

PNYC 00010111

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1938

1938



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ANACONDA
COPPER MINING COMPANY

THE AMERICAN BRASS COMPANY

LOCATION OF MANUFACTURING PLANTS

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

SOME OF THE INDUSTRIES SERVED

Air-Conditioning
Automotive
Aviation
Brewing
Building

Chemical
Electrical Equipment
Hardware
Heating
Jewelry

Eight and Paper
Machinery
Marine
Metal Fabricating
Miscellaneous

Petroleum
Pulp and Paper
Railroad
Refrigeration
Textile

PRINCIPAL PROBLEM

COPPER PLASS ENGINE

Berglund, Copper

Springs
 Springs
 Springs

Engine
Compressi

Plant, C.
Factory, M.
Buffalo, N.Y.

PNYC 00010112

ANACONDA COPPER MINING COMPANY

CAPITAL STOCK

December 31, 1938

Authorized, 12,000,000 shares, \$50 each	3600,000,000
Issued, 8,919,086 shares, \$50 each	445,954,300

OFFICERS

<i>President</i>	CORNELIUS F. KELLEY
<i>Executive Vice-President</i>	JAMES R. HOBBS
<i>Vice-President and Treasurer</i>	ROBERT E. DWYER
<i>Vice-President</i>	DANIEL M. KELLY
<i>Assistant to the President</i>	ELBERT O. SOWERWINE
<i>Secretary and Assistant Treasurer</i>	DAVID B. HENNESSY
<i>Comptroller</i>	JAMES DICKSON
<i>General Auditor</i>	W. KENNETH DALY
<i>Assistant Secretary</i>	KENNETH B. FRAZER

DIRECTORS

JOHN A. COE	CORNELIUS F. KELLEY
ROBERT E. DWYER	HARRY H. MOORE
E. ROLAND HARRISMAN	JAMES H. PERKINS
JAMES R. HOBBS	WILLIAM C. POTTER
WILLIAM D. THORNTON	

OFFICES

ANACONDA, MONTANA
BUTTE, MONTANA
25 BROADWAY, NEW YORK

PNYC 00010113

To the Shareholders of

ANACONDA COPPER MINING COMPANY

DURING the year 1938, based upon data now available, the world consumption of primary copper was 2,157,327 short tons, or 3.9% less than in the prior year. This decrease was due to the unfavorable business conditions that prevailed in the United States, where consumption of primary duty free copper declined to 413,132 tons, or 39.8% less than in the year 1937. In foreign markets deliveries continued to increase, a record apparent consumption of 1,742,695 short tons, or 8.6% more than in 1937, being indicated. The difference in the consumption of the foreign and domestic markets, as compared with the year 1929, is evidenced by the fact that domestic consumption decreased 31.6% from the level of that year, while foreign consumption increased 57.5%.

World production of primary blister copper totaled 2,150,984 tons, of which 578,076 tons were duty free and 1,572,908 tons were foreign. Production of duty free refined copper was 571,388 tons, a decrease of 32.8% from 1937. Foreign production was 1,572,412 tons, or .7% higher than in 1937. World production amounted to 2,143,800 tons, a decrease of 11.1%.

Stocks of duty free refined copper in the United States increased from 259,351 tons on January 1st to 369,809 tons on May 31st, but decreased to 289,755 tons on December 31st, a net increase during the year of 30,404 tons. Foreign stocks decreased from 211,844 tons at the beginning of the year to 167,413 tons at the end of the year, a net decrease of 44,431 tons. World stocks decreased 14,027 tons.

Production of zinc in the United States declined 22.6% compared with the prior year to 456,523 tons, and consumption declined 30.5% to 395,252 tons. Stocks of zinc on hand at the close of the year were 126,604 tons, an increase of 61,271 tons during the year.

Prices of all non-ferrous metals declined in the early part of the year but subsequently recovered these losses and were higher at the close of the year with the exception of zinc, which was adversely affected by the decrease in import duty provided for in the Reciprocal Trade Agreement with Canada.

The domestic price of copper declined from 9.9¢ per pound at the beginning of the year to a low of 8.775¢ on May 19th, but advanced to 11.025¢ on October 14th and was unchanged to the end of the year.

The price for domestic silver of approximately 64 1/8¢ per ounce remained unchanged during the year. On December 31, 1938 by Presidential Proclamation this price was continued in effect to June 30, 1939, with the exception that instead of applying to all silver mined to that date, it applies only to silver delivered to the mints on or before June 30, 1939. The price of foreign silver, 44.75¢ per ounce in effect at the end of 1937 continued to March 28th, when on two successive days it decreased 1¢ per ounce, and remained at 42.75¢ per ounce during the rest of the year.

