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Conference Call Transcript

TCK.B - Q3 2008 Teck Cominco Limited Earnings Conference Call

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Oscar Cabrera

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RonVance**PRESENTATION****Operator**

Ladies and gentlemen, thank you for standing by. Welcome to Teck's Third Quarter 2008 Earnings Release 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 Thursday, October 23, 2008.

I would now like to turn the meeting over to Greg Waller, Vice President, Investor Relations and Strategic Analysis. Please go ahead.

Greg Waller - Teck Cominco Limited - VP, IR & Strategic Analysis

Thank you, Melanie.

Good morning, everyone, and thank you for joining us today at Teck's third quarter investor conference call. Before we start, I'd like to draw your attention to the forward-looking information slides in our presentation package on pages two and three. This presentation contains forward-looking information regarding our business. Teck does not assume the obligation to update any forward-looking statement.

At this point, I'd like to turn the call over to Don Lindsay.

Don Lindsay - Teck Cominco Limited - President & CEO

Thank you, Greg, and good morning to all.

I will do a brief overview of the general financial results, and then I will turn the presentation over to two of my colleagues. Peter Kukielski, our Executive Vice President & Chief Operating Officer, as well as Ron Millos, our Senior Vice President of Finance and CFO. And a number of other members of the management team are in the room and are available to answer questions later on.

Turning to slide five, earnings from continuing operations in the quarter were \$432 million, or \$0.97 per share, compared to \$495 million, or \$1.16 per share, in the same quarter last year.

Strength in our coal business has mitigated the weakness we saw this quarter in our base metals businesses, and we expect that this will continue to be the story for coming quarters.

Turning to slide six. This was a relatively clean quarter, with minimal unusual items to adjust for in adjusted net earnings. Adjusted net earnings, allowing for the non-recurring items shown here, which are not part of our fundamental business, were \$409 million for the quarter.

It's a different story at the comparative net earnings line, though, where we remove the impact of final pricing realizations in the quarter. With the sharply reduced copper price in the quarter, we incurred significant pricing adjustments in the quarter. With the pricing adjustments removed, our fundamental earnings were very similar to last year's results. And Ron Millos will discuss this issue in more detail later in the call.

Turning to slide seven and looking at prices for the quarter. On a Canadian dollar basis, the copper price was actually only 2% lower than last year. But what is not shown here is the change in price between quarter ends, which is what drives the revenue we book for the quarter.

The copper price declined from \$3.98 at the end of Q2 to \$2.91 per pound at the end of Q3, a decline of 25%. The decline in zinc and lead was also steep for the quarter and in the 40% range for both.

The realized coal price was 160% higher than last year's third quarter in Canadian dollar terms, and 163% higher in US dollar terms. Our realized coal price will continue to increase over the next two quarters as the effect of carryover tonnage is reduced.

In slide eight we show the changes in price from the end of Q2 to current prices. And although the copper price is down by more than 50% on a US dollar basis, the strengthening of the US dollar over that period mitigates the decline in the price in Canadian dollar terms. As you can see, there's quite a difference in the effect.

Turning to slide nine. The impact of the stronger coal price and weaker base metals prices can be seen in the relative contributions to our operating profit. Coal contributed 51% of operating profit this quarter versus only 4% last year. Copper and zinc contributions declined to 29% and 19%, respectively.

I'd now like to turn it over to Peter Kukielski to discuss the operations.

Peter Kukielski - Teck Cominco Limited - EVP & COO

Thanks, Don, and good morning, everybody.

Turning to slide 11. Sales volumes for the quarter were generally in line with volumes in the same quarter last year. The main difference represents the addition of the cathode producing mines in Chile last year, which we acquired midway thru the quarter last year.

Zinc concentrate sales were slightly higher in the quarter than last year, but not as high as we had expected and given guidance on in the second quarter. This was mainly a timing issue, as some ships arrived later than anticipated, and some consignment customers drew down on their stockpiles slower than expected. We expect these deferred sales to be brought into revenue over the next couple of quarters.

Coal sales were 5% higher this quarter than last year but, as we had indicated in the previous quarter's guidance, were lower than the second quarter due to planned summer maintenance shutdowns.

On slide 12, Highland Valley's copper production continues lower as we continue to mine more ore from the lower grade Lornex pit, while we push back the Valley pit in order to extend the mine life. Grades and recoveries are expected to gradually return to normal levels by the third quarter of 2009, with copper grades of approximately 0.33%.

Highland Valley's revenue and operating profit was significantly impacted in the quarter by \$82 million in negative pricing adjustments, versus \$12 million in positive adjustments last year.

Turning to slide 13. At Antamina, copper production was similar to last year, but zinc grades and the proportion of copper/zinc ore were higher resulting in higher zinc production.

The mitigation measures that were undertaken to lessen the effect of the SAG mill problems that arose in the fourth quarter of 2007, including reducing the speed and voltage, have been successful, with no major unplanned downtime during the quarter.

Despite the reduced speed of the SAG mill, mill throughput in the third quarter was only 3% lower than the same period last year, and has also improved from the first and second quarters of this year. Antamina's revenue and operating profits were also significantly impacted in the quarter by \$67 million in negative pricing adjustments, versus \$6 million in positive adjustments last year.

On slide 14, copper cathode production at Quebrada Blanca was slightly above plan at 21,000 tonnes. Operating profit was \$48 million, after a deduction of \$4 million to account for the AUR purchase allocation. This purchase allocation continues to decline and will be minimal from this time.

We expect to complete the Advanced Scoping Study on the hypogene resource in the first quarter of 2009, at which time we would make a decision whether to progress to a prefeasibility study.

On slide 15, Andacollo's production was consistent at 5,000 tonnes of copper cathode. Andacollo's operating profit of \$17 million was not impacted by adjustments related to the AUR purchase allocation this quarter.

Work on the concentrator project continues to progress, and the overall project is more than 60% complete with startup expected in 2010. The estimated capital cost for the project of US\$410 million was based on a stronger Chilean peso, so we may be getting some help on that portion of capital costs.

On slide 16, production of zinc metal at Trail was 2% lower than the third quarter of last year. Problems encountered in the leaching and purification circuits in the second quarter continued into the early part of the third quarter, but are now largely resolved.

A 10-day lead refinery shutdown was completed on July the 17th as planned, and production was 3% higher in the quarter than last year. A 20-day silver refinery shutdown was completed on schedule in late July. Trail's operating profit for the quarter was \$37 million, down from the third quarter of last year, due primarily to lower zinc prices and lower zinc sales volumes.

Turning to slide 17. Red Dog production was 15% lower in the quarter due to unscheduled maintenance shutdowns. Zinc sales for the quarter were lower than we had given guidance towards in our second quarter report, as consignment customers drew less from consignment stocks than we expected, and due to some late ship arrivals that moved sales into.

Operating profit was down, primarily due to a 40% reduction in the zinc price, but Red Dog's revenue and operating profit were also reduced in the quarter by \$19 million in negative pricing adjustments, versus \$10 million in negative adjustments last year.

On slide 18, as for Elk Valley Coal, production decreased by 5% to 5.4 million tonnes compared with the same period last year. Production at one of our six mines, the Elkview mine, was disrupted during the third quarter by a mechanical failure of the raw coal conveyor system. Full production of clean coal at Elkview is expected to resume by the end of October.

Third quarter results also reflect lower production levels in the second quarter, due to normal seasonality resulting from planned summer maintenance shutdowns.

Coal sales of 6 million tonnes in the third quarter were 5% higher than a year ago. And for the 2008 calendar year, Elk Valley Coal's sales volumes are expected to be in the range of 23 to 25 million tonnes. The unit cost of product sold increased to \$61 per tonne compared with \$42 per tonne for the third quarter of 2007.

