PRESIDENT'S ANNUAL REPORT

TO

STOCKHOLDERS

OF THE

ST. JOSEPH LEAD COMPANY

FOR THE YEAR

1946

Proxies For The Annual Meeting

A Proxy Statement and form of proxy, with notice of the Annual Meeting of Stockholders to be held May 12, 1947, will be mailed on or about April 2, 1947, at which time proxies for use at the meeting will be requested.

ST. JOSEPH LEAD COMPANY

Incorporated March 25, 1864, under the Laws of the State of New York

Executive Offices, 250 Park Avenue, New York 17, N. Y.

EXECUTIVE OFFICERS

CLINTON H. CRANE,
President

ANDREW FLETCHER,
Executive Vice-President

IRWIN H. CORNELL,
Vice-Pres. and Sales Manager

C. MERRILL CHAPIN, JR.,
Vice-President

EDWARD V. PETERS,
Vice-President

FRANCIS CAMERON,
Vice-President

GEORGE I. BRIGDEN,
Treasurer

ROBERT BENNETT,
Secretary

CHARLES FLEIG,
Asst. Treas. and Asst. Secy.

JAMES G. COLVIN,
Asst. Treas. and Asst. Secy.

STOCK TRANSFER OFFICE
250 Park Avenue
New York 17, N. Y.

REGISTRAR
City Bank Farmers Trust Company
New York 5, N. Y.

ST. JOSEPH LEAD COMPANY

PRESIDENT'S ANNUAL REPORT TO STOCKHOLDERS

On November 11, 1946 by Presidential proclamation, all price controls on metals were terminated, and a free market was completely restored before the end of the year. Metal prices reacted immediately, and the lead price was increased to 10.50 on that day from the OPA ceiling of 8.25 cents per pound at New York. At the close of the year the price was 12.50 cents and successive advances have resulted in a price of 15.00 cents on March 3, 1947. Under the Premium Price Plan, your Company received in 1946 an average price of 9.3 cents per pound f.o.b. smelter for its lead production. No subsidy payments were received after November 11, 1946. The zinc price increased from the OPA ceiling of 9.25 cents per pound St. Louis to 10.50 on November 12, 1946, and has remained at this figure. With the exception of the Kansas Explorations operations in the Tri-State area, no premium payments were received on the Company's zinc production, and the average 1946 price was approximately 9 cents per pound f.o.b. Josephtown.

It is difficult to foretell what metal prices will prevail under the restored free markets, as conditions outside of the United States, such as exchange controls, general economic conditions, and foreign governmental purchasing and sale procedures, have a direct influence on our metal markets. It is felt, however, that in 1947 there will be available for the United States lead requirements approximately 200,000 tons more than the 832,000 tons of available supply in 1946, which was composed of about 332,000 tons of domestic mine production, 360,000 tons of secondary lead production and 140,000 tons of imported lead in the form of both ore and metal. The actual 1946 consumption was, however, at the rate of approximately 900.000 tons, as consumers' inventories decreased about 70,000 tons during the year.

Your Company believes that a continuation of high metal prices will result in a lower ultimate demand due to substitution, where possible, of lower cost competitive commodities, and at the same time, high prices will tend to increase production. The underlying reason for the present necessity of importing both lead and zinc is because mining development programs were curtailed during the low price period of the early 1930's, and the mines were operated during the war years at maximum production without regard for necessary exploration work. The stockholders have been previously advised that your Southeast Missouri lead properties have been operated beyond their economic limits, and hence it will be necessary to continue the five-day production week, instead of six days, until additional ore reserves have been developed. From an overall Company point of view, it should be realized that the Company's investments and earning power outside of Missouri have been developed to the extent that they are now approximately equal to those in Missouri. Your management feels that under the stimulant of free enterprise, sufficient metals will be found to supply at least the essential needs of our country, and that the wartime technical developments will aid in the finding of hidden ore resources which do not outcrop. In any study of the ore resources of our country or of the world, it should be realized that ore can only be considered as a reserve if it can be mined at a profit, and therefore in any ore reserve approximations, full consideration must be given to probable future world selling prices, transportation and production costs. Your Company will continue to energetically search for reserves both inside and outside of the United States.

FINANCIAL INFORMATION

The Consolidated Net Income for the year 1946 was $5,807,131.34 after deducting Federal and State income taxes in the amount of $1,923,372.78, which compares with a net for the previous year of $4,829,814.71 and taxes of $1,164,905.10. The net earnings were greater in 1946, primarily because in 1945 the depreciation provision of $1,871,209.83 included amortization of $1,225,915.61 of wartime facilities, in comparison with depreciation of $451,421.27 for 1946. In 1945, there was also a provision of $483,000.00 for deferred prospecting, development and exploration, and a similar provision was not required in 1946.