The U. S. Treasury price of \$35.00 per ounce for gold was not changed during the year.

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

	<u>Jan. 3</u>	<u>High</u>	<u>Low</u>	<u>Dec. 31</u>	<u>Year Average</u>
COPPER-Duty Free f.o.b. Refinery-per lb.....	9.900¢	11.025¢	8.775¢	11.025¢	10.000¢
COPPER-Export f.o.b. Refinery-per lb.....	9.475	11.125	7.850	10.150	9.695
LEAD -New York-per lb.....	4.750	5.100	4.000	4.850	4.730
ZINC -St. Louis-per lb.....	5.000	5.050	4.000	4.500	4.610
SILVER -New York (not covered by President's Proclamation)-per oz.....	44.750	44.750	42.750	42.750	43.225

FINANCIAL

The gross sales and earnings of the Company upon a consolidated basis (after elimination of inter-company items) totalled \$144,206,554.97, a decrease of \$89,709,977.10 or 38.4% compared with the prior year.

The cost of sales, including all operating expenses, development and maintenance charges, repairs, administrative, selling and general expenses, and all taxes except income and undistributed profits taxes, amounted to \$115,449,517.66.

The income from operations was.....	\$28,737,037.31
Other Income, including Dividends from non-consolidated subsidiaries, was.....	855,233.54
Total Income was.....	\$29,612,270.85
Deductions from Income for Interest on Debentures and Serial Notes \$2,703,713.10, Expenses pertaining to Non-operating units \$3,617,135.52, United States and Foreign Income Taxes \$4,216,861.44, and Discount, etc., on Debentures retired through Sinking Fund Operations \$573,908.23, amounted to.....	11,111,618.29
Leaving a Balance of.....	\$18,500,652.56
Provision for Depreciation and Obsolescence and for Depletion of Coal Mines, Timber Lands and Phosphate Deposits was \$8,513,618.92, and Current Discount and Expenses on Debentures was \$150,521.99, a total of.....	8,664,140.91
Net Income, without deduction for Depletion of Metal Mines, was.....	\$ 9,836,511.65
Of which Minority Share amounted to.....	293,897.04
Leaving Consolidated Net Income of.....	\$ 9,542,614.61

The net income reflects sales of metals and manufactured products invoiced to customers. Forward sales contracts are not reflected in the income account. Inventory valuations were below market prices for the various metals and products at December 31, 1938.

The funded debt of the Company and its subsidiaries was reduced during the year by the retirement through the operation of the sinking fund, of \$6,903,000 par value of the 4½% Debentures of the Company, and the payment of \$4,000,000 of the serial notes of Chile Exploration Company; a total reduction of \$10,903,000; leaving the total funded debt of the Company and its subsidiaries at December 31st, 1938, at \$57,686,000.

Under the terms of the Indenture covering the 4½% Sinking Fund Debentures of the Company, there will be paid into the sinking fund on August 15, 1939, approximately \$2,780,000 in cash, or in lieu thereof, in whole or in part, debentures at cost.

All interest due or accrued on notes of Inspiration Consolidated Copper Company at December 31, 1938, has been paid, and the principal amount was reduced by \$600,000 during the year 1938, leaving a balance of \$7,043,000.

Capital expenditures during the year amounted to \$3,968,843.62, summarized as follows:

Mines, Mining Claims and Lands	\$ 98,373.89
Buildings, Machinery and Equipment at the Mines, Smelting, Refining and Manufacturing Plants of the Company and its subsidiaries	3,701,322.26
Miscellaneous—Including acquisition of shares of stock of other subsidiary companies	169,147.47

Current assets at the close of the year amounted to \$93,980,397.59 compared with \$99,859,662.11 at the close of the prior year, and current liabilities amounted to \$15,038,186.47 compared with \$20,074,990.72.

The dividends declared and paid during the year on the capital stock of your Company amounted to \$4,337,169.00, or 50¢ per share.

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

CORPORATE TRANSACTIONS

During 1938 the Company increased its ownership of the stock of subsidiary companies as follows:

	Shares Purchased	Owned by Company Dec. 31, 1938	
		Shares	Percentage
Anaconda Wire and Cable Company	3,200	285,022	67.54
Andes Copper Mining Company	10	3,502,462	97.77
Greene Cananea Copper Company	100	491,822	98.36
Mountain City Copper Company	700	1,462,934	61.69

The Company paid the balance of \$350,000.00 due upon its subscription to shares of National Tunnel & Mines Company.

