Anaconda Copper Mining Company

ANACONDA

1939

THE

Anaconda Copper Mining Company

CAPITAL STOCK

December 31, 1939

Authorized,	12,000,000 shares, $50 each	$600,000,000
Issued,	8,919,086 shares, $50 each	445,954,300

OFFICERS

President	Cornelius F. Kelley
Executive Vice-President	James R. Hobbins
Vice-President and Treasurer	Robert E. Dwyer
Vice-President	Daniel M. Kelly
Assistant to the President	Elbert O. Sowerwine
Secretary and Assistant Treasurer	David B. Hennessy
Comptroller	James Dickson
General Auditor	W. Kenneth Daly
Assistant Secretary	Kenneth B. Frazer

DIRECTORS

John A. Coe
Robert E. Dwyer
E. Roland Harriman
James R. Hobbins
Cornelius F. Kelley
Harry H. Moore
James H. Perkins
William C. Potter
William D. Thornton

OFFICES

Anaconda, Montana
Butte, Montana
25 Broadway, New York

To the Shareholders of

Anaconda Copper Mining Company

During the first four months of 1939 the rate of copper consumption both at home and abroad was below that prevailing in the latter part of 1938 but improved slightly in May, June and July. Immediately prior to and following the declaration of war extraordinarily large tonnages of copper were sold and both production and deliveries increased rapidly.

Compilation of domestic statistics, suspended following the declaration of war, was resumed after the close of the year and showed for the last five months of the year more than 35% increase in monthly rate of production and more than 88% increase in consumption of primary copper, as compared with average of the first seven months of the year.

Production of duty free refined copper during the year was 836,074 short tons, of which 91,884 tons were secondary. Production of primary copper, 744,190 tons, was 28% more than in 1938. Domestic deliveries of primary duty free copper increased to 722,523 tons, a gain of 73% over 1938. Consumption was the highest since 1929 and equalled 84% of tonnage for that record year. Exports of duty free copper increased from 125,869 tons in 1938 to 134,152 tons in 1939.

Data as to foreign production is not available as statistics were not furnished by producers in the belligerent countries and data for the industry as a whole was not compiled. Following the declaration of war production was increased and a ready market has existed for all copper available for foreign markets. Based upon available data total foreign production is estimated at approximately 1,605,000 short tons, and world production at 2,350,000 tons, or about 9% more than in 1938.

Stocks of duty free refined copper in the United States increased from 289,755 tons on January 1st to 316,543 tons on July 31st but decreased to 159,485 tons on December 31st, a net decrease of 130,270 tons. Foreign stocks increased slightly from 169,072 tons at January 1st to 173,876 tons at July 31st, since when no data is available.

Production of zinc in the United States increased 17.8% over the prior year to 538,198 tons, while consumption amounted to 598,972 tons, a gain of 51%. Stocks of zinc on hand at the close of the year were 65,995 tons, a decrease of 60,774 tons during the year.

The domestic price of copper f.o.b. refinery declined from 11.025¢ per pound at the beginning of the year to a low of 9.775¢ on April 21st. Except for a minor brief advance this quotation continued in effect until July 8th, following which progressive advances resulted in price of 12.275¢ on October 5th, which continued to the end of the year. Prices of zinc and lead improved throughout the year except for a slight reduction of zinc price in December below the high point of the year.

The price of domestic silver remained unchanged at 64⅝¢ per ounce for all silver in ores mined prior to July 2nd. The Act of Congress July 6, 1939, applicable to silver in ores mined in the United States after July 1st, fixed a seigniorage of 45%, which was equivalent to a price of 71.11¢ per ounce f.o.b. Mint, or approximately 70 5/32¢ per ounce f.o.b. smelter. The price of foreign silver was 42.75¢ per ounce to June 27th, after which the price declined steadily to 34.75¢ per ounce, which price with minor fluctuations prevailed to the end of the year.

The U. S. Treasury price of $35.00 per ounce for gold was not changed during the year.

The prices of the principal metals, as reported by the Engineering and Mining Journal, were as follows:

	Jan. 3	High	Low	Dec. 30	Year Average
COPPER—Duty free f.o.b. Refinery—cents per lb.	11.025¢	12.275¢	9.775¢	12.275¢	10.965¢
COPPER—Export f.o.b. Refinery—cents per lb.	10.100	12.950	9.575	12.400	10.727
LEAD —New York—cents per lb.	4.85	5.50	4.75	5.50	5.053
ZINC —St. Louis—cents per lb.	4.50	6.50	4.50	5.75	5.110
SILVER —New York—(not covered by Silver Act) cents per oz.	42.75	42.75	34.75	34.75	39.082

FINANCIAL

The gross sales and earnings of the Company upon a consolidated basis (after elimination of inter-company items) totaled $183,674,976.26, an increase of $39,468,421.29 or 27.4% compared with the prior year.