In addition to higher input costs, unit costs for the third quarter were adversely impacted by lower plant production at the Elkview mine as mining operations continued in order to move overburden and expose raw coal. This activity should be reflected in lower unit costs in future periods once production of clean coal resumes. The unit cost of product sold is now expected to be in the range of \$49 to \$51 per tonne for 2008.

Unit transportation costs increased by \$5 to \$41 per tonne, due primarily to the coal price participation provisions contained in port loading contracts with Westshore Terminals. Unit transportation costs are now expected to be in the range of \$40 to \$42 per tonne for 2008, which is down from our previous guidance range of \$42 to \$44 per tonne, as a result of a reduction in estimated ocean freight and vessel demurrage costs.

Total costs of product sold and transportation costs for the year are now expected to be in the range of \$89 to \$93 per tonne, compared with our previous guidance range of \$87 to \$91 per tonne.

Operating profit increased by almost a factor of 10 over last year due to the higher coal year prices starting to take effect. I should note that we are still selling some coal under contracts carried over from the 2007 coal year and, accordingly, the realized coal price for the fourth quarter will still be somewhat short of our coal year price guidance of \$275 per tonne.

Looking at the gold operations on slide 19, Pogo's production increased primarily due to higher grades. Unit costs have decreased with the increase in production.

At Hemlo, production was lower due to lower grade and ore throughput. Cost saving initiatives implemented earlier in the year have reduced overall costs, but unit costs are higher due to lower overall production.

And now I would like to turn the call over to Ron.

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

Okay. Thank you, Peter. I'm on to slide 21

As we identify each quarter, our pricing adjustments on concentrate sales can have a significant impact on our revenues. Outstanding receivables from any one quarter can be settled at different prices than they were originally booked, and sales booked during the quarter can be re-priced at quarter-end forward-curve prices if those receivables are still outstanding.

As the charts on this slide show, the copper price ended the quarter about \$1.00 per pound lower than what it started the quarter at, and \$0.57 per pound lower than the average for the quarter. As a result, we incurred substantial negative adjustments on the copper receivables outstanding at the end of the second quarter. And again, sales booked during the third quarter and still outstanding were revalued, using the forward curve at the end of September.

Both the lead and zinc price ended the quarter lower than the average price as well. And since quarter end, LME stocks has moved up to the 170,000 tonne range for zinc, and lead stocks have continued to move down to about a 57,000 tonne range.

On the next slide. It shows our final pricing revenues for the third quarter. And as I indicated, the final pricing adjustments for the quarter were quite substantial and, again, primarily due to the reduction in the copper price.

At the end of September we had 157 million pounds of copper receivables valued at \$2.90 per pound, 296 million pounds of zinc receivables valued at US\$0.76 per pound, and 96 million pounds of lead receivables valued at \$0.83 per pound. The difference between these prices and the final settled prices will impact our revenue and earnings in the fourth quarter.

We estimate that if current spot prices for these metals remain unchanged for the balance of the fourth quarter, these pricing adjustments would be about negative \$150 million after tax.

When analyzing the impact of your price changes on our final pricing revenues, refining and treatment charges, the Canadian/US dollar exchange rate must be included in your calculations. And in addition, if you're looking at net earnings, you need to consider taxes and royalties as well.

Moving on to slide 23. We have summarized our changes in cash for the quarter. Our cash flow from operations was \$873 million in the quarter, of which working capital changes provided \$263 million, and that reflects principally the sale of inventories at the Red Dog mine built up prior to the shipping season.

Our long-term debt payments of \$69 million were made, and dividends of \$221 million were paid in the quarter. And distributions to our minority interest holders, which were mainly the minority holders of the Quebrada Blanca and Andacollo operations, were \$31 million.

Capital expenditures at our operating properties were \$377 million in the quarter. \$125 million of that was for sustaining capital and \$252 million was on development projects. The bulk of the sustaining capital expenditures were for new equipment at our Elk Valley operations, at Antamina and at Red Dog.

Our development projects were \$40 million for the Highland Valley mine life extension, and \$65 million on the Andacollo concentrate project. In addition, we acquired the Relincho copper project in Chile for 6.9 million Class B shares and a cash payment of \$136 million.

And investments of \$145 million in the quarter included \$112 million for our share of the funding of the Fort Hills project. And we account for that as an equity investment.

Moving on to slide 24, during the quarter we put in place a currency hedge to cover approximately half of our 40% direct share of coal sales through April 2009. And this brings some protection to the revenue and cash flow we will generate in our coal business over the next year.

At the end of September we had US\$582 million outstanding at an exchange rate of C\$1.02 per each US dollar. And you should keep this in mind when projecting our Canadian dollar coal revenues.

In addition, assuming the Fording transaction closes, we will assume approximately US\$1.4 billion forward sales contracts, at an average price of C\$1.01 for each US dollar. In addition, and based on prices and exchange rates prevailing at September 30, 2008, our current rate of production,

post-Fording acquisition, a 1% weakening or strengthening of the Canadian dollar against the US dollar would increase or decrease our 2009 earnings by approximately \$50 million, after taking into account these various US forward sales contracts.

On to the next slide. Subsequent to the end of the quarter we put in some copper hedges to cover a significant portion of our copper production through to March 2009. And this also brings some protection to the revenue and cash flow we will generate over the next six months.

With all of our various derivative contracts, and the fixed price nature of our coal sales contracts, we believe we have price protection for approximately 72% of our total anticipated revenues for the six month period to the end of March. And this is based on anticipated production sales volumes, and also assumes current commodity prices, customers meeting the contractual commitments, and obviously the closing of the Fording transaction.

And with that, I'll now turn the call back to Don Lindsay.

Don Lindsay - Teck Cominco Limited - President & CEO

Thank you, Ron.

I'd like to touch on two or three other developments within the company, (inaudible) the Andacollo project. And for that, I'll turn it over to Tim Watson.

Tim Watson - Teck Cominco Limited - SVP, Project Development

Thank you. If we can move to slide 28.

As Peter mentioned earlier, the overall project is approximately 60% complete. And for those people who had the opportunity to visit the site earlier in the year, from this initial photograph and in others you can see that there's been substantial increases in the activity at the site.

Just a couple of specifics on slide 28. In the middle of the background, where the One-Tonne is coming out of the concrete bunker, that's the location of the core source stockpile. And on the exit of the tunnel you can see that the pebble crushers are now in place.

And as we move further to the right of the photograph, you can see the large foundation and structural steel work associated with the SAG and the ball mill foundations. In the foreground on the left of the photo you can see that the 325-foot thickener is under construction.

Moving to slide 28 you can see the overall progression of the actual concentrator facility itself. And towards the right of the facility, you can see the development activities associated with the floatation plant. And on the far right-hand side, the foundation work associated with the concentrate thickener and the concentrate storage facility.

One of the things that I would just like to highlight with this particular photograph, or mention associated with it, is the fact that this facility is an outdoor concentrator. So, there will not be a tremendous amount of structural steel that needs to go up associated with the building structure itself.

The last photo I'd like to touch on is slide 30, which shows a little bit more detail of the -- on the upper left-hand corner, the steel that is in process of being erected. That's where the cyclopacs for the two ball mills will be located. And in the center of the photograph you can see that we have commenced installation of the floatation circuit. And in the foreground of that photo is the foundation work that's presently under work for the grind mills. Thank you.

Don Lindsay - Teck Cominco Limited - President & CEO

Thank you, Tim.

Turning to slide 31 and our Fort Hills project in Alberta, work continues on the Front End Engineering and Design (FEED) stage of project development. In September, together with our partners in the Fort Hills project, we announced that preliminary results from the FEED work suggest that the estimated capital costs for the first phase of the mine and upgrader portions of the project, as currently conceived, have increased in the range of 50% from the estimate of \$18.8 billion, including third party costs, that was announced by the partners in June of 2007.