The Comparative Consolidated Earnings, which do not include the separately shown earnings of Compania Minera Aguilar, S. A., for the ten year period ended December 31, 1946 are listed below:

Year	Income after Interest but before Other Deductions	Provision for— †Depreciation	Provision for— Federal Income Taxes	Net Income before Depletion, Etc.	Provision* for Depletion, Etc.
1937	$10,035,885.12	$1,055,575.37	$1,329,491.03	$7,650,818.72	$522,873.57
1938	2,873,815.43	1,059,034.49	173,922.80	1,640,858.14	309,601.68
1939	7,586,972.10	1,058,924.04	672,485.97	5,855,562.09	562,654.53
1940	8,287,597.10	1,064,639.12	1,305,670.04	5,917,287.94	805,346.24
1941	9,070,705.65	994,436.94	2,740,699.45	5,335,569.26	442,114.08
1942	12,633,212.55	939,993.43	5,499,604.80	6,193,614.32	537,988.71
1943	7,940,997.33	1,269,271.24	1,643,240.12	5,028,485.97	994,512.07
1944	9,020,627.47	1,150,143.72	2,221,526.42	5,648,957.33	495,601.93
1945	8,218,851.51	1,871,209.83	1,127,522.52	5,220,119.16	390,304.45
1946	8,476,388.12	451,421.27	1,880,824.75	6,144,142.10	337,010.76

* Includes abandoned leases and provision for obsolescence of the Doe Run Mill for the year 1937; also the abandonment of Block "P" property in 1943.

† Includes amortization of war facilities, $257,576.14 in 1943; $392,938.00 in 1944 and $1,225,915.61 in 1945.

The Consolidated Balance Sheets as of December 31, 1946 and December 31, 1945, for St. Joseph Lead Company and Domestic Subsidiaries, and the Summaries of Consolidated Net Income and Earned Surplus for the years ended on those dates are submitted as part of this report. All subsidiaries of the St. Joseph Lead Company are included in these statements, with the exception of Compania Minera Aguilar, S. A., an Argentine corporation, which statements are shown separately.

Capital expenditures by St. Joseph Lead Company and consolidated subsidiaries for improvements and additions to plant and equipment, amounted to $810,214.17 in 1946, in comparison with $210,867.76 in 1945.

In the audit of the books by Messrs. Haskins & Sells, verification of inventories was again made by physical tests of the quantities shown by the records as being on hand.

"PORTAL-TO-PORTAL" CASES

Suits totaling $17,280,000.00 for the Southeast Missouri Divisions, $1,350,000.00 for Edwards and Balmat and $2,304,000.00 for Kansas Explorations, have been filed. With the exception of legal and auditing expense, which is required for defending these suits, it is believed that the Company's financial liability in these cases is negligible.

OPERATING INFORMATION

Southeast Missouri

Operations were reduced from six days to five days per week on April 28, 1946, and in line with the general wage pattern set by our Government, an increase of 18.5 cents per hour and certain salary adjustments were granted. On October 23, 1946, the no-strike thirty-year record of the Company was broken when the local union refused to arbitrate a dispute between a foreman and an underground employee. With the assistance of the United States Conciliation Service, the arbitration procedure, as called for in the contract, was followed, and operations were resumed after a loss of seven working days. Satisfactory labor relations have again been restored. Operating efficiency, which had suffered under wartime conditions and provisions of the Premium Price Plan, has shown a gradual improvement in recent months. When free market conditions were established and lead prices advanced substantially, wages were increased 12 percent and salaries were adjusted effective November 11, 1946. In 1946, the tons of ore mined amounted to 4,887,143, in comparison with 5,939,842 in the previous year, the tons of lead concentrates produced were 166,556 with a pig lead equivalent of 113,344, in comparison with 219,241 and 146,395 respectively for 1945.

The reconstruction of the Herculaneum zinc furnace was completed by the year's end, but resumption of slag smelting was postponed until the latter part of March, 1947, due to the shortage of power and natural gas during the winter months in the St. Louis area.

Josephtown

In order to meet more satisfactorily the market requirements for zinc products of the Josephtown Smelter, and to relieve the present overloaded conditions existent in some divisions of the plant, it was decided to increase the plant capacity from approximately 300 tons of concentrates per day to 500 tons. This will enable your Company to take full advantage of the electro-thermic zinc smelting method developed by your Company, and also make possible further improvements in the quality of high grade oxides that will be necessary to meet postwar competitive conditions. The additional capital expenditure is estimated at $4,500,000.00, of which approximately $700,000.00 was capitalized in 1946. It is expected that the increased output of metal, oxide and sulphuric acid will be available in the fourth quarter of 1947. Wages were increased by approximately 7% on October 1, 1946 and the employees' earnings under the Josephtown incentive plan, amounted to about 4% of the 1946 wage earnings. Operations were seriously affected on three occasions by labor disputes of the Duquesne Power Company. The slab zinc equivalent of smelter production, including production from purchased concentrates and dross, amounted to 50,874 tons in 1946, in comparison with 53,073 tons in 1945.

