REPORT

of

Anaconda
Copper Mining Company

1935

Anaconda Copper Mining Company

CAPITAL STOCK

December 31, 1935

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
Vice-President	James R. Hobbins
Vice-President and Treasurer	Robert E. Dwyer
Secretary and Assistant Treasurer . . .	David B. Hennessy
General Auditor	James Dickson
Assistant Secretary	Kenneth B. Frazer

DIRECTORS

Andrew J. Miller
Grayson M.-P. Murphy
James R. Hobbins
William D. Thornton
Cornelius F. Kelley
John A. Coe
Robert E. Dwyer
Herman C. Bellinger

OFFICES

Anaconda, Montana
Butte, Montana
25 Broadway, New York

To the Shareholders of
Anaconda Copper Mining Company:

The consumption of non-ferrous metals during 1935 was substantially greater than in the prior year. Consumption of copper in the foreign markets established an all-time record. In the domestic market copper consumption improved materially over the preceding year; nevertheless, it remained abnormally low compared with either the high year of 1929 or the average consumption for the five years immediately preceding 1929.

During the first half of the year, although deliveries of copper in the domestic market were maintained at a normal ratio to consumption, buying practically ceased during May and the first part of June due to the uncertainty that attended the continuance of the National Industrial Recovery Act, and the price of copper in this market declined from 8.775¢ to 7.775¢ per pound. With the general increase in business during the last half of the year large sales of copper were made and the price advanced until at the close of the year it was 9.025¢ per pound, f.o.b. refinery.

At the beginning of the year it became evident that there was an over-production of copper outside the United States for foreign markets and foreign production was curtailed. As a result, the stocks of refined copper abroad, which had increased during the first half of the year, were thereafter materially reduced. The foreign price of copper declined to the equivalent of 6.15¢ a pound in February; thereafter it advanced and reached the equivalent of 8.75¢ in October; and at the end of the year was quoted at the equivalent of 8.375¢ f.o.b. refinery.

The World smelter production of primary copper during the year was 1,575,838 tons, an increase of 16.7% over production of the prior year. Of this total 372,738 tons were domestic duty-free copper and 1,203,100 tons were foreign. Refined primary copper production totalled 1,550,745 tons, of which 368,407 tons were domestic and 1,182,338 tons were foreign.

The World consumption of primary copper equalled 1,652,078 tons, an increase of approximately 19.6% compared with the prior year. Domestic consumption of primary copper totalled 415,663 tons, and foreign consumption 1,236,415 tons. Domestic consumption including secondary copper totalled 528,194 tons, an increase of 39.0% over 1934. Foreign consumption in 1935 increased 11.3% over the prior year and was the highest on record, while consumption in the United States was only 50% of that of 1929.

Stocks of refined copper in the United States decreased 123,021 tons, partially due to the exportation of duty free copper. Refined stocks abroad increased 21,688 tons. The net decrease in total refined stocks was therefore 101,333 tons. Refined stocks in the United States were approximately 292,000 tons less than at December 31, 1933.

The production of zinc in the domestic market totalled 431,412 tons for the year, an increase as compared with the prior year of 17.6%. Domestic consumption totalled 465,600 tons, an increase of 32.1% over the prior year, and was greater than that of any year since 1929. Stocks of zinc in the United States decreased 36,072 tons, and were at the lowest point since 1929.

The price for silver mined in the United States was raised to 71.11¢ per ounce under proclamation by the President of the United States on April 10th and again to 77.57¢ per ounce on April 24th, and closed the year at that figure. Gold remained at $35.00 per ounce throughout the year. The price of foreign silver, which reached a high of 81¢ per ounce in April, 1935, declined sharply during the latter half of the year, and closed the year at 49.75¢ per ounce. The prices for non-ferrous metals averaged for the year somewhat higher than the averages that prevailed during the prior year.