The partners are reviewing the preliminary estimates, and are assessing various options for development of the project, including the phasing of various aspects of the project, with selected options to be reflected in the final FEED report. Once the FEED work is complete, Fort Hills will develop a definitive cost estimate for the selected development option, which will be the basis for the final investment decision by the project partners.

At this point, the partners contemplate making an investment decision in the near term, only with respect to the mining and extraction portion of the project, and deferring any decision to construct the upgrader portion, which would substantially reduce project costs prior to first oil.

Turning to slide 32 and our acquisition of Fording's assets. The transaction is proceeding on schedule. Having a 100% interest in Elk Valley Coal is expected to add substantially to our operating profits and cash flows, both immediately and in the longer term.

I should note that all of the cash flow from Fording's share of the coal business has been accruing to our account since the end of June. We arranged for US\$9.8 billion in debt financing in the quarter for the acquisition. And our ability to do this in spite of the turmoil in the credit markets reflects the quality of the credit from the banks point of view.

US\$4 billion of the facility is a three-year amortizing term loan, requiring 11 equal quarterly installments that don't begin until April 2009. US\$5.8 billion is a 364-day bridge loan.

Our key objective is to reduce this debt as quickly as possible. And we intend to pay down a substantial portion in the next year from our operating cash flow, a cash tax refund of about \$1 billion expected in the first half of '09, from potential asset sales and from cash. We also intend to access longer term debt financing as market conditions permit.

The effective date of the Fording transaction is expected to be October 30th, and we will begin fully consolidating the results from that date. However, upon acquisition, we are required to value production inventories at their fair market values. And these fair value adjustments will affect the operating profits, but not our cash flows, until those inventories are sold, a period expected to be approximately one month.

Accordingly, our earnings in the fourth quarter are expected to include only one month of operating profit from the acquired assets, but two months of interest on the debt incurred to acquire the assets. The first quarter of 2009 will be the first full quarter of earnings from the acquisition of Elk Valley Coal. So, we're carefully signaling that the fourth quarter will be somewhat unusual, and the first clean quarter is the first quarter of 2009.

On slide 33, we expect to be able to pay down a substantial portion of the acquisition debt in the near term. This expectation is based primarily on our belief that Elk Valley's projected revenues and cash flows through to March 2009 are dependable based on existing sales volumes and prices, and the combination of normal carryover volumes into the April-June quarter 2009, and current price forecasts for the 2009 coal year.

Before-tax operating cash flow from our coal business unit over a one year period would be in the range of \$3 billion dollars if the average realized price were to be US \$200 per tonne. And it would be close to \$6 billion if the average realized price were US \$300 per tonne.

But we'd note that the settlements reached in the US were equivalent to about 376. This assumes that we produce and sell 25 million tonnes per year, total cash costs of approximately C\$96 per tonne -- and that's slightly higher than our current guidance -- and an exchange rate of C\$1.10 to US \$1, which obviously is a little different than the current market. And it does not take into account sustaining capital spending, which we do have some flexibility on. So, this is what gives us the confidence in our ability to pay back the debt quickly.

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

QUESTION AND ANSWER

Operator

Thank you. (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, Don. How are you?

Don Lindsay - Teck Cominco Limited - President & CEO

Good, thanks.

Haytham Hodaly - Salman Partners - Analyst

Just a quick question. Could you or a member of your team possibly address just what you're seeing out there right now in terms of zinc in China, and copper in China as well?

Don Lindsay - Teck Cominco Limited - President & CEO

Andrew Stonkus, would you like to take that one?

Andrew Stonkus - Teck Cominco Limited - VP, Base Metals Marketing

Yes. It's Andrew Stonkus. I think in China there are two aspects to it. There's the zinc metal production and demand side and the metals concentrate production. From what we understand, the metals concentrate production in China is flattening out. So, the demand for copper/zinc concentrate imports into China is still robust. So, on the concentrate side there's still a good demand for imports into China of zinc concentrates.

On the zinc metal demand, there are imports of zinc metal so their demand is still there. And anecdotal comments or reports are that it is softening, but we expect growth there to be still in the 8% to 9% range. So, we still feel that demand for zinc metal is still going to be growing and that's on the zinc side.

On the copper side, again, significant demand for copper concentrates. Copper smelters are still expanding there. We also understand, though, that there is some softness in the production side from the smelters due to some weakening of demand. But again, there's significant imports of copper concentrates. And on the metal side, demand is also softening. We saw today the Shanghai price suspend trading for tomorrow due to the decline on the copper price, but on the copper metal side, the growth rates are still 8% to 9%. That's the expectation.

Haytham Hodaly - Salman Partners - Analyst

Thank you. Maybe just a follow-up question, with regards to copper, Don. Could you possibly give me your view on how this recent decline in the copper price affects some of your growth prospects on the copper side?

Don Lindsay - Teck Cominco Limited - President & CEO

We're certainly well on the way to completing the Andacollo project and there'll be no change on that one. On others that are further down the road, there's really no significant capital to be committed until scoping studies or feasibility studies are complete. And so, we haven't made any sort of final construction decision on those. And they wouldn't come in the normal course until 2010 or 2011. So, there really shouldn't be much effect at this point. If the decline carries on for that length of time, of course, it could well affect those projects.

Haytham Hodaly - Salman Partners - Analyst

Thank you very much.

Operator

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Thank you. The following question is from Greg Barnes of TD Newcrest. Please go ahead.

Greg Barnes - TD Newcrest - Analyst

Yes, thank you. Don, just looking out to 2009, clearly your capital expenditures is going to be a real focus point and something you've got to address in terms of paying down debt in the lower metal pricing environment. Can you give us some kind of range or breakdown on what you're thinking on that front?

Don Lindsay - Teck Cominco Limited - President & CEO

Okay. It'd be a two-part answer to that question. The first is we'll have to wait for the final determination on Fort Hills. And as I think you've seen from our disclosure, and also from our partners, UTS and their disclosure, that we anticipate that that will be less than probably most currently have in their models. But that's a very important swing factor.

And then secondly, I've asked Peter Kukielski and all of the heads of our SBUs to look very carefully at our sustaining capital expenditures. And as you know, many of those can be deferred and that's likely what we will be doing. Almost any truck can run for another six months or a year if it needs to. And so, those kinds of actions will be taken.

Greg Barnes - TD Newcrest - Analyst

Sustaining capital this year I believe was \$400 million to \$500 million.

Don Lindsay - Teck Cominco Limited - President & CEO

That's correct.

Greg Barnes - TD Newcrest - Analyst

How far down or how low can you draw that number?

Don Lindsay - Teck Cominco Limited - President & CEO

Well, I think you have to look at the combined number because, with Fording rolled in, it would be closer to \$600 million.

Greg Barnes - TD Newcrest - Analyst

Okay.

Don Lindsay - Teck Cominco Limited - President & CEO

And we don't know the answer to the question yet because that work's being done literally as we speak. But we should be able to save several hundred million.

Greg Barnes - TD Newcrest - Analyst

Okay. And the big capital projects that you're committed to right now, ex-Fort Hills, and Andacollo Hypogene, a couple of hundred million. Beyond that--.

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Don Lindsay - Teck Cominco Limited - President & CEO

There's a small amount finishing the work at Highland Valley.

Greg Barnes - TD Newcrest - Analyst

Okay.

Don Lindsay - Teck Cominco Limited - President & CEO

But beyond that, decisions for major spending, the highest priority with would be QB, but we're still drilling and the pre-scoping study isn't finished until I think March and then you go through feasibility So, there's still quite some time before you make any decisions on major capital there.

