

# FINAL TRANSCRIPT

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**TCK.B - Q4 2007 TECK COMINCO LIMITED Earnings Conference Call**

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## CORPORATE PARTICIPANTS

**Dave Splett**

TECK COMINCO LIMITED - Director of Investor Relations

**Don Lindsay**

TECK COMINCO LIMITED - President, CEO

**Peter Kukielski**

TECK COMINCO LIMITED - Executive Vice President, COO

**Tim Watson**

TECK COMINCO LIMITED - Senior Vice President Project Development

**Ron Millos**

TECK COMINCO LIMITED - Senior Vice President Finance, CFO

**John Gingell**

TECK COMINCO LIMITED

**Andrew Stonkus**

TECK COMINCO LIMITED - Vice President Concentrate Marketing

**Mike Agg**

TECK COMINCO LIMITED - Vice President Refining & Metal Sales

## CONFERENCE CALL PARTICIPANTS

**Haytham Hodaly**

Salman Partners - Analyst

**Terence Ortslan**

TSO & Associates - Managing Director

**Lawrence Smith**

Scotia Capital - Analyst

**Greg Barnes**

TD Newcrest - Analyst

**Cliff Hale-Sanders**

CIBC World Market - Analyst

**John Hughes**

Desjardins - Analyst

**Stephen Kibsey**

Caisse de depot et placement - Analyst

**Basu Mullick**

Neuberger - Analyst

## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by. Welcome to the Teck Cominco fourth-quarter 2007 earnings conference call. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session.

This conference call is being recorded on Tuesday, February 12, 2008. I would now like to turn the conference over to Dave Splett, Director of Investor Relations. Please go ahead.

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**Dave Splett** - TECK COMINCO LIMITED - Director of Investor Relations

Good morning, everyone, and thank you for joining us today at the Teck Cominco fourth-quarter 2007 investor conference call. Before we start, I would like to draw your attention to the forward-looking information and important notice slides in our presentation package on pages two through four. This presentation contains forward-looking information regarding our business. Teck Cominco does not assume the obligation to update any forward-looking statements.

At this point, I would like to turn the call over to Don Lindsay. Don?

**Don Lindsay** - TECK COMINCO LIMITED - President, CEO

Thanks very much, Dave, and thank you all for joining us this morning. Our presenters this morning, in addition to myself, will be Peter Kukielski, our Executive Vice President and Chief Operating Officer, and Ron Millos, our Chief Financial Officer.

The first few slides I wanted to touch on the differences between Q4 '07 and Q4 '06 because there were a number of significant differences, but I think it's worth spending the time to understand them. On the slide entitled adjusted net earnings, you will see that pricing adjustments in Q4 '07 were significant at \$94 million. This is primarily due to the decline in our key commodity prices during the quarter. You may have noticed in our release that we have started to break out the impact of repricing current quarter sales. That is within the quarter in addition to reporting settlements on prior quarter sales, and Ron Millos will explain this issue in more detail later in the call.

Secondly, we had a sale of a strategic investment in the fourth quarter of 2006 which resulted in after tax gain of \$115 million. So, fairly significant to a quarter. We also took an \$84 million after-tax loss for asset impairment charges in this quarter, and Ron will discuss more on this issue later.

Finally, the reduction in the future Canadian corporate tax rate by 7% over five years reduces our future taxes by \$69 million. So the end result is that our adjusted Q4 '07 earnings is \$380 million or \$0.86 per share versus \$793 million or \$1.84 per share in Q4 of '06.

Turning to the next slide and looking at the quarterly average prices, we've shown them here both on a U.S. dollar and a Canadian dollar basis. And I think it's important to note that on a Canadian dollar basis, we had some pretty significant declines. Copper looks like it was flat or almost flat in the quarter with only a \$0.05 differential, but in fact there was \$0.47 difference when you look at it in Canadian dollars, it's down 13%. For coal, the price was down 26% over the last year's fourth quarter or \$32 a ton. And for zinc, of course, in Canadian dollars, it was down 46% from 218 in Q4 '06 to \$1.17 in Q4 '07, so that's over a dollar Canadian per pound of zinc.

On the other hand, lead prices were up by 70% on a Canadian dollar basis given the ongoing supply concerns and we're very pleased that the lead price is up and we wish we had more of it. These price changes reflect the fact that the Canadian dollar strengthened 14% against the U.S. dollar, though it has seemed to have stabilized since the both of middle of the fourth quarter. And we will highlight our sensitivities to these changes in prices during exchange rate a little later in Ron Millos' brief presentation.

Turning to the next slide, you will see on this chart the differences between Q4 '06 adjusted earnings and Q4 '07 adjusted earnings. And going through the major variances, you will note that the lower zinc price and the stronger Canadian dollar accounted for \$285 million of the difference between the quarters while the lower sales volumes from Red Dog in Highland Valley accounted for \$152 million. Red Dog, for example, sold 46% of its annual sales in the fourth quarter of 2006 due to a late shipping season at that time which some of you may remember. Where as in the fourth quarter of this year, we had a more normal 33% of our annual sales, so that in itself is quite a significant difference.

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Highland Valley sales were lower due to our decision to extend the mine's life. And this decision resulted in a requirement for higher strip volumes and lower production for a two-year period in '07 and '08 but it does add ten more years of copper production so certainly well worthwhile.

I also wanted to spend a few minutes on Galore Creek. Just to go through the details behind the accounting issues. The carrying value of our position in Galore Creek has been reduced from \$264 million to \$214 million. \$50 million reduction, which was due to the mobilization expense is flowed through to Teck's earning statement as the \$33 million after-tax charge. Accounting rules will not permit any further write-down at this time particularly given that we have made a positive commitment to spend \$72 million on new engineering development plan. We note that Galore Creek has approximately 11.8 billion pounds of copper and 9 million ounces of gold in measured indicated and further resources, so it is a substantial resource and we remain optimistic that our review program, the comprehensive review that we're going through right now, will come up with a new development plan that will be economic, but this will take some time.

And with that I would like to turn it over to Peter Kukielski, our Executive Vice President and Chief Operating Officer.