Prices of the principal metals were reported by Engineering & Mining Journal as follows:

	Jan. 2	High	Low	Dec. 31	Average
Copper—Duty Free f.o.b. Refinery—Cents per lb.	8.775	9.025	7.775	9.025	8.649
" —Export f.o.b. Refinery—Cents per lb.	6.700	8.750	6.150	8.375	7.538
Lead —New York—Cents per lb.	3.700	4.600	3.500	4.500	4.065
Zinc —St. Louis—Cents per lb.	3.725	4.850	3.700	4.850	4.328
Silver —New York (Not covered by President's Proclamations)—Cents per oz.	55.000	81.000	49.750	49.750	64.273

CORPORATE CHANGES

The existing bank loans of your Company and its subsidiaries, which totalled $59,549,120 at the beginning of the year and had been reduced to $54,322,120 at September 30, 1935, were funded during the latter part of the year. A registration statement under the Securities Act of 1933 as amended, was filed with the Securities and Exchange Commission, covering an issue of $55,000,000 principal amount of fifteen year 4½% Sinking Fund Debentures, dated October 1, 1935, due October 1, 1950. After negotiation these debentures were sold to the underwriters on October 18, 1935. The offering price to the public was 98½% and the commission to the underwriters was 3%. These debentures are the direct unsecured obligations of the Company. Upon the sale of the debentures the outstanding bank loans of your Company and its subsidiary companies were paid.

The indenture under which the debentures were issued contains a provision that on August 15, 1936, and on August 15th of each year thereafter to and including August 15, 1949, the Company will pay to the Trustee, (Guaranty Trust Company of New York), for the purposes of a sinking fund for the retirement of debentures, an amount equal to the sum of the following: (a) $1,000,000 plus (b) twenty percent (20%) of the consolidated net income of the Company, as the same is defined in the indenture, for the period of twelve months ended on the next preceding December 31st. Such consolidated net income is the consolidated net income as published in the annual report of the Company for the respective twelve-months period, subject to certain adjustments as set forth in the indenture. In lieu of any such sinking fund payment, the Company may deliver to the Trustee debentures to be credited at cost to the Company. There is a provision that the maximum amount of sinking fund payments required shall be so limited that the total amount of debentures issued need not be retired through the sinking fund before October 1, 1945.

The shares of the capital stock of your Company were registered on the New York Stock Exchange and the Boston Stock Exchange under the Securities Exchange Act of 1934, and the 4½% Sinking Fund Debentures were similarly registered on the New York Stock Exchange.

Following steps begun in 1934 to simplify the corporate structure of the Company, the assets and business of six minor 100% owned subsidiaries were transferred in 1935 to your Company, or other 100% owned subsidiaries.

An adjustment was made with the Montana Power Company in connection with power charges deferred during the period of drastic curtailment of operations in Montana when the power used was below the minimum provisions of the contract with that company, and as a part consideration the facilities of the Electric Light Department, which supplied electric light and power to the City of Anaconda, Montana, were transferred to the Power Company.

FINANCIAL

The gross sales and earnings of the Company and its subsidiary companies upon a consolidated basis totalled $127,678,576.68, compared with $99,149,535.64 for 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 taxes, amounted to $100,266,618.82, compared with $82,053,027.58 for the previous year, resulting in an operating income of $27,411,957.86, compared with $17,096,508.06 in 1934. The total income, including other income of $1,011,366.88, amounted to $28,423,324.74.

After deducting from income the following items: interest on bonds and current obligations $4,044,434.87; expenses pertaining to non-operating units $2,403,935.88; United States and foreign income taxes (estimated) $1,957,992.16; and loss on bonds retired $47,045.11; a total of $8,453,408.02, the balance was $19,969,916.72. Provision for depreciation and obsolescence and for depletion of timber, coal and phosphate lands was $8,390,015.79, and the discount on bonds was $266,173.96, a total for these items of $8,656,189.75, and the resultant net income on a consolidated basis for the year (without deduction for depletion of metal mines), was $11,313,726.97, as compared with $1,960,093.75 for the prior year. The consolidated net income after deducting minority share of $133,639.52, was $11,180,087.45.

