1934

Anaconda Copper Mining Company

CAPITAL STOCK

December 31, 1934

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

OFFICERS

President	CORNELIUS F. KELLEY
Vice-President	JAMES R. HOBBINS
Vice-President and Treasurer . . .	ROBERT E. DWYER
Secretary and Assistant Treasurer .	DAVID B. HENNESSY
General Auditor	JAMES DICKSON
Assistant Secretary	KENNETH B. FRAZER

DIRECTORS

Andrew J. Miller
Grayson M.-P. Murphy
Charles E. Mitchell
James R. Hobbins
Cornelius F. Kelley
Charles T. Fisher
John A. Coe
Robert E. Dwyer

OFFICES

Anaconda, Montana
25 Broadway, New York

To the Shareholders of
Anaconda Copper Mining Company:

The outlook for the non-ferrous metal industry at the beginning of the year was promising and showed steady improvement for the first six months. Thereafter the rapid recession of general business in the United States affected all heavy industries including that of copper. The seasonal activity which normally may be expected at the close of the third quarter did not develop, and as a result the volume of business transacted in the domestic market during the last half of the year was substantially below that of the first half. At the close of the year the trend was upward. In foreign markets the consumptive demand continued an upward trend practically throughout the year, reaching a peak in November.

The World production of primary copper totaled 1,337,185 short tons, an increase of approximately 20% over 1933. Of this production 250,845 tons were domestic duty-free, and 1,086,340 were foreign. Blister stocks in the United States increased 21,930 tons and abroad 58,987 tons, a total of 80,917 tons. The production of refined copper was 1,256,268 tons, of which 228,915 tons were domestic and 1,027,353 were foreign. Production of primary refined copper, both domestic and foreign, was under consumption.

World consumption of primary copper during 1934 is estimated at 1,408,128 tons, an increase of about 14% over 1933. The domestic market consumed 297,774 tons, a gain of only 1% over 1933, whereas consumption abroad increased 19% to a new high record of 1,110,354 tons. Consumption in the United States was only about 35% of 1929, the peak year.

Stocks of refined copper in the United States decreased 180,407 tons, while stocks abroad increased 28,547 tons, resulting in a net reduction of 151,860 tons in World refined stocks. The decrease of stocks in the United States was due largely to the exportation of duty-free copper. As a result of such exports from the United States, together with increased production abroad, the foreign supply exceeded the demand of those markets. The increased production abroad did not cause any excessive building up of stocks, which were at low levels at the beginning of the year, and that market is still in a healthy condition so far as stocks are concerned. The statistical position of copper from the standpoint of the copper industry is materially better than it has been for a number of years.

The domestic price of copper gradually improved due to heavy buying movements during the first half of the year until it reached 8.775¢ per pound f.o.b. refinery on June 14th, which price has prevailed since. The price abroad was fairly uniform with the domestic price in the earlier part of the year, but beginning in May declined steadily and at the close of the year was approximately 2¢ per pound under the domestic price. The decline in the foreign price may be attributed principally to two causes, firstly the increased production abroad, and secondly and the more important factor, the sales by American producers of large quantities of duty-free copper on the foreign market.

Prices for non-ferrous metals for the year averaged better than in the previous year, but closing quotations on foreign copper, lead and zinc were below the average prices of

1933 and the closing quotations for that year. The value of silver mined in the United States continued throughout the year at approximately 64 1/2¢ per ounce under the President's proclamation of December 21, 1933. The domestic price of gold increased from $34.06 per ounce to $34.45 per ounce in January, and was fixed on February 1st at $35.00 per ounce.

Prices of the principal metals were reported by the Engineering and Mining Journal as follows:

	Jan. 2	High	Low	Dec. 31	Average
Copper—Duty Free f.o.b. refinery—Cents per lb.	8.025	8.775	7.650	8.775	8.428
" —Export f.a.s. refinery—Cents per lb.	8.050	8.175	6.075	6.700	7.271
Lead —New York—Cents per lb.	4.000	4.250	3.500	3.700	3.860
Zinc —St. Louis—Cents per lb.	4.325	4.400	3.675	3.725	4.158
Silver —New York (Not covered by President's Proclamation of Dec. 21, 1933)—Cents per Oz.	44.875	55.750	41.750	54.750	47.973

CORPORATE CHANGES

This corporation was organized on June 18, 1895, under the laws of Montana, "for a period of forty years and for such further period as may be authorized by law." The laws of Montana limit the period for which corporations may be organized to forty years, subject to extension as provided in said laws. In accordance with an authorizing statute, the Board of Directors has extended the term of existence of the corporation to February 28, 1975. By an amendment of the By-Laws, the Board of Directors has advanced the date for the annual meeting from the third Wednesday of May to the third Wednesday of April.

