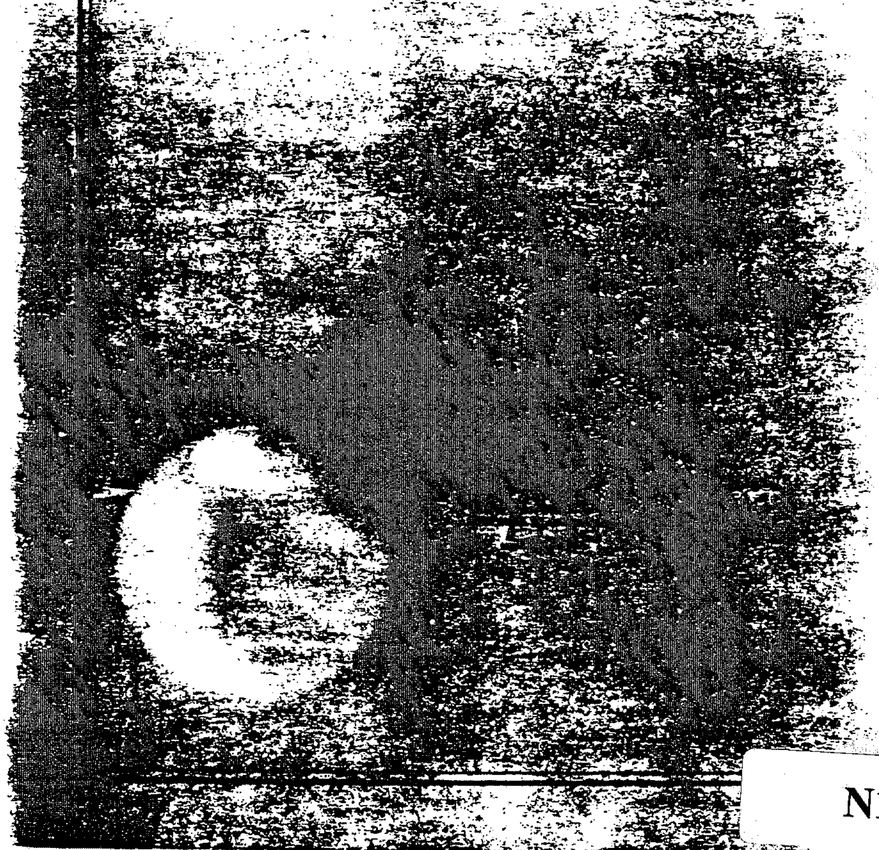
ANNUAL REPORT

ANACONDA COPPER MINING COMPANY

1940



ANACONDA COPPER MINING COMPANY

ANACONDA

THE AMERICAN BRASS COMPANY

LOCATION OF MANUFACTURING PLANTS

ANSONIA, CONN.; BUFFALO, N. Y.; DETROIT, MICH.; KENOSHA, WIS.; TORRINGTON, CONN.; WATERBURY, CONN.; NEW TORONTO, ONTARIO, CANADA

SOME OF THE INDUSTRIES SERVED

Air-Conditioning	Electrical Equipment	Machinery	Plumbing
Automotive	Hardware	Marine	Pulp and Paper
Aviation	Heating	Metal Fabricating	Railroad
Brewing	Jewelry	Mining	Refrigeration
Building	Light and Power	Petroleum	Textile
Chemical			Welding

PRINCIPAL PRODUCTS

COPPER, BRASS, BRONZE AND NICKEL SILVER—SHEETS, WIRE, RODS, TUBES

Ammunition Metal	Copper—Nickel Alloys	Free Cutting Brass Rods
Architectural Shapes	Copper Tubes and Fittings	Phosphor Bronze
Brass and Copper Pipe	Drawn Sections	Pressure Die Castings
Brazing Solder	Everdur Electrical Conduit	Hot Pressed Parts
Bronze Screen Wire	Everdur and Super-Nickel Tank Plates	Roofing Copper
Bus Bars and Shapes	Extruded Shapes	Tobin Bronze Shafting
Condenser Head Plates	Eyelets, Grommets, etc.	Turbine Blading
Condenser and Heater Tubes	Flexible Metal Hose and Tubing	Welding Rods

As copper alloys are essential for munitions, shipbuilding, aircraft and other National Defense activities, the Company has speeded up production of existing plants and arranged for increased facilities to meet the added demand.

Technical research is accomplishing worthwhile results, and members of the technical and engineering staffs are constantly cooperating with metal consuming industries in solving special problems and suggesting efficient fabricating procedure.

* * *

Warehouses and distributors of the Company are located in the principal industrial centers resulting in efficient service and economical distribution.

SALES OFFICES ARE LOCATED IN THE FOLLOWING CITIES

Atlanta, Ga.	Detroit, Mich.	Montreal, Canada	Rochester, N. Y.
Boston, Mass.	Houston, Texas	Newark, N. J.	St. Louis, Mo.
Buffalo, N. Y.	Kenosha, Wis.	New York, N. Y.	San Francisco, Calif.
Chicago, Ill.	Los Angeles, Calif.	Philadelphia, Pa.	Seattle, Wash.
Cincinnati, Ohio	Milwaukee, Wis.	Pittsburgh, Pa.	Syracuse, N. Y.
Cleveland, Ohio	Minneapolis, Minn.	Providence, R. I.	Toronto, Canada
Denver, Colo.			Washington, D. C.

