

ASARCO 1997

ANNUAL REPORT



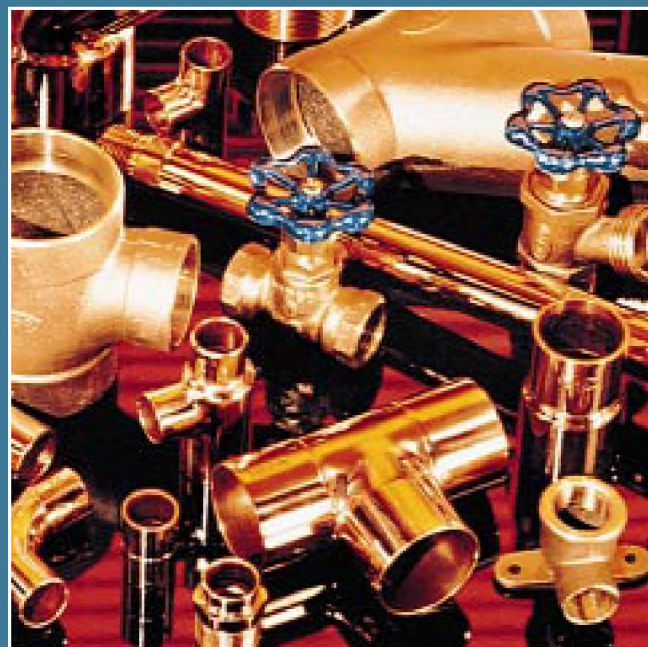
1 mile

of copper wiring
is used in each new
luxury car.

439

pounds

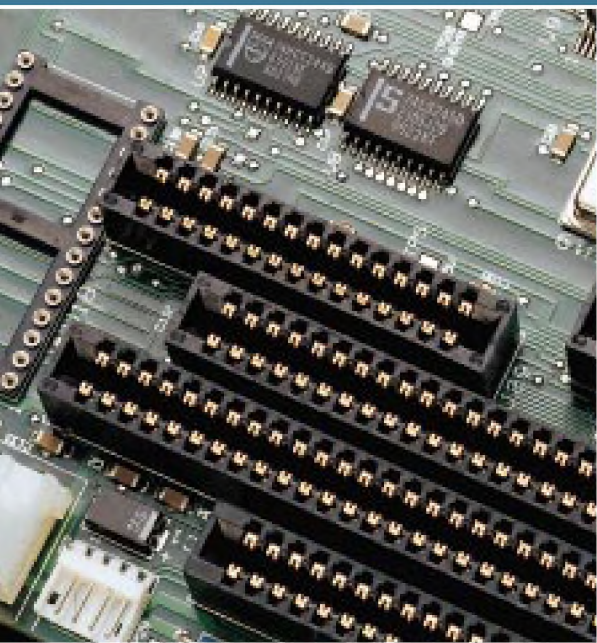
of copper are used in
the average new
single-family home.



1.9

billion

pounds of copper are
used annually in electrical
and electronic products.



ASARCO made significant progress in 1997 in achieving its long-term objectives of *growing* its integrated copper business, *developing* its specialty chemicals and aggregates businesses, *realizing* value from its investments in foreign mining companies, *reducing* debt, *repurchasing* stock to enhance shareholder value and *improving and enhancing* its safety, health and environmental performance.

1997 Financial Highlights

(IN MILLIONS,
EXCEPT PER SHARE
AND EMPLOYEE
AMOUNTS)

FOR THE YEAR	1997	1996
SALES	\$ 2,721.0	\$ 2,716.8
OPERATING INCOME	\$ 274.7	\$ 303.4
NET EARNINGS	\$ 143.4	\$ 138.3
NET EARNINGS PER COMMON SHARE	\$ 3.42	\$ 3.24
DIVIDENDS PER COMMON SHARE	\$ 0.80	\$ 0.80

AT YEAR-END

ASSETS	\$ 4,110.4	\$ 4,120.3
TOTAL DEBT	\$ 878.9	\$ 814.3
COMMON STOCKHOLDERS' EQUITY	\$ 1,693.9	\$ 1,736.9
COMMON SHARES OUTSTANDING	39.7	42.8
BOOK VALUE PER COMMON SHARE	\$ 42.71	\$ 40.56
EMPLOYEES	11,800	11,800

Asarco is one of the world's leading producers of nonferrous metals, principally copper, lead, zinc and silver. Asarco also produces specialty chemicals and aggregates. Asarco has developed one of the largest copper ore reserve positions in the industry.

The Company's copper business includes integrated mining, smelting and refining operations in North America and in Peru through its subsidiary, **Southern Peru Copper Corporation**. The Company also operates a fully integrated lead business, a custom lead smelting business, a silver mining business and a zinc mining business. **Enthone-OMI**, a wholly owned subsidiary, operates a worldwide specialty chemicals business focused on functional and decorative coatings for the electronics and metal finishing industries. **American Limestone Company**, a wholly owned subsidiary, produces construction aggregates.

conversion information.

All tonnages in this annual report are expressed in short tons. All ounces are troy ounces. Dollar amounts are expressed in U.S. dollars unless otherwise indicated. "Asarco" or the "Company" includes Asarco and subsidiaries. "Southern Peru Copper Corporation" or "SPCC" includes its subsidiaries.

Asarco Milestones

1986 Ray copper mine purchased. With Mission mine, it became the basis for integrating and expanding the North American copper mining business.

1987 Asarco sold part of investment in MIM Holdings Limited for \$381 million.

1988 OMI acquired, providing basis for expansion of specialty chemicals business.

1989 \$424 million expansion of operations at Mission and Ray copper mines and El Paso copper smelter began.

1993 Asarco became a fully integrated copper producer.

1994 Southern Peru Copper Corporation acquired Ilo refinery to fully integrate its copper business.

1995 Asarco increased holdings in Southern Peru Copper Corporation and consolidated financial results.

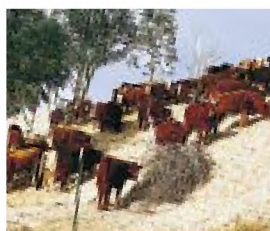
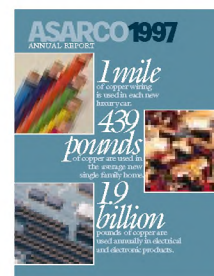
1996 Asarco sold investment in MIM Holdings Limited for \$326 million and used proceeds to reduce debt.

1997 Asarco sold shares in Grupo Mexico for \$323 million and used proceeds to reduce debt and repurchase shares. Share repurchase program completed for \$100 million. Asarco bought back 3.3 million shares, reducing outstanding shares by 7.7%.

Southern Peru Copper Corporation arranged financing for \$1 billion modernization and expansion program. The first stage of the expansion program to increase production by 19% at its Cuajone mine began.

Asarco began low-cost SX/EW copper production at Silver Bell mine.

ASARCO'S PRODUCTS are of growing importance in the world's economy and are increasingly part of our everyday life. Some uses of our products are shown in this report. The amount of copper now used in automobiles and homes and in electrical and electronic products in the United States, as shown on the cover, demonstrates why we think the long-term outlook for Asarco's products is bright.



contents

2 / LETTER TO SHAREHOLDERS

Financial results improved and substantial progress was made in achieving the Company's long-term strategic objectives.

6 / COPPER

Silver Bell SX/EW facility began producing low-cost copper; SPCC financed and began expansion of the Cuajone mine and modernization of the Ilo smelter.

11 / SPECIALTY CHEMICALS AND AGGREGATES

Earnings from both these businesses increased by more than 25% in 1997.

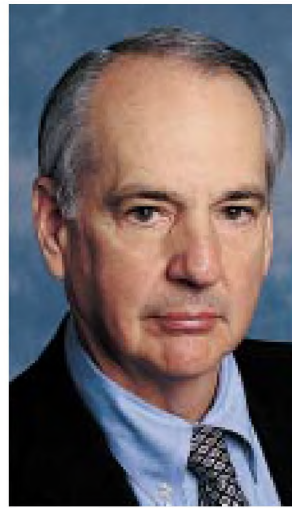
13 / LEAD, SILVER & ZINC

Galena silver mine was recommissioned and additional high-grade silver reserves were identified at Silver Valley Resources.

16 / ENVIRONMENT & HEALTH

Company reached agreement with EPA resolving a number of nationwide issues and established procedures to manage future environmental matters.

Right:
Richard de J. Osborne
Chairman and
Chief Executive Officer



to our shareholders

1997

**WAS A GOOD YEAR FOR
ASARCO AND A YEAR IN
WHICH WE MADE SIGNIFICANT PROGRESS ON
MANY OF OUR LONG-TERM STRATEGIC GOALS.
WE MADE IMPORTANT PROGRESS IN THE GROWTH
OF OUR NOW INTEGRATED COPPER MINING, SMELT-**

ing and refining business, we sold most of our remaining underperforming investments in foreign mining companies, we undertook and completed a \$100 million Asarco share repurchase program, our specialty chemicals and aggregates businesses achieved record profits and we reduced our debt-to-capital ratio to our long-term target level. Earnings were also good.

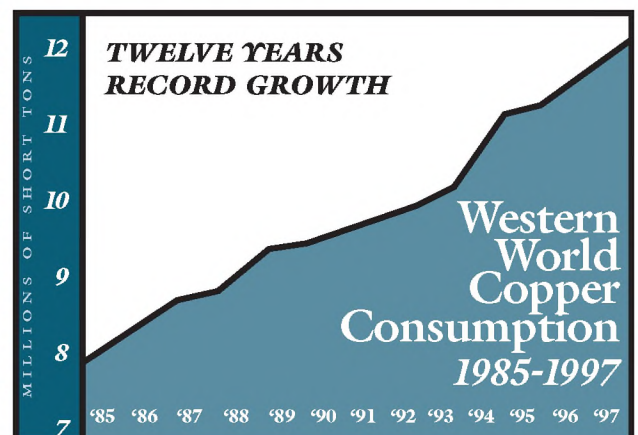
We have focused our attention on growing our integrated copper business both domestically and internationally. In 1997, we reopened the Silver Bell mine near Tucson, Arizona and commissioned its new solvent extraction/electrowinning (SX/EW) plant. We completed the permitting and began construction of the Minto mine in Canada's Yukon territory and most importantly, we began the expansion and modernization program at our 54.1%-owned Southern Peru Copper Corporation (SPCC). Silver Bell and Minto are low-cost, but modest-sized mines. At SPCC, however, we have embarked on a major expansion program which will add significantly to Asarco's copper production and earnings power over the next several years. During 1997, we arranged financing for the first two stages of this \$1 billion program. We began construction to expand production at the Cuajone mine which will increase SPCC's production by 19%, or 130 million pounds of copper per year, and undertook the engineering

and design work for the modernization and expansion of the smelter at Ilo, Peru. We expect start-up of the expanded Cuajone operation in early 1999 and to commission the modernized Ilo smelter in stages between 1998 and 2003. We also have planned a second, larger expansion at Cuajone and hope to be in a position to commit to that stage of the project in 1999. With this further expansion, copper production at SPCC would increase to 930 million pounds annually.

In the second and third quarters of 1997, we sold all of our available-for-sale shares in Grupo Mexico, S.A. de C.V., raising \$323 million. The sales complete the program we undertook 10 years ago of selling Asarco's un-

derperforming investments in foreign mining companies to enhance shareholder value. We used \$100 million of these proceeds to repurchase Asarco stock. We purchased 3.3 million, or 7.7%, of our shares in the open market and reduced the shares outstanding to under 40 million. The balance of the proceeds, combined with the proceeds from the sale of our interest in MIM Holdings Limited in 1996, was used to reduce debt. The Company is in very good financial

*Western World
copper demand
has grown and
established a new
consumption
record each year
since 1985.
1998 should be
the thirteenth
straight year
of growth.*



Sale of investments enabled a share buy-back program and reduction of debt.

condition. At year end 1997, our consolidated capitalization was over \$3 billion, our debt-to-capitalization, net of cash, was a low 20% and our book value was over \$42 per share.

Ten years ago we initiated a program to expand our activities in the specialty chemicals and construction aggregates businesses. These businesses are affected by different economic cycles than is our primary metals business. In the intervening period, we have made 10 specialty chemicals and four aggregates acquisitions. We have also invested heavily in product development and internal expansion. The results have been good. In 1997, each of these businesses achieved record earnings, totaling over \$43 million before tax, a level which now contributes significantly to Asarco's results, particularly at the bottom of the metal market cycle.

The price of copper, Asarco's most significant product, averaged about the same in 1997 as it did in 1996. By year end, however, it had declined by 27¢ per pound below that level. While we believe that the copper market fundamentals are sound and that copper is oversold at this price level, we have responded to the current condition by implementing a cost reduction program which will result in \$50 million of pre-tax savings in 1998. This program includes the purchase of higher productivity equipment, reductions in personnel and reductions in general and administrative expenses, purchased services and other operating costs.

Asarco is also a significant producer of lead, zinc, and silver. We operate a low-cost integrated lead mining, smelting and refining business in Missouri, a zinc mining business in Tennessee and

have a 50% operating interest in Silver Valley Resources, a silver mining company in the Coeur d'Alene district of Idaho. With the output of Silver Valley Resources and the by-product silver produced by our mines, Asarco will produce about 7 million ounces of mined silver in 1998 for its own account. Silver consumption on a worldwide basis currently exceeds production by a substantial margin, as it has since 1990. This continuing deficit has reduced worldwide inventories of silver to a point that has recently begun to affect its price.

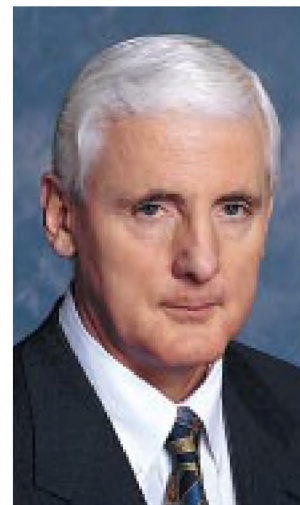
In 1997, we closed our Omaha, Nebraska lead refinery to reduce the rate of losses in our custom lead business. Today, our East Helena, Montana lead smelter is the only Asarco facility left that is principally dependent on ores and concentrates produced by mines we don't control.

A safe and healthy workplace for our employees and protection of the environment we impact are two of our most important corporate goals. We spend a great deal of management time and have committed a significant amount of resources to improving our performance in these areas. In 1997, we improved our safety performance by 33%. We will not be satisfied, however, until we achieve our goal of an accident-free work place.

In early 1998, Asarco and the U.S. Environmental Protection Agency entered into an agreement aimed at resolving a number of issues at our operations throughout the United States. We voluntarily approached and worked with the EPA and state agencies over a two-year period to reach this agreement and to end a multiplicity of separate actions being negotiated and litigated individually. Many of the issues involved highly technical interpretations of the law and regulations. While we do not believe our position on the issues was incorrect, we did agree to pay penalties of \$6.4 million. We also agreed to undertake capital construction projects amounting to \$61.5 million to be spent over six years. The largest of these projects involves a \$55 million extension of an existing tunnel which diverts Mineral Creek around our Ray, Arizona mine workings. This project, which is now in the permitting stage, will have a beneficial effect on our future operations at Ray, as well as upon the environment.

We also continue to deal with environmental issues arising from the historic operations of the Company. Many of the issues date from the early part of this century and some even predate the founding of Asarco in 1899. While there is wide recognition that some of the principles of the Superfund law are unfair, to date it has not been changed. Superfund, which was originally enacted to deal with chemical sites, is poorly structured to deal with the many different issues that arise in the mining industry. Mining booms of the nineteenth and early twentieth centuries

Below:
Francis R. McAllister
President and
Chief Operating Officer



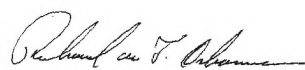
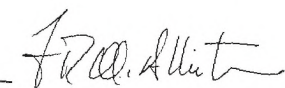
often involved thousands of individuals and hundreds of companies. In some mining districts where multiple parties were often involved in the ownership chain of individual sites, Asarco is one of the few participants left; and the burden of responsibility under the flawed principles of Superfund falls disproportionately on the few successful survivors. We are well advanced in remediation programs at these sites and we believe that the identification of new sites and the rate of spending on identified sites has peaked and will be lower in 1998 than in 1997 or 1996. While it has been necessary to litigate insurance coverage for environmental issues, we have begun to receive some recoveries.

The focus of our exploration program has shifted from the United States to Latin America and we have three projects in advanced stages of exploration and evaluation. We are in the feasibility study stage with a promising silver project in Potosi, Bolivia. We have a number of interesting drill sites testing gold anomalies in French Guiana. One of these, at Camp Caiman, is progressing particularly well and we expect to complete drilling and a feasibility study in 1998. We also are conducting exploration drilling at a potential SX/EW copper property in northern Chile. These three projects look promising.

In early 1998, we made two significant organizational announcements. Francis R. McAllister was named President and Chief Operating Officer. He is also a Director and has been head of our copper operations since 1993. Kevin R. Morano was named an Executive Vice President and was elected a Director. He will continue as the Company's Chief Financial Officer. These appointments begin the process of orderly management succession.

As you should expect, Asarco employees continue to perform very well dealing with the many issues we confront. The one area where none of us is satisfied is in the performance of our stock. Senior management has an important personal stake in Company stock and you, our shareholders, may be assured that we and the Board of Directors will continue to focus our attention on strategies we believe will enhance the value of Asarco to its shareholders.

For the Board of Directors,

Richard de J. Osborne
Chairman and
Chief Executive Officer

Francis R. McAllister
President and
Chief Operating Officer

Review of Operations



Building construction accounts for more than 40% of all copper used. The average new single family home uses 439 pounds of copper.



The \$245 million expansion of SPCC's Cuajone mine (RIGHT) will increase SPCC's production of copper by 130 million pounds per year.

Asarco copper business



SARCO IS ONE OF THE WORLD'S LEADING PRODUCERS OF COPPER. IN 1997, PRODUCTION OF COPPER FROM MINES MANAGED BY ASARCO WAS 1.4 BILLION POUNDS, 6.8% OF WESTERN WORLD COPPER MINE PRODUCTION. ASARCO'S BENEFICIAL INTEREST IN COPPER PRODUCTION IN 1997 WAS 977 MILLION POUNDS.



Above:
Richard de J. Osborne
Chairman and
Chief Executive Officer

Asarco's copper business includes its integrated copper operations in North America, which accounted for 63% of its beneficial copper production in 1997, and an integrated copper business in Peru conducted through a 54.1%-owned subsidiary, Southern Peru Copper Corporation (SPCC). The North American copper business includes the Mission and Ray mines in Arizona; copper smelters in Hayden, Arizona and El Paso, Texas; and a copper refinery in Amarillo, Texas. Asarco also owns a 49.9% interest in Montana Resources' copper-molybdenum mine in Butte, Montana, a 75% interest in the Silver Bell copper mine in Arizona and an 86.7% interest in the Minto mine project, a new copper-gold mine which is currently under development in the Yukon Territory, Canada. The Company's Peruvian copper business, operated by SPCC, includes the Toquepala and Cuajone mines, the Ilo smelter and the Ilo refinery, all located in the southern part of Peru.