The cost of sales, including all operating expenses, development and maintenance charges, repairs, administrative, selling and general expenses, and all taxes except income and undistributed profits taxes, amounted to $141,461,416.85.

The income from operations was	$42,213,559.41
Other Income, including Dividends from non-consolidated subsidiaries, was	799,530.59
Total Income was	$43,013,090.00
Deductions from Income for Interest on Debentures and Serial Notes $2,185,821.25; Expenses pertaining to Non-operating units $2,239,272.11; United States and Foreign Income Taxes $8,942,509.21, and Discount, etc., on Debentures retired through Sinking Fund Operations $204,500.77, amounted to	13,572,103.34
Leaving a Balance of	$29,440,986.66
Provision for Depreciation and Obsolescence and for Depletion of Coal Mines, Timber Lands and Phosphate Deposits was $8,825,594.32, and Current Discount and Expenses on Debentures was $133,018.39, a total of	8,958,612.71
Net Income, without deduction for Depletion of Metal Mines, was	$20,482,373.95
Of which Minority Share amounted to	245,821.93
Leaving Consolidated Net Income of	$20,236,552.02

The net income reflects sales of metals and manufactured products invoiced to customers. Forward sales contracts are not reflected in the income account. Inventory valuations were below market prices for the various metals and products at December 31, 1939.

The funded debt of the Company and its subsidiaries was reduced during the year by the retirement through the operation of the sinking fund, of $2,671,000 par value of the 4½% Debentures of the Company, and the payment of $5,000,000 of the serial notes of Chile Exploration Company; a total reduction of $7,671,000; leaving the total funded debt of the Company and its subsidiaries at December 31, 1939, at $50,015,000.

Under the terms of the Indenture covering the 4½% Sinking Fund Debentures of the Company, there will be paid into the sinking fund on August 15, 1940, approximately $4,711,000 in cash, or in lieu thereof, in whole or in part, debentures at cost.

The indebtedness of Inspiration Consolidated Copper Company represented by notes issued to this Company, amounting to $7,043,000, was discharged during the year, in part from funds in its treasury and the balance from funds received from the sale of its First Mortgage Convertible 4% Bonds, due April 1, 1952. Your Company, exercising its rights as a shareholder, subscribed at par to $1,665,000 of the total $5,910,000 offering of said bonds.

Capital expenditures during the year amounted to $3,416,423.18, summarized as follows:

Mines, Mining Claims and Lands (less Sales) .... $	60,567.79
Buildings, Machinery and Equipment at the Mines, Smelting, Refining and Manufacturing Plants of the Company and its subsidiaries (less Sales)	3,140,633.20
Miscellaneous—Including acquisition of shares of stock of other subsidiary companies	215,222.19

Current assets at the close of the year amounted to $112,014,116.43 compared with $93,980,397.59 at the close of the prior year, and current liabilities amounted to $20,592,617.34 compared with $15,038,186.47. Cash on hand increased from $16,732,903.45 to $30,155,531.80.

The dividends declared and paid during the year on the capital stock of your Company amounted to $10,842,922.50 or $1.25 per share.

There has been no change in the list of principal subsidiary companies included in the consolidated report.

CORPORATE TRANSACTIONS

During 1939 the Company acquired 2,500 shares of the stock of Anaconda Wire and Cable Company and 11 shares of the stock of Andes Copper Mining Company, increasing its holdings to 287,522 shares and 3,502,473 shares, or 68.14% and 97.77% respectively of the total outstanding shares of those companies.

As stated above, $5,000,000 of the serial notes of Chile Exploration Company were paid. On May 1st the remaining indebtedness of $12,000,000 was covered by new notes, which, like the prior notes issued, are guaranteed as to principal and interest by Anaconda Copper Mining Company, maturing as follows:

Due	*Amount*	*Interest Rate*
May 1, 1940	$2,000,000	1½%
May 1, 1941	2,000,000	2%
May 1, 1942	2,000,000	2½%
May 1, 1943	2,000,000	2¾%
May 1, 1944	4,000,000	3%

OPERATIONS

All of the plants of your Company and its consolidated subsidiaries operated continuously during the year. Production of the various metals was increased proportionately with the enlarged demand particularly for copper and zinc during the last quarter.

Copper:

The total output of copper by the plants of the Company and its subsidiaries aggregated 934,587,689 pounds. The metallic copper production, after deduction of 175,013 pounds (of which 127,438 pounds were from Company mines) contained in by-product materials sold to others, was 934,412,676 pounds obtained from the following sources: 203,216,783 pounds were treated on toll for the account of others; 49,783,474 pounds were produced from purchased ores, concentrates and secondary metals; leaving a net production from the mines of your Company and its consolidated subsidiary mining companies through copper plant operations of 681,412,419 pounds (200,417,863 pounds domestic—480,994,556 pounds foreign), compared with 633,671,825 pounds (154,208,961 pounds domestic—479,462,864 pounds foreign) in 1938, an increase of 7.5%.