General Offices: Waterbury, Connecticut

ANACONDA COPPER MINING COMPANY

PROXY STATEMENT

Annual Meeting of Stockholders

This Proxy Statement, which is being furnished pursuant to the proxy rules, known as Regulation X-14, as amended, issued by the Securities and Exchange Commission under the Securities Exchange Act of 1934, sets forth certain information with respect to the enclosed Proxy, which is solicited by the management of Anaconda Copper Mining Company (hereinafter referred to as the Company), and the matters to be voted upon pursuant thereto at the Annual Meeting of Stockholders of the Company, to be held April 17, 1940.

As set forth in the accompanying notice, the matters to be considered at the meeting are the election of three Directors of the Company and the transaction of such other business as may properly come before the meeting. The By-laws of the Company provide for a Board of nine Directors divided into three classes each consisting of three Directors, who are elected for a term of three years, the term of each class expiring in different years. At each annual meeting the successors to the class whose term of office expires in that year, are elected for a three year term.

The persons designated in the accompanying Proxy have been selected by the Board of Directors, and have indicated that they intend to vote for the election as Directors, of Messrs. E. Roland Harriman, Cornelius F. Kelley and Robert E. Dwyer, all of whom are now members of the Board of Directors.

Mr. E. Roland Harriman was the beneficial owner on January 31, 1940, of 1,945 shares of common stock of the Company. Mr. Harriman is directly or indirectly the beneficial owner of voting trust certificates representing more than 10% of the voting stock of Harriman Ripley & Co., Incorporated, (formerly Brown, Harriman & Co., Incorporated) one of the principal underwriters of the Company's 4½% Sinking Fund Debentures, due October 1, 1950 which were issued and sold in 1935. The Company is informed that as of January 31, 1940, none of its securities were owned beneficially or otherwise held by Harriman Ripley & Co., Incorporated. Mr. Harriman was originally elected a Director in 1937.

Mr. Cornelius F. Kelley, a Director and President of the Company, was the beneficial owner on January 31, 1940, of 16,309 shares of common stock of the Company. The aggregate amount of remuneration paid by the Company and its subsidiaries, directly or indirectly, to Mr. Kelley as a Director and officer of the Company and such subsidiaries during the fiscal year ended December 31, 1939, was $176,525. Mr. Kelley has been a Director since 1911.

PNYC 00010147

Mr. Robert E. Dwyer, a Director, Vice-President and Treasurer of the Company, was the beneficial owner on January 31, 1940, of 1,000 shares of its common stock, and $10,000 principal amount of its 4½% Sinking Fund Debentures. The aggregate amount of remuneration paid by the Company and its subsidiaries, directly or indirectly, to Mr. Dwyer as a Director and officer of the Company and such subsidiaries, during the fiscal year ended December 31, 1939, was $76,872. Mr. Dwyer has been a Director since 1933.

The aggregate amount of remuneration paid during the fiscal year ended December 31, 1939, by the Company and its subsidiaries and affiliated companies, directly or indirectly, to the Directors and officers of the Company considered as a group was $557,735.

The Company has no knowledge of any matters other than the election of Directors which will be presented at the meeting. The persons named in the proxy will use their own discretion in voting with respect to matters which are not determined or known at the time of this solicitation.

Any stockholder giving a Proxy in the form accompanying this Statement has the power to revoke the same.

The cost of preparing, assembling and mailing of the proxy statement, notice of meeting, form of proxy and accompanying documents will be paid by the Company. The Company will pay brokerage firms and other persons holding stock in their names or in the names of nominees for their expenses in distributing proxy material to the beneficial owners of such stock. All solicitation of proxies in the form accompanying this statement by or on behalf of the Company will be by mail, but the officials of the Company may personally solicit proxies from brokerage firms and a few of the larger stockholders, for the doing of which they will not receive any compensation in addition to their regular compensation.

By Order of the Board of Directors of

ANACONDA COPPER MINING COMPANY

CORNELIUS F. KELLEY,
President.

March 23, 1940.

ANACONDA COPPER MINING COMPANY

CAPITAL STOCK

December 31, 1940

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

OFFICERS

Chairman of the Board	CORNELIUS F. KELLEY
President	JAMES R. HOBBINS
Executive Vice-President	ROBERT E. DWYER
Vice-President	DANIEL M. KELLY
Assistant to the President	ELBERT O. SOWERWINE
Secretary and Treasurer	JAMES DICKSON
Comptroller	W. KENNETH DALY
Assistant Secretary	KENNETH B. FRAZER
Assistant Secretary and Assistant Treasurer	THOMAS E. CONRAD

DIRECTORS

JOHN A. COE
ROBERT E. DWYER
E. ROLAND HARRIMAN
JAMES R. HOBBINS
CORNELIUS F. KELLEY
HARRY H. MOORE*
WILLIAM C. POTTER
GORDON S. RENTSCHLER
WILLIAM D. THORNTON

*Resigned January 23, 1941.
Maurice Newton elected January 23, 1941.

