficit and we should see inventories start to decline.

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