The Company's beneficial interest in mined copper production in 1997 was slightly below the record production of 1.0 billion pounds achieved in 1996. Production declined in 1997 due to lower throughput as a result of the increased hardness of ore principally at

copper mines

MINE	Asarco interest (%)	production (contained metal in millions of pounds)			mineral reserves (12/31/97) (tons in millions)	
		1997	1996	1995	grade (%)	
DOMESTIC						
Mission	100.0	252.3	261.2	224.6	514.1	0.70
Ray						
Concentrates	100.0	230.7	273.2	260.4	969.7	0.62
SX/EW	100.0	73.4	70.2	70.2	189.0	0.44
Montana						
Resources	49.9	91.4	104.8	112.8	499.4	0.33
Silver Bell L.L.C.	75.0 ^(a)	19.3	4.8	6.8	178.9	0.38
Minto and others	86.7	-	-	1.2	20.8	1.15
Total Domestic		667.1	714.2	676.0	2,371.9	
SOUTHERN PERU 53.0 ^(b)						
Toquepala						
Concentrates		246.8	252.9	256.2	313.1	0.83
SX/EW		87.9	88.6	10.0	664.9	0.19
Cuajone						
Concentrates		340.6	332.0	291.0	1,422.3	0.64
SX/EW		10.2	4.6	-	15.0	0.95
Total Southern Peru		685.5	678.1	557.2	2,415.3	
Total		1,352.6	1,392.3	1,233.2	4,787.2	
Asarco Share		977.4	1,015.9	898.4	3,361.7	

(a) Asarco sold a 25% interest in Silver Bell L.L.C. in February 1996.

Silver Bell L.L.C. commenced SX/EW operations in July 1997.

(b) Asarco's beneficial interest in SPCC was 43.2% until April 1995, increasing to 52.3% at December 1995, 52.6% at December 1996, and 53.0% at December 1997.

ORE RESERVES

One of the strengths of Asarco's copper business is its large copper ore reserve position. The Company's beneficial interest in copper ore reserves at the end of 1997 was 3.4 billion tons containing 38 billion pounds of copper. Ore reserves are the key to a mining company's future and Asarco's position, which represents a composite life of 38 years at current production rates, is one of the best in the industry.

COPPER MARKET

Demand for copper in 1997 was at a record level for the 12th straight year. Despite this robust demand, Western World copper inventories increased in 1997 principally as a result of a slowdown in the rate of growth in Southeast Asia and reduced imports by China which drew down its inventories to meet internal requirements. The copper price declined significantly in the second half of the year, ending the year at a four-year low of 77 cents per pound. The Company believes that supply and demand will be in balance in 1998 and that the price should recover from the oversold condition at year end 1997.

In 1997, the copper price averaged \$1.04 per pound on the New York Commodity Exchange (COMEX), \$1.09 per pound for the first three quarters and \$0.87 per pound in the fourth quarter. In 1996, the copper price averaged \$1.06 per pound on the COMEX.

The average price on the London Metal Exchange (LME) was \$1.03 in 1997, compared with \$1.04 in 1996.

The outlook for continued growth in copper demand is very favorable. Increasing intensity of use of copper in industrialized countries continues to fuel demand. In the last 10 years, the use of copper in the average automobile has increased over 55% to 61 pounds per car, reflecting the greater use of sophisticated electronics and motorized equipment. The average new home in the United States now contains 439 pounds of copper, about 15% greater than 10 years ago. Today's modern homes are being wired for multiple phone lines, intercoms and entertainment systems and increased electric power requirements. Commercial buildings



Above:
Frank McAllister, president
and chief operating officer.

**Expansion of the
Cuajone mine will increase
SPCC's mine output of
low-cost copper by 19%
beginning in 1999.**

Start-up of the Silver Bell mine increases annual copper production by 36 million pounds at a cash cost of 50 cents per pound.



Above:
Bob Muth, vice president,
government and public affairs.

require even greater amounts of copper wiring to meet the telecommunications and energy needs of business.

In the world's developing economies, copper is an essential building block. Electric power generation and distribution, as well as telecommunications and transportation projects all require large amounts of copper.

Demand for copper has grown at a 4.0% annual average rate over the last five years. No change is foreseen in the need for copper that might diminish this robust growth in demand

for the foreseeable future. While economic disruptions, like the recent monetary crisis in Southeast Asia, may temporarily slow the rate of growth, the underlying long-term fundamentals continue to look promising.

EXPANSION OF LOW-COST COPPER

The Company's recent strategic focus has been the development of additional low-cost sources of copper production. The Company was active on three projects in 1997 and its exploration efforts are beginning to identify additional opportunities for the future. In 1997, these projects included work on the expansion of the Cuajone mine, part of the \$1 billion expansion and modernization project at SPCC, the startup of the Silver Bell SX/EW operation, and the development of the Minto copper project now planned for startup in 2000.

The Cuajone mine is being expanded and will increase SPCC's annual copper production by 19%, or 130 million pounds. The Ilo smelter is being modernized and expanded to increase capacity and to enhance environmental performance. These projects will be completed in stages between 1998 and 2003. In 1997, financing for the project was arranged. The first stage, the \$245 million expansion of the Cuajone mine, is expected to be completed in early 1999. Construction activities are underway and are on schedule.

The Ilo smelter is being modernized in stages. Construction of a new acid plant, designed to increase the capture of sulfur emissions, is scheduled for completion in

1998. Installation of a new smelting furnace and associated environmental controls will be completed in 2001, and completion of the converting section is expected in 2003. Engineering work on the smelter project is nearing completion and final decisions on the construction schedule will be made in 1998.

These projects remain attractive at current low copper prices and, therefore, the Company is proceeding with its plans to expand its low-cost copper operations in Peru.

Construction and development of a new SX/EW operation at the Silver Bell mine was completed in mid-1997. Since start-up, the project, in which the Company has a 75% interest, has produced at its planned annual rate of 36 million pounds of copper.

Development of the Minto mine in Yukon Territory, Canada, is scheduled for completion in 2000. The mine, in which Asarco has an 86.7% interest, is expected to produce 27 million pounds of copper and 10,000 ounces of gold annually.

copper refineries

	Asarco interest	production (contained metal in millions of pounds)		
REFINERY	(%)	1997	1996	1995
DOMESTIC				
Amarillo	100.0	984.6	945.6	966.8
Ray (SX/EW)	100.0	73.4	70.2	70.2
Silver Bell L.L.C.	75.0 ^(a)	18.2	—	—
Total Domestic		1,076.2	1,015.8	1,037.0
SOUTHERN PERU				
Ilo	53.0 ^(b)	513.3	439.6	432.4
Toquepala (SX/EW)		98.1	93.2	10.0
Total Southern Peru		611.4	532.8	442.4
Total		1,687.6	1,548.6	1,479.4
Asarco Share		1,394.2	1,295.0	1,258.0

^(a) Asarco sold a 25% interest in Silver Bell L.L.C. in February 1996. Silver Bell L.L.C. commenced SX/EW operations in July 1997.

^(b) Asarco's beneficial interest in SPCC was 43.2% until April 1995, increasing to 52.3% at December 1995, 52.9% at December 1996, and 53.0% at December 1997.

NORTH AMERICAN COPPER OPERATIONS

There were a number of significant accomplishments at the Company's North American copper operations in 1997.

Ore grades at the Mission mine improved as a result of a full year's operation of the higher-grade underground mine which began production in mid-1996. Construction was completed in late summer of a large overland conveyor designed to move 58 million tons of waste per year at Mission. The system will reduce total waste removal costs by eight cents per ton, or \$9.5 million per year.

Production at the Ray Complex's Hayden concentrator was curtailed in the fourth quarter of 1996 to reduce concentrate inventory. Inventory levels returned to normal and the Hayden concentrator was restarted in May. The Ray mine replaced its remaining eleven 170-ton-capacity trucks with five 240-ton-capacity haul trucks in late 1997.

Cathode copper production from the SX/EW operation at the Ray mine increased 5% in 1997 following application of a new leaching technology for low-grade sulfide material. The new leaching process provides both a quicker leach cycle and higher copper recovery.

The Hayden smelter processed a record level of concentrates in 1997 as a result of improved equipment availability and a more consistent and higher grade of concentrates processed. Modernization of the smelter's gas handling system and the process control system began in 1997 and is expected to be completed in the second quarter of 1998. These improvements are expected to further increase production rates and reduce operating costs.

The El Paso, Texas copper smelter, which uses CONTOP flash smelting technology, also set a record for concentrates smelted in 1997. In the fourth quarter of 1997, production rates were 10% over the original design capacity. Improved equipment availability and modifications to the Contop furnace feed system were the primary reasons for the production improvements.

The Amarillo Copper Refinery achieved record copper cathode and rod production and further improved the quality of its product. Amarillo also received its second three-year ISO 9002 certification.

PERUVIAN COPPER OPERATIONS

Asarco conducts its Peruvian copper operations through SPCC, in which Asarco holds a 54.1% equity interest. SPCC's common shares are listed on the New York Stock Exchange and the Lima Stock Exchange. SPCC owns a 97.8% interest in its Peruvian Branch, which comprises substantially all of SPCC's operations. Labor shares which were issued to SPCC's workers under prior Peruvian law represent the remaining interest in the Branch. At the end of 1997, Asarco's beneficial interest in SPCC's operations, after the labor share interest, was 53.0%.

In 1997, SPCC produced 686 million pounds of copper from its mines, a 1.1% in-

copper smelters

	Asarco interest	production (contained metal in millions of pounds)		
SMELTER	(%)	1997	1996	1995
DOMESTIC				
El Paso	100.0	239.5	230.0	253.0
Hayden	100.0	423.9	429.8	387.0
Total Domestic		663.4	659.8	640.0
SOUTHERN PERU- Ilo	53.0 (a)	638.7	633.6	634.4
Total		1,302.1	1,293.4	1,274.4
Asarco Share		1,001.9	991.8	956.4

(a) Asarco's beneficial interest in SPCC was 43.2% until April 1995, increasing to 52.3% at December 1995, 52.6% at December 1996, and 53.0% at December 1997.

Cathodes being pulled from the electrowinning tankhouse (BELOW) are part of the 36 million pounds of new copper being produced annually at Silver Bell.



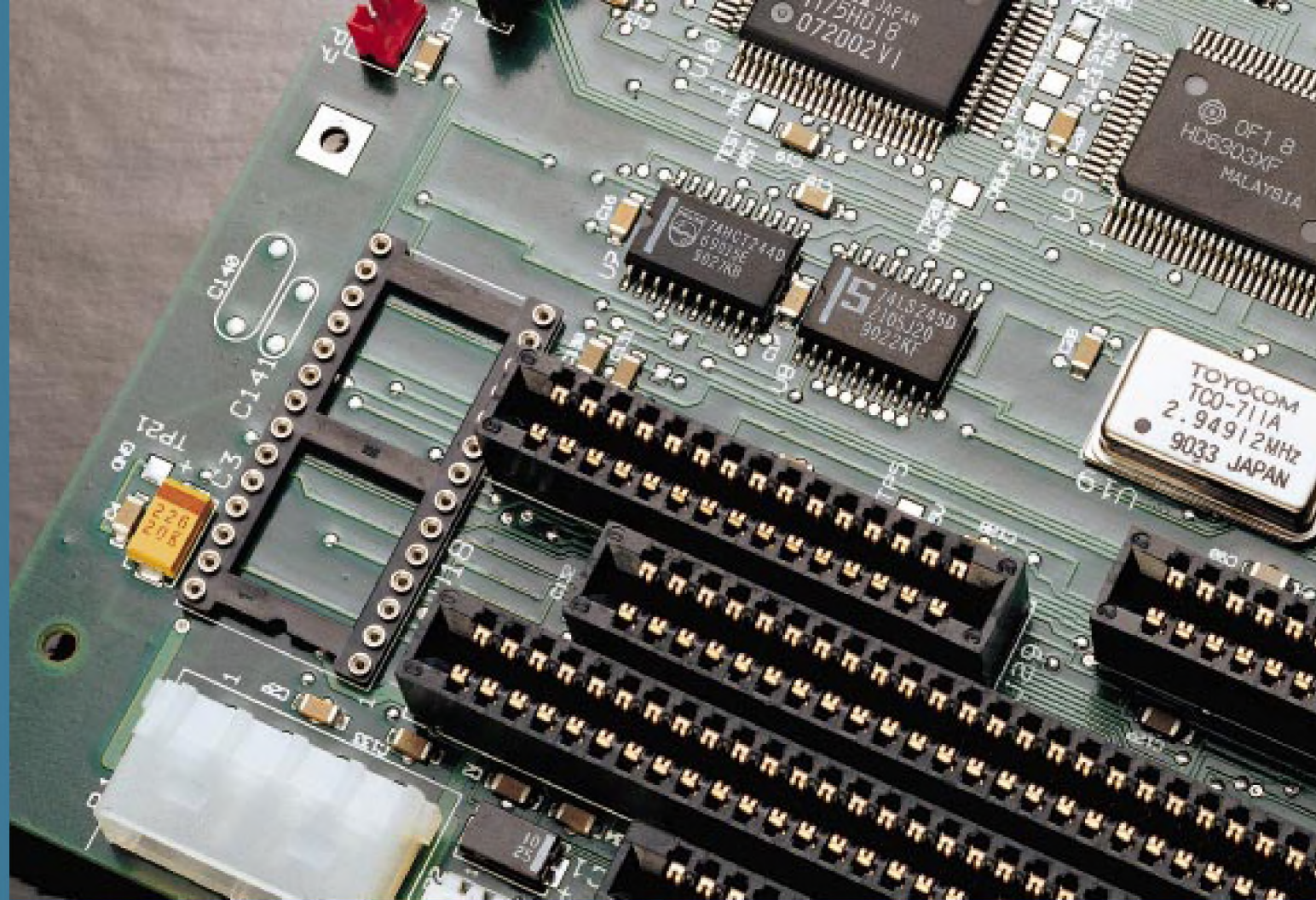


Enthone-OMI,
our specialty
chemicals
subsidiary,
produces
functional
and decorative
coatings

(ABOVE AND
ABOVE RIGHT).

**American
Limestone**
produces
construction
aggregates

(BELOW RIGHT).



**Planned expansion
at SPCC will
increase its annual
production of
low-cost copper
to 930 million
pounds of
mined copper.**

crease over 1996. Asarco's beneficial share of this production was 363 million pounds of copper. SPCC also produced 9.4 million pounds of molybdenum and 3.1 million ounces of silver.

In 1997, copper production at the Cuajone mine increased 2.6% from 1996, to 341 million pounds, as a result of higher ore grades. At the Toquepala mine, copper production was 247 million pounds, slightly lower than in 1996 as a result of lower ore grades. The Toquepala concentrator achieved record annual throughput partially offsetting the effect of the lower ore grades.

SPCC also produced 98 million pounds of copper from its low-cost SX/EW plant located at Toquepala, 23% higher than the design capacity of the plant. The SX/EW facility produces refined copper cathodes from solutions leached from low-grade ores stockpiled at both the Toquepala and Cuajone mines.

The Ilo smelter processed 1.2 million tons of concentrates in 1997, producing 639 million pounds of copper in blister. SPCC began an expansion of the sulfuric acid

plant at the smelter in 1996 to increase the capture of sulfur dioxide emissions from 18% to 30%. The project is on schedule for completion in the first quarter of 1998 and should further improve air quality.

The production capacity of the Ilo copper refinery was increased 20%, or 82 million pounds in 1996. Production in 1997 reached a record 513 million pounds.

**Below: Gus Paul,
vice president, commercial.**



specialty chemicals

ENTHONE-OMI IS A WORLDWIDE SUPPLIER OF SPECIALTY chemicals used to produce functional and decorative coatings on metals and plastics for the electronics and metal finishing industries. It markets its products from 30 locations throughout North America, Europe and Asia. Enthone-OMI's pre-tax profit increased 21% in 1997, to a record \$29.4 million.

Asarco's involvement in the specialty chemicals business started



Above:
Kevin Morano,
executive vice president
and chief financial officer.

specialty chemicals and aggregates

ENTHONE-OMI	1997	1996	1995
<i>(in millions)</i>			
Sales	\$323.7	\$319.2	\$308.6
Pre-tax Earnings	\$29.4	\$24.2	\$23.0

AMERICAN LIMESTONE

<i>(in millions)</i>			
Sales	\$54.1	\$47.2	\$44.3
Pre-tax Earnings	\$13.8	\$10.1	\$8.6

40 years ago, in 1957, with the acquisition of Enthone, Inc., a small, regional company based in New Haven, Connecticut. For three decades, Enthone focused its efforts on the United States, with overseas activities being handled by licensees. In 1988, Asarco significantly expanded the business through the acquisitions of OMI International and, in 1989, the Imasa Group in Europe. To gain greater control of its business in key growth markets, Enthone-OMI has made eight subsequent acquisitions including acquisition of the minority interests of Enthone-OMI (Singapore) in 1995, and an additional interest in 1996 in Hua-Mei, a joint venture in the Peoples Republic of China, bringing Enthone-OMI's ownership to 51%. Enthone-OMI has also acquired Industrias Oxy Metal, S.A., a Mexican specialty chemicals business, STS, a small Swiss specialty chemicals company and Blasberg Oberflächentechnik GmbH, a highly respected German specialty chemicals company.

Enthone-OMI has also generated internal growth by investing heavily in research and product and market development. These acquisitions and investments have made Enthone-OMI a global participant in the specialty chemicals business and have resulted in a compound annual growth rate of 23.6% in pre-tax profit since 1988.

Technical innovation and marketing effectiveness were the key factors contributing to a fourth consecutive year of record sales and earnings in 1997. Contributing to the growth was strong global market acceptance for new products providing improved corrosion resistance for automotive components, high performance coatings for printed circuit boards and electronic components, and advanced technology for manufacturing semi-conductor chips. A new state-of-the-art manufacturing facility and technical center in Singapore was completed in June to support growth in the ASEAN region.

All of Enthone-OMI's facilities are ISO 9001 or 9002 certified and the s'Hertogenbosch, Netherlands and Norrköping, Sweden facilities were the first to receive ISO 14001 certification for environmental management systems in 1997.

aggregates

A MERICAN LIMESTONE COMPANY, A WHOLLY OWNED subsidiary, produces construction aggregates, ready mixed concrete and agricultural limestone at locations in Tennessee and Virginia. Aided by favorable weather and a good construction market in the Southeast in 1997, American Limestone increased sales by 15% and recorded its fourth consecutive year of record earnings with pre-tax profits of \$13.8 million. Since 1989, American Limestone's earnings

have grown at a compound annual growth rate of 14%.

Asarco has also made several modest-sized investments in the aggregates business since 1989, however, most of American Limestone's earnings growth has been from expansions and increased volumes from its original properties and from good cost control. Demand for aggregates in American Limestone's market area is expected to continue to be strong in 1998.

Asarco's specialty chemicals and aggregates businesses each achieved record earnings again in 1997.

LEAD OPERATIONS

ASARCO'S LEAD BUSINESS INCLUDES ITS INTEGRATED Missouri lead mining, smelting and refining business and a custom smelting business in East Helena, Montana.

Asarco's Missouri lead business consists of two mines and a smelter and refinery. The Company's Sweetwater and West Fork mines provide approximately 90% of the feed for the Glover smelter and refinery with the balance coming from purchased lead concentrates. Zinc is an important co-product of the lead mining operations. Production of mined lead and zinc declined in 1997 compared with recent years due to lower ore grades. In 1997, the Company completed its modernization project at the Glover smelter and refinery. With the completion of this project, the Glover facility met all federal ambient air standards in 1997 and increased refined lead production by 4.5% over the prior year.

Asarco's custom lead business consists of its East Helena, Montana lead smelter. The Company permanently closed its Omaha lead refinery in June 1997 and continues to work with the City of Omaha and the State of Nebraska to convert the site into a park. The Company now sells the lead bullion produced at East Helena to refineries located outside the United States. The custom lead business depends on the availability of precious metal-bearing lead materials, primarily from U.S. and Latin American mines. While the custom lead business was not profitable in 1997, the closure of the Omaha refinery and process improvements at East Helena improved operating results during the last half of the year.