OFFICES

ANACONDA, MONTANA
BUTTE, MONTANA
25 BROADWAY, NEW YORK

[redacted]

To the Shareholders of

ANACONDA COPPER MINING COMPANY

DUE to war conditions no reliable data of world production and consumption of copper in 1940 are available. However there is no doubt that the industry operated at a new high record, probably ten per cent. above that of 1939.

Domestic production of duty free copper was 992,293 tons, of which 77 76 tons were secondary. Primary production was 915,217 tons, an increase of 23% over 1939. Deliveries of primary copper amounted to 924,810 tons, a new high record, 28% above 1939 and 7.8% above 1929, the previous high. Exports of duty free copper were only 48,537 tons compared with 134,152 tons in 1939.

Domestic production exceeded consumption during the first seven months of 1940 and stocks increased from 159,485 tons on January 1st to 215,823 tons on July 31st. This trend was reversed during the last five months, stocks decreasing to 142,772 tons on December 31st, a net decrease for the year of 16,713 tons.

Consumption of primary copper in December, 1940, was at the annual rate of 1,286,848 tons. A steady increase in demand is anticipated during the period of National Defense preparations. Domestic production is at the maximum rate obtainable with copper at the relatively low price of 12¢ per pound delivered Connecticut Valley. In order to augment the supply, the Metals Reserve Company, a subsidiary of the Reconstruction Finance Corporation, bought 100,000 tons of foreign copper in December, 1940. Additional purchases in February, 1941, increased total to approximately 235,000 tons. This copper will be allocated, free of duty, to domestic fabricators. Of the above, 130,000 tons of copper will be delivered from the foreign properties of your subsidiary companies.

Demand for zinc increased steadily throughout the year, surpassing any prior demand and exceeding American mine capacity. Refinery capacity is in excess of developed mine capacity. As fabricating requirements increased, quantities of foreign concentrates, which are normally smelted on the European continent, were smelted and refined in the United States, supplementing domestic supply. Idle and obsolete smelting facilities are being rehabilitated and increases in capacity are under way to minimize the potential shortage. Studies are being made investigating limitation of use of zinc for those purposes for which a substitute can be found. How serious the situation might be is best illustrated by the fact that although production was 643,386 tons, 19.5% more than the 538,198 tons produced in 1939, shipments increased to 696,497 tons and stocks of zinc decreased from 65,995 tons on hand January 1st to 12,884 tons on hand at the close of the year, less than one week's supply at current rate of consumption.

The officials of your Company have co-operated whole-heartedly with all those Government Departments charged with the duty of National Defense, particularly in the supply of strategic metals. Metallurgical research in the Company's laboratories in Montana was successful in developing a method for the economic concentration of low grade manganese ore. A section of the Anaconda concentrator is being remodelled for the treatment of the ores and the resulting concentrates will be treated in a nodulizing plant now under construction at Anaconda, with annual capacity of approximately 100,000 tons of nodules assaying about 58% Mn. An agreement has been made to deliver to the Metals Reserve Company, 80,000 tons per year, for three years, and a contract has been executed for the sale of the remaining 20,000 tons. The ore comes principally from the Emma Mine, owned by Butte Copper & Zinc Company, but under lease to your Company. Production of nodules is expected to start in June, 1941.

The American Brass Company has completed a contract with the Defense Plant Corporation (a subsidiary of the Reconstruction Finance Corporation) to construct for its account a new brass mill at Kenosha, Wisconsin to increase the supply of ammunition metal for the War Department.

The price of domestic copper f.o.b. refinery was 12.275¢ per pound at the beginning of the year and the foreign price was slightly higher. Both declined, influenced by unfavorable developments abroad, particularly the collapse of French resistance, with a low for domestic metal of 10.275¢ in July. The price recovered to 11.775¢ on September 24th and has remained at or above that level since then. Zinc declined from 5.75¢ St. Louis base to 5.5¢ early in the year but subsequent advances moved price to 7.25¢ on September 24th, with no change since that date. Lead and foreign silver prices had only minor fluctuations. Domestic silver and gold were unchanged in price throughout the year.

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

	Jan. 2	*High*	*Low*	*Dec. 31*	*Year Average*
COPPER—Duty free f.o.b. Refinery—cents per lb. . .	12.275¢	12.275¢	10.275¢	11.775¢	11.296¢
COPPER—Export f.o.b. Refinery—cents per lb.	12.375	12.400	9.800	10.200	10.770
LEAD —New York—cents per lb.	5.500	5.800	4.750	5.500	5.179
ZINC —St. Louis—cents per lb.	5.750	7.250	5.500	7.250	6.335
SILVER —New York—(not covered by Silver Act) cents per oz.	34.750	35.625	34.750	34.750	34.773

FINANCIAL

The gross sales and earnings of the Company upon a consolidated basis (after elimination of inter-company items) totaled $243,662,900.61, an increase of $59,987,924.35 or 32.7% 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 taxes, amounted to $181,015,869.37.