Greg Barnes - TD Newcrest - Analyst

Okay. So, I'm at \$300 million sustaining, for argument's sake. \$200 million at Andacollo, some left at Highland Valley, so add \$100 million. I'm now at \$600 million. And then the question is Fort Hills. Is that a fair assessment?

Don Lindsay - Teck Cominco Limited - President & CEO

That sounds about right.

Greg Barnes - TD Newcrest - Analyst

And Fort Hills -- just one question on that front. In the press release you said the CapEx was worth \$18.8 billion under the previous numbers. I thought it was \$15.2 billion, including FEED.

Don Lindsay - Teck Cominco Limited - President & CEO

The difference is the third party costs.

Greg Barnes - TD Newcrest - Analyst

Okay.

Don Lindsay - Teck Cominco Limited - President & CEO

Meaning pipelines and the role that Enbridge was playing and that they financed, but recovered from the operating costs from us.

Greg Barnes - TD Newcrest - Analyst

But 50% upside on the 18.8, that's just \$28 billion, of which how much of that is the upgrader?

Don Lindsay - Teck Cominco Limited - President & CEO

I should be consistent with the disclosure from the Partnership. And the Partnership just disclosed that the increases were approximately 50% and didn't go through the details of each of that because the work wasn't finished and they didn't feel confident in disclosing those numbers.

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The main thing that we're trying to show is that there has been no decision -- actually, there's been no decision on either Bitumen mining or the upgrader. And as we look at it today, the economics of doing the upgrader are clearly in question. And we're examining all options on phasing and we expect that the upgrader will likely be deferred.

Greg Barnes - TD Newcrest - Analyst

Okay. Thanks, Don.

Operator

Thank you. The following question is from Orest Wowkodaw of Canaccord. Please go ahead.

Orest Wowkodaw - Canaccord Adams - Analyst

Hi. Good morning. Two questions. Can you actually give us the amount of copper pounds that you hedged under the new program? And the second question, can we assume, given what's happened in the market, both with the copper price and the credit markets here, that you're unlikely to participate in the Petaquilla project?

Don Lindsay - Teck Cominco Limited - President & CEO

On the first one, just going from memory, it was 166 million pounds at an average of 2.43. Is that correct, Ron?

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

That's correct.

Don Lindsay - Teck Cominco Limited - President & CEO

And then on the second one, I don't think you should make any assumptions here. There's been no decision on Petaquilla at this point.

Orest Wowkodaw - Canaccord Adams - Analyst

Okay. Thanks very much.

Operator

Thank you. The following question is from John Tumazos of John Tumazos Very Independent Research. Please go ahead.

John Tumazos - John Tumazos Very Independent Research - Analyst

Congratulations on surviving so well in tough times. Could you give us a flavour of your priorities? You mentioned deferring capital spending in the event that commodity prices stay down for awhile; as to exploration outlays, common dividends, share repurchases, which things fall by the wayside in addition to the -- potentially postponing the upgrader at Fort Hills and some other capital spending?

Don Lindsay - Teck Cominco Limited - President & CEO

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Okay. Well, the absolute number one priority is reducing the debt, particularly the bridge debt. And so, all cash flows available will be devoted to that, and they're quite substantial for the six month period, where we have price protection related to either coal contracts, copper hedges, zinc hedges and so on.

In terms of the other specifics I think you were asking, we do want to get resolution on Fort Hills so that we know what capital is required there. And we're in active discussions with the partners on that subject.

On the CapEx, I think I've answered most of the variations on that question so far. But basically, we'll know within a short period of time, the next couple of weeks, how much we can reduce sustaining capital. And the other major projects don't come into play for some time.

We are going to look at expiration budgets, both oil sands related and general base metals and gold projects. We haven't come to a determination on how much that will be cut back but they will be cut back. They aren't that material relative to the debt reduction required, but I think it's important that all parts of the company contribute and that that's the signal we're sending to all operations. There are various cost-cutting initiatives underway as well.

In terms of the dividend, that's something that the Board will have to consider at the appropriate time. But at this stage, there's no change contemplated.

John Tumazos - *John Tumazos Very Independent Research - Analyst*

Share repurchase is off the table?

Don Lindsay - *Teck Cominco Limited - President & CEO*

Yes, they are, until the debt is substantially reduced.

John Tumazos - *John Tumazos Very Independent Research - Analyst*

Thank you.

Operator

The following question is from Kerry Smith from Haywood Securities. Please go ahead.

Kerry Smith - *Haywood Securities - Analyst*

Thanks, Operator. Don, just on the copper hedge, this 166 million pounds, could we just assume that that's sort of equally split month by month on a go forward basis? And is it always 2.43 a pound? You say it's an average of 2.43 I'm just wondering if there's any sort of a price deck in there.

Don Lindsay - *Teck Cominco Limited - President & CEO*

There is a price deck, but I'll turn that over to Ron to answer in more detail.

Ron Millos - *Teck Cominco Limited - SVP, Finance & CFO*

Yes. There's a little bit of a swing on a quarter to quarter. I'd say probably about 52% Q4, 48% Q1. And there is a range on a monthly basis. There is a bit of a variation. So, they range from I guess a high of around the 2.50 area and go down to a low in the sort of low 2.20 area. I don't have the specifics with me here.

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Kerry Smith - Haywood Securities - Analyst

Would you have kind of a rough idea as to the 52% of the hedge that would be driven in Q4, what kind of average price that might be? Is that going to be lower than 2.43?

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

I'd say the first quarter a bit on the higher side and the second a bit on the lower side. But again, I'd need to confirm the numbers. I just don't have the detail with me right now.

Kerry Smith - Haywood Securities - Analyst

Okay. So, just so I'm clear. Q1 next year would be a slightly higher price.

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

Yes.

Kerry Smith - Haywood Securities - Analyst

Okay. And just on--.

Tim Watson - Teck Cominco Limited - SVP, Project Development

No, lower.

Kerry Smith - Haywood Securities - Analyst

Sorry. Lower--?

Greg Waller - Teck Cominco Limited - VP, IR & Strategic Analysis

Kerry, its Greg. I think Ron said lower in Q1 and a little bit higher in Q4.

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

I'm just looking them up now.

Greg Waller - Teck Cominco Limited - VP, IR & Strategic Analysis

--He'll come back to you.

Kerry Smith - Haywood Securities - Analyst

Okay. Okay, great. And on all the FX hedges that you have in place that you currently have in the currency hedge you'll inherit from the Fording deal, can those hedges be rolled over or is the intention to deliver in to those as they mature?

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

I think the intention would be to deliver it as they mature.

Kerry Smith - Haywood Securities - Analyst

Okay. And have you had any preliminary discussions with your customers on the coal contract negotiations for the next contract year?

Don Lindsay - Teck Cominco Limited - President & CEO

We have Boyd Payne with us. So, Boyd, over to you.

Boyd Payne - Teck Cominco Limited - SVP, Coal

Yes. Thanks, Don. Actually, I've just come back from a coal conference in Europe. And although we didn't have any contract discussions, I met a number of contracts -- customers, rather. And I don't actually expect the contract discussions to start until probably November/December timing.

Kerry Smith - Haywood Securities - Analyst

And Boyd, I mean, everybody -- it sounds like all the steel manufacturers are cutting back sort of 10% and 20% in their production. And that's a big driver for the met coal. I mean, what would your expectation be?

Boyd Payne - Teck Cominco Limited - SVP, Coal

I think what we're going to achieve this year is more segmentation by quality in the market, because I think the lesser qualities will come under some pressure. But the discussions I've had this last week about the ability for high-quality hard coke and coal producers to produce has been one of the issues. I mean, we're operating globally at maximum on the high quality side. So, there's still difficulties there keeping enough product in the market. The other materials, I think there's plenty of and they'll see some pressure.

