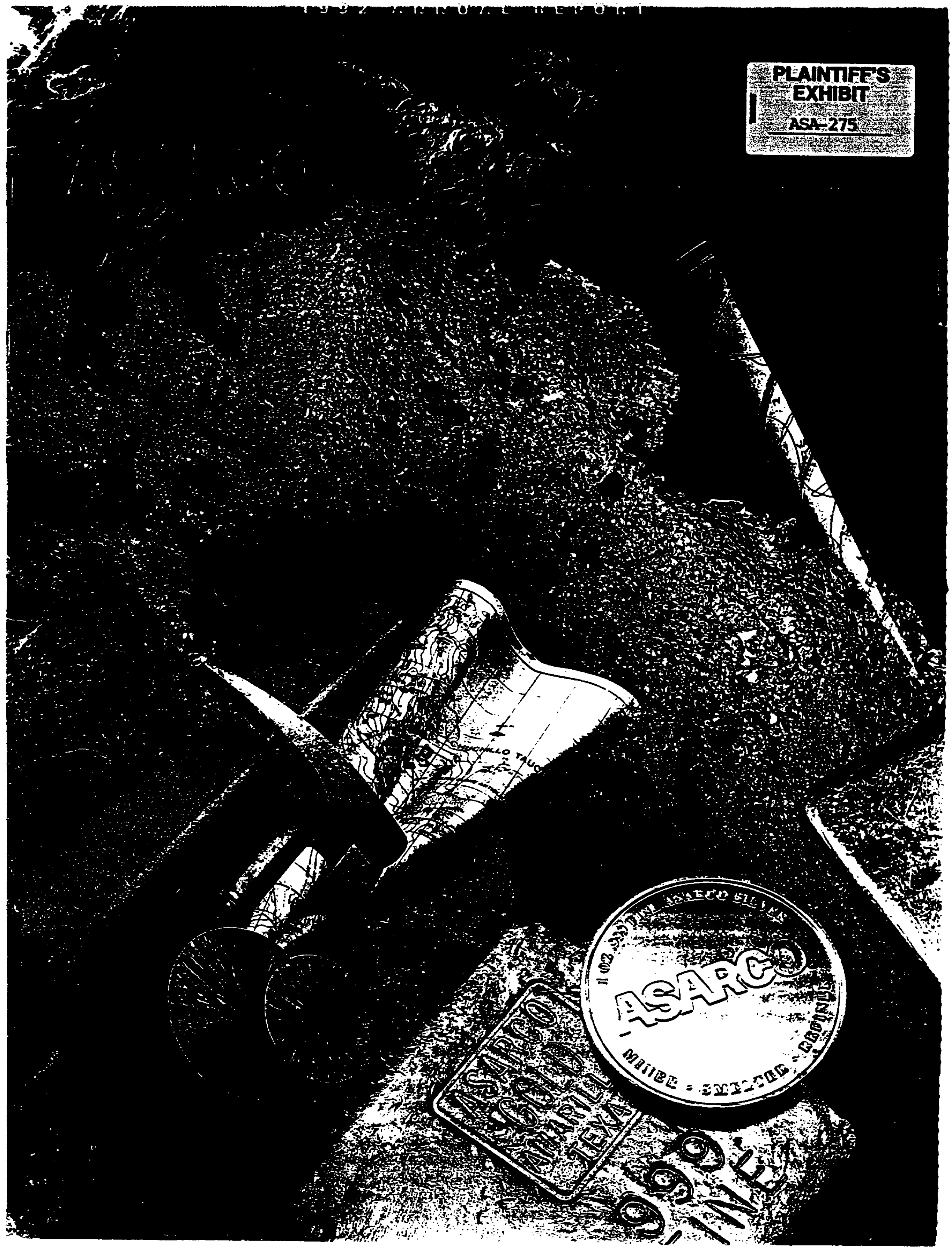
1992 ANNUAL REPORT



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Asarco is one of the world's leading producers of nonferrous metals, principally copper, lead, zinc, silver and gold. Asarco also produces specialty chemicals, minerals and other industrial products and provides environmental services. Asarco has substantial interests in three mining companies: a 17.4% stake in M.I.M. Holdings Limited (MIM) in Australia, a 52.3% interest in Southern Peru Copper Corporation (SPCC), and a 28.3% holding in Mexico Desarrollo Industrial Minero, S.A. de C.V. (MEDIMSA).

Asarco or its associated companies operate mines in the United States, Australia, Mexico and Peru. Asarco and its associated companies together in 1992 accounted for about 13% of western world mine production of copper, 12% of silver, 14% of lead and 9% of zinc.

Cover: Asarco achieved its strategic objective in 1992 of integrating its nonferrous metals business, having once been principally a custom smelter and refiner of ores and concentrates. Pictured on the cover are elements that represent the raw materials and finished products of an integrated mining company. These elements include a geologic map for exploration, the metal-bearing ores mined from the earth and refined copper, lead, silver and gold. Shown in the lower right-hand corner is a one-ounce coin struck from Asarco silver.

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 its consolidated subsidiaries.

FINANCIAL HIGHLIGHTS

(IN MILLIONS, EXCEPT PER SHARE, EMPLOYEE AND STOCKHOLDER AMOUNTS)

FOR THE YEAR ENDED	1992*	1991
Sales	$1,908.5	$1,911.8
Operating income (loss)	$ (41.8)	$ 61.1
Net earnings (loss)	$ (83.1)	$ 46.0
Net earnings (loss) per common share	$ (2.01)	$ 1.12
Dividends per common share	$ 0.80	$ 1.60
AT YEAR-END		
Assets	$2,945.9	$2,953.8
Total debt	$ 868.8	$ 801.6
Common stockholders' equity	$1,357.5	$1,474.8
Common shares outstanding	41.5	41.2
Book value per common share	$ 32.74	$ 35.75
Common stockholders	11,000	12,300
Employees	8,900	9,100

*Results for the year include an after-tax provision of $122.1 million, which comprises $56.0 million in costs for the adoption of Statement of Financial Accounting Standards 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions", a $44.0 million charge for environmental costs, and a $21.1 million charge for the reduction in carrying value of certain facilities.

In 1992, Asarco recorded a substantial charge to earnings to adopt a new accounting standard for postretirement benefits, to add to the Company's reserve for environmental costs and to write off certain facilities which will not be used following installation of new technology.

Prior to giving effect to this special provision, the Company's earnings declined about 15% from 1991 levels. This difference is accounted for by the decline in price of several of the Company's principal metals: copper, silver, and gold. There were, of course, other differences between the two years that reflect the changes we are making in the business and the problems we have sometimes encountered in that process.

The most significant of these changes has involved the strategy begun seven years ago of restructuring Asarco from a custom smelter and refiner into an integrated copper and lead mining company. By the end of 1992, we had nearly completed that process. In doing so we have invested $1.3 billion in the acquisition and development of ore reserves and operating properties.

The Company's copper ore reserves have been expanded eight fold during this period and its copper mining production capacity quadrupled. In 1992, with the completion of the expansion projects at the Mission and Ray mines in Arizona, the Company became self sufficient in the supply of copper concentrates to its smelters. As recently as 1985, the Company supplied only 25% of its copper concentrate requirements from internal sources.

Similarly in lead, the Company's ore reserve position has doubled in the last seven years and it now supplies 80% of the lead concentrates for its Glover, Missouri, smelter from its own mines.

The major remaining step in this strategic development program is completion of the modernization and expansion of the El Paso, Texas, copper smelter. This project is scheduled for commissioning in the first quarter of 1993.

Expansion projects at the Mission mine have more than doubled production capacity since 1985 and at Ray the production capacity has been increased by two-thirds since it was acquired in late 1986. The start-up of the most recent and most significant phases of these expansions occurred in 1992. They were not trouble free.

At Mission, we began mining in an area where the ore is hard and the grade low. It was not until mid-year that we developed new techniques to treat the hard ore and the mining plan had progressed to where higher grades were available. We lost about 28 million pounds of copper production during this period.

In a similar way equipment start-up problems and severe weather at the Ray mine caused a 12-million-pound shortfall in copper production.

These production shortfalls offset most of the benefit in 1992 of the increased production volume which became available from the expansion projects. In the future, as we resolve these problems, the Company's earnings should benefit in a significant way from the increased production capacity now available.

Some of the weather-related problems which affected the Ray mine in 1992 continued into the early part of the new year. Normal rainfall at Ray is about 17 1/2 inches a year. In 1992, 36 inches fell at the property, eight inches in December alone. In the early part of January 1993, another 14 inches were recorded at the mine. As a consequence, mining operations at Ray and milling operations at the Hayden, Arizona, concentrator were disrupted.

The learning process for new projects and the effects of nature on existing ones are part of the mining business. They make it interesting, but they also make it unpredictable.

From left to right, front to back, at the site of the new furnace at the El Paso, Texas, copper smelter.
George W. Anderson, Francis R. McAllister, Augustus B. Kinsolving, Richard de J. Osborne, Robert M. Novotny, John R. Corbett, James J. Kerr, Robert J. Muth, Robert J. Kupsch, Kevin R. Morano*, Robert J. Bothwell, Jr.

**Kevin R. Morano becomes vice president, finance and chief financial officer and will join the management committee on May 1, 1993.*

The other big variable in the mining business is the market. While strong growth in worldwide copper consumption has provided good support for the copper price, the prices of lead and silver have not been as favorable. The low price of silver, particularly, led to our decision to shut down current mining operations at the Galena silver mine in Idaho. It is being held on a care-and-maintenance basis as is the nearby Coeur mine which was shut in 1991. In February 1993, we decided that we should also shut down temporarily, the Troy, Montana, silver-copper mine. Low prices for lead and silver also affected operations at our East Helena, Montana, lead smelter and our Omaha, Nebraska, refinery. These are the only smelting and refining plants left in the Asarco system which rely on ores and concentrates produced by others for their feed stock. The closure of a number of lead, zinc and silver mines in the United States, Mexico and Peru is limiting the availability of such material for these plants.

We have also been seeking ways to increase the cash return from some of our major investments outside of the United States. We made good progress in 1992 with Southern Peru Copper Corporation (SPCC), a company 52.3% owned by Asarco.

Following the resolution in late 1991 of a long standing dispute between SPCC and the Government of Peru, discriminatory tariffs, exchange rates, taxes and other practices were ended and a program of regular cash distributions to SPCC shareholders began. In December 1991, $60 million was distributed to shareholders, $31 million of that amount to Asarco. Three quarterly dividends, aggregating $15 million were paid in 1992, $8 million to Asarco. SPCC operations were normal in 1992 and cash moved freely in and out of the country. SPCC also began its $300 million, 5-year investment program committed as part of the 1991 agreement with the government. Loan commitments for $70 million have so far been received to support these investment projects. SPCC is seeking a total of $150 million of finance. This level of financing should assure that a share of earnings can continue to be paid out to the shareholders as dividends.

M.I.M. Holdings Limited, Asarco's 17.4% owned associated company in Australia, made good progress in its program to reduce costs and improve productivity. M.I.M.'s earnings improved in fiscal 1992, ended June 30, and it paid out 65% of earnings as dividends. Asarco's share was $9 million.

We continued to work on our program to generate cash from our investment in Mexico Desarrollo Industrial Minero, S.A. de C.V., in which we own a 28.3% interest. We have not been successful to date in finding a buyer for this investment, but we are still actively seeking an alternative which will produce a better cash return.

I referred at the beginning of this letter to the $122 million special charge to earnings made in 1992. The requirement to account for postretirement benefits (SFAS 106) on an accrued-liability basis accounted for $56 million of the charge.

With the completion of the expansion and modernization project at El Paso, now planned for early 1993, we considered it appropriate to reduce the carrying value of certain assets which will not be used following completion of this project. Of the charge, $21 million relates to the write-down of these and certain other facilities.

I have made note each year in this letter of the legacies which a ninety-three-year-old company, like Asarco, carries with it. These legacies are derived from an era when environmental perceptions, regulations and laws were different and available control technologies were less effective than they are today. The remaining $44 million of the special earnings provision was to add to the Company's reserve to meet its future environmental obligations. As a result of developments during 1992, the Company is now able to estimate with the requisite accounting certainty, a substantial portion of the anticipated cost at the sites in which it is now involved. At year end 1992, the Company had a pretax reserve balance of $141 million on its books for future environmental obligations.

Having restructured Asarco into an integrated mining, smelting and refining company in copper and lead, we will now turn our attention to reorganizing management to better reflect the new operating structure and to improving the day-to-day operations. Capital spending, which has totaled more than $850 million in the last five years, will be reduced in 1993 to about $120 million and the process of reducing our level of debt towards our long-term objective of 25% of total capitalization will begin.

We have changed the culture at Asarco in a very fundamental way in recent years. Additional steps aimed at integrating our mining, smelting and refining operations will be completed in the second quarter of 1993. At that time, we will combine the operating management of our metals businesses under two senior executives, one responsible for copper operations and the other for lead, zinc, silver and mineral operations. These changes will complete the process begun two years ago of pushing the day-to-day operating responsibilities down a level in our already quite flat organization.

In this environment of change and continuous improvement, our people at all levels are adapting well and performing superbly.

The Board of Directors joins me in thanking you, our shareholders, for your support during this period of rapid change and restructuring. We believe our strategy has been sound, that our properties are good and that the payoff for shareholders will become increasingly evident in the years ahead.

For the Board of Directors,

Richard de J. Osborne

Richard de J. Osborne
Chairman of the Board
February 19, 1993

METALS: COPPER

Asarco's mine production of copper rose 24% in 1992, compared with 1991. The higher production reflected the completion of the expansion projects at the Arizona mines. The projects were completed at Mission in late 1991 and Ray in early 1992. Smelter production rose 9%, reflecting the second consecutive year of record production at the Hayden smelter in Arizona and higher production at El Paso. In 1992, the Company became self sufficient in the supply of copper concentrates from its mines to its smelters. Asarco realized an average price for copper of $1.04 per pound in 1992, 3% below the $1.07 a pound it realized in 1991.

Results of the copper operations were adversely affected in 1992 by a decline in prices and lower-than-planned throughput at the mines, which resulted from start-up difficulties with the expansion projects and weather-related problems. New techniques were developed in mid-1992 to address the harder ores encountered at the Mission mine during the year. In 1992, the Ray mine implemented programs to address the effects of the heavy rains. Construction of the new CONTOP furnace at the El Paso, Texas, copper smelter began in May 1992 following receipt of a final permit. Start up of the furnace is expected in early 1993. In late 1992, the Company announced that effective in May 1993, all copper operations will be organized under a single manager with headquarters in Tucson, Arizona.

Western world consumption of copper grew 1.3% to 10.0 million tons in 1992, the seventh consecutive year of record growth. Consumption grew 7.7% in the United States, 1.8% in Europe and declined 11.5% in Japan.

Western world output of refined copper grew 4.7% to 9.8 million tons. The growth reflected a 1.7% increase in mine production from Chile, Indonesia and the United States and the conversion of previous accumulations of copper concentrates into refined form.

Net east-west trade added 310,000 tons of refined copper to western world supply. Exports to the west of 325,000 tons from the Commonwealth of Independent States and 285,000 tons from Poland were partially offset by Chinese imports of 300,000 tons, resulting in a surplus in supply of 137,000 tons in 1992.

Total copper in the hands of producers, consumers and terminal markets rose to a five and a half-week supply at the end of 1992, compared with five weeks in 1991. Total stocks remained low by historical standards.

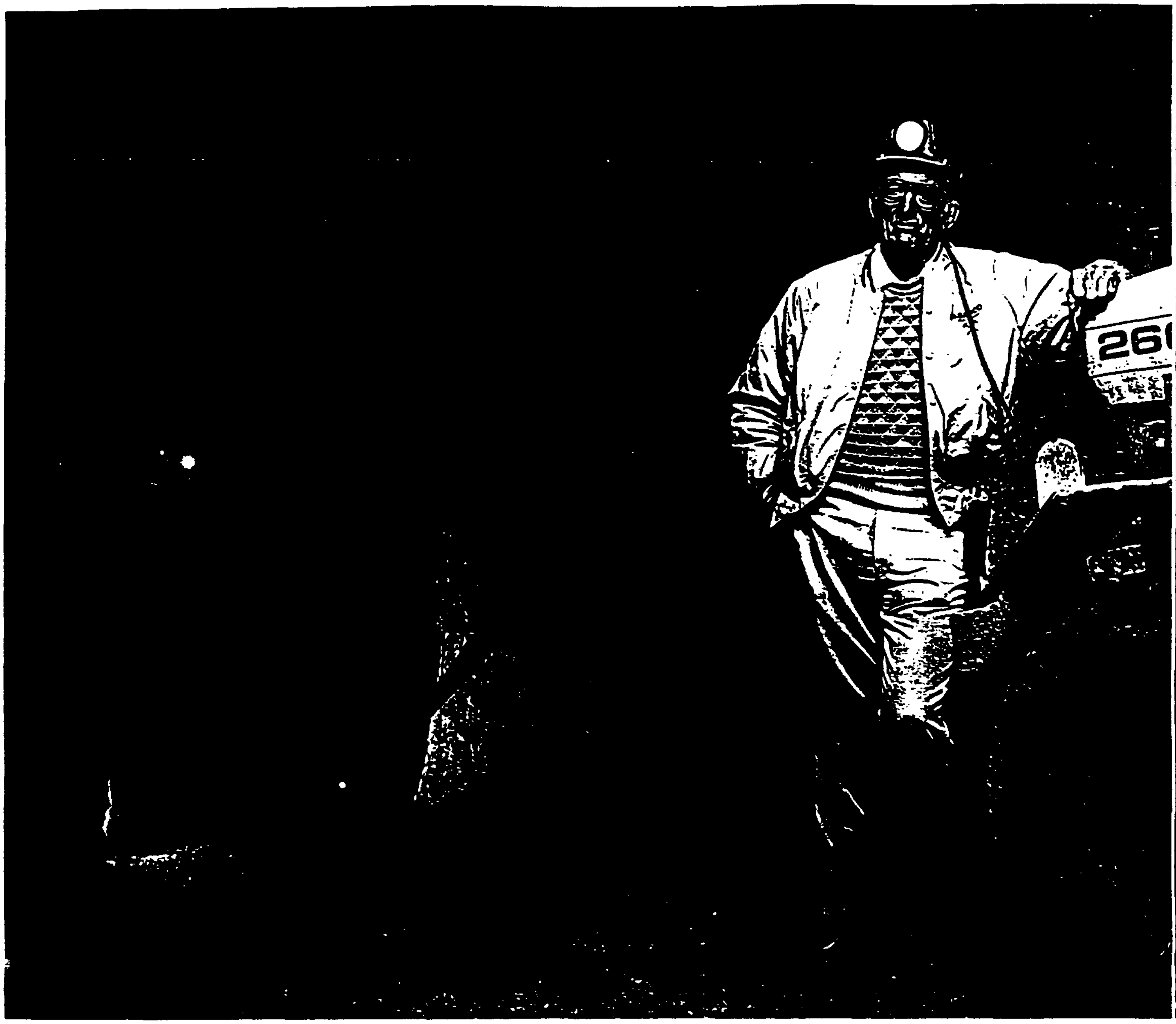
Consumption of copper is expected to increase by 2.5% in 1993 to 10.25 million tons as western world economies continue to recover from their recessionary lows. Production is expected to rise 1.5% in 1993 to 9.9 million tons.

COPPER OPERATIONS

	Asarco Interest (%)	Production (Contained Metal in 000s tons) 1992	1991	1990
MINE				
Mission	100.0	**103.2**	88.5	79.8
Ray	100.0	**165.1**	117.3	121.8
Continental	49.9	**52.4**	50.4	40.9
Others		**17.7**	23.7	23.9
Total		**338.4**	279.9	266.4
Asarco Share		**308.4**	249.4	240.5
SMELTER				
El Paso	100.0	**107.9**	105.9	103.8
Hayden	100.0	**208.4**	184.7	181.5
Total		**316.3**	290.6	285.3
REFINERY				
Amarillo	100.0	**467.2**	450.2	441.5
Ray (SX/EW)	100.0	**42.2**	42.6	40.9
Total		**509.4**	492.8	482.4

COPPER RESERVES

	Mineral Reserves at 12/31/92 (tons in millions)	Grade (%)
MINE		
Mission	565	0.67
Ray	1,120	0.63
Continental	356	0.30

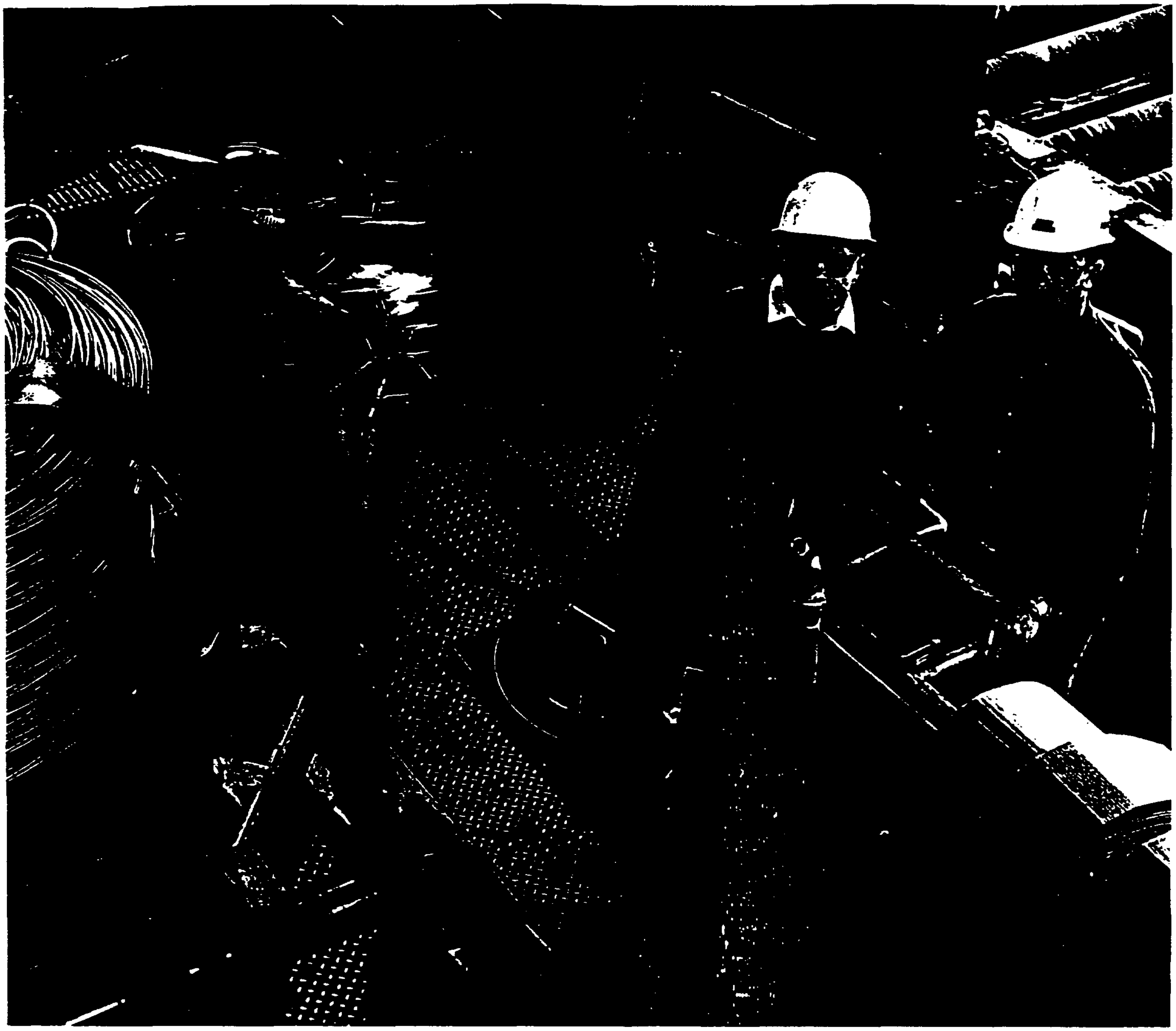


SAFETY

Jimmy L. Bales, general manager of the Eastern Mining Department, oversees the operations of four underground zinc mines near Knoxville, Tennessee.

Safety is a way of life in the mining business. It is also a team effort. We spend a great deal of time and attention at Asarco on employee safety. We emphasize the importance of safety at regularly scheduled classes and drills. We have a company-wide program that recognizes the safest operations. Our people appreciate that good safety is good business. At Asarco safety is a company-wide commitment that begins at the top.

Jimmy L. Bales



CUSTOMER SERVICE

Curtis F. Bates (center), general manager of the Southwestern Copper Division, oversees the El Paso, Texas, smelter and the Amarillo, Texas, refinery. Mr. Bates and Micheal D. Owsley (right), Amarillo plant manager, are shown at the copper rod line operation.

When we ask our customers what they think good service is, they answer that they want a quality product, delivered on time, at a fair price. Our goal is to make sure this happens. At the Asarco copper refinery in Amarillo, Texas, we produce more than 460,000 tons of copper annually in the form of cathode, rod, cake and billet. Every order of copper is different in terms of shapes, sizes and quantity. The way in which we respond to the customer, however, is the same. We listen carefully and provide what the customer wants promptly. Our employees share a common goal of providing the highest quality products and support to our customers. To me, that is what good service is all about.

Curtis F. Bates

Asarco's mine production of lead rose 2% in 1992, compared with 1991. Asarco began development of the south ore body at the Sweetwater mine in 1992. The Company's Missouri Lead business increased the supply of concentrates from its own mines to its smelter to 80% in 1992. The Glover smelter/refinery had record production in 1992. The Company's custom smelting and refining circuit in East Helena, Montana, and Omaha, Nebraska, was adversely affected in 1992 by the closure of a number of polymetallic lead-zinc-silver mines in the United States, Mexico and Peru, which limited the availability of high-value lead concentrates. Asarco realized an average price of 26 cents for lead in 1992, the same as in 1991.

In late 1992, the Company also announced that effective in May 1993, all of its lead, zinc, silver and mineral operations will be organized under a single manager, with headquarters in New York.

Western world consumption of lead declined .3% to 4.95 million tons in 1992. Consumption declined .5% in the United States, 3.5% in Europe and 3.4% in Japan. In 1992, 84% of U.S. consumption of lead and 63% of western world consumption was in automobile batteries.

Western world supply of refined lead increased .2% to 4.9 million tons in 1992, compared with 1991. Production in the U.S. declined by 3% to 1.3 million tons, reflecting lower mine output. Net exports of 90,000 tons from the former Socialist Bloc to the west caused a supply surplus of 15,000 tons in 1992.

Refined lead in the hands of western world producers, consumers and the terminal markets at the end of 1992 rose to the equivalent of about seven weeks of supply, compared with five weeks in 1991.

Western world consumption of lead in 1993 is expected to remain at the same 5.0 million-ton level as in 1992. Production of lead, however, is expected to decline by 170,000 tons because of lower mine and secondary production, and despite a continued flow of metal from the Commonwealth of Independent States, inventories are expected to decline in 1993.

LEAD OPERATIONS

	Asarco Interest (%)	Production (Contained Metal in 000s tons) 1992	1991	1990
MINE				
Leadville	52.5	**6.1**	6.4	5.4
Sweetwater	100.0	**50.9**	49.9	34.5
West Fork	100.0	**56.2**	54.5	56.5
Others		**4.1**	5.6	5.8
Total		**117.3**	116.4	102.2
Asarco Share		**113.6**	111.7	98.1
SMELTER				
East Helena	100.0	**71.6**	72.7	68.7
Glover	100.0	**130.1**	129.5	122.6
Total		**201.7**	202.2	191.3
REFINERY				
Glover	100.0	**130.1**	129.5	123.1
Omaha	100.0	**75.0**	78.5	66.9
Total		**205.1**	208.0	190.0

LEAD RESERVES

	Mineral Reserves at 12/31/92 (tons in millions)	Grade (%)
MINE		
Leadville	0.7	3.78
Sweetwater	20.8	4.93
West Fork	7.3	5.65

Asarco's mine production of zinc rose 1% in 1992. Results of the zinc operations improved in 1992 due to the higher price. The average price of a pound of zinc on the LME increased 10% to 56 cents, compared with 51 cents per pound in 1991. The Company placed the zinc mines in Tennessee on a seven-day schedule from five days in the first quarter of 1992. The schedule and the purchase of new mine equipment for the mines are expected to increase production and improve productivity in 1993.

Western world zinc consumption declined .5% in 1992 to 5.9 million tons. Consumption in the United States rose 12% and declined 3.1% in Europe and 8.2% in Japan. Recovering automotive and construction markets in the U.S. were the major factors in higher U.S. consumption.

On the supply side, western world production of slab zinc was 5.9 million tons in 1992, the same as in 1991. Production and consumption of zinc were in balance in 1992. Because of exports by the Commonwealth of Independent States, the zinc market experienced a supply surplus of 225,000 tons. Reported stocks in 1992 increased to the equivalent of a nine-week supply, from six weeks in 1991.

Western world zinc consumption is expected to rise 3% in 1993. Western world supply of slab zinc is expected to decline about 1% in 1993 because of production cutbacks in 1992.

ZINC OPERATIONS

	Asarco Interest (%)	Production (Contained Metal in 000s tons)		
		1992	**1991**	**1990**
MINE				
Leadville	52.5	**16.3**	14.8	14.2
Missouri mines	100.0	**15.3**	15.7	19.2
Tennessee	100.0	**74.9**	73.9	69.5
Quiruvilca-Peru	80.0	**13.6**	15.0	16.9
Total		**120.1**	119.4	119.8
Asarco Share		**109.6**	109.0	109.3

ZINC RESERVES

	Mineral Reserves at 12/31/92 (tons in millions)	Grade (%)
MINE		
Leadville	0.7	8.10
Missouri mines	28.2	0.83
Tennessee	5.5	3.22
Quiruvilca-Peru	5.4	4.24

COMMITMENT TO THE ENVIRONMENT

Robert M. Novotny (left), vice president, operations, is shown above with W. Hoyl Gill, president of Asarco's American Limestone Company subsidiary, at the Forks of the River Quarry outside of Knoxville, Tennessee.

We believe that all operations and activities of Asarco should be conducted responsibly and in a manner designed to protect the health and safety of employees, customers, the public and the environment. Our objective is not only to comply with existing laws, but to support other activities that contribute to environmental protection, responsible resource management and the safety and well-being of our employees, customers and local communities. We have a formal Environmental, Safety and Health Policy, which we take seriously. We are committed to responsible management of the natural resources entrusted to our care.

Robert M. Novotny

EMPLOYEE INVOLVEMENT

Terry E. Erskine, general manager of the Missouri Lead Division, heads the Company's integrated lead business, including two lead mines and a smelter/refinery complex.

Continuously improving our business requires everyone's involvement. At the Asarco Missouri Lead Division the employees make a difference by contributing their knowledge and experience to the process of making lead. Employees work in teams at the Glover smelter/refinery and the Sweetwater and West Fork mines to identify problems and come up with solutions that result in measurable improvements. The collective commitment and teamwork of our people is represented in Asarco's quality statement, which was formulated by our employees and adopted in early 1992. The essential principles of the Asarco quality statement include commitment to continuous improvement, employee involvement, safety, environmental concern and customer satisfaction. The principles, together, add up to empowering people to get the job done and done well.

Terry E. Erskine

Asarco's mine production of silver declined 25% in 1992, as a result of the temporary closure of the northern Idaho-based Coeur mine in 1991 and Galena mine in mid-1992. In mid-February 1993, the Company announced the temporary closure of its Troy silver-copper mine near Libby, Montana, in mid-April 1993. Results of the silver operations in 1992 were also affected by the low price. Asarco's average realized price for silver declined 3.6% to $3.97 per ounce, compared with $4.12 in 1991.

Western world industrial silver consumption increased 1.3% to 550 million ounces in 1992. It was the seventh consecutive year of growth and the third consecutive year that industrial silver consumption exceeded supply. Consumption in the United States grew 1.9% to 121 million ounces. The photographic industry accounted for about 54% of industrial consumption in the U.S. and 40% in the western world.

On the supply side, western world output of newly mined and recycled refined silver in 1992 increased .1% to 495 million ounces. Visible refined stocks of silver at year-end 1992 were 275 million ounces, equal to a 26-week supply, compared with a 30-week supply in 1991.

The price of silver often reflects speculative interest as well as market fundamentals. Because of the very substantial buildup in stocks of silver in the 1980's, a recovery may take several more years of inventory reductions before investor interest returns to the market. If current trends in industrial consumption of silver continue and the substantial number of mines that have closed in the last two years remain closed, the cumulative supply built up over the last 10 years is expected to be consumed before the end of the decade.