Balmat and Edwards

The former manpower shortage at the Balmat and Edwards Division has been substantially reduced with the result that the production of zinc concentrates amounted to 59,039 tons, in comparison with 45,741 for the previous year. The year's progress in development work, shaft sinking and installation of the new primary crushing plant has been most satisfactory.

Joplin Area

Operations of Kansas Explorations, Inc., a 100% owned subsidiary, were continued throughout the year under the high subsidy payments of the Premium Price Plan. The operating efficiency as measured in tons of ore per man shift was most gratifying, but the grade of available ore is so low that unless Congress continues to subsidize marginal mines, these small properties will probably be closed on June 30, 1947, when the Premium Price Plan terminates. Therefore these mines should be considered as of little, or no value. During the year 6,949 tons of zinc concentrates and 2,047 tons of lead concentrates were produced in comparison with 7,348 and 1,977 respectively in 1945.

Exploration

Your Company is continuing diamond drilling in Washington County, Missouri, and areas adjoining its other United States operating properties. Participation with Newmont Mining Corporation in an exploration campaign in French Morocco, has been arranged. An examination was made of a property in Greece, but the report did not justify the Company in exercising its option. Exploration work in the vicinity of Aguilar is being energetically pursued, as well as in certain other areas outside of the United States.

Lead Sales and Stocks at the End of the Year in Tons for the Ten-Year Period

Year	Lead Sales St. Joe Production	Purchased Lead Sold	Total Lead Sales	*Pig Lead Equivalent of Stocks
1937	160,091	38,930	199,021	72,969
1938	97,865	50,782	148,647	79,775
1939	172,481	39,347	211,828	46,173
1940	178,111	60,199	238,310	30,737
1941	155,475	60,241	215,716	20,767
1942	178,561	67,152	245,713	15,896
1943	157,659	45,242	202,901	23,716
1944	155,806	46,799	202,605	16,683
1945	139,934	48,483	188,417	25,824
1946	131,664	33,872	165,536	10,048

* Includes purchased lead and estimated recoverable lead in concentrates together with other lead stocks in process of refining at smelters.

DIVIDENDS

Quarterly dividends of fifty cents per share were paid on the ninth day of March and on the tenth day of June, September and December, 1946, making a total of two dollars per share for the year. These dividend distributions aggregating $3,950,912.00, were paid entirely out of the surplus earnings of the Company accumulated after February 28, 1913 and are, therefore, subject to Federal income taxes.

The following is a record of dividends for the years 1937 through 1946:

Year	Amount	Per Share	Year	Amount	Per Share
1937	$4,889,198.50	$2.50	1942	$3,911,360.00	$2.00
1938	1,955,680.00	1.00	1943	3,911,360.00	2.00
1939	3,911,360.00	2.00	1944	3,950,912.00	2.00
1940	4,400,280.00	2.25	1945	3,950,912.00	2.00
1941	3,911,360.00	2.00	1946	3,950,912.00	2.00

STOCKHOLDERS

The number of stockholders of record on December 31st of each year since 1936 and a classification of their holdings are as follows:

Year	Total	19 or Less	20-99	100-199	200-Over
1937	5,992	1,571	2,038	1,139	1,244
1938	6,463	1,719	2,213	1,227	1,304
1939	6,586	1,695	2,260	1,337	1,294
1940	6,697	1,772	2,263	1,371	1,291
1941	6,858	1,751	2,393	1,417	1,297
1942	7,065	1,697	2,547	1,528	1,293
1943	7,530	1,848	2,758	1,634	1,290
1944	7,432	1,812	2,797	1,586	1,237
1945	7,434	1,756	2,772	1,639	1,267
1946	7,581	1,778	2,865	1,641	1,297

PROXIES FOR THE ANNUAL MEETING

A Proxy Statement and form of proxy, with notice of the Annual Meeting of Stockholders to be held May 12, 1947, will be mailed on or about April 2, 1947, at which time proxies for use at the meeting will be requested.

COMPANIA MINERA AGUILAR, S. A.

The net income for the year 1946 after depreciation but before depletion, Argentine taxes, and a reserve of $98,511.25 for compensation payable to employees under Argentine Social Laws, was $1,071,203.34, in comparison with $919,512.80 for 1945. The net income after all charges was $29,099.53, in comparison with $29,113.07 for the previous year.