In terms of the steel plant reductions, I've talked to a number of people. A lot of the major big reductions are coming in places like Ukraine and Kazakhstan, etc. And then, as you suggest, I think in Western Europe you're looking more at the 10% range. So, we'll see some impact from that, but we'll just have to see how it plays out over the next six months, really.

Kerry Smith - Haywood Securities - Analyst

Can you just remind me how much of your 23 million to 25 million tonnes would be considered to be this high-quality coking coal that maybe we might not see as much of a price pressure as maybe we'd see for some of the other products?

Boyd Payne - Teck Cominco Limited - SVP, Coal

About 90%.

Kerry Smith - Haywood Securities - Analyst

Okay. And just one last question, if I could, Don, on Fort Hills. Is it an option to defer the mining as well, or is there any sort of permitting issue or licensing issue that would prevent you from doing that?

Don Lindsay - Teck Cominco Limited - President & CEO

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Well, the current arrangement with the Alberta government is to have the Bitumen mine up and running by December of 2011. And so, we are fully focused on doing that.

Kerry Smith - Haywood Securities - Analyst

Okay. And in that licensing agreement, is there a minimum production rate? Or like, how is it sort of structured? Like, how much flexibility do you have? Could you start up some smaller operation or does it have to be a particular size?

Don Lindsay - Teck Cominco Limited - President & CEO

I think its 100,000 barrels a day of bitumen. But a lot of these things are being examined and reviewed, and I'm sure there'll be discussions with the government going forward.

Kerry Smith - Haywood Securities - Analyst

Okay. And what happens if you don't get it up and running by December of 2011 then?

Don Lindsay - Teck Cominco Limited - President & CEO

I think that's something we just have to review at the time.

Kerry Smith - Haywood Securities - Analyst

Okay. Thanks very much.

Don Lindsay - Teck Cominco Limited - President & CEO

I might just make a couple of comments on two of your earlier questions. One is on the currency hedge, just for the benefit of those who might not have the background. But Fording, having been an income trust with unitholders that were dependent on the distribution, they had a policy of, once the coal contract pricing had been established, they would hedge the Canadian dollar and then that provided stable distributions.

We, earlier this year adopted the same policy for the coal part of our business as we were making the increased investment in it. And that's sort of the background as to why we have the Canadian dollar hedges. And it's something that we will review once we know the new coal contract pricing for the 2009 year.

And then the second, I think your questions on the timing of the various copper hedges were good ones. And the only concern I have is that, for people trying to figure out the fourth quarter, I'd highlight again that it's going to be relatively confusing because you have only two months of the Fording part of the business in there. You have one month of inventory having to be sold without any profits being booked, but you do have the cash flows. And then you have the settlement price adjustments on top of that. So, we're really looking at the first quarter in 2009 as the first representative quarter of the ongoing business.

Kerry Smith - Haywood Securities - Analyst

Okay. And maybe just one last a question. Have you seen much impact so far on the cost side from the decline in the oil price from 150 a barrel to 70 a barrel? Have you started to see that reduction come through in the cost side or will it take a little while.

Don Lindsay - Teck Cominco Limited - President & CEO

It'll be a mixed answer on that. I'll turn it over to Peter in a second, but we're certainly looking forward to it. And then also, for those comparing our operations versus US dollar commodity price, obviously with the Canadian dollar having dropped from roughly par to roughly \$0.80, that's

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relative to the commodity price we're receiving, that's a 20% cut in operating costs at Highland Valley, say, or Trail. And ultimately, once the hedges are out, at Elk Valley as well.

But Peter, over to you on that question.

Peter Kukielski - Teck Cominco Limited - EVP & COO

Sure, Don. Yes. We haven't seen any impact of declining oil price in our diesel costs yet. And it typically would be quite a substantial lag on that. But we do have an effort underway to examine how we can capitalize on that.

Kerry Smith - Haywood Securities - Analyst

And when you say there's a lag time, is it a quarter or is it a month?

Peter Kukielski - Teck Cominco Limited - EVP & COO

Often as much as two quarters.

Kerry Smith - Haywood Securities - Analyst

Oh, okay.

Don Lindsay - Teck Cominco Limited - President & CEO

And you need to remember at Red Dog, because of the seasonality, it's already been purchased for this year.

Kerry Smith - Haywood Securities - Analyst

Right, right. You've already bought that. Yes. And the December 2011 start-up of the 100,000 barrel a day mine, is there a requirement with the government that you have to have the upgrader up and running by some particular point in time in the future, or is that sort of open ended?

Don Lindsay - Teck Cominco Limited - President & CEO

There's no requirement that I'm aware of.

Kerry Smith - Haywood Securities - Analyst

Okay. Thanks, Don.

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

I'll just follow-up on a final answer on the copper hedging question. There's about 80 million pounds in the first quarter at probably about 2.40, 2.41, and 86 million in the first quarter of 2009, and that would be at about 2.45 per pound average. So, the net of the two will work out to about the 2.43 that Don referred to earlier.

Kerry Smith - Haywood Securities - Analyst

Okay. Thanks.

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Operator

Thank you. The following question is from Jordi Dominguez of HSBC. Please go ahead.

Jordi Dominguez - HSBC Securities - Analyst

Hi, guys. Thanks for fielding the questions. A couple questions. First of all, regarding copper production costs, could you guys give us some guidance on unit costs in the mines, C1 or C3, whatever you guys feel comfortable with.

Don Lindsay - Teck Cominco Limited - President & CEO

Peter or Ron?

Greg Waller - Teck Cominco Limited - VP, IR & Strategic Analysis

Don, I can take that here. If you look at the Chilean copper operations, it's pretty easy to calculate the cash cost. I think that Andacollo in the quarter came in at about \$1.10 and Quebrada Blanca came in at about \$1.45.

Jordi Dominguez - HSBC Securities - Analyst

Okay. That's more in line with what I had calculated. And the other question is what copper price do you guys use to calculate your reserves?

Roger Higgins - Teck Cominco Limited - SVP, Copper

This is Roger Higgins. We use a number of \$1.50.

Jordi Dominguez - HSBC Securities - Analyst

Okay. US or Canadian?

Roger Higgins - Teck Cominco Limited - SVP, Copper

US.

Jordi Dominguez - HSBC Securities - Analyst

Okay. That was all my questions. Thank you very much.

Operator

Thank you. The following question is from David Ventura of Citigroup. Please go ahead.

David Ventura - Citigroup - Analyst

Hi, Don. Congratulations on the Fording transaction. One question related to that. You mentioned in the conversation about Fording that the cash at Fording is accruing to Teck since June. Can you give any quantification of how much cash has accrued at Fording?

Don Lindsay - Teck Cominco Limited - President & CEO

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Ron, I'd have to turn that over to you. The back onto that is we structured the transaction so that the distributions would cease once we announced the deal on July 29th. Ron, do we have a number that we're disclosing on that?

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

We haven't got a number that we're disclosing, but I think it's between the \$500 million to \$600 million Canadian range.

David Ventura - Citigroup - Analyst

Great. Thank you very much.

Operator

Thank you. The following question is from Lawrence Smith of Scotia Capital. Please go ahead.

Lawrence Smith - Scotia Capital - Analyst

Good morning. Back on capital expenditures for 2009. I know it's a tough question, but if the partners proceed with Fort Hills without the upgrader in there, ballpark, what would your expectation be for your share of CapEx in 2009 for Fort Hills?

And then an unrelated question. In the bank financing that you obtained for Fording, is there any financial covenants contained in those agreements? Thank you very much.