SILVER OPERATIONS

	Asarco Interest (%)	Production (Contained Metal in 000s troy ounces) 1992	1991	1990
MINE				
Coeur	50.0	-	381	2,113
Galena	37.5	**1,573**	3,279	3,066
Mission	100.0	**1,661**	1,366	1,324
Troy	75.0	**3,044**	3,950	3,793
Quiruvilca-Peru	80.0	**1,814**	2,454	2,400
Others		**1,636**	2,156	1,961
Total		**9,728**	13,586	14,657
Asarco Share		**7,013**	9,298	9,731
REFINERY				
Amarillo	100.0	**39,805**	32,107	36,272

SILVER RESERVES

	Mineral Reserves at 12/31/92 (tons in millions)	Grade (ounces/ton)
MINE		
Coeur	0.4	17.32
Galena	1.0	15.07
Mission	565.0	0.14
Troy	12.0	1.42
Quiruvilca-Peru	5.4	5.62

Asarco's mine production of gold declined 1% in 1992. Asarco's average realized price for gold declined 9.4% to $360.53 per ounce in 1992, compared with $397.85 in 1991.

Results of Asarco Australia Limited, the Company's 60%-owned subsidiary in Western Australia, were affected in 1992 by the lower gold price, heavy rains and low-grade ores from diminishing oxide ore reserves at the Wiluna mine. In 1992, Asarco Australia began construction of a bacterial oxidation plant to treat sulfide gold ore at its Wiluna mine. The new processing plant, which will start up in early 1993, is designed to treat 400,000 metric tons of sulfide ore annually. In early 1993, Asarco Australia announced that it discovered an extension to the sulfide mineralization at Wiluna as a result of a drilling program began in late 1992.

Western world gold consumption in 1992 was 81.3 million ounces, about the same as in 1991. The use of gold for jewelry accounted for 80% of western world consumption.

Western world supply of newly mined and recycled refined gold in 1992 increased 7% to 86.7 million ounces. Western world mine production of gold was 57.3 million ounces in 1992, about the same as in 1991.

GOLD OPERATIONS

	Asarco Interest (%)	Production (Contained Metal in 000s troy ounces) 1992	1991	1990
MINE				
Leadville	52.5	**13.7**	13.3	10.0
Wiluna-Australia	60.0	**74.4**	98.7	137.6
Jundee-Australia	60.0	**36.0**	12.8	-
Others		**0.7**	1.2	19.4
Total		**124.8**	126.0	167.0
Asarco Share		**74.0**	74.6	55.1
REFINERY				
Amarillo	100.0	**225.4**	195.2	295.4

GOLD RESERVES

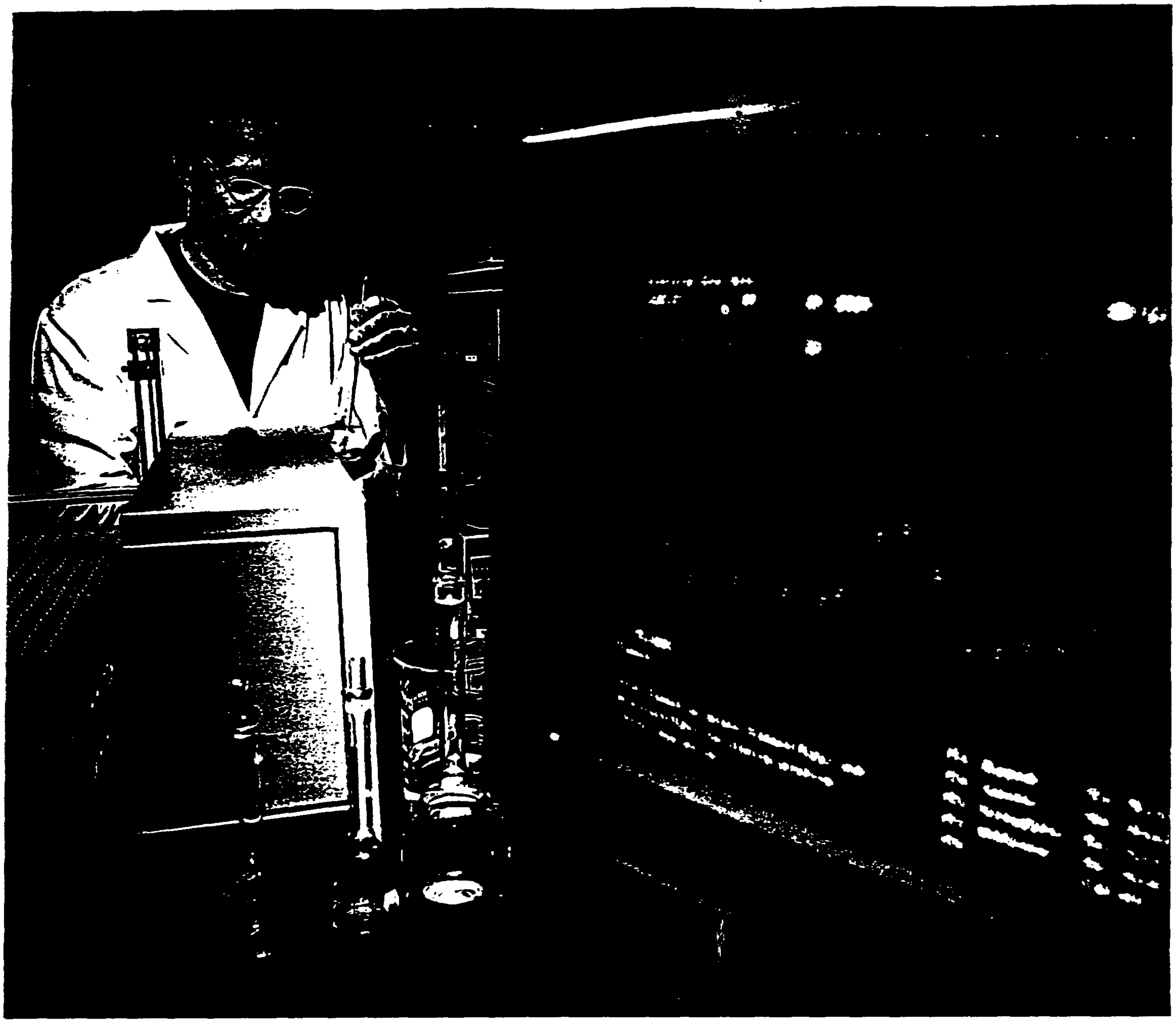
	Mineral Reserves at 12/31/92 (tons in millions)	Grade (ounces/ton)
MINE		
Leadville	0.7	0.07
Wiluna-Australia	3.4	0.13
Jundee-Australia	0.6	0.08

INVESTOR VALUATION

Richard de J. Osborne (right), Asarco chairman of the board, and Thomas J. Findley, Jr., treasurer, are shown in front of a drill at the Mission copper mine in Arizona during the recent tour of analysts.

Asarco's investor relations program consists of frequent communications with analysts and other members of the financial community. We meet regularly with investors individually and in groups. We hold quarterly meetings in New York and periodically in other domestic and international financial centers. In November 1992, Asarco hosted 90 analysts, bankers and journalists on a two-day tour of its Arizona-based, Mission and Ray copper mines and Hayden smelter. We know from experience that tours are one of the best ways for an analyst to understand and value Asarco. There is no substitute for meeting the people and seeing the properties which produce the Company's results. We value the open two-way communications which result from these frequent contacts with our shareholders.

Thomas J. Findley, Jr.



TECHNICAL SERVICES

Vince Keller, an environmental laboratory coordinator, is shown at Asarco's Technical Services Center in Salt Lake City, Utah.

Asarco's Technical Services Center provides in-house engineering, development, environmental and health resources to the Company's mines and plants. Among the many facilities available to the plants and mines, the Inductively Coupled Plasma (ICP) spectrometer shown above can simultaneously detect minute concentrations of up to 32 elements in solids and liquids. This instrument is used to evaluate the content of soils and water. The Technical Services Center uses a variety of technologically advanced computer-based instruments to assure high quality in the Company's processes and in the metals produced at the mines and plants.

SPECIALTY CHEMICALS

Asarco's wholly owned Enthone-OMI, Inc., subsidiary, produces specialty chemicals for surface treatment and plating of metals. It serves the electronics, automotive, aerospace and jewelry industries worldwide.

Enthone-OMI's earnings improved modestly in 1992. Operations in the United States were profitable in 1992, following a three-year period of rationalization. Operations in Asia were also profitable in 1992 and have been growing well for the last three years. Operations in Europe were not profitable in 1992 as markets weakened and specialty chemicals sales declined by 9%. In the fourth quarter of 1992, Enthone-OMI reorganized European operations and reduced costs by $4.4 million a year. When the European economies begin to recover, Enthone-OMI should have a growing, profitable specialty chemicals business in all regions of the world.

MINERALS

Asarco, through its subsidiary American Limestone Company, Inc., is a producer of agricultural limestone, concrete and construction minerals.

American Limestone had higher sales and earnings in 1992, compared with 1991, despite a soft regional construction market. The improved results were due to a 9% increase in sales of stone, concrete and agricultural limestone and reduced costs from operating improvements.

Asarco has significant investments in several leading nonferrous metal companies throughout the world.

Mexico Desarrollo Industrial Minero, S.A. de C.V., (MEDIMSA), owns companies in Mexico that produce copper, lead, zinc, silver, gold, coal, coke, fluorspar and sulfuric acid. MEDIMSA owns and operates thirteen mines and nine metallurgical plants. In 1992, Asarco did not exercise a $40 million option to purchase 16.7 million shares of MEDIMSA, effectively lowering its ownership interest to 28.3%. The option was held under a 1989 agreement with a bank which had provided financing for a MEDIMSA capital call.

In mid 1991, the Company announced that it was considering alternatives for its investment in MEDIMSA, including the sale of its shareholdings. Asarco stopped equity accounting for its investment in the second quarter of 1991. While Asarco has not been successful in finding a buyer for this investment, it is actively seeking an alternative which will produce a better cash return.

In the year ended September 30, 1992, MEDIMSA had earnings of $87.3 million, compared with $66.5 million in 1991. Sales were $876.6 million in 1992, compared with $830.0 million in 1991. MEDIMSA has not paid a dividend since 1988.

M.I.M. Holdings Limited (MIM), in Brisbane, Australia, produces copper, lead, zinc, silver, gold and coal. It also has interests in metals companies in Europe and North America. Asarco owns 17.4% of MIM and accounts for its investment on the cost basis.

MIM made good progress in 1992, in its program to reduce cost and improve productivity. Earnings during MIM's last fiscal year were A$106, including A$46 million in asset sales. MIM paid dividends of A$69 million, representing 65% of earnings. For the calendar year 1992, MIM paid $9 million of dividends to Asarco.

Southern Peru Copper Corporation (SPCC) owns and operates two copper mines and a smelter. It also produces silver and molybdenum. Asarco owns 52.3% of SPCC and accounts for its investment on the cost method.

SPCC made good progress in 1992. In late 1991, following the end of a long-standing dispute with the Government of Peru, SPCC began a program of regular cash distributions. In 1992, regular quarterly dividends aggregating $15 million for the year were paid, $7.8 million to Asarco. The year 1992 was SPCC's first full year of operations since the resolution of the dispute with the government. After-tax earnings were $45.6 million, compared with a $0.4 million loss in 1991, despite lower copper prices.

SPCC is in the first year of a 5-year, $300 million investment program, including $100 million for environmental control, $100 million for solvent-extraction/electrowinning projects and $100 million for equipment modernization. SPCC is seeking a total finance package of $150 million and $70 million of loan commitments have been received to date. This level of financing should assure a continuing stream of dividends.

ASSOCIATED COMPANIES

Mine Production (Contained Metal in 000s tons. Silver and Gold in 000s troy ounces)

	1992	1991	1990
MIM			
Asarco Interest: 17.4%			
Copper	**158.6**	179.6	184.8
Lead	**215.5**	182.3	197.6
Zinc	**251.8**	263.3	229.8
Silver	**18,375.0**	15,629.0	16,479.0
Gold	**1,592.6**	814.5	68.6
SPCC			
Asarco Interest: 52.3%			
Copper	**267.9**	274.6	207.1
Silver	**2,675.0**	2,794.0	2,019.0
MEDIMSA			
Asarco Interest: 28.3%			
Copper	**260.3**	287.2	224.6
Lead	**39.4**	43.9	46.1
Zinc	**174.9**	179.0	168.4
Silver	**13,073.0**	14,890.0	14,310.0
Gold	**24.6**	24.7	14.0

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Earnings: The Company reported a net loss for the year ended December 31, 1992 of $83.1 million, or $2.01 per share. The loss includes an after-tax charge of $122.1 million consisting principally of $56 million in costs for the adoption of Statement of Financial Accounting Standards (SFAS) 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", a $44 million charge for environmental costs, and a $21.1 million charge for the reduction in carrying value of certain facilities. The Company also adopted SFAS 109 "Accounting for Income Taxes" in 1992, which resulted in a reduction and restatement of prior-year earnings in the amount of $20 million ($13 million for 1990 and $7 million for 1989).

Earnings for 1992 would have been $39.0 million, or $.95 per share, without the $122.1 million charge, compared with net earnings of $46.0 million, or $1.12 per share, in 1991 and restated net earnings of $135.8 million, or $3.28 per share, in 1990. Lower metal prices for copper, silver, and gold, reduced earnings in 1992, compared with 1991. Expansions at the Company's Mission and Ray mines resulted in increased copper mine production in 1992. Because of heavy rains at Ray and harder ores and lower ore grades at Mission, copper mine production fell below expectations, reducing earnings. The Company realized after-tax dividend income of $7.3 million from Southern Peru Copper Corporation (SPCC) in 1992, compared with no SPCC dividend income in 1991 and 1990.

Lower prices for copper, lead, silver, gold and zinc reduced earnings in 1991, compared with 1990. Earnings for 1991 were also reduced by a charge of $6.6 million after-tax, to establish a reserve for a receivable from a copper customer which filed for bankruptcy protection. Earnings for 1991 benefited from an after-tax profit of $5.4 million from the sale of the Company's direct interest in Highlands Gold Limited. In the second quarter of 1991, the Company discontinued equity accounting for its investment in Mexico Desarrollo Industrial Minero, S.A. de C.V. (MEDIMSA), after announcing that it was considering the sale or other form of disposition of some or all of this investment. As a result, the Company's equity earnings from MEDIMSA include earnings for the first quarter of 1991 only.

Earnings in 1990 included a provision which reduced after-tax earnings by $51.5 million, or $1.24 per share. This provision was for environmental costs associated with current and previously closed facilities, and increased State of Arizona royalties applicable to the Company's Mission copper mine. Earnings in 1990 benefited from lower taxes on income, which were reduced by $6 million from a reduction of taxes payable for prior years.

Prices: Prices for the Company's metals are established principally on the New York Commodity Exchange ("COMEX") or the London Metal Exchange ("LME"). Thus, it is not possible to estimate prices for future Company metal sales. For earnings sensitivity to metal prices, see "Supplementary Financial and Statistical Information".

Realized prices in 1992 for copper declined 3 cents to $1.04 per pound from 1991's average of $1.07 per pound and declined 17 cents from 1990's average $1.21 per pound; for lead the price averaged 26 cents per pound in 1992 and 1991, a decline of 12 cents from the average realized price in 1990; for silver the realized price of $3.97 declined 15 cents from 1991 and declined 87 cents from 1990's average of $4.84 an ounce. The 1992 zinc price rose five cents to 56 cents per pound from 1991's average of 51 cents and declined 19 cents from 1990's average of 75 cents per pound.

Sales: Sales in 1992 were $1,908.5 million, compared with sales of $1,911.8 million in 1991 and $2,210.3 million for 1990. Increased sales volumes of copper, net of the effect of lower lead and silver sales volumes, partially offset the decline in sales dollars caused by lower prices. Specialty chemical sales were also lower in Europe as a result of the continued recession while North America specialty chemical sales and mineral sales improved. In 1991, increased sales volumes of lead and copper partially offset the decline in sales dollars caused by lower prices.

Cost of Products and Services: Cost of products and services in 1992 were $1,647.3 million, compared with $1,634.2 million in 1991 and $1,810.7 million in 1990. The increase in 1992 was from increases in copper sales volumes, net of the impact of lower lead and silver sales volumes and lower purchases of refined copper in 1992. The Company's cost for purchased refined copper approximates the market price at which it is sold. In 1991, operating problems at the Ray mine, including the effects of heavy rains during the third and fourth quarters of 1990 and the first quarter of 1991, and a scheduled biennial maintenance shutdown at the smelter for 24 days during the first quarter of 1991, resulted in reduced production and higher operating costs.

Other Expenses: Selling and administrative costs decreased by $7.1 million in 1992 as a result of cost reduction programs. The 1991 provision for doubtful accounts includes the establishment of a $10.6 million bad debt reserve for receivables from Laribee Wire Manufacturing Company, Inc. and its affiliated companies. Depreciation and depletion expense increased by $11.8 million in 1992 primarily as a result of higher production following the completion of copper expansion programs at Mission in October 1991 and Ray in February 1992. Increases in ore reserves, extended economic lives which reduced the rate of increase.

Research and exploration expense declined by $5.0 million in 1992 as a result of reduced levels of exploration activity.

Nonoperating Items: Interest expense was $5.0 million higher in 1992 than in 1991 as a result of higher average borrowings and decreased capitalized interest partially offset by a reduction in the average interest rate. Capitalized interest declined in 1992 by $4.9 million as a result of the completion of portions of the copper expansion program and lower interest rates. In 1991 interest expense was $8.2 million higher than in 1990 because of increased debt. Capitalized interest increased in 1991 by $8.5 million as a result of the copper expansion projects. Other income increased to $23.9 million in 1992 from $22.9 million in 1991. Other income in 1992 includes $7.8 million of dividends from Southern Peru Copper Corporation and in 1991 an $8.7 million gain on the sale of Highlands Gold Limited shares. Dividends from M.I.M. Holdings Limited included in other income were $8.8 million in 1992, $9.5 million in 1991 and $23.1 million in 1990.

Taxes on Income: In 1992 the Company adopted SFAS 109, "Accounting for Income Taxes", which resulted in a reduction and restatement of prior-year earnings by $20 million ($13 million for 1990 and $7 million for 1989). The tax benefit in 1992 results from the operating loss and settlement of a Canadian tax assessment and other items. Taxes on income were reduced for 1991 as a result of percentage depletion, partially offset by the tax effect of the pro-rata repurchase of outstanding shares by SPCC.

Equity in Earnings of Nonconsolidated Associated Companies: Equity earnings in 1991 and 1990 were primarily from the Company's investment in MEDIMSA. During 1991, lower prices and discontinuance of equity accounting for the investment in MEDIMSA reduced equity earnings. Equity earnings for MEDIMSA were $10.2 million in 1991, compared with $48.1 in 1990. MEDIMSA paid no dividends during the past three years.

Cash Flows - Operating Activities: Net cash provided from operating activities was $105.7 million in 1992, compared with $67.5 million in 1991 and $150.3 million in 1990. Setting aside the effect of the $122.1 million provision, which is a noncash charge, and other noncash items, the $38.2 million increase in 1992 from 1991, results from $13.9 million from operating activities and $24.3 million from a reduction in operating assets net of liabilities. The $82.8 million decrease in 1991 from 1990, was from lower earnings due to metal prices and other factors noted above, net of a $71.5 million reduction in operating assets net of liabilities.

Cash Flows - Investing Activities: The Company spent $134.6 million for property additions in 1992, including $70.3 million for the copper expansion and modernization program at the Ray copper mine and El Paso copper smelter and $9.5 million for participation payments on previously acquired properties. Capital expenditures were $282.9 million in 1991 of which $207.5 million was spent on the expansion and modernization program at the Mission and Ray copper mines and the El Paso copper smelter. The expansion and modernization at Mission was completed in the fourth quarter of 1991 and at Ray in the first quarter of 1992. The Company's planned property additions in 1993 are estimated to be about $120 million. The El Paso modernization is scheduled for completion in early 1993.

Asarco Australia Limited, a 60%-owned subsidiary of the Company acquired in 1991 the remaining 50% interest in the Wiluna gold mine owned by its former partner for $17.4 million. The Company acquired Industrias Oxy Metal, S.A. de C.V., a specialty chemicals company in Mexico in 1990 for $4.8 million and two concrete plants in Tennessee for $1.5 million.

In 1992 the Company did not exercise a $40 million option to purchase 16,705,527 shares of MEDIMSA which it held under a 1989 agreement, effectively lowering its ownership interest to 28.3%. Included in purchases of investments in 1991 is $24.9 million for a stock subscription of MEDIMSA by a wholly owned subsidiary of the Company. The Company received proceeds of $25.8 million from the sale of shares of Highlands Gold Limited and received $31.4 million in 1991 from a SPCC pro rata repurchase of outstanding shares which are included in proceeds from sale of securities. The Company reduced its carrying value in SPCC by the amount of these proceeds.

Liquidity and Capital Resources: At December 31, 1992, the Company's debt as a percentage of total capitalization was 39.0%, compared with 35.2% at the end of 1991 and 26.7% at the end of 1990. Debt at the end of 1992 was $868.8 million, compared with $801.6 million in 1991 and $543.2 million at the end of 1990. Additional available credit under existing loan agreements totaled $180 million at the end of 1992.

The Company expects that it will meet its cash requirements in 1993 and beyond from internally generated funds and from borrowings, if necessary, under its revolving credit agreements, or from additional debt financing. A shelf registration statement filed with the Securities and Exchange Commission in 1992 covers debt securities in the amount of $250 million available for issuance from time to time, of which $100 million was issued in February 1993 as 7-3/8% Notes which are due in 2003.

Dividends and Capital Stock: The Company paid dividends of $33.0 million, or 80 cents per share, in 1992. In 1991, the Company purchased 67,314 shares of common stock at a cost of $1.8 million and paid dividends of $65.8 million, or $1.60 per share. In 1990 the Company purchased 557,117 shares of its common stock and 152,253 common stock purchase warrants at a total cost of $16.1 million and paid dividends of $66.3 million, or $1.60 per share.

At the end of 1992, the Company had 41,467,000 common shares issued and outstanding, compared with 41,249,000 at the end of 1991 and 41,058,000 at the end of 1990.

Closed Facilities and Environmental Matters: In 1992, the Company concluded that certain facilities, primarily at the El Paso, Texas, smelter, were unlikely to be used following completion of its modernization and expansion program in early 1993. Accordingly, the Company recorded a pretax charge of $31.9 million to reduce the carrying value of these facilities.

Developments in 1990 at a number of the Company's properties where it is probable that an environmental liability has been incurred, increased the level of predictability of the future cost of these liabilities sufficiently to make possible a reasonable estimate of such costs. Accordingly, in 1990, the Company recorded a charge to earnings which added $75.5 million to its closed plant and environmental liability reserves. As a result of developments during 1992, the Company was able to further refine estimates with requisite certainty for a substantial portion of the anticipated costs at sites at which it is involved. Accordingly, in 1992, the Company recorded a pretax charge of $66.7 million to provide additional reserves for these environmental costs. At the end of 1992, such reserves totaled $141.0 million. Cash expenditures charged to these reserves were $36 million in 1992, $32 million in 1991 and $13 million in 1990. The increased expenditures in 1992 and 1991 related to increased levels of remedial environmental activities at Leadville, Bunker Hill, Tacoma and other sites. It is the opinion of Management that the outcome of these environmental matters will not materially adversely affect the operations or financial position of Asarco and its consolidated subsidiaries. This opinion is based upon reasonable estimates of costs of court judgments and settlements and of remediation costs and terms, where such estimates could be made. The financial viability of other potentially responsible parties has been considered when relevant and no credit has been assumed for any potential insurance reimbursement to the Company when availability of insurance is not established.

Accounting Matters: In November 1992, the Financial Accounting Standards Board (FASB) issued SFAS 112, "Employers' Accounting for Postemployment Benefits". This Statement establishes accounting standards for employers who provide benefits to former or inactive employees after employment but before retirement. The Company has not yet determined the impact of the Statement on the consolidated financial statements.

PRICE VOLUME ANALYSIS

The following prices and volumes were realized during 1992, 1991 and 1990.

PRICE	1992	1991	1990
Copper (per pound)	$ 1.04	$ 1.07	$ 1.21
Lead (per pound)	.26	.26	.38
Silver (per ounce)	3.97	4.12	4.84
Zinc (per pound) (1)	.56	.51	.75
Gold (per ounce)	360.53	397.85	410.70

VOLUME (IN THOUSANDS)	1992	1991	1990
Copper (pounds)	1,005,162	973,082	962,268
Lead (pounds)	403,118	424,579	328,788
Silver (ounces)	34,775	37,325	37,063
Zinc (pounds) (1)	240,200	205,148	207,282
Gold (ounces)	191	189	314

(1) Zinc prices are per pound for refined zinc, which is sold in concentrate form. Volume is pounds of refined zinc contained in concentrate.

Prices for the Company's metals are based on prices established on the New York Commodity Exchange or the London Metal Exchange. The pounds of copper sold in each year and the pounds of lead sold in 1991 increased as a result of higher production levels, inventory reductions and export sales.

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEARS ENDED DECEMBER 31, (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	1992	1991	1990
Sales of products and services	$1,908,492	$1,911,806	$2,210,280
Operating costs and expenses:			
Cost of products and services	1,647,263	1,634,198	1,810,705
Selling, administrative and other	87,195	94,258	93,546
Provision for doubtful accounts	3,436	13,625	1,985
Depreciation and depletion	86,642	74,869	75,093
Research and exploration	21,410	26,431	26,644
Provision to reduce carrying value of certain facilities (7)	31,900	-	-
Provision for closed plant and environmental matters (8)	72,400	7,305	75,527
Total operating costs and expenses	1,950,246	1,850,686	2,083,500
Operating income (loss)	(41,754)	61,120	126,780
Interest expense (9)	51,230	46,227	38,038
Other income (2)	23,911	22,870	26,561
Earnings (loss) before taxes on income and equity in results of nonconsolidated associated companies and cumulative effect of change in accounting principle	(69,073)	37,763	115,303
Taxes on income (benefit) (3)	(37,371)	2,199	15,910
Earnings (loss) before equity in results of nonconsolidated associated companies and cumulative effect of change in accounting principle	(31,702)	35,564	99,393
Equity in earnings of nonconsolidated associated companies, net of taxes on income of $0 in 1992, $3,473 in 1991 and $16,408 in 1990 (3) (6)	2,575	10,393	36,451
Earnings (loss) before cumulative effect of change in accounting principle	(29,127)	45,957	135,844
Cumulative effect of change in accounting principle, net of taxes of $27,800 (11)	(53,964)	-	-
Net earnings (loss)	$ (83,091)	$ 45,957	$ 135,844
Per common share amounts:			
Earnings (loss) before cumulative effect of change in accounting principle	$ (0.70)	$ 1.12	$ 3.28
Cumulative effect of change in accounting principle	(1.31)	-	-
Net earnings (loss)	$ (2.01)	$ 1.12	$ 3.28
Cash dividends	$ 0.80	$ 1.60	$ 1.60
Weighted average number of Asarco shares outstanding	41,364	41,128	41,404

( ) See notes to financial statements.

CONSOLIDATED BALANCE SHEET

AT DECEMBER 31, (DOLLARS IN THOUSANDS)	1992	1991
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,248	$ 35,210
Accounts and notes receivable, net of allowance for doubtful accounts of $4,232 and $3,326	341,878	331,725
Inventories (4)	283,026	262,707
Other assets	29,100	24,259
Total current assets	687,252	653,901
Investments (6)		
Cost method	803,550	838,131
Equity method	46,101	42,174
Total investments	849,651	880,305
Property (7)	2,423,720	2,314,658
Less: Accumulated depreciation and depletion	1,112,755	1,012,152
Net property	1,310,965	1,302,506
Intangible and other assets	98,048	117,125
TOTAL ASSETS	$2,945,916	$2,953,837
LIABILITIES		
Current liabilities:		
Bank loans	$ 20,574	$ 45,755
Current portion of long-term debt (9)	63,868	7,493
Accounts payable	208,688	197,556
Salaries and wages	15,985	16,526
Taxes on income (3)	42,879	39,847
Reserve for closed plant and environmental matters (8)	39,997	34,120
Other liabilities	28,720	28,445
Total current liabilities	420,711	369,742
Long-term debt (9)	784,327	748,306
Deferred income taxes (3)	104,240	171,518
Reserve for closed plant and environmental matters (8)	100,962	70,058
Accrued postretirement benefit obligation (11)	90,214	-
Other liabilities and reserves	87,969	119,385
TOTAL LIABILITIES	1,588,423	1,479,009
Contingencies (8)		
PREFERRED STOCKHOLDERS' EQUITY (10)		
Authorized-10,000,000 shares without par value; none issued	-	-
COMMON STOCKHOLDERS' EQUITY (10)		
Authorized-80,000,000 common shares without par value: Issued shares: 1992-45,039,878; 1991-45,039,878	679,991	679,991
Retained earnings	821,072	950,791
Treasury stock (at cost) - common shares 1992-3,572,705; 1991-3,790,624	(143,570)	(155,954)
Total common stockholders' equity	1,357,493	1,474,828
TOTAL LIABILITIES, PREFERRED AND COMMON STOCKHOLDERS' EQUITY	$2,945,916	$2,953,837

( ) See notes to financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, (IN THOUSANDS)	1992	1991	1990
OPERATING ACTIVITIES			
Net earnings (loss)	$ (83,091)	$ 45,957	$ 135,844
Adjustments to reconcile net earnings (loss) to net cash provided from operating activities:			
Depreciation and depletion	86,642	74,869	75,093
Provision (benefit) for deferred income taxes	(60,200)	2,387	350
Treasury stock used for employee benefits	4,140	3,318	-
Undistributed equity earnings	(1,772)	(11,788)	(52,495)
Net (gain) loss on sale of investments and property	(2,600)	(10,125)	7,906
Provision to reduce carrying value of certain facilities	31,900	-	-
Increase (decrease) in reserve for closed plant and environmental matters	36,781	(24,944)	67,351
Provision for postretirement benefit obligation at adoption	81,764	-	-
Cash provided from (used for) operating assets and liabilities, net of acquisitions:			
Accounts and notes receivable	(5,255)	53,759	(69,481)
Inventories	(19,200)	(10,174)	(8,710)
Accounts payable and accrued liabilities	13,553	(7,762)	(15,140)
Other operating liabilities and reserves	6,960	(52,171)	23,065
Other operating assets	15,620	3,888	(15,171)
Foreign currency transaction losses	447	262	1,690
Net cash provided from operating activities	105,689	67,476	150,302
INVESTING ACTIVITIES			
Property additions	(134,574)	(282,917)	(236,962)
Business acquisitions, net of cash acquired	-	(17,392)	(6,263)
Proceeds from sale of securities and property	72,389	116,384	65,838
Purchase of investments, principally marketable securities	(73,374)	(77,998)	(74,363)
Net cash used for investing activities	(135,559)	(261,923)	(251,750)
FINANCING ACTIVITIES			
Debt incurred	84,781	267,654	241,764
Debt retired	(20,195)	(9,466)	(48,531)
Retirement of common stock purchase warrants, net	-	766	(1,642)
Net treasury stock transactions	1,209	(955)	(14,264)
Dividends paid	(33,043)	(65,796)	(66,298)
Net cash provided from financing activities	32,752	192,203	111,029
Effect of exchange rate changes on cash	(4,844)	2,861	1,548
Increase (decrease) in cash and cash equivalents	(1,962)	617	11,129
Cash and cash equivalents at beginning of year	35,210	34,593	23,464
Cash and cash equivalents at end of year	$ 33,248	$ 35,210	$ 34,593

( ) See notes to financial statements.
Descriptions of material noncash transactions and supplemental disclosures are included in Notes 3, 6, 8 and 9.

CONSOLIDATED STATEMENT OF CHANGES IN COMMON STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, (DOLLARS IN THOUSANDS)	1992	1991	1990
COMMON STOCK			
Balance at beginning of year: 1992-45,039,878 shares; 1991-44,992,272 shares; 1990-44,988,222 shares	$ 679,991	$ 679,225	$ 679,159
Issuance of 47,606 shares in 1991; 4,050 shares in 1990 upon exercise of common stock purchase warrants	–	766	66
Balance at end of year: 1992-45,039,878 shares; 1991-45,039,878 shares; 1990-44,992,272 shares	679,991	679,991	679,225
RETAINED EARNINGS			
Balance at beginning of year as previously reported	950,791	976,650	910,802
Cumulative effect of accounting change-income taxes	–	–	(6,824)
Balance at beginning of year	950,791	976,650	903,978
Net earnings (loss)	(83,091)	45,957	135,844
Dividends declared and paid on common shares	(33,043)	(65,796)	(66,298)
Treasury stock issued at less than cost	(7,035)	(7,679)	(235)
Retirement of common stock purchase warrants	–	–	(1,707)
Foreign currency adjustment	(6,550)	1,659	5,068
Balance at end of year	821,072	950,791	976,650
TREASURY STOCK			
Balance at beginning of year	(155,954)	(165,996)	(151,967)
Purchased	(166)	(1,840)	(14,430)
Used for employee benefits	12,550	11,882	401
Balance at end of year: 1992-3,572,705 shares; 1991-3,790,624 shares; 1990-3,934,473 shares	(143,570)	(155,954)	(165,996)
TOTAL COMMON STOCKHOLDERS' EQUITY	$1,357,493	$1,474,828	$1,489,879

( ) See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include all significant subsidiaries in which the Company has voting control. Significant investments in the capital stock of associated companies and subsidiaries in which the Company does not have voting control are accounted for by the cost method or equity method.