Total deliveries in both the domestic and foreign markets of copper from all sources including purchased copper amounted to 883,235,702 pounds, compared with 790,083,357 pounds in 1938.

Zinc:

Total zinc production was 224,056,850 pounds of which 141,693,675 pounds were from purchased materials, toll zinc returnable 60,285,317 pounds, and 22,077,858 pounds from the mines of the Company. Of total production 7,955 pounds were contained in by-product materials sold to other companies; 6,732,164 pounds were in the form of zinc dross, and 217,316,731 pounds were electrolytic zinc produced by the plants of the Company. Deliveries of zinc (produced and purchased) including zinc delivered to the manufacturing and zinc oxide plants of the Company, amounted to 201,127,612 pounds, compared with 150,393,070 pounds in 1938.

Lead:

The total production of lead was 90,663,398 pounds. Of this amount 79,476,853 pounds were produced from purchased ores, concentrates, etc., and 11,186,545 pounds from the mines of the Company. Of the aggregate production 25,523,450 pounds were included in by-products sold to other companies and 65,139,948 pounds were produced in metallic form by the plants of the Company. Deliveries of lead during the year, including that used in the manufacture of white lead, were 83,577,841 pounds, compared with 60,829,021 pounds in 1938.

Silver:

The Company produced 14,582,530 ounces of silver, of which 866,480 ounces were treated on toll for account of others, 6,855,912 ounces were produced from purchased ores and concentrates, and 6,860,138 ounces were produced from Company ores. Of the above total 2,052,717 ounces were contained in by-product materials sold to other companies.

Gold:

Gold production amounted to 245,993 ounces, of which 40,432 ounces were contained in materials treated on toll for the account of others, 165,086 ounces came from purchased materials, and 40,475 ounces from the mines of the Company. Of this amount 8,641 ounces were sold in the form of various by-product materials to other companies.

Miscellaneous:

The principal miscellaneous products consisted of 89,775,271 feet of lumber; 57,205 tons treble-superphosphate and phosphoric acid; 8,709 tons arsenic; 986,304 pounds cadmium, including 159,537 pounds produced on toll.

Fabricating Plants:

The shipments of manufactured products from the plants of The American Brass Company (including Toronto Plant) and Anaconda Wire and Cable Company amounted to 612,031,416 pounds, an increase of 35.9% from the prior year.

Non-Consolidated Subsidiary Mining Companies:

The Mountain City Copper Company produced 27,988,176 pounds of recoverable copper from ores and concentrates shipped. The Walker Mining Company produced 8,010,226 pounds of recoverable copper from concentrates shipped. Operation of these properties was continuous for the entire year.

The National Tunnel & Mines Company produced from company and leasing operations 250,870 pounds of copper, 3,506,683 pounds of lead, 1,480,112 pounds of zinc, 90,268 ounces of silver and 3,902 ounces of gold.

SILESIAN-AMERICAN CORPORATION

The properties of Giesche Spolka Akcyjna, a subsidiary company of Silesian-American Corporation in Poland, were taken over by the Polish military authorities in the latter part of August, 1939 and the members of the American Staff moved from Poland to Rotterdam, Holland. (Most of the members of the staff have since returned to the United States). Early in September Germany obtained control of that district and a commissar appointed by the German Government was placed in charge of the properties. Since that time no reports of operations are available. It is impossible to conjecture how long this situation will continue.

The principal amount of bonds of Silesian-American Corporation outstanding at the end of the year was reduced to $2,510,500.

EMPLOYEES

During the year 1939 the average number of employees of the Company and its consolidated subsidiary companies was 38,727. Of these 24,082 were within the United States, compared with 21,168 in 1938. The number of employees in the United States averaged 23,795 in January, decreased to 22,545 in June, but increased to 27,999 in December.

GROUP INSURANCE

The Group Insurance in force at the close of the year amounted to $45,165,257, covering 29,913 employees. The amount of insurance paid to beneficiaries during the year was $515,613.

NUMBER OF SHAREHOLDERS

The number of registered shareholders appearing on the transfer books of the Company at December 31, 1939 was 110,581, compared with 107,917 at the beginning of the year.

FINANCIAL STATEMENTS

There is attached hereto as a part of this report a Consolidated Balance Sheet showing the financial condition of the Company and consolidated subsidiary companies at the close of business December 31, 1939, together with a Consolidated Income Account and a Consolidated Surplus Account for the year, certified by Messrs. Pogson, Peloubet & Co., Certified Public Accountants.

By Order of the Board of Directors.

CORNELIUS F. KELLEY,
President.

New York, N. Y., March 23, 1940.

POGSON, PELOUBET & CO.