The American Brass Company of Illinois, The American Brass Company of Ohio, The American Brass Company of Pennsylvania and Waterbury Homes Corporation, all subsidiaries of The American Brass Company, were dissolved during the year as no longer necessary for the conduct of the Company's business.

OPERATIONS

Copper:

The total output of copper by the plants of the Company aggregated 805,532,333 pounds. The metallic copper production, after deduction of 25,922 pounds (of which 13,793 pounds were from Company mines) contained in by-product materials sold to others, was 805,506,411 pounds obtained from the following sources: 135,443,510 pounds were treated on toll for the account of others; 36,391,076 pounds were produced from purchased ores, concentrates and secondary metals; leaving a net production from the mines of your Company and its consolidated subsidiary mining companies through copper plant operations of 633,671,825 pounds (154,208,961 pounds domestic—479,462,864 pounds foreign), compared with 843,622,162 pounds (277,850,047 pounds domestic—565,772,115 pounds foreign) in 1937, a decrease of 24.9%.

Total deliveries of copper from all sources including purchased copper for the year in both the domestic and foreign markets amounted to 790,083,357 pounds.

Zinc:

Total zinc production was 172,242,137 pounds of which 137,157,985 pounds were from purchased materials, toll zinc returnable 34,757,278 pounds, and 326,874 pounds from the mines of the Company. Of total production 11,681,268 pounds were contained in by-product materials sold to other companies; 4,137,238 pounds were in the form of zinc dross, and 156,423,631 pounds were electrolytic zinc produced by the plants of the Company. Deliveries of zinc (produced and purchased) including zinc delivered to the manufacturing and zinc oxide plants of the Company, amounted to 150,393,070 pounds.

Lead:

The total production of lead was 64,163,568 pounds. Of this amount 1,863,433 pounds were treated on toll for the account of others; 58,911,333 pounds were produced from purchased ores, concentrates, etc., and 3,388,800 pounds from the mines of the Company. Of the aggregate production 11,229,826 pounds were included in by-products sold to other companies and 52,933,742 pounds were produced in metallic form by the plants of the Company. Deliveries of lead during the year, including that used in the manufacture of white lead, were 60,829,021 pounds.

Silver:

The Company produced 11,036,178 ounces of silver, of which 1,014,294 ounces were treated on toll for account of others, 5,039,076 ounces were produced from purchased ores and concentrates, and 4,982,808 ounces were produced from Company ores. Of the above total 765,438 ounces were contained in by-product materials sold to other companies.

Gold:

Gold production amounted to 151,670 ounces, of which 40,818 ounces were contained in materials treated on toll for the account of others, 83,220 ounces came from purchased materials, and 27,632 ounces from the mines of the Company. Of this amount 3,503 ounces were sold in the form of various by-product materials to other companies.

Miscellaneous:

The principal miscellaneous products consisted of 68,883,318 feet of lumber; 40,702 tons treble-superphosphate and phosphoric acid; 4,850 tons arsenic; 591,326 pounds cadmium, including 65,335 pounds produced on toll; 58,096 pounds nickel sulphate; and 153,513 pounds copper sulphate.

Fabricating Plants:

The shipments of manufactured products from the plants of The American Brass Company (including Toronto Plant) and Anaconda Wire and Cable Company amounted to 450,384,131 pounds, a decrease of 39.5% from the prior year.

Non-Consolidated Subsidiary Mining Companies:

The Mountain City Copper Company produced 13,065,832 pounds of recoverable copper from ores and concentrates shipped. The Walker Mining Company produced 1,188,271 pounds of recoverable copper from concentrates shipped. Operation of these properties was suspended at the end of May, but production was resumed on November 1st at approximately the same rate as that in effect during the first five months of the year.

The National Tunnel & Mines Company produced from company and leasing operations 378,649 pounds of copper, 3,089,774 pounds of lead, 1,110,026 pounds of zinc, 113,950 ounces of silver, and 4,416 ounces of gold.

SILESIA-AMERICAN CORPORATION

The operations of Giesche Spolka Akcyjna, a subsidiary company of Silesia-American Corporation in Poland, were conducted at a loss of 998,026.88 zlotys for the fiscal year ended March 31, 1938. Exchange restrictions both in Poland and in Germany remained in effect throughout the year.

