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TRANSCRIPT

Operator

Good afternoon and welcome to Noranda Incorporated First Quarter 2002 Earnings Results Conference Call. During the presentation all participants will be in a listen-only mode. Afterwards, we will conduct a question and answer session. At that time, if you have a question, please press the one, followed by the four on your telephone. As a reminder, this conference is being recorded Wednesday April 24, 2002.

I would now like to turn the conference over to Mr. David Kerr, Chairman and Chief Executive Officer. Please go ahead, sir.

DAVID KERR

Thank you very much, operator. Good afternoon and welcome to everyone. Joining me in Noranda boardroom today are Derek Pannell, our President and Chief Operating Officer; and Aaron Regent, our Chief Financial Officer. There are also some other operating people in the room who will be available for questions and discussions as they go in that direction. As you may have read, Noranda reported earnings for the first quarter of $1 million, which is a loss of 2 cents per share, after taking into account-preferred dividend. And, while this is far from ideal, I would like to point to the turnaround that this represents when you look at the cash operating margin, which has increased despite lower metal prices. We've been able to record an increase an increase in cash operating margin because we have increased production across virtually all of our business. When compared to the first quarter of 2001, an impressive 73 percent increase in mined copper, 22 percent in mined zinc, and 8 percent in mined nickel. These were, in turn, as a result of the intensive capital investment of the program we've had over the past five years and are now making an impact on our bottom-line Also impacting our bottom line has been improved performance in American Racing Equipment and Aaron will just discuss the other new strategy is making this difference. We also raised $400 million cash in the past quarter, just past the end of this quarter when it will close through the sale of 45 percent of the Noranda Income Fund, which owes all of the CEZinc refinery. And, the refinery, as you know, has been a consistently outstanding performer. This allows us to raise a sizable amount of capital to enhance our financial flexibility while still maintaining an interest in an add-operative facility.

We've been active in getting Falcon Bridge and Noranda to work more closely together on areas that make sense, such as with our copper operation and in certain corporate functions. It has been a period of intense activity at Noranda, and these efforts, combined with our improved asset base, have put in Noranda in an excellent position to benefit from an improvement in metal prices and the economy.

On that note, I will ask Aaron if he would take us through the financial picture that he has.

AARON REGENT

Great. Thank you, David. If I could speak first of the net earnings slide, which is part of the presentation that has been distributed, the cash operative margin, as David highlighted was 252 million in the quarter compared to $199 million last year. Later in the presentation, I'll walk through a breakdown of the various components of the cash operating margin. Below that line, depreciation and amortization expense increased from where we were last year really reflects an increase in the production base of the company the corresponding higher depreciation charges that goes with it. Our other expenses increased from last year as well, many as a result of higher interest expense as we stopped capitalizing interest against a number of our projects, and, also -- which was somewhat offset by a lower interest rate. Overall, our earnings for the quarter were $1 million, compared to $24 million last year. If I could turn to the next slide, this next slide highlights the main variances between this quarter versus last year. You'll see that metal prices, on a comparable bases were lower than last year and reduced earnings by $32 million. This was offset by -- partially offset by increased volumes, particularly from the contributions from Antamina, Lomas Bayas, offset somewhat by the Falcondo operations, which were partially idled during the quarter.

Foreign exchange was positive compared to last year. And, the other line, which are costs, was really higher interest expense compared to last year. The first quarter of last year there were also some unusual items we, in the first quarter this year, we really didn't have any notable unusual items. Last year, we just want to remind people that there was a U.S. tax recovery of approximately $39 million, which positively impacted our results in the first quarter of last year.

Similarly, the strike at Sudbury operations negatively impacted our results on a comparable basis, that cost the company about $30 million.