Don Lindsay - Teck Cominco Limited - President & CEO

On the first question, I think that we really have to wait to see what the final determination is of the development model. Because even though you could come up with a total on what the Bitumen mining would cost, there is a train one and a train two and the sequencing of it and the timing of when certain infrastructure associated with it is constructed. All of that is still uncertain at this point as we look at different phasing options. And so, I don't think any number we gave you right now would be that accurate.

I can say that the partners are working very intensely on this subject and hope to make further disclosure in the relatively near term, but it's still weeks, not days. And at that time, we'd be able to give a clearer picture.

Lawrence Smith - Scotia Capital - Analyst

Okay. Covenants in the bank financing?

Don Lindsay - Teck Cominco Limited - President & CEO

Ron?

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

We have a 60% debt to equity ratio that we have to meet. That's the only substantive covenant.

Lawrence Smith - Scotia Capital - Analyst

60% debt to total cap effectively?

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Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

To debt plus equity.

Lawrence Smith - Scotia Capital - Analyst

Yes. Great. And no coverage, no EBITDA coverage ratios or anything like that?

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

No. And that equity ratio drops down to 50% in September of 2009.

Lawrence Smith - Scotia Capital - Analyst

When the deal was originally announced, I think you were talking about a debt pay-down, order magnitude of \$4.6 billion over the first 14 months. You still think that's possible? And a related question, what type of coal price environment was that predicated on?

Don Lindsay - Teck Cominco Limited - President & CEO

What I would say is that we have a pretty fair degree of confidence for the first six or seven months because of the price protection that we put in. In order to fully answer your question, you'd have to make some price assumptions on not just coal price, but copper, zinc and gold towards the end of the year. And I think given this environment it's pretty hard to do that.

Lawrence Smith - Scotia Capital - Analyst

Okay. Thank you very much.

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

It's Ron. I just want to make a comment on the cash number that we talked about on the question earlier at Fording. And just want to remind people that, of that total, US\$3.00 per unit gets distributed as part of the planned arrangements as well. So, make sure people are aware of that.

Operator

Thank you. The following question is from Daniel McConvey of Rosspport Investments. Please go ahead.

Daniel McConvey - Rosspport Investments - Analyst

Hi. Good morning. I don't want to flog Fort Hills to death, but just a couple of things. The \$145 million investment, you're not building it. What was that for?

Don Lindsay - Teck Cominco Limited - President & CEO

Peter and Tim?

Peter Kukielski - Teck Cominco Limited - EVP & COO

I'm sorry. I didn't understand the question.

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Daniel McConvey - Rossport Investments - Analyst

The \$145 million investment that was made this quarter for Fort Hills. What did that pertain to?

Tim Watson - Teck Cominco Limited - SVP, Project Development

Two main activities underway right now, the first of which is the FEED program, which was estimated at a total cost of \$1.1 billion. The other piece of that was an early works program for the fiscal year was in the range of about a further \$800 million or \$900 million.

So, the total capital expenditure for fiscal year 2008 was in the order of around \$1.6 billion to \$1.7 billion, a portion of which is the engineering piece, a portion of which is the early works associated with infrastructure development at the mine site.

Daniel McConvey - Rossport Investments - Analyst

Okay. What is the minimum amount of time the project has been delayed so far as a result of this review?

Tim Watson - Teck Cominco Limited - SVP, Project Development

At this point in time the project has not suffered any delay associated with the mining facilities in the north.

Daniel McConvey - Rossport Investments - Analyst

Okay. And have any commitments been made in terms of mining fleets or anything that have locked in deposits, etc.?

Tim Watson - Teck Cominco Limited - SVP, Project Development

Yes. We're just in the process of awarding some of the mining fleet in terms of the large haul trucks.

Daniel McConvey - Rossport Investments - Analyst

Okay. Now, as a result of this process and this review, was some of that possibly held off as a result?

Tim Watson - Teck Cominco Limited - SVP, Project Development

No, it has not been.

Daniel McConvey - Rossport Investments - Analyst

Okay. If you do the mining and don't build the upgrader, the processing will be done where?

Tim Watson - Teck Cominco Limited - SVP, Project Development

The final bitumen product would be sold in to the market.

Daniel McConvey - Rossport Investments - Analyst

I mean, there's enough upgrading capacity in the area that could take that?

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Tim Watson - Teck Cominco Limited - SVP, Project Development

That's still in the process of being developed in conjunction with our partners.

Daniel McConvey - Rossport Investments - Analyst

Okay. Thank you very much.

Tim Watson - Teck Cominco Limited - SVP, Project Development

If I could just clarify one additional point, maybe give you a bit more detail in terms of the activities in the north. We do have substantial earthworks completed associated with the river intake structure, which is a significant piece of work down by the Athabasca River, as well as the footprint of the process facility itself. It's roughly an area of 1 kilometre by 1.3 kilometres.

Most of the bulk earthworks associated with that has been completed and we're in the process of piling in some of the early process areas so that we can begin concrete work and vessel erection in the not too distant future.

Daniel McConvey - Rossport Investments - Analyst

Thank you.

Don Lindsay - Teck Cominco Limited - President & CEO

I might just add a comment on the market for bitumen. In addition to capacity that would be available in Alberta, the market for heavy crude in the Gulf Coast in the US has changed a fair bit over the last three years. And there's two factors. One is the volumes being delivered from both Venezuela and Mexico have come down quite a bit so that refineries in Louisiana are short. And then pipeline projects that were announced since we first made our investment in Fort Hills are now under construction. And by the time that the Fort Hills bitumen mine was built that they would be available. So, the nature of the market is changing quite a bit, which means that the economics of bitumen mining are much more favourable than they would have been three years ago.

Daniel McConvey - Rossport Investments - Analyst

Okay. Thanks, Don.

Operator

Thank you. The following question is from Harry Mateer of Barclays Capital. Please go ahead.

Stephanie Leeshon - Barclays Capital - Analyst

Hi. This [Stephanie Leeshon] for Harry Mateer.

Stephanie Leeshon - Barclays Capital - Analyst

I had a quick question about the timing of possibly financing the debt for the Fording coal in the long-term market. Do you have any update on timing?

Don Lindsay - Teck Cominco Limited - President & CEO

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Well, we don't see the market as being actually open at the moment. And I think we just have to monitor market conditions and see when the opportunities are. We could do something at any time but at the moment, I think with all the volatility that we've seen that's caused corporate spreads to widen dramatically. And the actual cost of our bridge is substantially lower than term debt would be. So, I think it's probably best for us to wait awhile.

Stephanie Leeshon - Barclays Capital - Analyst

And is there any extension option on the loan?

Don Lindsay - Teck Cominco Limited - President & CEO

On the bridge?

Stephanie Leeshon - Barclays Capital - Analyst

Yes, on the bridge.

Don Lindsay - Teck Cominco Limited - President & CEO

It's a 364-day bridge and we expect that it would be repaid by then.

Stephanie Leeshon - Barclays Capital - Analyst

Okay. Thank you.

Operator

Thank you. The following question is from [Mahathir Kapur] of Credit Suisse. Please go ahead.

Mahathir Kapur - Credit Suisse - Analyst

Hi, guys. Have you disclosed the name of the Canadian bank that bought your 20% stake in Fording?

Don Lindsay - Teck Cominco Limited - President & CEO

It was the Bank of Nova Scotia.

Mahathir Kapur - Credit Suisse - Analyst

Okay. And I guess it's kind of like a general question, but how did you guys get them to pay the same price that you agreed to in July, given the drop and given the fact that your own stock has been down like 50%. So, I mean, how did they agree to pay the same price given what we're seeing out in the market today?

Don Lindsay - Teck Cominco Limited - President & CEO

Well, they didn't actually pay the exact same price. It was a discount of \$2.38 to the price.

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Mahathir Kapur - Credit Suisse - Analyst

Yes. But I mean, it's not a 50% discount or anything less or so. I mean, is there any reason why they paid substantially the same price?