The principal amount of bonds of Silesia-American Corporation outstanding at the end of the year was reduced to \$3,210,500.

EMPLOYEES

During the year 1938 the average number of employees of the Company and its consolidated subsidiary companies was 36,302. Of these 21,168 were within the United States, compared with 29,769 in 1937. The number of employees in the United States averaged 24,468 in January, decreased to 18,000 in July, but increased to 23,948 in December.

GROUP INSURANCE

The Group Insurance in force at the close of the year amounted to \$39,060,780, covering 23,036 employees.

The amount of insurance paid to beneficiaries during the year was \$502,950.

NUMBER OF SHAREHOLDERS

The number of registered shareholders appearing on the transfer books of the Company at December 31, 1938, was 107,917, compared with 107,596 at the beginning of the year.

FINANCIAL STATEMENTS

There is attached hereto as a part of this report a Consolidated Balance Sheet showing the financial condition of the Company and consolidated subsidiary companies at the close of business December 31, 1938, together with a Consolidated Income Account and a Consolidated Surplus Account for the year, certified by Messrs. Pogson, Peloubet & Co., Certified Public Accountants.

By Order of the Board of Directors.

CORNELIUS F. KELLEY.

President.

New York, N. Y., March 25, 1939.

POGSON, PELOUBET & CO.

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

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

CABLE ADDRESS "CERTIFIED" NEW YORK

AGENTS

EUROPE - KEMP, CRATTERS, NICHOLS, SENDELL & CO.
LONDON AND PARIS

EGYPT - HEWAT, BRIDSON & NEWBY
ALEXANDRIA AND CAIRO

To the Board of Directors,

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

We have made an examination of the Consolidated Balance Sheet as of December 31st, 1938, of Anaconda Copper Mining Company and the other corporations whose accounts are consolidated with its accounts as stated in Note A to the Consolidated Balance Sheet (which other corporations are hereinafter referred to as consolidated subsidiaries) and of their Consolidated Income and Surplus Accounts for the calendar year 1938.

In connection with our audit we examined or tested the accounting records of Anaconda Copper Mining Company and its consolidated subsidiaries together with other supporting evidence and made a general review of the accounting methods and of the operating and income accounts for the calendar year 1938, but we did not make a detailed audit of the transactions.

The practice of the Company and its subsidiaries in computing their net income or net loss without deduction for depletion of metal mines is in accordance with accepted accounting procedures in industries engaged in the mining of copper, zinc, lead, silver and gold, and is in agreement with long established and consistently maintained accounting practices and procedures of this Company and others similarly situated, and the Company is advised by counsel that such procedure is in accordance with legal requirements.

Inventories of metals and products and supplies held in the Company's plants and warehouses are based on physical inventories taken by the Company, with the exception of certain warehouse stocks which are not significant in amount. Inventories of finished metals and products, consigned or in transit, are based on reports and statements of consignees or responsible third parties acting as the Company's agents. We have examined the records, reviewed the related procedure and tested the prices and computations and have received certificates from Company officials as to quantities and condition of inventories but our examination did not include physical tests of quantities.

In our opinion, based on our examination, such Balance Sheet, Income and Surplus Accounts, together with the notes attached thereto or appearing thereon, fairly present, in accordance with accepted accounting principles and procedures consistently maintained and appropriately applied, the consolidated position of the Company and its consolidated subsidiaries as of December 31st, 1938 and the combined results of their operations for the calendar year 1938.

POGSON, PELOUBET & CO.,
Certified Public Accountants.

New York, March 14th, 1939.

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ANACONDA COPPER MINING COMPANY
and Subsidiary Companies

Consolidated Balance Sheet—December 31st. 1938

ASSETS

FIXED ASSETS:

Mines and mining claims, water rights and lands for metal producing and manufacturing plants—see note G.....		\$290,250,937.26	
Coal mines, timber lands and phosphate deposits—see note G.....	\$ 9,539,419.05		
Less reserve for depletion.....	2,193,014.42	7,346,404.63	
Buildings and machinery at mines, reduction works, refineries, manufacturing plants, sawmills, foundries, waterworks and railroads (including railroad concessions to the extent of \$916,229.33)—see note G.....	\$291,625,285.15		
Less reserve for depreciation.....	153,157,482.61	138,467,782.54	
Patents.....		6,105.00	
Investments:			
Securities of subsidiaries not consolidated—see notes C and F.....	\$ 15,833,381.57		
Other security investments—see note F.....	16,186,749.08		
Indebtedness of subsidiaries not consolidated—not current.....	861,734.08	\$2,901,864.66	\$466,933,094.09