In 1997, the Company completed a modernization project at East Helena. The East Helena plant met all federal ambient air standards for 1997.

The Leadville mine in Colorado is 60% owned and managed by Asarco and produces lead, zinc and silver. In January 1997, the mine was reopened after a brief period on standby. The mine was not profitable in 1997 due to low metal prices.

LEAD MARKET

About 65% of lead consumption is used in storage batteries for automobiles and other equipment. Worldwide consumption of refined lead has grown steadily in recent years at an annual rate of 2.7%. Lead is the preferred material for the cost-effective storage of energy in batteries. The consumption of lead in television screens and in X-ray shielding has also been growing in recent years.

SILVER OPERATIONS

Asarco owns a 50% interest in Silver Valley Resources which owns and operates the Coeur and Galena mines in Wallace, Idaho. The Coeur mine resumed operations



Above:

Bob Novotny,
vice president,
lead, zinc, silver
and aggregates.

lead

MINE	Asarco interest (%)	production (contained metal in millions of pounds)		
		1997	1996	1995
Sweetwater	100.0	113.9	106.9	124.4
West Fork	100.0	107.6	107.1	110.0
Leadville	100.0 ^(a)	9.5	6.5	10.0
Others		-	-	7.8
Total		231.0	220.5	252.2
Asarco Share		231.0	217.9	246.6
SMELTER				
Glover	100.0	254.2	243.3	271.6
East Helena	100.0	116.6	124.9	127.8
Total		370.8	368.2	399.4
REFINERY				
Glover	100.0	254.2	243.3	271.6
Omaha ^(b)	100.0	-	51.4	140.8
Total		254.2	294.7	412.4

^(a) 1997 reflects Asarco's beneficial interest in Leadville at 100%.

^(b) Asarco ceased refining lead at its Omaha, Nebraska refinery in June 1996.

lead reserves

MINE	Asarco interest (%)	mineral reserves 12/31/97 grade (tons in millions) (%)	
		(tons in millions)	(%)
Sweetwater	100.0	11.7	4.28
West Fork	100.0	5.0	5.00
Leadville	100.0 ^(a)	0.4	2.72
Total		17.1	

^(a) 1997 reflects Asarco's beneficial interest in Leadville at 100%.

silver reserves

MINE	Asarco interest (%)	mineral reserves 12/31/97 grade (tons in millions)ozs/ton	
		(tons in millions)	ozs/ton
Silver Valley Resources	50.0	1.6	19.48
Mission	100.0	514.1	0.16
Montana Resources	49.9	499.4	0.07
Troy ^(a)	75.0	12.0	1.42
San Bartolome	100.0	10.7	3.97
Minto	86.7	7.2	0.27
Total		1,045.0	
Asarco Share		790.0	

^(a) Troy currently on standby.

silver

	Asarco interest	production (contained metal in thousands of ounces)		
MINE	(%)	1997	1996	1995
DOMESTIC				
Mission	100.0	2,169	1,981	2,604
Ray	100.0	424	480	839
Silver Valley Resources	50.0	3,436	1,651	—
Others		1,362	1,349	3,152
SOUTHERN PERU 53.0 ^(a)				
Toquepala		1,474	1,412	1,557
Cuajone		1,671	1,685	1,401
Total		10,536	8,558	9,553
Asarco Share		6,901	5,778	7,273
REFINERY				
Amarillo	100.0	20,330	30,842	37,265
Southern Peru-Ilo	53.0 ^(a)	2,462	2,218	2,519
Total		22,792	33,060	39,784
Asarco Share		21,629	32,004	38,530

^(a) Asarco's beneficial interest in SPCC was 43.2% until April 1995, increasing to 52.3% at December 1995, and 52.6% at December 1996, and 53.0% at December 1997.



Batteries supplied to the booming automotive market consume most of the lead produced by Asarco (ABOVE).

X-rays, 35mm film and other imaging products use much of the Asarco-produced silver (RIGHT).



Above: Gus Kinsolving, vice president and general counsel.

in mid-1996 after a five-year standby period. In May 1997, operations at the Galena mine were resumed. A development program, begun in 1995, has been successful in identifying additional higher-grade silver reserves.

The Company also owns a 75% interest in the Troy, Montana silver-copper mine, which currently is on standby. The Company plans to restart Troy in conjunction with the development of the nearby Rock Creek silver-copper deposit which has been in the permitting process since 1987. In 1997, the Company submitted a draft supplemental environmental impact statement for Rock Creek and expects to receive an approved final environmental impact statement in 1998 and operating permits in 1999.

SILVER MARKET

Since 1979, demand for silver has grown 73%. Consumption of silver, which primarily is used for photographic materials, electronics and jewelry, has grown to more than 830 million ounces annually. Since 1990, demand for silver has exceeded mine production and by the third quarter of 1997 the surplus of 875 million ounces of silver accumulated in the 1980s was finally consumed. With consumption currently exceeding production by a substantial margin and with reduced worldwide inventories, the outlook is favorable for the silver price.

ZINC OPERATIONS

The Company operates four zinc mines near Knoxville, Tennessee. It also produces zinc as a co-product at its Missouri and Leadville mines. Production in 1997 of zinc in Tennessee was below 1996 levels, due to a 42-day strike in the fourth quarter.

Despite this work stoppage, financial results of the Tennessee operations improved in 1997 due to higher zinc prices. New Market, one of the four Tennessee mines, was placed on standby in the fourth quarter of 1996 and its operations are expected to remain suspended in 1998.

grade	Asarco interest	z i n c				
		production (contained metal in millions of pounds)		mineral reserves (12/31/97)		
MINE	(%)	1997	1996	1995	(tons in millions)	%
Tennessee	100.0	104.9	132.7	154.2	6.1	3.06
Leadville	100.0 ^(a)	23.6	18.3	30.8	0.4	9.01
Sweetwater	100.0	2.7	13.8	24.4	11.7	0.35
West Fork	100.0	14.7	14.4	21.8	5.0	0.99
Others	—	—	—	25.2	—	—
Total		145.9	179.2	256.4	23.2	
Asarco Share		145.9	171.9	238.8		

^(a) 1997 reflects Asarco's beneficial interest in Leadville at 100%.

ZINC MARKET

Zinc is used primarily as a protective coating material in construction and in transportation and electrical equipment. A 1996 supply deficit resulted in higher zinc prices during much of 1997.

Growth in Western World zinc demand has averaged 3.4% over the last five years.

m o l y b d e n u m

	Asarco interest	production (contained metal in millions of pounds)		
MINE	(%)	1997	1996	1995
DOMESTIC				
Montana Resources	49.9	10.3	11.0	10.2
Mission	100.0	—	0.8	0.9
SOUTHERN PERU				
Toquepala	53.0 ^(a)	6.1	4.5	3.7
Cuajone		3.3	4.2	4.3
Total		19.7	20.5	19.1
Asarco Share		10.1	10.9	10.0

^(a) Asarco's beneficial interest in SPCC was 43.2% until April 1995, increasing to 52.3% at December 1995, 52.6% at December 1996, and 53.0% at December 1997.

SPECIALTY METALS

The Company operates a specialty metals business at its Globe plant in Denver, Colorado. In 1997, the Company completed the transformation of the business from processing of intracompany secondary materials into a stand-alone specialty metals operation. The Globe plant, which produces litharge, bismuth compounds and high purity metals, was profitable in 1997 and the Company expects it to continue its growth.



Water treatment systems designed by Hydrometrics, Inc., a company subsidiary, are used by Asarco and other companies. The biotreatment facility (ABOVE LEFT) treats more than 1,000 gallons of water per minute at the Company's West Fork mine. A facility (ABOVE RIGHT) removes nutrients as well as metals from discharge water at a non-Asarco plant in Montana.

(BELOW)

Amarillo Copper Refinery employees volunteer to speak with local students about the importance of environmental protection. To dramatize their presentation, they wear "Recycle Ranger" costumes.



environment, safety and health

ENVIRONMENT

PROTECTION OF THE ENVIRONMENT IS ONE OF ASARCO'S principal operating objectives. The Company has made and continues to make substantial investments to deal with environmental issues associated with historical Company operations. The Company has also put in place policies, practices and procedures to meet today's environmental standards.

Nearly two years ago, the Company initiated a discussion with the U.S. Environmental Protection Agency to establish a voluntary compliance framework to resolve environmental matters on a nationwide basis and eliminate the time and expense of dealing with issues individually through negotiation and litigation. In early 1998, an agreement was reached on most outstanding issues in the Company's copper and lead mining, smelting and refining operations in the United States. The agreement also establishes a basis for the Company and Federal and state agencies to work together in the future.

The Company has adopted a comprehensive Environmental Management System (EMS). This system integrates environmental management procedures into the operating management systems of the Company. Under EMS, Company facilities are audited regularly to assure conformity with EMS, employees receive annual environmental awareness training and practices are established to deal with the environmental responsibilities of each of the Company's operations.

The agreement includes new capital projects totaling \$61.5 million that resolve issues that have been under study at the Ray mine and East Helena smelter. The largest capital project, \$55 million over six years, provides for the extension of an existing tunnel at the Ray mine which diverts Mineral Creek around the Ray mine workings. The project will have a positive effect on future operations as well as on the environment. Asarco also agreed to pay penalties of \$6.4 million to resolve past disputed issues.

A new agreement with EPA resolves most outstanding environmental issues.

These penalties are covered by existing environmental reserves.

Asarco has also been active in developing and installing new environmental technologies. Storm water recycling systems, dust suppression equipment and gas collection facilities have been installed at a number of locations. The Company has developed an innovative biotreatment process for mine water and developed low-impact land reclamation methods using cattle to fertilize and stabilize soils.

This investment of time and capital is paying off. For example, Asarco was in full compliance in 1997 with new restrictive standards for air emissions at its decades-old lead smelters in Missouri and Montana.

Asarco is also very active in remediating environmental conditions at current and former operating properties. Many of these projects are done in cooperation with state and Federal government agencies. Asarco is working with communities in Omaha, Nebraska and Tacoma, Washington to transform its former industrial sites into parks and new commercial centers. In 1997, Asarco spent \$63 million on remediation work related to historic operations.

SAFETY AND HEALTH

The safety and health of its employees is Asarco's most important operating objective. A Corporate Safety and Health Review Committee sets safety standards for each unit's operations, monitors performance and administers recognition programs which reward safety excellence. In 1997, a portion of each salaried operating employee's incentive compensation was directly linked to their operating unit's safety and health performance. The program has been very successful.

In 1997, there were 28% fewer lost work day injuries in the Company's domestic mines and 37% fewer lost work day injuries in its domestic plants. The Company believes that a safe and healthy workplace is an essential goal. While the programs in place have improved safety performance, management will continue to focus attention on safety and health issues and will continue with extensive training, education programs and recognition programs with the objective of creating an accident-free workplace.

exploration

ASARCO'S EXPLORATION EFFORT IS FOCUSED ON THE IDENTIFICATION and acquisition of advanced gold, copper and silver exploration projects. In 1997, the Company spent \$32 million on an active mineral exploration program. Over 90% of expenditures were directed at projects outside the United States, principally in French Guiana, Chile, Peru, Bolivia and Australia. Work in the United States was mostly directed at identifying additional reserves at the Company's operating properties.

In French Guiana, Asarco has interests in five large

Asarco Adopts New Environmental Management System

This advanced management system includes:

Environmental management procedures integrated into the Company's operating systems;

Company facilities audited regularly to assure conformance with policy;

Annual environmental awareness training provided to employees;

Practices established to deal with each operation's environmental responsibilities.



Above: Dave Woodbury,
vice president, human resources.

Below: Mike Varner, vice president,
environmental operations



**Exploration
drilling in French
Guiana has defined
a 1.5 million ounce
gold resource.**

project areas with known gold anomalies. Drilling at the Company's 100% owned Camp Caiman project has identified a near-surface gold deposit within a five-mile long gold in soil anomaly associated with a major structural zone. A resource of 18.6 million tons of ore with a grade of .08 ounces of gold per ton has been identified. This resource contains 1.5 million ounces of gold. Gold mineralization at Camp Caiman is open-ended and the drilling program is continuing.

To assist the company in meeting its environmental and social responsibilities in the Camp Caiman project, an expert, independent Advisory Committee has been created. Thought to be the first of its kind in the mining industry, the committee includes persons with recognized expertise in conservation of tropical environments. To date, the committee has provided independent review and advice on environmental and social issues associated with exploration and preliminary mine planning.

Evaluation of the San Bartolome silver project near Cerro Rico de Potosi in Bolivia is at an advanced stage. A mineable reserve of 11 million tons of ore with a grade of 4.0 ounces of silver per ton, containing some 44 million ounces of silver has been identified. There is excellent potential to add to this reserve.

SPCC has been pursuing copper and gold exploration targets in Peru. The most advanced project is the Tantauaty copper-gold project in northern Peru, in which SPCC has a 44% interest and is the operator. Drill results to date have been encouraging on this porphyry type deposit. Further drilling is planned for 1998.

Asarco has recently increased its exploration activities in Chile and several properties in northern Chile are being examined and drilled. The most advanced project is a moderate-sized oxide copper deposit where drilling to confirm a mineable reserve is underway.



Above: Gerry Van Voorhis, vice president, exploration.

Exploration projects currently are underway in Chile (RIGHT) in the jungles of French Guiana (BELOW RIGHT), and on the altiplano of Bolivia (BELOW).



financial review



SARCO MADE SIGNIFICANT PROGRESS IN 1997 IN ACHIEVING ITS LONG-TERM OBJECTIVES OF GROWING ITS COPPER BUSINESS, DEVELOPING ITS SPECIALTY CHEMICALS AND AGGREGATES BUSINESSES, REALIZING VALUE FROM ITS INVESTMENTS IN FOREIGN MINING COMPANIES, REDUCING DEBT, REPURCHASING STOCK TO ENHANCE SHAREHOLDER VALUE AND IMPROVING AND ENHANCING ITS SAFETY, HEALTH AND ENVIRONMENTAL PERFORMANCE.

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management's discussion and analysis of financial condition and results of operations

Asarco reported 1997 net earnings of \$143.4 million, or diluted earnings per share of \$3.42. Earnings for 1997 include after-tax gains totaling \$47.6 million (\$73.3 million pre-tax), or \$1.13 per share, from the sale of shares of Grupo Mexico, S.A. de C.V. (Grupo Mexico), Mexico's largest mining company.

Net earnings in 1996 and 1995 were \$138.3 million and \$169.2 million, respectively. Results for 1996 included an after-tax gain of \$39.0 million (\$60.1 million pre-tax) from the sale of the Company's interest in MIM Holdings Limited (MIM), an Australian based mining company, and a \$7.2 million after-tax gain (\$11.1 million pre-tax) from the sale of a 25% interest in the Company's Silver Bell project. Results for 1995 included a special after-tax charge of \$79.5 million (\$122.3 million pre-tax) related to the termination of lead refining operations at the Company's Omaha, Nebraska plant, adoption of an accounting principle regarding the impairment of long-lived assets, and additions to the Company's reserve for costs associated with previously closed plants.

The Company's earnings are heavily influenced by the prices for its metals as established on U.S. and international commodity exchanges. Asarco's fourth quarter 1997 earnings reflect the sharp decrease in copper prices which took place during the final months of 1997. Asarco announced in January 1998 that it has instituted a company-wide cost reduction program to respond to the decline in metal prices. The program, which has already been imple-

mented, includes the purchase of higher productivity equipment, reductions in personnel and reductions in general and administrative expenses, purchased services and other operating costs. In total, the cost reduction program is expected to result in savings of \$50 million in 1998, and improve net earnings by approximately 80 cents per share. The Company provided for the severance costs associated with this program in the fourth quarter of 1997.

Asarco made significant progress in 1997 in achieving its long-term objectives of growing its copper business, developing its specialty chemicals and aggregates businesses, realizing value from its investments in foreign mining companies, reducing debt, repurchasing stock to enhance shareholder value and improving and enhancing its safety, health and environmental performance:

- The Company's beneficial interest in mined copper production in 1997 was 977.4 million pounds. While 1997 production was down 3.8% from 1996 primarily due to lower ore grades at the Company's North American copper operations and the partial curtailment of the Hayden concentrator at the Ray mine in Arizona during the early part of 1997, the Company's mine copper production is more than double that produced by the Company in 1985.
- In July 1997, the Company began production of refined copper at its new solvent extraction/electrowinning (SX/EW) facility at the Silver Bell mine in Arizona. The new SX/EW plant, in which Asarco has a 75% interest, is designed to produce 36 million pounds of refined copper annually. The plant, which started up on schedule, has been producing copper at its designed capacity.
- In the second and third quarters of 1997, the Company sold all of its unrestricted shares of Grupo Mexico for \$322.5 million. The sales resulted in an after-tax gain of \$47.6 million. With the sale of the Grupo Mexico shares, the Company has monetized the last of its historical minority investments. The proceeds from the Grupo Mexico sale, and the MIM sale in 1996, have enabled the Company to strengthen its balance sheet, reduce its interest expense, and undertake a major share repurchase program.
- Following the initial sale of Grupo Mexico shares in June 1997, the Company undertook a \$100 million share repurchase program. In December 1997, the Company completed the program after repurchasing 3.3 million shares and reduced the number of its outstanding shares by approximately 7.7% to slightly under 40 million shares.
- Southern Peru Copper Corporation (SPCC) arranged long-term financing at favorable rates for its \$1 billion expansion program. The program includes a 50% increase in production at SPCC's Cuajone mine which is expected to add 130 million pounds to SPCC's annual copper production, and the modernization of its Ilo smelter. The expansion at Cuajone is currently on schedule and is expected to be completed in the first quarter of 1999.

- In 1997, the Company's specialty chemicals and aggregates businesses continued their strong growth. Each of these businesses achieved record earnings, totaling over \$43 million before tax, a level which now contributes significantly to Asarco's results, particularly at the bottom of the metal market cycle. In specialty chemicals, technical innovation and marketing effectiveness were key factors contributing to a fourth consecutive year of record sales and earnings. In aggregates, favorable weather and a good construction market in the Southeast increased sales by 15%.