Additional Federal income taxes for prior years plus charge-offs on dissolution of subsidiary companies, less a credit on account of adjustment of deferred power charges, resulted in a net charge to consolidated surplus of $268,500.19.

The funding of the bank loans through the issuance of the 4½% Sinking Fund Debentures materially improved the consolidated current position of the Company and its subsidiaries as set forth in the consolidated balance sheet at December 31, 1935. Cash on hand at the close of the year amounted to $17,869,122.46, compared with $12,245,431.10 at the close of 1934. Current assets, including cash, totalled $76,588,329.97, compared with $67,856,820.28 for the prior year. Current liabilities were $10,016,210.18, compared with current liabilities of $67,645,362.01, including notes payable to banks, at the end of 1934. The improvement in the net current position was $66,360,661.52.

There were purchased and retired during the year, or held in the treasury at the close of the year $1,252,000 par value of Twenty Year 5% Debentures of Chile Copper Company and $108,000 par value of First Mortgage 5% Sinking Fund Bonds of Butte, Anaconda & Pacific Railway Company, a total of $1,360,000.

The improvement of $66,360,661.52 in the net current position on a consolidated basis, and the decrease of $1,360,000 in the funded debt of the subsidiary companies totalled $67,720,661.52. Of this amount $52,525,000 is attributable to the proceeds of the debentures and the balance, $15,195,661.52, is accounted for principally by earnings for the year plus depreciation charge in excess of expenditures for plant.

Further advances were made to the Inspiration Consolidated Copper Company on its promissory notes secured by First Mortgage Bonds of that company, making its total liability on notes to this Company as of the close of the year $7,643,000, on which interest accrued as of that date amounted to $557,873.08. The Inspiration Company resumed operations on a curtailed basis during the latter part of the year.

Capital expenditures during the year amounted to $2,165,432.91, summarized as follows:

Mines, Mining Claims, and Lands	$63,628.41
Buildings, Machinery and Equipment at the plants of the Company and its subsidiaries	1,984,024.51
Acquisition of shares of stock of subsidiary companies	117,779.99
	$2,165,432.91

OPERATIONS

The operations of the mines, and the reduction, refining, fabricating, and other plants of your Company and its consolidated subsidiaries, while conducted at an increased scale as compared with the previous year, continued on a basis of substantial curtailment.

Copper

The production of metals from the mines of your Company and its consolidated subsidiary mining companies through Copper Plant operations was 517,943,873 pounds of copper, 5,472,579 ounces of silver, and 29,629 ounces of gold.

Copper deliveries for the year in both the domestic and foreign markets amounted to 828,589,950 pounds. After allowing for custom, secondary, and purchased copper, the deliveries were in excess of production and resulted in a decrease of 53,776,871 pounds in stocks of copper on hand. Deliveries were approximately 36% over the deliveries of the prior year.

Zinc

Production of electrolytic zinc during the year amounted to 212,055,670 pounds, of which 49,235,857 pounds were from Company mines, and the remainder from custom ores and concentrates and leased mines. Deliveries of zinc amounted to 197,145,190 pounds, including the zinc used in the manufacture of zinc oxide at the zinc oxide plants at East Chicago, Indiana and Akron, Ohio. The metals paid for in zinc residues and dross sold to other companies amounted to 1,518,274 pounds of zinc, 27,103,467 pounds of lead, 348,149 pounds of copper, 2,874,131 ounces of silver and 6,132 ounces of gold.

Custom Smelting and Refining

The Copper Smelting Plant at Tooele, Utah, of International Smelting and Refining Company resumed operations in October, 1935, on ores received from the Mountain City Copper Company and concentrates received from the Walker Mining Company, subsidiary companies of the International Smelting and Refining Company.