The Comparative Earnings for the ten-year period ended December 31, 1946 are as follows:

Year	Income After Interest but before Other Deductions	Provision for— Depreciation	†Argentine Income Taxes	Net Income before Depletion, Etc.	Provision for Depletion— On Cost	On Appreciation
1937	$ 998,294.21	$130,214.52	$ 25,458.01	$ 842,621.68	$ 63,407.60	$ 579,914.66
1938	807,923.50	149,105.03	21,954.42	636,864.05	73,477.08	671,733.70
1939	930,981.17	175,793.81	39,642.36	715,545.00	100,082.61	915,337.33
1940	867,790.12	193,667.52	35,125.21	638,997.39	121,188.16	1,108,320.38
1941	938,733.60	207,305.29	33,181.40	698,246.91	127,786.09	1,168,708.13
1942	809,173.70	216,780.14	28,225.49	564,168.07	80,718.97	738,240.88
1943	1,615,227.31	208,628.83	271,233.57	1,135,364.91	76,739.33	697,442.49
1944	1,189,937.85	202,825.17	113,043.48	874,069.20	82,025.88	745,489.12
1945	1,119,110.98	199,598.18	164,052.66	755,460.14	71,997.80	654,349.27
1946	1,180,941.42	208,249.33	195,507.84	777,184.25	74,152.51	673,932.21

† Paid under protest and a claim for refund filed wherein depletion is based on the 1935 appreciated value of the proven ore reserves instead of on cost thereof.

At the Aguilar Mine expenditures, amounting to $178,398.66 were capitalized in 1946, in comparison with $165,330.84 in the previous year.

During 1946, the mine was again operated on approximately a 60% capacity basis. The severe shortage of railroad equipment prevented shipment of adequate fuel oil, mine timber and miscellaneous supplies to Aguilar, and the movement of concentrates from Tres Cruces. The railroad handled 43,745 wet metric tons of concentrates, and if the mine operated at full capacity, approximately 100,000 metric tons would be available for shipment. The Argentine Government has recently placed large orders for cars and locomotives, and it is hoped that additional rail facilities will be available for Aguilar.

The following statement shows the production, sales and unsold stocks for the ten-year period:

Year	Lead Concentrates (in metric tons) Production	Sales	Stocks at End of Year	Zinc Concentrates (in metric tons) Production	Sales	Stocks at End of Year
1937	19,709	19,782	985	12,116	6,250	8,138
1938	29,704	28,816	1,873	29,478	4,467	33,149
1939	36,728	33,307	5,294	42,250	26,179	49,220
1940	36,866	*35,778	6,382	65,112	36,182	78,150
1941	27,867	31,193	3,056	65,939	116,021	28,068
1942	33,832	23,093	13,795	55,121	17,922	65,267
1943	21,584	23,309	12,070	38,283	83,420	20,130
1944	23,237	18,156	17,151	38,512	38,556	20,086
1945	22,022	29,062	**5,850	25,862	4,090	**28,263
1946	22,031	23,968	3,913	29,601	19,993	37,871

* Does not include 5,000 metric tons of lead concentrates sold for post war delivery.
** After inventory adjustment.

Aguilar has signed an agreement with the St. Joseph Lead Company for the use of its zinc metal and oxide patents in Argentina. Shipments of equipment have commenced for the new sulphuric acid plant at Borghi, in which Aguilar will have a fifty percent ownership. It is expected that this plant will be in production during the early months of 1948, and that the total cost will approximate $3,000,000. The design for the zinc smelter at Comodoro Rivadavia has been completed, most of the equipment ordered, and a contract signed for the purchasing and reconditioning of an LST vessel for operation between Borghi and Comodoro Rivadavia. The estimated cost of the smelter and vessel is $1,500,000, in which Aguilar will have a three-eighths ownership. Aguilar declared no dividend in 1946, as it was felt desirable to have sufficient cash resources to pay its portion of the costs of the investment in these affiliates.

The Consolidated Balance Sheets as of December 31, 1946 and December 31, 1945 of Compania Minera Aguilar, S. A., and the Summaries of Consolidated Net Income and Unappropriated Earned Surplus for the years ended on those dates are submitted as part of this report.

The President wishes to take this opportunity to express his appreciation for the loyalty and cooperation of the employees and for the continued support of the stockholders.

New York, March 15, 1947.

CLINTON H. CRANE,
President.

ST. JOSEPH LEAD COMPANY AND DOMESTIC SUBSIDIARIES

Summaries of Consolidated Net Income
For the Years Ended December 31, 1946 and 1945