Cash Equivalents: The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventories: Company-owned metals processed by smelters, refineries and other metal plants are valued at the lower of last-in, first-out (LIFO) cost or market. 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 less. Betterments, renewals, costs of bringing new mineral properties into production, and the cost of major development programs at existing mines are capitalized. Maintenance, repairs, development costs to maintain production 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.

Revenue Recognition: Revenue is recognized on metals at the time a sales contract is executed and the sales price is fixed in accordance with the terms of the contract.

Exploration: Tangible and intangible costs incurred in the search for mineral properties are generally charged against earnings when incurred. When a commercial ore body is discovered, the related exploration costs previously charged against earnings are credited to earnings and capitalized in Property.

Hedge Contracts: The Company periodically uses futures and options contracts to hedge the effect of price changes on a portion of the primary metals it sells. Gains and losses on hedge contracts are reported as a component of the related transaction.

Taxes on Income: The Company adopted Statement of Financial Accounting Standards (SFAS) 109 "Accounting for Income Taxes", in 1992. This statement supersedes SFAS 96, "Accounting for Income Taxes". 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 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 foreign subsidiaries 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 as a component of Net Earnings to the extent that the net book value after the sale exceeds or is lower than the net book value per share immediately prior to the sale of the shares owned by the parent.

Postretirement and Postemployment Benefits: The Company elected to adopt SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" in 1992. This statement required a change in accounting for postretirement benefits to the accrual method. In November 1992, the FASB issued SFAS 112 "Employers' Accounting for Postemployment Benefits". This pronouncement, which is effective for the year ending December 31, 1994, establishes accounting standards for employers offering benefits to former or inactive employees after employment but before retirement. The Company has not yet determined the impact of the statement on its consolidated financial statements.

Other: Certain reclassifications have been made to prior-year balances to conform to the current-year presentation.

(2) OTHER INCOME

Other income consists of the following:

FOR THE YEARS ENDED DECEMBER 31, (IN MILLIONS)	1992	1991	1990
Interest income	$ 3.7	$ 4.1	$ 6.0
Dividend income	16.9	9.8	23.5
Miscellaneous	3.3	9.0	(2.9)
Total	$23.9	$22.9	$26.6

(3) TAXES ON INCOME

As discussed in Note 1, the Company adopted SFAS 109 in 1992 and elected to apply the provisions of SFAS 109 retroactively to January 1, 1989. Accordingly, the beginning balance of retained earnings as of January 1, 1990 has been restated to reflect a decrease of $6.8 million to $904.[illegible] million. In addition, the financial statements for the years ended December 1991 and 1990, the unaudited quarterly data presented in Supplementary Financial and Statistical Information section for 1991 and certain information contained in the Five Year Selected Financial and Statistical Data section for 1991, 1990 and 1989 have been restated to comply with the provisions of SFAS 109.

The following summarizes the impact of applying SFAS 109 on net income and earnings per share:

FOR THE YEARS ENDED DECEMBER 31, (IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	1991	1990
Net earnings as previously reported	$46.0	$149.1
Effect of SFAS 109	–	(13.3)
As restated	$46.0	$135.8
Net earnings per common share as previously reported	$1.12	$ 3.60
Effect of SFAS 109	–	(0.32)
As restated	$1.12	$ 3.28

EARNINGS (LOSS) BEFORE TAXES ON INCOME:

FOR THE YEARS ENDED DECEMBER 31, (IN MILLIONS)	1992	1991	1990
Domestic operations	$(153.6)	$21.6	$ 79.4
Foreign operations	5.3	30.0	88.8
Total	$(148.3)	$51.6	$168.2

TAX EXPENSE:

The components of the provision for taxes on income are as follows:

FOR THE YEARS ENDED DECEMBER 31, (IN MILLIONS)	1992	1991	1990
U.S. Federal:			
Current tax provision (benefit)	$ (8.5)	$(1.1)	$21.7
Deferred tax provision (benefit)	(60.0)	1.9	0.3
U.S. Federal income tax provision (benefit)	(68.5)	0.8	22.0
Foreign and State:			
Current tax provision	3.5	4.4	10.2
Deferred tax provision (benefit)	(0.2)	0.5	0.1
Foreign and state income tax provision	3.3	4.9	10.3
Total income tax provision (benefit)	$(65.2)	$ 5.7	$32.3

Total taxes paid (refunded) were: 1992-$2.6 million; 1991-($16.3) million and 1990-$26.4 million.

RECONCILIATION OF STATUTORY INCOME TAX RATE:

FOR THE YEARS ENDED DECEMBER 31,	1992	1991	1990
U.S. statutory income tax rate (benefit)	(34.0%)	34.0%	34.0%
Adjustment for entities for which no U.S. tax has been provided	(0.2)	2.8	(1.5)
Percentage depletion	(6.8)	(34.2)	(11.4)
Foreign taxes, net of federal benefit	0.5	4.1	1.0
Share repurchase by SPCC	–	4.1	–
Reversal of taxes previously accrued	(4.7)	–	(3.5)
Other	1.2	0.2	0.6
Taxes on income (benefit)-effective rate	(44.0%)	11.0%	19.2%

Temporary differences and carryforwards which give rise to a significant portion of deferred tax assets and liabilities are as follows:

DEFERRED TAX ASSETS (LIABILITIES)

AT DECEMBER 31, (IN MILLIONS)	1992	1991
Current:		
Reserve for closed plant and environmental matters	$ 11.1	$ 11.6
Inventories	6.6	5.5
Miscellaneous accrued expense	(1.9)	(5.5)
Other	4.9	4.8
Net current deferred tax asset	20.7	16.4
Noncurrent:		
Tax effect of regular net operating losses	49.9	26.7
Reserve for closed plant and environmental matters	36.8	23.8
Postretirement benefit obligation	32.8	2.2
Alternative minimum tax credits	25.9	11.7
Previously taxed income	6.2	4.6
Capitalized exploration expenses	3.5	4.6
Property, plant and equipment	(115.8)	(105.2)
Investment - MEDIMSA	(90.1)	(84.8)
Investment - MIM	(58.9)	(58.9)
Other	5.5	3.8
Net noncurrent deferred tax liability	(104.2)	(171.5)
Total net deferred tax liability	$ (83.5)	$(155.1)

At December 31, 1992, the Company has $146.8 million of net operating loss carryforwards which expire, if unused, in 2006 and 2007. In addition, the Company has alternative minimum tax credits of $25.9 million which are not subject to expiration. The Company believes that these carryforwards will, more likely than not, be available to reduce future federal income tax liabilities and has recorded the tax benefit of these carryforwards as deferred tax assets. Because of shorter carryforward periods and other statutory differences, the Company's net operating loss carryforwards for state purposes are not significant and, therefore, have not been recorded as deferred tax assets.

U.S. deferred income taxes have not been recognized on approximately $167.0 million in 1992 ($174.6 million in 1991 and $209.7 million in 1990) of undistributed earnings of foreign subsidiaries and nonconsolidated associated 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 would be approximately $3.4 million in 1992 ($3.9 million in 1991 and $4.3 million in 1990).

(4) INVENTORIES

AT DECEMBER 31, (IN MILLIONS)	1992	1991
Inventories of smelters, refineries, and other metal plants:		
LIFO cost or market	$ 30.0	$ 29.6
Provisional cost of metals received for which prices have not yet been fixed	61.6	59.6
Mine inventories at FIFO cost or market	96.7	86.1
Materials and supplies (average cost or less)	58.4	53.2
Other	36.3	34.2
Total	$283.0	$262.7

Replacement cost exceeds inventories valued at LIFO cost by approximately $125.2 million in 1992 (1991-$130.3 million).

(5) ACQUISITIONS

Asarco Australia Limited, a 60%-owned subsidiary of the Company invested $17.4 million in 1991 to acquire the remaining 50% interest in the Wiluna gold mine owned by its former partner. The Company spent $4.8 million in 1990 acquiring Industrias Oxy Metal, S.A. de C.V., a specialty chemicals company in Mexico and $1.5 million in acquiring two concrete plants in Tennessee.

Acquisitions are accounted for as purchases and, accordingly, the acquired assets and liabilities have been recorded at their estimated fair market values at the date of acquisition. The operating results are included in the Consolidated Statement of Earnings from the acquisition dates. The excess of the purchase price over the valuation of the net assets acquired for the above and prior-years' acquisitions, $61.3 million, is recorded as Goodwill in Intangible and Other Assets and is generally amortized over either the mine life up to a maximum of 40 years on a units-of-production basis or over 40 years on a straight-line basis. Accumulated amortization was $7.7 million and $5.6 million at December 31, 1992 and 1991, respectively.

(6) INVESTMENTS

The Company has substantial interests in associated companies in Mexico, Peru and Australia, which are engaged principally in mining, smelting and refining nonferrous metals. These companies are Mexico Desarrollo Industrial Minero, S.A. de C.V. (MEDIMSA), Southern Peru Copper Corporation (SPCC) and M.I.M. Holdings Limited (MIM). The fiscal year for MIM ends June 30. MEDIMSA and SPCC report operating results on a calendar-year basis.

MEDIMSA: In 1991, the Company announced that it was considering the sale or other form of disposition of some or all of its investment in MEDIMSA. In light of this action and other factors, the Company changed from the equity method of accounting for its interest in MEDIMSA to the cost method, effective with the second quarter of 1991. At December 31, 1992, cumulative deferred equity in profits totaled $7.6 million. In the second quarter of 1991, a wholly owned subsidiary of Asarco invested an additional $24.9 million in MEDIMSA under a rights offering. As a result of not subscribing to its full share of the offering, the Company's interest in MEDIMSA declined to 31.2% from 34.0%. Pursuant to a financing and option agreement entered into in 1989 with a bank, the Company exchanged 16,705,527 shares of MEDIMSA for $38.4 million of previously issued exchangeable preferred stock of a wholly owned subsidiary of the Company in December 1992, lowering its ownership interest to 28.3%. In September 1990, MEDIMSA, through its subsidiary Mexicana de Cobre, S.A. de C.V., purchased a 76.09% interest in Mexicana de Cananea, S.A. de C.V. for $475 million.

SPCC: In 1988, the Company changed from the equity method of accounting for SPCC to the cost method. This change followed the deterioration in the economy of Peru, inflation and level of foreign exchange reserves, the economic uncertainty for the near-term outlook and the foreign exchange restrictions on the remittance of profits then in place. At December 31, 1992, the Company's equity in undistributed profits totaled $21.4 million. In December 1991, SPCC reached agreement with the Government of Peru on a dispute concerning the recovery of SPCC's investment in the Cuajone mine in Southern Peru. Under the terms of the agreement, SPCC commenced a five-year $300 million capital expansion and development program. The Peruvian Government has undertaken not to discriminate against SPCC in comparison with treatment given to other mining companies. In December 1991, SPCC repurchased approximately 13.8% of its outstanding common shares pro rata from its shareholders, from which Asarco received proceeds of $31.4 million. The Company reduced its carrying value in SPCC by the amount of these proceeds. Dividends received in 1992 of $7.8 million were recorded as income.

INVESTMENTS IN ASSOCIATED COMPANIES (COST METHOD)

FINANCIAL POSITION

AT DECEMBER 31, 1992 (DOLLARS IN MILLIONS)	MEDIMSA	SPCC	MIM
Asarco's Interest	28.3%	52.3%	17.4%
Asarco's Investment (U.S. GAAP)	$298.4	$181.9	$266.8
Market Value	(a)	(a)	$409.4(a)

FINANCIAL POSITION	DECEMBER 31, 1991	DECEMBER 31, 1990	DECEMBER 31, 1992	DECEMBER 31, 1991	JUNE 30, 1992	JUNE 30, 1991
	MEXICAN GAAP (b)		U.S. GAAP		AUSTRALIAN GAAP	
Current assets	$ 555.7	$ 528.1	$ 299.6	$ 317.0	$ 645.4	$ 580.5
Property-net	2,504.5	2,246.5	390.2	395.9	1,933.7	1,866.0
Other assets	65.6	59.4	33.5	32.8	1,588.9	1,401.9
Total assets	$ 3,125.8	$ 2,834.0	$ 723.3	$ 745.7	$ 4,168.0	$ 3,848.4
Current liabilities	$ 597.9	$ 525.3	$ 78.2	$ 111.2	$ 408.0	$ 322.1
Long-term debt	170.7	248.3	6.0	10.0	1,253.1	1,143.7
Other liabilities	–	–	26.6	45.4	131.5	110.8
Deferred income taxes	6.4	1.4	167.0	167.5	352.1	354.2
Minority interests	208.2	334.3	56.7	53.4	137.4	138.5
Total liabilities	983.2	1,109.3	334.5	387.5	2,282.1	2,069.3
Stockholders' equity	2,142.6	1,724.7	388.8	358.2	1,885.9	1,779.1
Total liabilities and stockholders' equity	$ 3,125.8	$ 2,834.0	$ 723.3	$ 745.7	$ 4,168.0	$ 3,848.4

FOR THE YEARS ENDED	SEPTEMBER 30	DECEMBER 31	DECEMBER 31
	MEXICAN GAAP(C)	U.S. GAAP	AUSTRALIAN GAAP
NET SALES 100%			
1992	$ 876.6	$ 550.5	$ 1,435.5
1991	830.0	527.1	1,457.2
1990	791.4	395.0	1,552.4
NET EARNINGS (LOSS) 100%			
1992	$ 87.3	$ 45.6	$ 93.7
1991	66.5	(0.4)	14.8
1990	148.8	(7.5)	121.8
DIVIDENDS TO ASARCO			
1992	–	$ 7.8	$ 8.8
1991	–	–	9.5
1990	–	–	23.1

Asarco reported equity earnings from MEDIMSA of $10.2(d) in 1991 and $48.1(d) in 1990.

GAAP – Generally Accepted Accounting Principles
(a) Quoted market prices on Asarco's investments in MEDIMSA and SPCC are not available since the shares are not publicly traded. It is not practicable to estimate fair value without incurring excessive costs; however, in management's opinion, the market value is equal to or exceeds the carrying amount. Market value for Asarco's investment in MIM is based upon the December 31, 1992, closing market price of MIM's ordinary shares on the Sydney (Australia) Stock Exchange. Market value is not necessarily indicative of an amount realizable in the event of a sale.
(b) Translated into U.S. dollars at the rate in effect at December 31, 1991 ($1 U.S. = MN$ 3073.88). December 31, 1992 financial statements are not available.
(c) Translated at the average exchange rates of $1 U.S. = MN$ 3089.44 in 1992 (MN$ 2,949.40 - 1991; MN$ 2,726.3 - 1990).
(d) Adjusted by $(4.6) and $(2.5) in 1991 and 1990, respectively, to reflect U.S. accounting standards. Effective with the second quarter of 1991, MEDIMSA is accounted for on the cost method.

DIFFERENCES BETWEEN MEXICAN AND U.S. GAAP:

MEDIMSA's consolidated financial statements are prepared in accordance with Mexican GAAP, which differs in certain significant respects from U.S. GAAP. The following reconciliations from Mexican to U.S. GAAP present information in part prior to the reversal of the adjustments to the financial statements for the effects of inflation required under Mexican GAAP. The principal differences and adjustments are described below.

Capitalized Interest: Mexican GAAP does not require the capitalization of interest on assets under construction as U.S. GAAP does. The adjustment for capitalized interest is based on MEDIMSA's average interest cost.

Excess of Sellers' Book Value Over Cost of Assets Acquired: Mexican GAAP permits acquired assets to be recorded at the sellers' book value when the purchase price is less than the sellers' book value. U.S. GAAP requires the recording of acquired assets at the purchase price.

Taxes: Deferred taxes are adjusted for the effect of capitalized interest. The adjustment is based on the difference between the book basis and tax basis and the statutory tax rate.

Net income and total stockholders' equity, adjusted to take into account the material differences between Mexican GAAP and U.S. GAAP, are as follows:

FOR THE YEAR ENDED DECEMBER 31, (IN MILLIONS)		1990
Net income as reported under Mexican GAAP	MN$	503,805
Amortization of capitalized interest		(14,718)
Amortization of excess of book value over cost		52,019
Deferred taxes		19,149
Approximate net income under U.S. GAAP before eliminating effects of inflation accounting		560,255
Effect of inflation accounting (1)		111,879
Approximate net income under U.S. GAAP (1)	MN$	448,376
Approximate net income under U.S. GAAP (converted at average exchange rate of $1 U.S. = MN$ 2,829) (1)	$	158.5
Equity earnings (net of deferral for MEDIMSA shares underlying exchangeable preferred stock of $5.4) (1)	$	48.5
As a result of the one-quarter delay basis of accounting, these equity earnings were recorded as follows: (1)		
Second quarter 1990	$	10.2
Third quarter 1990		16.0
Fourth quarter 1990		12.1
First quarter 1991		10.2
		48.5
Adjustment for one quarter lag by Asarco		(0.4)
Equity earnings reported by Asarco - Audited	$	48.1

AT DECEMBER 31, (IN MILLIONS)		1990
Total stockholders' equity under Mexican GAAP	MN$	5,301,640
Capitalized interest, net of amortization		110,637
Excess of book value over cost		(1,963,751)
Accumulated amortization		114,647
Deferred taxes		(143,612)
Approximate total stockholders' equity under U.S. GAAP before eliminating effects of inflation accounting		3,419,561
Effect of inflation accounting (1)		776,333
Approximate total stockholders' equity under U.S. GAAP (1)	MN$	2,643,228
Approximate total stockholders' equity under U.S. GAAP (converted at year end exchange rate of $1 U.S. = MN$ 2,947) (1)	$	896.8
Asarco investment at 34% as of March 31, 1991 (1)	$	304.9
Deferral for MEDIMSA shares underlying exchangeable preferred stock (1)		6.5
		298.4
Additional shares purchased		24.9
Asarco's Investment at December 31, 1991 - Audited	$	323.3

(1) Unaudited

(7) PROPERTY

Property is stated at cost and consists of the following:

AT DECEMBER 31, (IN MILLIONS)	1992	1991
Buildings and equipment	$1,940.3	$1,857.0
Equipment capital leases	123.2	122.8
Mineral land	289.2	263.9
Land, other than mineral	66.5	64.6
Other	4.5	6.4
Total property	$2,423.7	$2,314.7

Accumulated depreciation applicable to capitalized leases amounted to $27.0 million in 1992, $16.5 million in 1991 and $10.0 million in 1990, including depreciation charged to earnings of $11.1 million in 1992, $6.5 million in 1991 and $1.7 million in 1990. An increase in the proven and probable ore reserves at the Ray mine resulting from normal reassessments had the effect of lowering depreciation by $3.7 million in 1992.

Exploration costs of $1.2 million in 1990 previously charged against earnings were credited to earnings and capitalized, as a result of the discovery of commercial ore bodies.

In the fourth quarter of 1992, the Company recorded a pretax charge of $31.9 million to reduce the carrying value of certain facilities, primarily at the El Paso, Texas, smelter, which are unlikely to be used following the completion of the modernization and expansion program at the copper smelter in early 1993.

(8) CONTINGENCIES AND LITIGATION

The Company and certain of its subsidiaries have received notices from the United States Environmental Protection Agency ("EPA") that they and in most cases numerous other parties are potentially responsible to remediate alleged hazardous substance releases at certain sites under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA" or "Superfund"). In addition, the Company and certain of its subsidiaries are defendants in lawsuits brought under CERCLA or state laws which seek substantial damages and remediation. Remedial action is being undertaken by the Company at some of the sites. The Company anticipates that it will make significant capital and other expenditures over the next several years to comply with environmental laws and regulations, including required remediation at various Superfund sites. In connection with the sites referred to above, as well as at other closed plants and sites where the Company is working with the EPA and state agencies to resolve environmental issues, the Company has made reasonable estimates, where possible, of the extent and cost of necessary remedial action and damages. As a result of feasibility studies, public hearings, engineering studies and discussions with the EPA and similar state agencies, for sites where it is probable that a liability has been incurred and the amount of cost could be reasonably estimated, the Company recorded pre-tax charges to earnings in the fourth quarter of 1990 of $75.5 million and in the fourth quarter of 1992 of $66.7 million. Recorded reserves for these matters total $141.0 million at December 31, 1992. Cash expenditures charged to these reserves were $35.6 million in 1992, $32.2 million in 1991 and $13.0 million in 1990.

The Company is a defendant in a lawsuit brought on behalf of classes of persons who live near or have lived near the Company's Globe plant, located in Denver, Colorado, seeking compensatory and punitive damages for damage to property due to substances allegedly emitted from the plant.

The Company and two subsidiaries, as of December 31, 1992, are defendants in 780 lawsuits brought by 5,151 primary and 3,813 secondary plaintiffs seeking substantial actual and punitive damages for personal injury or death allegedly caused by exposure to asbestos as well as 9 lawsuits for removal or containment of asbestos-containing products in structures. In addition, the Company and certain subsidiaries are defendants in product liability lawsuits involving various other products, including metals.

The Company is a defendant in lawsuits in Arizona brought by Indian Tribes and some 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. The lawsuits could potentially affect the Company's use of water at its Ray Complex, Mission Complex and other Arizona operations.

While the Company is unable to estimate the ultimate dollar amount of exposure to loss, 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 operations or the financial position of Asarco and its consolidated subsidiaries. This opinion is based upon reasonable estimates of costs of court judgements and settlements and of remediation costs and terms where such estimates could be made. The financial viability of other potentially responsible parties has been considered when relevant and no credit has been assumed for any potential insurance reimbursement to the Company when availability of insurance is not established.

(9) DEBT AND AVAILABLE CREDIT FACILITIES

LONG-TERM DEBT

AT DECEMBER 31, (IN MILLIONS)	1992 BOOK VALUE	1992 FAIR VALUE (a)	1991 BOOK VALUE
Revolving credits	$ 520.0	$ 520.0	$ 425.0
Pollution control bonds, 1993/2006 - rates from 6-3/4% to 8.9%	171.1	185.9	171.1
Capital lease obligations 1993/2006-rates from 7.15% to 12.0%	109.5	109.5	116.2
9-3/4% Sinking Fund Debentures, 1996/2000	40.0	40.8	40.0
Foreign and other debt-rates from 5.0% to 12.25%	7.6	7.6	3.5
Total long-term debt	848.2	863.8	755.8
Less, current portion	63.9	63.9	7.5
Long-term debt	$ 784.3	$ 799.9	$ 748.3

(a) The fair value of the debt instruments was determined using quoted prices of publicly traded securities of similar maturities and credit ratings as of December 31, 1992.

Maturities of debt instruments and future minimum payments under capital leases as of December 31, 1992 are as follows:

(IN MILLIONS)	DEBT INSTRUMENTS	CAPITAL LEASES
1993	$ 56.5	$ 16.7
1994	147.7	16.5
1995	153.4	16.4
1996	80.1	16.7
1997	6.8	18.5
Thereafter	294.2	73.8
Less interest	–	(49.1)
	$738.7	$109.5

Total interest paid (net of amounts capitalized of $7.4 million in 1992, $12.3 million in 1991 and $3.8 million in 1990) was $52.6 million in 1992, $41.7 million in 1991 and $37.8 million in 1990.

The Company has two revolving credit agreements that permit borrowings of up to $700 million, of which $520 million was drawn down and $180 million was available at December 31, 1992. One facility allows the Company to borrow up to $440 million until July 1993 after which the facility will decline by $36.7 million quarterly until 1996. The second facility expires in May 1993. Borrowings under these agreements bear interest based on LIBOR, the CD or the prime rate, and averaged 3.86% at December 31, 1992. Rates may vary based upon the Company's debt rating. A commitment fee of 1/8% per annum on the unused portion of the revolving credit agreements is payable by the Company.

The highest level of revolving credit borrowings during 1992 was $535.0 million (1991-$450.0 million; 1990-$290.0 million). Borrowings under these agreements averaged $465.4 million for 1992 (1991-$390.3 million; 1990-$168.1 million), with a weighted average interest rate of 4.2% (1991-6.5%; 1990-8.5%).

Under the most restrictive terms of the agreements, the Company must maintain a tangible net worth, as defined, of at least $1 billion. Tangible net worth was $1.3 billion at December 31, 1992. The ratio of current assets to current liabilities cannot be less than 125% and at December 31, 1992, this ratio was 163%.

During 1991 the Company entered into two sale and leaseback transactions for mobile mining equipment and railroad rolling stock. Proceeds from these transactions were used principally to replace interim financing which was used to fund property additions.

The Company has three agreements expiring 1993 to 1994 which fix the rate on a notional $112.4 million of its variable-rate debt. The effect of these agreements is to limit the interest rate exposure to 8.2% on $100 million of the debt and 12.7% on the balance, and is recorded as an adjustment to interest expense which resulted in 1992 in a $5.3 million interest charge (1991-$2.5 million; 1990-$0.3 million). The Company has exposure to credit risk but does not anticipate nonperformance by the counterparties to these agreements. A shelf registration statement filed with the Securities and Exchange Commission in 1992 covers debt securities in the amount of $250 million available for issuance from time to time (see Note 13).

(10) STOCKHOLDERS' EQUITY

The Company purchased 5,649 of its common shares in 1992 (1991-67,314 shares; 1990-557,117 shares). In 1992, 223,568 common shares (1991-211,163 shares; 1990-7,280 shares) were used for savings, stock option and incentive plans. The effect on the calculations of net earnings per common share of the Company's common stock equivalents (warrants and shares under option) was insignificant.

Retained earnings at December 31, 1992, included undistributed earnings of $142.7 million for nonconsolidated subsidiaries and $262.4 million for all other investments. Retained earnings has been increased by cumulative foreign currency adjustments of $0.1 million at December 31, 1992 ($6.6 million in 1991; $5.0 million-1990).

Stock Options: The Company has a stockholder-approved Stock Incentive Plan and a Stock Option Plan. The Stock Incentive Plan replaces the Stock Option Plan. No additional options will be granted under the Stock Option Plan and unexpired options continue to be governed by, and exercised under, the Stock Option Plan.

The Stock Incentive Plan provides for the granting of nonqualified or incentive stock options, as defined under current provisions of the Internal Revenue Code, as well as for the award of restricted stock and bonuses payable in stock. The option price for options granted under the Stock Incentive Plan shall be not less than 100% of the fair market value of the Common Stock on the date of grant in the case of incentive stock options, or 50% in the case of other options.

Options granted under the Stock Incentive Plan will expire on a date fixed by the Company's Organization and Compensation Committee but not more than 10 years from the date of grant in the case of incentive stock options or such later date as may be permitted under the Internal Revenue Code. In the absence of any contrary provision, no option will be exercisable for six months from the date of grant. Options granted under the Stock Option Plan are exercisable within 10 years from the date of grant.

Each option granted under the Stock Incentive Plan or Stock Option Plan may provide for "Stock Appreciation Rights" (SARs). An SAR permits an optionee, in lieu of exercising the option, to receive from the Company payment in an amount equal to the difference between the market value of the stock on the date of exercise of the SAR and the purchase price of the stock under the terms of the option. At December 31, 1992, nineteen individuals held SARs covering options for 499,982 shares, ranging in price from $20.57 to $38.13 per share, exercisable as either regular stock options or SARs.

The authorized number of shares under the Stock Incentive Plan is 2,000,000 of which 300,000 shares may be awarded as restricted stock. As of December 31, 1992, 1,418,450 shares are available for future grants under the Stock Incentive Plan. The table below summarizes stock option activity over the past three years under the Stock Incentive Plan and Stock Option Plan.

	NUMBER OF SHARES	OPTION PRICE (RANGE PER SHARE)
Outstanding at January 1, 1990	643,577	$20.57 to $41.63
Granted	171,750	$26.07 to $26.50
Exercised	(3,400)	$20.57 to $22.32
Canceled or expired	(46,150)	$22.32 to $41.63
Outstanding at January 1, 1991	765,777	$20.57 to $41.63
Granted	182,100	$24.82 to $27.88
Exercised	(6,200)	$20.57 to $24.31
Canceled or expired	(80,000)	$20.57 to $41.63
Outstanding at January 1, 1992	861,677	$20.57 to $38.13
Granted	163,000	$22.31 to $22.31
Exercised	(26,534)	$20.57 to $27.88
Canceled or expired	(64,557)	$20.57 to $38.13
Outstanding at December 31, 1992	933,586	$20.57 to $38.13

In 1989, the Company adopted a Shareholder Rights plan and declared a dividend of one Right for each of its Common Shares. In certain circumstances, if a person or group becomes the beneficial owner of 15% or more of the outstanding common shares (or in the case of MIM, more than 33 1/3%), 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.

(11) BENEFIT PLANS

The Company maintains several noncontributory, defined benefit pension plans covering substantially all 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 amounts as the Company may determine to be appropriate from time to time. Plan assets are invested principally in a commingled stock fund and United States government securities.

Net pension costs consist of:

FOR THE YEARS ENDED DECEMBER 31, (IN MILLIONS)	1992	1991	1990
Service cost	$ 7.0	$ 6.4	$ 5.6
Interest cost on projected benefit obligations	7.1	6.1	4.7
Return on plan assets	(6.2)	(4.9)	(3.0)
Other items	1.8	1.3	0.8
Total net pension costs	$ 9.7	$ 8.9	$ 8.1

The funded status of the plans using the projected unit credit method is presented below:

AT DECEMBER 31, (IN MILLIONS)	1992	1991
Assets and obligations:		
Vested benefit obligation	$ 66.7	$ 55.6
Nonvested benefits	4.9	4.1
Accumulated benefit obligation	71.6	59.7
Projected benefit obligation	104.0	91.5
Less, Plan assets at fair value	76.3	59.9
Excess of projected benefit obligation over plan assets	(27.7)	(31.6)
Items not yet recognized in earnings:		
Unrecognized prior service cost	10.4	11.4
Unrecognized initial net plan obligation	2.2	2.6
Unrecognized loss	14.7	12.2
Net accrued cost	$ (0.4)	$ (5.4)

The actuarial computations are based upon a discount rate on benefit obligations of 8% in 1992 and 1991 and 8.5% in 1990; an expected long-term rate of return on plan assets of 10%; and annual salary increases of 5% in 1992 and 1991 and 6% in 1990.

Noncontributory postretirement health care coverage under the Asarco Health Plan is provided to substantially all 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. In 1992 the Company adopted SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". The effect of adopting the new standard increased 1992 net periodic postretirement benefit cost by $3.2 million and decreased 1992 net income by $2.1 million. Postretirement benefit costs for 1991 of $5.1 million and 1990 of $4.7 million which were recorded on a cash basis, have not been restated. In addition, the projected benefit obligation of $54.0 million (net of tax benefit of $27.8 million) related to prior service cost was recognized as the cumulative effect of the change in accounting principle as of January 1, 1992.

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

AT DECEMBER 31, (IN MILLIONS)	1992
Accumulated postretirement benefit obligation (APBO):	
Retirees	$50.0
Fully eligible active plan participants	14.4
Other plan participants	27.7
Total APBO	92.1
Items not yet recognized in earnings:	
Unrecognized loss	(1.9)
Accrued postretirement benefit obligation	$90.2

Net periodic postretirement benefit cost included the following components:

FOR THE YEAR ENDED DECEMBER 31, (IN MILLIONS)	1992
Service cost	$ 2.5
Interest cost	6.9
Net periodic postretirement benefit cost	$ 9.4

The weighted-average annual assumed rate increase in the per capita cost of covered benefits (i.e., health cost trend rate) is 11% for 1992 and is assumed to decrease gradually to 5% for 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 as of December 31, 1992 by $7.0 million, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for 1992 by $0.7 million. The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 8.5% at December 31, 1992. The plans are currently unfunded.

(12) BUSINESS SEGMENTS

The Company operates principally in the nonferrous metals industry, involving mining, smelting, refining and selling of copper, silver, lead, zinc, gold, and molybdenum. The Company is also engaged in specialty chemicals for metals plating and electronics industries and in minerals comprising limestone, sand and gravel operations. Included in the caption Other are the Company's polyvinyl chloride pipe and cement pipe businesses and its environmental services operations. Foreign operations are conducted by affiliates in Australia, Asia, Europe and North America.