The income from operations was	\$62,647,031.24
Other Income, including Dividends from non-consolidated subsidiaries, was	1,429,138.80
Total Income was	\$64,076,170.04
Deductions from Income for Interest on Debentures and Serial Notes \$1,357,872.22; Expenses pertaining to Non-Operating units \$1,903,373.79; United States and Foreign Income Taxes \$12,867,708.37, amounted to	16,128,954.38
Leaving a Balance of	\$47,947,215.66
Provision for Depreciation and Obsolescence and for Depletion of Coal Mines, Timber Lands and Phosphate Deposits was \$10,493,870.30; Discount and Expenses on Debentures including premium on Debentures retired through Sinking Fund Operations was \$99,787.73 and Expenditures on options not exercised and investments written down \$684,472.04, a total of	11,278,130.07
	\$36,669,085.59
Reserve for Contingencies amounted to	1,350,000.00
Net Income, without deduction for Depletion of Metal Mines, was	\$35,319,085.59
Of which Minority Share amounted to	266,386.30
Leaving Consolidated Net Income of	\$35,052,699.29

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, 1940.

Direct taxes in various forms in 1940 amounted to \$20,062,048 equivalent to \$2.31 per share as compared with \$15,494,610 or \$1.79 per share for the year 1939.

Due to the uncertainties existing when the interim income account for the period ended June 30, 1940, was issued, particularly as to the then pending tax bill and certain other matters, a reserve for contingencies in the amount of \$2,000,000 was set up as of that date. At the close of the year \$650,000 of this reserve was applied to specific write-offs in the current income account, leaving a balance of \$1,350,000, which has been carried forward as a general reserve for future contingencies.

From the proceeds of \$35,000,000 Serial Promissory Notes issued April 11, 1940, \$33,000,000 par value of the 4½% Sinking Fund Debentures of the Company, due October 1, 1950, were called for redemption on May 15, 1940, at a cost of \$33,810,450. Through operations of the Sinking Fund \$990,000 par value of Debentures were redeemed on October 1, 1940. Serial notes of Chile Exploration Company were reduced by a payment of \$8,200,000. The result of these operations was a net decrease in Funded Debt of \$7,190,000 leaving the total funded debt of the Company and its subsidiaries at December 31, 1940, at \$42,825,000.

On March 6, 1941, the balance of the serial notes of the Chile Exploration Company in the amount of $3,800,000 was paid. 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, 1941, $1,000,000 in cash or in lieu thereof in whole or in part debentures at cost.

Capital expenditures during the year amounted to $6,922,138.06 summarized as follows:

Mines, Mining Claims and Lands (less Sales)	$ 180,961.00
Buildings, Machinery and Equipment at the Mines, Smelting, Refining and Manufacturing Plants of the Company and its Subsidiaries (less Sales)	6,631,965.04
Miscellaneous—Including acquisition of shares of stock of subsidiary companies	109,212.02

Current assets at the close of the year amounted to $137,470,756.98 compared with $112,014,116.43 at the close of the prior year, and current liabilities amounted to $34,278,191.48 compared with $20,592,617.34. Cash on hand increased from $30,155,531.80 to $51,414,994.80.

Dividends declared and paid during the year on the capital stock of your Company amounted to $17,348,676.00 or $2.00 per share.

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

CORPORATE TRANSACTIONS

During 1940 the Company acquired 2,000 shares of the stock of Anaconda Wire and Cable Company and 12 shares of the stock of the Butte Water Company, increasing its holdings to 289,522 shares and 119,574 shares or 68.61% and 99.81% respectively, of the total outstanding shares of those companies.

Serial promissory notes of the Company payable to banks were issued dated April 11, 1940, in the amount of $35,000,000 bearing interest at 1¾% and maturing as follows: $4,000,000 April 11, 1941; $4,000,000 April 11, 1942; $4,000,000 April 11, 1943; $4,000,000 April 11, 1944, and $19,000,000 April 11, 1945. As stated above, $33,000,000 par value of the 4½% Sinking Fund Debentures of the Company were retired by call from the proceeds of these notes.

OPERATIONS

Increased demand for all non-ferrous metals particularly copper and zinc resulted in higher rate of production in all departments of your Company and its producing and fabricating subsidiaries. Following is a summary of operations during 1940:

Copper:

The total output of copper by the plants of the Company aggregated 1,092,466,417 pounds. The metallic copper production, after deduction of 402,355 pounds (of which

321,516 pounds were from Company mines) contained in by-product materials sold to others, was 1,092,064,062 pounds obtained from the following sources: 267,715,581 pounds were treated on toll for the account of others; 50,007,944 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 774,340,537 pounds (253,037,590 pounds domestic—521,302,947 pounds foreign), compared with 681,412,419 pounds (200,417,863 pounds domestic—480,994,556 pounds foreign) in 1939, an increase of 13.6%.