The Copper Smelting Plant of the International Company at Miami, Arizona, operated intermittently; and its Lead Smelting Plant at Tooele, Utah, and Lead Refinery at East Chicago, Indiana, operated on a curtailed basis throughout the year.

Operations at the Raritan Copper Works division at Perth Amboy, New Jersey, were at somewhat higher levels than in the prior year. The facilities for the treatment of secondary metals and by-product metals at that plant operated throughout the year.

The custom smelting and refining operations, other than zinc, produced from the treatment of custom ores and concentrates and secondary metals 48,711,854 pounds of copper, 52,042,186 pounds of lead (including 2,127,592 pounds of lead from own mines), 2,826,513 ounces of silver, 63,974 ounces of gold, and certain by-product metals and materials. The foregoing production includes production from ores and concentrates received from the Walker and Mountain City Companies. In addition production from materials treated on toll was 76,679,238 pounds of copper, 2,520,776 pounds of lead, 2,600,503 ounces of silver and 6,132 ounces of gold. Deliveries of lead during the year were 68,808,665 pounds, including the lead used in the manufacture of white lead at East Chicago, Indiana, plant.

Ores and Concentrates From Subsidiaries

Operations on a curtailed basis were resumed by the Walker Mining Company in September, 1935. The concentrates produced by it are shipped to the Tooele Copper Plant of International Smelting and Refining Company.

Shipments of ore from the mine of the Mountain City Copper Company, located in Elko County, Nevada, commenced in October. The company holds unpatented mining claims covering approximately 470 acres and, in addition, owns approximately 176 acres of patented agricultural lands which carry mineral rights. The property is equipped with adequate structures and machinery for mining ore and carrying on development work. Shipments are made by truck from the mine to existing railroad facilities, and thence by railroad to the Tooele Copper Plant. A concentrator for the treatment of lower grade ores than are now being shipped, is now being constructed at the mine.

The International Smelting and Refining Company, a 100% owned subsidiary of Anaconda owns 50.42% and 61.45% respectively of the stock of the Walker and Mountain City Companies.

Fabricating Plants

The shipments of manufactured products of The American Brass Company, (including Toronto Plant), and of the Anaconda Wire and Cable Company totalled 531,102,747 pounds, compared with 425,516,899 pounds in the prior year, an increase of approximately 25%.

Miscellaneous Products

Miscellaneous products consisted of 73,128,020 feet lumber; 19,880 tons treble-superphosphate and phosphoric acid; 7,929 tons arsenic; 946,051 pounds cadmium; 104,600 pounds nickel sulphate; and 289,162 pounds copper sulphate.

EMPLOYEES

During the year 1935 the average number of employees of the Company and its consolidated subsidiary companies was 32,828, of which 22,134 were within the United States. The number of employees on the payroll at the close of the year totalled 34,976, of which 24,650 were within the United States.

NUMBER OF SHAREHOLDERS

The number of registered shareholders appearing on the transfer books of the Company at December 31, 1935, was 110,229, as compared with 118,094 at the close of the prior year.

SILESIAN-AMERICAN CORPORATION

Principal production for the year of the subsidiaries of Silesian-American Corporation operating in Poland was 89,457,039 pounds of zinc, 28,185,811 pounds of lead, 1,693,956 metric tons of coal, 42,453 metric tons of sulphuric acid, and 9,518 metric tons of superphosphate.

Although the currency of Poland has continued on a Gold basis, the products of the subsidiaries of Silesian-American Corporation are sold in the World markets on the basis of the Pound Sterling, which adversely affects such subsidiaries. At current exchange rates the average price of zinc for the year on the London market was equivalent to 3.10¢ per pound, and at December 31, 1935, was equivalent to 3.20¢ per pound.

The principal amount of bonds of Silesian-American Corporation outstanding at the end of the year was $6,230,000, a reduction of $818,000 during 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 subsidiary companies at the close of business December 31, 1935, together with a Consolidated Income Account and a Consolidated Surplus Account for the year, certified to by Messrs. Pogson, Peloubet & Company, Certified Public Accountants.