General corporate administrative expenses are allocated among the segments generally in proportion to their operating expenses. Exploration expenses are attributable to the metals segment, while research expenses are attributable to metals and specialty chemicals. Identifiable assets are those directly used in the operations of each segment. Corporate assets are principally cash and investments.

Export sales from the United States to unaffiliated customers were $297.7 million in 1992, $246.3 million in 1991 and $224.5 million in 1990.

There can be no assurance that operations and assets of the Company and nonconsolidated associated companies that are subject to the jurisdiction of foreign governments may not be affected adversely by future actions by such governments.

METAL SALES, EXCLUDING INTERSEGMENT SALES

FOR THE YEARS ENDED DECEMBER 31, (IN MILLIONS)	1992	1991	1990
Refined Copper	$1,045	$1,037	$1,165
Refined Silver	138	154	179
Refined Lead	106	109	124
Refined Gold	69	75	129
Services	10	9	12
Other	145	144	188
	$1,513	$1,528	$1,797

BUSINESS SEGMENTS AND LINES OF BUSINESS

FOR THE YEARS ENDED DECEMBER 31, (IN MILLIONS)	1992	1991	1990
Sales			
Metals	$1,513	$1,528	$1,797
Specialty Chemicals	256	253	273
Minerals	36	33	36
Other	103	98	104
Total	$1,908	$1,912	$2,210
Domestic	1,722	1,717	2,005
Foreign	186	195	205
Operating Income (Loss) (a)			
Metals	$ (28)	$ 69	$ 165
Specialty Chemicals	(1)	–	7
Minerals	7	6	5
Other	(20)	(14)	(50)
Total	$ (42)	$ 61	$ 127
Domestic	(37)	66	116
Foreign	(5)	(5)	11
Equity in results of nonconsolidated associated companies			
Specialty Chemicals	$ 4	$ 5	$ 4
Corporate	(1)	5	32
Interest, taxes and other	10	(25)	(27)
Net Earnings (loss) before cumulative effect of change in accounting principle	$ (29)	$ 46	$ 136
Identifiable Assets			
Metals	$1,749	$1,694	$1,486
Specialty Chemicals	236	245	252
Minerals	29	30	39
Other	123	140	142
Corporate	809	845	871
Total	$2,946	$2,954	$2,790
Domestic	2,728	2,723	2,560
Foreign	218	231	230
Depreciation and Depletion			
Metals	$ 77	$ 65	$ 67
Specialty Chemicals	5	5	5
Minerals	2	2	2
Other	3	3	1
Total	$ 87	$ 75	$ 75
Capital Expenditures (b)			
Metals	$ 126	$ 275	$ 210
Specialty Chemicals	3	5	7
Minerals	2	2	6
Other	3	4	9
Corporate	1	8	9
Total	$ 135	$ 294	$ 241

(a) Includes provisions in 1992 ($58 Metals, $9 Other, $67 Total) and 1990 ($38 Metals, $37 Other, $75 Total) for closed plant and environmental matters and a provision to reduce the carrying value of certain facilities in 1992 ($31.9 Metals).
(b) Includes the portion of business acquisitions attributable to property ($11 in 1991 and $4 in 1990).

(13) SUBSEQUENT EVENT

On February 1, 1993, pursuant to the shelf registration statement described in Note 9, the Company issued $100 million of 7-3/8% Notes due February 1, 2003. The Notes will bear interest at 7-3/8% payable semiannually on February 1 and August 1 of each year, commencing on August 1, 1993. The Notes are not redeemable prior to maturity. The net proceeds will be used to repay, in part, revolving credit bank borrowings which, at December 31, 1992, totaled $520 million and had interest rates averaging 3.86%.

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF ASARCO INCORPORATED

We have audited the accompanying consolidated balance sheets of ASARCO Incorporated and Consolidated Subsidiaries as of December 31, 1992 and 1991, 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, 1992. 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 misstatement. 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 Consolidated Subsidiaries as of December 31, 1992 and 1991, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1992, in conformity with generally accepted accounting principles.

As discussed in Note 3 to the financial statements, the Company changed its method of accounting for income taxes in 1992 and restated prior period financial statements to reflect the change. In addition, as discussed in Note 11 to the financial statements, the Company changed its method of accounting for postretirement benefits other than pensions effective January 1, 1992.

COOPERS & LYBRAND

1301 Avenue of The Americas
New York, New York
January 26, 1993, except for Note 13,
as to which the date is February 1, 1993.

SUPPLEMENTARY FINANCIAL AND STATISTICAL INFORMATION

UNAUDITED QUARTERLY DATA

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

QUARTERS	1ST		2ND		3RD		4TH		TOTAL	
	1992	1991	1992	1991	1992	1991	1992(a)	1991	1992	1991
Sales	$458.9	$465.7	$487.7	$459.1	$490.0	$494.0	$471.9	$493.0	$1,908.5	$1,911.8
Operating income (loss):										
Prior to adoption of SFAS 106	14.3	(1.6)	11.2	21.5	31.2	22.1	(96.1)	19.1	(39.4)	61.1
After adoption of SFAS 106 (b)	13.5	(1.6)	10.4	21.5	30.4	22.1	(96.1)	19.1	(41.8)	61.1
Net earnings (loss):										
Prior to adoption of SFAS 106	6.9	8.0	4.9	15.4	18.6	10.3	(58.0)	12.3	(27.6)	46.0
After adoption of SFAS 106 (b)	(47.6)	8.0	4.4	15.4	18.1	10.3	(58.0)	12.3	(83.1)	46.0
Net earnings (loss) per common share:										
Prior to adoption of SFAS 106	0.17	0.20	0.12	0.37	0.45	0.25	(1.40)	0.30	(0.66)	1.12
After adoption of SFAS 106 (b)	(1.15)	0.20	0.10	0.37	0.44	0.25	(1.40)	0.30	(2.01)	1.12
Dividends paid per common share	0.20	0.40	0.20	0.40	0.20	0.40	0.20	0.40	0.80	1.60
Stock market price per common share:										
High	28-3/4	30-1/2	31-3/8	29-1/4	30-1/2	28	25-1/4	27-1/2	31-3/8	30-1/2
Low	19-7/8	25-7/8	24-3/4	23-5/8	23-3/4	23-5/8	22-1/4	18-1/4	19-7/8	18-1/4

(a) Includes the effect of a pretax $66.7 ($44.0 after-tax) provision for closed plant and environmental matters as well as the effect of a pretax $31.9 ($21.1 after-tax) provision to reduce the carrying value of certain facilities recorded in the fourth quarter of 1992.
(b) In the fourth quarter of 1992 the Company adopted SFAS 106 pertaining to accounting for postretirement benefits (see Note 11) requiring the restatement of reported operating income (loss) and net earnings (loss) for the first three quarters of 1992.

METAL PRICE SENSITIVITY

(ESTIMATES BASED ON 41.5 MILLION SHARES OUTSTANDING)

Assuming that currently planned metal production and sales are achieved, that currently anticipated costs of production and tax and royalty rates are unchanged, that the number of shares outstanding is unchanged and giving no effect to results of other business segments, metal price sensitivity factors would indicate the following estimated change in earnings per share resulting from metal price changes in 1993.

	COPPER	LEAD	ZINC	SILVER	GOLD	MOLYB-DENUM
Change in Metal Price	$.01/lb.	$.01/lb.	$.01/lb.	$1.00/oz.	$10.00/oz.	$1.00/lb.
Annual Change in Earnings per Share	$.11	$.05	$.02	$.14	$.02	$.05

FIVE-YEAR SELECTED FINANCIAL AND STATISTICAL DATA

(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)	1992	1991(e)	1990(e)	1989(e)	1988
CONSOLIDATED STATEMENT OF EARNINGS DATA					
Net sales	$ 1,908	$ 1,912	$ 2,210	$ 2,214	$ 1,990
Operating income (loss)	(42)(a)	61(b)	127(c)	238(d)	273
Earnings (loss) before equity in results of nonconsolidated associated companies and cumulative effect of change in accounting principle	(32)	36	99	184	199
Equity in earnings of nonconsolidated associated companies, net of taxes	3	10(b)	36	41	8
Cumulative effect of change in accounting principle, net of taxes	(54)	–	–	–	–
Net earnings (loss) prior to adoption of SFAS 109	(83)	46	149	231	207
Net earnings (loss) after adoption of SFAS 109	(83)	46	136	224	207
Net earnings (loss) per share after adoption of SFAS 109	$ (2.01)	$ 1.12	$ 3.28	$ 5.34	$ 4.92
Dividends per common share	$ 0.80	$ 1.60	$ 1.60	$ 1.50	$ 0.70
CONSOLIDATED STATEMENT OF CASH FLOWS					
Cash provided from operating activities	$ 106	$ 67	$ 150	$ 270	$ 160
Dividends paid on common stock	33	66	66	63	29
Property additions	135	283	237	157	43
Business acquisitions, net of cash acquired	–	17	6	116	120
Depreciation and depletion	87	75	75	64	59
CONSOLIDATED BALANCE SHEET DATA (END OF PERIOD)					
Total assets	$ 2,946	$ 2,954	$ 2,790	$ 2,456	$ 2,234
Inventories - replacement cost in excess of LIFO inventory costs	125	130	157	165	210
Total bank loans and long-term debt	869	802	543	348	261
Common stockholders' equity	1,357	1,475	1,490	1,431	1,331
COMMON STOCK DATA					
Common shares outstanding	41,467,000	41,249,000	41,058,000	41,604,000	42,014,000
Price - high	$31-3/8	$30-1/2	$34-1/8	$35-7/8	$29-1/2
- low	$19-7/8	$18-1/4	$22-1/4	$26-1/8	$19-3/8
Book value per common share	$ 32.74	$ 35.75	$ 36.29	$ 34.40	$ 31.67
Price/Earnings ratio	–	19.13	8.27	5.60	5.57
Dividend payout ratio	–	143.2%	48.8%	28.1%	14.2%
FINANCIAL RATIOS					
Current assets to current liabilities	1.6	1.8	2.0	1.8	2.1
Debt as % of capitalization	39.0%	35.2%	26.7%	19.6%	16.4%
EMPLOYEES (AT YEAR-END)	8,900	9,100	9,300	9,000	8,500

(a) Includes a $66.7 pretax provision for closed plant and environmental matters and $31.9 provision to reduce the carrying value of certain facilities.
(b) Includes $10.6 pretax provision for doubtful accounts for a copper customer receivable. Effective the second quarter of 1991, MEDIMSA is accounted for on the cost basis.
(c) Includes $75.5 pretax provision for closed plant and environmental matters and $7.0 for increased State of Arizona royalties.
(d) Includes $34.3 pretax loss on sale of businesses.
(e) In the fourth quarter of 1992, the Company adopted SFAS 109 pertaining to accounting for income taxes (see Note 3) requiring the restatement of previously reported data for 1991, 1990 and 1989.

ASARCO WORLDWIDE OPERATIONS

COPPER
Continental Mine; Butte, Montana
Mission Mine; Sahuarita, Arizona
Ray Mine; Ray, Arizona
Silver Bell Mine; Silver Bell, Arizona
El Paso Smelter, Texas
Hayden Smelter, Arizona
Ray Electrowinning Plant; Ray, Arizona
Amarillo Refinery, Texas

LEAD
Leadville Mine; Leadville, Colorado
Sweetwater Mine; Reynolds County, Missouri
West Fork Mine; Reynolds County, Missouri
East Helena Smelter, Montana
Glover Smelter and Refinery, Missouri
Omaha Refinery, Nebraska

ZINC
Coy Mine; Jefferson County, Tennessee
Immel Mine; Knox County, Tennessee
New Market Mine; Jefferson County, Tennessee
Young Mine; Jefferson County, Tennessee

SILVER
Coeur Mine; Wallace, Idaho*
Galena Mine; Wallace, Idaho*
Troy Mine; Troy, Montana
Quiruvilca Mine (Corporacion Minera Nor Peru S.A.) (copper, lead and zinc); Peru

GOLD
Aquarius Mine, Timmins, Ontario, Canada*

Asarco Australia Limited
Jundee Mine, Western Australia
Wiluna Mine, Western Australia

PRECIOUS METALS PLANT
Amarillo Refinery, Texas

MINERALS
American Limestone Company, Inc.
construction aggregates, concrete, agricultural limestone
Knoxville, Tennessee
Tri-Cities, Tennessee
Springfield, Tennessee
Abingdon, Virginia

SPECIALTY CHEMICALS

ENTHONE-OMI, INC.
specialty chemicals and equipment for metals finishing and electronics

North America
Bridgeview, Illinois
Long Beach, California
Mexico City, Mexico
Orange, Connecticut
Toronto, Canada
Warren, Michigan
West Haven, Connecticut

Europe
France, Germany, Italy, Netherlands, Spain, Sweden, Switzerland, United Kingdom

Pacific Rim
Australia, Hong Kong, Japan, Malaysia, People's Republic of China, Singapore, Taiwan

OTHER

High Purity and Other Metals
Denver, Colorado

Zinc Oxide
Hillsboro, Illinois

PVC Pipe
Capco Pipe Company, Inc.
Van Buren, Arkansas
Evansville, Indiana
Litchfield, Illinois

Lead Fabrication
Lone Star Lead Construction Corp.
Houston, Texas

Environmental Services
Biotrace, Inc.
Salt Lake City, Utah
Encycle/Texas, Inc.
Corpus Christi, Texas
Hydrometrics, Inc.
Helena, Montana
Technical Services Center
Salt Lake City, Utah

ASSOCIATED COMPANIES

M.I.M. HOLDINGS LIMITED (17.4%)
copper, silver, lead, zinc, gold, coal

Eight mines and eight metallurgical plants, including:
Mount Isa, Australia
Hilton, Australia
Collinsville, Australia
Oaky Creek, Australia
Newlands, Australia
Porgera, Papua New Guinea
Ravenswood, Australia
Tick Hill, Australia

Investments in resources companies include:
Highlands Gold Limited (65%)
ASARCO Incorporated (25.0%)
Cominco Ltd. (22.5%)
Metallgesellschaft AG (3.5%)

MEXICO DESARROLLO INDUSTRIAL MINERO, S.A. DE C.V. (28.3%)
copper, lead, zinc, silver, gold, coal, coke, fluorspar, sulfuric acid

Thirteen mines and nine metallurgical plants in Mexico, including:
Cananea, Mexico
La Caridad, Mexico

SOUTHERN PERU COPPER CORPORATION (52.3%)
copper, silver, molybdenum

Cuajone mine, Peru
Toquepala mine, Peru
Ilo smelter, Peru

*On standby
(% ownership in parentheses)

EXECUTIVE OFFICERS

Richard de J. Osborne
Chairman of the Board, President and Chief Executive Officer

George W. Anderson
Executive Vice President

Francis R. McAllister *
Executive Vice President and Chief Financial Officer

Robert J. Bothwell, Jr.
Vice President, Sales

John R. Corbett
Vice President, Industrial Relations and Personnel

James J. Kerr
Vice President, Commercial

Augustus B. Kinsolving
Vice President, General Counsel and Secretary

Robert J. Kupsch
Vice President, Operations

Robert J. Muth
Vice President, Government and Public Affairs

Robert M. Novotny *
Vice President, Operations

Gerald D. Van Voorhis
Vice President, Exploration

Thomas J. Findley, Jr.
Treasurer

Ronald J. O'Keefe
Controller

James L. Wiers
General Auditor

* Effective May 1, 1993, Francis R. McAllister becomes executive vice president, copper operations; Robert M. Novotny becomes vice president, lead, zinc, silver and mineral operations; and Kevin R. Morano becomes vice president, finance and chief financial officer.

DIRECTORS

Richard de J. Osborne
Chairman of the Board, President and Chief Executive Officer

Willard C. Butcher [1,4,D]
Former Chairman of the Board and Chief Executive Officer, The Chase Manhattan Bank, N.A.

James C. Cotting [1,2,A]
Chairman of the Board and Chief Executive Officer, Navistar International Corporation

Norman C. Fussell
Managing Director and Chief Executive Officer, M.I.M. Holdings Limited

David C. Garfield [2,3,C]
Former President, Ingersoll-Rand Company

E. Gordon Gee [2,3]
President, The Ohio State University

James R. Greene [2,3,B]
Director and Consultant to various domestic and international corporations

Harry Holiday, Jr. [2,4]
Former Chairman of the Board and Chief Executive Officer, Armco, Inc.

James W. Kinnear, III [2,4]
President and Chief Executive Officer, Texaco Inc.

Francis R. McAllister
Executive Vice President and Chief Financial Officer

Michael T. Nelligan [3,4]
President and Chief Executive Officer, Don Ward & Co.; former Chairman of the Board, President and Chief Executive Officer, Ideal Basic Industries, Inc.

John D. Ong [1,3]
Chairman of the Board and Chief Executive Officer, The BFGoodrich Company

Peter R. Rowland
Consultant, Feez Ruthning & Co.; Director, M.I.M. Holdings Limited; Director, Highlands Gold Limited

James Wood [1,3]
Chairman of the Board, President and Chief Executive Officer, The Great Atlantic and Pacific Tea Company, Inc.

COMMITTEES OF THE BOARD

[1] Finance
[2] Audit
[3] Pension Advisory
[4] Organization and Compensation

CHAIRMEN OF THE COMMITTEES

[A] Finance
[B] Audit
[C] Pension Advisory
[D] Organization and Compensation

CORPORATE INFORMATION

Annual Meeting

The annual meeting of stockholders of ASARCO Incorporated will be held on Wednesday, April 28, 1993 at 2:00 p.m. in the Ground Floor Auditorium, 1 Chase Manhattan Plaza, New York, NY. A transcript of the proceedings will be available after June 1, 1993 to any stockholder upon request to the Secretary. The request should specify a proper purpose, and should include payment of $10.00 to cover the cost of postage and reproduction.

Form 10-K

Many of the Securities and Exchange Commission information requirements are contained in this 1992 Annual Report. A copy of Asarco's 1992 Form 10-K (excluding exhibits) will be available after May 1, 1993, upon request to the Corporate Communications Department.

World Headquarters

180 Maiden Lane
New York, NY 10038
Phone 212/510-2000
FAX 212/510-1855

Transfer Agent, Registrar and Stockholder Services

The Bank of New York
101 Barclay Street
New York, NY 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 the corporation or to obtain additional copies of the annual report, contact Gerard F. Corbett, Director, Corporate Communications Department, ASARCO Incorporated, 180 Maiden Lane, New York, NY 10038, 212/510-1810.

ASARCO Incorporated
[illegible] Maiden Lane
New York, New York
[illegible]

212/510-2[illegible]

NYSE Symbol: AR

PACKAGING

Several years of experience with hundreds of customers have led us to standardize on the following package:

Style of package: **Pressure-packed**

Weight of package: **100 pounds**

Package material: **Jute, paper or polyethylene**

Size of package: **16" x 24" x 9"**

Users report the following as some of the benefits from this popular style of package:

- The package is easy to handle and allows safer stacking.
- The package takes less room for a given weight and is the best choice where storage space is at a premium.
- Rail shipments are more economical because pressure-packed bags make more weight per car. (Being more compact, they hold almost twice as much fibre in the same space as loose-packed bags.)
- Ocean freight rates — computed by volume — work out to savings of $2.00 to $2.50 per ton as compared with loose-packed bags.
- Pressure-packed asbestos fibre can be easily palletized on 40- x 48-inch pallets.

For situations in which moisture absorption in shipping and storage may be a consideration, we recommend the polyethylene package. The polyethylene bags are packed with asbestos fibre at a moisture level of approximately 1.2%. The bags are strong . . . don't tear or split under rough handling . . . *eliminate moisture build-up* when stored indoors or outdoors regardless of humidity.

The buyer of Lake Asbestos fibre has a choice of other types of packaging including loose-packed jute and valve type paper bags. However, it is recommended that buyers consult with Lake Asbestos Sales Service Department on the packaging and shipping factors which affect the *ultimate* cost of the finished product in which asbestos is used.

elivery

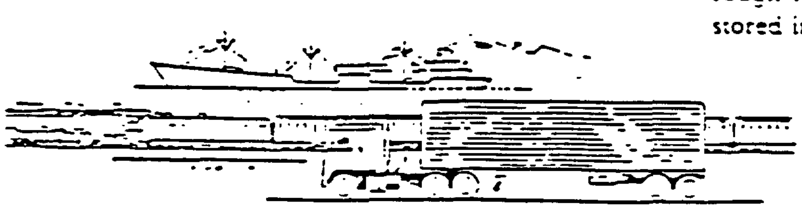
F.O.B. Black Lake, P.Q., Canada.

Continental deliveries by rail or truck.

Overseas shipments from the following points:

mmer: Quebec City, Three Rivers and Montreal, P.Q.

nter: Halifax (Nova Scotia), St. John (New Brunswick)



ASARCO
Metals & Minerals

Annual Report

ASARCO Incorporated

1 9 8 6

ASARCO Incorporated is one of the world's leading producers of nonferrous metals, principally silver, copper, lead and zinc. The Company was organized in 1899 as American Smelting and Refining Company, and the current name was adopted in 1975. Asarco operates mines in the United States, Canada and Peru.

In addition to mining and treating ore from its own mines, Asarco is a custom smelter and refiner of nonferrous metal ores mined by others. In 1986, ores and concentrates purchased from others or processed for them on toll accounted for about 86% of the silver, 88% of the copper, and 81% of the lead produced by Asarco's primary plants.

Asarco also produces nonmetallic minerals. Coal and limestone are mined in the United States, and the Company has an indirect interest in asbestos mines in Canada.

Asarco is a major producer of sulfuric acid which is produced as a by-product of the environmental control systems at the Company's smelters. It also produces zinc oxide, an important raw material in the manufacture of rubber tires and paint. Other subsidiaries and affiliated companies produce specialty chemicals and manufacture alloys, electronic solders, fluxes, cathodic protection anodes, other metal products and asbestos-cement and PVC pipe.

Asarco has substantial interests in three of the world's great mining companies: M.I.M. Holdings Limited (MIM) in Australia, Southern Peru Copper Corporation (SPCC) and Mexico Desarrollo Industrial Minero, S.A. (MEDIMSA). MIM is engaged in Queensland in the production of copper, silver, lead and zinc from its Mount Isa mine and of coal from three large surface mines. Outside of Australia, MIM operates a lead and silver refinery in England, has a 32.1% interest in Asarco, and important interests in metal-producing companies in Canada and West Germany. SPCC operates two mines held under mining concessions from the Peruvian government covering deposits located on the western slopes of the Andes and operates a copper smelter located 60 miles away on Peru's Pacific coast. MEDIMSA is a holding company for several operating companies in Mexico engaged in mining, milling, smelting and refining of nonferrous metals and their by-products and in the production of coal, coke and fluorspar.

Asarco and its associated companies together in 1986 accounted for about 16% of Free World mine production of silver, 8% of copper, 13% of lead and 8% of zinc.

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Note: 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 its consolidated subsidiaries.

	1986	1985	1984	1983	1982
	(dollars and shares in thousands except per share amounts)				
FOR THE YEAR					
Net sales	**$1,056,538**	$1 166.921	$1.325 129	$1.512.236	$1.350.695
Earnings (Loss) before taxes and extraordinary items:					
Operations, exclusive of income from rights offering by M I M Holdings Limited and unusual items	**(16,164)**	(35.723)	(87.363)	19 320	(90.491)
Income from rights offering by M I.M Holdings Limited	**8,999**	—	—	—	7 404
Equity in results of nonconsolidated associated companies.					
Earnings (Losses), excluding foreign exchange translation gains and losses	**(2,029)**	(24.900)	(7.783)	15.501	(7.120)
Foreign exchange translation gains (losses)	**22,600**	5.200	39.500	42 400	50.700
Subtotal	**20,571**	(19.700)	31.717	57 901	43.580
Unusual items(a)	**—**	(4.500)	(254.000)	—	(11.000)
Total	**13,406**	(59.923)	(309.646)	77 221	(50.507)
Earnings (Loss) before extraordinary items	**9,140**	(62.184)	(306.080)	58 329	(38.704)
Extraordinary items (b)	**—**	—	—	—	(35.376)
Net earnings (loss)	**9,140**	(62.184)	(306.080)	58.329	(74.080)
Primary net earnings (loss) per common share					
Earnings (Loss) before extraordinary items	**(0.46)**	(2 87)	(12 56)	1 54	(2.40)
Extraordinary items (b)	**—**	—	—	—	(1 48)
Net earnings (loss)	**(0.46)**	(2 87)	(12 56)	1.54	(3 88)
Cash dividends per share					
Common	**—**	—	0 30	0 40	0 50
Preferred Series A	**7.00**	7 00	7 00	7 00	7 00
Preferred Series B Convertible	**6.25**	6 25	6 25	6 25	6.25
Preferred Convertible Exchangeable	**2.70**	—	—	—	—
Capital expenditures	**94,745**	25.768	34.570	105.172	145.052
Depreciation and depletion	**53,030**	57.243	64 147	54.956	60.947
AT YEAR-END					
Total assets	**$1,840,314**	$1.745.432	$1.945.893	$2.227 130	$2.153.064
Total debt (c)	**475,593**	472.636	579.532	537.956	563.731
Redeemable preferred stock	**140,000**	140.000	140.000	140 000	140.000
Convertible exchangeable preferred stock	**86,250**	—	—	—	—
Preferred shares outstanding					
Series A	**1,550**	1 550	1.550	1.550	1.550
Series B Convertible	**1,250**	1.250	1 250	1 250	1.250
Convertible Exchangeable	**862**	—	—	—	—
Common stockholders equity	**$ 655,274**	$ 641 479	$ 692.588	$1 024.657	$ 967.068
Common shares outstanding	**32,236**	32.047	28.375	28.254	27.352
Asarco's pro rata interest in its shares held by M I M Holdings Limited	**3,862**	4.555	2 467	2 415	2.401
Book value per common share (d)	**$23.09**	$23 33	$26 73	$39 66	$38 76
Common stockholders of record	**19,100**	20 800	23 800	26 600	30.500
Employees (average for year)	**7,000**	8.200	10.000	9 900	10.900

(a) For 1985 and 1984 refer to note [illegible] of the financial statements. The 1982 item represents the estimated cost of [illegible] four manufacturing plants.

(b) [illegible]

(c) Total debt [illegible] long-term debt [illegible] and long term debt.

(d) [illegible] held by M I M Holdings [illegible]

Nineteen eighty-six was a better year for Asarco Not satisfactory, but better On a reported earnings basis, the Company was profitable for the first time since 1983, earning enough during the last two quarters of the year to overcome the substantial losses recorded in the first half

On an operating basis, however, the Company was not profitable. After eliminating the accounting effects of foreign currency translation gains and non-operating income from inventory sales and other transactions, the Company was not in the black for the year or in either of the last two quarters

We are however, well along in our program of restoring Asarco to profitability on an operating basis at current metal prices. A year ago when we developed the program Asarco was generating substantial and growing losses and there seemed little likelihood that a metal market recovery would turn the situation around In the preceding four years the Company had closed and written off its high-cost plants and mines and had cut capital spending to the bone. It was clear by late 1985, however, that this was not enough.

It was also evident that as a result of the closure in recent years of more than half of the copper mines in the U.S. and a number of domestic and foreign silver-lead mines, Asarco's position as a custom smelter and refiner of ores and concentrates from other people's properties was increasingly vulnerable.

The strategy we developed was to cut costs further in our operations, eliminate all but essential support services, and change our marketing program so as to improve the profitability of current sales. We also concluded that the Company's management structure should be simplified and its management systems improved. Finally, we felt that we should seek ways of reducing the Company's dependence on short-term arrangements for feed for its smelting and refining business

We have said a good deal during the course of 1986 about our cost-reduction program At its inception, we estimated that savings of as much as $35 million could be achieved without adversely impacting Asarco's productive capabilities By mid-summer we had developed sufficient confidence in the program to raise our estimate to $75 million, and towards year-end to $85 million

The program has involved an examination, with outside professional help, of all aspects of our business. Organizational charts were redrawn and responsibilities redefined, eliminating as many as seven layers of management in certain parts of the Company The research, engineering and environmental science departments were reduced in size and combined to form a single technical services unit in Salt Lake City. Exploration activities were reduced in North America and reorganized so as to be self-funding in Australia Other support services were cut again by substantial amounts Lower employment levels and better than anticipated investment results enabled the Company to reduce its pension costs.

Labor agreements with unions representing the workers at Asarco's principal domestic copper operations were renegotiated in mid-1986 and with the union representing certain of the Company's silver and lead properties in early 1987 The new agreements called for wage reductions and suspension of automatic cost-of-living adjustments for the three-year terms of the contracts The Company also has sought and received substantial reductions in charges for transportation services and energy

After careful study we concluded that the results of the Company's sales program for copper and lead could be improved by increasing the proportion of sales made on an annual contract basis for specified delivery points In 1986 a little more than half of the Company's lead was sold under such contracts, and in 1987 more than three-quarters of the Company's anticipated supplies of lead and copper have been sold under annual contract In addition, a new sales organization was formed to market sulfuric acid which is now produced in substantial quantities as a by-product of the environmental control systems at the Company's smelters

In early 1987 we began installing new job evaluation and performance management systems which were developed in conjunction with the organizational restructuring in 1986 These systems should provide for a closer linking of pay levels to relevant external job markets and, when appropriate, to individual performance These changes, together with the simpler organization and clearer definition of individual responsibilities, should, we believe, improve the performance of management at all levels

In mid-1986 Asarco sold a new issue of convertible exchangeable preferred stock and common stock warrants, raising in the process approximately $93 million in new equity In early 1987 the Company completed the sale of $107 million of fixed-rate debt which refinanced several issues of floating-rate, tax-exempt debt These two financings were very helpful in improving the Company's liquidity and debt maturity schedule

In late 1986 Asarco purchased the Ray copper mine and smelter and the Ozark lead mine which it has renamed the Sweetwater mine These are two low-cost mining properties which also represent important strategic steps in assuring secure sources of material for the Company's smelting and refining plants With the purchase of Ray, Asarco can now provide 60% of the copper concentrates required by its operating smelters. The Sweetwater mine, together with the Company's new West Fork mine which is expected to reach full production in 1987, can provide all of the feed required by the Glover lead smelter The Sweetwater mine has been shut down and maintained on standby since 1983, and we have no plans to open it in 1987 as sufficient materials are currently under contract for Glover

Looking to the future, our priorities are to complete the task of restoring Asarco's existing business to solid profitability at current metal prices.

That task will continue to occupy a substantial portion of our time and attention in 1987 We will also seek opportunities to extend the use of existing assets and technical skills into new business areas. Beyond this effort. in a manner consistent with the Company's financial capacity, we will seek new opportunities in related basic industries which may be less vulnerable to he trade and economic pressures which have led to the prolonged recession in nonferrous metals

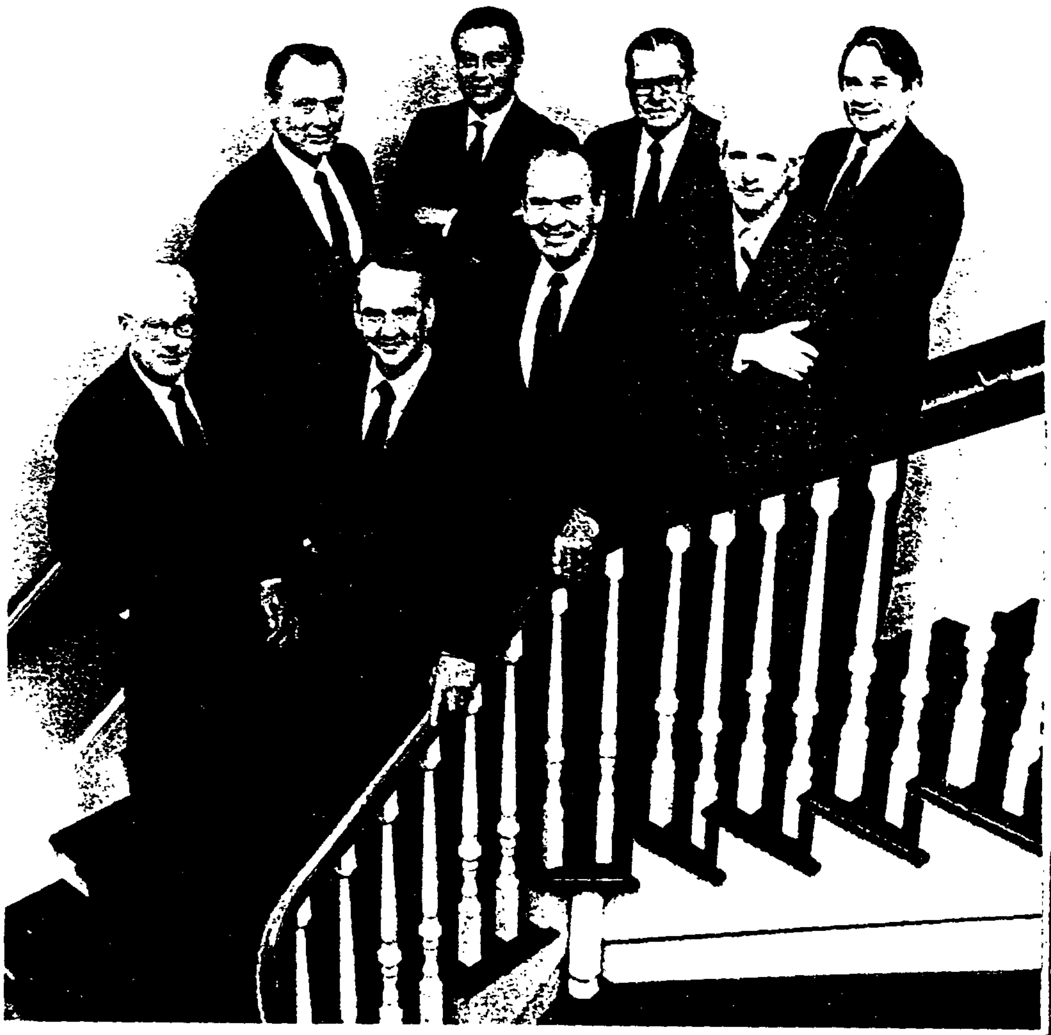
This has been an extraordinarily difficult year for Asarco people. A great many have retired or otherwise left the Company as a result of the necessary cost-reduction programs and most of those who have remained have done so at reduced wages. It has also been very exciting year. Asarco is an old company undergoing a process of change and renewal A new culture is emerging, and it is one which we think better suited to today's more competitive environment.