PERCY W. POGSON
MAURICE E. PELOUBET
LEWIS M. NORTON
SIDNEY W. PELOUBET
HOWARD L. GUYETT

NEW YORK - 25 BROADWAY
EL PASO, TEXAS - MILLS BLDG.

CABLE ADDRESS "CERTIFIED" NEW YORK

AGENTS
EUROPE - KEMP, CHATTERIS, NICHOLS, SENDELL & CO. LONDON AND PARIS
EGYPT - HEWAT, BRIDSON & NEWBY ALEXANDRIA AND CAIRO

To the Board of Directors,

Anaconda Copper Mining Company,
25 Broadway, New York, N. Y.

We have examined the Consolidated Balance Sheet as of December 31st, 1939 of Anaconda Copper Mining Company and the other corporations whose accounts are consolidated with its accounts as stated in Note A to the Consolidated Balance Sheet (which other corporations are hereinafter referred to as consolidated subsidiaries) and their Consolidated Income and Surplus Accounts for the calendar year 1939, have reviewed the system of internal control and the accounting procedures of the Company and its subsidiaries and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and its subsidiaries and other supporting evidence, by methods and to the extent we deemed appropriate.

The practice of the Company and its subsidiaries in computing their net income or net loss without deduction for depletion of metal mines is in accordance with accepted accounting procedures in industries engaged in the mining of copper, zinc, lead, silver and gold, and is in agreement with long established and consistently maintained accounting practices and procedures of this Company and its subsidiaries and others similarly situated, and the Company is advised by counsel that such procedure is in accordance with legal requirements.

In our opinion, the accompanying Balance Sheet and related Income and Surplus Accounts, together with the notes attached thereto or appearing thereon, present fairly the consolidated position of the Company and its consolidated subsidiaries at December 31st, 1939 and the combined results of their operations for the calendar year 1939 in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

POGSON, PELOUBET & CO.,
Certified Public Accountants.

New York, March 11th, 1940.

PNYC 00010137

[redacted]

ANACONDA COPPER MINING COMPANY
and Subsidiary Companies

Consolidated Balance Sheet—December 31st, 1939

ASSETS

FIXED ASSETS:			
Mines and mining claims, water rights and lands for metal producing and manufacturing plants—see note G		$290,212,076.21	
Coal mines, timber lands and phosphate deposits—see note G	$ 9,547,024.40		
Less reserve for depletion	2,268,038.02	7,278,986.38	
Buildings and machinery at mines, reduction works, refineries, manufacturing plants, sawmills, foundries, waterworks and railroads (including railroad concessions to the extent of $887,385.71)—see note G	$287,418,168.41		
Less reserve for depreciation	156,517,218.10	130,900,950.31	
Patents		1,086.00	
Investments:			
Securities of subsidiaries not consolidated—see notes C and F	$ 15,974,594.07		
Other security investments—see note F	17,944,988.14		
Indebtedness of subsidiaries not consolidated—not current	962,845.51	34,882,427.72	$463,275,526.62
DEFERRED CHARGES:			
Stripping and development		$ 5,331,118.14	
Prepaid expenses		317,409.36	
Deferred expenses		365,619.34	
Discount and expense on debentures		1,358,366.74	7,372,513.58
CURRENT AND OTHER ASSETS:			
Current assets:			
Supplies on hand—see note E	$ 15,007,139.97		
Metals and manufactured products:			
In process—see note D	6,340,930.35		
Finished—see note D	48,477,502.18		
Accounts and notes receivable—trade, less reserve	10,917,766.71		
Indebtedness of subsidiaries not consolidated—current	1,115,245.42		
Cash	30,155,531.80	$112,014,116.43	
Other assets:			
Installment house and land sales and other accounts receivable, less reserve	$ 775,124.31		
Advances to sundry mining companies, including advances on ores, less reserve	89,734.26		
Ores produced during development operations held for future treatment—see note H	1,158,820.62		
Cupriferous material held for future treatment—see note H	3,047,005.32	5,070,684.51	117,084,800.94
			$587,932,841.14

See explanatory notes, pages 13 and 14.