Metal prices, compared this quarter versus last year, we're down significantly across the board. I think zinc was down 22 percent, copper down 12 percent, nickel down 5 percent and aluminum down 12 percent. So, you can see the impact that that has had on our results. If I could now turn to the slide which is headed the cash operating margin, I'll walk through the various components of these. Overall, our cash operating margins were 27 percent higher than last year. Turning first to the copper group, this includes the, essentially, the South American operations of the company, the Antamina mine, the Collahausi mine, Lomas Bayas mine and the Altonorte smelter. We look at the copper group; copper sales volumes and operating margins increased significantly, primarily as a result of the contributions from Antamina and Lomas Bayas. If I could turn to Antamina first to make a few comments, Antamina contributed 29 million to our cash operating margins, or $13 million to our earnings in the quarter. The contribution from Antamina was positive, but lower than we had anticipated for a few explainable reasons. First, the copper zinc production was below what we anticipated with the lower head grades and recoveries. Really a result of the discrepancy in the mining of different benches than planned, as well as the mining of additional but economic lower grade ore that was incognita from undrilled areas, which was previously assumed to be waste. Cash operating costs were 41 cents per pound, also a bit higher than what we had anticipated, because of, principally, because of lower byproducts revenues, really lower zinc revenues from lower zinc production and lower zinc prices were the main reasons. Collahausi contributed $32 million to earnings, which was slightly below last year despite a significant reduction in copper prices. This was due to a strong performance of the mine, both on a production side, as well as lowering unit cost, which helped to mitigate a lower realized copper price.

Lomas Bayas also contributed quite positively to our first quarter results. A cash operating margin of 15 million, the earnings contribution was $9 million, what exceeded what our expectations were. Net operating cash costs of 46 cents per pound, which is very competitive with many other mines of the world. Altonorte experienced a formally known negative operating margin, which is -- always coming out positive, but it was better than last year. The operating margin reflected lower volumes but were partially offset by lower site costs. Our production targets were slow what we anticipated due to the delay in the start-up in the reactor and associated equipment related to the phase 3A expansion of Altonorte. This equipment began operating on March 13 versus our original plan of January 1, but I can see that that reactor start-up is proceeding well and it's expected to reach plan operating parameters in the second quarter.

I'd like to turn to our zinc group. Zinc group had a loss of $9 million in the quarter, compared to earnings of $3 million last year. This is quite a significant achievement, particularly when you look at the fact that zinc prices declined by 22 percent over the comparable period and the zinc group were able to partially offset the substantial reduction in the zinc price by lowering the unit cost by almost 7 cents per pound compared to last year.

Our primary aluminum operations margin were below last year, due primarily to lower aluminum prices, which was also partially offset by lower until costs. Indiscernible) volumes continuing to increase with the ramp-up of a single-piece anode project. We expect for this to continue throughout the balance of the year.

In our aluminum foil our foil results were below last year. Shipments of foil were 8 percent higher than last year, but below what we had anticipated due the continued softness in the foil market. Fabrication spreads also declined due to a lighter gage product mix and also a softer market for value-added products. Turning to our nickel operation, nickel operating margins were $26 million compared to $1 million last year. Nickel sales volumes from I&O were significantly higher than last year. Last year, you will recall was affected by the strike in Sudbury. The ferronickel product was lower this year as a result of the shutdown of Falcondo. Falcondo has restarted operating in February and was in full operating in March. Our Canadian copper recycling business, this next slide highlights really the Canadian operations with the exception of Kidd. I have a separate slide on Kidd. When we look at our results our operating margins were essentially comparable to last year. Production levels were on or ahead of plan. Results continue to reflect the mix of feed materials, and generally lower realized margins due to a decline in recycle fees. However, we were able to partially offset this by the treatment of higher complex materials, which also has higher margins. The first part of the results were also positively impacted by our higher capital sales volumes and better copper prices.