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**Peter Kukielski** - TECK COMINCO LIMITED - Executive Vice President, COO

Thank you, Don. And turning to slide 11, our operating profits in the fourth quarter of 2007 was \$460 million versus \$1.2 billion in the previous quarter. I would like to highlight that the decline in the zinc and coal prices and the rising Canadian dollar that Don referred to accounted for just under \$500 million of the decline in our operating profit this quarter versus last year's fourth quarter.

I would also highlight that our profits before accounting adjustments totalled \$105 million in the quarter from our newest operations Quebrada Blanca, Andacollo, and Duck Pond, the profits were reduced by negative pricing adjustments and purchase price allocation adjustment to cost of sales leading to a reported profit of \$16 million for the three operations. And finally, our gold operations produced an operating profit of \$8 million after a number of quarters of losses due to higher production, stronger prices, and cost reductions at Hemlo.

So turning to slide 12, the planned shut down at Trail in the fourth quarter of this year went very well. The KIVCET shut down which was the largest shut down since the KIVCET furnace with commissioned in 1998 was completed on time and under budget and there were no problems restarting the furnace. Trail's operating profit for the quarter was \$87 million lower due to the falling zinc price and the appreciation of the Canadian dollar relative to the U.S. dollar. These two items stripped \$80 million from profits.

Higher zinc sales helped to offset the higher cost and lower lead and precious metal production associated with the KIVCET shut down. Power profits were up significantly as sales in the quarter were 102 gigawatt-hours higher partly due to the shut down and partly due to the timing of sales. Power prices were up 8% due to cold weather in the Pacific Northwest.

On slide 13, Red Dog continued its consistently good performance. Zinc and lead production was similar between the quarters due to stable grades throughputs and recoveries. Operating profit was down primarily due to \$0.72 of pound reduction in zinc price, large negative pricing adjustments, significantly lower sales volumes, linked to a late 2006 shipping season, and the stronger Canadian dollar.

As we highlight quarterly cost of sales were based on sales volumes and given the seasonality of Red Dog sales cost of sales can and do vary considerably. The difference in operating and distribution cost is primarily as a result of zinc and lead sales volumes.

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On slide 14, at Antamina mill throughput fell by 4% due to electrical merger problems in the main grinding mill. Two separate incidents stopped production for 14 days in the quarter. As a result of the outage and the stronger Canadian dollar, our share of operating profit declined by \$37 million.

In January of this year, the problems with the electrical motor continued. Our ongoing investigation has determined that there were insulation failures in the state that caused shortening. However, the root causes have not yet been determined and we will not speculate on possible causes. For the last several weeks, the SAG mill has operated continuously but at slightly reduced speed and voltage to lessen the potential for further failures. Production is currently very close to normal operating conditions despite the slower speed.

On slide 15, at Highland Valley, Highland Valley's copper production was down 16% compared to fourth quarter of '06 linked to the mine life extension as Don mentioned as we've been guiding to over the past two years. More recently as we continue our push-back of the Valley pit, we are recovering more ore from the Lornex pit, which is an oxidize and clay bearing ore that impacts copper recoveries. The softer Lornex ore produces a courser grind which reduces recoveries too. In addition, ore located near the Lornex fault is a high clay content which can significantly lower copper recovery. It is anticipated that the vast majority of the clay-bearing ore will be processed in 2008.

Highland Valley's operating profit was down \$87 million due to the lower production in sales and higher costs associated with additional stripping rates. The strip ratio will begin to decline sharply in 2011 as we follow our life of mine plan.

On slide 16, fourth quarter copper cathode production at Quebrada Blanca was solid at 21,000 tons, and the site has established the new production record of 83,000 tons of cathode in 2007. Within the quarter, a new four year collective agreement was negotiated for the staff at Quebrada Blanca. Fourth quarter operating profit from Quebrada Blanca was \$89 million prior to our \$43 million adjustments to inventory costs for the ore purchase allocation and \$20 million for negative pricing adjustments.

The result of the adjustments was that operating profit was reduced to \$26 million. The purchase allocation will decline sharply after the first quarter of 2008, but it will be partially offset by a higher depreciation charge. This will be discussed by Ron Millos in the finance section.

Finally, the hypogene definition program progressed well in 2007 with 9,700 meters drilled. All holes ended in mineralization, and we have yet to identify the boundaries of this potential resource. In 2008 we plan to drill a further 26 to 29,000 meters in order to model the hypogene resource and advance on metallurgical map. The objective of the program is to define the hypogene ore body that lies under the supergene.

On slide 17, at Carmen de Andacollo, the mine had solid production in the fourth quarter and for the year as a whole. Cathode production in the quarter totalled 46,000 tons while annual production came in at 18,600 tons.

Andacollo had an operating profit of \$15 million before the impact of purchase allocation and negative pricing adjustments. The purchase allocation stripped \$17 million from profits while negative pricing adjustments took away \$2 million.

Work on the \$380 million U.S. hypogene project is progressing well, and it is currently focused on engineering and ground preparation with the target completion date of the fourth quarter of 2009. It is expected that production from the hypogene will quadruple copper production to 81,000 tons and 66,000 ounces of gold in a copper concentrate as opposed to the approximately 20,000 tons per year of copper cathode which is currently produced.

On slide 18, at Elk Valley Coal production and sales were similar between the two quarters. Operating profit fell \$70 million between the quarters due to lower coal prices, a stronger Canadian dollar, and higher operating costs. Coal prices on a U.S. dollar basis fell 12% but on a Canadian dollar basis prices were up 26%, while operating costs were up due to higher labour, diesel, and tires expenses and also the use of the impacts of higher strip ratios and longer haul distances.

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Distribution costs were down due to a one-time settlement with the railway.

The coal business will continue to be significantly challenged through the first and second quarter of 2008 as the Canadian dollar maintains strength against the U.S. dollar in 2007 coal contracts are fulfilled. And while we have all heard reports of exceptional coal prices for spot sales, I will note that the coal year runs from April 1st to March 31st, and we normally experience six plus weeks of carry-over tonnages between coal years. We should not expect to see a significant increase in realized coal prices until the third quarter and this, of course, is completely dependent on contract negotiations which apparently ongoing.