	Year ended December 31, 1946		1945	
Net Sales		$49,494,514.84		$47,679,228.51
Cost of Sales (exclusive of depreciation and depletion)		40,683,671.37		38,718,788.90
Gross Profit from Operations before Depreciation and Depletion		$ 8,810,843.47		$ 8,960,439.61
Deduct:				
Selling, general and administrative expenses	$ 843,776.72		$ 789,816.72	
Capital stock and miscellaneous taxes	9,040.78	852,817.50	51,630.56	841,447.28
Net Profit from Operations before Depreciation and Depletion		$ 7,958,025.97		$ 8,118,992.33
Other Income:				
Dividends on The New Jersey Zinc Company stock (Note 1)	$ 326,391.00		$ 585,000.00	
Other dividends, interest, etc., less charges, including in 1945 reduction in carrying value of Compania Minera Aguilar, S. A., $11,290.62—see Note 2	234,519.18	560,910.18	35,241.76	620,241.76
		$ 8,518,936.15		$ 8,739,234.09
Deduct Provisions for:				
Depreciation (including amortization of war facilities in 1945, $1,225,915.61)	$ 451,421.27		$1,871,209.83	
Depletion	337,010.76		390,304.45	
Deferred prospecting, development and exploration—see Note 3	—	788,432.03	483,000.00	2,744,514.28
		$ 7,730,504.12		$ 5,994,719.81
Provision for Taxes on Income:				
Federal excess profits taxes	$ —		$ 45,447.31	
Federal normal income and surtax	1,880,824.75		1,777,254.90	
State income taxes	42,548.03		37,382.58	
Total Taxes on Income	$1,923,372.78		$1,860,084.79	
Less claims for Federal tax refunds	—	1,923,372.78	695,179.69	1,164,905.10
Net Income for the Year		$ 5,807,131.34		$ 4,829,814.71

Summaries of Consolidated Earned Surplus
For the Years Ended December 31, 1946 and 1945

	Year ended December 31, 1946	1945
Earned Surplus at Beginning of the Year	$15,554,520.32	$14,675,617.61
Add—Net Income for the Year	5,807,131.34	4,829,814.71
Total	$21,361,651.66	$19,505,432.32
Deduct—Cash Dividends paid during the Year	3,950,912.00	3,950,912.00
Earned Surplus at End of the Year	$17,410,739.66	$15,554,520.32

Notes:

(1) After deducting in 1946 the non-taxable portion of the 1945 and 1946 distributions amounting to $54,888.60 and $203,720.40 respectively, which have been credited to the investment account.

(2) See Note 2 to accompanying balance sheet.

(3) This provision was set up in 1945 to cover the management's estimate of the future cost of the prospecting, development and exploration that had to be postponed during the year 1945 by reason of the war emergency.

ST. JOSEPH LEAD COMPANY AND DOMESTIC SUBSIDIARIES

Consolidated Balance Sheets, December 31, 1946 and 1945

ASSETS

	December 31, 1946		December 31, 1945	
Current and Working Assets:				
Cash on hand and in banks	$ 7,305,977.01		$ 5,407,254.91	
U. S. Treasury certificates and notes (at cost)	8,000,000.00		7,230,000.00	
U. S. excess profits tax refund bonds	—		352,735.38	
Accounts receivable — trade (less reserve — 1946, $15,688.11; 1945, $16,234.02)	3,921,474.29		4,292,748.98	
Due from Compania Minera Aguilar, S. A.	—		32,850.19	
U. S. Government—claims for income tax refunds	642,320.02		695,179.69	
Other accounts receivable	256,478.70		112,256.43	
Inventories (valuation not in excess of market):				
Finished lead, zinc, etc. (at cost, exclusive of depreciation and depletion)	504,276.26		1,711,683.77	
Lead, zinc, etc., in process (at cost, exclusive of depreciation and depletion)	1,411,602.67		1,484,341.60	
Purchased lead and zinc concentrates, etc. (at cost)	658,723.83		307,590.85	
Materials and supplies (at cost, less reserve for slow-moving items — 1946, $98,878.40; 1945, $84,869.92)	3,800,501.37	$26,501,354.15	2,515,298.85	$24,141,940.65
Investments:				
Compania Minera Aguilar, S. A. (100% owned—not consolidated)—Note 2	$ 1.00		$ 1.00	
Mine La Motte Corporation (at cost—50% owned)	100,000.00		200,000.00	
The New Jersey Zinc Company (1946, at cost less non-taxable dividends; 1945, at cost)—9.9% owned	11,392,641.00		11,651,250.00	
Sundry securities, loans, etc. (at cost, less reserve, $200,000.00)	112,761.04	11,605,403.04	118,085.04	11,969,336.04
Capital Assets (Note 1):				
Ore reserves and mineral rights:				
Appraised value as of March 1, 1913	$13,500,000.00		$13,500,000.00	
Less reserve for depletion	13,500,000.00	—	13,500,000.00	—
Appreciation arising from revaluation subsequent to March 1, 1913	$ 3,500,000.00		$ 3,500,000.00	
Less reserve for depletion	3,500,000.00	—	3,500,000.00	—
Additions subsequent to March 1, 1913 (at cost)	$20,147,960.31		$20,140,543.91	
Less reserve for depletion	17,598,711.61	2,549,248.70	17,271,700.85	2,868,843.06
Shafts and underground equipment (at cost)	$ 4,673,069.35		$ 5,721,153.44	
Less reserve for depreciation	4,180,023.16	493,046.19	5,157,151.06	564,002.38
Land, buildings, plant and equipment (at cost)	$19,127,960.40		$18,492,897.79	
Less reserve for depreciation	15,648,660.02	3,479,300.38	15,325,665.41	3,167,232.38
Total capital assets, net		$ 6,521,595.27		$ 6,600,077.82
Miscellaneous Assets:				
U. S. Treasury, State and Municipal securities on deposit with Federal and State departments (at amortized cost; market quotation value — 1946, $212,144.00; 1945, $213,025.00)	$ 185,565.19		$ 178,784.64	
Cash in closed banks	1,193.46	186,758.65	2,460.13	181,244.77
Deferred Charges—Prepaid insurance, taxes, etc		100,860.68		72,899.62
Total		$44,915,971.79		$42,965,498.90