In April 1995, the Company acquired an additional 10.7% interest in SPCC and consolidated SPCC's results in its financial statements effective January 1, 1995. The Company's ownership of SPCC was 52.3% at January 1, 1995, and increased to 63.0% effective April 5, 1995. The Company had previously accounted for its investment in SPCC by the equity method. In November 1995, SPCC offered to exchange new common shares for labor shares issued by its Peruvian Branch to workers under prior law in Peru. These labor shares, which are traded on the Lima Stock Exchange, represented a 17.3% interest in the Peruvian Branch which comprises substantially all of the operations of SPCC in Peru. The offer was concluded in December 1995, with 80.8% of the labor shares tendered. As a result, SPCC owned 96.7% of the Branch at December 31, 1995. At December 31, 1997 and 1996, SPCC owned 97.8% and 97.2%, respectively of the Branch as a result of open market purchases of labor shares. The Company's equity interest in SPCC at December 31, 1997 and 1996 was 54.1% and at December 31, 1995 was 54.0%, and its voting interest was 63.1%, 62.6% and 61.0%, respectively. The Company's beneficial economic interest in the operations of SPCC, net of the remaining labor shares interest, was 53.0%, 52.6% and 52.3% at December 31, 1997, 1996 and 1995, respectively.

sales

Sales were \$2.7 billion in 1997 and 1996, and \$3.2 billion in 1995. In 1997, sales reflect higher copper, specialty chemicals and aggregates sales volumes offset by the lower metal prices in 1997 compared to 1996 and lower lead and silver sales volumes due to the termination of refining operations at the Omaha, Nebraska refinery in June 1996. The decrease in 1996 sales compared with 1995 was principally attributable to a 29 cent reduction in the average selling price of copper partially offset by higher copper sales volumes. The higher copper sales volume in 1996 was mainly due to a full year of sales of production from SPCC's SX/EW plant and higher copper concentrate sales partially offset by lower sales due to the termination of refining operations at the Omaha, Nebraska refinery in June 1996.

price/volume data:

AVERAGE METAL PRICES	1997	1996	1995
Copper (per pound—COMEX)	\$1.04	\$1.06	\$1.35
Copper (per pound—LME)	1.03	1.04	1.33
Lead (per pound—LME)	0.28	0.35	0.29
Silver (per ounce— Handy & Harman)	4.89	5.18	5.19
Zinc (per pound—LME) ⁽¹⁾	0.60	0.47	0.47
Molybdenum (per pound—Metals Week Dealer Oxide) ⁽¹⁾	4.18	3.61	7.42
METAL SALES VOLUME	1997	1996	1995
Copper (000s pounds)			
Asarco	1,113,300	1,103,700	1,006,800
SPCC	744,000	694,300	646,600
Consolidated	1,857,300	1,798,000	1,653,400
Asarco Beneficial Interest ⁽²⁾⁽³⁾	1,502,800	1,467,500	1,332,600
Lead (000s pounds)			
Asarco	255,000	295,800	394,000
Silver (000s ounces)			
Asarco	19,883	26,955	38,086
SPCC	3,086	3,110	3,761
Consolidated	22,969	30,065	41,847
Asarco Beneficial Interest ⁽²⁾	21,511	28,584	39,987
Zinc (000s pounds) ⁽¹⁾			
Asarco	145,970	200,456	240,230
Molybdenum (000s pounds) ⁽¹⁾			
Asarco	5,346	6,470	5,685
SPCC	9,398	8,813	8,402
Consolidated	14,744	15,283	14,087
Asarco Beneficial Interest ⁽²⁾	10,307	11,088	9,896

(1) The Company's zinc and molybdenum production is sold in the form of concentrates. Volume represents pounds of zinc and molybdenum metal contained in those concentrates.

(2) SPCC presented at 100%. Asarco consolidated SPCC effective January 1, 1995. Asarco's beneficial interest in SPCC was 53.0% at December 31, 1997, 52.6% at December 31, 1996 and 52.3% at December 31, 1995.

(3) Effective February 1996, Asarco's beneficial interest in Silver Bell L.L.C. is 75%.

Substantially all of the Company's copper and most of its lead production are sold as refined metal under annual contracts. To the extent not sold under annual contracts, production may be sold on a spot sale basis. The Company's zinc production and the balance of its lead production are sold in the form of concentrates and bullion under contracts of one to three years duration. Silver and gold are sold under monthly contracts or in spot sales. Revenue is recognized primarily in the month product is shipped to customers based on prices as provided in sales contracts. Certain subsidiaries, principally SPCC, recognize revenue based on prices prevailing at the time of shipment to customers with final pricing generally occurring within three months of shipment. Revenues with respect to these sales are adjusted in the period of settlement to reflect final pricing and in periods prior to settlement to reflect

any decline in market prices which may occur between shipment and settlement.

hedging and trading activities

The Company may use derivative instruments to manage its exposure to market risk from changes in commodity prices, interest rates or the value of its assets and liabilities. Derivative instruments which are designated as hedges must be deemed effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract.

hedging

Depending on the market fundamentals of a metal and other conditions, the Company may purchase put options or create synthetic put options to reduce or eliminate the risk of metal price declines below the option strike price on a portion of its anticipated future production. Put options purchased by the Company establish a minimum sales price for the production covered by such put options and permit the Company to participate in price increases above the option price. The cost of options is amortized on a straight-line basis during the period in which the options are exercisable. Depending upon market conditions, the Company may either sell options it holds or exercise the options at maturity. Gains or losses from the sale or exercise of options, net of unamortized acquisition costs, are recognized in the period in which the underlying production is sold. The Company also uses futures contracts to hedge the effect of price changes on a portion of the metals it sells. Gains and losses on futures contracts are reported as a component of the underlying transaction. Earnings include gains from option sales and exercises, primarily related to copper, of \$25.8 million in 1997 and \$27.1 million in 1996 and losses of \$5.6 million in 1995.

At December 31, 1997, the Company held the following copper put options: (in millions, except per pound amounts)

	Pounds	Period	Strike Price Per Pound	Unamortized Cost	Percent of Estimated Production
Asarco	44.0	1/98-3/98	\$0.95	\$0.7	26%
SPCC	44.0	1/98-3/98	\$0.95	\$0.6	27%

trading

As part of its price protection program, the Company may use synthetic put options which consist of a call option and a forward sale on the same quantity of metal. Price protection programs utilizing synthetic puts may be implemented in steps. In cases where the step approach is used, the Company's objective is to take advantage of current market conditions to minimize its cost while at the same time limiting the Company's exposure should market conditions change before the synthetic put is completed. Until a synthetic put is completed, any calls not matched with a forward sale are marked to market with the gain or loss, if any,

recorded in earnings. Earnings include gains of \$0.5 million in 1997 from the sale or exercise of call options. Earnings also include gains of \$3.6 million in 1997 and losses of \$0.1 million in 1996 from unrealized mark to market adjustments. At December 31, 1997, the Company held copper call options covering an aggregate of 140.3 million pounds of copper, a portion of which are exercisable in each quarter of 1998 at an average strike price of 97 cents. The carrying value of these calls at December 31, 1997 was \$0.4 million.

gains and losses

The recognized pre-tax gains (losses) of the Company's metal hedging and trading activities, were as follows:

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995
(in millions)			
METAL			
Copper	\$28.7	\$26.9	\$(5.7)
Zinc	1.2	(0.1)	(0.1)
Silver	—	—	0.5
Lead	—	0.2	(0.3)
Net Gain (Loss)	\$29.9	\$27.0	\$(5.6)

interest rate swaps

The Company may enter into interest rate swap agreements to limit the effect of increases in the rates on any floating rate debt. The differential is recorded in interest expense. In 1995, the Company entered into three swap agreements, expiring 1998 to 2000, with an aggregate notional amount of \$115.0 million. The effect of these agreements is to limit the interest rate exposure to 6.6% on \$100 million of the Company's revolving credit loans and 6.8% on its \$15 million, 5 year term loan. As a result of these swap agreements, interest expense was increased by \$0.6 million in 1997, \$0.7 million in 1996 and \$0.2 million in 1995.

cost of products and services

Cost of products and services was \$2.1 billion in 1997 and 1996 and \$2.3 billion in 1995. In 1997, cost of products and services reflects higher sales volumes of copper produced from purchased concentrates at SPCC, higher power costs at SPCC and increased specialty chemicals and aggregates sales volumes offset by lower purchases of refined copper to meet customer commitments and lower lead and silver sales volumes due to the termination of refining operations at the Company's Omaha, Nebraska refinery in June 1996. Cost of products and services was reduced by \$16.7 million in 1997, \$5.3 million in 1996 and \$0.7 million in 1995 as a result of liquidation of a portion of the Company's LIFO inventories.

As a result of its \$1 billion expansion program, SPCC's electric power requirements will increase significantly requiring the construction of substantial additional generating capacity. In the sec-

ond quarter of 1997, SPCC sold its existing power plant to an independent power company. In connection with the sale, a power purchase agreement was also completed, under which SPCC will purchase its power needs for the next twenty years. Under the agreement, SPCC's cost of power will increase somewhat from its 1996 level, however, SPCC will avoid the significant capital expenditures that would be required to meet the needs of expanded operations and its power costs will be favorably affected by benefits available to independent power companies in Peru.

The decrease in cost of sales in 1996 compared with 1995 was mainly due to the termination of refining operations at the Company's Omaha, Nebraska refinery in June 1996. In addition, higher mine production at SPCC in 1996 reduced its need to supplement its production with higher cost outside concentrate purchases.

other expenses

Depreciation and depletion expense was \$130.8 million in 1997 compared with \$118.6 million in 1996 and \$118.8 million in 1995. The increase in 1997 over 1996 reflects a full year's depreciation of the sulfuric acid plant and additional assets related to the Cuajone and Toquepalo mines in Peru, and the Silver Bell mine in Arizona, which commenced its new SX/EW operations in July 1997. In 1996, a full year of depreciation of the SX/EW plant in Peru was offset by lower depreciation from domestic operations.

The increase in research and exploration costs year over year is primarily due to higher exploration spending on prospects located in French Guiana, Peru and Chile.

At December 31, 1996, the Company applied the American Institute of Certified Public Accountants: Statement of Position 96-1, "Environmental Remediation Liabilities" (SOP 96-1), which provides authoritative accounting guidance with regard to recognizing, measuring and disclosing environmental liabilities. Environmental and other closed plant charges were \$20.2 million in 1997 (\$50.4 million in charges offset by \$30.2 million in anticipated insurance and other recoveries), and \$15.0 million in 1996 (\$67.7 million in charges offset by \$52.7 million in insurance and other recoveries) including \$10.0 million for the effect of the application of SOP 96-1.

nonoperating items

Interest expense was \$74.2 million in 1997, \$76.4 million in 1996 and \$92.0 million in 1995. The decrease year over year reflects lower average borrowings due to the use of proceeds from the sale of the Company's interest in MIM in the second quarter of 1996 and the sale of shares of Grupo Mexico in the second and the third quarters of 1997.

The increase in other income in 1997 from 1996 reflects a dividend from Grupo Mexico and higher equity earnings, principally from Silver Valley Resources. Included in other income are dividends from MIM in 1996 and 1995.

taxes on income

The Company's effective tax rate is lower than the statutory rate primarily because of the percentage depletion and dividends received deductions which are permitted for U.S. tax purposes. The effective tax rate was lower in 1997 compared with 1996 principally due to tax incentives approved by the Government of Peru in connection with the expansion of SPCC's Cuajone mine. The Company's tax expense includes substantial foreign taxes, primarily attributable to SPCC's Peruvian Branch. Subject to certain limitations these taxes have been applied as credits to reduce U.S. federal income tax otherwise due.

The Company has recorded a \$119.0 million benefit for tax net operating loss carryforwards at December 31, 1997. The Company believes that these carryforwards, which expire in years 2008 through 2010, will reduce future federal income taxes otherwise payable. The effective tax rate was slightly higher in 1996 compared with 1995 principally due to the decrease in the percentage depletion deduction as a result of lower mine earnings.

cash flows—operating activities

Net cash provided from operating activities was \$321.3 million in 1997 compared with \$267.3 million in 1996 and \$489.1 million in 1995. The increase in 1997 from 1996 is primarily a result of cash provided from operating assets and liabilities which reflects a decrease in accounts receivable due to the decline in copper prices during the final months of 1997 and proceeds received from insurance settlements related to environmental liabilities.

Cash from 1996 operating activities as compared to 1995 reflected lower earnings due to lower copper prices. Other cash used for operating assets and liabilities included payments by SPCC in 1996 of income taxes and workers' participation accrued in 1995. These uses of cash were partially offset by proceeds received from insurance settlements related to environmental matters. Cash provided from operating assets and liabilities in 1995 is principally a result of lower inventory levels and accrual of higher income taxes in 1995.

cash flows—investing activities

Net cash used for investing activities was \$167.3 million in 1997, compared with cash provided of \$93.8 million in 1996 and cash used of \$296.8 million in 1995. The increase in capital expenditures in 1997 from 1996 reflects the expansion project at the Cuajone mine. Other investing activities in 1997 included proceeds of \$322.5 million from the sale of shares of Grupo Mexico partially offset by the investment of the proceeds from SPCC financing activities in held-to-maturity investments.

The decrease in capital expenditures in 1996 from 1995 reflects the completion of construction of SPCC's SX/EW and sulfuric acid plants in 1995. Other investing activities in 1996 included the sale of MIM stock, the sale of a 25% interest in the Company's Silver Bell project, and proceeds from the maturity of held-to-maturity investments, primarily at SPCC.

Investing activities in 1995 included the purchase of an additional

10.7% interest in SPCC, the effect of consolidating SPCC's opening cash balance as of January 1, 1995, and the release of restricted cash. The release of restricted cash represents the withdrawal by SPCC of funds deposited with the Central Reserve Bank of Peru under an agreement pursuant to which SPCC agreed to use such funds in an investment program over five years from 1992 through 1996.

The Company's planned capital expenditures in 1998 are estimated to be approximately \$367 million. Included in 1998 spending are expenditures related to the expansion of SPCC's Cuajone mine.

liquidity and capital resources

At December 31, 1997, the Company's debt as a percentage of total capitalization (the total of debt, minority interests and equity) was 28.3%, compared with 26.7% at the end of 1996 and 34.1% at the end of 1995. Consolidated debt at the end of 1997, including the debt of SPCC, none of which is guaranteed by Asarco, was \$878.9 million, compared with \$814.3 million in 1996 and \$1,121.9 million in 1995. Additional indebtedness permitted under the terms of the Company's most restrictive covenants was \$868.6 million at December 31, 1997. In addition, under the most restrictive covenants of SPCC's loan agreements, SPCC would have been permitted additional indebtedness of \$849.7 million at December 31, 1997.

The increase in debt in 1997 reflects the private placement by SPCC of \$150.0 million of Secured Export Notes in the United States and international markets and the sale by SPCC of \$50.0 million of 8.25% bonds due 2004 to investors in Peru, offset by the portion of the proceeds from the sale of shares of Grupo Mexico not used to purchase Company stock. The secured export notes which were issued with an average maturity of seven years and a final maturity in 2007 were priced at par with a coupon rate of 7.9%.

The Company has two revolving credit agreements that permit borrowings of up to \$850 million. One facility for \$350 million expires in April 1999 and the other facility for \$500 million expires in May 2002. The borrowings bear interest based on LIBOR, the CD rate or the prime rate. At December 31, 1997, there were no outstanding borrowings under either agreement.

In the second quarter of 1997, SPCC entered into a \$600 million seven-year credit agreement with a group of international financial institutions. The agreement consists of a \$400 million term loan facility and a \$200 million revolving credit facility. The interest rate during the first three years of the agreement on any loans outstanding is LIBOR plus 1.75% per annum for term loans and LIBOR plus 2.00% for revolving credit loans. No amounts have been drawn by SPCC under this agreement as of December 31, 1997. SPCC's loan agreements are not guaranteed by Asarco. The funds raised in 1997, the loan facility of \$600 million and internal funds are expected to provide the Company with sufficient resources for the \$1 billion expansion program at SPCC.

Some of SPCC's financing agreements contain covenants which limit the payment of dividends to stockholders. Under the most

restrictive covenant, SPCC may pay dividends to stockholders equal to 50% of its net income for any fiscal quarter as long as such dividends are paid by June 30 of the following year. As a result, at December 31, 1997, \$572.8 million of SPCC's net assets included in the Company's consolidated net assets are unavailable for the payment of dividends.

Financing activities in 1997 also included the repurchase of 3.3 million shares of the Company's stock for approximately \$100 million which reduced the number of outstanding shares by approximately 7.7% to slightly under 40 million shares.

The Company has on file with the Securities and Exchange Commission a universal shelf registration statement covering the future issuance of up to \$300 million in equity and debt securities. The Company has no immediate plans to issue securities and the registration is intended to provide the Company with the flexibility to access the capital markets when appropriate.

In the second quarter of 1995, the Company sold \$150 million of 8½% debentures due May 1, 2025. The Company used the proceeds to repay revolving credit bank borrowings. Borrowings under the revolving credit agreements were used to fund the purchase of an additional 10.7% interest in SPCC and for general corporate purposes.

In January 1998, the Company closed on a refinancing of three tax exempt debt issues and called for the redemption of the existing bonds. The aggregate principal amount of the refinancing was \$132.8 million. The refinancing is expected to reduce the Company's annual interest costs by approximately \$3.3 million.

The Company's cash and marketable securities at December 31, 1997 were \$415.9 million including \$331.1 million held by SPCC. The Company expects that it will meet its cash requirements in 1998 and beyond from internally generated funds, cash on hand and from borrowings under its revolving credit agreements or from additional debt or equity financing.

dividends and capital stock

The Company paid dividends to common stockholders of \$33.6 million, or 80 cents per share, in 1997, \$34.2 million, or 80 cents per share, in 1996 and \$29.6 million, or 70 cents per share, in 1995. In addition, SPCC paid dividends of \$49.4 million to minority interests in 1997, \$58.3 million in 1996 and \$33.8 million in 1995. At the end of 1997, the Company had 39,663,000 common shares issued and outstanding, compared with 42,824,000 at the end of 1996 and 42,571,000 at the end of 1995.

closed facilities and environmental matters

Reserves for closed plants and environmental matters totaled \$122.1 million and \$128.3 million at December 31, 1997 and 1996, respectively. The Company anticipates that expenditures relating to these reserves will be made over the next several years. Net cash expenditures against these reserves were \$63.1 million in 1997, \$54.1 million in 1996 and \$95.8 million in 1995.

On January 23, 1998, the Company, the United States Depart-

ment of Justice and EPA announced the signing of a multi-region voluntary agreement covering a broad range of environmental issues affecting the Company's United States operations. The two consent decrees containing the agreement have been filed in United States District Courts in Phoenix, Arizona and Helena, Montana and are subject to approval by both courts following public comment. Pursuant to the agreement, which resolves numerous issues that were being negotiated and litigated separately, the Company will undertake capital construction projects amounting to \$61.5 million, to be spent over six years, and pay penalties of \$6.4 million.

In 1995, the Company decided not to make a \$40 million investment which would have been required to meet State and EPA environmental requirements at its Omaha, Nebraska refinery. As a result, the Company terminated lead refining operations at Omaha in June 1996. The special charges taken in 1995 included the write-off of the remaining book value of the assets at Omaha, a provision for severance and legal expenses, expected cleanup and demolition costs associated with the termination of lead refining operations and the write-down of certain in-process inventory to net realizable value.

impact of new accounting standard

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." This statement which is effective for fiscal years beginning after December 15, 1997 requires the Company to make certain disclosures but has no impact on the Company's financial statements.

other

The Company has implemented a program to identify and resolve the effect of Year 2000 issues on the integrity and reliability of its financial and operational systems. In addition, the Company is also communicating with its principal customers, suppliers and service providers to ensure Year 2000 issues will not have an adverse impact on the Company. The costs of achieving Year 2000 compliance are not expected to have a material impact on the Company's business, operations or its financial condition.

cautionary statement

Forward-looking statements in this report and in other Company statements include statements regarding expected commencement dates of mining or metal production operations, projected quantities of future metal production, anticipated production rates, operating efficiencies, costs and expenditures as well as projected demand or supply for the Company's products. Actual results could differ materially depending upon factors including the availability of materials, equipment, required permits or approvals and financing, the occurrence of unusual weather or operating conditions, lower than expected ore grades, the failure of equipment or processes to operate in accordance with specifications, labor relations, environmental risks as well as political and economic risk associated with foreign operations. Results of operations are directly affected by metals prices on commodity exchanges which can be volatile.