ANACONDA COPPER MINING COMPANY

and Subsidiary Companies

Consolidated Balance Sheet—December 31st, 1939

LIABILITIES

CAPITAL STOCK of Anaconda Copper Mining Company:			
Authorized—12,000,000 shares of the par value of $50.00 each			
Issued	8,919,086 shares		$445,954,300.00
Held in treasury or through subsidiaries	244,748 shares		12,237,400.00
Outstanding	8,674,338 shares		$433,716,900.00
CAPITAL STOCK AND SURPLUS of consolidated subsidiaries owned by minority interest			4,645,671.03
DEBENTURES AND NOTES OUTSTANDING:			
Anaconda Copper Mining Company—4½% Sinking Fund Debentures due 1950—see note J		$ 38,015,000.00	
Chile Exploration Company—Serial Notes—payable to banks, $2,000,000 due annually May 1st, 1941 to May 1st, 1943, both inclusive, and $4,000,000 due May 1st, 1944, interest at 2% to 3% (guaranteed as to both principal and interest by Anaconda Copper Mining Company)		10,000,000.00	48,015,000.00
RESERVES:			
For repairs, renewals and replacements		$ 532,058.00	
For workmen's compensation insurance, etc.		924,380.25	
For contingencies		275,000.00	1,731,438.25
CURRENT LIABILITIES:			
Chile Exploration Company—Serial Notes—payable to banks, due May 1st, 1940 (guaranteed as to both principal and interest by Anaconda Copper Mining Company)		$ 2,000,000.00	
Accounts payable—trade		6,112,271.16	
Wages payable		1,431,228.03	
Accrued taxes		8,948,164.51	
Accrued interest		476,937.74	
Other accrued liabilities including advance payments by customers		1,461,292.32	
Other accounts payable		162,723.58	20,592,617.34
DEFERRED CREDITS TO INCOME			404,357.23
SURPLUS			78,826,877.29
			$587,932,341.14

See explanatory notes, pages 13 and 14.

ANACONDA COPPER MINING COMPANY
and Subsidiary Companies

Consolidated Income Account—Year Ended December 31st, 1939

Gross Sales and Earnings		$183,674,976.26
Cost of Sales—operating expenses, development, maintenance and repairs, administrative, selling and general expenses and taxes except income taxes—sales to the extent of current production being applied at cost on the basis of last-in, first-out		141,461,416.85
Income from operations of mining, smelting, refining and manufacturing plants, before deducting depreciation and depletion		$ 42,213,559.41
Other Income—Dividends from subsidiaries not consolidated	$ 229,613.66	
—Other dividends and interest	389,822.21	
—Miscellaneous income	180,094.72	799,530.59
		$ 43,013,090.00
Interest on debentures and serial notes	$ 2,185,821.25	
Expenses pertaining to non-operating units	2,239,272.11	
United States and foreign income and excess profits taxes—estimated	8,942,509.21	
Discount and expense, and premium on debentures retired through sinking fund operations	204,500.77	13,572,103.34
		$ 29,440,986.66
Provision for depreciation and obsolescence	$ 8,750,570.72	
Provision for depletion of coal mines, timber lands and phosphate deposits (not including depletion of metal mines)	73,023.60	
Current discount and expense on debentures	135,018.39	8,958,612.71
Net Income, without deduction for depletion of metal mines		$ 20,482,373.95
Minority share of income		245,821.93
Consolidated Net Income, without deduction for depletion of metal mines		$ 20,236,552.02

Consolidated Surplus Account—Year Ended December 31st, 1939

Surplus, December 31st, 1938	$ 71,812,401.91	
Minority interest	504,125.10	$ 71,308,276.81
Consolidated Net Income, without deduction for depletion of metal mines		20,236,552.02
		$ 91,544,828.83
Dividends Nos. 123, 124, 125 and 126		10,842,922.50
		$ 80,701,906.33
United States and Mexican income taxes for years 1934 to 1938 together with interest accrued thereon to December 31st, 1938 and additional Chilean income taxes on income of the year 1938		1,875,029.04
Surplus, December 31st, 1939	$ 79,307,629.07	
Minority interest	480,751.78	
Consolidated Surplus, December 31st, 1939		$ 78,826,877.29

See explanatory notes, page 14.

NOTES TO CONSOLIDATED BALANCE SHEET—DECEMBER 31st, 1939

NOTE A—PRINCIPLES APPLYING IN CONSOLIDATION

In order to present the status of the Company's interest in subsidiaries where the interest owned (directly or through other subsidiaries) is 75% or more of the issued stock, the assets and liabilities of said subsidiaries, as they appear upon the books of said subsidiaries, are distributed under appropriate headings on the Consolidated Balance Sheet, together with adjustments to property, plant and equipment as described in Note G, except that four small subsidiaries more than 75% owned, the operations of which are not an integral part of the operations of the consolidated group, are carried as investments in the Consolidated Balance Sheet. The interest of minority stockholders of subsidiaries, the accounts of which are consolidated, is shown on the Consolidated Balance Sheet. Accounts of subsidiaries in which the Company's interest is less than 75% of the issued stock are not consolidated and the shares owned in these subsidiaries are carried as investments in the Consolidated Balance Sheet. The term "subsidiaries" is intended to mean corporations in which a majority of the voting stock is owned directly by the Company or through other corporations in which the stock interest of the Company is more than 95%

NOTE B—ASSETS IN FOREIGN COUNTRIES

Assets in foreign countries fall principally into three groups: those of metal producing subsidiaries operating in Mexico and South America; of a manufacturing subsidiary in Canada; and investments in shares of companies representing property in Europe.