DEFERRED CHARGES:

Stripping and development.....	\$ 6,546,983.05		
Prepaid expenses.....	\$17,203.78		
Deferred expenses.....	536,237.50		
Discount and expense on debentures.....	1,589,045.90	8,909,470.23	

CURRENT AND OTHER ASSETS:

Current assets:

Supplies on hand—see note E.....	\$ 14,378,073.14		
Metals and manufactured products:			
In process—see note D.....	7,005,586.41		
Finished—see note D.....	46,686,537.76		
Accounts and notes receivable—trade, less reserve.....	7,298,298.96		
Indebtedness of subsidiaries not consolidated—current.....	1,880,997.87		
Cash.....	16,732,905.45	\$ 93,980,397.50	

Other assets:

Installment house and land sales and other accounts receivable, less reserve.....	\$ 898,804.30		
Advances to sundry mining companies, including advances on ores, less reserve.....	159,023.73		
Ores produced during development operations held for future treatment—see note H.....	1,286,996.62		
Cupriferous material held for future treatment—see note H.....	5,047,005.32		
Notes receivable of Inspiration Consolidated Copper Company secured by First Mortgage Bonds of that company in the principal amount of \$7,043,000 (being total amount of said bonds outstanding).....	7,043,000.00	12,414,829.97	106,395,327.56
			<u>\$382,257,791.88</u>

See explanatory notes, pages 13 and 14.

ANACONDA COPPER MINING COMPANY
and Subsidiary Companies

Consolidated Balance Sheet—December 31st, 1938

LIABILITIES

CAPITAL STOCK of Anaconda Copper Mining Company:

Authorized—12,000,000 shares of the par value of \$50.00 each

Issued.....	8,919,086 shares	\$445,954,300.00
Held in treasury or through subsidiaries.....	244,748 shares	12,237,400.00
Outstanding.....	8,674,338 shares	\$433,716,900.00

CAPITAL STOCK AND SURPLUS of consolidated subsidiaries owned by minority interest..... 4,674,137.68

DEBENTURES AND NOTES OUTSTANDING:

Anaconda Copper Mining Company—4½% Sinking Fund Debentures due 1950—see note J.....	\$ 40,686,000.00	
Chile Exploration Company—Serial Notes—payable to banks, \$2,000,000, due December 10th, 1940 and \$13,000,000, due December 10th, 1941, interest at 5% and 5½% (guaranteed as to both principal and interest by Anaconda Copper Mining Company).....	15,000,000.00	55,686,000.00

RESERVES:

For repairs, renewals and replacements.....	\$ 485,940.95	
For workmen's compensation insurance, etc.....	843,302.58	
For contingencies.....	275,000.00	1,804,143.53

CURRENT LIABILITIES:

Chile Exploration Company—Serial Notes—payable to banks, due December 10th, 1939 (guaranteed as to both principal and interest by Anaconda Copper Mining Company).....	\$ 2,000,000.00	
Accounts payable—trade.....	4,557,530.54	
Wages payable.....	1,173,074.03	
Accrued taxes.....	6,419,398.55	
Accrued interest.....	490,712.56	
Other accrued liabilities.....	254,037.34	
Other accounts payable.....	143,133.33	15,038,186.47

DEFERRED CREDITS TO INCOME..... 230,147.39

SURPLUS..... 71,308,276.81

\$382,257,791.88

See explanatory notes, pages 13 and 14.

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ANACONDA COPPER MINING COMPANY
and Subsidiary Companies