On slide 19, Pogo's production rates from the mine and mill continue to advance from quarter to quarter. The mill and the Larox filter availability has improved and our focus continues on improving equipment reliability. We expect availability and recoveries to improve as more employee training is completed in addition to completing automation programs such as the installation of flotation controlled cameras. Dilution of gold-bearing ore is improving as heading sizes are reduced while recovery circuits continue to be optimized.

At Hemlo, a significant restructuring was completed in the fourth quarter which involved a reduction in the work force and the continued implementation of automation projects. The objective is to save 60 to \$70 million annually, and this work has already started to pay dividends. Comparing the Canadian dollar cash cost per ounce between the fourth quarter of 2006 and the fourth quarter of 2007 to eliminate exchange rate impacts, the cash costs fell from Can\$564 per ounce to Can\$534 per ounce.

I will highlight though, we expect the restructuring will stabilize cash costs at the current labels due to corresponding declines in production.

And with that I'd like to turn the call over to Ron Millos, our Chief Financial Officer.

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**Ron Millos** - TECK COMINCO LIMITED - Senior Vice President Finance, CFO

Thanks, Peter. I'm going to start with the slide titled final pricing revenues, and as Don mentioned, our fourth quarter revenues included \$94 million of a negative after-tax pricing adjustments, 150 million pretax. Of this amount, 37 or \$66 million on a pre-tax basis was attributable to sales that were outstanding at the end of the third quarter and actually settled in the fourth quarter of 2007. And this negative settlement were driven by the \$0.43 per pound reduction in copper price and \$0.14 per pound reduction to zinc price that occurred between September 30th when the contracts were ultimately settled in the fourth quarter of the year.

The vast majority of our sales are final priced subsequent to the time that we record the sale. Our monthly revenue is based on the month end forward curve price. We then add or deduct from the final settlement adjustments for sales that we've booked in prior periods that actually settle in the month. And thirdly at the end of each month, we then mark any outstanding receivables to the month-end forward curve, and these receivables can cover sales that were recorded in the current month and over several previous months.

So in summary, our revenues are made up of the current month sales, the month end mark to market on any of the adjustments on sales that are occurring in the period and then any of the final settlements from the sales that we recorded in prior periods. So we've tried to highlight these pricing adjustments to provide a little bit more clarity on how they affect our revenues and profitability.

At the end of December we had 180 million pounds of copper valued at \$3.04 per pound, 296 million pounds of zinc valued at \$1.05 per pound, and 74 million pounds of lead at \$1.15 per pound. And the difference between these prices and the final settled prices will impact our revenues and earnings in the first quarter of 2008. And remember, when analyzing the impact of a price change of on our final pricing revenues, refining, and treatment charges in the Canadian U.S. dollar exchange rate, it

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must be included in your calculations. And in addition when trying to analyze the impact on net earnings, you need to consider taxes and royalties.

On to the next slide AUR resources, the results from three mines we acquired from the Aur are included in our results effective August 22nd. During the fourth quarter, the new mines performed well and they contributed \$105 million to our operating profit before \$62 million of inventory adjustments related to purchase price allocation, and \$27 million of negative pricing adjustment.

The allocation of the purchase cost of the assets acquired and liabilities assumed and based upon fair values at the time of acquisition, we have started the process of internal estimates and we are using independent advisors to help with the appraisals of Aur's assets and liabilities. However, this is a fairly complex and time consuming process and is not yet complete.

As the result, the purchase price allocation is subject to change in 2008 as the valuation process is completed. The matters under review are principally related to income and resource taxes and resolution of those outstanding items that could affect the values assigned to our fixed assets, our future tax liabilities, and the goodwill.

One of the key items affecting our short-term results is that when we acquired Aur, the inventories were required to be marked to market at the acquisition date. As a result, the earnings attributable to Quebrada Blanca, Andacollo, and Duck Pond are all reduced until all of these inventories that were on hand at the acquisition date are ultimately processed and sold. This acquisition resulted in \$162 million adjustment on the acquisition date.

In the third quarter we recognized \$42 million of that by reducing the operating profit and \$62 million in the fourth quarter. We expect \$30 million to reverse in the first quarter of '08, and then the balance over the remainder of 2008. These adjustments do not affect cash flow, they are accounting adjustments only.

On to the next slide, our impairment charges. We have effectively reduced our investment in Galore Creek from \$264 million down to \$214 million as a result of us picking up our 50% share of the \$100 million estimated demobilization costs, and as Don mentioned earlier, Galore has measured indicated in inferred resources containing nearly 12 billion pounds of copper and 9 million ounces of gold. We believe the project retains considerable value, and this is evidence by our commitment to spend \$72 million on studies to re-evaluate and optimize the project. Given the information we have to date and the fact that we have not completed our comprehensive review of the project, we believe that the Galore project retains value in excess of our \$214 million carrying value.

On to at the Tahera Diamonds, due to the operating and financial difficulties at Tahera, we wrote off our investment with the \$22 million after tax charge to earnings. As you are probably aware, Tahera is now operating under bankruptcy protection and have started suspension of operation at the Jericho Diamond mine.

Finally, while our Lennard Shelf and Pend Oreille mine is contributing positively to our cash flow, we have decided to review alternatives for the mines due to their lower ore grades and production levels and higher than expected costs, we are examining newer alternatives which include shortening the mine lives and various cost production alternatives. We reduced the after-tax carrying value of these assets by 30 million to reflect reduced realizable value of these investments.

On our cash flow, I will just run you quickly through, our operations provided the 309 million and our noncash working capital changes, \$250 million that reflects the decrease of inventory held at our Red Dog mine which is generally normal for this time of year as the partially offset by higher inventories relating to the acquisition of Aur resources. We did use \$599 million to pay for the 16.6 million units of boarding that we acquired from features in the third quarter. That payment for that was due on October 1st. Expenditures for property plant and equipment on our operating properties were \$163 million in the quarter. The major portion of that were the Highland Valley mine life extension program and the KIVCET furnace overhaul at Trail.

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In addition, we invested approximately \$187 million in various development projects and joint ventures most of this net investment was directed to the Four Hills project.