Notes:

(1) The net value of the capital assets as shown in the above consolidated balance sheets does not indicate the present value of the companies' property, plant and equipment, as such value could be arrived at only by current estimates which would vary from time to time depending on the price of metals, rate of production, cost of labor, and other factors.

(2) In December 1945 the Company sold to Compania Minera Aguilar, S. A., a part of the stock of that company (35,000 shares out of 500,000 shares outstanding) and credited net proceeds of sale, $687,175.00 to investment account. No profit was recorded and Compania Minera Aguilar, S. A. continued to be 100% owned. The transaction showed a taxable profit, however, and provision for approximately $147,000.00

ST. JOSEPH LEAD COMPANY AND DOMESTIC SUBSIDIARIES

Consolidated Balance Sheets, December 31, 1946 and 1945

LIABILITIES

	December 31, 1946		December 31, 1945	
Current Liabilities:				
Accounts payable	$ 3,033,080.80		$ 3,097,211.79	
Due to Compania Minera Aguilar, S. A.	3,860.05		—	
Wages payable	339,798.53		253,283.82	
Accrued taxes:				
Federal income and excess profits	1,921,490.12		1,929,347.79	
Other	212,993.27	$ 5,511,222.77	222,773.67	$ 5,502,617.07
Reserves:				
Injury claims and workmen's liability insurance	$ 235,679.95		$ 236,976.85	
Employees' life insurance and retirement	342,548.41		255,603.66	
Deferred prospecting, development and exploration	483,000.00		483,000.00	
Contingencies	800,000.00	1,861,228.36	800,000.00	1,775,580.51
Capital Stock and Surplus:				
Capital Stock:				
Authorized, 2,500,000 shares of $10.00 each	$25,000,000.00		$25,000,000.00	
Issued, 1,996,840.85 shares	$19,968,408.50		$19,968,408.50	
Less in treasury, 21,384.35 shares	213,843.50		213,843.50	
Outstanding, 1,975,456.5 shares		19,754,565.00		19,754,565.00
Surplus:				
Earned	$17,410,739.66		$15,554,520.32	
Capital—Excess of market value over par value of treasury capital stock issued for minority interest in a dissolved subsidiary	378,216.00	17,788,955.66	378,216.00	15,932,736.32
Total Capital Stock and Surplus		$37,543,520.66		$35,687,301.32
Total		$44,915,971.79		$42,965,498.90

Notes Continued:

of income tax thereon has been made. After crediting the proceeds of sale the then book value was reduced $11,290.62 to carry the investment at $1.00. Financial statements of Compania Minera Aguilar, S. A., appear on pages 9, 10 and 11.

(3) St. Joseph Lead Company and Compania Minera Aguilar, S. A. were contingently liable at December 31, 1946 to refund to customers the sales price, $354,421.24, of concentrates paid for by the customers and stored in Argentina, in the event any future Argentine law should prevent shipment thereof, and were similarly contingently liable at December 31, 1945 in the amount of $676,323.79. St. Joseph Lead Company was also contingently liable with respect to the liability of $233,900.00 appearing on the accompanying balance sheets of Compania Minera Aguilar, S. A.

(4) Suits have been filed against the Company and one subsidiary for so-called "portal to portal" wages. No provision has been made in the above balance sheets with respect to these suits.

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

1 EAST 44TH STREET
NEW YORK

ACCOUNTANTS' CERTIFICATE

To the Stockholders of St. Joseph Lead Company:

We have examined the consolidated balance sheet of St. Joseph Lead Company (incorporated in New York) and its wholly-owned domestic subsidiary companies, as of December 31, 1946 and the related summaries of consolidated net income and earned surplus for the year ended that date, have reviewed the accounting procedures of the companies, and have examined their accounting records and other evidence in support of such financial statements. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all auditing procedures we considered necessary, which procedures were applied by tests to the extent we deemed appropriate in view of the systems of internal control.