The Board of Directors of Asarco n me in thanking you, our shareholders, for your support during this difficult period We believe that better es lie ahead

the Board of Directors,

ard de J Osborne.
irman

uary 27 1987



Chairman Richard de J Osborne (lowest step, right) and executives reporting directly to him Clockwise from Mr Osborne John R Corbett, vice president, industrial relations and personnel. George W Anderson, executive vice president; Robert J Bothwell, vice president, sales. Alexander J Gillespie, Jr, vice chairman, Robert J Muth, vice president, government and public affairs, Francis R McAllister, vice president, finance and administration, and Thomas C Osborne, executive vice president

ASARCO AT A GLANCE

MINES†

Silver
Coeur: Wallace, Idaho
Galena, Wallace, Idaho
Troy: Troy, Montana
Quiruvilca (Corporación Minera Nor Perú S.A.) (Also Copper, Lead and Zinc), Peru

Gold
Aquarius*, Timmins, Ontario, Canada
Wiluna (Asarco Australia Ltd.): Wiluna, Western Australia

Copper
Mission Complex: Sahuarita, Arizona (includes Eisenhower, Mission, Pima and San Xavier mines)
Ray: Hayden, Arizona
Silver Bell*: Silver Bell, Ariz.

Lead and Zinc
Leadville: Leadville, Colo
Sweetwater*, Reynolds County, Missouri
West Fork**, Reynolds County, Missouri
Quioma (Compania Minera Quioma S.A.), Bolivia

Zinc
Coy, Jefferson County, Tennessee
Immel, Knox County, Tennessee
New Market, Jefferson County, Tennessee
Young, Jefferson County, Tennessee

Tin
(Compania Minera Quioma S.A.): Bolivia
Berenguela*
Cerro Grande

Asbestos
(LAB and company limited)
Thetford Mines district of Quebec, Canada

Coal
(Midland Coal Company)
Rapatee, Middlegrove, Ill

Crushed Stone, Sand, Concrete and Agricultural Limestone
(American Limestone Company) Knoxville, Tennessee

SMELTERS AND REFINERIES

Copper
Amarillo, Texas (Refinery)
El Paso, Texas (Smelter)
Hayden, Arizona (Smelter)
Ray: Hayden, Arizona (Smelter*) (Electrowinning Plant)

Silver and Gold
Amarillo, Texas (Refinery)

Lead
East Helena, Montana (Smelter)
El Paso*, Texas (Smelter)
Glover, Missouri (Smelter, Refinery)
Omaha, Nebraska (Refinery)

Zinc
Corpus Christi*, Texas (Refinery)

Bismuth
Omaha, Nebraska

Cadmium, High Purity Metals
Denver, Colorado

Palladium and Platinum
(Crude)
Amarillo, Texas

Selenium
Amarillo, Texas

Tellurium
Amarillo, Texas

CHEMICALS AND MANUFACTURING

Antimony Oxide
Omaha, Nebraska

Cadmium Oxide, Sulfide, Powder and C.P. Litharge
Denver, Colorado

Specialty Chemicals
(Enthone, Incorporated)
Chicago, Illinois
West Haven, Connecticut

Sulfuric Acid
Corpus Christi*, Texas
East Helena, Montana
El Paso, Texas
Hayden, Arizona

Zinc Oxide
Hillsboro, Illinois

Asbestos-Cement and PVC Pipe
(Capco Pipe Company, Inc.)
Van Buren, Arkansas
Evansville, Indiana (PVC Pipe)
Litchfield, Illinois (PVC Pipe)

Cathodic Protection
(Federated Metals Corporation)
Houston, Texas
Matamoros, Mexico

Industrial and Electronic Solders and Fluxes
(Fry's Metals Inc.) (20%)
Alpha Metals
Jersey City, New Jersey
Chicago, Illinois
Federated-Fry
Altoona, Pennsylvania
San Francisco, California

Lead Fabrication
(Lone Star Lead Construction Corp.)
Houston, Texas

Metal Products and Alloys
(Federated Genco Limited) (60%)
Burlington, Ontario, Canada
Montreal, Quebec, Canada

ASSOCIATED COMPANIES

M.I.M. Holdings Limited (37.3%)
Queensland, Australia
Collinsville (Coal)
Mount Isa (Copper, Lead, Zinc, Silver)
Newlands (Coal)
Oaky Creek (Coal) (79% MIM interest)
Townsville (Copper Refinery)
Western Australia
Agnew* (Nickel) (40% MIM interest)
Northfleet, England
Britannia Refined Metals Limited, (Lead and Silver Refineries, Secondary Lead Plant)
Datteln, West Germany
(Zinc Refinery) (50% MIM interest)
(Zinc Products) (33⅓% MIM interest)

Mexico Desarrollo Industrial Minero, S.A. (MEDIMSA) (34%)
Eleven mines, five metallurgical plants throughout Mexico (Copper, Lead, Zinc, Silver, Gold, Coal, Coke, Fluorspar)

Southern Peru Copper Corporation (52.3%)
Cuajone (Copper, Silver, Molybdenum)
Toquepala (Copper, Silver, Molybdenum)
Ilo (Copper Smelter)

†Interest in mines is as shown in Mineral Reserves table on page 11
*On standby
**Limited production
(Percent ownership of companies shown in parentheses)

Major Mine Acquisitions Assure Supplies of Concentrates for Asarco Smelters

■ In November, Asarco purchased the Ray Mines Division from Kennecott Corporation. The Ray mine, located in Arizona produces 75,000 tons per year of copper in concentrates and 30,000 tons per year of leached copper in the form of electrowon cathodes and precipitates. The purchase also included the Ray copper smelter which is presently not operating. Since late 1983, the Ray mine concentrates have been processed at Asarco's nearby Hayden copper smelter.

Asarco also will complete the consolidation of all mineral interests in its Mission copper mining complex near Tucson in April 1987 when it acquires for $1.0 million Anamax Mining Company's interest in operating equipment and mineral reserves owned by Eisenhower Mining Company, a partnership of Anamax and Asarco. In 1985 Asarco had acquired the Pima mine, the only other of the four mines comprising the Mission open pit that was not Asarco-controlled. These moves substantially increase Asarco's ore reserves at Mission.

Acquisition of the Ray mine more than doubles Asarco's domestic copper mining capacity and enables the Company's mines to provide 60% of the copper concentrates treated at Asarco's operating smelters. Also, should conditions in the markets for concentrates and copper metal warrant, the Ray smelter can treat up to 400,000 tons per year of copper concentrates. The Ray smelter is modern and cost-efficient and complied with all significant environmental regulations when it last operated in 1982.

For the Ray Mines purchase, Asarco paid Kennecott $72 million in cash plus participation by Kennecott in future revenues of the Ray Unit resulting from increases in the price of copper. The price participation will be 25% of incremental revenues resulting from Comex copper prices in excess of 68 cents a pound adjusted for cost inflation. The participation will be in effect for a 10-year period beginning in November 1988 and is limited to aggregate payments of $65 million.

In 1987, Asarco plans to modernize the solvent extraction/electrowinning plant at Ray at a cost of $1.1 million. This will increase this plant's capacity to 40,000 tons per year of electrowon cathodes, eliminate the existing precipitation plant and further reduce the already low production costs.

■ In December, Asarco purchased the Missouri lead mine of the Ozark Lead Company division from Kennecott Corporation and renamed it the Sweetwater Unit after the name of the principal ore body. The Sweetwater Unit is capable of producing annually 100,000 tons of lead and 8,000 tons of zinc in concentrates. The operation was shut down in 1983 and has been maintained since then on a standby basis.

In July, Asarco decided to bring its new West Fork lead mine, also in Missouri, into full production by mid-1987 at an additional cost of $3.3 million. The mine had started up on a limited production basis in September 1985. At full capacity, West Fork will be able to produce annually 51,000 tons of lead, 7,500 tons of zinc and 175,000 ounces of silver in concentrates.

These two events provide the mine capacity to supply all of the lead concentrates required by Asarco's nearby Glover lead smelter and refinery, which had been supplied by the Ozark mine prior to its shutdown. For the immediate future, however, the Glover Plant will continue to be adequately supplied by West Fork and raw materials under contract, and Asarco does not plan to reopen the Sweetwater mine.

For the Sweetwater Unit, Asarco paid $850,000 plus assumption of certain liabilities and participation by Kennecott in 25% of future revenues of the unit resulting from sales of lead at prices in excess of 29 cents a pound adjusted for cost inflation. The price participation will be in effect for a 10-year period beginning two years after production resumes and will be limited to aggregate payments of $10 million.

ining and Exploration

The Wiluna gold mining nt venture in Western stralia completed conuction in December of an panded treatment plant to ocess annually 440,000 s of ore from its open-pit ie and 880,000 tons of ings from old dumps aining from previous erground mining. In Oc- er the joint venture had uired the tailings dumps an existing tailings treatment plant. Commencing early in 1987, the A$14-million plant is expected to produce 52,000 ounces of gold annually.

During the year, Asarco reorganized its mining and exploration activities in Australia. The Wiluna joint venture agreement was renegotiated in February to convey a 25% interest to Asarco's partner for $4.0 million, thus leaving each partner with a 50% interest. Ownership of Asarco's interest was transferred to a new public company, Asarco Australia Ltd. Subsequently Asarco Australia Ltd. sold 25% of its shares to Australian Diversified Resources Ltd., a venture capital company, for A$6.6 million. Asarco Australia is actively pursuing exploration programs for gold and other metals in Australia and adjacent areas, including exploration of large tracts of prospective gold tenements in Western Australia. The Wiluna project is managed by Asarco Australia's partner in the joint venture.

■ At the Rock Creek project, applications for patents for the mineral rights to a large silver-copper ore body were completed and will be submitted to the federal government in March 1987. Baseline environmental studies were also completed and work commenced on the operating permit application. The Rock Creek project is located in northwestern Montana near the Troy mine.

■ The Tennessee zinc mines operated intermittently in order to control inventories of zinc concentrates during the period of weak demand before the zinc market improved in the second half of the year. Asarco placed the New Market mine on standby status from January 31 to September 15 and suspended operations at the Young, Immel and Coy mines from March 28 to June 16. As previously scheduled, the Columbus zinc oxide plant, which used Tennessee zinc concentrates as raw material, ceased production permanently in April. A second zinc oxide plant, in Hillsboro, Illinois, continues in operation.

■ Asarco sold its 25% interest in the Little River joint venture which had operated a lead-zinc mine in New Brunswick, Canada. The mine ceased production in 1983 and Asarco wrote off its investment in 1984. Under the sales agreement Asarco will receive a royalty on future production if the mine reopens within the next 10 years.

■ LAB and company limited, a limited partnership in which Lac d'Amiante du Québec, Ltee (LAQ), a wholly owned subsidiary of Asarco, has a 33⅓% interest, consolidated all asbestos-producing operations including LAQ's, in the Thetford Mines area of Quebec as of July 1. The new entity significantly improved overall operations through rationalization of facilities and was profitable during its first six months. However, world markets for asbestos remained depressed due to reduced demand, oversupply from overseas sources, and the foreign exchange problems of many consuming countries.

Smelting and Refining

■ At the modernized Hayden copper smelter, production was 66% greater than in 1982, the last full year of operation prior to installation of the new oxygen flash furnace, despite a three-week shutdown in February to repair furnace brickwork. The furnace will be shut down again late in the first quarter of 1987 for modifications costing $1.5 million which are expected to extend furnace refractory life, increase throughput, and considerably lengthen the periods between maintenance shutdowns. Hayden's output of copper anodes is shipped to the Amarillo Copper Refinery which produced a record 439,600 tons of refined copper in 1986.

■ The East Helena lead smelter made good progress in developing a more efficient and less costly method of recovering antimony from silver-copper-antimony concentrates produced at the Coeur and Galena silver mines in Idaho. Since May these concentrates have been treated at East Helena instead of being shipped to the El Paso Plant where the antimony was recovered as metal. The antimony metal plant at El Paso has since suspended operations.

As in 1985, operations at East Helena were hampered by a shortage of lead concentrates resulting from the closing of mines which previously supplied the plant. The plant curtailed production to five days a week on April 19 and resumed seven-day-a-week operations on August 1.

Labor Relations

■ Asarco reached new three-year labor agreements without work stoppages at its principal domestic copper operations. The agreements became effective on July 1 and include a first-year wage reduction of $3.50 per hour, suspension of cost-of-living adjustments, and minor reductions in benefits. They also provide a wage restoration of $0.75 per hour on July 1, 1987, and an additional restoration of $1.00 per hour on July 1, 1988.

In early 1987 a three-year agreement effective February 1 was reached with the union representing workers at the East Helena lead smelter and Omaha lead refinery, the Globe high purity metals plant in Denver, and the Galena silver mine in Idaho. The agreement includes a first-year wage reduction of $3.30 per hour, suspension of cost-of-living adjustments (COLA) for the term of the agreement, and minor reductions in benefits. Also, 65 cents per hour of a total 75 cents per hour of COLA accumulated since 1984 was rolled into the wage base. The agreement provides a wage restoration of 70 cents per hour plus a 5-cent COLA roll-in in the second year of the contract and a wage restoration of 95 cents per hour plus another 5-cent COLA roll-in in the third year of the contract.

Technical Services

■ The new Technical Services Center began operation in Salt Lake City. It comprises the former central engineering, central research and environmental sciences departments. The center provides engineering, environmental, applied research and assets protection (security) services as well as analytical laboratory support to Asarco operations. It also offers these services commercially to industry and government.

■ A U.S. patent was granted to Asarco in December on a process for manufacturing high-strength battery grids from rolled antimonial lead alloys on a high-speed, continuous production line. Until now antimony-lead alloys have required a less efficient grid casting process. The new process should significantly reduce the cost of producing batteries containing antimonial lead grids, and Asarco is working with a leading battery manufacturer to further develop the process.

Financial

■ In August, Asarco completed the sale in a public offering of 3,450,000 $2.25 Depositary Convertible Exchangeable Preferred Shares, offered at $25 per share, and 3,375,000 Common Stock Purchase Warrants, offered at $3.125 per warrant. The net proceeds of

$92.3 million from these sales were used principally to reduce debt.

■ In early 1987 the Company completed the sale of $107 million of fixed-rate debt which refinanced several issues of floating-rate, tax-exempt debt

■ M.I.M. Holdings Limited, Asarco's associated company in Australia, announced a rights offering in February to raise A$200 million Asarco, which then had a 44% interest in MIM, exchanged its rights to purchase 44.2 million ordinary shares of MIM for 6.3 million new shares thus diluting its interest to 37.7%. While the transaction resulted in no receipt or outlay of cash by Asarco, it did result in a $9.0-million credit to Asarco's first quarter earnings and an additional $16.4-million credit to stockholders equity When MIM increased its common stock ownership in Asarco to 32.4% in October 1985, Asarco had agreed to reduce its interest in MIM to 40% within three years, and this transaction satisfied that commitment. Subsequently, MIM issued additional shares in connection with a small acquisition, further diluting Asarco's interest to 37.3%.

Associated Companies

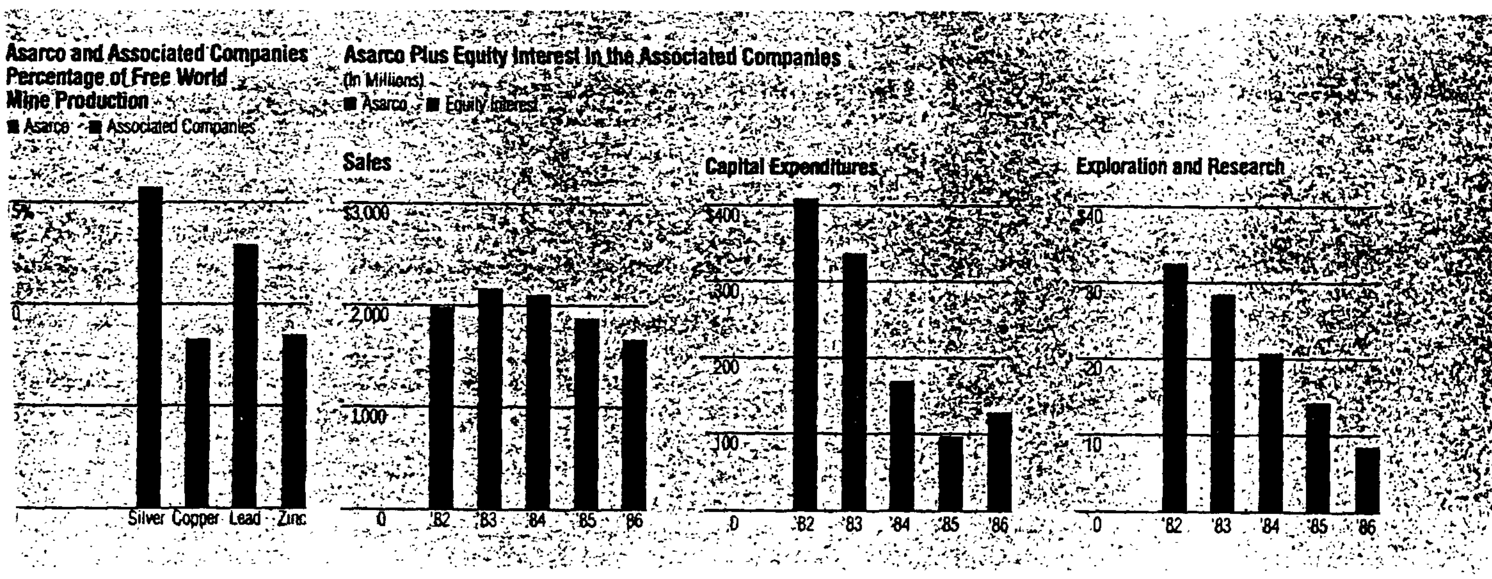
■ MIM in Australia was profitable in its fiscal year ended June 30 after reporting a loss in the previous fiscal year. MIM maximized production while containing costs, thereby achieving a 10% increase in sales revenue while costs of sales rose only 1.3%. MIM continued to report operating profits during the first half of its 1986/87 fiscal year.

MIM continued its diversification program by acquiring a 25% participation in a holding company formed to purchase a 31% interest in Cominco Ltd., a Canadian company which is one of the world's largest producers of zinc. Cominco also produces substantial quantities of lead, copper and fertilizers. MIM also created a new company named Highlands Gold Limited to hold its 33⅓% interest in the Porgera gold prospect and other assets in Papua New Guinea As exploration progresses, Porgera is emerging as an important gold property.

Southern Peru Copper Corporation had a smaller net loss than in 1985 due to more favorable tax and currency exchange effects. However, pre-tax operating earnings were significantly lower because of lower ore grades, some strike activity compared to a strike-free 1985, and lower copper prices. Also, operating earnings continued to be adversely impacted by inflation-driven cost increases combined with an exchange rate in Peru that remained frozen for the entire year. The government has announced that it will devalue the Peruvian currency in 1987 at the rate of 2.2% per month.

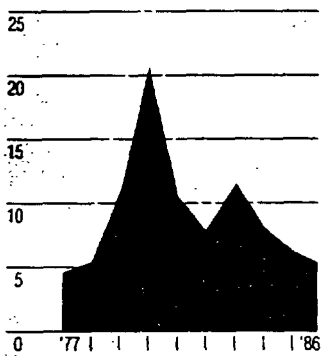
Asarco's equity in the earnings of MEDIMSA in Mexico increased in spite of lower metal prices. The effects of the lower prices were offset by the drop in the value of the peso and by measures taken to control operating and administrative expenses, which increased considerably less than the rate of inflation. Mine production of silver, zinc, copper and lead benefitted from the start-up in the first quarter of the new Rosario mine and the expanded facilities at the Charcas mine. Refined silver production increased by 15% and electrolytic zinc production by 20% over 1985.

The magnitude of the combined impact of Asarco and its associated companies on world mining is shown in the accompanying charts.



Silver

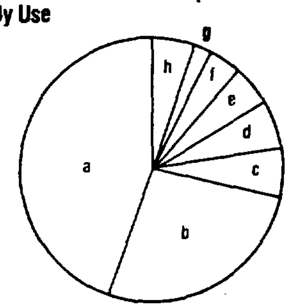
Average Domestic Sales Price
(Dollars Per Ounce)



■ In current dollars
In 1986 dollars, adjusted for inflation using the GNP deflator

Handy & Harman Price

1986 Domestic Consumption By Use

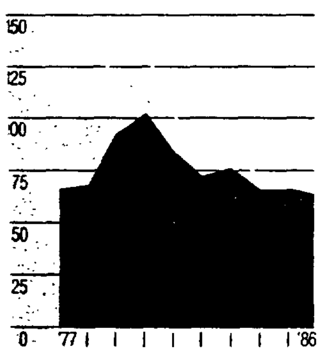


a. Photographic/**45%**
b. Electrical & Electronic Products/**27%**
c. Silverware/**6%**
d. Jewelry/**6%**
e. Brazing Alloys & Solder/**5%**
f. Coins & Medallions/**4%**
g. Catalysts/**2%**
h. Miscellaneous/**5%**

Source: Bureau of Mines, U.S. Department of the Interior. Estimate based on first 9 months of 1986.

Copper

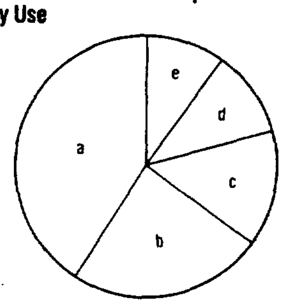
Average Domestic Sales Price
(Cents Per Pound)



■ In current dollars
In 1986 dollars, adjusted for inflation using the GNP deflator

etals Week U.S. Producer Price.
thode Composite Basis

1986 Domestic Consumption By Use



a. Building & Construction/**41%**
b. Electric & Electronic Products/**24%**
c. Industrial Machinery & Equipment/**14%**
d. Transportation/**11%**
e. Consumer & General Products/**10%**

Source: Copper Development Association. Estimate based on first 11 months of 1986.

Silver

The average price of silver in 1986 was the lowest since 1978. As quoted by Handy & Harman, silver prices averaged $5.47 an ounce in 1986, 11% lower than the 1985 average of $6.14. The high for the year of $6.20 was reached on January 27 and the low of $4.87 on May 20. Although the excess of world silver production over consumption narrowed significantly in 1986, a lack of speculative interest and large overhanging stocks of silver had a more pronounced effect on silver prices.

Free World mine production of silver fell to 325 million ounces in 1986 from 330 million ounces in 1985, due primarily to the closing for economic reasons of two large domestic silver mines which had a combined output of 9 million ounces in 1985. Also, world production of silver from secondary sources, such as scrap and old coins, fell in 1986 to 80 million ounces, 29% below 1985 output. This, too, reflected low silver prices which made it unattractive to sell scrap silver and caused an estimated 5-million-ounce drop in exports of secondary silver from India.

Free World consumption of silver increased 2.4% over 1985 to 383 million ounces, spurred by growing usage in the photographic and electronics industries, which in the United States account for about 72% of consumption, and in jewelry and commemorative coins. Although these latter two categories account for only 10% of domestic silver usage, they represented 50% of the growth in U.S. silver consumption in 1986.

As a result, the surplus of Free World silver output over demand narrowed to 22 million ounces in 1986. This compares to a surplus of 71 million ounces in 1985 and over 50 million ounces in each of the five preceding years. However, these statistics do not include demand by investors for silver in small bars which is believed to have been substantial.

Looking ahead, the surplus of silver output over demand should continue to narrow in 1987. Neither mine nor secondary production is likely to increase unless there is a substantial increase in silver prices. Consumption should benefit from expected modest economic expansion in the Free World and the growing worldwide popularity of silver jewelry and commemorative coins. In this country alone the new one-ounce American Eagle silver coin introduced by the U.S. Mint in November is in great demand and is expected to consume 5 to 10 million ounces per year of government stockpile silver. Also, the U.S. Congress has authorized the minting of 10 million 0.77-ounce silver coins in 1987 to commemorate the Bicentennial of the U.S. Constitution.

Copper

Free World stocks of refined copper continued to fall in 1986 for the third consecutive year. Following a total decline of 700,000 tons in 1984 and 1985, stocks held by refiners and fabricators and on the commodity exchanges in New York and London dropped an additional 150,000 tons in 1986 to a level that in prior periods of economic recovery would have caused concern among consumers about availability. However, in recent years consumers seem to have learned to operate on leaner inventories by employing computerized inventory control methods based on "just-in-time" delivery.

Free World copper consumption increased slightly in 1986 to 8.1 million tons from 8.0 million tons in 1985. Demand in the United States, however, fell nearly 2%. Demand for domestic brass mill products was generally satisfactory, but this was offset by weaker demand in some wire and cable markets.

Output of refined copper in the Free World increased for the second consecutive year to 8.0 million tons, almost 4% higher than two years ago. Thus, the shortfall of production relative to consumption continued to narrow. Had it not been for strong exports of 280,000 ons of refined copper to socialist countries, the drawdown in stocks would have been considerably less in 986. Over three-fourths of he exports were to China, which in recent years has required increasing quantities f imported copper.

With the perception mong copper users that hortages of copper are ot imminent despite the elatively strong market fundamentals and with a continued lack of interest in copper mong speculators, copper rices remained in the dolrums. Asarco's average opper price for the year ropped to 64.9 cents a ound from 66.3 cents in 985. Asarco's copper ices remained within a relvely narrow range of 60 to 5 cents a pound through-t 1986.

Copper supply and demand are expected to be balance in 1987 as Free World refined production increases slightly. This assumes a continuation of the relatively strong level of demand which has prevailed since 1984. Inventories of refined copper, therefore, are expected to remain at the level of year-end 1986.

With the world copper market in such delicate balance, it is vulnerable to disruptions in supply due to strikes or other causes, such as occurred in the lead and zinc markets in 1986. There is little spare copper mine capacity in the Free World that can be brought back into production quickly and economically to mitigate the effects of such disruptions.

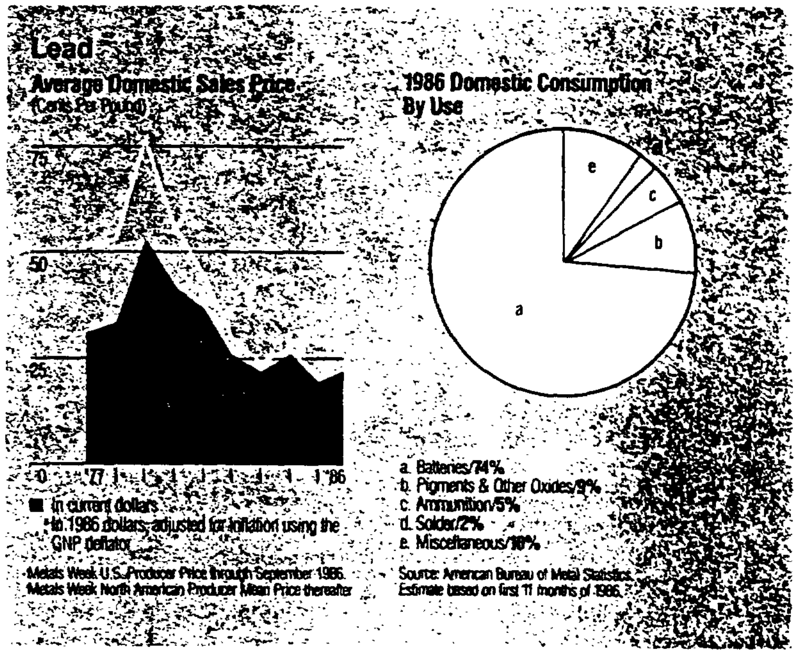
Lead and Zinc

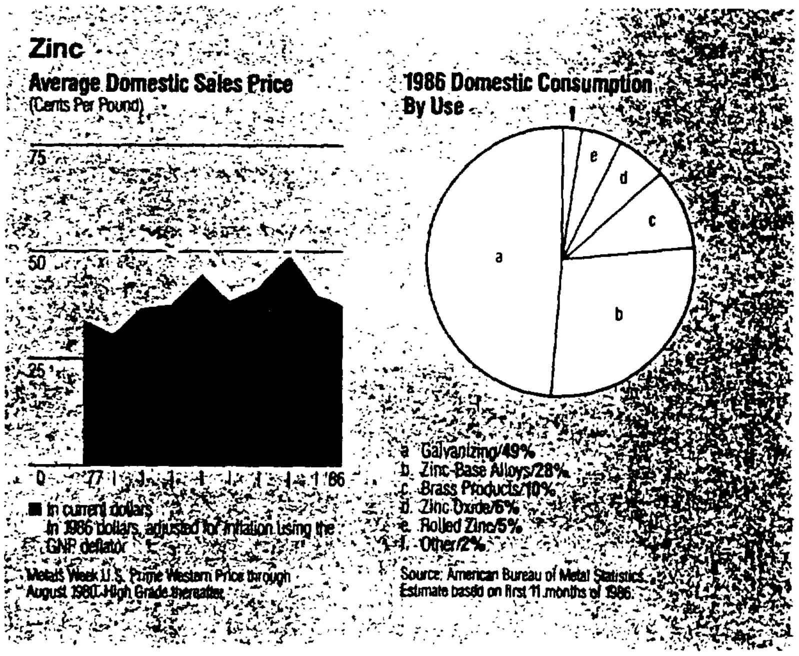
The markets for lead and zinc were buoyed during 1986 by major production interruptions, causing supply to fall short of demand.

Free World output of refined lead fell to 4.3 million tons, 4% below the record level of 1985, while consumption held steady at 4.4 million tons. There was further erosion in demand for lead by gasoline additive producers, but this was offset by increased demand from the battery industry, by far the largest market for lead.

The supply shortfall was filled by a drawdown in refined lead stocks. In the United States, inventories of refined lead held by domestic primary producers declined from 89,000 tons at the beginning of 1986 to 29,000 tons at year-end. These inventories had reached nearly 130,000 tons during the middle of 1985.

The improved market fundamentals led to a sharp rebound in lead prices during the second half of 1986. Asarco's lead price opened





the year at 18.5 cents a pound and fell to a low of 17.75 cents in February. Thereafter, it improved slowly to near the 20-cent level in the second quarter and then advanced strongly to a closing level of 28 cents a pound at year-end. The domestic producer price for lead averaged 21.8 cents a pound for all of 1986 compared to the 1985 average of 19.1 cents, a 12-year low.

Similarly, supply disruptions caused Free World production of refined zinc to drop to 5.3 million tons in 1986, nearly 2% below the record level of 1985. The production interruptions occurred in the second half of 1986 and coincided with a rebound in demand. Free World consumption of slab zinc increased 2.8% in 1986 to a record 5.4 million tons, due largely to a 6% jump in domestic usage of zinc for galvanizing of steel. The sheet galvanizing industry continued to demand increasing quantities of zinc to provide corrosion protection to steel in numerous applications. By the end of 1986, Free World stocks of slab zinc were at the lowest level so far in this decade.