Kidd Creek, Kidd had an operating loss of $21 million in the quarter, compared to a loss of $1 million last year. Mine operations performed better than anticipated. However, the results were negatively impacted primarily as a result of lower metal prices compared to last year. Looking at American Racing, our first quarter results from a cash operating perspective were breakeven compared to a loss of $10 million last year. OEM sales volumes continued to decline while aftermarket sales are seeing steadily increasing. The major reason for the improved performance was a reduction in costs, which resulted from a number initiatives, which we have communicated to you before. In particular, the closure of the Warsaw facility, significant staff reductions and overhead reductions. Also, energy costs were lower this year compared to last year, at the first quarter last we did have a number of disruptions due the energy situation in California. If I could turn to our consolidated statement of cash flow, make a few comments there; our cash flow before working capital changes was significantly higher than last year, $209 million compared to $118 million. That's all due positive on the part of the negative side, our working capital, also increased significantly by approximately $168 million. Particularly relates to a number of different things, first Falcondo restarting operations so there's natural buildup of working capital. Second, with higher metal prices, particularly in nickel, it also increases the value of working capital. As Antamina continues to ramp up there's a buildup of working capital on that business. And, as well, in general, there is some seasonal buildup of inventories and working capital as we go into the December season for a certain of our businesses. Our capital investments, capital is $189 million in the quarter, which is significantly below last year's number of $313 million. Of that $189 million approximately 60 million related to maintenance and the balance through capital projects. Projects such as the Altonorte expansion, the Kidd mine and so on. A brief comment on our balance sheet, our debt levels increased in the quarter and our debt to capitalization ratio is now approximately 45 percent. With the proceeds we'll receive from the Noranda Income Fund of approximately $400 million, we'll receive on closing, which is scheduled for May 3. This will help us to meet our objective of not increasing our debt level in 2002 from our 2001 levels. Hopefully, we can exceed that objective and see a decline in our overall level of debt.

That concludes my comments at this point.

DEREK PANNELL

This is Derek Pannell, I'd just like to add one or two detailed remarks, perhaps on the operations to elaborate on the points that Aaron has made. On the aluminum side, operating results here generally improving. On the quantum leap project, continual ramp there. We're starting to see sales beginning to pick up on -- that's on our aluminum foil area. And, also, American Racing the strategy to emphasize the aftermarket rather than the OEM side of the business is progressing well and, in fact, is giving us the improving results that Aaron mentioned there.

On Antamina, we're presenting in the completion test phase that will take some time. It's over the 90 days, but that is underway at the present time. Last month we produced the first magnolia concentrate at Antamina. And, one thing that I think that's worth noting and it was a concern to some people outside. And, that was the ease of transfer between the different ore types Antamina being our other 50 complex ore body. Switching between ore types and getting them down the pipeline.

In fact, our experience to date has been that these transfers between ore types can be accomplished quite efficiently. And, that's very good news there and gives us a fair amount of flexibility.

At Altonorte, as Aaron said, we did start up the reactor. The startup was late by about a month and a half. We also started up the slag mill. We ran it first on slag that produced from the rebook furnace. It's now running well on slag produced from the reactor. The reactor is running well. With the existing acid bump we're getting good sulfa fixations, well over the 90 percent, and the remaining part of the project, the acid plant and the oxygen plant that are due to be completed in 2003, we certainly appear to be on time and on budget for the remainder of that expansion.

In Collahausi, again, as Aaron said, good results there. And, we're moving from the Ohenato the Rosereo Pitwe will be and have led the first two contracts for the major equipment in order to accomplish that transfer. That's the crusher and the overland conveyer, which will allow us to operate the Rosereo Pit and that's still into the original mill.

At Gaspe we also announced the permanent shutdown of the Gaspe operation, that's happening this week, at the end of April. And have already begun to divert concentrates -- the concentrates contracts that we are maintaining, they have already been diverted to the Horne or elsewhere. The magnesium Danville the ramp up continues very steadily there as we have replanned we're up about 20 cells. And, we're now; I think at a level an operating level that is quite substantial. So, that enables us in terms of gas velocity through ducts operating ease at a level, an operating level that makes it somewhat easier to troubleshoot some of the problems that we might have in the future. So, again, things at the Magnesium plant are ramping up quite well.