In our opinion, the accompanying consolidated balance sheet and summaries of consolidated net income and earned surplus, with the footnotes thereon, fairly present the financial condition of St. Joseph Lead Company and its wholly-owned domestic subsidiary companies, at December 31, 1946 and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles and practices applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

New York,
February 28, 1947.

Summaries of Net Income
For the Years Ended December 31, 1946 and 1945

	1946	1946	1945	1945
Net Sales		$ 2,762,039.70		$ 2,467,510.80
Cost of Sales (exclusive of depreciation and depletion)		1,320,756.46		1,236,884.79
Gross Profit from Operations before Depreciation and Depletion		$ 1,441,283.24		$ 1,230,626.01
Deduct:				
Selling, general and administrative expenses	$ 128,091.30		$ 138,684.26	
Taxes, other than taxes on income	44,755.43	172,846.73	34,776.04	173,460.30
Net Profit from Operations before Depreciation and Depletion		$ 1,268,436.51		$ 1,057,165.71
Other Income (net of charges—1946, $73,163.21; 1945, $32,855.91)		11,016.16		61,945.27
		$ 1,279,452.67		$ 1,119,110.98
Provision for:				
Depreciation	$ 208,249.33		$ 199,598.18	
Depletion computed on cost	74,152.51		71,997.80	
Depletion computed on appreciation of ore reserves	673,932.21		654,349.27	
Compensation payable to employees under Argentine social laws	98,511.25	1,054,845.30	——	925,945.25
		$ 224,607.37		$ 193,165.73
Provision for Argentine Income and Excess Profits Taxes—see Note 2 (including in 1945 $51,359.16 applicable to prior years)		195,507.84		164,052.66
Net Income for the Year		$ 29,099.53		$ 29,113.07

Summaries of Unappropriated Earned Surplus
For the Years Ended December 31, 1946 and 1945

	Year ended December 31, 1946	Year ended December 31, 1945
Surplus (*deficit) at Beginning of the Year	$* 466,410.31	$ 211,033.88
Add—Net Income for the Year	29,099.53	29,113.07
Total	$* 437,310.78	$ 240,146.95
Deduct:		
Earned surplus appropriated:		
For acquisition of capital stock held in treasury	$ ——	$ 690,931.52
To statutory reserve	582.26	15,625.74
Total	$ 582.26	$ 706,557.26
Surplus (*deficit) at End of the Year (after charging deficits aggregating $1,987,450.83 against capital surplus)	$* 437,893.04	$* 466,410.31

Notes:

(1) The results of operations are stated in the above summaries in U. S. dollars at the approximate average free rate of exchange for the year, except as to provisions for depreciation and depletion, which have been converted on the basis of the rates of exchange at which the balances in the related asset accounts are stated.

(2) Argentine income taxes are being paid under protest and claims for refund filed wherein depletion is based on the 1935 appreciated value of proven ore reserves instead of on cost thereof.

COMPANIA MINERA AGUILAR, S. A.

Balance Sheets, December 31, 1946 and 1945

ASSETS

	December 31, 1946		December 31, 1945	
Current and Working Assets:				
Cash on hand and in banks	$ 1,117,285.63		$ 1,072,906.97	
Argentine Government securities—at lower of cost or market quotation value	2,520,744.79		1,784,966.07	
Accounts receivable—trade	338,377.61		178,877.88	
Due from St. Joseph Lead Company	3,860.05		—	
Other accounts receivable, etc.	38,273.06		18,360.92	
Inventories:				
Lead and zinc concentrates (at cost exclusive of depreciation and depletion—valuation not in excess of market) and silver, at estimated value	445,713.74		497,945.22	
Materials and supplies (at cost)	888,195.44	$ 5,352,450.32	969,708.67	$ 4,522,765.73
Investments in Affiliates (Note 4):				
Capital stock subscriptions—part paid	$ 36,250.76		—	
Advances	60,541.39	96,792.15	—	—
Capital Assets (Note 1):				
Ore reserves and mineral rights:				
Cost, including exploration and development prior to the commencement of operations	$ 1,517,391.03		$ 1,517,391.03	
Less reserve for depletion	932,167.20	585,223.83	858,014.69	659,376.34
Appreciation arising from valuation in 1935	$13,790,750.50		$13,790,750.50	
Less reserve for depletion	8,509,069.48	5,281,681.02	7,835,137.27	5,955,613.23
Total ore reserves and mineral rights, net		$ 5,866,904.85		$ 6,614,989.57
Land, buildings, plant and equipment (at cost)	$ 3,017,705.54		$ 2,839,584.75	
Less reserve for depreciation	1,990,079.12	1,027,626.42	1,782,029.86	1,057,554.89
Total capital assets, net		$ 6,894,531.27		$ 7,672,544.46
Deferred Charges		10,621.19		40,903.16
Total		$12,354,394.93		$12,236,213.35

Notes:

(1) The net value of the capital assets as shown in the above balance sheets does not indicate the present value of the Company's property, plant and equipment, as such value could be arrived at only by current estimates which would vary from time to time depending on the price of metals, rate of production, cost of labor, and other factors.