The combination of lower production and higher consumption led to a strong recovery of zinc prices, which had fallen sharply in late 1985 and early 1986. The domestic slab zinc price rose from 30 cents a pound at the start of 1986 to 50 cents late in the year before softening to the mid-40 cent range at year-end following the settlement of a strike at a major Canadian zinc refinery. Nevertheless, because zinc prices were much stronger in the first half of 1985 than in the corresponding period of 1986, the average domestic producer zinc price declined to 38.0 cents a pound in 1986 from 40.3 cents in 1985.

The low year-end inventory levels of lead and zinc throughout the Free World should provide some support to both markets in 1987. The disruptions in production of lead and zinc were over for the most part by the end of 1986. Therefore, the strength of demand is expected to determine the course of the lead and zinc markets in 1987.

The lead market depends heavily on the battery industry, which in 1986 accounted for nearly three-fourths of domestic consumption. Since demand for replacement automotive batteries, the largest part of the lead-acid battery market, is weather-related, it is difficult to forecast. Demand for zinc in 1987 is expected to continue to benefit from increasing consumption by the galvanizing sector.

MINERAL RESERVES—1986(a)

ASARCO	Asarco Interest (%)	Associated Company's Interest (%)	Mineral Reserves (Thousands of tons)	Average Mineral Content: Silver (oz/ton)	Copper (%)	Lead (%)	Zinc (%)	Gold (oz/ton)	Other (%)
Coeur	50		700	19 75	0 90				
Galena	37 5		1,037	15 64	0 58	10 04	0 [illegible]		
Troy	75		39,559	1 54	0 75				
Mission Complex	100 (b)		275,752	0 13	0 62				
Ray	100 (c)		694,547		0 71				
Silver Bell	100		20 955	0.07	0 66				
Quiruvilca	80		4 585	6 50	1 08	1 25	[illegible]	0 02	
Leadville	50		977	2 46	0 13	4 54	[illegible] 95	0 08	
Sweetwater	100 (c)		25 445			4 64	0 59		
West Fork	100		11,293	0 30	0 04	7 13	1 95		
Quioma	51		493	4 80		8 30	13 85		
Tennessee	100		6 749				3 22		
Aquarius	100		205					0 22	
Wiluna	37 5(d)		830					0 12	
Cerro Grande (Tin)	51		57						1 68
Berenguela (Tin)	51		97						1 07
LAB and company limited (Asbestos)	33 3(e)		51 762						3 63
Midland Coal	100		20 130						
ASSOCIATED COMPANIES(a)									
M.I.M. Holdings Limited	37 3								
Mount Isa		100							
Copper			137 789		3 40				
Silver-Lead-Zinc			54 013	4.30		5 85	6 79		
Hilton(f)		100	79,366	4 02		6 41	10 [illegible]		
Agnew (Nickel)		40							
Mine #1			1 014						2 98
Mine #2 (Undeveloped)			33 510						2 00
Coal									
Collinsville		100	281 089						
Newlands		100	281 089						
Oaky Creek		79	655 874						
Undeveloped Reserves		60	2 904 587						
Southern Peru Copper Corporation	52 3								
Toquepala		100	100 745	g	0 80				
Cuajone		91	308 490	g	0 88				
MEDIMSA(h)	34	100	91 373						

(a) Mineral reserves are as of December 31 1986 except for M I M Holdings which are as of June 30 1986 and MEDIMSA [illegible] 31 1985 and represent the proven and probable portion of controlled mineral deposits Reserves are estimated quantities of proven and [illegible] under present and anticipated conditions may be economically mined and processed for the extraction of their mineral content Controlled [illegible] those owned optioned leased, or held under government concession

(b) Mission Complex comprises the Mission Eisenhower Pima and San Xavier mines [illegible] Eisenhower is a general partnership operated by Asarco which lies between the Mission and San Xavier mines Total reserves of the [illegible] tons containing 0.14 oz /ton silver, and 0.68% copper Included are reserves of 10 287 000 tons containing 0 35 oz /ton silver and [illegible] the partnership agreement, are scheduled to be delivered to Asarco In April 1987 Asarco will acquire for $1 0 million the balance of the [illegible] partnership interest of the Anamax Mining Company as a result of Anamax s exercise of an option to terminate the partnership

(c) Purchased from the Kennecott Corporation a subsidiary of The Standard Oil Company Ray Mines Division purchased on [illegible] Sweetwater mine formerly Ozark mine, purchased December 30 1986

(d) Wiluna is a joint venture which is 50% owned by Asarco Australia Ltd a 75%-owned subsidiary of Asarco Mineral reserves [illegible] 50% interest in the Wiluna joint venture

(e) Effective July 1, 1986 the Company's wholly owned subsidiary Lac d Amiante du Quebec [illegible] operations to a newly formed partnership LAB and company limited for a 33 ⅓% limited partnership interest Mineral reserves [illegible] limited partnership interest in LAB and company limited

(f) Reserves make no allowance for material not recoverable by established mining practices

(g) Ores from Southern Peru s mines contain small amounts of silver In the year ending December 31 1986 [illegible] 2,564,000 ounces of silver

(h) MEDIMSA and its subsidiaries have concessions granted by the Mexican Government [illegible] designated areas The proven and probable reserves are as published by MEDIMSA for these concessions [illegible] comparable to ores currently being mined at its various units In its operations year ended December 31 1985 [illegible] ounces of silver 19 000 tons of copper 64 000 tons of lead and 159 000 tons of zinc [illegible] MEDIMSA

12

METAL PRODUCTION

MINES

		Asarco Interest (%)	Ore Milled (Tons)	Metal Produced (in concentrates) Silver (Ounces)	Copper (Tons)	Lead (Tons)	Zinc (Tons)	Gold (Ounces)	Tin (Tons)
Coeur	1986	50 (a)	155,000	2 743 000	1,200			344	
	1985		151 000	2,628 000	1,200			324	
	1984		144,000	2 485 000	1 200			308	
Galena	1986	37 5(a)	201,000	3 998 000	1,100			483	
	1985		200 000	4 103 000	1,200			585	
	1984		209 000	4 194,000	1 400			714	
Troy	1986	75 (b)	3 122,000	4 076 000	19 000				
	1985		2,843,000	3 638,000	16,800				
	1984		3 033 000	4,269 000	19 000				
Mission Complex	1986	100 (c)	9,928,000	1 296,000	61,600			1 751	
	1985		9 807,000	1 073,000	59,000			–	
	1984		10 343,000	887 000	56 900			-	
Ray	1986	100 (d)	1,073,000	37,000	7 700				
Sacaton	1984	100 (e)	1,000,000	33 000	4 500			479	
Silver Bell	1986	100 (f)	–	-	3 600				
	1985		–	-	4 400				
	1984		2 272,000	102 000	16 400				
Quiruvilca	1986	80 (g)	419,000	2 609,000	1 100	3,900	12 000	1,671	
	1985		438 000	2,035 000	2 900	3,900	11 200	2,582	
	1984		395,000	1 780,000	2 700	3,900	11 000	2 500	
Leadville	1986	50 (a)	220 000	392,000		7,500	14 500	17 700	
	1985		217 000	344 000		6 700	13 300	17,195	
	1984		214 000	363 000		6,700	14 500	17,950	
West Fork	1986	100 (h)	304 000	182 000		33 600	7 200		
	1985		72,000	2,000		3,900	100		
Buchans	1984	49 (i)	102,000	244 000	1 600	4 600	7 800	1 140	
Little River	1984	25 (j)	144 000	468 000	-	-	-	14,900	
Quioma	1986	51 (k)					-		
	1985		64 000	121 000		1 500	1 600		
	1984		25 000	52 000		1,200	1 300		
Tennessee	1986	100 (l)	1 949 000				47 700		
	1985		1 566 000				37 500		
	1984		2 878 000				67 300		
Wiluna	1986	37 5(m)	816 000					8 983	
Berenquela Cerro Grande	1986	51 (k)	52 000						382
	1985		60 000						299
	1984		45 000						203
Total	1986		18 239 000	15 333 000	95,300	45 000	81 400	30,932	382
	1985		15 418 000	13 954 000	85 500	16 000	63 700	20,686	299
	1984		20 804 000	14 877 000	103 700	16,400	101 900	37,991	203

Note: All figures represent entire [illegible], not Asarco's share, unless otherwise noted.

(a) Operated by Asarco under lease and joint venture arrangements. In Coeur and Leadville, Asarco has a 50% interest in operating expenses and profits or losses. In Galena, Asarco receives 75% of net profits remaining after royalty payments [illegible] 50% of operating profits before depletion, depreciation, and Idaho taxes.

(b) Operated by Asarco under a lease agreement. Asarco retains 75% of net proceeds after operating expenses but before depletion, depreciation and income taxes.

(c) Mission Complex comprises Mission, Eisenhower, San Xavier and Pima mines. Eisenhower is a general partnership operated by Asarco. The property is held under State of Arizona leases, part of which, representing 31.1 million tons of ore averaging 0.[illegible]% copper, was contributed to the partnership by Asarco. Production includes only Asarco's share of Eisenhower. In April 1987, Asarco will acquire for $1.0 million the balance of the Eisenhower general partnership from the Anamax Mining Company, terminating the partnership. San Xavier and portions of Mission and Pima are held under long-term leases under which lessor has retained a royalty interest.

(d) Purchased November 18, 1986 from [illegible] Corporation, a subsidiary of The Standard Oil Company. Production is for period subsequent to purchase date.

(e) Operation closed in April 1984 due to depletion of ore reserves.

(f) Concentrate production suspended since August 1984. [illegible] since September 1984.

(g) Operated under a Peruvian government concession by Corporación Minera Nor Perú S.A., an 80% owned subsidiary of a wholly owned Asarco subsidiary.

(h) A portion of the mine is held under a long-term lease under which [illegible] retained a royalty interest. Operations have been on a limited production basis since start up in September 1985.

(i) Operated by Asarco under a [illegible]. Operations [illegible] October 1984 upon depletion of ore reserves.

(j) Operated by 25%-owned Little River joint venture. Asarco wrote off [illegible] investment in December 1984. Operations were suspended September 1984 with only gossan ore production in 1984. [illegible] 1986.

(k) Operated by a Bolivian corporation 51 [illegible] 1981 owned by a wholly owned Asarco subsidiary. Operations at the Quioma mine were suspended in 1986.

(l) In 1986, operations at three of the four mines were suspended for two and one half months in the second quarter and at the fourth mine were suspended for eight months through the third quarter. Operations at Tennessee were interrupted in 1985 by strike.

(m) Operated as a joint venture which is 50% owned by Asarco [illegible] subsidiary of Asarco. Operations started up in May 1986.

METAL PRODUCTION

SMELTERS (a)

Blister Copper (b) (Tons)	Defined Capacity (c)	1986	1985	1984
El Paso	115.000	100.200	94.200	90.000
Hayden	175.000	186.500	166.900	80.000
Hayden-Ray (d)	110.000	—	—	--
Tacoma	(e)	—	8.300	58 000
Total	400.000	286.700	269.400	228 000
Lead Bullion (Tons)				
East Helena	75.000	50 800	65.600	69.300
El Paso (f)	95.000	—	33.700	48 200
Glover (g)	105 000	132.500	123 500	86 100
Total	275.000	183.300	222.800	203.600

(a) All smelters and refineries are owned by Asarco
(b) An intermediate product containing approximately 98% copper
(c) Asarco's estimate of actual capacity under normal operating conditions with allowance for normal downtime for repairs and maintenance and based on the average metal content of input material for the three years shown. No adjustment is made for shutdowns or production curtailments due to strikes or air quality emissions restraints
(d) Purchased on November 18, 1986 from Kennecott Corporation, a subsidiary of The Standard Oil Company. Smelter operations have been suspended since 1982. Refinery operations are represented by a solvent extraction-electrowinning plant producing electrowon cathodes
(e) Smelting operations were permanently closed in March 1985
(f) El Paso lead department operations were indefinitely suspended in August 1985 due to lack of raw material affecting production of the Omaha refinery
(g) Glover's higher than capacity production in 1986 and 1985 resulted from higher grade of available raw material and uninterrupted operations with minimal downtime for repairs and maintenance

REFINERIES

	Defined Capacity (c)	1986	1985	1984
Silver (Ounces)				
Amarillo (h)	60.000.000	32 473 000	42 295 000	46 356 000
Copper (Tons)				
Amarillo	456.000	439 600	414 200	346 400
Hayden-Ray (d)	36 000	2 000		
Total Copper	492.000	441 600	414 200	346 400
Lead (Tons)				
Omaha (f)	156 000	58.200	103.800	111 600
Glover (g)	110.000	117 500	122 000	81 800
Total Lead	266.000	175 700	225 800	193 400
Zinc (Tons)				
Corpus Christi (i)	107 000	–	12.600	31 400
Zinc Oxide (j) (Tons)				
Columbus	(k)	5 700	15 100	17 000
Hillsboro	22.000	6.500	5 500	11 100
Total Zinc Oxide	22 000	12 200	20 600	28 100
Gold (Ounces)				
Amarillo	600 000	186 700	220 100	339 800

(h) Silver production declined in 1986 due to mine closures and limited availability of silver-bearing raw materials in the open market
(i) Plant operations were suspended indefinitely in April 1985. Production had been temporarily suspended October 1982 through May 1984
(j) Metal content of zinc oxide
(k) Zinc oxide operations were permanently closed in April 1986

SSOCIATED COMPANIES

		Asarco Interest (%)	Silver (Ounces)	Copper (Tons)	Lead (Tons)	Zinc (Tons)	Gold (Ozs)	Molybdenum (Pounds)
M dings (l)	1986	37 3	19.230 000	185.300	224.700	225 700		
	1985		19.192.000	190 700	218 200	226 300		
	1984		17 755.000	179 000	228 500	216 700		
uthern u (m)	1986	52 3	2.564.000	271 000				8 442 000
	1985		2 798 000	300 000				8 142 000
	1984		2 471.000	277 000				6 793.000
DIMSA (n)	1986	34 0	25 635.000	33 100	69 300	140 300	60 600	
	1985		22.866 000	34 300	83.000	164 000	62.700	
	1984		21 230 000	39 600	75.600	145 200	46 900	

Note: All figures represent entire amounts, not Asarco's share

(l) Metal content of products for fiscal years ended June 30

(m) [illegible] content of blister copper. Copper [illegible] output plus copper exported in concentrates

(n) [illegible] output. Other metals [illegible] plus metal content [illegible] and fume sold

ARCO REFINED METAL PRODUCTION BY SOURCE

	Silver			Copper			Lead			Zinc	
	Mines	Custom	Toll	Mines	Custom	Toll	Mines	Custom	Toll	Mines	Custom
	14%	64%	22%	12%	67%	21%	19%	69%	12%	*	*
	12	74	14	13	[illegible]	16	3	83	14	31%	69%
	15	71	14	26	54	20	5	65	30	83	17
	14	69	17	28	48	24	3	76	21	*	*
	17	70	13	30	33	37	3	92	5	44	56

s—Material from Asarco mines
om—Materials purchased from others
Materials refined for and returned to others
ous Christi plant suspended production from October 1982 through May 1984 and suspended operations indefinitely in April 1985

ERAL PRODUCTION AND METAL PRICE INFORMATION

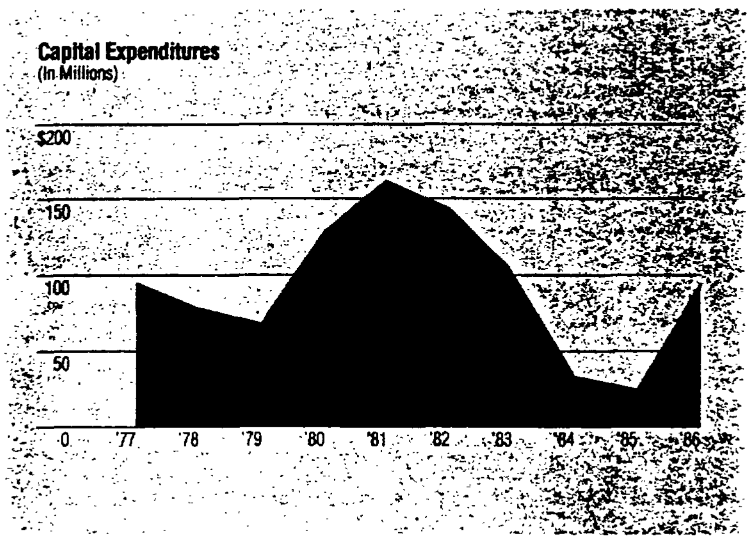
production information presented below represents Asarco's beneficial share of mine production as set forth on page 12
al price information is presented on pages 8 and 9 of this annual report

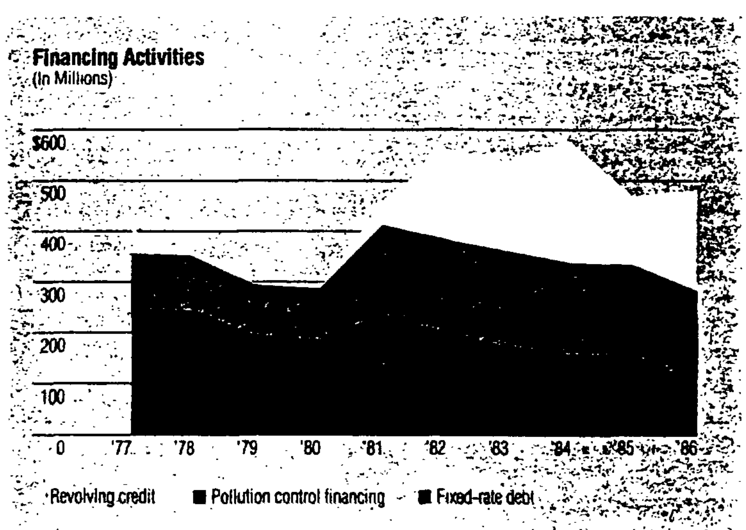
eral Produced (in thousands)	1986	1985	1984	1983	1982
(ounces)	9 276	8 523	8 911	8 774	9.337
er (tons)	89 0	79 4	96 1	101 4	106 5
(tons)	40 5	11 1	9 4	10 0	11 3
tons)	71 8	54 0	[illegible]	[illegible]	94 6
ounces)	13 6	11 0	[illegible]	10 8	12 9
stos (tons)	80 2	132 2	[illegible]	[illegible]	151 0
tons)	596 0	583 3	[illegible]	[illegible]	1 062 0

OVERVIEW

During 1984, 1985 and 1986 Asarco's earnings were adversely affected by generally lower prices for its major metal products and by the reduced spread between the cost to Asarco of acquiring metal concentrates from others for processing and the payments it receives upon sale of the refined metal. In 1986 Asarco reported net earnings of $9,140,000, compared with a net loss of $62,184,000 in 1985 after an unusual charge of $4,500,000 and a net loss of $306,080,000 in 1984 after unusual charges of $254,000,000.

Operating cost reductions achieved in the period 1981-1985 reached an annual level of $115 million by the end of the period. However, these reductions were more than offset by the decline in metals prices and processing fees, which reduced the Company's annual revenues by more than $180 million during the same period. In late 1985, the Company began a new cost-reduction program designed to achieve further annual cost savings, currently estimated to be $85 million per year. The program involves an examination of all aspects of the Company's business. The organization was reduced in size. The research, engineering and environmental science departments were combined and reduced. Exploration activities were reduced in North America and reorganized so as to be self-funding in Australia. Lower employment levels and better than anticipated investment results enabled the Company to reduce its pension costs. Labor agreements with the unions representing workers at the Company's copper plants were renegotiated in mid-1986 and with the unions representing workers at the Company's silver and lead properties in early 1987. The Company sought and received substantial reductions in charges for transportation services and energy.





The Company made two acquisitions of mining properties in 1986: the Ray copper property in Arizona and the Sweetwater lead property in Missouri. These acquisitions improved the Company's ability to supply its smelters and refineries with concentrates from its own mines. The purchase of the Ray and Sweetwater properties for $79.2 million was the principal reason the Company had a negative internal cash flow of $84,437,000 in 1986. During 1985, the Company had a positive internal cash flow of $23,108,000, contrasted to a negative internal cash flow in each of the four previous years.

Net proceeds of $92.3 million from an issuance of convertible exchangeable preferred stock and common stock purchase warrants in mid-1986 were used primarily to reduce debt. Total debt outstanding was $475,593,000 at the end of 1986 compared with $472,636,000 at the end of 1985 and $579,532,000 at the end of 1984. Total debt levels at the end of 1986 and 1985 were lower than any year-end since 1981.

SALES

Asarco records as a sale of products the full market value of metals, ores and concentrates produced from its own mines and for materials purchased for treatment on a custom basis, whereas it records as a sale of services only the processing fees charged for treating similar materials on a toll basis.

Sales of products and services were $1,056,538,000 in 1986 compared with $1,166,921,000 in 1985 and $1,325,129,000 in 1984. The 1986 decline was caused primarily by a decline in the volumes of silver, zinc and asbestos sold, which more than offset an increase in the volumes of copper and lead sold. The 1985 sales decline was caused primarily by the declines in silver and lead prices and by lower processing fees, although the quantity of copper, silver, lead and zinc sold by Asarco in 1985 was higher than in 1984. Lower sales of asbestos, coal and recycled metals in 1985 also contributed to the sales decline. Sales of services for the treatment of materials in Asarco's smelters and refineries on a toll basis decreased to $21,585,000 in 1986 compared with $23,853,000 in 1985 and $30,653,000 in 1984. The full market value of materials treated on a toll basis at average prices in effect during the year was $182 million in 1986, $153 million in 1985 and $188 million in 1984. In 1986 sales of services declined primarily because of the decrease in toll lead treated at the Company's Glover lead plant. In 1985 toll processing fees per ton declined and a greater proportion of material was purchased on a custom basis.

resulting in the decrease in sales of services. In addition, U.S. mine closings and curtailments in 1984 and 1986 reduced the amount of silver-bearing lead material available for toll treatment.

COSTS

The Company's cost-reduction program and LIFO-valued inventory profits improved income from products and services in both 1986 and 1985.

Costs of products and services decreased 11% in 1986 from 1985, while sales decreased only 9%. As a result, ncome from products and services increased 1% to $109,085,000. Costs of products and services decreased 15% in 1985 from 1984, while sales dropped 12%. As a result, income from products and services increased 31%, or $25,382,000, to $107,786,000. Operating results for 1986 included a $26.9 million decrease in the cost of goods sold esulting from profits realized on the liquidation of excess .IFO-valued inventory; this compared with a $14.6 million lecrease in 1985 and no decrease in such costs from LIFO-alued inventory liquidations in 1984 Total selling, adminis-ative, research and exploration expenses were reduced 7% in 1986 and 11% in 1985.

.SSOCIATED COMPANIES

.sarco accounts for its nonconsolidated associated compaies by recording only its equity interest in the results of iese companies.

Asarco's equity in the results of its associated companies, rincipally M.I.M Holdings Limited in Australia (MIM), South-n Peru Copper Corporation (SPCC) and Mexico Desarrollo dustrial Minero, S A (MEDIMSA), was a profit of $20.6 milon in 1986 compared with a loss of $19.7 million in 1985 and profit of $31 7 million in 1984. The results of MIM, SPCC and EDIMSA were adversely affected by low prices for non-rrous metals in each of these years.

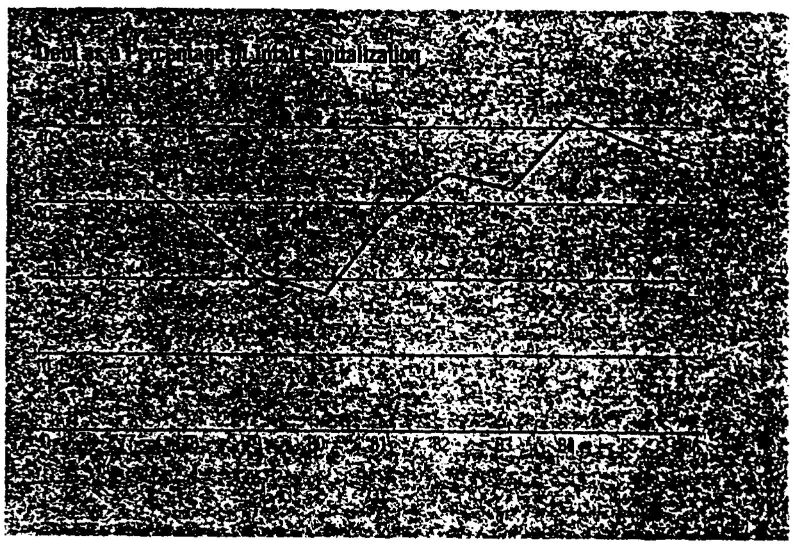
Equity in earnings of the associated companies was af-cted by foreign currency translation gains of $22.6 million 1986, $5.2 million in 1985, and $39 5 million in 1984 Trans-ion gains resulted from the decline in the exchange rates the Australian Dollar, Peruvian Inti and Mexican Peso in ation to the U.S. Dollar. In 1985, there were substantial setting translation losses related to debt of MIM denomi-ted in Japanese Yen, Swiss Francs, Deutschmarks and itish Pounds Sterling, all of which increased in value rela-e to the U.S. Dollar in late 1985 In both 1986 and 1984, arco would have reported a loss from its equity in earnings associated companies in the absence of foreign currency nslation gains.

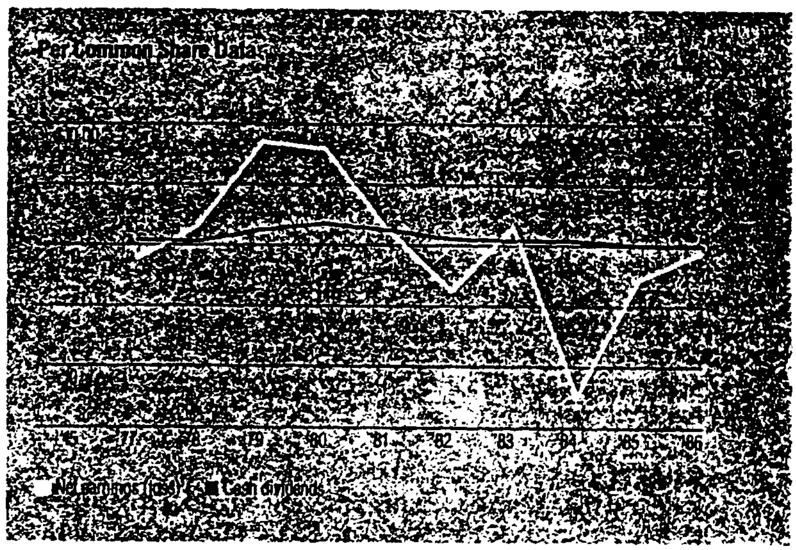
From August 1985 to January 1987 the exchange rate of Peruvian Inti relative to the U S. Dollar was fixed, which ant that the full effect of the high local inflation rate was ected in SPCC's domestic costs SPCC's costs remained h throughout the period also because of high internal fuel prices which have been maintained at levels approxi-tely double world prices. For a discussion of Peruvian eign currency controls applicable to SPCC, see Note 7 he Notes to the Financial Statements

Asarco's proportionate interest in the sales of the associ-d companies, which is not reflected in the Company s es revenues referred to earlier, was approximately $600 million in 1986 compared with $700 million in 1985 and $800 million in 1984. The declines in 1986 and 1985 were due to low metal prices.

NET EARNINGS (LOSS)

For the year ended December 31, 1986, the Company reported net earnings of $9,140,000, but a loss of $0 46 per common share after providing for preferred dividends, compared with a net loss of $62,184,000. or $2 87 per common share, for 1985 and a net loss of $306,080,000, or $12.56 per common share, for 1984. Items affecting 1986 results were $8,999,000 of income from a rights offering by MIM, $3,136,000 of income from the placement of a 25% common stock interest in an Australian subsidiary and a charge of $4,248,000 for bad debts expense The 1985 net loss included an unusual pre-tax charge of $4.5 million of costs to be incurred in closing the Company's Columbus, Ohio, zinc





oxide plant in 1986. The 1984 net loss included unusual pre-tax charges of $254 million related to the closure or suspension of operations at several facilities, including a copper smelter, several zinc processing plants, a copper mine, a lead-zinc mine and certain oil and gas properties.

CASH FLOW

Cash flow provided from or used for operations was a positive $30,361,000 for 1986 compared with a positive $27,500,000 for 1985 and a deficit of $9,391,000 in 1984.

Dividends from the associated companies were $7.0 million in 1986, $4.9 million in 1985 and $32.9 million in 1984. SPCC paid a dividend of $18.5 million to Asarco in 1984 but paid no dividends in 1986 and 1985.

Depreciation and depletion expense, based on units of production, was $53 million in 1986, $57.2 million in 1985 and $64.1 million in 1984. The 1986 decrease resulted principally from suspension of operations of the Company's El Paso, Texas, lead smelter. The 1985 decrease was primarily attributable to reductions in depreciable assets due to the 1984 write-offs described above.

Working capital, exclusive of cash, marketable securities and debt, increased $9.1 million in 1986 compared with a decrease of $45.6 million in 1985 and a decrease of $12.1 million in 1984. The increase in working capital in 1986 was primarily due to an increase in inventories as a result of a change in the manner of sale of Troy mine concentrates and raw materials inventories acquired in the Ray Mines acquisition. The decline in working capital in 1985 resulted principally from liquidations of metal inventory and a change in sales policy which reduced the collection time of accounts receivable. In 1984, accounts receivable declined due to lower prices for copper and silver.

The Company paid no dividends on its common stock in 1986 and 1985. Dividends on the common stock of $7,750,000, or $0.30 per share, were paid in 1984. Dividends on preferred stock of $20,992,000 were paid in 1986 compared with dividends of $18,663,000 in each of the years 1985 and 1984. The increase in dividends in 1986 resulted from an issue of convertible exchangeable preferred stock in mid-1986.

Property expenditures were $94.7 million in 1986, including the acquisitions of the Ray and Sweetwater units for $79.2 million and other expenditures of $15.5 million, compared with total expenditures of $25.8 million in 1985 and $34.6 million in 1984. The other expenditures in 1986 included development costs of the Aquarius gold mine and underground development of the West Fork mine. The 1985 expenditures included development costs of the West Fork mine, acquisition of the Pima mine and expenditures for the Hayden Plant. Expenditures for 1984 included the Hayden modernization project completed in 1984.

LIQUIDITY

Cash and marketable securities increased $15.0 million in 1986, compared with increases of $3.0 million in 1985 and $0.8 million in 1984. Total debt increased $3.0 million compared with a decrease of $106.9 million in 1985 and an increase of $41.6 million in 1984. The weighted average interest rate on all Company indebtedness was 8.6% in 1986, 8.8% in 1985 and 9.9% in 1984 compared with the average prime rate during those periods of 8.3%, 9.9%, and 12.0%, respectively.

At December 31, 1986, the Company's percentage of debt-to-capitalization was 35.0%, compared to 37.7% at December 31, 1985 and 41.0% at December 31, 1984. At December 31, 1986, the Company would have been permitted to borrow an additional $150.9 million under the debt limitation covenants of its existing loan agreements. At that date, $155 million was available under its $350-million revolving credit agreement. In 1987, the Company expects that it will meet cash requirements for operations and capital expenditures from internally generated funds and, if necessary, from borrowings under its revolving credit agreement.

Under the terms of its revolving credit agreement, the Company is required to maintain tangible net worth in excess of $675 million through March 31, 1988, increasing to $700.0 million through March 31, 1991, and $725.0 million thereafter. At December 31, 1986, the Company's tangible net worth was $869.5 million. Under the terms of the revolving credit agreement, senior debt cannot exceed 75% of tangible net worth until March 31, 1988, and 65% of tangible worth thereafter.

CAPITAL STOCK

In mid-1986 the Company sold 3,450,000 $2.25 depositary convertible exchangeable preferred shares and 3,375,000 common stock purchase warrants in a public offering. The net proceeds of $92.3 million were primarily used to retire debt.

In 1985, the Company sold in a public offering 3,450,000 newly issued common shares. Asarco realized net proceeds from the sale of $75.7 million which were used to reduce debt.

On January 1, 1985, the Company instituted a salary reduction program under which shares of Asarco common stock equal in market price to the amount of each month's salary reduction were issued to a trust for employees. The stock was distributed to employees at the end of September 1986 after the program was terminated.

A total of 107,979 shares of common stock were issued during 1986 under provisions of the Company's Salary Adjustment Program and 81,241 shares were contributed to the Asarco Employees Savings Plan. A total of 32,236,063 shares were outstanding at year-end 1986 compared to 32,046,843 shares at year-end 1985.