On the nickel side I think everybody has, perhaps, seen the release that we had on the results at Nickel Rim, I think were very positive, spectacular even. The Raglan mine continues to operate very well. We're at a million tons there. And, we have contract negotiations underway. We're not at the stage where we have a recommendation from the union to the members to accept a contract there. So, that is looking quite positive. And, that contract expires at the end of this month. But, every sign is that we should get acceptance by the members over the next three weeks of a renegotiated contract. As Aaron mentioned, also, we hit a shutdown of Falcondo operation in Dominican Republic for approximately three months. That started up during the quarter and during March was operating at full capacity. The startup went very well.

Finally, on the integration of Noranda and Falconbridge, that has moving at pace. We have the structure decided upon and communicated to employees that we will be using in the Toronto office, particularly for the back office corporate support functions, and, also in the Santiago offices as we bring the two companies together. And, so that part of it is certainly moving well and also we're starting to see some other areas for collaboration between the two companies and one of those examples would be the acid that is produced by Altonorte and consumed by Lomas Bayas. Again, quite a substantial savings can be made there.

I think that summarizes the comments that I have on the operations.

DAVID KERR

OK. And, I think that (indiscernible) comments. Operator, you said to get back to you when we were ready to take questions, and we are.

THE OPERATION

Caller

Aaron, for a change we didn't have any unusual items in the quarter. That makes it clean. The second quarter, I note that the CEZinc deal is down, what would the number that you're going to reporting on the book for your adjustment as a usual item or if any?

AARON REGENT

From an earnings perspective, Terry?

Caller

Correct, from PLO'spoint of view.

AARON REGENT

One of the things we need to sort out is what the working capital balance is going to be. But, I think in the press release we highlighted in the neighborhood of $50 million of net, net gain, that's after taxes and provisions.

Caller

Okay, so the (indiscernible) is still to be working capital is still to be adjusted between the assets, right, between the entities?

AARON REGENT

Yes, we've got a pretty idea of what it's going to be. We just need to sharpen the pencils to put a pen in it. But, in terms of earnings, the anticipated gain in the order of 50 million. And, that's after transaction costs, taxes, things like that.

Caller

Derek, could you please talk about the upcoming production in the quarter in terms of concentrate grades and the head grades and your outlook for the second quarter and also for the year, what the number is going to be EPF? What about antidotal evidence from different sources here, what are the numbers going to be in terms of concentrate and the concentrate grades? What were the numbers in the first quarter too?

DEREK PANNELL

Well, I'm not sure I've got the numbers in the first quarter. Just to talk, perhaps, first a little generally about Antamina. What has happened, in the mine, the open pit, it's quite -- still quite tight in there with the number of benches is quite limited. And, that's normal at the beginning of a mine, particularly with the topography that is present there. And, with the additional ore that was found, it was assumed before it was being waste, there was just much higher in zinc then it left us relatively little options other than to do what we did. So, that's the main reason behind that.

I don't have the details for the prediction, but we're looking during the first quarter the average grade was 1.3 percent copper, 1.4 percent zinc, which is about 20 percent lower than what we had planned. And, I don't have the detailed tonnages that are expected for the rest of the year. There's no reason to expect that they would be for the remaining three quarters any different than what we had previously predicted.

Caller

So, you're not changing your forecast for the year, whatever they were, despite the first quarter of the grade adjustment?

DEREK PANNELL

No, I think we won't probably catch up on the first quarter, but the remaining three quarters would remain the same as predicted.

Operator

Caller

Regarding Brasscanwhat is there current ownership of Noranda and is there any reason to expect that this will either shrink or grow and which?

AARON REGENT

Brasscan owns approximately 40 percent of Noranda right now and they have stated that they intend to continuing owning the shares of Brasscan.

Caller

Status quo, then?

AARON REGENT

Owning their shares of Noranda, let's correct that one. Yes, that is our understanding. And, we've actually gone up and spoken with the CEO of Brasscan just on that subject just so that we'd be able to answer this question as we're doing right now. And, he said we intend to keep on owning of Noranda.