Total deliveries in both the domestic and foreign markets of copper from all sources including purchased copper amounted to 1,009,097,993 pounds, compared with 883,235,702 pounds in 1939.

Zinc:

Total zinc production was 303,952,768 pounds, of which 182,680,684 pounds were from purchased materials, toll zinc returnable 70,154,184 pounds, and 51,117,900 pounds from the mines of the Company. Of total production 10,052 pounds were contained in by-product materials sold to other companies; 3,819,702 pounds were in the form of zinc dross, and 300,123,014 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 252,388,511 pounds, compared with 201,127,612 pounds in 1939.

Lead:

The total production of lead was 102,856,023 pounds. Of this amount 86,181,871 pounds were produced from purchased ores, concentrates, etc., and 16,674,152 pounds from the mines of the Company. Of the aggregate production 34,936,141 pounds were included in by-products sold to other companies and 67,919,882 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 90,281,543 pounds compared with 83,577,841 pounds in 1939.

Silver:

The Company produced 17,920,814 ounces of silver, of which 924,645 ounces were treated on toll for account of others, 7,854,695 ounces were produced from purchased ores and concentrates, and 9,141,474 ounces were produced from Company ores. Of the above total 3,186,589 ounces were contained in by-product materials sold to other companies.

Gold:

Gold production amounted to 232,325 ounces, of which 25,025 ounces were contained in materials treated on toll for the account of others, 163,916 ounces came from purchased materials, and 43,384 ounces from the mines of the Company. Of this amount 9,616 ounces were sold in the form of various by-product materials to other companies.

Miscellaneous:

The principal miscellaneous products consisted of 98,074,679 feet of lumber; 59,952 tons treble-superphosphate and phosphoric acid; 12,889 tons arsenic and 1,307,457 pounds cadmium, including 155,563 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 808,349,418 pounds, an increase of 32.1% from the prior year.

Non-Consolidated Subsidiary Companies:

The Mountain City Copper Company produced 26,931,841 pounds of recoverable copper from ores and concentrates shipped. The Walker Mining Company produced 10,524,345 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 107,837 pounds of copper, 4,168,999 pounds of lead, 1,641,697 pounds of zinc, 78,598 ounces of silver, and 1,905 ounces of gold. The transportation and drainage tunnel being driven by that company from a point near the Tooele, Utah, Smelter to the Rood Shaft of the Utah Apex Mine at Bingham, Utah, had proceeded to 20,754 feet at December 31, 1940, or 85.4% of the total estimated length of 24,300 feet. It is anticipated that this project will be completed and mining operations on the lower levels will be started this year.

Silesian-American Corporation:

There is no change in the status of the foreign subsidiaries of this company which are being operated under the direction of a Commissar appointed by and responsible only to the German Government. No income has been received by the company since the beginning of the war.

The principal amount of bonds of Silesian-American Corporation outstanding at the end of the year was $2,509,500.

EMPLOYEES

During the year 1940 the average number of employees of the Company and its Consolidated Subsidiary Companies was 46,129. Of these 31,273 were within the United States, compared with 24,082 in 1939. The number of employees in the United States was 30,126 in January, decreased to 29,244 in May, but increased to 34,663 in December.

GROUP INSURANCE

The Group Insurance in force at the close of the year amounted to $51,671,082, covering 34,522 employees. The amount of insurance paid to beneficiaries during the year was $544,410. In the case of all employees who have been in the employ of the

Company for six months or longer and who enter military service, the Company will pay for one year and forty days the cost of group insurance and will grant a leave of absence for the same period for re-employment application plus an amount equivalent to one month's salary or wages.

NUMBER OF SHAREHOLDERS

The number of registered shareholders appearing on the transfer books of the Company at December 31, 1940, was 113,964, compared with 110,581 at the beginning of the year.

The Directors regret to record the death of James H. Perkins, who served as a Director of the Company from April 15, 1936, to the date of his death, July 12, 1940.

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, 1940, 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,
Chairman of the Board.

JAMES R. HOBBINS,
President.

New York, N. Y., **March 22, 1941.**

[redacted]