By Order of the Board of Directors.

CORNELIUS F. KELLEY,
President.

New York, N. Y., March 21, 1936.

ANACONDA COPPER MINING COMPANY

and Subsidiary Companies

Consolidated Balance Sheet—December 31st, 1935

ASSETS

FIXED ASSETS:			
Mines and mining claims, water rights and lands for metal producing and manufacturing plants—see note G		$290,925,572.17	
Coal mines, timber lands, phosphate deposits and clay lands—see note G	$ 9,629,328.09		
Less reserve for depletion	1,970,911.90	7,658,416.19	
Buildings and machinery at mines, reduction works, refineries, manufacturing plants, sawmills, foundries, waterworks, steamships and railroads (including railroad concessions to the extent of $988,719.83)—see note G	$285,398,333.24		
Less reserve for depreciation	136,497,350.68	148,900,982.56	
Patents		6,105.00	
Investments:			
Securities of subsidiaries not consolidated—see notes C and F	$ 15,444,559.89		
Other security investments—see note F	13,525,853.01		
Indebtedness of subsidiaries not consolidated—not current	744,129.03	29,714,541.93	$477,206,617.85
DEFERRED CHARGES:			
Stripping and development		$ 7,729,643.81	
Prepaid expenses		267,047.20	
Deferred expenses		408,131.98	
Discount and expense on bonds		5,064,495.66	13,469,318.65
CURRENT AND OTHER ASSETS:			
Current assets:			
Supplies on hand—see note E	$ 12,289,332.82		
Metals and manufactured products:			
In process—see note D	5,549,924.97		
Finished—see note D	30,684,213.20		
Accounts and notes receivable—trade, less reserve	8,489,376.26		
Indebtedness of subsidiaries not consolidated—current	296,352.07		
Marketable securities—at cost (market value $816,699.28)	1,410,008.19		
Cash	17,869,122.46	76,588,329.97	
Other assets:			
Installment house and land sales and other accounts receivable, less reserve	$ 1,049,697.31		
Advances to sundry mining companies, including advances on ores, less reserve	290,076.33		
Ores produced during development period not being currently treated during period of curtailed operations—see note H	1,390,647.92		
Cupriferous material held for future treatment—see note I	3,336,346.76		
Notes receivable of Inspiration Consolidated Copper Co. and interest accrued thereon secured by First Mortgage Bonds of that company in the principal amount of $7,643,000 (being total amount of said bonds issued)	8,200,873.08	14,267,641.40	90,855,971.37
			$581,531,907.87

See explanatory notes, pages 13 and 14.

ANACONDA COPPER MINING COMPANY
and Subsidiary Companies
Consolidated Balance Sheet—December 31st, 1935

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 subsidiary companies owned by minority interest			4,667,464.73
BONDS OUTSTANDING:			
Anaconda Copper Mining Company 4½% Sinking Fund Debentures due 1950—see note J		$55,000,000.00	
Chile Copper Co. Twenty-year 5% Gold Debentures due 1947—see note J		26,574,000.00	
Butte, Anaconda & Pacific Railway Co. First Mortgage 5% Sinking Fund Gold Bonds, due 1944 (guaranteed as to both principal and interest by Anaconda Copper Mining Company)—see note J	$1,588,000.00		
Less held in treasury	85,000.00	1,503,000.00	83,077,000.00
RESERVES:			
For repairs, renewals and replacements		$ 390,800.63	
For workmen's compensation insurance, etc.		532,391.29	
For contingencies		275,000.00	
For deferred payment under power contract in connection with curtailment of operations		450,000.00	1,648,191.92
CURRENT LIABILITIES:			
Accounts payable—trade		$ 5,008,913.46	
Wages payable		720,720.89	
Accrued taxes		2,590,877.79	
Accrued interest		1,323,745.86	
Other accrued liabilities		193,597.89	
Other accounts payable		178,354.29	10,016,210.18
DEFERRED CREDITS TO INCOME			242,490.20
SURPLUS			48,163,650.84
			$581,531,907.87

See explanatory notes, pages 13 and 14.