RETIREMENT PLANS

In 1985, the Company adopted the principles of Statement of Financial Accounting Standards No. 87 and, accordingly, changed the actuarial cost method for determining pension costs, valuing plan assets and recognizing income to the required "projected unit credit method." Net pension costs included in operating results for Company-administered pension plans amounted to credits of $13.3 million in 1986 and $7.9 million in 1985, and an expense of $15.5 million in 1984. The credits to income in 1986 and 1985 result principally from investment performance and personnel reductions.

The value of the Company's trusteed pension plan assets as of December 31, 1986 were $400.9 million and the related projected benefit obligations were $314.2 million.

Retirement Plans are further discussed in Note 14 of the Notes to the Financial Statements.

ASARCO INCORPORATED AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS

For The Years Ended December 31.	1986	1985	1984
	(dollars in thousands, except per share amounts)		
Sales of products	**$1,034,953**	$1,143,068	$1,294,476
Sales of services	**21,585**	23,853	30,653
Total sales of products and services	**1,056,538**	1,166,921	1,325,129
Cost of products and services	**947,453**	1,059,135	1,242,725
Income from products and services	**109,085**	107,786	82,404
Other income:			
Income from rights offering by M.I.M. Holdings Limited	**8,999**	—	—
Income from sale of subsidiary capital stock	**3,136**	—	—
Miscellaneous	**13,295**	13,768	8,682
Total other income	**25,430**	13,768	8,682
Other deductions:			
Selling, administrative and other expense	**35,110**	40,000	41,541
Bad debts expense	**4,248**	868	421
Depreciation and depletion expense	**53,030**	57,243	64,147
Exploration expense	**4,250**	6,141	10,231
Research expense	**3,979**	6,034	6,738
Interest expense	**41,063**	46,991	55,371
Unusual items	**—**	4,500	254,000
Total other deductions	**141,680**	161,777	432,449
Earnings (Loss) before equity in results of nonconsolidated associated companies	**(7,165)**	(40,223)	(341,363)
Equity in earnings (losses) of nonconsolidated associated companies	**20,571**	(19,700)	31,717
Earnings (Loss) before taxes on income	**13,406**	(59,923)	(309,646)
Taxes on income	**4,266**	2,261	(3,566)
Net Earnings (Loss)	**9,140**	(62,184)	(306,080)
Dividends on preferred shares	**21,962**	18,663	18,663
Net Earnings (Loss) Applicable to Common Shares	**$ (12,822)**	$ (80,847)	$ (324,743)
Primary Net Earnings (Loss) Per Common Share	**$ (0.46)**	$ (2.87)	$ (12.56)
Cash Dividends Per Share:			
Common	**$ —**	$ —	$ 0.30
Preferred Series A	**7.00**	7.00	7.00
Series B Convertible	**6.25**	6.25	6.25
Convertible Exchangeable	**2.70**	—	—

See notes to financial statements

ASARCO INCORPORATED AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

At December 31.	1986		1985	
		(dollars in thousands)		
ASSETS				
Current Assets:				
Cash		**$ 11,192**		$ 14.644
Marketable securities (at cost, which approximates market)		**40,020**		21.518
Accounts and notes receivable				
Trade, less allowance for doubtful accounts	**$ 177,996**		$ 210 917	
Other	**23,720**	**201,716**	18.333	229.250
Inventories		**104,027**		81.551
Materials and supplies (average cost or less)		**50,641**		46.107
Prepaid expenses		**4,737**		6.004
Total Current Assets		**412,333**		399.074
Investments in Nonconsolidated Associated Companies (Equity Method)		**615,845**		576.000
Property:				
Buildings and equipment	**1,379,233**		1.330.008	
Mineral land	**166,547**		171,701	
Land, other than mineral	**33,316**		26.681	
Other	**35,713**		35.967	
Total Property	**1,614,809**		1.564.357	
Less. Accumulated depreciation and depletion	**848,167**		835.410	
Net Property		**766,642**		728.947
Other Assets		**45,494**		41.411
TOTAL ASSETS		**$1,840,314**		$1.745.432
LIABILITIES				
Current Liabilities:				
Notes payable:				
Bank loans	**$ 7,216**		$ 24.808	
Long-term debt due within one year	**5,892**	**$ 13,108**	12.338	$ 37.146
Accounts payable.				
Trade	**171,393**		183.534	
Other	**22,574**	**193,967**	22 029	205.563
Accrued liabilities:				
Salaries and wages	**9,914**		11.476	
Taxes on income	**9,776**		9 444	
Other taxes	**9,662**	**29,352**	10 134	31.054
Currrent portion of reserves for plant closings		**15,252**		16.349
Other current liabilities		**13,897**		10.363
Total Current Liabilities		**265,576**		300.475
Long-Term Debt		**462,485**		435.490
Deferred Income Taxes		**57,575**		54.986
Reserves for Plant Closings		**82,360**		98.302
Accrued Liabilities and Other Reserves		**90,794**		74.700
TOTAL LIABILITIES		**958,790**		963.953
Contingencies (Note 10)				
PREFERRED STOCK				
Authorized—10.000.000 shares without par value				
Redeemable—2.800.000 shares issued and outstanding		**140,000**		140.000
Convertible Exchangeable—862.500 shares issued and outstanding		**86,250**		—
COMMON STOCKHOLDERS' EQUITY				
Authorized—80.000.000 common shares without par value				
Issued 34.928.223 shares	**502,355**		502.355	
Additional Capital	**7,965**		15.402	
Retained Earnings	**426,123**		438 473	
Treasury Stock (at cost)—common shares 1986—2 692.160, 1985—2.881.380	**(151,484)**		(162.131)	
Asarco's cost and pro rata interest in the cost of its shares held by M I M Holdings Limited	**(129,685)**	**655,274**	(152.620)	641.479
TOTAL LIABILITIES, PREFERRED STOCK AND COMMON STOCKHOLDERS' EQUITY		**$1,840,314**		$1 745.432

See notes to financial statements

ASARCO INCORPORATED AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Years Ended December 31,	1986	1985	1984
	(dollars in thousands)		
SOURCES (USES) OF CASH			
Operations:			
Net earnings (loss)	$ 9,140	$ (62,184)	$(306,080)
Noncash elements in net earnings (loss):			
Depreciation and depletion	53,030	57,243	64,147
Deferred income taxes	2,064	(73)	(12,790)
Nonconsolidated associated companies:			
Equity in (earnings) losses	(20,571)	19,700	(31,717)
Dividends received	7,000	4,891	32,867
Income from rights offering by M.I.M. Holdings Limited	(8,999)	—	—
Reserves for plant closings and other items	(11,303)	7,923	244,182
Cash provided from (used for) operations	30,361	27,500	(9,391)
Cash Dividends Declared and Paid:			
Common shares	—	—	(7,750)
Preferred shares	(20,992)	(18,663)	(18,663)
Cash used for dividends	(20,992)	(18,663)	(26,413)
Investment Activities:			
Investments, net	(17,871)	51,168	(176)
Asarco's cost and pro rata interest in the cost of its shares held by M.I.M. Holdings Limited	22,935	(51,749)	(1,534)
Book value in excess of amount realized under the rights offering by M.I.M. Holdings Limited	(5,966)	—	—
Property:			
Acquisition cost of the Ray Mines Division	(73,320)	—	—
Obligations assumed net of working capital purchased	(1,495)	—	—
Property acquired	(74,815)	—	—
Other property expenditures	(19,930)	(25,768)	(34,570)
Other, net	10,911	(4,942)	6,856
Cash used for investment activities	(84,736)	(31,291)	(29,424)
Working Capital, Exclusive of Cash, Marketable Securities and Current Debt:			
Accounts and notes receivable	27,534	27,072	23,642
Inventories	(22,476)	57,819	51,650
Other current assets	(3,267)	7,025	6,480
Accounts payable	(11,596)	(15,364)	(60,459)
Other current liabilities	735	(30,990)	(9,249)
Cash provided from (used for) working capital	(9,070)	45,562	12,064
Internal Cash Flow	(84,437)	23,108	(53,164)
Financing Activities:			
Bank loan repayments, net	(17,592)	(1,009)	(9,124)
Long-term debt incurred	62,037	220,778	92,302
Long-term debt retired	(41,488)	(325,297)	(41,602)
Debt proceeds released from escrow for construction	1,104	4,156	9,397
Proceeds from sale of 862,500 convertible exchangeable preferred shares	82,348	—	—
Proceeds from sale of 3,375,000 common stock purchase warrants	9,950	—	—
Proceeds from sale of 3,450,000 common shares	—	75,716	—
Treasury stock transactions, net	3,128	5,828	3,040
External cash flow	99,487	(19,828)	54,013
Net change in cash and marketable securities	15,050	3,280	849
Cash and marketable securities, beginning of year	36,162	32,882	32,033
Cash and marketable securities, end of year	$ 51,212	$ 36,162	$ 32,882

See notes to financial statements

ASARCO INCORPORATED AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN COMMON STOCKHOLDERS' EQUITY

For The Years Ended December 31.	1986	1985	1984
	(dollars in thousands)		
Common Stock			
Balance at beginning of year: 1986—34,928,223 shares; 1985 and 1984—31.478.223 shares	**$ 502,355**	$ 426.639	$ 426.639
Sale of 3.450.000 shares	**—**	75 716	—
Balance at end of year 1986 and 1985—34. 928.223 shares. 1984—31.478.223 shares	**502,355**	502.355	426.639
Additional Capital			
Balance at beginning of year	**15,402**	22.072	25.651
Charge for treasury stock sold and used	**(7,519)**	(6.670)	(3.579)
Book value in excess of amount realized under the rights offering by M.I M. Holdings Limited	**(5,966)**	—	—
Net proceeds from sale of 3.375.000 common stock purchase warrants	**9,950**	—	—
Issue costs of convertible exchangeable preferred stock	**(3,902)**	—	—
Balance at end of year	**7,965**	15.402	22.072
Retained Earnings			
Balance at beginning of year	**438,473**	519.377	852.952
Foreign currency adjustment	**99**	(57)	(1.082)
Net earnings (loss)	**9,140**	(62.184)	(306.080)
Cash dividends declared and paid			
On common shares	**—**	—	(8.490)
On preferred shares	**(20,992)**	(18.663)	(18.663)
Adjustment for Asarco's pro rata interest in its dividends on common shares paid to M I.M. Holdings Limited	**(597)**	—	740
Balance at end of year	**426,123**	438.473	519.377
Treasury Stock			
Balance at beginning of year	**(162,131)**	(174.629)	(181.248)
Purchased	**—**	(25)	(3)
Used for additional compensation. stock option. bonus. savings and salary adjustment plans	**10,647**	12.523	6.622
Balance at end of year 1986—2.692.160 shares. 1985—2.881.380 shares. 1984—3.103.487 shares	**(151,484)**	(162.131)	(174.629)
Pro Rata Interest			
Asarco's cost and pro rata interest in the cost of its shares held by M I M Holdings Limited	**(129,685)**	(152.620)	(100.871)
Total Common Stockholders' Equity	**$ 655,274**	$ 641 479	$ 692.588

See notes to financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation: The consolidated financial statements include all significant subsidiaries of which the Company has voting control. Significant investments of 20% or more in the capital stock of associated companies and subsidiaries of which the Company does not have voting control are accounted for by the equity method. Other investments are carried at cost or less.

Inventories: Company-owned metals processed by smelters, refineries and other metal plants are valued at the lower of last-in, first-out cost (LIFO) or market. Other inventories are valued at the lower of first-in, first-out cost (FIFO) or market.

Property: Assets are valued at cost or less. Betterments, renewals, costs of bringing new mineral properties into production, and the costs of major development programs at existing mines are capitalized. Maintenance, repairs, development costs to maintain production 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 unit-of-production method. Mine asset depreciation and depletion are computed generally on the unit-of-production method using proven and probable ore reserves.

Exploration: Tangible and intangible costs incurred in the search for mineral properties are generally charged against earnings when incurred. When a commercial ore body is discovered, the related exploration costs previously charged against earnings are credited to earnings and capitalized in "Property." Oil and gas activities are accounted for by the successful-efforts method.

Investment and energy tax credits: Such credits are accounted for by the flow-through method.

Retirement plans: In 1985, the Company adopted the principles of "Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions," which requires the use of the projected unit credit actuarial method for financial reporting purposes. Prior to 1985, the Company used the aggregate cost method for financial reporting purposes and continues to use that method for funding purposes.

2. UNUSUAL ITEMS (in millions)

Fourth quarter 1985 operating results were charged with $4.5 for the permanent shutdown in 1986 of the Company's zinc oxide plant in Columbus, Ohio. Operating results for 1984 include total unusual charges of $276.0, partially offset by a credit of $22.0 from changes to estimated costs for previous plant closings. The 1984 unusual charges include costs associated with the permanent shutdown of the Company's Tacoma, Washington, copper smelter, the write-down and indefinite suspension of operations at the Company's Corpus Christi, Texas, zinc plant and write-down of related zinc fuming and zinc oxide facilities at other plants, the write-off and future holding costs of the Sacaton underground copper mine in Arizona, the write-down of the Company's 25% interest in the Little River joint venture, which owns a Canadian lead-zinc mine, the permanent closing of a metal recycling plant in Houston, Texas, of Federated Metals Corporation, a wholly owned subsidiary, and the write-down of oil and gas assets.

3. TAXES ON INCOME (in millions)

Earnings (Loss) Before Taxes on Income

	1986	1985	1984
From domestic operations	$(13.7)	$(38.9)	$(343.5)
From foreign operations	27.1	(21.0)	33.9
Total	$ 13.4	$(59.9)	$(309.6)

Tax Expense (Credit)

	1986	1985	1984
Current			
U.S.	$ —	$ —	$ 1.9
Foreign and state	2.2	2.4	7.3
Deferred			
U.S.	—		(9.2)
Foreign and state	2.1	(0.1)	(3.6)
Total	$4.3	$2.3	$(3.6)

Reconciliation of Statutory Income Tax Rate

	1986	1985	1984
U.S. statutory income tax rate	46.0%	(46.0)%	(46.0)%
Undistributed equity earnings on which tax was not provided at the statutory rate	10.1	11.4	(1.0)
Foreign taxes and tax credits	5.3	4.7	13.2
Investment tax credits	—	—	9.3
Depletion	(33.3)	(2.8)	(2.0)
Minimum tax	—	—	0.6
Net operating losses not utilized and carried forward	—	36.7	26.2
Other	3.7	(0.2)	(1.4)
Taxes on income–effective rate	31.8%	3.8%	(1.1)%

Deferred Tax Expense (Credits)

	1986	1985	1984
Depreciation expense versus tax deduction	$(2.4)	$(0.7)	$ 0.4
Tax deductions for current mine development costs versus amortization of capitalized costs on books	(1.3)	1.5	0.2
Estimated costs of mine and plant closings versus tax deductions	6.9	6.3	(3.7)
Undistributed equity earnings on which tax is accrued	1.7	(4.1)	4.6
Pension expense versus tax deduction	5.8	7.7	2.2
Capitalized interest costs versus tax deduction	(2.7)	(2.8)	(0.7)
Utilization of net operating losses	(1.6)		(68.8)
Reversal (Use) of investment and foreign tax credits			59.7
Other	(4.3)	(8.0)	(6.7)
Total	$ 2.1	$(0.1)	$(12.8)

Tax Carryforwards

At December 31, 1986, cumulative unused net operating loss (NOL) carryforwards on a tax and book basis amount to $211.6 and $211.7, respectively. If not used, the NOL carryforwards will expire between 1998 and 2001. At December 31, 1986, expiration dates and amounts of unused investment and energy tax credits and foreign tax credits are as follows.

	Investment Tax Credits		Foreign Tax Credits	
Expiration Dates	Tax Basis	Book Basis	Tax Basis	Book Basis
1987	$ –	$ –	$ 5.2	$ 5.2
1988	–	–	8.5	13.8
1989	3.7	3.7	5.6	6.0
1990	11.2	11.2	1.2	1.2
1991	6.6	6.6	1.4	3.2
1992 to 2001	40.7	40.7	–	–

As a consequence of the Tax Reform Act of 1986, the above listed investment tax credit carryforwards will decline in aggregate value on a tax and book basis by 17.5% if used in 1987 and by 35.0% if used thereafter.

4. PRIMARY EARNINGS (LOSS) PER COMMON SHARE

Earnings or loss per common share are calculated by using the weighted average number of common shares outstanding after deducting the Company's pro rata interest in its shares held by M.I.M. Holdings Limited.

	1986	1985	1984
Weighted average number of Asarco shares outstanding (000)	32,148	31,136	28,321
Asarco's pro rata, weighted average interest in its shares held by M.I.M. Holdings Limited (000)	4,025	3,008	2,463

The effect of the Company's Common Stock equivalents (warrants and shares under option) and Convertible Preferred Stock on the calculation of primary earnings (loss) per common share was anti-dilutive.

5. FOREIGN CURRENCY (in millions)

The net transaction gains (losses) included in determining pre-tax earnings were: 1986—$24.0; 1985—$8.7, and 1984—$44.0. The major portion of the gains or losses are reflected in "Equity in earnings (losses) of nonconsolidated associated companies."

6. INVENTORIES (in millions)

At December 31	1986	1985
Inventories of smelters, refineries and other metal plants		
LIFO cost or market	$ 13.9	$20.6
Provisional cost of metals received for which prices have not yet been fixed	32.9	20.1
Mine inventories at FIFO cost or market	46.4	33.7
Other	10.8	7.2
Total	$104.0	$81.6

Replacement cost exceeds inventories valued at LIFO cost by approximately $118.4 (1985—$150.1).

Year-end inventories used in determining cost of sales were: 1986—$104.0; 1985—$81.6, 1984-$139.4, 1983—$191.0. Liquidations of LIFO inventories resulted in pre-tax earnings of $26.9 in 1986 and $14.6 in 1985.

7. INVESTMENTS IN NONCONSOLIDATED ASSOCIATED COMPANIES

Asarco has substantial interests in associated companies in Australia, Mexico and Peru which are principally engaged in mining, smelting and refining nonferrous metals. These companies are M.I.M. Holdings Limited (MIM), Mexico Desarrollo Industrial Minero, S.A. (MEDIMSA), and Southern Peru Copper Corporation (SPCC). MIM also has major coal mining operations. The fiscal year for MIM ends June 30. MEDIMSA and SPCC report operating results on a calendar-year basis ending December 31.

Taxes have not been provided on the undistributed earnings of associated companies more than 50%-owned and accounted for on the equity method where earnings have been reinvested indefinitely. At December 31, 1986, the cumulative amount of equity in such undistributed earnings on which income taxes have not been provided is $200.9 million.

At December 31, 1986, "Investments in nonconsolidated associated companies" included Asarco's equity of $187.5 million in SPCC's restricted net assets of $358.5 million which restriction results from foreign currency controls established in the third quarter of 1986 by the government of Peru. These controls suspend for a period of two years certain cash remittances of foreign exchange from Peru by companies operating in Peru as discussed below.

SOUTHERN PERU COPPER CORPORATION. Peruvian law gives workers in mining companies an increasing participation in profits and management advisory committees and an interest in liquidation proceeds. Profit participation is distributed in cash and in the form of ownership shares and interest-bearing obligations issued by the Peruvian branch of SPCC. At the end of 1986, the workers' participation in the Peruvian branch of SPCC was approximately 10.6%. Eventually, through participation in future earnings, this percentage could increase to 33⅓%.

In general, the effect of Peru's new foreign currency control law on SPCC for the two-year period is that it suspends cash remittances from SPCC's Peruvian branch to its corporate office in the United States for earnings, depreciation and repatriation of capital, but permits cash remittances for certain loans, expenses and imports.

M.I.M. HOLDINGS LIMITED. At December 31, 1986, Asarco owned 37.3% (1985—44.0%) of MIM's common shares and MIM owned 10,353,363 (1985—10,353,363) common shares or 32.1% (1985—32.3%) of Asarco. This reciprocal shareholding results in Asarco having a pro rata interest of 12.0% (1985—14.2%) in its own shares. Thus, the Company's MIM investment carrying value and common stockholders' equity have been reduced by the cost to MIM of this pro rata interest in the Asarco shares. Asarco's equity in earnings of MIM excludes any Asarco dividends included in MIM earnings.

The Company's MIM investment carrying value and retained earnings are adjusted to reflect Asarco's pro rata interest in its dividends paid to MIM.

In the first quarter of 1986, MIM made a rights offering to its shareholders, entitling each shareholder to purchase one common share of MIM at A$2.00 per share for each five common shares held. In the same period, Asarco disposed of its rights to purchase 44.2 million common shares of MIM for 6.4 million common shares of MIM. This action reduced Asarco's interest in MIM from 44.0% to 37.7%, thereby satisfying a provision of an agreement entered into in October 1985, whereby Asarco was to reduce its interest in MIM to 40% within three years. In the second quarter of 1986, MIM issued additional common shares for a minor acquisition and thereby further reduced Asarco's interest in MIM from 37.7% to 37.3%. In October 1985, MIM purchased from a major shareholder of Asarco, 4,245,800 Asarco common shares at a cost of $23 per share plus expenses.

Details of the investment are as follows (in millions).

	1986	1985
Number of MIM common shares owned by Asarco	227.5	221.[illegible]
Carrying value:		
Cost of shares held	$ 24.8	$ 15.8
Equity in undistributed earnings	344.5	330.6
Adjustment for Asarco's pro rata cumulative interest in Asarco dividends paid to MIM	3.3	3.9
Equity in premium over book value realized under a rights offering by MIM	17.7	23.7
	390.3	374.0
Asarco's pro rata interest in the cost of its shares held by MIM	(127.7)	(150.6)
Net carrying value	$262.6	$223.4

Major Investments Accounted for by the Equity Method (a) (in millions)

	MIM	SPCC	MEDIMSA
	June 30, 1986	Dec. 31, 1986	Dec. 31, 1985
Financial Position	(b)		(b)
Current assets	$ 451.0	$222.8	$123.2
Current liabilities	(186.3)	(64.3)	(36.9)
Working capital	264.7	158.5	86.3
Property-net	1,639.9	471.9	213.4
Deferred foreign exchange fluctuations	320.3	–	–
Other assets	289.2	2.1	3.0
Long-term debt	(1,342.1)	–	(83.9)
Other liabilities	(17.3)	(29.1)	(0.9)
Deferred income taxes	(89.9)	(112.7)	
Minority interest		(48.0)	(0.3)
Net assets	$1,064.8	$442.7	$217.6
	at December 31, 1986		
Asarco's Interest	37.3%	52.3%	34.0%
Asarco's Investment	$ 262.6	$223.3	$115.6
Market Value	344.2 (c)	(d)	(d)

	MIM	SPCC	MEDIMSA
	for the Years Ended December 31,		
Net Sales 100%	(e)		(e) (f)
1986	$ 878.0	$294.7	$291.1
1985	909.5	335.1	312.2
1984	1,091.3	315.6	391.5
Net Earnings (Loss) 100%	(e)		(e) (f)
1986	$ (6.3)	$ (16.7)	$ 12.2
1985	24.0	(20.5)	25.8
1984	(11.0)	5.3	59.3
Equity Earnings (Loss) Reported by Asarco	(g)		(h)
1986	$ 19.9	$ (10.0)	$ 11.0
1985	(9.3)	(12.0)	1.2
1984	22.5	1.5	8.1
Dividends to Asarco			
1986	$ 6.1	$	$
1985	4.5	–	
1984	9.7	18.5	3.7

(a) Asarco's investments in nonconsolidated associated companies carried on the equity method include other companies in addition to those shown above. Equity in earnings (losses) for those companies not separately disclosed which are included in the Consolidated Statement of Earnings were: 1986—$(0.3), 1985—$0.4 and 1984—$(0.4). Dividends received were: 1986—$0.9, 1985—$0.4, and 1984—$1.0.

(b) Translated into U.S. dollars at rates in effect at December 31, 1986: MIM-Australian $1 = US$0.6580 (rate at June 30, 1986 was A$1 = US$0.6662); MEDIMSA-Mexican MN$1 = US$0.0011 Mexican government controlled rate for commercial transactions (rate at December 31, 1985 was MN$1 = US$0.002[illegible]). The capsule financial positions of MIM and MEDIMSA are as reported under Australian and Mexican accounting standards, respectively.

(c) Represents value of Asarco's investment in common stock based upon the December 31, 1986 closing market price on the Sydney (Australia) Stock Exchange. Value is not necessarily indicative of an amount realizable in the event of a sale.

(d) Quoted market prices on Asarco's investments in common stock are not available since the shares are not publicly traded.

(e) Translated at the monthly average exchange rate. The financial information of MIM and MEDIMSA is as reported under Australian and Mexican accounting standards, respectively.

(f) Results for 12 months ended September 30. Asarco reports its equity in earnings on a one-quarter delay basis.

(g) Equity earnings reported by Asarco include certain adjustments to conform with United States reporting standards. Significant adjustments include the recognition in 1986 of $12.4 in net foreign exchange gains (1985—$7.3; 1984—$28.6), the $1.7 capitalization of interest cost in 1984, a $4.9 cost of sales charge in 1986 for high historical cost inventory produced prior to devaluation of the Australian dollar (1985—$20.5), the elimination of $1.4 in 1986 (1985—$5.6) resulting from changes in the economic lives of certain depreciable assets in accordance with MIM's review policy, and the $15.9 elimination in 1986 of MIM's reported extraordinary loss from the amortization of deferred unrealized exchange losses, principally on U.S. dollar-denominated debt.

(h) Under Mexican accounting standards, Mexican companies are required to present financial statements on an inflation adjusted basis. As a result of MEDIMSA's use of inflation accounting and to conform with United States reporting standards, Asarco has increased (decreased) its share of MEDIMSA's earnings by $1.[illegible] in 1986, $(6.5) in 1985 and $(12.6) in 1984 for the difference between inflation based versus historical cost based financial statements. In addition, foreign exchange gains of $[illegible] in 1986, $1[illegible] in 1985, and $2[illegible] in 1984 resulting from foreign currency translation were recognized by Asarco. The 1985 translation gain was offset by elimination of MEDIMSA's capitalized exchange losses, net of tax.

8. ACQUISITION OF THE RAY MINES DIVISION

On November 18, 1986, the Company purchased the assets of the Ray Mines Division, located in Arizona, from Kennecott Corporation, a subsidiary of The Standard Oil Company. The purchase price was $72.0 million in cash plus assumption of certain liabilities, Asarco's costs associated with the acquisition, and participation by Kennecott in an amount equal to 25% of the incremental revenues generated by the Ray mine from Comex copper price increases above 68 cents a pound adjusted for cost inflation. The price participation will be limited to a 10-year period beginning November 1988 and will also be limited in the aggregate to $65.0 million. Such payments will be capitalized as an additional property cost.

The assets acquired are principally comprised of an operating open-pit copper mine, its related facilities and equipment, and a copper smelter which is not presently operating. The purchase price was allocated to the assets acquired based on their fair values at the date of acquisition. For several years prior to its acquisition by Asarco, the Ray Mines Division had sold its copper concentrate production to Asarco.

9. DEBT AND AVAILABLE CREDIT FACILITIES (in millions)

Long-Term Debt at December 31	1986	1985
$350.0 revolving credit agreement dated October 1985 fully available until June 30, 1988, and declining thereafter in quarterly amounts of approximately $22.0 until March 31, 1992	$195.0	$137.0
7⅞% notes (authorized $70.0) due April 1, 1994, prepaid in July 1986		35.5
9⅜% Sinking Fund Debentures (authorized $100.0) due 2000. Sinking Fund payments of $6.0 required annually. Debentures have been purchased covering payments through 1993	51.7	51.7
$69.3 Industrial Development Authority of the County of Gila, Arizona, Pollution Control Revenue Refunding Bond Series 1985, due 2006	69.3	69.3
Obligations under Nueces River Authority (Texas) 7¾% Environmental Improvement Revenue Bonds, Series 1976—A and B (authorized $55.0) due 2006. Payable in annual installments of $1.3 commencing in 2004, $3.0—2005 with balance payable at maturity	27.7	27.7
Obligations under Lewis and Clark County (Montana) 6¼% Pollution Control Bonds 1976 Series (authorized $370) due 2006. Payable in annual installments of $0.6 commencing in 1992 through 2005 with balance payable at maturity	37.0	37.0
Other obligations (various rates and maturities)	82.4	83.1
4⅞% Twenty-Five Year Subordinated Debentures (authorized $50.0) due 1988—Sinking Fund payment of $1.2 required in 1987 with balance payable at maturity	5.3	6.5
Total long-term debt	468.4	447.8
Less, amounts due within one year	5.9	12.3
Long-term debt—not due within one year	$462.5	$435.5

At December 31, 1986, total debt maturities were: 1987—$5.9, 1988—$6.9, 1989—$2.8, 1990—$2.5, 1991—$2.4 and $447.9 thereafter.

Borrowings under the $350.0 revolving credit agreement bear interest, at Asarco's option, through June 30, 1988, at either the prime rate, ¾% over LIBOR (London Interbank Offering Rate), or ¾% over the CD Rate (the interest rate on certificates of deposit of certain major commercial banks), gradually increasing thereafter to 1% over prime, 1⅛% over LIBOR or 1⅛% over the CD Rate after March 31, 1991. The Company has agreed to pay a commitment fee of ¼% per annum on the unused portion. An informal agreement also exists with respect to the maintenance of additional compensating balances equal to 3% of the loan commitment and additional compensating balances of 2% on loan commitments used in excess of $300.0.

The highest level of borrowings during 1986 under the above-mentioned facilities was $210.0 (1985—$270.0). At December 31, 1986, $195.0 (1985—$137.0) was outstanding at a weighted average interest rate of 7.0% (1985—8.9%). Borrowings averaged $174.0 for 1986 (1985—$195.1) with a weighted average interest rate of 8.0% (1985—9.0%).

The $69.3 Industrial Development Authority of the County of Gila, Arizona, Pollution Control Revenue Refunding Bond agreement gave the Company the option to borrow funds either through a tax-exempt variable-rate loan agreement or through the tax-exempt demand note market. Borrowings under the former bore interest at 73% of the prime rate with a ½% per annum commitment fee payable on unused portions, while borrowings under the latter bore interest at the current tax-exempt demand note rate. At the Company's option, the interest rate can be converted to a fixed rate of interest, not to exceed 20%, at any time. Prior to the interest conversion date, the Company has the option of redeeming the bonds at par. The bonds were supported by an irrevocable letter of credit, on which there was a ⅞% per annum fee, expiring on January 15, 1990. In order to provide for the remarketing of the bonds, the Company entered into a remarketing agreement on which there was a ⅛% fee per annum. In addition, the Company was paying ¼% per annum facing fee on the outstanding principal balance.

The outstanding balances under the above Gila County (Arizona) Pollution Control Revenue Refunding Bond had a weighted average interest rate at December 31, 1986, of 4.9% (1985—7.0%) and a weighted average interest rate for

1986 of 5.1% (1985—5.3%) At December 31. 1986. the obligation was financed entirely with tax-exempt demand notes.

In January 1987. the Company converted the $69.3 bond issue from a variable interest rate to a fixed interest rate of 8.9% and also terminated the bank support agreements for the issue.

The Company's debt agreements contain a number of restrictive financial covenants. The Company is required to maintain a tangible net worth of at least $675.0 through March 31, 1988, increasing to $700.0 through March 31, 1991, and $725.0 thereafter. On December 31, 1986, the Company's tangible net worth equaled $869 5. Another financial covenant prohibits the Company from incurring after October 31, 1985, cumulative operating losses in excess of $70.0. The agreement defines cumulative operating losses incurred after October 31, 1985, as net losses excluding foreign exchange translation gains or losses related to M.I.M. Holdings Limited, unusual items and extraordinary items, reduced by 50% of the proceeds from any sale of Company common or preferred stock. At December 31, 1986. the Company would be permitted to incur $98 8 of future operating losses as defined by the covenant The Company's senior debt is not permitted to exceed the lesser of 75% of tangible net worth or $650.0 until March 31, 1988, and 65% of tangible net worth thereafter. Under the most restrictive loan agreement covenants at December 31, 1986, the Company could have borrowed $150.9 in addition to its then-outstanding indebtedness.