Don Lindsay - Teck Cominco Limited - President & CEO

I might ask Peter Rozee to comment, but I'll just say this, that it was a competitive process. There were several large receptive parties and each was determining their own set of numbers and what kind of rate of return they would require. And in the end, we did the best deal possible for Teck shareholders and we were pretty pleased.

Peter, did you want to add anything?

Peter Rozee - Teck Cominco Limited - SVP, Commercial Affairs

No. I think that's pretty clear. It's a \$2.38 discount to the implied value of the big. And if you annualize that, it's a reasonable return for the bank.

Don Lindsay - Teck Cominco Limited - President & CEO

But it was at the time quite a large block moved at a price that was about \$10 higher than the market price. So, I guess that was unusual.

Mahathir Kapur - Credit Suisse - Analyst

And was that agreement I guess close to the date of the announcement? Because you put out a press release on the 13th. I mean, or was this something that was struck much earlier and they had been--.

Peter Rozee - Teck Cominco Limited - SVP, Commercial Affairs

No, it was the day of the announcement.

Mahathir Kapur - Credit Suisse - Analyst

And I guess just in terms of along the lines of that question about the covenants, is there any reason why the lenders were providing you the committed term loan and the bridge? I mean, is there some situation where, let's say in the next week or so, they could look at your market cap today of \$5 billion. You're taking on debt of about \$10 billion. Is there any kind of solvency kind of ratios? Anything that would find the banks be perhaps difficult about actually putting forward the funding the cash for this transaction?

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

Not that we're aware of.

Mahathir Kapur - Credit Suisse - Analyst

So, you guys close by next Thursday.

Don Lindsay - Teck Cominco Limited - President & CEO

Yes, we do.

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Mahathir Kapur - Credit Suisse - Analyst

Thanks, Don.

Don Lindsay - Teck Cominco Limited - President & CEO

I'd note that the world has changed quite dramatically, not just since July 29th when we announced the deal. And at that time, interestingly, our stock was up about 20% and people felt the deal was too much in favour of Teck and questioned whether the unitholders would actually vote for it. Since that time there's been an extraordinary deterioration in market conditions. And even since September 30th when deal confirmation notice was given, the last three weeks have been even more volatile. So, the current market cap to debt that you highlight certainly wouldn't have been expected at even three weeks ago.

Mahathir Kapur - Credit Suisse - Analyst

I guess in terms of you guys and the Board, have you ever contemplated renegotiating the price to reflect the conditions that we're seeing now today? I mean, when you announced this deal your stock was at \$40, roughly. And today it's running at \$10 and \$11. Was that an option or just not--?

Don Lindsay - Teck Cominco Limited - President & CEO

--It was not an option. We had a signed deal. And we had a fiduciary obligation to ensure that we got the financing and that's what we've done.

Mahathir Kapur - Credit Suisse - Analyst

How many banks are in this syndicate that's providing the bridge and the terms, etc.?

Don Lindsay - Teck Cominco Limited - President & CEO

25 banks confirmed with us on September 30th.

Mahathir Kapur - Credit Suisse - Analyst

On the term and the bridge? Term loan and the bridge?

Don Lindsay - Teck Cominco Limited - President & CEO

Ron, can you answer that?

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

There's about 7 in the bridge and then the 25 in the term.

Don Lindsay - Teck Cominco Limited - President & CEO

Yes.

Mahathir Kapur - Credit Suisse - Analyst

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And the bridge at \$6 billion is split kind of evenly between the dozen on the bridge loan? (Inaudible) funding?

Ron Millos - *Teck Cominco Limited - SVP, Finance & CFO*

No. The top tier has a larger percentage.

Mahathir Kapur - *Credit Suisse - Analyst*

What were some of the banks? Bank of Tokyo (inaudible).

Greg Waller - *Teck Cominco Limited - VP, IR & Strategic Analysis*

All of the details are laid out in the credit agreement documents that are filed on SEDAR and EDGAR.

Mahathir Kapur - *Credit Suisse - Analyst*

Okay. Thanks a lot, guys.

Operator

Thank you. The following question is from John Hughes of Desjardins Securities. Please go ahead.

John Hughes - *Desjardins Securities - Analyst*

Thanks, Operator. Most have been answered. Just a last one in terms of the term and the bridge loan and the cost. Can you just sort of highlight what the cost is on the term and the bridge? If I recall, it was I think six month LIBOR plus 150. And how would that compare with today if you tried to do your own debt? I mean, what would be the cost differential between your corporate debt and that term and the bridge loan?

Ron Vance

The pricing on both the term and the bridge loan are LIBOR plus, three month LIBOR plus 1.5. As far as what the euro debt market is today, I couldn't really tell you. And I think it's probably fair to say that this deal going to the financing market today would be very different than it was at the time it was put in place.

John Hughes - *Desjardins Securities - Analyst*

And sorry, one last one for Boyd. Boyd, just in terms of the length or (inaudible) on the Met coal negotiation for the upcoming contract year. Would you expect, with the market conditions the way they are, for this to be a long drawn-out event, or would you expect maybe a shorter event?

Boyd Payne - *Teck Cominco Limited - SVP, Coal*

That one's quite interesting and a bit difficult to call right now. The US suppliers and customers just recently settled -- and I mean in the last couple of weeks -- at very sharp numbers. And I think that surprised everyone. The sentiment this last week in Europe, of course, was different.

I'm guessing here, but I would guess that if I was a buyer I wouldn't be in a hurry. So, it may take a while.

John Hughes - *Desjardins Securities - Analyst*

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So, one thing that we had seen this year that we hadn't seen before, certainly with any materiality, was US met coal going through WestShore. It's certainly evident that, on the seaborne market, it was well sought after.

And I'm just -- it sort of leads into the, I guess, where we've come over the last several months and, really, over the last five to six weeks on price discussion. And I mean, everything's come down from iron ore back to at or below on the spot basis below contract levels.

Relative to 2.75 US a tonne and that seems like an awfully lofty kind of contract to rollover for the upcoming year. And I mean, is it most reasonable, at least from an analyst perspective, to be looking at something materially below that number for the upcoming year?

Boyd Payne - Teck Cominco Limited - SVP, Coal

We haven't offered any guidance, nor would we, on that. I'm a little surprised to hear you say met coals gone to WestShore. I know there's been thermal that's gone through Westshore. I'm not aware of any met coal that's gone through WestShore. But certainly, there's been a big increase in the amount of coal back into the market from the US suppliers.

But when you take a look at that, a lot of it is not your top tier high-quality material. It's basically gone in to fill a gap, the inventory gap left by the flooding earlier in the year from Australia.

So, on a go-forward basis, you really question what will come. And most of my comments are always driven around the high quality end of the market, because that's the most interesting place to live. And so, I would suggest that, year-on-year, US high quality's going to be challenged as well.

So basically, as I spoke at the coal trends conference, my concluding remarks were that, at the appropriate time, we would sit with our customers and have discussions about -- as we always do -- the supply and demand balance for different types of coal. The go-forward suppliability of it and the need, in this case, for more high quality hard coking coal to come into the market. And over time, the need for there to be bigger developments. But those discussions won't start until the customers are ready. I think that'll be November/December time.

John Hughes - Desjardins Securities - Analyst

Great. Thanks, Boyd. And that's it for me.

Operator

Thank you. The following question is from Brian MacArthur of UBS. Please go ahead.

Brian MacArthur - UBS - Analyst

Good morning. I'd like to go back to Fort Hills and the spending. If I remember correctly, you had to cover -- or carry UTS for the first 15% to a certain amount, which I assume enough capital's been spent that you've earned that 15%. But then, you also had to pay the next certain amount to get up to 20% last year. Can you tell me whether we spent enough capital already that you would hit that 15% and 20% level? And if not, when do you expect that to actually occur so you actually earn your 15% or 20% interest?