Consolidated Income Account—Year Ended December 31st, 1938

Gross Sales and Earnings.....		8144,208.334.97	
Cost of Sales—operating expenses, development, maintenance and repairs, administrative, selling and general expenses and taxes except income taxes—sales to the extent of current production being applied at cost on the basis of last-in, first-out (Metals delivered in 1938 from that portion of metal inventories adjusted to market at December 31st, 1937 are reflected in Cost of Sales at such market value, the difference between purchase cost and market, amounting to \$633,888.10, having been deducted from income in the Income Account of the year ended December 31st, 1937)		113,449,517.66	
Income from operations of mining, smelting, refining and manufacturing plants, before deducting depreciation and depletion.....		\$ 28,737,037.31	
Other Income—Dividends from subsidiaries not consolidated.....	\$ 5,343.06		
—Other dividends and interest.....	598,030.89		
—Miscellaneous income.....	251,837.55	933,293.54	
Interest on debentures and serial notes.....	\$ 2,703,713.10		\$ 29,612,270.53
Expenses pertaining to non-operating units.....	8,617,135.52		
United States and foreign income and excess profits taxes—estimated.....	4,216,861.44		
Discount and expense, and premium on debentures retired through sinking fund operations.....	573,908.23	11,111,618.29	
Provision for depreciation and obsolescence.....	\$ 8,464,513.53		\$ 19,500,632.36
Provision for depletion of coal mines, timber lands and phosphate deposits (not including depletion of metal mines).....	49,105.39		
Current discount and expense on debentures.....	150,521.99	8,664,140.91	
Net Income, without deduction for depletion of metal mines.....		\$ 9,336,311.63	
Minority share of income.....		293,397.04	
Consolidated Net Income, without deduction for depletion of metal mines.....		\$ 9,542,614.61	

Consolidated Surplus Account—Year Ended December 31st, 1938

Surplus, December 31st, 1937.....	\$ 66,547,913.27		
Minority interest.....	445,082.07	\$ 68,102,995.34	
Consolidated Net Income, without deduction for depletion of metal mines.....		9,542,614.61	
Dividends Nos. 181 and 182.....		\$ 75,645,445.51	
Surplus, December 31st, 1938.....	\$ 71,812,401.91		
Minority interest.....	304,193.10	4,337,199.99	
Consolidated Surplus, December 31st, 1938.....		\$ 71,308,476.54	

NOTES TO CONSOLIDATED BALANCE SHEET—DECEMBER 31st, 1938

NOTE A—PRINCIPLES APPLYING IN CONSOLIDATION

In order to present the status of the Company's interest in subsidiaries where the interest owned (directly or through other subsidiaries) is 75% or more of the issued stock, the assets and liabilities of said subsidiaries, as they appear upon the books of said subsidiaries, are distributed under appropriate headings on the Consolidated Balance Sheet, together with adjustments to property, plant and equipment as described in Note G, except that four small subsidiaries more than 75% owned, the operations of which are not an integral part of the operations of the consolidated group, are carried as investments in the Consolidated Balance Sheet. The accounts of subsidiaries in which the Company's interest is less than 75% of the issued stock are not consolidated and the shares owned in these subsidiaries are carried as investments in the Consolidated Balance Sheet. The term "subsidiaries" is intended to mean corporations in which a majority of the voting stock is owned directly by the Company or through other corporations in which the stock interest of the Company is more than 95%.

NOTE B—BALANCES IN FOREIGN CURRENCIES

With the exception of properties in Canada the accounts of plants and properties located in foreign countries are carried in both United States currency and local currency. United States currency being the standard for purposes of the Company's financial statements. As transactions are reflected in the accounts of these plants and properties at approximately the current rates of exchange at the date of the transaction, the balances expressed in United States dollars reflect the balances in foreign currencies at the cost thereof. Cash balances in foreign currencies amounted at December 31st, 1938 to \$828,114.12.

Current assets and liabilities of the Toronto plant of Anaconda-American Brass, Ltd. are carried in Canadian currency and have been included in this Consolidated Balance Sheet at the same dollar amounts in United States currency. If the net current assets of Anaconda-American Brass, Ltd. had been converted into United States currency at the rates of exchange prevailing at December 31st, 1938, they would have been reduced in the amount of \$3,733.40.

NOTE C—EQUITY OF COMPANY IN UNCONSOLIDATED SUBSIDIARIES

The equity of the Company in the assets of the principal unconsolidated subsidiaries (Anaconda Wire and Cable Company, Mountain City Copper Company and Walker Mining Company) and the four unconsolidated subsidiaries referred to in Note A had decreased at December 31st, 1938, to the extent of \$119,318.88 since the dates of acquisition as the result of profits, losses, distributions and surplus adjustments as shown by the books of said unconsolidated subsidiaries (without, in the case of mining companies, making any provision for depletion of metal mines), but the cost of the shares of said subsidiaries owned by the Company as shown on the Consolidated Balance Sheet has not been adjusted for such decrease.