I'm now on to the earnings sensitivity chart. And in our news release we have provided the detailed numbers for the sensitivity showing a 1% change in our commodity price in U.S. dollar exchange rate, and we have run this against our production plans for 2008 and we have used the December 31st spot prices, and what the chart highlights is the growing impact that copper has on our earnings, and our sensitivities to copper will continue to grow as we see more copper coming out of Highland Valley in Andacollo and Quebrada Blanca in future years. As can be seen, our earnings are now more sensitive to copper than to zinc.

The slide also highlights the significant impact to changing Canadian U.S. dollar exchange rate has on our result. The earnings impact has been most pronounced in the fourth quarter of this year.

The Canadian dollar averaged US\$1.02 in the fourth quarter of 2000 and then strengthened from \$0.95 in Q3 to \$1.02 in Q4, so about 7.5% change.

So with that, I will turn the call back to Don Lindsay.

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**Don Lindsay** - TECK COMINCO LIMITED - President, CEO

Thanks very much, Ron. There are a couple of issues that we get asked about frequently, so I thought I would address them up-front looking at the outlook slide. First on coal, as you know on October 1st, which was within the fourth quarter, we did close the transaction where we purchased an additional [11.20%] interest in Fording Coal, taking our ownership interest to 19.95%, and this purchase brought our total direct and indirect ownership interest in the Elk Valley Coal Partnership to 52%.

The Fording board is going through its strategic review, and we support the process they are going through, but we are not involved in the process at this stage, and we really have no guidance to give or view of what will happen, and we will stand back and wait to see what the results are.

And then on Petaquilla, we are continuing to work on our front end engineering and design program to allow us to make a decision of the project at the end of this quarter. The property holds a very significant copper resource. And as you saw last week, we have begun to pin down the capital cost estimate to develop this property. We have the right to acquire a 26% equity interest in the project by funding 52% of project development costs through the commercial production.

However we must make an election prior to March 31, 2008 to exercise our right. If we exercise our right and fund the development costs, we will be entitled to recoup one half of the funds expended plus interest prior to any project distributions to Petaquilla copper. And I do want to state that at this time, there can be no assurance that we will participate in the development of this project.

And with that, I would like to open it up for questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. We will now take questions from the telephone lines. (OPERATOR INSTRUCTIONS) The first question is from Haytham Hodaly of Salman Partners. Please go ahead.

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**Haytham Hodaly** - *Salman Partners - Analyst*

Good morning, gentlemen. Just a couple of quick questions. It is actually Don or one of the guys back there. I was hoping we could get an overview of your thoughts on the zinc market and then maybe a little bit on the copper market.

**Don Lindsay** - *TECK COMINCO LIMITED - President, CEO*

Okay. We have Andrew Stonkus here and Mike Agg. Would either one of you like to start or I could also give a view.

**Andrew Stonkus** - *TECK COMINCO LIMITED - Vice President Concentrate Marketing*

Yes, I'll give an update on the concentrate markets. On zinc concentrate markets were in the midst of our negotiations, so I'm not going to comment on where we stand on negotiations for copper or zinc concentrates. In terms of the market situation on copper, we are basically in a finely balanced marketplace at this point in time. We are seeing production disruptions and I am not seeing the mine production hit forecast figures. So I think that's an issue we're experiencing in the zinc market at this point. It's basically a finely tuned marketplace.

On the copper concentrate market. It is an extremely tight market. There's been significant production disruptions over the last two years and that continues today. So, the copper concentrate market is extremely tight and will remain so through '08.

I'll pass over to Mike Agg for some comments on the metal.

**Mike Agg** - *TECK COMINCO LIMITED - Vice President Refining & Metal Sales*

Just briefly on the metals growth, metal growth and demand last year was quite substantial with the North American demand was down almost 10% driven mainly by reduced residential construction and automobile production. So that made a bit of a shift in the market. Current premiums slot in Chicago is about \$0.03. It's down a lot from where it was last year. But metal is selling and it is moving, as you can see from our fourth quarter sales.

On the lead side of the situation, it's a lot more positive. Demand is very strong throughout the world and strong in North America as well. Premiums are running about \$0.06.

**Haytham Hodaly** - *Salman Partners - Analyst*

Thank you.

**Operator**

Thank you. The next question is from Terence Ortslan of TSO & Associates. Please go ahead.

**Terence Ortslan** - *TSO & Associates - Managing Director*

Good morning, it's Terence Ortslan. Ron, could you just tell me on the sensitivities what will the tax rate assumed on the sensitivity chart that you provided?

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**Ron Millos** - TECK COMINCO LIMITED - Senior Vice President Finance, CFO

The about 34%.

**Terence Ortslan** - TSO & Associates - Managing Director

Okay, right. My next question is- - actually, I was in BC for the conference, and I am listening to the premier of BC to me, it's become envious, because I think he really understands the mining business among all the premiers in this country. And he mentioned specifically he will do whatever he can on Galore Creek. And good two questions on that. One, the commitment I believe is serious and genuine. How much and what can they do to enhance the project. And number two, in that context, would that really- - do you think what they can measure that can do? It can help you out in talk related project.

**Don Lindsay** - TECK COMINCO LIMITED - President, CEO

I think it is premature to give a very definitive answer to that question, so I'll just make a couple of observations. The stage we're at with the project is going back to square one and doing a complete comprehensive review of the development plan. And really we are focused on that and looking at the mine design, the plant, detailing facilities, and figuring out best way to do, and they're after any what I would call common infrastructure that was required we take a look at. But normally our view is that the goal of the government is to provide common infrastructure, and that's certainly what we see and all the jurisdictions in the world that we invested, and that's what we'd expect in British Columbia.

We are very supportive of the premier in this government, and I think that they've been very good for the province and I suspect that they will continue to be so. But at this point, really, there's not much more we could say. We got a lot of work to do, and we will take a year or more before we have a clear development plan that we would be able to have any discussion with the government or anyone else, for that matter, about how the project will be developed.

**Terence Ortslan** - TSO & Associates - Managing Director

Since it will take you about a year to get the numbers together before you see the government, we got to go to the profits.

**Don Lindsay** - TECK COMINCO LIMITED - President, CEO

Probably more. We really don't know how long it will take, but it will take that at a minimum.