*consolidated statement of earnings**(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)***FOR THE YEARS ENDED DECEMBER 31,****1997****1996****1995**

Sales of products and services	\$2,721,048	\$2,716,784	\$3,197,753
Operating costs and expenses:			
Cost of products and services	2,114,554	2,109,395	2,313,194
Selling, administrative and other	137,657	132,779	130,871
Depreciation and depletion	130,802	118,569	118,827
Research and exploration	43,186	37,609	25,881
Provision for asset impairments and plant closures	—	—	45,564
Environmental and other closed plant charges, net of recoveries	20,160	14,993	76,274
Total operating costs and expenses	2,446,359	2,413,345	2,710,611
Operating income	274,689	303,439	487,142
Interest expense	(74,247)	(76,442)	(91,954)
Other income	33,845	29,084	26,424
Gain on sale of investments and other interests	73,281	71,158	—
Earnings before taxes on income and minority interests	307,568	327,239	421,612
Taxes on income	73,571	100,572	122,916
Earnings before minority interests	233,997	226,667	298,696
Minority interests in net earnings of consolidated subsidiaries	(90,605)	(88,331)	(129,543)
Net earnings	\$ 143,392	\$ 138,336	\$ 169,153
Per share amounts:			
Net earnings:			
Basic	\$ 3.42	\$ 3.24	\$ 4.00
Diluted	\$ 3.42	\$ 3.23	\$ 3.98
Dividends to common stockholders	\$ 0.80	\$ 0.80	\$ 0.70
Weighted average common shares outstanding:			
Basic	41,903	42,711	42,326
Diluted	41,976	42,769	42,458

The accompanying notes are an integral part of these financial statements.

*consolidated balance sheet**(DOLLARS IN THOUSANDS)***AT DECEMBER 31,****1997****1996****ASSETS**

Current assets:

Cash and cash equivalents	\$ 210,559	\$ 192,408
Marketable securities	205,317	1,039
Accounts receivable:		
Trade, net of allowance for doubtful accounts of \$8,121 and \$8,129	375,904	462,141
Other	71,062	78,419
Inventories	362,119	383,281
Other assets	74,967	67,856

Total current assets	1,299,928	1,185,144
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Investments:

Available-for-sale and other cost	126,843	442,707
Equity	61,337	59,787

Total investments	188,180	502,494
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Property, net	2,418,810	2,274,088
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Other assets including intangibles, net	203,484	158,623
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Total Assets	\$4,110,402	\$4,120,349
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LIABILITIES

Current liabilities:

Bank loans	\$ 204	\$ 15,913
Current portion of long-term debt	28,712	39,815
Accounts payable:		
Trade	289,234	379,406
Other	63,605	57,198
Salaries and wages	35,788	32,427
Taxes on income	62,565	57,695
Reserve for closed plant and environmental matters	43,238	38,128
Other	50,131	51,975

Total current liabilities	573,477	672,557
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Long-term debt	849,991	758,583
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Deferred income taxes	118,289	173,245
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Reserve for closed plant and environmental matters	78,827	90,205
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Postretirement benefit obligation	104,491	99,945
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Other liabilities and reserves	157,543	93,163
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Total non-current liabilities	1,309,141	1,215,141
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Contingencies

MINORITY INTERESTS	533,911	495,706
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PREFERRED STOCKHOLDERS' EQUITY

Authorized—10,000,000 shares without par value; none issued	—	—
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COMMON STOCKHOLDERS' EQUITY

Authorized—80,000,000 common shares without par value:

Issued shares: 1997 and 1996—45,039,878	679,991	679,991
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Unrealized gain on securities reported at fair value, net of tax	11,654	56,311
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Retained earnings	1,159,799	1,066,191
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Treasury stock (at cost)—common shares		
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1997—5,377,339; 1996—2,216,015	(157,571)	(65,548)
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Total Common Stockholders' Equity	1,693,873	1,736,945
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Total Liabilities, Minority Interests, Preferred and		
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Common Stockholders' Equity	\$4,110,402	\$4,120,349
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The accompanying notes are an integral part of these financial statements.

*consolidated statement of cash flows**(DOLLARS IN THOUSANDS)***FOR THE YEARS ENDED DECEMBER 31,****1997****1996****1995****OPERATING ACTIVITIES**

Net earnings	\$ 143,392	\$ 138,336	\$ 169,153
Adjustments to reconcile net earnings to net cash provided from (used for) operating activities:			
Depreciation and depletion	130,802	118,569	118,827
Provision (benefit) for deferred income taxes	(12,074)	26,302	97
Treasury stock used for employee benefits	3,272	5,707	4,775
Undistributed equity earnings	(3,934)	(438)	(460)
Net (gain) loss on sale of investments and property	(69,671)	(72,321)	4,124
Provision for asset impairment	—	—	34,864
Increase (decrease) in reserves for closed plant and environmental matters	(6,268)	12,807	(6,878)
Minority interests	90,605	88,331	129,543
Cash provided from (used for) operating assets and liabilities, net of the consolidation of SPCC:			
Accounts receivable	88,416	(27,200)	(36,867)
Inventories	19,376	(23,742)	48,842
Accounts payable and accrued liabilities	(87,981)	49,193	19,671
Other operating assets and liabilities	27,527	(41,527)	8,915
Foreign currency transaction (gains) losses	(2,196)	(6,739)	(5,536)
Net cash provided from operating activities	321,266	267,278	489,070

INVESTING ACTIVITIES

Capital expenditures	(322,436)	(286,474)	(337,831)
Sale of property	47,426	20,109	9,966
Purchase of investments	(12,650)	(5,800)	(4,513)
Sale of available-for-sale securities	417,831	371,058	20,953
Purchase of available-for-sale securities	(93,945)	(46,513)	(23,203)
Proceeds from held-to-maturity investments	1,036	42,455	76,877
Purchase of held-to-maturity investments	(204,590)	(1,002)	(76,375)
Release of restricted cash	—	—	60,450
Acquisition of additional interest in SPCC	—	—	(116,444)
Consolidation of the opening cash balance of SPCC	—	—	93,348
Net cash (used for) provided from investing activities	(167,328)	93,833	(296,772)

FINANCING ACTIVITIES

Debt incurred	283,024	53,303	234,449
Debt repaid	(218,184)	(360,847)	(162,892)
Escrow deposits on long-term loans	(15,364)	(10,064)	10,809
Net treasury stock transactions	(99,561)	1,146	6,754
Purchase of minority interests	(7,272)	(5,280)	—
Distributions to minority interests	(49,417)	(58,295)	(33,828)
Contributions from minority interests	1,863	4,000	—
Dividends paid to common stockholders	(33,604)	(34,174)	(29,645)
Net cash (used for) provided from financing activities	(138,515)	(410,211)	25,647
Effect of exchange rate changes on cash	2,728	3,108	2,134
Increase (decrease) in cash and cash equivalents	18,151	(45,992)	220,079
Cash and cash equivalents at beginning of year	192,408	238,400	18,321
Cash and cash equivalents at end of year	\$ 210,559	\$ 192,408	\$ 238,400

The accompanying notes are an integral part of these financial statements.

*consolidated statement of changes
in common stockholders' equity*

(DOLLARS IN THOUSANDS)

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995
COMMON STOCK			
Balance at beginning and end of year 45,039,878 shares	\$ 679,991	\$ 679,991	\$ 679,991
UNREALIZED GAIN ON SECURITIES			
REPORTED AT FAIR VALUE			
Balance at beginning of year	56,311	131,600	91,627
Net increase (decrease) in fair value	(44,657)	(75,289)	39,973
Balance at end of year	11,654	56,311	131,600
RETAINED EARNINGS			
Balance at beginning of year	1,066,191	976,107	853,169
Net earnings	143,392	138,336	169,153
Dividends paid to common stockholders	(33,604)	(34,174)	(29,645)
Treasury stock issued at less than cost	(4,266)	(7,813)	(15,656)
Foreign currency adjustment	(11,914)	(6,265)	(914)
Balance at end of year	1,159,799	1,066,191	976,107
TREASURY STOCK			
Balance at beginning of year	(65,548)	(80,214)	(107,400)
Purchased	(101,366)	(568)	(1,130)
Used for corporate purposes	9,343	15,234	28,316
Balance at end of year	(157,571)	(65,548)	(80,214)
1997 — 5,377,339 shares			
1996 — 2,216,015 shares			
1995 — 2,469,125 shares			
TOTAL COMMON STOCKHOLDERS' EQUITY	\$1,693,873	\$1,736,945	\$1,707,484

The accompanying notes are an integral part of these financial statements.

*notes to consolidated financial statements***(1) summary of significant accounting policies****PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements of Asarco Incorporated and Subsidiaries include all significant wholly-owned and majority-owned subsidiaries. Investments over which the Company has significant influence but does not have voting control are accounted for by the equity method. Certain prior year amounts have been reclassified to conform to the current year's presentation.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH EQUIVALENTS

Cash equivalents include all highly liquid investments with a maturity of three months or less, when purchased.

MARKETABLE SECURITIES

Marketable securities include short-term liquid investments with a maturity of more than three months, when purchased, and are carried at cost, which approximates market.

INVENTORIES

Company-owned metals processed by domestic smelters and refineries are valued at the lower of last-in, first-out (LIFO) cost or market. Southern Peru Copper Corporation (SPCC) in-process and refined metal inventories are valued at the lower of average cost or market. All other inventories are valued at the lower of first-in, first-out (FIFO) or average cost or market.

PROPERTY

Assets are valued at cost or net realizable value. In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of", the Company reviews long-lived assets, certain identifiable intangibles and goodwill related to those assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The impairment loss on such assets, as well as long-lived assets and certain identifiable intangibles to be disposed of, is measured as the amount by which the carrying value of the assets exceeds the fair value of the assets (less disposal costs, if applicable).

The Company evaluates the carrying value of assets based on undiscounted future cash flows and for its metals segment also considers expected metal prices based on historical metal prices and price trends.

Betterments, renewals, costs of bringing new mineral properties into production, and the cost of major development programs at existing mines are capitalized as mineral land. Maintenance, repairs, normal development costs at existing mines, and gains or losses on assets retired or sold are reflected in earnings as incurred. Plant assets are depreciated over their estimated useful lives, generally by the units-of-production method. Depreciation and depletion of mine assets are computed generally by the units-of-production method using proven and probable ore reserves. SPCC computes depreciation on its buildings and equipment using the straight-line method over estimated lives from 5 to 40 years, or the estimated life of the mine, if shorter.

Goodwill is amortized over the mine life up to a maximum of 40 years on a units-of-production basis or up to 40 years on a straight-line basis, for non-mining assets.

REVENUE RECOGNITION

Substantially all of the Company's copper and most of its lead production are sold as refined metal under annual contracts. To the extent not sold under annual contracts, production may be sold on a spot sale basis. The Company's zinc production and the balance of its lead production are sold in the form of concentrates and bullion under contracts of one to three years duration. Silver and gold are sold under monthly contracts or in spot sales. Revenue is recognized primarily in the month product is shipped to customers based on prices as provided in sales contracts. Certain subsidiaries, principally SPCC, recognize revenue based on prices prevailing at the time of shipment to customers with final pricing generally occurring within three months of shipment. Revenues with respect to these sales are adjusted in the period of settlement to reflect final pricing and in periods prior to settlement to reflect any decline in market prices which may occur between shipment and settlement.

FINANCIAL INSTRUMENTS

The Company may use derivative instruments to manage its exposure to market risk from changes in commodity prices, interest rates or the value of its assets and liabilities. Derivative instruments which are designated as hedges must be deemed effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract. Depending on the market fundamentals of a metal and other conditions, the Company may purchase put options or create synthetic put options to reduce or eliminate the risk of metal price declines below the option strike price on a portion of its anticipated future production. The cost of options is amortized on a straight-line basis during the period in which the options are exercisable. Gains or losses from the sale or exercise of options, net of unamortized acquisition costs, are recognized in the period in which the underlying hedged production is sold. The Company also uses futures contracts to hedge the effect of price changes on a portion of the metals it sells. Gains and losses on futures contracts are reported as a component of the underlying transaction.

As part of its price protection program, the Company may use synthetic put options which consist of a call option and a forward sale on the same quantity of metal. Each component of a synthetic put option may be purchased or sold at different times. In those cases where the forward sale component has not been entered into or has been offset, call options are accounted for as trading activities and the carrying values of such call options are marked to market and any related adjustments are recorded in net earnings.

The Company may enter into interest rate swap agreements to limit the effect of increases in the interest rates on any floating rate debt. The differential is accrued as interest rates change and is recorded in interest expense.

EXPLORATION

Tangible and intangible costs incurred in the search for mineral properties are charged against earnings when incurred.

ENVIRONMENTAL REMEDIATION COSTS

The Company provides for costs associated with environmental remediation obligations when such costs are probable and reasonably estimable and generally not later than completion of the remediation feasibility study. Such accruals are adjusted as new information develops or circumstances change and are not discounted. Recoveries of environmental remediation costs from other parties are recorded as assets when the recovery is deemed probable. The American Institute of Certified Public Accountants issued Statement of Position 96-1, "Environmental Remediation Liabilities" (SOP 96-1), in October 1996. SOP 96-1 provides authoritative guidance on specific accounting issues in connection with recognizing, measuring and disclosing environmental remediation liabilities. The Company has applied the provisions of SOP 96-1 as of December 31, 1996.

TAXES ON INCOME

Deferred income taxes reflect the future tax consequences of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year end. No U.S. deferred income taxes have been provided for the income tax liability which would be incurred on repatriation of the undistributed earnings of the Company's consolidated foreign subsidiaries and the undistributed earnings of SPCC prior to 1993 because the Company intends indefinitely to reinvest these earnings outside the United States. General business credits are accounted for by the flow-through method.

SUBSIDIARY STOCK ISSUANCE

Gains or losses arising from the sale of previously unissued shares to an unrelated party by a subsidiary are recognized in net earnings to the extent that the net book value of the shares owned by the parent after the sale exceeds or is lower than the net book value per share immediately prior to the sale of the shares by the subsidiary.

STOCK BASED COMPENSATION

In 1996 the Company elected to apply the disclosure only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation."

IMPACT OF NEW ACCOUNTING STANDARDS

In 1997, the Company adopted Statements of Financial Accounting Standards No. 128, "Earnings per Share" and No. 131, "Disclosure about Segments of an Enterprise and Related Information." Neither statement had a material impact on the Company's financial statements.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." This statement which is effective for fiscal years beginning after December 15, 1997 requires the Company to make certain disclosures but has no impact on the Company's financial statements.

(2) interest in Southern Peru Copper Corporation

ACQUISITION OF ADDITIONAL INTEREST

On April 5, 1995, the Company acquired an additional 10.7% interest in SPCC for \$116.4 million, increasing its ownership from 52.3% to 63.0%. The additional shares acquired enabled the Company to elect a majority of the directors of SPCC. As a result, the Company consolidated SPCC in its financial statements based on its 52.3% ownership, effective January 1, 1995, and 63.0% ownership, effective April 5, 1995. The Company previously accounted for its investment in SPCC by the equity method. The acquisition has been accounted for as a purchase transaction. The excess of the purchase price over the Company's interest in the net book value of SPCC attributable to the shares acquired of \$46.4 million has been assigned to proven and probable sulfide reserves, proven and probable leachable reserves and mineralized material and is being amortized based on production.

The table below summarizes unaudited pro forma consolidated results of operations of Asarco for the year ended December 31, 1995, assuming that Asarco had acquired an additional 10.7% of the outstanding stock of SPCC on January 1, 1995. The unaudited pro forma financial information is based on management's estimates and assumptions and does not purport to represent the results that actually would have occurred if the acquisition had, in fact, been completed on the date assumed.

PRO FORMA RESULTS OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, <i>(in millions, except per share amounts)</i>	1995
Sales of products and services	\$3,197.8
Net earnings	\$ 172.2
Net earnings per common share (Basic)	\$ 4.07
Net earnings per common share (Diluted)	\$ 4.05

COMMON SHARE EXCHANGE OFFER

On December 29, 1995, SPCC completed an offer to exchange its common stock, par value of \$0.01 per share, for any and all labor shares of the Peruvian Branch of SPCC. These labor shares, which are traded on the Lima Stock Exchange, represented a 17.3% interest in the Peruvian Branch which comprises substantially all of the operations of SPCC in Peru. The offer allowed holders of the labor shares in the Branch to exchange four Series-1 Labor shares or five Series-2 Labor shares for one share of common stock. Common shares are entitled to one vote per share. In connection with the offering, the Company exchanged its shares of SPCC for Class A shares which are entitled to five votes per share. As a result of this transaction, Asarco's equity interest in SPCC was reduced to approximately 54.0% at December 31, 1995 (54.1% at December 31, 1997 and 1996) and the Company's economic interest in the assets of SPCC, net of the remaining labor share interest was 52.3% at December 31, 1995 (53.0% and 52.6% at December 31, 1997 and 1996, respectively). The Company's voting interest in SPCC was 61.0% at December 31, 1995 (63.1% and 62.6% at December 31, 1997 and 1996, respectively). The common shares issued in exchange for the labor shares are listed on both the New York Stock Exchange and Lima Stock Exchange. The exchange of common shares for labor shares was accounted for by SPCC as a purchase of a minority interest. The value of the common stock issued in the exchange (based on the average per share trading value for the three business days ending January 9, 1996) plus issuance costs exceeded the carrying value of the minority interests acquired by \$82.0 million, net of tax. Of this amount, \$4.1 million was assigned to metal inventory on hand at December 31, 1995 and charged to earnings in 1996. The remaining amount was assigned to proven and probable sulfide reserves, proven and probable leachable reserves and mineralized material and is being amortized based on production. Asarco's share of the increase in value (\$30.4 million, net of tax) has been eliminated in consolidation.

(3) other income (expense)

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995
<i>(in millions)</i>			
Interest income	\$20.7	\$20.0	\$16.5
Equity earnings	8.9	4.5	2.3
Dividends from MIM	—	5.3	9.2
Dividends from Grupo Mexico	5.4	—	—
Other	(1.2)	(0.7)	(1.6)
Total	\$33.8	\$29.1	\$26.4

(4) taxes on income

Certain subsidiaries that have been consolidated for financial reporting purposes, principally SPCC, are not includible in Asarco's consolidated federal income tax return. The following tables combine the separate provisions for income taxes that have

been determined for each company, in accordance with SFAS No. 109:

Earnings (loss) before taxes on income and minority interests were:

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995
<i>(in millions)</i>			
Domestic operations	\$ 42.9	\$ 40.3	\$ 24.7
Foreign operations	264.7	286.9	396.9
Total	\$307.6	\$327.2	\$421.6

TAX EXPENSE (BENEFIT)

The components of the provision (benefit) for taxes on income were:

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995
<i>(in millions)</i>			
U.S. Federal:			
Current	\$24.4	\$ 3.4	\$ 4.1
Deferred	(4.8)	14.5	(3.1)
U.S. Federal	19.6	17.9	1.0
Foreign and State:			
Current	61.3	70.9	118.7
Deferred	(7.3)	11.8	3.2
Foreign and State	54.0	82.7	121.9
Total income tax	\$73.6	\$100.6	\$122.9

Total taxes paid were: 1997—\$54.2 million; 1996—\$134.4 million; 1995—\$65.8 million.