Caller

And, he didn't say we're going to buy as much as we can get, then?

AARON REGENT

He did not comment further.

Operator

Caller

First, you made the comment regarding lower recycling feed through the period. I wonder if you could add some color to your outlook and expectations as to what sort of recycling feed volumes you hope to put through over the next few years, particularly in light of the joint venture. And, secondly, how much interest was capitalized during this quarter?

DAVID KERR

The recycle the recycle volumes, at the present time we don't have concrete plans for any changes as a result of the coming together of Falconbridge and Noranda, say the two smelters. And, what I have said is that I believe there are a lot of opportunities for that. What we are seeing is the startup of the Hewlett Packard Plant in Nashville, Tennessee and we'll get the plant improvements through that. And, again, the continuing exactly the same, I think, from Rhode Island Micro-metallic in San Jose and the Sacramento Plant.

But, on the recycle side, again, once thing that has affected us has been the issue that we've had with Beryllium and that has restricted the amount of feed we've been particularly careful on that. But, that is a problem that we're working on with our suppliers. And, I would expect that feed to increase again.

Caller

Has the beryllium source feed been coming from a specific source and is the Hewlett Packard joint venture likely to exacerbate that?

DAVID KERR

No, the Hewlett Packard joint venture is generally has been -- in fact, as far as I know, has been completely free, although, we have checked it. The areas -- we do know it's certain shippers. It's not just one. It's several shippers. It depends on the different feeds that they ship. But, as we become educated about this issue, they too are becoming educated and understand what sorts of feeds are likely to contain levels of beryllium that we cannot accept. So, the market, as well as ourselves, are becoming much more aware of this issue. I think industry in general is becoming more aware of it.

AARON REGENT

The amount of capitalized interest in the quarter was approximately $11 million.

Operator

Caller

That does pretty lean, I'm surprised, but in any case, actually, I don't know how wants to tackle this question, but using the 15 percent, parameter, we get these questions a lot by the way, help me out, what price would you use for Noranda to get that 15 percent number for metal.

AARON REGENT

Is this your return on equity number, Terry?

Caller

Yes. Just give me a combination number that you guys are using internally for instance that you can achieve that 15 percent number given the asset base, the expanding asset base you have to make.

AARON REGENT

The 15 percent ROE is a target number for us. We would not say that with the current asset mix and base we have today that we could at long-term trend prices produce a 15 percent rate of return on equity over time. We still have pieces of the puzzle, which we need to fill in to get to that level. However, I will say, Terry, that with the asset base we have today, we're probably capable of long-term trend prices of more than doubling their returns on equity we've had over the past 10 or 15 years.

Caller

One of the dilemma's that I have, David and Aaron, is that, I mean that this is going back to the -- showing my age here, going back to the 70s, looking at the Noranda balance sheet begin because it has delivered and there's not question about that, you agree with that. And, now we are, you know, now paying approximate net interest cost of about $150 million, and that's almost like, you know, it's about 80 percent or 60 percent of your operating margins. So, that itself is a result of REO on the table. And I'm sure you're addressing it. I'm just wondering what else you're addressing on beyond the prices in terms of balance sheet issues?

AARON REGENT

We can't ignore prices if you're going to use it as a percentage of margin you're talking about there, because what you're doing is looking at margins that have metal prices that are inflation adjusted terms the lowest they've been in about 60 years. So, that's not really going to help us much with answering your questions.

Caller

Okay, but the low-term target of Noranda of a balance sheet target of about 20 to 25 percent hasn't changed, that you guys traditionally promoted as the long-term target for Noranda for--.

DAVID KERR

We would still like to have debt somewhere between 25 and 35 percent of our total capitalization, yes, that's correct. And, there are times when we are above that and time when we are below and in both cases, we need to take appropriate action to the get back to the more modest levels, or the median levels I should say.