Of the net fixed assets and investments as shown on the Consolidated Balance Sheet, approximately fifty-eight per cent are located in Mexico and South America, one-third of one per cent in Canada and one-third of one per cent are investments in shares of companies representing property in Europe. Of the net current assets, consisting of current assets less current liabilities, included in the Consolidated Balance Sheet, approximately eight per cent are located in Mexico and South America and two per cent are located in Canada. Cash balances in foreign currencies amount to $990,755.28 and consist principally of working balances held in South America, Mexico and Canada. Of miscellaneous assets (after deducting reserves and deferred credits to income) approximately fifty-four per cent apply to operations in Mexico and South America.

Fixed assets in foreign countries are carried in United States dollars on the basis explained in Note G as to property, plant and equipment, and Note F as to investments. Current and miscellaneous assets of metal producing subsidiaries operating in Mexico and South America are reflected in the accounts of those subsidiaries at approximately the current rate of exchange at the date of the transaction and the balances expressed in United States dollars reflect, therefore, the balances in foreign currencies at the cost thereof. Current assets of the Canadian subsidiary have been converted at the rate of exchange current at December 31st, 1939. No data is available at this time on which to base any estimate of possible losses on European investments. (See pages 7 and 8 of Report of President).

NOTE C—EQUITY OF COMPANY IN UNCONSOLIDATED SUBSIDIARIES

The equity of the Company in the assets of the principal unconsolidated subsidiaries (Anaconda Wire and Cable Company, Mountain City Copper Company and Walker Mining Company) and the four unconsolidated subsidiaries referred to in Note A had increased at December 31st, 1939, to the extent of $96,802.74 since the dates of acquisition as the result of profits, losses, distributions and surplus adjustments as shown by the books of said unconsolidated subsidiaries (without, in the case of mining companies, making any provision for depletion of metal mines), but the cost of the shares of said subsidiaries owned by the Company as shown on the Consolidated Balance Sheet has not been adjusted for such increase.

NOTE D—INVENTORIES OF METALS AND MANUFACTURED PRODUCTS

The metallic contents of copper ores, concentrates, and cupriferous materials, and zinc and lead ores and concentrates, while in treatment at reduction plants up to the production of blister copper, electrolytic copper, metallic zinc and lead bullion, are classified as metals in process. Blister and electrolytic copper, metallic zinc, lead bullion, and other products and metals produced in connection therewith or therefrom, including stock in works at fabricating plants, are classified as finished.

Inventory in process is calculated at cost which is below the equivalent of current market for metallic content of such inventories.

Finished metals and manufactured products on hand at December 31st, 1939 (except silver, gold and molybdenite, which are carried at market quotations or less), have been computed on the last-in, first-out basis. Inventories on hand at December 31st, 1938 are carried at December 31st, 1938 inventory valuations and accumulations since that date are valued at current costs. Inventory valuations determined in accordance with the foregoing method were below market prices for the various metals and products at December 31st, 1939.

NOTE E—SUPPLIES ON HAND

Supplies on hand, including replacement parts as well as current supply items, are carried at cost.

NOTE F—INVESTMENTS—BASIS

Investments in securities of unconsolidated subsidiaries and other security investments are carried at cost or less, such cost being cash cost, or in the case of securities issued in exchange for property transferred by the Company or a consolidated subsidiary, cost of such property to the consolidated group after deducting depreciation to date of transfer, and do not indicate current values. Other securities include $1,665,000 principal amount of debentures carried at par and 333,000 shares carried at $10,914,107.51 of Inspiration Consolidated Copper Company and $1,807,976.50 of investments representing assets in Europe. See Note B.

NOTE G—PROPERTY, PLANT AND EQUIPMENT—BASIS OF VALUATION

(a) Property, plant and equipment of the Company are carried at cash cost or in the case of physical properties acquired for stock of the Company at par value of such stock.

(b) Property, plant and equipment of consolidated subsidiaries (except as to mining properties of Andes Copper Mining Company and Santiago Mining Company acquired by said companies respectively for shares of their capital stock, the basis for which is described below) are carried at cost to the subsidiary, plus or minus, as the case may be, the difference, if any, between the investment basis of the proportionate interest owned in the respective subsidiary (as set forth below) and a like proportionate interest of the net assets of such subsidiary as shown by the books of such subsidiary at the time when its accounts were first included in the Consolidated Balance Sheet of the Company and subsidiaries, to which is added cost of subsequent acquisitions.