RECONCILIATION OF STATUTORY INCOME TAX RATE

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995
U.S. statutory income tax rate	35.0%	35.0%	35.0%
Adjustment for entities for which no U.S. tax is required	(2.3)	(1.1)	(0.3)
Percentage depletion	(9.5)	(9.6)	(12.3)
Dividends from non-includible subsidiaries	11.4	10.4	11.0
Dividends received deduction	(9.4)	(8.5)	(8.8)
Foreign taxes	16.9	24.6	28.3
Foreign tax credit	(13.5)	(20.5)	(25.2)
Reversal of taxes previously accrued	(2.1)	—	—
Other	(2.6)	0.4	1.5
Effective income tax rate	23.9%	30.7%	29.2%

Temporary differences and carryforwards which give rise to deferred tax assets, liabilities and related valuation allowances were:

DEFERRED TAX ASSETS (LIABILITIES)

AT DECEMBER 31,	1997	1996
<i>(in millions)</i>		
Current:		
Reserve for closed plant and environmental matters	\$ 7.2	\$ 12.4
Inventories	5.3	6.6
Other	6.6	5.4
Net deferred tax asset	\$ 19.1	\$ 24.4
Noncurrent:		
Tax effect of regular net operating losses	\$ 119.0	\$ 168.2
Reserve for closed plant and environmental matters	22.2	33.1
Postretirement benefit obligation	36.6	35.0
Alternative minimum tax credit carryforwards	28.3	16.2
Foreign tax credit carryforwards	—	69.4
Previously taxed income	6.1	5.3
Capitalized leases	21.1	25.6
Pension obligation	(17.5)	(19.8)
Property, plant and equipment	(314.1)	(308.6)
Investments—Grupo Mexico	(12.8)	(120.4)
Other	(7.2)	(1.1)
Valuation allowance for deferred tax assets	—	(76.2)
Net deferred tax liability	(118.3)	(173.3)
Total net deferred tax liability	\$ (99.2)	\$ (148.9)

At December 31, 1997, the Company had \$339.9 million of net operating loss carryforwards which expire, if unused, in years 2008 through 2010 and \$28.3 million of alternative minimum tax credits which are not subject to expiration. These net operating loss carryforwards and alternative minimum tax credits are available solely to Asarco and not to SPCC. The Company believes that these carryforwards will be available to reduce future federal income tax liabilities and has recorded the tax benefit of these carryforwards as noncurrent deferred tax assets. The Company's net operating loss carryforwards for state purposes are not significant and, therefore, have not been recorded as deferred tax assets.

The decrease in the valuation allowance of \$76.2 million from 1996 to 1997 is attributable to the utilization of foreign tax credits and alternative minimum tax credits by SPCC in 1997.

In the first quarter of 1997, the Government of Peru approved a reinvestment allowance for a program of SPCC to expand the Cuajone mine. The reinvestment allowance provides SPCC with tax incentives in Peru and, as a result, certain U.S. tax credit carryforwards, for which no benefit had previously been recorded, were realized. The reduction in the effective tax rate as a result of the reinvestment allowance for the twelve months ended December 31, 1997 lowered consolidated tax expense by approximately \$14.7 million. Pursuant to the reinvestment allowance SPCC has received tax deductions in Peru in amounts equal to the cost of the qualifying property (approximately \$245 million). As qualifying property is acquired, the financial statement carrying value of the qualifying property will be reduced to reflect the tax benefit associated with the reinvestment allowance (approximately

\$73 million). As a result, financial statement depreciation expense related to the qualifying property will be reduced over its useful life (approximately 15 years).

U.S. deferred tax liabilities have not been provided on approximately \$272.0 million in 1997 (\$270.8 million in 1996 and \$257.6 million in 1995) of undistributed earnings of foreign subsidiaries and nonconsolidated companies more than 50% owned, because assets representing those earnings are permanently invested. It is not practicable to determine the amount of income taxes that would be payable upon remittance of assets that represent those earnings. The amount of foreign withholding taxes that would be payable upon remittance of assets that represent those earnings is approximately \$1.2 million in 1997 (\$1.2 million in 1996 and \$0.5 million in 1995).

(5) inventories

AT DECEMBER 31,	1997	1996
<i>(in millions)</i>		
Inventories of smelters and refineries at lower of LIFO cost or market	\$ 7.4	\$ 10.3
Provisional cost of metals received from suppliers for which prices have not yet been fixed	51.5	44.5
Mine inventories at lower of FIFO cost or market	88.9	105.8
Metal inventory at lower of average cost or market	45.6	49.5
Materials and supplies at lower of average cost or market	138.2	141.0
Other	30.5	32.2
Total	\$362.1	\$383.3

Replacement cost exceeds inventories valued at LIFO cost by approximately \$86.4 million in 1997 (1996-\$115.2 million). Liquidation of LIFO inventories resulted in pre-tax earnings of \$16.7 million in 1997, \$5.3 million in 1996 and \$0.7 million in 1995.

(6) investments

During 1997 the Company sold 106.3 million shares of Grupo Mexico for proceeds of \$322.5 million, resulting in a pre-tax gain of \$73.3 million (\$47.6 million after-tax). At December 31, 1997, the value of the Company's remaining interest in Grupo Mexico is \$78.9 million representing the exercise price of shares subject to an option granted as part of the restructuring of the Company's investment in 1994. These shares are carried on the books of the Company at \$50.2 million. The Company's results for the year ended 1996 include a \$60.1 million pre-tax gain (\$39.0 million after-tax) on the sale of its 15% interest in MIM Holdings Limited (MIM) and an \$11.1 million pre-tax gain (\$7.2 million after-tax) on the sale of a 25% interest in its Silver Bell copper mine to Mitsui & Co.

In accordance with the provisions of SFAS No. 115, available-for-sale securities are carried at fair value. Unrealized gains at

December 31, 1997 of \$11.6 million (net of deferred taxes of \$6.3 million), compared with unrealized gains of \$56.3 million (net of deferred taxes of \$30.3 million) at December 31, 1996, were included as a component of stockholders' equity.

Available-for-sale and other cost investments:

AT DECEMBER 31,

<i>(in millions)</i>	Cost	Unrealized Holding		Total
		Gains	(Losses)	
1997				
Available-for-sale:				
Equity securities	\$ 25.3	\$17.5	\$ —	\$ 42.8
Debt securities	30.3	0.4	—	30.7
Cost investments:				
Grupo Mexico	50.2	—	—	50.2
Other	3.1	—	—	3.1
Total	\$108.9	\$17.9	\$ —	\$126.8
1996				
Available-for-sale:				
Grupo Mexico	\$ 249.1	\$ 79.6	\$ —	\$ 328.7
Equity securities	23.9	7.1	—	31.0
Debt securities	28.3	—	(0.1)	28.2
Cost investments:				
Grupo Mexico	50.2	—	—	50.2
Other	4.6	—	—	4.6
Total	\$ 356.1	\$ 86.7	\$(0.1)	\$ 442.7

Gross realized gains on available-for-sale securities in 1997 were \$76.0 million, compared with gross realized gains of \$60.1 million and losses of \$1.1 million in 1996, and gross realized losses of \$0.3 million in 1995. The debt securities have maturity dates ranging from 1999 to 2027. The unrealized holding gains and losses, excluding realized gains and losses, included as a component of stockholders' equity increased \$7.3 million in 1997 and decreased \$56.9 million in 1996. The average cost method has been used to determine the realized gain or loss on securities sold.

(7) property

AT DECEMBER 31,	1997	1996
(in millions)		
Buildings and equipment	\$ 3,762.8	\$ 3,617.2
Capital leases—equipment	123.7	122.4
Mineral land	701.0	645.0
Land, other than mineral	70.4	70.6
Other	6.2	6.1
Total property	4,664.1	4,461.3
Accumulated depreciation	(2,245.3)	(2,187.2)
Property, net	\$ 2,418.8	\$ 2,274.1

Accumulated depreciation applicable to capitalized leases amounted to \$81.6 million in 1997 and \$72.0 million in 1996.

In the first quarter of 1996, the Company recorded a pre-tax gain of \$11.1 million (\$7.2 million after-tax) on the sale of a 25% interest in its Silver Bell project.

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of," the Company reviews long-lived assets, certain identifiable intangibles and goodwill related to those assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The impairment loss on such assets, as well as long-lived assets and certain identifiable intangibles to be disposed of, is measured as the amount by which the carrying value of the assets exceeds the fair value of the assets (less disposal costs, if applicable).

The Company terminated lead refining operations at its Omaha, Nebraska plant in 1996 because of the substantial investment which would have been required to meet state and U.S. EPA imposed environmental requirements. As a result of the decision to terminate lead refining at the Omaha plant, in 1995 the Company recorded a pre-tax charge of \$25.6 million, which represented the total carrying value of the net property of the Omaha refinery at December 31, 1995.

The Company also recorded at December 31, 1995 a pre-tax charge to earnings of \$9.2 million in accordance with SFAS No. 121 with respect to the assets at its waste recycling subsidiary in Corpus Christi, Texas (Encycle) and an obsolete mill. The impairment loss on Encycle's assets was the result of prior operating losses.

(8) contingencies and litigation

The Company is a defendant in lawsuits in Arizona involving the United States, Native Americans and other Arizona water users contesting the right of the Company and numerous other individuals and entities to use water and, in some cases, seeking damages for water usage and alleged contamination of ground water. The lawsuits could affect the Company's use of water at its Ray Complex, Mission Complex and other Arizona operations.

The Company and certain subsidiaries are defendants in four purported class actions and fourteen other lawsuits in Texas seeking substantial compensatory and punitive damages for personal injury and contamination of property allegedly caused by present and former operations in Texas, and product sales of the Company and its subsidiaries. Most of the cases name additional corporations as defendants.

The Company and two subsidiaries, at December 31, 1997, are defendants in 661 lawsuits brought by 8,333 primary and 2,469 secondary plaintiffs seeking substantial compensatory and punitive damages for personal injury or death allegedly caused by exposure to asbestos. Two of these lawsuits are purported statewide class actions brought on behalf of classes of persons who are not yet known to have asbestos related injury. One of these lawsuits has been dismissed subject to appeal. One subsidiary was dismissed from one lawsuit seeking damages for removal or containment of asbestos-containing products in structures. Plaintiffs have appealed. In addition, the Company and certain subsidiaries

are defendants in product liability lawsuits involving various other products, including metals.

In September and October 1997, separate purported class actions were commenced against the Company in Omaha, Nebraska and in Denver, Colorado, seeking compensatory and punitive damages for alleged contamination of properties by emissions from the Company's former Omaha plant and the Globe plant in Denver. The actions are pending in federal district court in Omaha and Denver.

In March 1996, the United States government filed an action in United States District Court in Boise, Idaho, against the Company and three other mining companies under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA" or "Superfund") and the federal Clean Water Act for alleged natural resource damages to the Coeur d'Alene River Basin in Idaho. The government contends that the defendants are liable for damages to natural resources in a 1,500 square mile area caused by mining and related activities that they and others undertook over approximately the period between the mid-1800s and the mid-1960s. The action also seeks a declaration that defendants are liable for restoration of the area. The Company believes, and has been advised by outside legal counsel, that it has strong legal defenses to the lawsuit. In 1996, the court granted a motion to consolidate this case with a prior, similar lawsuit filed by the Coeur d'Alene Tribe. In August 1997, the United States filed a motion to add to the lawsuit several companies, including certain subsidiaries of the Company.

The Company and certain of its subsidiaries have received notices from the United States Environmental Protection Agency ("EPA") and the United States Forest Service that they and in most cases numerous other parties are potentially responsible to remediate alleged hazardous substance releases at certain sites under CERCLA. In addition, the Company and certain of its subsidiaries are defendants in lawsuits brought under CERCLA or state laws that seek substantial damages and remediation. Remedial action is being undertaken by the Company at some of the sites.

On January 23, 1998, the Company, the United States Department of Justice and EPA announced the signing of a multi-region voluntary agreement covering a broad range of environmental issues affecting the Company's United States operations. The two consent decrees containing the agreement have been filed in United States District Courts in Phoenix, Arizona and Helena, Montana and are subject to approval by both courts following public comment. Pursuant to the agreement, which resolves numerous issues that were being negotiated and litigated separately, the Company will undertake capital construction projects amounting to \$61.5 million, to be spent over six years, and pay penalties of \$6.4 million.

In connection with the matters referred to above, as well as at other closed plants and sites where the Company is working with Federal and state agencies to resolve environmental issues, the Company accrues for these losses when such losses are probable and reasonably estimable. Such accruals are adjusted as new information develops or circumstances change and are not discounted to their present value. Recoveries of environmental remediation

costs from insurance carriers and other parties are recorded as assets when the recovery is deemed probable.

Reserves for closed plants and environmental matters totaled \$122.1 million and \$128.3 million at December 31, 1997 and 1996, respectively. The Company anticipates that expenditures relating to these reserves will be made over the next several years. Net cash expenditures against these reserves were \$63.1 million in 1997, \$54.1 million in 1996 and \$95.8 million in 1995.

The effect on pre-tax earnings of environmental and other closed plant charges was \$20.2 million in 1997 (\$50.4 million in charges offset by \$30.2 million in anticipated insurance and other recoveries), and \$15.0 million in 1996 (\$67.7 million in charges offset by \$52.7 million in insurance and other recoveries) including \$10.0 million for the effect of the application of the American Institute of Certified Public Accountants: Statement of Position 96-1, "Environmental Remediation Liabilities."

Future environmental related expenditures cannot be reliably determined in many circumstances due to the early stages of investigation, the uncertainties relating to specific remediation methods and costs, the possible participation of other potentially responsible parties and changing environmental laws and interpretations. Similarly, due to the uncertainty of the outcome of court proceedings, future expenditures related to litigation cannot be reliably determined. It is the opinion of management that the outcome of the legal proceedings and environmental contingencies mentioned, and other miscellaneous litigation and proceedings now pending, will not materially adversely affect the financial position of Asarco and its consolidated subsidiaries. However, it is possible that litigation and environmental contingencies could have a material effect on quarterly or annual operating results, when they are resolved in future periods. This opinion is based on considerations including experience related to previous court judgments and settlements and remediation costs and terms. The financial viability of other potentially responsible parties has been considered when relevant and no credit has been assumed for any potential insurance recovery when not deemed probable.

**(9) debt and available
credit facilities**

LONG-TERM DEBT

AT DECEMBER 31,	1997	1996
<i>(in millions)</i>		
Revolving credit agreement	\$ —	\$ 45.0
Pollution control bonds, 1997/2006— rates from 6 ³ / ₄ % to 8.9%	155.0	155.6
Capital lease obligations, 1997/2006— rates from 7.3% to 12.0%	61.8	74.8
7% Notes due 2001	50.0	50.0
7 ³ / ₄ % Notes due 2003	99.7	99.6
7 ¹ / ₄ % Debentures due 2013	99.7	99.7
8 ¹ / ₄ % Debentures due 2025	149.0	148.9
6.8% term loan due 2000	15.0	15.0
6.43% EXIM Bank credit agreement	20.4	26.3
Mitsui credit agreement—LIBOR +2.87%	—	45.0
CAF credit agreement—average 9.4%	27.5	35.3
7.9% Secured Export Notes due 2007	150.0	—
8.25% Bonds due 2004	50.0	—
Other	.6	3.2
Total debt	878.7	798.4
Less current portion	28.7	39.8
Long-term debt	\$850.0	\$758.6

Interest paid by the Company (excluding amounts capitalized of \$5.5 million in 1997, \$2.8 million in 1996 and \$3.3 million in 1995) was \$74.4 million in 1997, \$78.1 million in 1996 and \$89.2 million in 1995.

Maturities of debt instruments and future minimum payments under capital leases are:

AT DECEMBER 31,	Debt Instruments	Capital Leases
<i>(in millions)</i>		
1998	\$ 37.0	\$ 18.3
1999	14.4	16.5
2000	39.0	27.6
2001	75.0	4.3
2002	20.1	2.5
Thereafter	631.4	4.9
Less interest	—	(12.3)
	\$816.9	\$ 61.8

The Company has two revolving credit agreements that permit borrowings of up to \$850.0 million, all of which was available at December 31, 1997. One facility for \$350 million expires in April 1999 and the other facility for \$500 million expires in May 2002. The borrowings bear interest based on LIBOR, the CD rate or the prime rate. Rates may vary based upon the Company's debt rating. Facility fees are payable on the full amount of the \$350

million and \$500 million revolving credit agreements at 0.2% and 0.125% per annum, respectively.

In April 1997, SPCC entered into a \$600 million seven-year credit agreement with a group of international financial institutions. The agreement consists of a \$400 million term loan facility and a \$200 million revolving credit facility. The interest rate during the first three years of the agreement on any loans outstanding is LIBOR plus 1.75% per annum for term loans and LIBOR plus 2.00% for revolving credit loans. A commitment fee of 0.5% per annum is payable on the undrawn portion of the facility. No amounts have been drawn by SPCC under this agreement as of December 31, 1997.

In May 1997, SPCC privately placed \$150 million of Secured Export Notes in the United States and international markets. These notes were issued with an average maturity of seven years and a final maturity in 2007 and were priced at par with a coupon rate of 7.9%. In addition, in June 1997 SPCC sold \$50 million of 8.25% bonds due June 2004 to investors in Peru.

Some of SPCC's financing agreements contain covenants which limit the payment of dividends to stockholders. Under the most restrictive covenant, SPCC may pay dividends to stockholders equal to 50% of its net income for any fiscal quarter as long as such dividends are paid by June 30 of the following year. As a result, at December 31, 1997, \$572.8 million of SPCC's net assets included in the Company's consolidated net assets are unavailable for the payment of dividends.

In April 1995, the Company issued \$150 million face amount of 8¹/₄% Debentures due in May 2025. In July 1995, the Company entered into a term loan agreement for \$15 million maturing in August 2000. Concurrent with the term loan, the Company entered into a five year interest rate swap agreement resulting in a fixed interest rate of 6.8% on the principal amount. Proceeds of the loan were used primarily to prepay \$13.5 million of 8³/₄% pollution control revenue bonds at par value plus a premium of 1.5% in the third quarter of 1995. The Company also concluded interest rate swap agreements in July 1995 resulting in a fixed interest rate of 6.6% on \$100 million of its revolving credit loans.

Under the most restrictive terms of the credit agreements, the Company must maintain a tangible net worth, as defined, of at least \$1 billion and the percentage of current assets to current liabilities, as defined, cannot be less than 125%. Tangible net worth, as defined, was \$1.7 billion at December 31, 1997, and the percentage of current assets to current liabilities, as defined, was 156%. In accordance with the most restrictive covenants of these agreements, additional indebtedness of \$868.6 million would have been permitted as of December 31, 1997. In addition, under the most restrictive covenants of SPCC's loan agreements, SPCC would have been permitted additional indebtedness of \$849.7 million at December 31, 1997.

In January 1998, the Company closed on a refinancing of three tax exempt debt issues and called for the redemption of the existing bonds. The aggregate principal amount of the refinancing was \$132.8 million. The refinancing is expected to reduce the Company's annual interest costs by approximately \$3.3 million.

Consolidated debt includes the debt of SPCC, none of which is guaranteed by Asarco.

The weighted average interest rate on short term borrowings was 7.4% at December 31, 1997, and 8.1% at December 31, 1996.

(10) commitments

The Company has entered into several sale-leaseback agreements of mining equipment and has options to purchase this equipment. The options are at fixed prices prior to expiration of the leases and at fair market value upon expiration. The leasebacks have been accounted for as operating leases.

The book value and associated depreciation of the equipment sold have been removed from the Company's property accounts. Any profit on the sale has been deferred and will be amortized into net earnings in proportion to the rental charged over the lease term.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of 1 year as of December 31, 1997 for each of the next 5 years and in the aggregate are:

YEAR	Amount (in millions)
1998	\$ 20.6
1999	19.4
2000	18.8
2001	18.4
2002	16.3
Thereafter	100.6
	\$194.1

Total rental expense was \$14.6 million in 1997, \$13.3 million in 1996 and \$10.9 million in 1995.