AARON REGENT

Terry, I also had a comment about our debt in the way we manage our liquidity. We've always had a policy to have a significant undrawn bank lines to support the ebbs and flows of the cash flows of the company. And we continue to do that. And have those available. Second, if you break down our debt, well over or close to half of it would be, really project debt or debt of Falconbridge. So, on a corporate level, our debt levels, I think it's important to sort of isolate or understand that that difference as well.

Caller

No question Falconbridge carries a lot of debt into the consolidation, no question about it. Okay, thanks Aaron, thanks, David.

AARON REGENT

Just a last comment, it is obviously above the thresholds that we are very cognizant and have as an objective a desire to reduce that significantly.

Caller

But, I mean, the question really is, do you want to use metal prices as your leverage to reduce that or do you want to do more asset oriented balance sheet deals, thereby can reduce it, or both?

AARON REGENT

I think we have to look at, look, I'm the finance guy, so it's my job to look at all those things.

Operator

Caller

Derek, could you talk a little bit more about Magnolia production forecast for this year, and whether or not any of the planned production has been spoken for or sold, thank you?

DEREK PANNELL

We have Bob Sipplein the room here whose Senior Vice President for Magnesium; perhaps Bob can give you a fuller picture on Magnolia. Bob?

BOB SIPPLE

The production plan for this calendar year is 30,000 tons of products and at this time, roughly about 70 percent of that is firmly contracted. And, as we ramp up production during the year, the remaining tonnage will be sold on a spot basis. But, so far this year, we've had no difficulty in placing the tons. We have excellent relationships formed with dye casters in the aluminum industry to place the tons. So, we're still pretty much on plan for the 30,000 tons for this year.

Operator

Caller

Most of my questions have been answered, but one final one, Derek, as you look around the various divisions Noranda on a scale of say one to 10, how would you rate your level of satisfaction with the performance of these divisions?

DEREK PANNELL

Well, one's never satisfied, so I think this will -- I see a lot of very good people, but I see a lot of room for improvement and I see a lot of opportunities for growth. On a scale of one to five, I'm reluctant to put them on a scale. I think this whole variation. And, I think there are some very positive plants since I've come onboard, we've shut two of the plants down, so I put them on a scale of zero right now and I think the Kentucky Will Plant and the Gaspe smelter I think there are some that are really excellent, Lomas Bayas, which has done -- exceeded far beyond our expectations I would rate it 10, let's say five and that gives us a lot of scope for work.

Caller

And, you would say that was the same, what, across the divisions, or--?

DEREK PANNELL

No, I would say it was very varied across divisions and across assets.

Operator

Caller

Just when you mentioned on magnolia that you're selling some of your magnesium spot, I mean, what type of pricing would you be realizing for spot magnesium in the markets, or are you still selling it, although you're selling it into the spot market, are you still selling at a significant premium? And, maybe, sort of when we're on the same topic, could you maybe just refresh my memory if you've capitalized anymore costs at magnolia what the current capitalized cost of that project is?

BOB SIPPLE

The terms of the prices that we're realizing within the magnesium industry, we tend now to disclose the prices because there's not a LME reference price, so it's very much a negotiate feature between the supplier and the consumer. But, a lot of this spot tonnage, the small amount that we haven't firmly contracted. We would certainly look to place it just with additional business with existing customers as they tend not to be fully contracted for their own requirements to leave some for spot. So, it would go, really, just with increased sales with our strategic accounts as the first choice and if necessary just sold spot to other customers during the course of the year.

Operator

Caller

I'd like to just -- you missed the second half of David Charles's question, what's the current capitalized cost at magnolia?

AARON REGENT

I'm sorry; I was about to answer that. On a 100 percent basis the project cost is probably just in excess of a billion dollars, which 80 percent is Noranda's.

DAVID KERR

Okay, operator, thank you. We have no particular closing remarks we'll just say thank you to all of those who've joined us on the line this afternoon and we'll talk to you next session. Thank you.