Such investment basis is the cash cost to the consolidated group of the stock of the respective subsidiary owned by such group or where such stock was acquired by the consolidated group for stock of the Company, the par value of the stock of the Company issued therefor. Mining properties of Andes Copper Mining Company and Santiago Mining Company acquired by said companies respectively for shares of their capital stock, are included in the Consolidated Balance Sheet at the original par value of the shares of those companies issued therefor (i.e., \$25 per share), instead of the acquisition cost of such shares owned by the consolidated group. The total of the amounts credited to surplus of the Company and to consolidated surplus on account of the difference between the par value of the above-mentioned shares of Andes Copper Mining Company and Santiago Mining Company and cost thereof to the Company and its subsidiaries was \$23,429,105.38.

(c) It has been the practice of the Company, consistently applied to its own properties and those of subsidiaries the stocks of which have been acquired and the accounts of which are included in the Consolidated Balance Sheet to carry property, plant and equipment as described above. Pursuant to the requirements of the United States Treasury Department, valuations as of March 1st, 1913 of mining properties then owned have been recorded on the books for the purpose of computing the amount allowable as a deduction for "depletion" in arriving at taxable income under the Federal income tax laws, but these values have not been included in the published accounts of the Company.

The Company has consistently followed the practice of not deducting in any of its published accounts, any amount for depletion on account of metals mined, and no such deduction is included in any of the financial statements submitted herewith.

Depletion based on cost has, in the case of timber, coal and phosphate lands, been deducted from income in the financial statements submitted herewith and also from the cost basis shown in the Consolidated Balance Sheet.

(d) The values of property, plant and equipment are shown on the bases above set forth and do not indicate current values which could be established only by current appraisals.

NOTE H—ORES AND CUPRIFEROUS MATERIAL

Ores produced during development operations, held for future treatment, are carried at cost of extraction which is less than a conservatively estimated realizable value.

Cupriferous material held for future treatment is carried at a valuation which was assigned to a part thereof by United States Treasury Department for income tax purposes, such valuation being less than the value of the recoverable metals contained therein at current metal prices after deducting treatment costs, both as estimated by metallurgists of the Company.

NOTE I—SURPLUS

Included in Consolidated Surplus are: (a) a credit of \$23,429,105.38 referred to in Note G above, (b) a credit of \$20,816,158.49, being the excess of the proceeds of the issue of 3,109,398.54 shares of stock of Company over the par value thereof and (c) a charge of \$11,907,498.50, being discount and expense on issuance, and premium on redemption of bonds, redeemed through funds obtained by issuance of stock above referred to. See paragraph (c) of Note G as to practice regarding depletion.

NOTE J—SINKING FUND REQUIREMENTS

Under the sinking fund provisions of the indenture providing for the issue of the 4½% Sinking Fund Debentures of Anaconda Copper Mining Company, due 1950, the Company will be obligated on August 15th, 1940 and on August 15th of each year thereafter, to and including August 15th, 1949, unless the debentures are sooner redeemed, to pay to the Trustee under the indenture, for the purposes of the sinking fund for the retirement of debentures, an amount equal to \$1,000,000 plus 20% of the consolidated net income of the Company (as defined in the indenture) for the period of twelve months ended on the next preceding December 31st, or in lieu of such payment, the Company may deliver to the Trustee under the indenture debentures to be received by the Trustee under the indenture in lieu of an amount of cash equal to the purchase price of such debentures paid by the Company on the acquisition thereof. The Company has made all payments required under the indenture and has satisfied all other requirements from the date of issue to December 31st, 1939. The amount of the payment which the Company will be obligated to make to the Trustee under the said indenture on August 15th, 1940 will be approximately \$4,711,000.00.

NOTE K—CONTINGENT LIABILITIES

So far as is known, there are no contingent liabilities of material amount. All known liabilities are provided for in the Consolidated Balance Sheet. (As to investments in Europe, see Note B).

NOTES TO CONSOLIDATED INCOME ACCOUNT—YEAR ENDED DECEMBER 31ST, 1939

Sales of metals and manufactured products are included in income as billed and delivered to customers. Undelivered sales contracts and purchase commitments are not given effect to in the Consolidated Income Account.

Intercompany sales and intercompany profits where these latter are material have been eliminated in the Consolidated Income Account.

In the year 1939 the share of the Company in the combined net income (without, in the case of mining companies, making any provision for depletion of metal mines) of the principal unconsolidated subsidiaries (Anaconda Wire and Cable Company, [illegible] City Copper Company and Walker Mining Company) and the four small unconsolidated subsidiaries referred to in Note A, amounted to \$445,735.22, of which the Company received in dividends from two unconsolidated subsidiaries \$229,613.66 which is included in the Consolidated Income Account.

There is included in consolidated income \$14,366,847.20 as Anaconda Copper Mining Company's proportion of the income of [illegible] domestic and foreign consolidated subsidiaries operating in Mexico and South America and \$218,803.04 of the earnings of [illegible] panies has been apportioned to minority stockholders all of which income has been received in United States funds. Of the [illegible] to consolidated surplus covering additional United States, Mexican and Chilean income taxes \$1,157,186.51 applies to Mex[illegible] South American subsidiaries.