ANACONDA COPPER MINING COMPANY
and Subsidiary Companies

Consolidated Income Account—Year Ended December 31st, 1935

Gross Sales and Earnings		$127,678,576.68
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 current cost		100,266,618.82
Income from operations of mining, smelting, refining and manufacturing plants		$ 27,411,957.86
Other Income—Interest and dividends—see note E	$ 634,144.83	
—Miscellaneous income	248,724.29	
—Profit on sale of capital assets	128,497.76	1,011,366.88
Total Income		$ 28,423,324.74
Interest on bonds and current obligations	$ 4,044,434.87	
Expenses pertaining to non-operating units	2,403,935.88	
United States and Foreign Income Taxes—estimated	1,957,992.16	
Loss on bonds retired	47,045.11	8,453,408.02
		$ 19,969,916.72
Provision for depreciation and obsolescence	$ 8,319,457.67	
Provision for depletion of coal mines, timber lands, phosphate deposits and clay lands (without deduction for depletion of metal mines)	70,558.12	
Discount and expense on bonds	266,173.96	8,656,189.75
Net Income without deduction for depletion of metal mines		$ 11,313,726.97
Minority share of income		133,639.52
Consolidated Net Income		$ 11,180,087.45

See explanatory notes, page 14.

Consolidated Surplus Account—Year Ended December 31st, 1935

Surplus, December 31st, 1934	$37,248,060.14	
Minority Interest (deficit)	4,003.44	37,252,063.58
Consolidated Net Income, without deduction for depletion of metal mines		11,180,087.45
		$ 48,432,151.03
Deduct:		
Additional Federal income taxes for years 1926, 1928 and 1929, less refund, and interest accrued thereon	$ 496,196.63	
Patent rights and expenses in connection therewith of a wholly owned subsidiary written off on dissolution of company	97,736.68	
	$ 593,933.31	
Less adjustment of reserve for deferred payment under power contract	325,433.12	268,500.19
Surplus, December 31st, 1935	$48,235,924.09	
Minority Interest (surplus)	72,273.25	
Consolidated Surplus, December 31st, 1935		$ 48,163,650.84

NOTES TO CONSOLIDATED BALANCE SHEET—DECEMBER 31st, 1935

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, 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—BALANCES IN FOREIGN CURRENCIES

Cash balances in foreign currencies (equivalent to $366,665.69 in United States currency) are converted into dollars at rates not more favorable than those effective at December 31st, 1935. Current assets and liabilities at the Toronto plant of Anaconda-American Brass, Ltd. are carried in Canadian currency and have been converted into U. S. dollars at rates not in excess of rates current at December 31st, 1935.

Contingent liabilities existed at December 31st, 1935 for acceptances covering foreign sales of copper discounted in the ordinary course of business at various banks, on the greater part of which payments have already been received, and for exchange commitments most of which have been liquidated.

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 decreased at December 31st, 1935, to the extent of $36,002.92, since the dates of acquisition as the result of profits, losses and distributions as shown by the books of said unconsolidated subsidiaries, but the cost thereof as shown in the Consolidated Balance Sheet has not been adjusted for such decrease.

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 treated as finished.

Inventory in process is calculated at "normal 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, 1935 (except silver and gold which are carried at market quotations or less), have been valued (a) as to that part of the inventory which was equal to the quantity on hand at December 31st, 1934, at the inventory price of December 31st, 1934, and (b) as to that part of the inventory which exceeds in quantity inventory on hand at December 31st, 1934 at production costs during the year ended December 31st, 1935. Inventory valuations determined in accordance with the foregoing method were below market prices for the various metals and products at December 31st, 1935.