ANACONDA COPPER MINING COMPANY
and Subsidiary Companies

Consolidated Balance Sheet—December 31st, 1940

ASSETS

FIXED ASSETS:			
Mines and mining claims, water rights and lands for metal producing and manufacturing plants—see note G		$290,175,284.86	
Coal mines, timber lands and phosphate deposits—see note G	$ 9,527,233.52		
Less reserve for depletion	2,345,841.20	7,181,392.32	
Buildings and machinery at mines, reduction works, refineries, manufacturing plants, sawmills, foundries, waterworks and railroads (including railroad concessions to the extent of $849,632.98)—see note G	$290,329,965.39		
Less reserve for depreciation	163,036,579.28	127,293,386.11	
Patents		1,086.00	
Investments:			
Securities of subsidiaries not consolidated—see notes C and F	$15,988,983.10		
Other security investments—see note F	17,608,310.30		
Indebtedness of subsidiaries not consolidated—not current	1,295,482.84	34,892,776.24	$459,543,925.53
DEFERRED CHARGES:			
Stripping and development		$ 3,608,916.34	
Prepaid expenses		346,104.55	
Deferred expenses		1,048,271.14	
Discount and expense on debentures		130,444.01	5,133,736.04
CURRENT AND OTHER ASSETS:			
Current assets:			
Supplies on hand—see note E	$ 16,791,222.87		
Metals and manufactured products:			
In process—see note D	6,837,284.19		
Finished—see note D	42,506,864.70		
Accounts and notes receivable—trade, less reserve	17,501,963.95		
Indebtedness of subsidiaries not consolidated—current	2,418,426.47		
Cash	51,414,994.80	$137,470,756.98	
Other assets:			
Installment house and land sales and other accounts receivable, less reserve	$ 1,043,990.94		
Advances to sundry mining companies, including advances on ores, less reserve	60,293.07		
Ores produced during development operations held for future treatment—see note H	1,026,331.15		
Cupriferous material held for future treatment—see note H	2,828,157.96	4,958,773.12	142,429,530.10
			$607,107,191.67

See explanatory notes, pages 13 and 14.

ANACONDA COPPER MINING COMPANY
and Subsidiary Companies

Consolidated Balance Sheet—December 31st. 1940

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			4,650,499.03
DEBENTURES AND NOTES OUTSTANDING:			
Anaconda Copper Mining Company—4½% Sinking Fund Debentures due 1950—see note J		$ 4,025,000.00	
Anaconda Copper Mining Company—Serial Notes—payable to banks, $4,000,000 due annually April 11th, 1942 to April 11th, 1944, both inclusive, and $19,000,000 due April 11th, 1945, interest at 1¾%		31,000,000.00	
Chile Exploration Company—Serial Notes—payable to banks, due May 1st, 1942, interest at 2½% (guaranteed as to both principal and interest by Anaconda Copper Mining Company)		1,800,000.00	36,825,000.00
RESERVES:			
For workmen's compensation insurance		$ 999,215.63	
For contingencies		1,600,000.00	2,599,215.63
CURRENT LIABILITES:			
Anaconda Copper Mining Company—Serial Notes—payable to banks, due April 11th, 1941		$ 4,000,000.00	
Chile Exploration Company—Serial Notes—payable to banks, due May 1st, 1941 (guaranteed as to both principal and interest by Anaconda Copper Mining Company)		2,000,000.00	
Accounts payable—trade		7,798,792.84	
Wages payable		1,799,227.75	
Accrued taxes		15,832,256.10	
Accrued interest		193,894.79	
Other accrued liabilities including advance payments by customers		2,480,743.19	
Other accounts payable		173,277.01	34,278,191.48
DEFERRED CREDITS TO INCOME			454,969.95
SURPLUS			94,582,415.58
			$607,107,191.67

See explanatory notes, pages 13 and 14.

ANACONDA COPPER MINING COMPANY
and Subsidiary Companies

Consolidated Income Account—Year Ended December 31st, 1940

Gross sales and earnings		$253,662,900.61
Cost of sales—operating expenses, development, maintenance and repairs, administrative, selling and general expenses and taxes except income taxes—sales being applied at cost on the basis of last-in, first-out		191,015,869.37
Income from operations of mining, smelting, refining and manufacturing plants, before deducting depreciation and depletion		$ 62,647,031.24
Other Income—Dividends from subsidiaries not consolidated	$ 800,016.50	
—Other dividends and interest	464,187.14	
—Miscellaneous income	164,935.16	1,429,138.80
		$ 64,076,170.04
United States and foreign income taxes—estimated	$ 12,867,708.37	
Expenses pertaining to non-operating units, including expenses at Cananea during strike period	1,903,373.79	
Interest on debentures and serial notes	1,357,872.22	16,128,954.38
		$ 47,947,215.66
Provision for depreciation and obsolescence	$ 10,416,067.12	
Provision for depletion of coal mines, timber lands and phosphate deposits (not including depletion of metal mines)	77,803.18	
Discount and expense on debentures, including premium on debentures retired through sinking fund operations	99,787.73	
Expenditures on options not exercised and investments written down	684,472.04	11,278,130.07
		$ 36,669,085.59
Provision for contingencies		1,350,000.00
Net Income, without deduction for depletion of metal mines		$ 35,319,085.59
Minority share of income		266,386.30
Consolidated Net Income, without deduction for depletion of metal mines		$ 35,052,699.29

Consolidated Surplus Account—Year Ended December 31st, 1940

Surplus, December 31st, 1939	$ 79,307,629.07	
Minority interest	480,751.78	$ 78,826,877.29
Consolidated Net Income, without deduction for depletion of metal mines		35,052,699.29
		$113,879,576.58
Dividends Nos. 127, 128, 129 and 130		17,348,676.00
		$ 96,530,900.58
Discount and expense, and premium on $33,000,000 principal amount of 4½% Sinking Fund Debentures of Anaconda Copper Mining Company due 1950 redeemed May 15th, 1940		1,948,485.00
Surplus, December 31st, 1940	$ 95,068,315.36	
Minority interest	485,899.78	
Consolidated Surplus, December 31st, 1940		$ 94,582,415.58

See explanatory notes, page 14.