**Terence Ortslan** - TSO & Associates - Managing Director

Okay. Ron, it is great to have options. Obviously you got three major copper projects at a few Galore Creek, Petaquilla, as well as Quebrada Blanca. In all cases the numbers are quite significant in [council] but again, its great options and alternatives to have the way it's going to go in the future. And the way it looks like- - financial engineering are needed for Galore Creek and Petaquilla, where by Quebrada Blanca is one of technical and [recounted solve]. How do you foresee- - first of all, I'm not going to ask you the question about how much capital into the list, the overall numbers, but how do you foresee- - you can't be able to bring the things on into the future in the ranking of one to three if all click the way you hope to?

**Don Lindsay** - TECK COMINCO LIMITED - President, CEO

Well, that's an interesting question. Each of these projects has its own merits, and we assess them all on, the risk and reward basis. And each carries with it a slightly different risk. Petaquilla is a very large resource, and we have a much higher level of confidence in the capital costs because we've been doing it ourselves. And so rightly or wrongly we at least know all the details

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in workup to that. So that kind of makes it quite interesting. But it is in the jurisdiction that doesn't have a history of mines operating in the country and sort of a culture of mining, and there's a lot of work to be done there on the sustainability side of the business and social license to operate and people understanding just to value their project and how risks are managed and so on. So there's quite a bit of work to go through there over the next two or three years. And in Galore Creek's case, I think it's been discussed in quite a bit of detail, but it's just a tremendous resource, and a large gold component, and of course with gold, you mentioned the financial engineering, there are things we can do in terms of gold sales to lock in some very high gold prices that would possibly make the project something that would have that negative cash cost once built.

But the technical challenges of building, at least turned previous development plan, were more than significant. Then we turn to Quebrada Blanca, of course, operation that's already running, you got a country that's got a terrific mining culture, a great work force, very successful operation rate now, and that's a great starting point, but water is a challenge. Not an insurmountable challenge anyway but something we'd be conscious of. I am hesitant to rank them, but I suspect the ranking you have in your mind is the same as the one I have.

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**Terence Ortslan** - TSO & Associates - Managing Director

Last question. Ron, have you done any labour contracts coming up anywhere in your system?

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**Ron Millos** - TECK COMINCO LIMITED - Senior Vice President Finance, CFO

Yes, we do.

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**Peter Kukielski** - TECK COMINCO LIMITED - Executive Vice President, COO

Terry, what was the question? It's Peter Kukielski.

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**Terence Ortslan** - TSO & Associates - Managing Director

Labour negotiations and the contracts.

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**Peter Kukielski** - TECK COMINCO LIMITED - Executive Vice President, COO

Yes, we finalized the staff labour contract in the last quarter at Quebrada Blanca and there is one remaining to be negotiated, and that the hourly workers contract which expires in June of this year.

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**Terence Ortslan** - TSO & Associates - Managing Director

Which one is that?

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**Don Lindsay** - TECK COMINCO LIMITED - President, CEO

Trail.

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**Peter Kukielski** - TECK COMINCO LIMITED - Executive Vice President, COO

oh, I'm sorry. I thought you meant- - I am referring to Quebrada Blanca only. And the Trail obviously we have...

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**Terence Ortslan** - TSO & Associates - Managing Director

Overall trail this year?

**Peter Kukielski** - TECK COMINCO LIMITED - Executive Vice President, COO

Yes.

**Don Lindsay** - TECK COMINCO LIMITED - President, CEO

May 31st.

**Terence Ortslan** - TSO & Associates - Managing Director

Okay. Anything else as you accept Trail?

**Peter Kukielski** - TECK COMINCO LIMITED - Executive Vice President, COO

No. and what has answered.

**Terence Ortslan** - TSO & Associates - Managing Director

Yes, right. Thanks guys. Thanks very much.

**Operator**

Thank you. The next question is from Lawrence Smith from Scotia capital. Please go ahead.

**Lawrence Smith** - Scotia Capital - Analyst

good morning. I guess my questions would be for Ron. I was trying to understand your reconciliation from reported earnings to adjusted net earnings, and first question would be the break down you're giving on flotation period adjustments. All you're doing is giving us more detail. This is nothing different than you the eve done previously?

**Ron Millos** - TECK COMINCO LIMITED - Senior Vice President Finance, CFO

Yes, all we have done is split it into two to say that really what we're doing is within the settlement adjustments, there's two pieces. There's the sales that occurred in the prior period, which have been marked to market at the end of that period, and they actually come in and settle on a monthly basis throughout the period. So we bring that into income, and in theory you don't have any sales volumes to go with that

**Lawrence Smith** - Scotia Capital - Analyst

Yes, but this is the same avenue been doing all along you? You are just giving us more detail and help us calculated and just that?

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**Ron Millos** - *TECK COMINCO LIMITED - Senior Vice President Finance, CFO*

Just giving you more detail, yes.

**Lawrence Smith** - *Scotia Capital - Analyst*

A cynic might ask the question when metal prices were rising and the quotation period adjustments were moving in your favour, I don't remember getting so much detail, but that's beside the point. The other question I had was the asset write-down that you've added back, the \$84 million. That's Tahera and Galore Creek. Did you take a write-down on Lennard Shelf or was the...?

**Ron Millos** - *TECK COMINCO LIMITED - Senior Vice President Finance, CFO*

Yes, Lennard Shelf, Pend Oreille, and Tahara.

**Lawrence Smith** - *Scotia Capital - Analyst*

Okay. So, that's all in there?

**Ron Millos** - *TECK COMINCO LIMITED - Senior Vice President Finance, CFO*

That is all in there, yes.

**Lawrence Smith** - *Scotia Capital - Analyst*

And then just one more question since I get the floor. Under other income there was non hedged derivative gains that netted about almost \$40 million, why wouldn't you take those out to get adjusted net income?

**John Gingell** - *TECK COMINCO LIMITED*

Those relate to the hedges that are placed at Duck Pond and will continue every quarter until they are finalized. So they're an ongoing amount.

**Lawrence Smith** - *Scotia Capital - Analyst*

Okay. That's great. Thank you very much.

**Operator**

(OPERATOR INSTRUCTIONS) The next question is from Greg Barnes of TD Newcrest. Please go ahead.

**Greg Barnes** - *TD Newcrest - Analyst*

Yes, thank you, Ron. Ron, on Aur resources, I think Peter had mentioned earlier in the call that you were looking at changes or adjustments or higher depreciation charges coming there. Could you elaborate on that a bit?