See Note C to Consolidated Income Account.

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, the cost of such property to the consolidated group after deducting depreciation to date of transfer, and do not indicate current values. Other security investments include shares of Inspiration Consolidated Copper Company carried at $10,914,107.51.

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 subsidiaries (the accounts of which are included in this Consolidated Balance Sheet) are carried at the difference between (1) the investment basis for the respective subsidiary as set forth below, and (2) all net assets (other than property, plant and equipment) 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 the 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, where the same was acquired by the group for cash, or where the same was acquired by the consolidated group for stock of the Company, the par value of the stock of the Company, except as to properties of Andes Copper Mining Company and Santiago Mining Company acquired by said companies respectively for shares of their capital stock, which properties 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), amounting in the case of Andes Copper Mining Company to 1,000,000 shares and in the case of Santiago Mining Company to 70,566 shares. Of said stock of Andes Copper Mining Company issued for property 998,036 shares were acquired by the Company and subsidiaries at less than the original par value thereof and of said stock of Santiago Mining Company 65,431 shares were acquired (in 1930) by the Company at less than the original par value thereof. The 65,431 shares of Santiago Mining Company prior to their acquisition by the Company were carried in the consolidated financial statements as outstanding minority interest at par from the date when Santiago Mining Company was first included in such statements. Upon the acquisition of such shares by the Company in 1930 the difference of $1,319,565.66 between the par value thereof and the cost of such shares to the Company was transferred from minority interest to consolidated surplus. The total amount credited 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 any amount for depletion on account of metals mined in any of its published accounts, 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, clay 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) In the Consolidated Balance Sheets of the Company and its subsidiaries heretofore published, the depreciation reserve, shown on the books of The American Brass Company and certain other subsidiaries as of the dates the stocks of those companies were acquired by the Company was deducted in stating the plant and equipment account of those companies in the Consolidated Balance Sheet and was not included in depreciation reserve on the Consolidated Balance Sheet. The foregoing Consolidated Balance Sheet includes such accumulation in the depreciation reserve. This change does not affect the net amount at which such fixed assets are carried, nor does it affect consolidated surplus, or any item other than the separate items of plant and equipment and depreciation reserve.

Certain transfers between the accounts "Mines and Mining Claims", "Plant and Equipment," and "Reserve for Depreciation" have been given effect to in this Consolidated Balance Sheet. They consist entirely of transfers between these three accounts and do not affect the net amount at which Property, Plant and Equipment are carried nor do they affect the consolidated surplus or any item other than fixed assets and depreciation reserve.

(e) 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 PRODUCED DURING DEVELOPMENT PERIOD

Ores produced during development period not being currently treated are carried at cost of extraction which is less than a conservatively estimated realizable value.

NOTE I—CUPRIFEROUS MATERIAL

Cupriferous material held for future treatment is valued at United States Treasury Department valuation for income tax purposes, which is approximately 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 J—SINKING FUND REQUIREMENTS

Under the sinking fund provisions of the indenture covering the $55,000,000 4½% Sinking Fund Debentures of Anaconda Copper Mining Company, the Company will be obligated on August 15th, 1936 and on August 15th of each year thereafter, to and including August 15th, 1949, to pay to the Trustee, 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 debentures to be received by the Trustee in lieu of an amount of cash equal to the purchase price of such debentures paid by the Company in the acquisition thereof.

The sinking fund provision of the indenture providing for the issue of Chile Copper Co. 5% Debentures requires the redemption or cancellation of debentures annually and in 1936 such requirements call for redemption or cancellation of $1,967,000 principal amount of debentures against which $1,460,000 had been deposited with the Trustee prior to December 31st, 1935.

Under the sinking fund provision of the indenture providing for the issue of First Mortgage 5% Sinking Fund Bonds of Butte, Anaconda & Pacific Railway Co. the annual cash sinking fund payments for 1936 will amount to $102,000.