(2) Current assets, current liabilities, deferred charges and reserves are stated in the above balance sheets in U. S. dollars at the closing quoted rate of exchange at December 31, 1946 and 1945, respectively (except in a few instances where original dollar values applicable to foreign transactions are used). Capital assets and related reserves and capital stock and capital surplus accounts reflect the approximate dollar equivalents at the rates prevailing at the dates of the transactions of which the balances in these accounts consist.

(3) Compania Minera Aguilar, S. A. and St. Joseph Lead Company were contingently liable at December 31, 1946, to refund to customers the sales price, $354,421.24, of concentrates paid for by the customers and stored in Argentina, in the event any future Argentine law should prevent shipment thereof, and were similarly contingently liable at December 31, 1945 in the amount of $676,323.79.

COMPANIA MINERA AGUILAR, S. A.

Balance Sheets, December 31, 1946 and 1945

LIABILITIES

	December 31, 1946		December 31, 1945	
Current Liabilities:				
Accounts payable—trade	$ 77,111.77		$ 93,360.52	
Due to St. Joseph Lead Company	—		32,850.19	
Wages payable	61,340.32		47,890.16	
Accrued Argentine income and other taxes	147,676.38		50,940.87	
Proceeds from sales of concentrates for future export	233,900.00		233,900.00	
Estimated expenses on concentrates held for future delivery	247,392.13		371,951.57	
Other accounts payable	51,481.80	$ 818,902.40	10,110.27	$ 841,003.58
Deferred Credits		19,987.88		6,459.70
Reserves:				
Employees' compensation under Argentine social laws	$ 98,511.25		$ —	
Accidents	52,838.63		52,774.69	
Other expenses	32,540.14	183,890.02	33,460.28	86,234.97
Capital Stock and Surplus:				
Capital Stock:				
Authorized and issued—500,000 shares of a nominal value of $80 Argentine paper each	$11,349,803.33		$11,349,803.33	
Less in treasury, 35,000 shares	690,931.52		690,931.52	
Outstanding, 465,000 shares		10,658,871.81		10,658,871.81
Surplus:				
Capital surplus arising from 1935 valuation of ore reserves (remainder after transfer of $13,387,254.16 to stated value of capital stock)		403,496.34		403,496.34
Appropriated earned surplus:				
For acquisition of capital stock held in treasury	$ 690,931.52		$ 690,931.52	
To statutory reserve	16,208.00		15,625.74	
Earned surplus (*deficit) (after charging deficits aggregating $1,987,450.83 against capital surplus arising from reduction in stated value of capital stock—Note 5)	*437,893.04	269,246.48	*466,410.31	240,146.95
Total Capital Stock and Surplus		$11,331,614.63		$11,302,515.10
Total		$12,354,394.93		$12,236,213.35

Notes Continued:

(4) Reference is made to the accompanying President's letter for a statement of the Company's proposed expenditures in connection with investments in affiliates.

(5) The net deficit since beginning operations, $1,718,204.35 (aggregate deficits transferred to capital surplus, $1,987,450.83, less surplus at December 31, 1946, $269,246.48) represents aggregate net profits of $6,790,865.13 (after deducting depletion computed on cost) against which has been charged depletion computed on appreciation, aggregating $8,509,069.48.

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

1 EAST 44TH STREET
NEW YORK

ACCOUNTANTS' CERTIFICATE

St. Joseph Lead Company:

We have examined the balance sheet of Compania Minera Aguilar, S. A. (incorporated and doing business in Argentina) as of December 31, 1946 and the related summaries of net income and unappropriated earned surplus for the year ended that date, have reviewed the accounting procedures of the Company, and have examined its accounting records and other evidence in support of such financial statements. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all auditing procedures we considered necessary, which procedures were applied by tests to the extent we deemed appropriate in view of the system of internal control.

It has been the consistent practice of the Company to record depletion of ore reserves and mineral rights on the basis of tons of ore mined as used in the Company's reports for tax and other purposes to the Argentine Government rather than on the more generally accepted basis of tons of products sold.

In our opinion, the accompanying balance sheet and summaries of net income and earned surplus, with the footnotes thereon, fairly present the financial condition of Compania Minera Aguilar, S. A. at December 31, 1946 and the results of its operations for the year ended that date, in conformity with generally accepted accounting principles and practices (except as described in the preceding paragraph) applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

New York,

February 28, 1947.

ST. JOSEPH LEAD COMPANY

PRESIDENT'S ANNUAL REPORT TO STOCKHOLDERS

FOR THE YEAR 1946