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**Ron Millos** - TECK COMINCO LIMITED - Senior Vice President Finance, CFO

Once we finalize the purchase price equation, Greg, we'll know exactly what they are. But right now one, of the items that we have is a lot of the purchase price goes to the undeveloped ore deposits. So once those deposits are brought into production, that's when the depreciation will start. So, for example Andacollo comes in a couple years down the road, and that's when the depreciation related to that particular property. We will start to hit our earnings.

**Greg Barnes** - TD Newcrest - Analyst

Okay. So it is nothing near term that we have to worry about now.

**Ron Millos** - TECK COMINCO LIMITED - Senior Vice President Finance, CFO

No. You have to remember that in Q4 there's not a lot of depreciation, there was one quarter. So, it will pick up in the next year as well.

**Greg Barnes** - TD Newcrest - Analyst

Any guidance on what the number is going to look like?

**Ron Millos** - TECK COMINCO LIMITED - Senior Vice President Finance, CFO

I would rather finish the analysis before I give the guidance, to be fair and honest with you.

**Greg Barnes** - TD Newcrest - Analyst

Okay, fair enough. On the Lennard Shelf and Pend Oreille, Lennard Shelf I think only had a four or five-year mine life anyway. And Pend Oreille, I think that's similar too. What kind of mine life are you looking at now if you are going to and while you take the charges against them, but potentially shorten the mine lives already again.

**Peter Kukielski** - TECK COMINCO LIMITED - Executive Vice President, COO

This is Peter. We're still reviewing that but we'd be able to comment better in the next couple months.

**Greg Barnes** - TD Newcrest - Analyst

Okay, that was it. Thank you.

**Operator**

Thank you. The next question is from Cliff Hale-Sanders from CIBC World Markets. Please go ahead.

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**Cliff Hale-Sanders** - CIBC World Market - Analyst

All right. Good morning, gentlemen. Couple of quick questions, if I may. And I will just give you the question, then we can answer them. Based on the Antamina guidance, I was wondering if you could obviously quantify the financial impact we saw in Q4 and to date in Q1 and what you expect. Is it just going to be continuing going on? Realistically, in light of the unique nature of the SAG mill there, how difficult to the get parts if you need them? A couple of related questions, clearly if we assumed generically you're not going to go ahead with Galore Creek, and we will make the assumption for this comment on Petaquilla or at least the significant delays in the timing of those projects. Could we start to talk about capital allocation, policies, and the potential for dividend increases or more aggressive share buybacks obviously, you still have some outstanding.

And finally, I wanted to get you a view on the problem we soon to be having in the market which is what is the right commodity price to use. Are you internally looking at your longer term assumptions obviously with the capital cost creep and reviewing your internal outlook on how to value these project clearly the strategic value of them to other players within the industry is quite high, even if they're looking at them perhaps ten years from now? Just wondering if you can comment on those.

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**Peter Kukielski** - TECK COMINCO LIMITED - Executive Vice President, COO

Sure. This is Peter Kukielski. On the SAG mill at Antamina, I really should point out that although we sustained several days of outage in the fourth quarter of last year and a few more this year. That the mill is operating very very close to normally right now with mitigation measures in place. And those mitigation measures involved running the mills at a slightly slower speed and reducing the power draw somewhat. The root causes have not yet been completely determined or confirmed, and there certainly is the possibility of further failures going forward, but that said with the mill operating fairly normally as it is right now, we're looking for long-term solutions, which really will depend on how the mill functions in the near term now. You asked about availability of spares, that sort of thing. But this mill is not unique. There are mills just like it close by.

In fact, our partners at Antamina have several of these mills at their facilities. So not only do we carry spares but there are spares typically available, and of course, we've carried an increasing number of spares as we've sustained a couple of further failures on the mill. You can - the spares comprise many different things. You could go from individual winding to complete stator, for example, which would obviously be at tech stream end, but we are pretty confident with what we carry in stock, and we are even more confident, given the incredible expertise of Antamina's operating workforce. They have become so, so good at responding to these failures right now, that I think that the potential for longer outages is dramatically reduced.

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**Don Lindsay** - TECK COMINCO LIMITED - President, CEO

Okay. And on the other two questions, first related to dividends and share buybacks, we did return a billion dollars to shareholders last year which is one of the largest returns of capital in the industry. Our dividend currently is one of the highest in the industry, so I think that's an appropriate level, but we always assess these things relative to the ability to grow the company. We are very conscious that we are on mining company with depleting assets and getting a hold of and developing key resources is our most important mission, and that creates the most value We are fortunate to have three, but probably four key copper development properties ahead of us and until such time as we know what the decisions are on those key properties. It makes sense to retain the capital for project development.

But there is a circumstance that could unfold where we end up getting a lot of capital back from the coal business depending on how the results of the Fording process goes so we do want to retain the ability and flexibility to buy back more shares if we end up with that excess capital. But it's only in the circumstance where we are quite certain that we have excess capital, we don't have opportunities to develop properly and create value for all of the stakeholders in the company then we would do that. And I think part of your question was related to long-term copper or commodity prices. Just too tough a call for the whole industry these days. And we've made different presentations at different times. Last year at the annual meeting we showed that 20-year average of the month end copper price are leading up to the end '06 was actually \$1.40. Obviously the average

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would be higher. And 20 years built in a few cycles, but it would also show that 20 years was quite different than the time period from 1960 to 1980 when Japan was in a very high industrial production and growth phase similar to what we're seeing in China and India today. The average copper price at that point for those 20 years was \$2.25, in 2006 dollars, and in fact, it never went below \$1.50 in the whole 20-year period, and it spiked to \$4 quite frequently. That's not to say that that's what we think is happening now.

Frankly, I don't think anyone has much certainty to know going forward. We have a significant slow down in the U.S., probably a recession, which historically would have a major effect on metal prices, but so far at least in copper and certainly with the outlook in metallurgical coal related to steel, it doesn't seem to be having much effect. The numbers behind that kind of supportive because since 1999, the proportionate copper consumed in the U.S. versus of that consumed in China, the two positions have reversed. I think would you want to look up to check these numbers but I think the U.S. has dropped from roughly 25% of world consumption to something like 12, and China has gone up to 25 or 26. So if China keeps going, regardless of what happens in the U.S. in terms of slow down, it does suggest that copper would remain tight. And we are just using copper because it seems to be the bellwether economic element. There was some views and comments there, the bottom line is we don't know?