There is included in consolidated income \$745,534.96 which is the equivalent in United States currency of the net income [illegible] year 1939 of Anaconda American Brass, Ltd., a wholly owned Canadian subsidiary, which subsidiary paid a dividend of [illegible] United States currency during the year.

ANACONDA WIRE AND CABLE COMPANY

LOCATION OF MANUFACTURING PLANTS

ANDERSON, IND. [illegible] ORANGE, CALIF.
GREAT FALLS, MONT. [illegible] PAWTUCKET, R. I.
HASTINGS-ON-HUDSON, N. Y. [illegible] SYCAMORE, ILL.

SOME OF THE [illegible]

Automotive — Electrical Equipment — [illegible] — [illegible] and Telegraph
Aviation — Industrial Power Plants — [illegible] Equipment
Building — [illegible]
[illegible] — [illegible] Companies
[illegible] — [illegible] Plants
[illegible] — [illegible]rification

[illegible]

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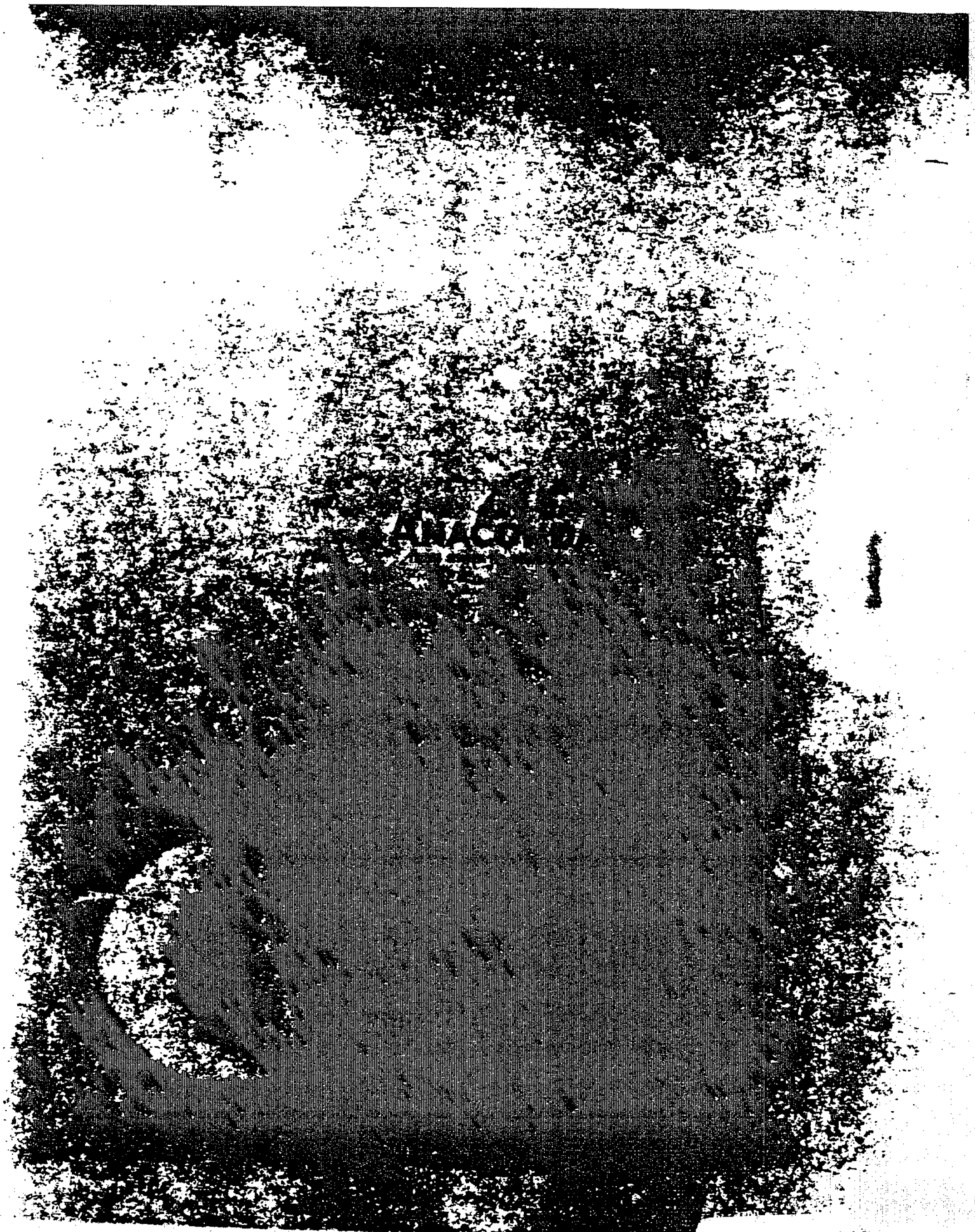

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