NOTE D—INVENTORIES OF METALS AND MANUFACTURED PRODUCTS

The metallic contents of copper ores, concentrates, and cupriferos materials, and zinc and lead ores and concentrates, while in treatment at reduction plants up to the production of blister copper, electrolytic copper, metallic zinc and lead bullion, are classified as metals in process. Blister and electrolytic copper, metallic zinc, lead bullion, and other products and metals produced in connection therewith or therefrom, including stock in works at fabricating plants, are classified as finished.

Inventory in process is calculated at cost which is below the equivalent of current market for metallic content of such inventories.

Finished metals and manufactured products on hand at December 31st, 1938 (except silver, gold and molybdenite, which are carried at market quotations or less), have been computed on the last-in, first-out basis. Inventories are carried at December 31st, 1937 inventory valuations, except in the case of accumulations, which are valued at current costs. Inventory valuations determined in accordance with the foregoing method were below market prices for the various metals and products at December 31st, 1938.

NOTE E—SUPPLIES ON HAND

Supplies on hand, including replacement parts as well as current supply items, are carried at cost.

NOTE F—INVESTMENTS—BASIS

Investments in securities of unconsolidated subsidiaries and other security investments are carried at cost or less, such cost being cash cost, or in the case of securities issued in exchange for property transferred by the Company or a consolidated subsidiary, the cost of such property to the consolidated group after deducting depreciation to date of transfer, and do not indicate current values. Securities heretofore classified as marketable, carried at cost of \$943,531.37 and which were currently quoted on certain stock exchanges at December 31st, 1938 at \$370,379.37, have been reclassified and included with other security investments as the Company has no present intention of disposing of them. Other security investments include 333,000 shares of Inspiration Consolidated Copper Company carried at \$10,514,107.31.

NOTE G—PROPERTY, PLANT AND EQUIPMENT—BASIS OF VALUATION

(a) Property, Plant and Equipment of the Company are carried at cash cost or in the case of physical properties acquired for stock of the Company at par value of such stock.

(b) Property, Plant and Equipment of consolidated subsidiaries (except as to mining properties of Andes Copper Mining Company and Santiago Mining Company acquired by said companies respectively for shares of their capital stock, the basis for which is described below) are carried at cost to the subsidiary, plus or minus, as the case may be, the difference, if any, between the investment basis of the proportionate interest owned in the respective subsidiary (as set forth below) and a like proportionate interest of the net assets of such subsidiary as shown by the books of such subsidiary at the time when its accounts were first included in the Consolidated Balance Sheet of the Company and subsidiaries, to which is added cost of subsequent acquisitions. Such investment basis is the cash cost to the consolidated group of the stock of the respective subsidiary owned by such group or where such stock was acquired by the consolidated group for stock of the Company, the par value of the stock of the Company issued therefor. Mining properties of Andes Copper Mining Company and Santiago Mining Company acquired by said companies respectively for shares of their capital stock, are included in the Consolidated Balance Sheet at the original par value of the shares of those companies issued therefor (i. e., \$25 per share), instead of the acquisition cost of such shares.

owned by the consolidated group. The total of the amounts credited to surplus of the Company and to consolidated surplus on account of the difference between the par value of the above-mentioned shares of Andes Copper Mining Company and Santiago Mining Company and cost thereof to the Company and its subsidiaries was \$23,429,105.38.

- (c) It has been the practice of the Company, consistently applied to its own properties and those of subsidiaries the stocks of which have been acquired and the accounts of which are included in the Consolidated Balance Sheet to carry Property, Plant and Equipment as described above. Pursuant to the requirements of the United States Treasury Department, valuations as of March 1st, 1913 of mining properties then owned have been recorded on the books for the purpose of computing the amount allowable as a deduction for "depletion" in arriving at taxable income under the Federal income tax laws, but these values have not been included in the published accounts of the Company.

The Company has consistently followed the practice of not deducting in any of its published accounts, any amount for depletion on account of metals mined, and no such deduction is included in any of the financial statements submitted herewith.

Depletion based on cost has, in the case of timber, coal and phosphate lands, been deducted from income in the financial statements submitted herewith and also from the cost basis shown in the Consolidated Balance Sheet.

- (d) The values of Property, Plant and Equipment are shown on the bases above set forth and do not indicate current values which could be established only by current appraisals.

NOTE H—ORES AND CUPRIFEROUS MATERIAL

Ores produced during development operations, held for future treatment, are carried at cost of extraction which is less than a conservatively estimated realizable value.

Cupriferous material held for future treatment is carried at a valuation which was assigned to a part thereof by United States Treasury Department for income tax purposes, such valuation being less than the value of the recoverable metals contained therein at current metal prices after deducting treatment costs, both as estimated by metallurgists of the Company.