The Company's operating lease obligations include a lease by Silver Bell Mining, L.L.C., a 75% owned subsidiary, of its SX/EW facility. The gross rentals under the lease which are guaranteed by the Company are \$85.8 million. Under an agreement with the owner of the 25% interest, the Company will be reimbursed for 25% of any payments made by the Company under this guarantee. Production of refined copper at the plant began in July, 1997.

As a result of its \$1 billion expansion program, SPCC's electric power requirements will increase significantly requiring the construction of substantial additional generating capacity. In the second quarter of 1997, SPCC sold its existing power plant to an independent power company. In connection with the sale, a power purchase agreement was also completed, under which SPCC will purchase its power needs for the next twenty years. Under the agreement, SPCC's cost of power will increase somewhat from its 1996 level, however, SPCC will avoid the significant capital expenditures that would be required to meet the needs of expanded operations and its power costs will be favorably affected by benefits available to independent power companies in Peru.

(11) stockholders' equity

The Company purchased 3,371,618 of its common shares in 1997 (17,364 shares in 1996 and 34,729 shares in 1995). In 1997, 210,294 common shares (270,474 shares in 1996 and 503,392 shares in 1995) were used for employee benefit plans.

Retained earnings at December 31, 1997 includes undistributed earnings of \$20.0 million for investments in 50% or less owned entities previously or currently accounted for by the equity method. Retained earnings includes cumulative foreign currency adjustments of \$8.3 million at December 31, 1997 (\$3.7 million at December 31, 1996, \$9.9 million at December 31, 1995). In 1996, a credit of \$0.6 million was recognized in determining the gain from cumulative foreign currency adjustments on the sale of the Company's interest in MIM.

STOCK OPTIONS

The Company has three stockholder approved plans, the 1996 Stock Incentive Plan, a Stock Incentive Plan prior to 1996 and a Stock Option Plan. The 1996 Stock Incentive Plan replaced the prior Stock Incentive Plan which in turn had replaced the Stock Option Plan. Future options can only be granted under the 1996 Stock Incentive Plan. Unexpired options issued under prior plans will continue to be governed by, and exercised under the Stock Option Plan and the Stock Incentive Plan. The 1996 Stock Incentive Plan provides for the granting of nonqualified stock options, Incentive Stock Options, as defined under the Internal Revenue Code of 1986, as amended, as well as limited rights, restricted stock, bonuses or other compensation payable in stock, other stock based awards and dividend equivalents. The price at which options may be granted under the 1996 Stock Incentive Plan shall not be less than 100% of the fair market value of the Common Stock, on the date of grant. In general, options expire after 10 years and are not exercisable for six months from the date of grant. Compensation cost charged against earnings for restricted stock awards under the above plans was \$1.0 million in 1997, \$1.1 million in 1996 and \$0.7 million in 1995. Retained earnings have been reduced by \$8.4 million at December 31, 1997 (\$7.1 million at December 31, 1996) for unearned compensation related to restricted stock awards.

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for awards under the stock option plans. If compensation cost for the Company's stock incentive plan had been determined based on the fair value at the grant date for awards in 1997, 1996 and 1995 consistent with the provisions of SFAS No. 123, the Company's net earnings and earnings per share would have been reduced to the pro forma

amounts (not including the earnings effect of options granted by SPCC for its stock, which is immaterial) indicated below:

<i>(in millions, except per share amounts)</i>	1997	1996	1995
Net earnings—as reported	\$143.4	\$138.3	\$169.2
Net earnings—pro forma	\$141.0	\$136.7	\$167.7
Earnings per share (Basic)—as reported	\$ 3.42	\$ 3.24	\$ 4.00
Earnings per share (Diluted)—as reported	\$ 3.42	\$ 3.23	\$ 3.98
Earnings per share (Basic)—pro forma	\$ 3.36	\$ 3.20	\$ 3.96
Earnings per share (Diluted)—pro forma	\$ 3.36	\$ 3.20	\$ 3.95

For purposes of computing earnings per share, basic and diluted, the dilutive effect of stock options on common shares outstanding is as follows:

Weighted Average Common Shares Outstanding:	1997	1996	1995
<i>(in millions)</i>			
Basic	41.9	42.7	42.3
Dilutive effect of stock options	0.1	0.1	0.1
Diluted	42.0	42.8	42.4

The fair value of each option grant is estimated on the date of grant using a Black-Scholes option-pricing model with the following assumptions used for grants in 1997: dividend yield of 2.9% (2.6% — 1996, 2.4% — 1995); expected volatility of 29.2% (28.4% — 1996, 27.6% — 1995); risk-free interest rate of 6.5% (5.43% — 1996, 7.8% — 1995); and expected lives of 7.0 years in 1997, 6.9 in 1996 and 1995.

The total number of shares that may be optioned or awarded under the 1996 Stock Incentive Plan is 478,165 shares as of December 31, 1997, (475,076 shares at December 31, 1996) plus an additional number of shares on January 1 of each calendar year for the 10 year duration of the Stock Incentive Plan equal to one percent of the number of shares of the Company's Common Stock outstanding on the immediately preceding December 31. The weighted average remaining contractual life of stock

options outstanding as of December 31, 1997 was 6.6 years. Stock option activity over the past three years under the Stock Incentive Plan and Stock Option Plan was:

	Number of Shares	Weighted Average Price	Option Price (range per share)
Outstanding at			
January 1, 1995	880,116	\$25.41	\$20.57 to \$29.38
Granted	216,200	\$29.19	\$26.63 to \$32.57
Exercised	(304,321)	\$25.00	\$20.57 to \$29.19
Canceled or expired	(9,026)	\$25.96	\$21.94 to \$29.19
Outstanding at			
January 1, 1996	782,969	\$26.60	\$20.57 to \$32.57
Granted	253,000	\$31.20	\$31.13 to \$34.38
Exercised	(39,306)	\$26.01	\$20.57 to \$29.19
Canceled or expired	(6,300)	\$25.85	\$20.57 to \$31.13
Outstanding at			
January 1, 1997	990,363	\$27.81	\$22.31 to \$34.38
Granted	370,450	\$27.49	\$27.50 to \$31.97
Exercised	(71,815)	\$26.47	\$22.31 to \$29.19
Canceled or expired	(24,600)	\$27.14	\$22.31 to \$31.13
Outstanding and exercisable at			
December 31, 1997	1,264,398	\$27.88	\$22.31 to \$34.38

In 1989, the Company adopted a Shareholder Rights plan, which expires on August 7, 1999, and declared a dividend of one Right for each of its common shares. In January 1998, the Company extended the Shareholder Rights plan, with certain minor modifications, for an additional ten year period effective upon the earlier of the expiration of the existing Rights plan or the redemption of the existing Rights. In certain circumstances, if a person or group becomes the beneficial owner of 15% or more of the outstanding common shares, with certain exceptions, these rights vest and entitle the holder to certain share purchase rights. In connection with the Rights dividend, 800,000 shares of Junior Participating Preferred Stock were authorized for issuance upon exercise of the Rights.

(12) benefit plans

PENSION BENEFITS

The Company maintains several noncontributory, defined benefit pension plans covering substantially all domestic employees. Benefits for salaried plans are based on salary and years of service. Hourly plans are based on negotiated benefits and years of service.

The Company's funding policy is to contribute amounts to the plans sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional tax deductible amounts as may be advisable under the circumstances. Plan assets are invested principally in commingled stock funds, mutual funds and securities issued by the United States.

Net pension costs consisted of:

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995
<i>(in millions)</i>			
Service cost	\$ 9.1	\$ 8.6	\$ 6.3
Interest cost on projected benefit obligations	12.7	11.0	9.8
Actual return on plan assets	(41.0)	(21.8)	(30.8)
Net amortization and deferral	26.9	10.7	21.0
Net pension costs	\$ 7.7	\$ 8.5	\$ 6.3

The actuarial present value of benefit obligations and funded status for the Company's plans were:

AT DECEMBER 31,	1997	1996	
<i>(in millions)</i>			
	Plans with Assets Exceeding Accum. Benefit Obligation	Plans with Assets Exceeding Accum. Benefit Obligation	Plans with Accum. Benefit Obligation Exceeding Assets ^(a)
Assets and obligations:			
Vested benefit obligation	\$163.5	\$139.4	\$ 5.3
Nonvested benefits	8.5	7.8	0.5
Accumulated benefit obligation	172.0	147.2	5.8
Plan assets at fair value	227.5	174.3	5.0
Plan assets in excess of (less than) accumulated benefit obligation	\$ 55.5	\$ 27.1	\$(0.8)
Projected benefit obligation (PBO)	\$204.0	\$175.4	\$ 7.2
Plan assets at fair value	227.5	174.3	5.0
Plan assets in excess of (less than)			
PBO	23.5	(1.1)	(2.2)
Prior service cost	16.3	18.1	(0.1)
Initial net plan obligation	2.4	0.9	2.1
Effect of changes in assumptions and actuarial gains and losses	(11.9)	8.6	(0.2)
Minimum liability	—	—	(0.5)
Pension asset (liability) reflected in consolidated balance sheet	\$ 30.3	\$ 26.5	\$(0.9)
Actuarial assumptions:			
Discount rate	7.0%	7.0%	7.0%
Expected long-term rate of return on plan assets ^(b)	10.0%	10.0%	8.0%
Expected annual salary increases	4.0%	4.0%	4.0%

^(a) Plans maintained by SPCC.

^(b) The expected long-term rate of return on plan assets is 8.0% for plans maintained by SPCC.

POSTRETIREMENT BENEFITS

Noncontributory postretirement health care coverage under the Asarco Health Plan, is provided to substantially all U.S. retirees not eligible for Medicare. A cost sharing Medicare supplement plan is available for retired salaried employees and life insurance coverage is provided to substantially all retirees. The tables below exclude the postretirement benefit obligation of SPCC, which is immaterial.

Net periodic postretirement benefit costs include:

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995
<i>(in millions)</i>			
Service cost	\$ 3.5	\$ 3.4	\$ 2.4
Interest cost	8.1	8.0	8.5
Amortization of loss	1.2	1.3	—
Net periodic postretirement benefit costs	\$12.8	\$12.7	\$10.9

The following sets forth the plan's status reconciled with amounts reported in the Consolidated Balance Sheet:

AT DECEMBER 31,	1997	1996
<i>(in millions)</i>		
Accumulated postretirement benefit obligation (APBO):		
Retirees	\$ 58.2	\$ 60.7
Fully eligible active plan participants	21.7	20.0
Other plan participants	42.9	41.1
Total APBO	122.8	121.8
Item not yet recognized in earnings:		
Effect of changes in assumptions and actuarial gains and losses	(18.3)	(21.9)
Postretirement benefit obligation	\$104.5	\$ 99.9

The annual assumed rate of increase in the per capita cost of covered benefits (i.e., health cost trend rate) is 6% for 1997 and is assumed to decrease to 5% by 1999 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation at December 31, 1997, by \$10.8 million, and the net periodic postretirement benefit costs for 1997 by \$1.2 million. The discount rate used in determining the accumulated postretirement benefit obligation was 7% at December 31, 1997 and 1996. The plans are unfunded.

EMPLOYEE SAVINGS PLAN

The Company maintains employee savings plans for salaried and hourly employees which permit employees to make contributions by salary reduction pursuant to section 401(k) of the Internal Revenue Code. The Company matches contributions up to 3% of compensation. In connection with the required match, the Company's contributions charged against earnings were \$4.6 million in 1997, \$4.5 million in 1996 and \$4.3 million in 1995.

(13) business segments

At December 31, 1997, the Company adopted SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information." This statement establishes standards for reporting information about operating segments and related disclosures about products and services, geographic areas, and major customers. Prior year amounts have been restated to conform to the current year's presentation.

The Company's copper segment includes integrated mining, smelting and refining operations in North America and in Peru, through its subsidiary, Southern Peru Copper Corporation. The Company's lead, zinc and precious metals segment consists of a fully integrated lead business in Missouri, a custom lead smelting business, a silver mining business and a zinc mining business.

Enthone-OMI, a wholly-owned subsidiary, operates a worldwide specialty chemicals business focused on functional and decorative coatings for the electronics and metal finishing industries. American Limestone Company, a wholly-owned subsidiary, produces construction aggregates.

The Company also maintains an active exploration effort focused on the identification and acquisition of advanced gold, copper and silver exploration projects. The segment labeled "All Other" includes environmental services, a specialty metals business, and income and expenses associated with facilities previously operated by the Company. The Company's reportable segments are separately managed strategic business units that offer different products and services.

The accounting policies of the segments are described in the summary of significant accounting policies. The Company evaluates segment performance based on operating income or loss plus the equity in the net earnings of investments accounted for by the equity method attributable to each segment, where applicable. Corporate and general administrative expenses are allocated among the segments generally in proportion to operating expenses. Identifiable assets are those directly used in the operations of each segment. Unallocated corporate assets are principally cash, marketable securities, and investments. There can be no assurance that operations and assets of the Company subject to the jurisdiction of foreign governments will not be affected adversely by future actions by such governments.

BUSINESS SEGMENTS—SALES

FOR THE YEARS

ENDED DECEMBER 31, 1997 1996 1995

(in millions)

By Reportable Segment			
Copper	\$2,022	\$1,968	\$2,329
Lead, Zinc & Precious Metals	304	357	489
Specialty Chemicals	324	319	309
Aggregates	54	47	44
All Other	17	26	27
Total	\$2,721	\$2,717	\$3,198
By Country ^(a)			
United States	\$1,501	\$1,529	\$1,781
Japan	219	245	264
Italy	166	147	189
United Kingdom	146	153	157
The Netherlands	109	122	217
Foreign—Other	580	521	590
Total	\$2,721	\$2,717	\$3,198

(a) Revenues are attributed to countries based on location of customer.

BUSINESS SEGMENTS—EARNINGS

FOR THE YEARS

ENDED DECEMBER 31, 1997 1996 1995

(in millions)

By Reportable Segment ^{(a),(b),(c)}			
Copper	\$ 315	\$ 326	\$ 617
Lead, Zinc & Precious Metals	(15)	(11)	(62)
Specialty Chemicals	29	24	24
Aggregates	14	10	8
Exploration	(32)	(27)	(15)
All Other ^(d)	(28)	(14)	(83)
Total	\$ 283	\$ 308	\$ 489
Interest and other	33	23	(66)
Less: Equity Earnings	(9)	(4)	(2)
Earnings before taxes on income and minority interests	\$ 307	\$ 327	\$ 421
Depreciation and Depletion			
Copper	\$ 108	\$ 99	\$ 96
Lead, Zinc & Precious Metals	17	14	16
Specialty Chemicals	3	3	4
Aggregates	3	2	2
All Other	0	1	1
Total	\$ 131	\$ 119	\$ 119
Equity in results of non-consolidated companies			
Copper	\$ 1	\$ 1	\$ —
Lead, Zinc & Precious Metals	3	(1)	(2)
Specialty Chemicals	5	4	4
Total	\$ 9	\$ 4	\$ 2

- (a) Includes provision for asset impairment of \$1.1 for Copper, \$36.3 for Lead, Zinc & Precious Metals and \$8.2 for All Other in 1995.
- (b) Includes LIFO profits of \$16.7 in 1997, \$5.3 in 1996 and \$.7 in 1995 primarily reported in the Copper and Lead, Zinc and Precious Metals segments.
- (c) Includes equity in the net earnings of investees accounted for by the equity method.
- (d) Includes environmental and other closed plant charges of \$20.2 in 1997, \$15.0 in 1996 and \$76.3 in 1995.

BUSINESS SEGMENTS— IDENTIFIABLE ASSETS

FOR THE YEARS

ENDED DECEMBER 31, 1997 1996 1995

(in millions)

By Reportable Segment

Copper	\$3,009	\$2,810	\$2,728
Lead, Zinc & Precious Metals	427	401	360
Specialty Chemicals	263	272	267
Aggregates	32	32	31
Exploration	15	11	11
All Other	153	123	82

Total Reportable Segments \$3,899 \$3,649 \$3,479

Unallocated corporate assets 211 471 848

Total \$4,110 \$4,120 \$4,327

Long-Lived Assets

United States	\$1,547	\$1,820	\$2,123
Peru	919	872	796
Foreign—Other	142	84	75

Total \$2,608 \$2,776 \$2,994

Equity Method Investments

Copper	\$ 2	\$ 2	\$ 2
Lead, Zinc & Precious Metals	9	5	3
Specialty Chemicals	50	53	57

Total \$ 61 \$ 60 \$ 62

Capital Expenditures

Copper	\$ 295	\$ 233	\$ 287
Lead, Zinc & Precious Metals	18	42	30
Specialty Chemicals	4	7	3
Aggregates	3	3	3
All Other	2	1	15

Total \$ 322 \$ 286 \$ 338

(14) financial instruments

HEDGING

The Company may use derivative instruments to manage its exposure to market risk from changes in commodity prices, interest rates or the value of its assets and liabilities. Derivative instruments which are designated as hedges must be deemed effective at reducing the risk associated with the exposure being hedged and must be designated as a hedge at the inception of the contract.

Depending on the market fundamentals of a metal and other conditions, the Company may purchase put options or create synthetic put options to reduce or eliminate the risk of metal price declines below the option strike price on a portion of its anticipated future production. Put options purchased by the Company establish a minimum sales price for the production covered by such put options and permit the Company to participate in price increases above the option price. The cost of options is amortized on a straight-line basis during the period in which the options are exercisable. Depending upon market conditions, the Company may either sell options it holds or exercise the options at maturity. Gains or losses from the sale or exercise of options, net of unamortized acquisition costs, are recognized in the period in which the underlying production is sold. The Company also uses futures contracts to hedge the effect of price changes on a portion of the metals it sells. Gains and losses on futures contracts are reported as a component of the underlying transaction. Earnings include gains from option sales and exercises, primarily related to copper, of \$25.8 million in 1997, \$27.1 million in 1996 and losses of \$5.6 million in 1995.

At December 31, 1997, the Company held the following copper put options:

	Pounds	Period	Strike Price Per Pound	Unamortized Cost	Percent of Estimated Production
(in millions, except per pound amounts)					
Asarco	44.0	1/98-3/98	\$0.95	\$0.7	26%
SPCC	44.0	1/98-3/98	\$0.95	\$0.6	27%

TRADING

As part of its price protection program, the Company may use synthetic put options which consist of a call option and a forward sale on the same quantity of metal. Price protection programs utilizing synthetic puts may be implemented in steps. In cases where the step approach is used, the Company's objective is to take advantage of current market conditions to minimize its cost while at the same time limiting the Company's exposure should market conditions change before the synthetic put is completed. Until a synthetic put is completed, any calls not matched with a forward sale are marked to market with the gain or loss, if any, recorded in earnings. Earnings include gains of \$0.5 million in 1997 from the sale or exercise of call options. Earnings also include gains of \$3.6 million in 1997 and losses of \$0.1 million in 1996 from unrealized mark to market gains. At December 31, 1997, the Company held copper call options covering an aggregate of 140.3 million pounds of copper, a portion of which are exercisable in each quarter of 1998 at an average strike price of 97 cents. The carrying value of these calls at December 31, 1997 was \$0.4 million.