The Company has entered into three agreements to fix the rate on a portion of its variable rate debt The first two agreements became effective in 1983 and 1984 with durations of 10 years each, and require the Company to make an average fixed interest payment of 12 8% per annum on an agreed principal amount of $12 4 against receipt of interest payments based on a floating rate at LIBOR on the same agreed principal amount. The third interest rate exchange agreement became effective April 26, 1986, and has a duration of seven years, requiring the Company to make fixed interest payments of 8.2% per annum on an agreed principal amount of $100 0 against receipt of interest payments floating at LIBOR on the same agreed principal amount The effect of these agreements is recorded in operating results as LIBOR moves above or below the fixed rates the Company has agreed to pay. LIBOR averaged 70% during 1986 (8 4%—1985, 10.8%—1984) resulting in $1 7 ($0.5—1985; $0.1—1984) of additional interest expense to the Company under such agreements

Asarco also has short-term bank loans outstanding. The highest level of borrowings was $18 3 (1985—$50 4, 1984—$50.9) At December 31, 1986, $72 (1985—$24.8, 1984—$27.2) was outstanding at a weighted average interest rate of 8.6% (1985—9 2%, 1984—8 8%) Borrowings averaged $151 (1985—$241, 1984—$35 0) for the year, with a weighted average interest rate of 79% (1985—10 6%, 1984—11 8%)

). LITIGATION

Asarco received notices from the United States Environmental Protection Agency (EPA) concerning releases or threatened releases of hazardous substances, pollutants or other contaminants at the following locations, in the years indicated. Commencement Bay area in Tacoma Washington (1982), the Picher Mining Field in Northeastern Oklahoma (1982), the Yak drainage tunnel located near the Company's mine in Leadville, Colorado (1983), and lead and zinc mining areas in Southeastern Cherokee County, Kansas (1985) These notices, issued under authority granted to the EPA by the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) the "superfund" law state that EPA believes Asarco is potentially a responsible party as defined by CERCLA for such releases and may be liable for the costs, if any, necessary to correct the problems at these locations. In 1983, the area around the Company's East Helena smelter was listed for study under CERCLA In January 1987, the State of Texas listed parts of Federated Metals' former Houston plant site on the state's "Superfund Registry" Corrective action is being undertaken by the EPA at the Picher Mining Field site The Company has insufficient information to determine whether corrective action at any of the other sites is necessary under CERCLA and, if so whether it has any liability with respect thereto Several other parties have been advised of their potential liability for the Picher Mining Field, Leadville and Tacoma sites The Company has received notices at two other sites in which it believes its aggregate financial exposure will be modest

In 1983, the State of Colorado filed two lawsuits against Asarco, under CERCLA and state law, in federal court in Colorado, alleging emissions of hazardous substances from the Company's Globe Plant in Denver, and from the Yak drainage tunnel, referred to above. The suits claim substantial damages for each release into the environment, and the state law claims seek to compel clean-up of the sites In September 1985, the court, in ruling on a motion in the Globe case found the Company liable for two minor releases from the plant without permitting the Company to submit evidence that the releases did not occur The court also ruled in that case that under CERCLA the state could recover for damage to private lands, including the plant site, as well as for damage to publicly owned lands In connection with the action, the state and the Company have entered into a joint program to study the environmental impact of the plant site The study is nearing completion In addition, in December 1986 the State of Colorado Department of Health served on the Company an order alleging non-compliance by the Globe Plant with State Hazardous Waste Management requirements The Company has requested an administrative hearing scheduled for April 1987 Additional parties have been joined as third-party defendants in the Yak drainage tunnel case, and in August 1986, the state brought a similar action in state court seeking remedial action under state law This action has been stayed by the court Also in August 1986, the federal government brought a similar action in federal court seeking remedial action under CERCLA A motion to consolidate this case with the other federal court action is pending

In 1983, Wickland Oil Terminals, a California corporation, sued Asarco and the State Lands Commission of California in federal district court in California seeking as to Asarco a declaration that Asarco is solely responsible for clean-up costs due to emissions from the slag piles at the site of Asarco's former Selby California, smelter and $400,000 in damages for CERCLA response costs allegedly incurred by

Wickland at the site. Asarco's interest in the Selby site was sold to Wickland in 1977, and the site has been listed by the State of California as having the potential of requiring remedial action as a result of hazardous substances found at the site. All claims in the action were dismissed by the district court, but the dismissal was reversed by the United States Court of Appeals for the Ninth Circuit. The case was remanded to the district court for further proceedings.

Lac d'Amiante du Québec, Ltée (LAQ), a wholly owned subsidiary of Asarco, as of December 31, 1986, was one of several defendants in 522 lawsuits brought by 587 primary and 465 secondary plaintiffs in the state or federal courts in 21 states. The primary plaintiffs seek substantial money damages for alleged personal injury or death allegedly caused by exposure to asbestos fibers. The secondary plaintiffs seek recovery for damages caused by the injury or death of another. In some instances, both primary and secondary plaintiffs also seek punitive damages. Asarco is a defendant or a co-defendant with LAQ in 20 cases brought by 20 primary and 14 secondary plaintiffs. As of December 31, 1986, LAQ has settled, and LAQ and Asarco have been dismissed from, a total of approximately 1,928 asbestos personal injury lawsuits brought by approximately 5,532 primary and approximately 2,239 secondary plaintiffs. Asarco has settled one lawsuit brought by one primary and one secondary plaintiff.

LAQ is a defendant along with numerous other companies in lawsuits seeking removal or containment of asbestos-containing products in buildings. One such action brought in federal court in Philadelphia, Pennsylvania, has been certified to proceed on behalf of a class of all public school districts and private primary and secondary educational institutions in the United States. In addition, as of December 31, 1986, LAQ was in 56 additional lawsuits: three other purported nationwide class actions (hospitals, colleges and universities, private buildings under lease to the federal government), three purported statewide class actions (Pennsylvania schools, Pennsylvania public buildings, California homeowners), and 50 actions brought on behalf of 165 individual school districts in six states, public buildings in 11 cities, counties, states and universities, and one private rehabilitation center. In general, each of these actions also seeks substantial actual and punitive damages. LAQ has been dismissed from 11 such actions, and Asarco has been dismissed from nine actions in which it was named.

As of December 31, 1986, Capco Pipe Company, Inc. (Capco), a wholly owned subsidiary of Asarco, was a defendant or third-party defendant in 10 actions brought by 14 dockworkers in federal court in Texas. These actions allege personal injury or wrongful death from exposure to imported asbestos while unloading ships. In addition, Capco has been sued in lawsuits alleging wrongful death or injury to three other persons due to exposure to asbestos-containing products.

In 1983, LAQ sued three insurers in federal court in New Jersey for (1) a declaration of rights and obligations under various umbrella and excess liability insurance policies as to claims asserted against it for personal injury and property damage alleged to have resulted from asbestos sold by LAQ, and (2) damages in excess of $7 million. In 1985, the court granted LAQ's motion for partial summary judgment, ruling that LAQ's insurance policies should be interpreted to provide it with the comprehensive continuous theory of coverage, which it sought, for its asbestos-related personal injury and property damage litigation. In 1986, the court ruled that the insurers have defense-cost obligations in addition to their policy limits.

In 1985, Asarco was served with writs joining it as an additional defendant in 49 lawsuits brought during the period 1981 through 1984 by 49 individuals, and in most cases their spouses, in state court in Philadelphia, Pennsylvania. The lawsuits are for alleged personal injuries due to workplace exposure to lead, other heavy metals and chemicals at a secondary lead smelter in Philadelphia. Asarco is a defendant in lawsuits brought by five other plaintiffs seeking damages for personal injury or death allegedly caused by exposure to lead.

In 1978, the Gila River Indian Community filed an action in the federal district court in Arizona against numerous water users, including Asarco and other mining companies, challenging the right of the defendants to use "waters of the San Pedro River Watershed," including the Company's use at its Hayden smelter and at farming operations located in that area. In 1980, in General Adjudication proceedings initiated by Asarco, the court ordered that the determination of the water rights be made in state court with the damage and injunctive portions of the Indian claims to be retained in federal court but abated pending the state court determinations. The Company has been made a party to similar General Adjudication proceedings regarding the Salt River Watershed and the Gila River Watershed which potentially affect water used at the Company's Arizona copper mines. It is expected that each of these proceedings will take several years to reach trial. The Ray Unit formerly obtained from the Gila River Indian Community by settlement the right to use sufficient water for its operations upon payment of specified amounts. The Settlement Agreement has been assigned to the Company subject to the tribe's consent which has been requested. The Ray Unit is also involved in the San Pedro water litigation described above.

While Asarco is unable to estimate the ultimate dollar amount of exposure to loss, it is the opinion of Asarco's management that the outcome of the suits and proceedings mentioned, and other miscellaneous litigation and proceedings now pending, will not materially adversely affect the operations or the financial position of Asarco and its consolidated subsidiaries.

11. REDEEMABLE PREFERRED STOCK

At December 31, 1986 and 1985, Asarco had outstanding 1,550,000 shares of Series A Cumulative Preferred Stock and 1,250,000 shares of Series B Cumulative Convertible Preferred Stock. The Series A is a 15-year sinking fund preferred with an annual dividend of $7.00 per share. The Series B is a convertible 15-year sinking fund preferred with an annual dividend of $6.25 per share and convertible into common stock at $45.19 per share as of December 31, 1986 (initially convertible in 1981 at $60.00 per share).

The terms of the preferred shares prohibit payment of dividends on common shares in the event that dividends on the preferred shares have not been paid. The Company is required to redeem annually, at $50 per share, 155,000 shares of Series A beginning in 1987 and 178,572 shares of Series B beginning in 1990. If payment on preferred stock of either six quarterly dividends or two mandatory redemption payments are in arrears, the preferred stockholders of all issues, voting separately as a single class, have the right to elect two directors to the Company's Board of Directors.

At December 31, 1986, aggregate annual redemption requirements in millions were $7.7 in 1987 through 1989, $16.7 in 1990 through 1991 and $83.5 thereafter.

12. CONVERTIBLE EXCHANGEABLE PREFERRED STOCK

In a third quarter 1986 public offering, the Company sold 3,450,000 shares of $2.25 Depositary Convertible Exchangeable Preferred Stock, each representing ownership of one-fourth of a share, or a total of 862,500 shares, of $9 Convertible Exchangeable Preferred Stock. The net proceeds of $82.3 million were used to repay debt.

The Convertible Exchangeable Preferred Stock has a liquidation preference of $100 per share in an involuntary liquidation, or $100 plus a premium per share in a voluntary liquidation. The preferred stock is convertible into common stock at the option of the holder at any time at a conversion price of $15 per share of common stock, subject to adjustment in certain events, and will be exchangeable, as a whole, at the option of the Company on any dividend date beginning August 15, 1989, for the Company's 9% Convertible Subordinated Debentures due 2011. The debentures will also be convertible into common stock of the Company at the option of the holders. If payment of six quarterly dividends on any series of preferred stock is in arrears, the preferred stockholders of all series, voting separately, as a class, have the right to elect two additional directors to the Company's Board of Directors.

13. COMMON STOCKHOLDERS' EQUITY

In a third quarter 1986 public offering of preferred stock, the Company also sold 3,375,000 common stock purchase warrants at a price of $3⅛ per warrant. The $10.0 million net proceeds may be used to purchase a portion of the Company's outstanding redeemable preferred stock, and at December 31, 1986, were invested in marketable securities. Each warrant gives the holder the right to purchase one share of common stock of the Company at a cash price of $16.09, subject to adjustment under certain conditions, until August 15, 1991, when the warrants expire.

During 1985, the Company sold in a public offering, 3,450,000 newly issued common shares at $22⅞ per share, thereby generating cash proceeds of $75.7 million which were used to reduce bank borrowings under existing revolving credit and term loan agreements.

Stockholders approved in 1985 an amendment to the Company's Certificate of Incorporation increasing the authorized number of common shares from 40,000,000 shares to 80,000,000 shares.

The Company purchased for corporate purposes 1,012 common shares in 1985 (1984—100 shares). In 1986, 189,220 common shares (1985—223,119 shares; 1984—120,402 shares) were used for additional compensation, stock option, bonus, savings and salary adjustment plans.

"Retained Earnings" at December 31, 1986, included undistributed earnings of $185.7 million for nonconsolidated subsidiaries and $467.9 million for all other investments accounted for by the equity method. At December 31, 1986, "Retained Earnings" included Asarco's equity of $193.2 million in restricted net assets of a nonconsolidated associated company, as described in note 7, and a consolidated Peruvian subsidiary. The restriction results from foreign currency controls established in the third quarter of 1986 by the government of Peru. "Retained Earnings" has been reduced by cumulative foreign currency adjustments of $5.4 million at December 31, 1986 ($5.5 million—1985, $5.4 million—1984).

Stock Options. Under a stockholder-approved, common stock option plan, as amended, options when granted are exercisable within 10 years and at a price equivalent to fair market value on date of grant. Options granted may be nonqualified or incentive stock options, as defined under current provisions of the Internal Revenue Code. Stock options for 734,153 shares were outstanding at December 31, 1986, at prices ranging from $14.70 to $41.63 per share.

The Plan permits the granting of "Stock Appreciation Rights" (SARs) to officers holding options. An SAR permits an optionee, in lieu of exercising his option, to receive from the Company payment in an amount equal to the difference between the market value of the stock on the date of exercise of the SAR and the purchase price of the stock under the terms of the option. At December 31, 1986, twenty-seven individuals held SARs covering options for 385,565 shares, ranging in price from $20.57 to $41.63 per share, exercisable as either regular stock options or SARs.

	Number of Shares				
	Authorized	Granted	Exercised		
			Regular	SAR	Total
Shares under the plan, December 31, 1984	1,815,663	899,932	347,085	25,838	372,923
Granted at $21.94		135,800	-	-	
Exercised at $18.75 to $22.32		-	4,110		4,110
Cancelled at $21.94 to $41.63		(26,840)			
Expired at $18.75 to $41.63		(10,200)	-	-	
Shares under the plan, December 31, 1985	1,815,663	998,692	351,195	25,838	377,033
Granted at $14.70 to $20.57		143,800	-		
Cancelled at $20.57 to $41.63		(17,307)			
Expired at $18.75 to $41.63		(13,999)			
Shares under the plan, December 31, 1986	1,815,663	1,111,186	351,195	25,838	377,033

14. RETIREMENT PLANS (in millions)

The Company and its subsidiaries maintain several noncontributory, defined-benefit pension plans covering substantially all employees. Normal retirement age is 65, but provision is made for earlier retirement. Benefits for salaried plans are based on salary and years of service, while hourly plans are based on negotiated benefits and years of service.

In December 1985, the Company adopted, retroactive to January 1, 1985, the principles of "Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions." Accordingly, the Company changed its actuarial method for financial reporting purposes from the aggregate cost method to the projected unit credit method which attributes an equal portion of total projected benefits to each year of employee service. In addition, SFAS 87 required a change in gain or loss recognition on the valuation of plan assets versus the projected plan benefit obligations. The effect of the changes resulting from the adoption of SFAS 87 reduced 1985 pension expense by $16.0 and increased the accumulated benefit obligations of Company-administered pension plans by $71.6.

The actuarial computations, using the projected unit credit method, assumed, a discount rate on benefit obligations in 1985 and 1986 of 9% declining to 8% at December 31, 1986; an expected long-term rate of return on plan assets of 10%; and annual salary increases of 6% over the average remaining service lives of salaried employees under the plans. Variances between actual experience and assumptions for costs and returns on assets are amortized over the average remaining service lives of employees in the plans.

The Company continues to use the aggregate cost method in determining its annual funding requirements for its largest pension plans. The aggregate cost method treats current changes in pension benefits, which are affected by credited past employment services, as future costs to be funded from future earnings. Thus, under this actuarial method there is no unfunded prior-service liability. The actuarial computations used with this method assume an interest rate return on plan assets of 8% (7½%—1985 and 1984) and 6% annual salary increases over the average remaining service lives of salaried employees under the plans. Cost variances resulting from changes in other assumptions are spread over the average remaining service lives of the plans participants. Actual investment income in 1986 was immediately recognized and in 1985 and 1984 was averaged over three years. Benefits under the hourly plans are not based on wages and therefore no benefit escalation assumption beyond negotiated increases is allowed by I.R.S. regulations.

Net pension costs (credits) included in operating results for Company-administered pension plans amounted to $(13.3) in 1986, $(7.9) in 1985 and $15.5 in 1984.

The net pension credits in 1986 and 1985 were comprised of:

	1986	1985
Service cost	$ 4.7	$ 4.7
Interest cost on projected benefit obligations	26.2	25.8
Return on plan assets	(37.2)	(31.6)
Amortization of excess plan net assets at adoption of SFAS 87	(4.5)	(4.5)
Other items	(2.5)	(2.3)
Total net pension credits	$(13.3)	$ (7.9)

The table of actuarially computed benefit obligations and trusteed net assets for Company-administered pension plans is presented below at December 31, 1986 and December 31, 1985. Plan assets are stated at fair value and are composed primarily of U.S. Treasury obligations and group annuity contracts with major insurance companies at December 31, 1986. At December 31, 1985, plan assets were composed primarily of corporate equity and debt securities and group annuity contracts with major insurance companies. Unrecognized net excess plan assets and previously accrued but unfunded pension costs at the adoption of SFAS 87 are being amortized against net pension costs over the remaining service lives of employees or approximately 12 years.

	Dec. 31, 1986	Dec. 31, 1985
Actuarial present value of benefit obligations		
Vested	$ 282.3	$ 261.7
Nonvested	8.9	8.2
Total accumulated benefit obligations	$ 291.2	$ 269.9
Projected benefit obligations for services rendered to date	$ 314.2	$ 291.2
Plan net assets at fair value	(400.9)	(372.3)
Excess of plan assets over projected benefit obligations	86.7	81.1
Unrecognized net gains	(32.1)	(39.7)
Unrecognized net excess plan assets and previously accrued but unfunded pension costs to be amortized	(49.6)	(54.1)
Net prepaid (accrued) pension costs	$ 5.0	$ (12.7)

The hourly employees of the Company's coal mining operations are covered by a multiemployer defined-benefit pension plan which is administered by the United Mine Workers. Operating results were charged with $0.9 in 1986 (1985—$0.9; 1984—$1.4) representing the Company's contributions to the plan.

In addition, the Company and certain of its consolidated subsidiaries provide post-retirement health care and life insurance benefits for retired employees. Employees may become eligible for these benefits if they retire while working for the Company. These benefits are generally expensed upon receipt of life insurance premium invoices or upon receipt of valid health care claims. Post-retirement benefit costs were expensed in the amount of $3.8 in 1986, $3.9 in 1985 and $4.1 in 1984.

15. BUSINESS SEGMENTS

Asarco and its subsidiaries operate principally in the primary metals industry. The Company carries on other important operations in two industry segments, asbestos and coal. Operations in primary metals (copper, silver, lead, gold, zinc and related by-products) involve the mining, smelting and refining and selling of primary metals from nonferrous ores and concentrates. Until June 30, 1986, asbestos operations were carried on principally by a wholly owned subsidiary in Canada where the asbestos fiber was mined and sold for international delivery. Effective

Business Segments *(in millions)*

	Primary Metals	Asbestos	Coal	Other	Corporate	Total
1986				(d)		
Sales of products and services	$ 909.7	$69.6	$15.6	$ 61.6	$ –	$1,056.5
Intersegment sales	0.7	–	–	0.4	(1.1)	
Total revenue	$ 910.4	$69.6	$15.6	$ 62.0	$ (1.1)	$1,056.5
Income (Loss) from products and services	$ 94.9	$ 2.6	$ 0.8	$ 10.9	$ (0.1)	$ 109.1
Depreciation and depletion	(46.6)	(1.7)	(1.6)	(2.5)	(0.6)	(53.0)
Other income and deductions (a)	(37.6)	(2.2)	(0.8)	(2.8)	(19.9)	(63.3)
Earnings (Loss) before equity in results of nonconsolidated associated companies	10.7	(1.3)	(1.6)	5.6	(20.6)	(7.2)
Equity in earnings of nonconsolidated associated companies	–	–	–		20.6	20.6
Earnings (Loss) before taxes on income	$ 10.7	$ (1.3)	$ (1.6)	$ 5.6	$ –	$ 13.4
Identifiable assets	$1,011.2	$50.6	$38.2	$ 39.6	$700.7	$1,840.3
Property expenditures	92.7	0.2	0.4	0.9	0.5	94.7
1985						
Sales of products and services	$1,008.8	$77.5	$15.8	$ 64.8	$	$1,166.9
Intersegment sales	8	–	–	1.2	(2.0)	
Total revenue	$1,009.6	$77.5	$15.8	$ 66.0	$ (2.0)	$1,166.9
Income (Loss) from products and services	$ 90.2	$ 8.9	$ 1.2	$ 7.6	$ (0.1)	$ 107.6
Depreciation and depletion	(50.0)	(2.4)	(1.9)	(2.9)		(57.2)
Other income and deductions (b)	(49.9)	(3.7)	(0.8)	(2.5)	(33.9)	(90.8)
Earnings (Loss) before equity in results of nonconsolidated associated companies	(9.7)	2.8	(1.5)	2.2	(34.0)	(40.2)
Equity in losses of nonconsolidated associated companies	–	–			(19.7)	(19.7)
Earnings (Loss) before taxes on income	$ (9.7)	$ 2.8	$ (1.5)	$ 2.2	$ (53.7)	$ (59.9)
Identifiable assets	$ 955.6	$61.4	$41.5	$ 48.6	$638.3	$1,745.4
Property expenditures	22.5	1.0	1.5	0.7	0.1	25.8
1984						
Sales of products and services (c)	$1,087.4	$94.4	$31.6	$111.7	$	$1,325.1
Intersegment sales	3.8			0.9	(4.7)	
Total revenue	$1,091.2	$94.4	$31.6	$112.6	$ (4.7)	$1,325.1
Income from products and services	$ 52.4	$14.0	$ 7.8	$ 8.1	$ 0.1	$ 82.4
Depreciation and depletion	(55.7)	(2.3)	(3.2)	(2.9)		(64.1)
Other income and deductions (b)	(278.7)	(4.5)	(1.3)	(30.6)	(44.5)	(359.6)
Earnings (Loss) before equity in results of nonconsolidated associated companies	(282.0)	7.2	3.3	(25.4)	(44.4)	(341.3)
Equity in earnings of nonconsolidated associated companies			–		31.7	31.7
Earnings (Loss) before taxes on income	$ (282.0)	$ 7.2	$ 3.3	$ (25.4)	$ (12.7)	$ (309.6)
Identifiable assets	$1,068.0	$66.6	$45.6	$ 59.1	$706.6	$1,945.9
Property expenditures	24.8	1.0	0.2	3.3	5.3	34.6

(a) The Primary Metals segment includes income of $31 from the sale of a 25% interest in an Australian exploration and mining subsidiary, formerly wholly owned. The Corporate segment includes income of $9.0 from a rights offering by M.I.M. Holdings, Limited, as described in note 7.
(b) Includes unusual pre-tax charges, as described in note 2, as follows: 1985 — $1.5 in Primary Metals; 1984 — $228.7 in Primary Metals and $25.3 in Other.
(c) In 1984 a major customer accounted for Primary Metals revenue of $148.[illegible]
(d) The "Other" segment includes certain businesses that historically have never been reported as separate segments. In 1986, the earnings of these businesses exceeded the 10% earnings criterion for separate disclosure due to a substantial improvement in consolidated results. Accordingly, separate disclosure of such businesses is not considered appropriate in these circumstances.

July 1, 1986, the Company's wholly owned subsidiary transferred control and use of its asbestos mining operations to a newly formed partnership for a 33⅓% limited partnership interest The partnership resulted from an industry-wide rationalization of asbestos mining in Canada. Also included in the asbestos segment is a wholly owned subsidiary which produces and markets in the U.S. asbestos-cement pipe and polyvinyl chloride pipe Coal production is sold principally to midwestern public utilities and industrial users

Total revenue by industry segment, including both sales to unaffiliated customers and intersegment sales, is accounted for at the current market price when sold "Income from products and services" consists of total revenue less operating expenses. The computation of "Income from products and services" excludes "Other income," "Other deductions" and "Equity in earnings (losses) of nonconsolidated associated companies." General corporate administrative expenses are allocated among the segments generally in proportion to their operating expenses. Most research and exploration expenses are attributable to the primary metals segment. Identifiable assets by industry are those assets directly used in the operations of each segment. Corporate assets are principally cash, marketable securities and investments

Export sales of products and services, primarily to Europe, were $128.6 million in 1986, $151 3 million in 1985 and $137.8 million in 1984. It is not practicable to furnish information with respect to the relative profitability of sales of products and services to customers in foreign countries.

At December 31, 1986, the book value of Asarco's investment in nonconsolidated associated companies with primary operations outside the United States amounted to approximately $607.3 million. In addition, at December 31 1986, the identifiable assets attributable to foreign locations amounted to approximately $116 0 million, of which $53 3 million were in Canada There can be no assurance that operations and assets of Asarco and nonconsolidated associated companies that are subject to the jurisdiction of foreign governments may not be adversely affected by future actions by such governments

Primary Metal Sales, excluding intersegment sales (in millions)

	1986	1985	1984
Copper	$474 3	$ 466 7	$ 423 6
Silver	150 8	243 3	312 0
Lead	80 9	63 4	71 8
Gold	60 9	63 8	104 1
Zinc	10 5	28 0	15 2
Services	21 6	23 9	30 7
Other	120 7	119 7	130.0
Total primary metal sales	$909 7	$1 008 8	$1 087 4

16. UNAUDITED QUARTERLY DATA (in millions, except per share amounts)

	Quarters									
	1st		2nd		3rd		4th		Total	
	1986	1985	1986	1985	1986	1985	1986	1985	1986	1985
Sales of products and services	$291 6	$260 7	$257 4	$305 9	$252 7	$291 4	$254 8	$308 9	$1 056 5	$1,166 9
Income from products and services (a)	13 5	29 1	26 7	29 0	30 0	16 2	38 9	33 5	109 1	107 8
Earnings (Loss) before taxes on income (b) (c)	(28 9)	(14 0)	(5 2)	(15 5)	18 5	(6 9)	29 0	(23 5)	13 4	(59 9)
Net earnings (loss)	(29 2)	(14 1)	(7 6)	(16 0)	17 6	(7 2)	28 3	(24 9)	9 1	(62.2)
Primary net earnings (loss) per common share	(1 22)	(0 70)	(0 43)	(0 71)	0 42	(0 40)	0 77	(1 06)	(0 46)	(2.87)

(a) Includes the recognition of pre-tax profits from the liquidation of LIFO inventory of $4 0 in the second quarter 1986, $8 0 in the third quarter 1986, $14 9 in the fourth quarter 1986 and $14 6 in the fourth quarter 1985

(b) First quarter 1986 includes income of $3 6 from the sale of a 25% joint venture interest in the Wiluna gold project in Australia. Fourth quarter 1986 includes income of $3 1 from the sale of a 25% interest in an Australian exploration and mining subsidiary, formerly wholly owned

(c) Refer to note 2 on "Unusual Items."

AUDITORS' REPORT

To the Board of Directors and Stockholders of
ASARCO Incorporated

We have examined the consolidated balance sheets of ASARCO Incorporated and Consolidated Subsidiaries as of December 31, 1986 and 1985, and the related consolidated statements of earnings, changes in financial position and changes in common stockholders' equity for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of ASARCO Incorporated and Consolidated Subsidiaries at December 31, 1986 and 1985, and the results of their operations and [illegible] changes in their financial position for each of the three years in the period ended December 31, 1986 in conformity with generally accepted accounting principles consistently applied, except for the change, with which we concur, made as of January 1, 1985, in the method of accounting for pension costs, as described in Note 14 to the consolidated financial statements.

COOPERS & LYBRAND

1251 Avenue of the Americas
New York, New York
January 30, 1987

EXECUTIVE OFFICERS

Richard de J. Osborne	*Chairman of the Board, Chief Executive Officer and President*
Alexander J. Gillespie, Jr.	*Vice Chairman*
George W Anderson	*Executive Vice President*
Thomas C Osborne	*Executive Vice President*
William A. Bennis	*Vice President (Administration)*
Robert J. Bothwell, Jr	*Vice President (Sales)*
Richard L. Brown, Jr	*Vice President (Exploration)*
John R Corbett	*Vice President (Industrial Relations and Personnel)*
Augustus B Kinsolving	*Vice President, Secretary and General Counsel*
Robert J. Kupsch	*Vice President (Mining)*
W. Scott Latimer	*Vice President (Ore)*
Francis R. McAllister	*Vice President (Finance and Administration)*
Stephen P McCandless	*Vice President and Treasurer*
Robert J. Muth	*Vice President (Government and Public Affairs)*
Ronald J O'Keefe	*Controller*
Harold E. Kelshaw, Jr	*General Auditor*

DIRECTORS

Richard de J Osborne	*Chairman of the Board, Chief Executive Officer and President*
Willard C. Butcher	*Chairman of the Board and Chief Executive Officer The Chase Manhattan Bank N A*
Fletcher L Byrom	*Former Chairman of the Board, Koppers Company, Inc Director, various corporations*
Sir James Foots	*Former Chairman and Chief Executive Officer M.I.M. Holdings Limited, now Deputy Chairman of the Board, M I M Holdings Limited, Chairman of the Board, Westpac Banking Corporation*
David C. Garfield	*Former President, Ingersoll-Rand Company*
Alexander J Gillespie, Jr	*Vice Chairman*
James R. Greene	*Director and Consultant to various international corporations, former President, American Express Bank*
Ralph L Hennebach	*Former Chairman of the Board and Chief Executive Officer*
Harry Holiday, Jr	*Former Chairman of the Board and Chief Executive Officer, Armco Inc*
Louis W Menk	*Former Chairman of the Board and Chief Executive Officer Burlington Northern Inc and International Harvester Corporation, Director, various corporations*
Michael T Nelligan	*President and Chief Executive Officer, Don Ward & Co., former Chairman of the Board, President and Chief Executive Officer, Ideal Basic Industries, Inc*
Sir Bruce Watson	*Chairman of the Board and Chief Executive Officer, M I M Holdings Limited*

COMMITTEES OF THE BOARD

Finance
The Finance Committee reviews the plans of management relating to the Company's financial condition and present and prospective cash requirements and debt and equity financings out of the ordinary course of business.

Fletcher L. Byrom, Chairman
Willard C. Butcher
Louis W. Menk
Richard de J. Osborne

Audit
The Audit Committee recommends engagement of independent auditors and reviews the plan and results of the audit. The Committee also reviews the Company's internal auditing function and the accounting and financial policies and procedures. The implementation and maintenance of the Company's system of internal control are recognized as primarily the responsibilities of management.

James R. Greene, Chairman
David C. Garfield
Harry Holiday, Jr.
Michael T. Nelligan

Pension Advisory
The Pension Advisory Committee reviews pension fund matters and gives reports and recommendations on the subject to the Board of Directors.

Louis W. Menk, Chairman
David C. Garfield
Alexander J. Gillespie, Jr.
James R. Greene
Ralph L. Hennebach

Organization and Compensation
The Organization and Compensation Committee considers and makes recommendations to the Board with respect to the nomination of directors and their compensation and committee assignments. It also considers organization matters and makes recommendations to the Board with respect to election of officers. The Committee determines compensation and benefits of officers, reviews compensation and benefits policy and administers the Company's additional and incentive compensation plans.

Willard C. Butcher, Chairman
Fletcher L. Byrom
Harry Holiday, Jr.
Michael T. Nelligan

CORPORATE INFORMATION

Annual Meeting
The annual meeting of stockholders of ASARCO Incorporated will be held on Wednesday, April 22, 1987, at 2:00 p.m. in the Ground Floor Auditorium, 1 Chase Manhattan Plaza, New York, NY. A transcript of the proceedings will be available after June 2, 1987, to any stockholder upon request to the Secretary. The request should specify a proper purpose, and should include payment of $10.00 to cover the cost of postage and reproduction.

Form 10-K
Many of the Securities and Exchange Commission information requirements are contained in this 1986 Annual Report. A copy of Asarco's 1986 Form 10-K (excluding exhibits) will be available after May 1, 1987, upon request to the Treasurer.

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180 Maiden Lane, New York, NY 10038

Corporate Office
28 West State Street, Trenton, NJ 08608

Transfer Agent and Registrar
Morgan Shareholder Services Trust Company
30 West Broadway, New York, NY 10007-2192

Stockholder Services Office
180 Maiden Lane, New York, NY 10038
Phone 212-510-2000

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.

The principal market for Asarco's $2.25 Depositary Convertible Exchangeable Preferred Shares is also the New York Stock Exchange. The symbol is ARPr.

The principal market for Asarco's Common Stock Purchase Warrants is NASDAQ and the symbol is ASRCW.

Common Stock Price Ranges and Dividends Per Share

	Stock Prices		Dividends Per
1986	High	Low	Common Share
1st Quarter	22⅞	18⅛	—
2nd Quarter	22¼	14¾	—
3rd Quarter	17¼	10	—
4th Quarter	17¼	13¾	—
1985			
1st Quarter	27⅛	17⅝	—
2nd Quarter	27¾	20	—
3rd Quarter	24⅞	19¾	—
4th Quarter	19⅞	15¾	—

ASARCO Incorporated
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