NOTE I—SURPLUS

Included in Consolidated Surplus are: (a) a credit of \$23,429,105.38 referred to in Note G above, (b) a credit of \$20,816,158.49, being the excess of the proceeds of the issue of 3,109,598.54 shares of stock of Company over the par value thereof and (c) a charge of \$11,907,498.50, being discount and expense on issuance, and premium on redemption of bonds, redeemed through funds obtained by issuance of stock above referred to. See paragraph (c) of Note G as to practice regarding depletion.

NOTE J—SINKING FUND REQUIREMENTS

Under the sinking fund provisions of the indenture providing for the issue of the 4½% Sinking Fund Debentures of Anaconda Copper Mining Company, due 1950, the Company will be obligated on August 15th, 1939 and on August 15th of each year thereafter, to and including August 15th, 1949, unless the debentures are sooner redeemed, to pay to the Trustee under the indenture, for the purposes of the sinking fund for the retirement of debentures, an amount equal to \$1,000,000 plus 20% of the consolidated net income of the Company (as defined in the indenture) for the period of twelve months ended on the next preceding December 31st, or in lieu of such payment, the Company may deliver to the Trustee under the indenture debentures to be received by the Trustee under the indenture in lieu of an amount of cash equal to the purchase price of such debentures paid by the Company in the acquisition thereof. The Company has made all payments required under the indenture and has satisfied all other requirements from the date of issue to December 31st, 1938. The amount of the payment which the Company will be obligated to make to the Trustee under the said indenture on August 15th, 1939 will be approximately \$2,780,000.00.

NOTE K—FEDERAL INCOME TAXES

Federal income taxes for the taxable years up to and including that ended December 31st, 1933 have been determined by the United States Treasury Department and any amounts due thereunder have been paid. Negotiations are now pending with the United States Treasury Department for settlement of asserted Federal income and excess profits tax deficiencies for subsequent years. The amount payable can not be stated until a settlement is concluded and no provision has been made for such taxes in the accounts for the year 1938.

NOTE L—CONTINGENT LIABILITIES

Contingent liabilities existed at December 31st, 1938 (a) for acceptances covering foreign sales of copper discounted in the ordinary course of business at various banks, on the greater part of which payment has subsequently been received, and (b) for exchange commitments most of which have been liquidated.

The City of Jersey City, New Jersey, is attempting to impose taxes on the intangible personal property of certain consolidated subsidiaries having their principal corporate offices in Jersey City. A liability may exist in respect to such taxes, the amount of which, if any, can not be determined at this time and for which no provision has been made.

So far as is known there are no other contingent liabilities of material amount. All known liabilities are provided for in the Balance Sheet.

NOTES TO CONSOLIDATED INCOME ACCOUNT—YEAR ENDED DECEMBER 31st, 1938

Sales of metals and manufactured products are included in income as billed and delivered to customers. Undelivered sales contracts and purchase commitments are not given effect to in the Income Account.

Intercompany sales and intercompany profits where these latter are material have been eliminated in the Consolidated Income Account.

In the year 1938, of the combined net loss (without, in the case of mining companies, making any provision for depletion of metal mines) of the principal unconsolidated subsidiaries (Anaconda Wire and Cable Company, Mountain City Copper Company and Walker Mining Company) and the four small unconsolidated subsidiaries referred to in Note A, there was attributable to the Company \$98,187.28. There was paid to the Company the amount of \$5,545.06 in dividends by one of the four small unconsolidated subsidiaries.

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ANACONDA WIRE & CABLE COMPANY

LOCATION OF MANUFACTURING PLANTS

ANDERSON, IND. GREAT FALLS, MONT. HASTINGS, OH. HUDSON, N. Y.
MAINE, IND. MASON, WICH. MICHIGAN, CALIF.
ORANGE, CALIF. PAVLICK, N. I. STAMFORD, ILL.

SOME OF THE INDUSTRIES SERVED

Automotive Aviation Building Electrical Apparatus Electrical Appliances Electrical Contracting Petroleum Mining Marine Metal Fabricating Industrial Power Plants Railroad Telephone and Telegraph Radio Refrigeration Electric Steel Shipbuilding Lumber Paper Chemical Textile Food Pharmaceutical Miscellaneous

PRODUCTS

WIRE, CABLE, AND CABLES OF EVERY DESCRIPTION

PNYC 00010127