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

Brian, the formula is we pay 34% of the first \$2.5 billion.

Brian MacArthur - UBS - Analyst

Right.

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

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27.5% of the next \$5 billion.

Brian MacArthur - UBS - Analyst

Right.

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

And then 20% thereafter.

Brian MacArthur - UBS - Analyst

Right. But you've spent a certain amount of money--.

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

--And we've spent about \$500 million to date on that project.

Brian MacArthur - UBS - Analyst

Right. So, you haven't even really earned -- spent the amount to get under that first deal, or the whole two deals really linked back together when you went up to 20 from 15.

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

That's correct.

Brian MacArthur - UBS - Analyst

Okay. Thanks very much.

Operator

Thank you. The following question is from Greg Barnes of TD Newcrest. Please go ahead.

Greg Barnes - TD Newcrest - Analyst

Yes, thank you. Ron, I just want to explore the tax synergies again. The billion that you're going to get back from the Canadian government in the first half of 2009. That is recaptured taxes paid in prior years, correct?

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

That's from 2005 plus all the way through to what we had been paying in 2008.

Greg Barnes - TD Newcrest - Analyst

2008.

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Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

Yes. So, we have to file our 2008 tax return as quickly as possible and then that will drive the timing of the refund.

Greg Barnes - TD Newcrest - Analyst

So, the next part of the question is what's going to happen for the 2009 year in terms of tax savings, I guess is the best way to put it.

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

Yes. Basically, there'll be enough shelter that our Canadian source income will probably be fully sheltered and we will not be required to make any installment payments in 2009.

Greg Barnes - TD Newcrest - Analyst

Any guess on what number that will be? And I know it depends on metal prices, but--.

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

Yes. Well, our current installment payments are in the order of \$30 million to \$40 million per month, but at lower prices, that would go down. And I should just point out that we do have to pay our mineral taxes. So, this is more a Canadian income tax issue here.

Greg Barnes - TD Newcrest - Analyst

And the \$30 million to \$40 million a month is income tax or does that include the royalty?

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

That would be the income taxes.

Greg Barnes - TD Newcrest - Analyst

Of arguably another \$360 million to \$450 million in tax savings next year.

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

Depending on what your view of our profits are.

Greg Barnes - TD Newcrest - Analyst

Okay. Okay. That's very helpful. Thank you.

Operator

Thank you. The following question is from Oscar Cabrera of Goldman Sachs. Please go ahead.

Oscar Cabrera - Goldman Sachs - Analyst

Good morning, gentlemen. It's actually afternoon already. Thank you for taking the time to hold these questions.

Just with the fall in commodity prices, wanted to get a sense of your consumables. How much diesel do you consume in your operations? What do you think would be the main impact or savings that you'll see there? And with regards to your Chilean copper operations, have you seen a drop in acid prices? Can you comment on that? And what do you think the impact to cash costs would be? Thanks.

Peter Kukielski - Teck Cominco Limited - EVP & COO

Well, the first part of the question is on consumables. And we obviously haven't -- as I referred to earlier on, we haven't seen the trickle through yet of a drop in the commodity prices in our consumables because there typically is a lag of several months. But we do anticipate to see that. We just can't quantify that yet.

On the specific questions related to the Chilean operations, I'll let Roger Higgins, our Senior Vice President of copper take that question.

Roger Higgins - Teck Cominco Limited - SVP, Copper

Yes, thank you. In relation to acid prices, the discussions had been about increasingly increasing acid prices. Those discussions are currently still going on for next year, but the tone of them has changed. And we are expecting at least stable and perhaps some improvement in acid prices going forward, but those discussions are still underway.

Oscar Cabrera - Goldman Sachs - Analyst

Okay. And I could appreciate the fact that you cannot comment on what the impact will be to the actual cost, but can you give us an idea of how much diesel you consume?

Peter Kukielski - Teck Cominco Limited - EVP & COO

I don't have that number off hand, Oscar. We're in the process of examining our entire diesel strategy for company. It'll be a number that's available later on.

Oscar Cabrera - Goldman Sachs - Analyst

Great. Thanks.

Operator

Thank you. (OPERATOR INSTRUCTIONS.) The following question is from Brian MacArthur of UBS. Please go ahead.

Brian MacArthur - UBS - Analyst

Hi. Good morning again. Sorry, just to be really sure I understand what Greg was asking here, that \$1 billion in tax recapture would include all of 2008 and, therefore, it includes the -- because originally there was a number of sort of \$800 million. And the difference, I assume, is the extra two months that you're getting Fording in at those higher prices, waiting through the average realized price.

So that -- when we start at the end of the year for the look at tax savings going forward, we have let's call it three months at the fixed coking coal price that we know about, subject to carryover tonnes. And then you take whatever coking coal price going forward and start sheltering things going forward. That is to say it covers everything right through the end of 2008 factored in there. Is that correct?

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

Yes. But we've stopped making installment payments in 2008. But basically, we're going to recover all previous taxes that we've paid from 2005 forward, Canadian sourced income taxes.

Brian MacArthur - *UBS - Analyst*

Right. But that's factoring it through to the end of 2008 with some assumption to what's going to happen to copper and everything else in that time period and a certain amount of tonnes at the door

Ron Millos - *Teck Cominco Limited - SVP, Finance & CFO*

That's correct.

Brian MacArthur - *UBS - Analyst*

Okay. Great. Thank you very much.

Operator

Thank you. The following question is from Gordon Winter of Howson Tattersall. Please go ahead.

Gordon Winter - *Howson Tattersall - Analyst*

Hello. Can you just talk a bit about the range of options as far as Fort Hills that you would consider, given the amount of money and trucks on order, etc., that have already been committed to some extent? Thanks.

Don Lindsay - *Teck Cominco Limited - President & CEO*

Maybe clarification on the question. When you say the range of options, do you mean related to phasing of the project, or what--?

Gordon Winter - *Howson Tattersall - Analyst*

Or you're not the operator. What options do you have to participate or not participate if the economics are not to your liking?

Don Lindsay - *Teck Cominco Limited - President & CEO*

Well, we really have to wait and see what the final development model is and what the numbers are associated with that before we make a decision.

But at this stage, from a bitumen money point of view, we think the market has moved in favour of bitumen mining and it's likely to be a pretty interesting investment opportunity. If we find that the numbers don't demonstrate that, then I suppose we can make other decisions related to the investment, but we'd have to see at that time.

Gordon Winter - *Howson Tattersall - Analyst*

Thanks very much.

Operator

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Thank you. The following question is from Haytham Hodaly of Salman Partners. Please go ahead.

Haytham Hodaly - Salman Partners - Analyst

Thanks, Operator. Just a follow-up. Sorry, I missed a number that was thrown out not too long ago. We talked about the Fort Hills and we talked about the 34% of the \$2.5 billion you had to spend for the first \$2.5 billion. How much of that has been spent in total and what was the budget previously for 2008?

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

Okay. We spent about \$500 million of that. Our share of that first \$2.5 billion is \$500 million -- or \$850 million and we've spent about \$500 million to date.

Haytham Hodaly - Salman Partners - Analyst

Okay. And how much was budgeted for the full year?

Ron Millos - Teck Cominco Limited - SVP, Finance & CFO

Our original guidance was about \$750 million for this year.

Haytham Hodaly - Salman Partners - Analyst

Okay. Perfect. Thank you.

Operator

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

Don Lindsay - Teck Cominco Limited - President & CEO

Okay. Well, thank you very much, all, for joining us today and we'll look forward to the next one in January. Thank you.

Operator

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

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