NOTES TO CONSOLIDATED BALANCE SHEET—DECEMBER 31st, 1940

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, less than one-half 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 six per cent. are located in Mexico and South America and two per cent. are located in Canada. Cash balances in foreign countries amount to $723,877.63 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 sixty 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 carried in the accounts of those subsidiaries in United States dollars. The portion thereof originating in foreign currencies, less than 1%, has been converted into dollars at the rate of exchange prevailing at the date of the transaction. Current assets of the Canadian subsidiary have been converted at the rate of exchange current at December 31st, 1940. No data is available at this time on which to base any estimate of possible losses on European investments. (See page 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, as shown by their books, was in excess of the investment of the Company in such subsidiaries at December 31st, 1940 in the amount of $1,792,904.36 but the cost of the shares of said subsidiaries shown as investments on the Consolidated Balance Sheet has not been adjusted for such difference. Of this amount $1,016,289.15 represents equity in the undistributed earnings of such subsidiaries since dates of acquisition, the remainder being differences at dates of acquisition.

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, 1940 (except silver and gold, which are carried at market quotations or less), have been computed on the last-in, first-out basis. Inventories on hand at December 31st, 1939 are carried at December 31st, 1939 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, 1940.

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 333,000 shares of Inspiration Consolidated Copper Company carried at $10,914,107.51, $1,665,000 principal amount of First Mortgage Bonds of that company carried at par and $1,503,250 of investments representing assets in Europe.

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 such cost 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 reflected 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 3,109,598.54 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, 1941 and on August 15th of each year thereafter, while any of said debentures are outstanding, to pay to the Trustee under the indenture $1,000,000, for the purposes of the sinking fund for the retirement of debentures, or in lieu of such payment, the Company may deliver to the Trustee under the indenture debentures to be received by said 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 Company has made all payments required under the indenture and has satisfied all other requirements from the date of issue to December 31st, 1940.

NOTE K—CONTINGENCIES

So far as is known, there are no contingent liabilities of material amount. All known liabilities are provided for in the Consolidated Balance Sheet. A reserve for contingencies of $1,600,000 has been provided. (As to investments in Europe, see Note B).

NOTES TO CONSOLIDATED INCOME ACCOUNT—YEAR ENDED DECEMBER 31st, 1940

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 1940 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, Mountain City Copper Company and Walker Mining Company) and the four small unconsolidated subsidiaries referred to in Note A, amounted to $1,719,502.91, from two of which $800,016.50 was received in dividends and is included in the Consolidated Income Account.

There is included in consolidated income $18,986,822.07 as Anaconda Copper Mining Company's proportion of the income of its domestic and foreign consolidated subsidiaries operating in Mexico and South America and $241,086.60 of the earnings of those companies has been apportioned to minority stockholders all of which income has been received in United States funds.

There is included in consolidated income $538,695.35 which is the equivalent (based on the average monthly exchange rate for the year) in United States currency of the net income for the year 1940 of Anaconda American Brass, Ltd., a wholly owned Canadian subsidiary, after adjustment resulting from the conversion of net current assets at rates in effect at December 31st, 1940. No dividends were received from said subsidiary during the year.

POGSON, PELOUBET & CO.

CABLE ADDRESS "CERTIFIED" NEW YORK

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

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

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, 1940 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 1940, 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, 1940 and the combined results of their operations for the calendar year 1940 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 10th, 1941.

ANACONDA COPPER MINING COMPANY

ANACONDA WIRE AND CABLE COMPANY

LOCATION OF MANUFACTURING PLANTS

ANDERSON, IND.	MARION, IND.	ORANGE, CALIF.
GREAT FALLS, MONT.	MUSKEGON, MICH.	PAWTUCKET, R. I.
HASTINGS-ON-HUDSON, N. Y.	OAKLAND, CALIF.	SYCAMORE, ILL.

SOME OF THE INDUSTRIES SERVED

Automotive	Electrical Equipment	Radio	Telephone and Telegraph
Aviation	Industrial Power Plants	Railroad	Transmission Equipment
Building	Metal Fabricating	Steam	Utilities
Electrical Apparatus	Marine	Electric	Power Companies
Electrical Appliance	Mining	Refrigeration	Municipal Plants
Electrical Contracting	Petroleum	Textile	Rural Electrification

PRODUCTS

ELECTRICAL WIRES AND CABLES OF EVERY DESCRIPTION

Bare Wire and Cable	Hollow Conductor Cable	Parkway Cable
Cable Accessories	Ignition Cables	Rubber Covered Building Wires
Conduit	Magnet Wire and Coils	Slow Burning Wires and Cables
Copper Rods	Power Cables	Varnished Cambric Wires and Cables
Cords	Lead, Rubber, Paper, V.C.	Weatherproof Wires and Cables

Increased demand for wire and cable products is attributed largely to defense requirements. Substantial orders have been received from Army and Navy Departments, and also from manufacturers increasing plant capacities for the production of defense materials.