GAINS AND LOSSES

The recognized pre-tax gains (losses) of the Company's metal hedging and trading activities, were as follows:

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995
<i>(in millions)</i>			
Metal			
Copper	\$28.7	\$26.9	\$(5.7)
Zinc	1.2	(0.1)	(0.1)
Silver	—	—	0.5
Lead	—	0.2	(0.3)
Net Gain (Loss)	\$29.9	\$27.0	\$(5.6)

The Company may enter into interest rate swap agreements to limit the effect of increases in the interest rates on any floating rate debt. The differential is accrued as interest rates change and is recorded in interest expense. During 1995, the Company entered into three swap agreements, expiring 1998 to 2000, with an aggregate notional amount of \$115.0 million. The effect of these agreements is to limit the interest rate exposure to 6.6% on \$100 million of the Company's revolving credit loans and 6.8% on its \$15 million, 5 year term loan. As a result of these swap agreements, interest expense was increased by \$0.6 million in 1997, \$0.7 million in 1996 and \$0.2 million in 1995.

The estimated fair values of the Company's financial instruments are:

AT DECEMBER 31,	1997		1996	
<i>(in millions)</i>	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	\$210.6	\$210.6	\$192.4	\$192.4
Marketable securities—				
held to maturity	\$205.3	\$205.3	\$ 1.0	\$ 1.0
Put options	\$ 1.3	\$ 14.3	—	—
Call options	\$ 0.4	\$ 0.4	\$ 4.0	\$ 4.0
Investments:				
Available-for-sale securities	\$ 73.5	\$ 73.5	\$387.9	\$387.9
Restricted investment in				
Grupo Mexico ^(a)	50.2	78.9	50.2	78.9
Other	3.1	^(b)	4.6	^(b)
Total investments	\$126.8	\$152.4	\$442.7	\$466.8
Liabilities:				
Long-term debt (excluding capital lease obligations)	\$816.9	\$848.3	\$723.6	\$736.9
Interest rate swaps	—	\$ (0.6)	—	\$ (0.8)

^(a) At December 31, 1997 and 1996, 56.3 million shares of Grupo Mexico were subject to a fixed price option which limits the sale of the shares for a period of more than one year. The fair value shown is equal to the exercise price of the option.

^(b) No fair value was available for these investments as they represent an interest in companies whose stock is not publicly traded. Accordingly, it is not practicable to determine the fair value of such securities.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

CASH AND CASH EQUIVALENTS—The carrying amount approximates fair value because of the short maturity of these instruments.

MARKETABLE SECURITIES—The carrying amount and fair value are reported at amortized cost, which approximates market, since these securities are to be held to maturity.

PUT AND CALL OPTIONS—Fair value is an estimate based on relevant market information such as: volatility of similar options, futures prices and the contracted strike price. Call options held at December 31, 1997, which represent trading securities had an average fair value of \$1.3 million during the year ended December 31, 1997.

AVAILABLE-FOR-SALE SECURITIES AND INTEREST RATE SWAPS—Fair value is based on quoted market prices.

LONG-TERM DEBT—The fair value is based on the quoted market prices for the same or similar issues.

*report of independent accountants***TO THE BOARD OF DIRECTORS AND
STOCKHOLDERS OF ASARCO INCORPORATED**

We have audited the accompanying consolidated balance sheets of ASARCO Incorporated and Subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of earnings, cash flows, and changes in common stockholders' equity for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material mis-

statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ASARCO Incorporated and Subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

New York, New York
January 27, 1998

UNAUDITED QUARTERLY DATA

(in millions, except
per share data)

QUARTERS	1997					1996				
	1st	2nd ^{(a),(b)}	3rd ^{(c),(d)}	4th	Total	1st ^(e)	2nd ^(f)	3rd	4th ^(g)	Total
Sales	\$715.6	\$741.0	\$661.3	\$603.1	\$2,721.0	\$735.0	\$682.5	\$647.8	\$651.5	\$2,716.8
Operating income	\$106.0	\$96.5	\$53.6	\$18.6	\$274.7	\$92.6	\$88.4	\$51.7	\$70.7	\$303.4
Net earnings	\$40.6	\$51.9	\$45.8	\$5.1	\$143.4	\$35.7	\$72.4	\$5.9	\$24.3	\$138.3
Dividends paid per common share	\$0.20	\$0.20	\$0.20	\$0.20	\$0.80	\$0.20	\$0.20	\$0.20	\$0.20	\$0.80
Stock market price:										
High	\$32½	\$32¼	\$34	\$31⅞	\$34	\$35¼	\$35⅞	\$27⅞	\$28	\$35⅞
Low	\$25⅞	\$26½	\$30	\$21¾	\$21¾	\$27½	\$27⅞	\$23¾	\$24⅞	\$23¾
Net earnings per share:										
Basic	\$0.95	\$1.21	\$1.10	\$0.13	\$3.42	\$0.84	\$1.70	\$0.14	\$0.57	\$3.24
Diluted	\$0.94	\$1.20	\$1.09	\$0.13	\$3.42	\$0.83	\$1.69	\$0.14	\$0.57	\$3.23

(a) Includes a \$13.4 after-tax gain, \$20.7 pre-tax, on the sale of 43.4 million shares of Grupo Mexico.

(b) Includes a \$10.3 after-tax gain, \$15.9 pre-tax, as a result of liquidation of LIFO inventories.

(c) Includes a \$34.2 after-tax gain, \$52.6 pre-tax, on the sale of the Company's remaining unrestricted shares in Grupo Mexico.

(d) Includes a \$30.0 pre-tax charge to increase reserves for closed plant and environmental matters, offset entirely by anticipated insurance recoveries.

(e) Includes a \$7.2 after-tax gain, \$11.1 pre-tax, on the sale of a 25% interest in the Company's Silver Bell project.

(f) Includes a \$39.0 after-tax gain, \$60.1 pre-tax, on the sale of the Company's remaining 15.0% interest in MIM.

(g) Includes a pre-tax charge of \$0.6 (\$53.3 in charges, including \$10.0 related to the application of SOP 96-1, offset by \$52.7 in insurance and other recoveries) for environmental and other closed plant matters.

METALS PRICE SENSITIVITY

Assuming that expected metal production and sales are achieved, tax and royalty rates are unchanged, that the number of shares outstanding is unchanged and giving no effect to results of other business segments, hedging programs or changes in the costs of production, metal price sensitivity factors would indicate the following estimated change in earnings per share resulting from metal price changes in 1998. Estimates are based on 39.7 million shares outstanding.

	Copper	Lead	Zinc	Silver	Molybdenum
Change in Metal Price	1¢/lb.	1¢/lb.	1¢/lb.	\$1/oz.	\$1/lb.
Annual Change in Earnings per Share	17.5¢	4.8¢	1.9¢	13.6¢	14.1¢

CAUTIONARY STATEMENT

Forward-looking statements in this report and in other Company statements include statements regarding expected commencement dates of mining or metal production operations, projected quantities of future metal production, anticipated production rates, operating efficiencies, costs and expenditures as well as projected demand or supply for the Company's products. Actual results could differ materially depending upon factors including the availability of materials, equipment, required permits or approvals and financing, the occurrence of unusual weather or operating conditions, lower than expected ore grades, the failure of equipment or processes to operate in accordance with specifications, labor relations, environmental risks as well as political and economic risk associated with foreign operations. Results of operations are directly affected by metals prices on commodity exchanges which can be volatile.

selected financial data
five-year selected financial and statistical data

(IN MILLIONS, EXCEPT PER
SHARE AND EMPLOYEE DATA)

	1997	1996	1995 ^(f)	1994	1993
CONSOLIDATED STATEMENT OF EARNINGS					
Sales	\$2,721	\$2,717	\$3,198	\$2,032	\$1,736
Operating income (loss)	275 ^(a)	303 ^(d)	487 ^(g)	18 ^(h)	(110) ^(j)
Earnings (loss) before minority interests, equity earnings and cumulative effect of change in accounting principles	234	226	299	17	(97)
Minority interests	(91)	(88)	(130)	(1)	(1)
Equity earnings, net of taxes	— ^(b)	— ^(b)	— ^(b)	48	27
Net earnings	143 ^(c)	138 ^(e)	169	64 ⁽ⁱ⁾	16 ^(k)
Per common share:					
Net earnings — Basic	\$ 3.42	\$ 3.24	\$ 4.00	\$ 1.53	\$ 0.38
Net earnings — Diluted	\$ 3.42	\$ 3.23	\$ 3.98	\$ 1.52	\$ 0.38
Dividends to common stockholders	\$ 0.80	\$ 0.80	\$ 0.70	\$ 0.40	\$ 0.50
CONSOLIDATED STATEMENT OF CASH FLOWS					
Cash provided from (used for)					
operating activities	\$ 321	\$ 267	\$ 489	\$(10)	\$ 39
Dividends to common stockholders	34	34	30	17	21
Capital expenditures	322	286	338	98	112
Depreciation and depletion	131	119	119	83	81
CONSOLIDATED BALANCE SHEET					
Total assets	\$4,110	\$4,120	\$4,327	\$3,291	\$3,153
Inventories — replacement cost in excess of LIFO inventory costs	86	115	137	143	114
Total cash and marketable securities	416	193	281	18	13
Total debt	879	814	1,122	933	901
Common stockholders' equity	1,694	1,737	1,707	1,517	1,472
COMMON STOCK					
Common shares outstanding	39.7	42.8	42.6	42.1	41.7
Price — high	\$34	\$35 ⁷ / ₈	\$36 ¹ / ₂	\$34 ⁷ / ₈	\$28 ⁵ / ₈
— low	\$21 ³ / ₄	\$23 ³ / ₄	\$24 ³ / ₈	\$21 ³ / ₈	\$16 ⁵ / ₈
Book value per common share	\$42.71	\$40.56	\$40.11	\$36.04	\$35.27
Price/Earnings ratio	6.56	7.68	8.01	18.65	60.92
Dividends to common stockholders as a percent of earnings	23.4%	24.7%	17.5%	26.2%	133.2%
FINANCIAL RATIOS					
Current assets to current liabilities	2.3	1.8	1.9	1.6	1.5
Debt as a % of capitalization	28.3%	26.7%	34.1%	38.1%	38.0%
Debt as a % of capitalization, net of excess cash	20.2%	24.1%	32.1%	38.1%	38.0%
Employees (at year-end)	11,800	11,800	12,200	8,000	8,500

Notes to Five-Year Selected Financial and Statistical Data.

- (a) Environmental charges of \$20.2 include third quarter charges of \$30.0 to increase reserves for closed plant and environmental matters, offset entirely by anticipated insurance recoveries.
- (b) Net earnings from investments accounted for by the equity method are included in earnings (above).
- (c) Includes a \$47.6 after-tax gain (\$73.3 pre-tax) from the sale of shares of Grupo Mexico.
- (d) Includes a \$15.0 pre-tax charge (\$67.7 in charges offset by \$52.7 in insurance settlements and other recoveries) for closed plant and environmental matters.
- (e) Includes a \$39.0 after-tax gain (\$60.1 pre-tax) from the sale of the Company's remaining interest in MIM and a \$7.2 after-tax gain (\$11.1 pre-tax) from the sale of a 25% interest in the Company's Silver Bell project.
- (f) On April 5, 1995, the Company acquired an additional 10.7% interest in Southern Peru Copper Corporation (SPCC) for \$116.4 increasing its ownership from 52.3% to 63%. The additional shares acquired enabled the Company to elect a majority of the directors of SPCC. As a result, the Company has consolidated SPCC in its financial statements based on its 52.3% ownership, effective January 1, 1995, and 63% ownership, effective April 5, 1995. The Company previously accounted for its investment in SPCC by the equity method.
- (g) Includes a \$139.4 pre-tax charge to add to the Company's reserve for closed plant and environmental matters, to provide for asset impairments and plant closures and to write down certain in-process inventory to net realizable value.
- (h) Includes a \$65.5 pre-tax charge to add to the Company's reserve for closed plant and environmental matters.
- (i) Includes a \$31.9 after-tax gain (\$58.5 pre-tax) from the sale of the Company's remaining interest in Asarco Australia Limited.
- (j) Includes a \$37.6 pre-tax charge for the valuation of inventories and additions to reserves for closed plant and environmental matters, \$9.2 of LIFO profits and \$8.2 of previously unrecognized losses of Nor Peru.
- (k) Includes \$26.4 (net of taxes of \$0.4) of previously unrecognized equity earnings of SPCC and a gain of \$86.3 as the result of the cumulative effect of a change in accounting principle at SPCC.

Executive Officers, Directors and Committees of the Board

E X E C U T I V E O F F I C E R S

RICHARD DE J. OSBORNE
Chairman of the Board and Chief Executive Officer

FRANCIS R. McALLISTER
President and Chief Operating Officer

KEVIN R. MORANO
Executive Vice President and Chief Financial Officer

AUGUSTUS B. KINSOLVING
Vice President and General Counsel

ROBERT J. MUTH
Vice President, Government and Public Affairs

ROBERT M. NOVOTNY
Vice President, Lead, Zinc, Silver and Aggregates

WILLIAM L. "GUS" PAUL
Vice President, Commercial

GERALD D. VAN VOORHIS
Vice President, Exploration

MICHAEL O. VARNER
Vice President, Environmental Operations

DAVID B. WOODBURY
Vice President, Human Resources

ROBERT FERRI
Secretary

CHRISTOPHER F. SCHULTZ
Treasurer

WILLIAM DOWD
Controller

JAMES L. WIERS
General Auditor

D I R E C T O R S

RICHARD DE J. OSBORNE
Chairman of the Board and Chief Executive Officer

WILLARD C. BUTCHER^{8,1}
Retired Chairman of the Board and Chief Executive Officer, The Chase Manhattan Bank, N.A.

VINCENT A. CALARCO²
Chairman, President and Chief Executive Officer, Crompton & Knowles Corporation

JAMES C. COTTING^{5,2}
Retired Chairman, Navistar International Corporation

DAVID C. GARFIELD^{7,2}
Retired President, Ingersoll-Rand Company

E. GORDON GEE^{2,3}
President, Brown University

JAMES W. KINNEAR^{2,4}
Retired President and Chief Executive Officer, Texaco Inc.

FRANCIS R. McALLISTER
President and Chief Operating Officer

KEVIN R. MORANO
Executive Vice President and Chief Financial Officer

MARTHA T. MUSE^{3,4}
Chairman, The Tinker Foundation Inc.

MICHAEL T. NELLIGAN^{6,3}
Chairman and Chief Executive Officer, Don Ward Transport, Inc.;
Former Chairman of the Board, President and Chief Executive Officer, Ideal Basic Industries, Inc.

JOHN D. ONG^{1,4}
Chairman Emeritus, The BFGoodrich Company

MANUEL T. PACHECO³
President, University of Missouri

JAMES WOOD^{1,4}
Chairman and Co-Chief Executive Officer, The Great Atlantic & Pacific Tea Company, Inc.

Committees of the Board

[1] FINANCE [2] AUDIT [3] PENSION ADVISORY [4] ORGANIZATION AND COMPENSATION

Chairmen of the Committees

[5] FINANCE [6] AUDIT [7] PENSION ADVISORY [8] ORGANIZATION AND COMPENSATION

Corporate Information

ANNUAL MEETING The annual meeting of stockholders of ASARCO Incorporated will be held on Wednesday, April 29, 1998 at 2:00 p.m. in the Ricker Auditorium, 180 Maiden Lane, New York, New York. A transcript of the proceedings will be available after June 1, 1998 to any stockholder upon request to the Secretary.

FORM 10-K Many of the Securities and Exchange Commission information requirements are contained in this 1997 Annual Report. A copy of Asarco's 1997 Form 10-K (excluding exhibits) will be available after May 1, 1998 upon request to the Corporate Communications Department.

HEADQUARTERS

180 Maiden Lane
New York, New York 10038
Phone 212/510-2000
Fax 212/510-1855
www.asarco.com

TRANSFER AGENT, REGISTRAR AND STOCKHOLDERS SERVICES

The Bank of New York
101 Barclay Street
New York, New York 10286
Phone 800/524-4458

DIVIDEND REINVESTMENT PROGRAM

Asarco stockholders can have their dividends automatically reinvested in Asarco common shares. Asarco pays all administrative and brokerage fees. This plan is administered by The Bank of New York. For more information, contact The Bank of New York at 800/524-4458.

STOCK EXCHANGE

LISTING The principal market for Asarco's Common Stock is the New York Stock Exchange. The Stock Exchange symbol for Asarco Common Stock is AR.

OTHER CORPORATE INFORMATION

For other information on Asarco or to obtain additional copies of the Annual Report, contact the Corporate Communications Department, ASARCO Incorporated, 180 Maiden Lane, New York, New York 10038. 212/510-1810.

ASARCO *incorporated*

| 180 MAIDEN LANE, NEW YORK, NEW YORK 10038 |
 | 212-510-2000 | *www.asarco.com* | NYSE Symbol: AR |



metals

Copper Mines †

MISSION; *Arizona*
 MONTANA RESOURCES; *Montana*
 RAY; *Arizona*
 SILVER BELL; *Arizona*
 MINTO; *Yukon Territory, Canada*
 CUAJONE; *Peru*
 TOQUEPALA; *Peru*

Copper Plants

AMARILLO; *Texas* (Refinery)
 EL PASO; *Texas* (Smelter)
 HAYDEN; *Arizona* (Smelter)
 RAY; *Arizona* (SX/EW)
 SILVER BELL; *Arizona*, (SX/EW)
 ILO; *Peru* (Smelter, Refinery)
 TOQUEPALA; *Peru* (SX/EW)

Lead Mines†

LEADVILLE; *Colorado*
 SWEETWATER; *Missouri*
 WEST FORK; *Missouri*

Lead Plants

EAST HELENA; *Montana* (Smelter)
 GLOVER; *Missouri* (Smelter, Refinery)

Zinc Mines†

COY; *Tennessee*
 IMMEL; *Tennessee*
 NEW MARKET**; *Tennessee*
 YOUNG; *Tennessee*
 LEADVILLE; *Colorado*
 SWEETWATER; *Missouri*
 WEST FORK; *Missouri*

Silver Mines†

SILVER VALLEY RESOURCES; *Idaho*
 TROY**; *Montana*
 LEADVILLE; *Colorado*
 MISSION; *Arizona*
 RAY; *Arizona*
 MONTANA RESOURCES; *Montana*
 CUAJONE; *Peru*
 TOQUEPALA; *Peru*

Silver and Gold Plants

AMARILLO; *Texas* (Refinery)
 ILO; *Peru* (Refinery)

Molybdenum Mines

MONTANA RESOURCES; *Montana*
 CUAJONE; *Peru*
 TOQUEPALA; *Peru*

specialty chemicals

Enthone-OMI

NORTH AMERICA

West Haven, *Connecticut*; Bridgeview, *Illinois*; Orange, *Connecticut*;
 Warren, *Michigan*; Toronto, *Canada*; Mexico City, *Mexico*

EUROPE

Barcelona, *Spain*; s'Hertogenbosch, *Netherlands*;
 Woking, *United Kingdom*; Milan, *Italy*; Marne-La-Vallee, *France*;
 Luien, *Austria*; Solingen, *Germany*;
 Norrkoping, *Sweden*; Geneva, *Switzerland*

ASIA

Melbourne, *Australia*; Tsuen Wan, *Hong Kong*; Singapore;
 Shen Zhen, *People's Republic of China*; Yokohama, *Japan*;
 Taipei, *Taiwan*; Punang, *West Malaysia*.

aggregates

American Limestone Company

KNOXVILLE, *Tennessee*; TRI-CITIES, *Tennessee*;
 NASHVILLE, *Tennessee*; ABINGDON, *Virginia*

environmental services

ENCYCLE/TEXAS, INC.; *Corpus Christi, Texas*
 HYDROMETRICS, INC.; *Helena, Montana*

other

SPECIALTY METALS; *Denver, Colorado*

† Interest in mines is shown in tables on pages 7, 13 and 15

**On Standby