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**Cliff Hale-Sanders** - CIBC World Market - Analyst

But would you say internally you're having to continue to go through the process of obviously looking at sensitivity analysis but your own threshold per what you think is reasonable benchmark? Because backing out the numbers from your comments from Galore in your previous conference calls it was suggest that internally you were using a somewhat lower number than the numbers you were quoting there.

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**Don Lindsay** - TECK COMINCO LIMITED - President, CEO

That's correct. For our reserve and resource statement we use lower numbers, and when we're looking at an investment decision, we do many scenarios, and so there's no really one point, one copper price or one zinc price or coal price that we would use. At the end of the day it's a decision that you make having looked at all the variables, different risks that you face and capital costs, political risks, sustainability issues, all of it taken together, in addition to the actual numbers that you've run in your model. I've always found it interesting that people look at these models as if they're a science and say, there's the answer. There's either a positive MPV or negative MPV. Because I use this phrase sometimes.

Once you've put all your numbers together, and you get the answer, the only thing you know for sure in that model is that it's wrong, because you don't know what the scenarios would be. If you have a project that might have a very large capital cost, but if it is cash costs are in the lower half of the world cost curve so that it can survive cycle to cycle, the odds are in the mining industry there will be one or two good years where you get all your money back. So we have to keep that in mind that there's a different type of price cycle that actually applies in real life to these project and the returns, when you go back and back calculate, can sometimes be very good, notwithstanding that a project might have a negative MPV when you just do your model.

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**Cliff Hale-Sanders** - CIBC World Market - Analyst

Thanks for that, Don.

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**Operator**

Thank you. The next question is from John Hughes from Desjardins.

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**John Hughes** - *Desjardins - Analyst*

Thank you, operator. Just a couple quick ones left. Maybe, well for Ron I guess. Can I just confirm what your capex expectation, like your total capex is for 2008?

**Ron Millos** - *TECK COMINCO LIMITED - Senior Vice President Finance, CFO*

It's about \$1.6 billion, John, and that would include about \$750 million for Fort Hills.

**John Hughes** - *Desjardins - Analyst*

What are you going to spend \$750 million on? Is it mine development? It seems like a lot of money and I'm trying to figure out, is it going into the ground or what?

**Don Lindsay** - *TECK COMINCO LIMITED - President, CEO*

We're all looking, so I did not want to answer your question. We think it's a lot of money, too.

**Tim Watson** - *TECK COMINCO LIMITED - Senior Vice President Project Development*

There's a number of activities going on with respect to Fort Hills. This is Watson speaking. The first of the programs is our FEED program which is scheduled for completion in August or September of this year, which is coincidental with the project sanction date. The total cost of the FEED program from its initiation is approximately \$1.1 billion.

And the total investment for the Fort Hills' development up to that point time will be \$2.3 billion. So we are active in the field at present doing much of the pre production development for the site in the North as well as we have made commitments for some of the long weight equipment, most notably some of the trucks and along with other piece of mining equipment, as well as significant pieces of process equipment that are long lead, things like the primary separation unit associated with the extraction plant. So again, those are the investments that have been occurred to date and some of the activities will continue to occur between now and the project sanction date.

**John Hughes** - *Desjardins - Analyst*

That's great. That helps. And maybe Ron, I note that in the quarter, you had like a total or consolidated impact of \$125 million as a result of the FX impact. And I'm wondering do you have a breakdown, because I note you have U.S. dollar debt. Do you have a breakdown of how much of that is balance sheet related and mark to mark at the end of December and try to differentiate how much is a carry forward from an operating perspective versus a balance sheet perspective?

**Ron Millos** - *TECK COMINCO LIMITED - Senior Vice President Finance, CFO*

I just want to have a chat on. If you want to continue with your questions, I can get back to you on that one, John. I do not have the breakdown handy.

**John Hughes** - *Desjardins - Analyst*

Or I can touch base after, whichever is fine. One for Don on the diamond side we're hearing lots of activity in North Canada driven, of course, by consolidation of several of the senior mining companies worldwide. I'm wondering, is there any reason

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that we should expect that from a strategic perspective should be or will have a lack of interest in trying and like in looking at a Ekati or divik?

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**Don Lindsay** - TECK COMINCO LIMITED - President, CEO

I think the announcement that you saw on Friday from the De Beers on the almost \$1 billion write-down the De Beers Canada is fairly instructive. The dilemma the diamond industry faces in Canada is really directly related to the move in the currency. Unlike in copper or zinc or coal where when the Canadian dollar goes up strongly, commodities might reprice and recalibrate in U.S. dollars and you get some of it back. In diamonds, the diamond industry is really dependent on the U.S. consumer to a large extent, and so it's hard to see 25% price increases happen quite quickly like we saw that sort of percentage move in the Canadian dollar. So if you had an operation that had, say, a 25% margin and Canadian dollar moves 25%, it eliminates your whole margin. We've experienced that in the coal business.

So I think the diamond history Canada will suffer from that for a few years until pricing concern can catch up on 4 to 5% increases year after year. It takes five years to catch up. I think that has a biggest effect on the diamond business. That's not to say that we wouldn't continue to watch it and follow it. There are a whole bunch of things structurally about it that we like. We are optimistic that over the next 15 years there will be as much discovered in terms of diamonds in Canada of the last 15 years, because I think all of the learning that's taken place will be brought to bare. We like the fact that it has a driving junior sector with something like 40 different junior mining companies out there spending the high risk, high-reward money, and developing a knowledge base, and we like to operate in the North, so we'd be a good partner for them. It is also a good reason for us to watch it, but at the moment that move in the Canadian dollar has really hurt the industry. So I doubt that we'd be making any moves there.

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**John Hughes** - Desjardins - Analyst

Very good. Is there anything you can disclose or like just with regard to iron ore in Canada or gain the strategy of diversifying away from exchange traded commodities of course leads to discussions into the coals and into the iron ores. I know coal is a whole different issue. You probably can't say a lot about that right now. But can you discuss anything in terms of the North American iron or ore scene that sort of attracts your interest?