NOTE K—SURPLUS

Included in Consolidated Surplus are: (a) A credit of $21,909,539.72 arising from inclusion in Consolidated Balance Sheet of assets and liabilities of Andes Copper Mining Company at the amounts shown on its books (see Note G), (b) a credit of $1,519,565.66 arising from acquisition in 1930 of minority shares in Santiago Mining Company issued for property and carried at their par value, said amount representing the excess of par value over acquisition cost, (c) a credit of $20,816,158.49, being the excess of the proceeds of the issue of 3,109,598.54 shares of stock of Company over the par value thereof and (d) 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.

NOTES TO CONSOLIDATED INCOME ACCOUNT—YEAR ENDED DECEMBER 31st, 1935

NOTE A—BASIS

Basis is same as set forth in Note A to Consolidated Balance Sheet. The equity of the Company in the income of four small subsidiaries more than 75% owned the operations of which are not an integral part of the operations of the consolidated group, amounted for the year ended December 31st, 1935 to $124,916.20.

NOTE B—INTER-COMPANY SALES AND PROFITS

Sales to consolidated subsidiaries have been eliminated and the sales shown in the Consolidated Income Account include only sales to others than the Company and consolidated subsidiaries.

Inter-company profits, where these are material, have been eliminated in the Consolidated Income Account. The principal inter-company transactions are sales of copper and other metals to manufacturing subsidiaries. The inventories of manufacturing subsidiaries include so far as is ascertainable, no inter-company profit.

Any inter-company profits resulting from transactions in connection with purchases and sales of supplies and furnishing of services and in connection with refining and smelting operations are not material in amount and have not been eliminated.

NOTE C—COST OF SALES

The general practice of inventory valuation followed in the year ended December 31st, 1935 was as follows:

In ascertaining consolidated income during the year 1935, the Consolidated Income Account was stated on the basis of last-in first-out, that is, applying current cost of metal production to sales to the extent of current production and sales in excess of current production were carried in the Consolidated Income Account at the inventory cost, such cost being the same as the inventory cost used for Balance Sheet purposes.

NOTE D—DIVIDENDS AND EARNINGS OF PRINCIPAL UNCONSOLIDATED SUBSIDIARIES

No dividends were paid to the Company by any unconsolidated subsidiary during the year 1935. The amount of the Company's proportion of the combined net current earnings 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 amounted to $761,742.73.

NOTE E—INTEREST—INSPIRATION CONSOLIDATED COPPER COMPANY

There is included in Interest and Dividends interest on notes of Inspiration Consolidated Copper Company, in the amount of $438,085.00 for the year ended December 31st, 1935.

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To the Board of Directors,

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

We have made an examination of the Consolidated Balance Sheet as of December 31st, 1935, of Anaconda Copper Mining Company and of 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 of their Consolidated Income and Surplus Accounts for the calendar year 1935.

In connection with our audit we examined or tested the accounting records of Anaconda Copper Mining Company and its consolidated subsidiaries together with other supporting evidence and made a general review of the accounting methods and of the operating and income accounts for the calendar year 1935, but we did not make a detailed audit of the transactions.

The practice of the Company and its subsidiaries with respect to the computation of their net income or net loss without deduction for depletion of metal mines is, in our opinion, in accordance with accepted principles of accounting in industries engaged in the mining of copper, gold, lead, silver and zinc.

In our opinion, based on our examination, such Balance Sheet, Income and Surplus Accounts, together with the notes attached thereto or appearing thereon, fairly present, in accordance with accepted principles of accounting in the industries in which the Company and its subsidiaries operate, consistently maintained by the Company and its subsidiaries, the consolidated position of the Company and its consolidated subsidiaries as of December 31st, 1935 and the combined results of their operations for the calendar year 1935.

POGSON, PELOUBET & CO.,
Certified Public Accountants.

New York, March 12th, 1936.