Outstanding in product research was the commercial perfection of Type C B insulation which laboratory and field tests disclose will materially lengthen the life of paper-lead power cable.

A staff of qualified engineers is maintained to assist the light, power and manufacturing industries in the selection and installation of the Company's products so that dependable and efficient service may be attained.

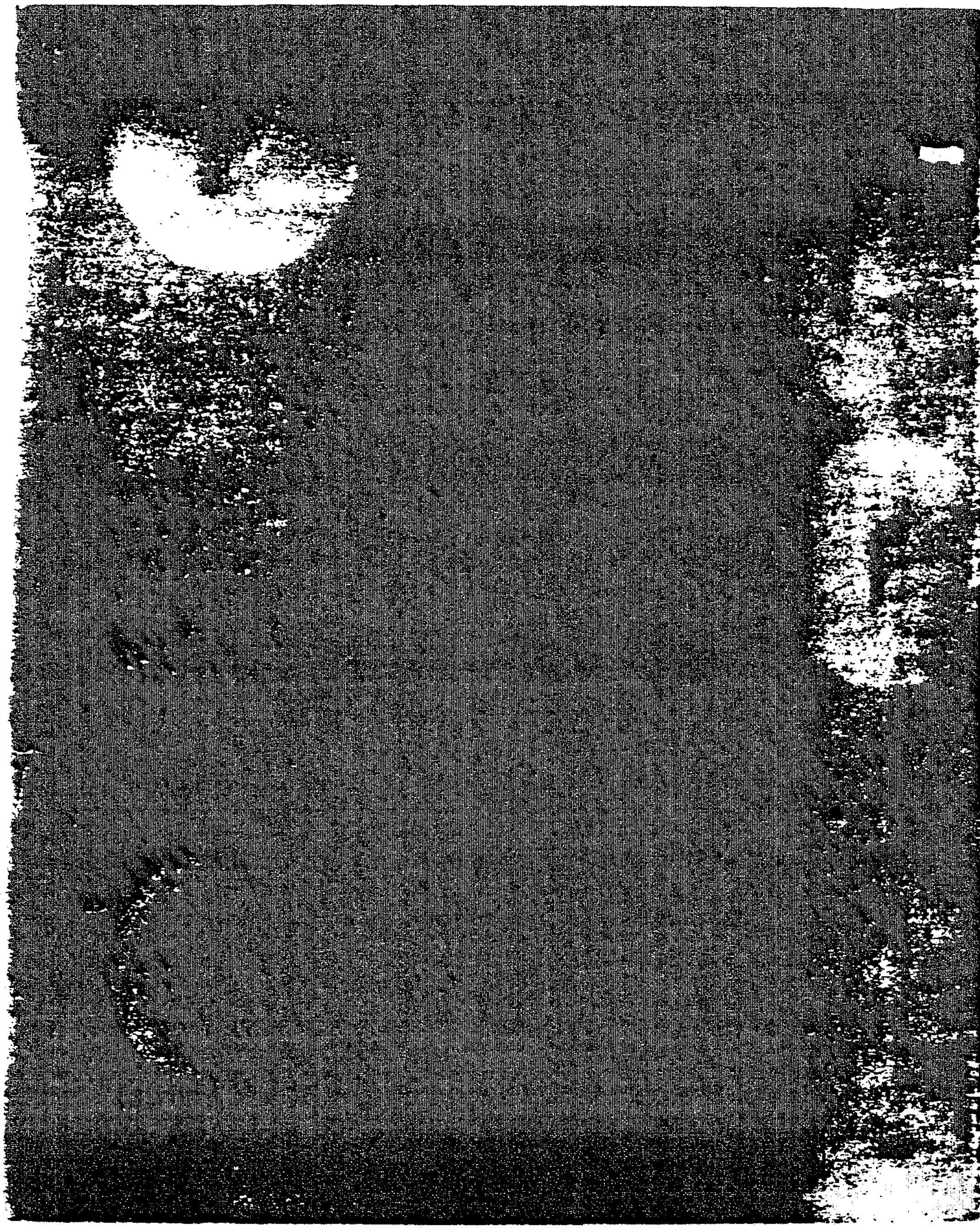
Conveniently situated warehouse and distributor stocks provide a complete and economical nation-wide service.

SALES OFFICES ARE LOCATED IN THE FOLLOWING CITIES:

Atlanta, Ga.	Denver, Colo.	Milwaukee, Wis.	Rochester, N. Y.
Boston, Mass.	Des Moines, Iowa	Minneapolis, Minn.	St. Louis, Mo.
Cincinnati, Ohio	Detroit, Mich.	New Orleans, La.	San Francisco, Calif.
Cleveland, Ohio	Kansas City, Mo.	Philadelphia, Pa.	Seattle, Wash.
Dallas, Texas	Los Angeles, Calif.	Pittsburgh, Pa.	Washington, D. C.

General Offices: 25 Broadway, New York
Chicago Sales Office: 20 North Wacker Drive

[redacted]



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