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**Don Lindsay** - TECK COMINCO LIMITED - President, CEO

Well, as we said before, iron and ore will be a terrific fit for us. Our customers on the coal side they would really ask us get into the business and when you negotiate with customers, if you had iron and ore in your portfolio, you probably do better on the coal side in terms of long-term contract performance and so on. So that's why we find it quite interesting. Having said that, those who are in the iron and ore industry already, particularly the three key players, are experiencing the best times of their lives in iron and ore. It's going from a fantastic business to a spectacular business. They kind of want to hang on to their assets and they don't really want to see us getting business. It's been tough to find way, a way into this point.

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**John Hughes** - Desjardins - Analyst

I see. That's great. Thank you very much.

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**Don Lindsay** - TECK COMINCO LIMITED - President, CEO

There aren't very many sellers out there.

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**John Hughes** - *Desjardins - Analyst*

No, that's what we're hearing. Just wondering on the FX side, Ron, was there any numbers there or should I give you a ring?

**Ron Millos** - *TECK COMINCO LIMITED - Senior Vice President Finance, CFO*

Sorry, John. It's basically all off the P&L balance sheet revaluation the way we account for our investments in foreign subject, most of that adjustment goes through the accumulative translation adjustment.

**John Hughes** - *Desjardins - Analyst*

Okay. So is that 125 is in essence permanent impairment? If the U.S. dollar/Canadian dollar doesn't change coming forward?

**Ron Millos** - *TECK COMINCO LIMITED - Senior Vice President Finance, CFO*

That would be right.

**John Hughes** - *Desjardins - Analyst*

That's great. Thank you very much, gentlemen.

**Operator**

Thank you. The next question is from Steve Falardeau from Caisse de depot et placement. Please go ahead.

**Stephen Kibsey** - *Caisse de depot et placement - Analyst*

Hello, it's actually Stephen Kibsey. I have two questions, first on the capex. Would it be possible to give us a little more break down on the sustaining capex for 2008 where the bulk of the sustaining is going and I would just like to know is that sustaining capital what will that look like in future years?

**Ron Millos** - *TECK COMINCO LIMITED - Senior Vice President Finance, CFO*

I don't have the detail handy, but I think the bigger pieces would generally be at Elk Valley, Red Dog, and Trail.

**Stephen Kibsey** - *Caisse de depot et placement - Analyst*

Okay.

**Don Lindsay** - *TECK COMINCO LIMITED - President, CEO*

I could add, Elk Valley in particular would have a larger number than in years past that you would have been looking at.

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**Stephen Kibsey** - *Caisse de depot et placement - Analyst*

On second question, just on Petaquilla, do you think there's any help you can get from the government side in terms of the power and the port? And I'm just wondering, is the end of March really the final decision, or is there something that you can prolong to continue to look at the project and still participate in it before making a final decision?

**Don Lindsay** - *TECK COMINCO LIMITED - President, CEO*

Tim, do you want to take the first one?

**Tim Watson** - *TECK COMINCO LIMITED - Senior Vice President Project Development*

Well, certainly from a - the power in the port perspective what we've been looking at to date from a capital perspective is the port numbers and the power numbers are in the base number that was released tail end of last week. We have been in discussions with independent power producers of them coming into the market and building a power facility, and then us acquiring the power over the fence.

We've also begun to have preliminary discussions as to whether it's possible on the port side as well or one of the other possibilities is dramatically reduce the port infrastructure associate with the project and use some of the existing facilities. So we have been looking to the private sector for support in the development of those activities, and up to this point in time have had limited discussion with the government on their involvement in those particular pieces of the project.

**Don Lindsay** - *TECK COMINCO LIMITED - President, CEO*

On the second part of the question, under the current agreement March 31st is the final deadline. You can assume that the three parties are in after discussions and we'll likely be having discussions with the government as well, but at the moment, March 31st is the final deadline.

**Stephen Kibsey** - *Caisse de depot et placement - Analyst*

Thank you very much.

**Operator**

Thank you. The next question is from Terence Ortslan from TSO & Associates. Please go ahead.

**Terence Ortslan** - *TSO & Associates - Managing Director*

Actually, I am okay. Operator, thanks a lot. I'm okay.

**Operator**

Next question is from Basu Mullick from Neuberger. Please go ahead.

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**Basu Mullick** - *Neuberger - Analyst*

Hi. I just wanted you to address the issue that I'm looking at the capital spending plan for 2008. \$840 million and \$465 million of sustaining capital expenditure, 285 on development of projects, 94 share of various oil sands and you want it with UTS. I'm just asking the question as you look at the cost of capital construction going up steeply while your stock is where it is trading at granted you have returned a billion dollars, as you mentioned, to shareholders. Does it make sense here to kind of re-evaluate the intensity of capital spending relative to buying back shares given the valuation of

**Don Lindsay** - *TECK COMINCO LIMITED - President, CEO*

We see in the capex that you just referred to we see excellent returns from the deployment of that money, particularly in some of the sustaining capital numbers related to Elk Valley where sustaining capital will be going up substantially from the last couple years but with the outlook for the business and hope for much higher coal prices, there are tremendous returns on those funds. And likewise, if you look at the track record on the oil sands project that we have outside of Fort Hills joint well UTS the increases in resources there have been substantial and are very valuable, so we think we're getting excellent returns from those funds as well.

So our position at this stage is as we're carrying on with developing and growing the company, but I will repeat what I said earlier that if we end up in a circumstance where a lot of capital is return to us because of sales in the coal business or something like that, then we would look very closely at returning more capital to shareholders than we already are to a very high dividend.

**Basu Mullick** - *Neuberger - Analyst*

Great, thank you.

**Operator**

Thank you. There are no further questions registered at this time. I would like to turn the meeting back over to Mr. Lindsay.

**Don Lindsay** - *TECK COMINCO LIMITED - President, CEO*

Okay. With that, thank you very much for joining us today, and we'll look forward to the next quarterly call in April.

**Operator**

Thank you. The conference has now ended. Please disconnect your lines at this time, and thank you for your participation.

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