Steps were taken to simplify and integrate the subsidiary holdings of the company.

Anaconda Sales Company, a 100% owned subsidiary, took over the sale in the United States of all metals and metal products produced by Anaconda Copper Mining Company and its subsidiary companies including those which were theretofore sold by United Metals Selling Company, also a 100% owned subsidiary. By this change all metals and metal products of the Anaconda group are sold under the Anaconda trade name. The fabricated products manufactured by The American Brass Company and Anaconda Wire and Cable Company continue to be sold by those companies.

The International Smelting and Refining Company, a wholly-owned subsidiary, (formerly International Smelting Company), acquired the assets of Raritan Copper Works and International Lead Refining Company, also wholly-owned subsidiaries, resulting in the consolidation in the one company of the domestic smelting and refining operations outside of Montana. The operations of the International Company now include the copper and lead plants at Tooele, Utah, the copper smelter at Inspiration, Arizona, the copper refinery at Perth Amboy, N. J., the lead refinery and zinc oxide plant at East Chicago, Indiana, and the zinc oxide plant at Akron, Ohio.

The American Brass Company acquired the assets and business of its 100% owned subsidiaries, The French Manufacturing Company, The Waterbury Brass Goods Corporation, The American Metal Hose Company and The Ansonia Land and Water Power Company. The plants heretofore owned by those subsidiary companies are now operated as branches of The American Brass Company.

In connection with the foregoing transactions and the dissolution of the subsidiaries, the assets of which were transferred, certain adjustments were made which are reflected in the consolidated accounts by a charge to consolidated surplus of $1,489,382.48.

The shares of the capital stock of your Company were temporarily registered on the New York Stock Exchange and the Boston Stock Exchange on October 1, 1934, under the Securities Exchange Act in accordance with the provisions of such Act and the regulations issued thereunder.

FINANCIAL

Gross sales and earnings of the Company upon a consolidated basis, as shown by Income and Surplus Account hereto annexed, totaled $99,149,535.64, compared with $72,902,493.35 for the prior year. The cost of sales, including all operating expenses, development and maintenance charges, repairs, administrative, selling and general expenses and all taxes except income taxes, amounted to $82,053,027.58, compared with $67,941,747.96 for the previous year; resulting in an operating income of $17,096,508.06 compared with $4,960,745.89 in 1933. Other income amounted to $1,235,171.02, making total income $18,331,679.08.

After deductions from income of interest on bonds and current obligations amounting to $4,527,349.60, expenses of carrying non-operating properties, including expenditures during the strike period, $3,747,090.70, and United States and foreign income taxes (estimated) $1,565,803.47, a total for these items of $9,840,243.77, there remained a balance of $8,491,435.31. Deducting provision for depreciation and obsolescence of $6,295,321.70, and discount on bonds of $236,019.86, the resulting net income for the year, (before depletion of metal mines), was $1,960,093.75, as compared with net loss on same basis for the prior year of $6,822,115.36.

Additions to reserves applicable to prior years' taxes, bad debts, etc., writing off patents and experimental expenses, together with the adjustments due to dissolution of companies mentioned above, resulted in a total charge to surplus of $2,673,871.79.

Further advances were made during the year to Inspiration Consolidated Copper Company on its promissory notes, secured by First Mortgage 7% Gold Bonds of that company, making its total liability to this Company $6,893,788.08 as of the close of the year.

As of December 31st notes payable amounted to $59,549,120.00, a decrease of $10,348,880.00 during the year. There were retired during the year or held in the treasury at the close of the year, $3,063,000.00 par value of Twenty-Year 5% Debentures of Chile Copper Company, and $163,000.00 par value of First Mortgage 5% Sinking Fund Bonds of the Butte, Anaconda & Pacific Railway Company. The reduction for the year in notes payable and bonds outstanding amounted to $13,574,880.00. Cash on hand increased $5,669,080.89.

Capital expenditures during the year amounted to $1,380,383.50.

OPERATIONS

The operations of the copper and zinc mines, mills, smelters and refineries in Montana, which were on a curtailed basis, were suspended by a strike of the employees which continued from May 8th in Butte and Anaconda, and from June 7th in Great Falls, to the date of settlement September 20th, at which date operations were resumed. All expenditures incurred in the maintenance of non-operating properties, including the additional expenditures incurred on account of the strike, have been deducted in arriving at the net income for the year.

As a result of the strike, the copper and zinc production from Montana properties was materially under the production of the prior year. Production of zinc oxide and white lead was at a satisfactory basis but somewhat lower than in 1933. Copper production from the mines of the subsidiaries operating outside the United States was approximately 50% higher than during the prior year.

Copper

The production of Anaconda and its subsidiary mining companies from copper plant operations, including 1,397,669 pounds of copper from custom ores, was 395,041,304 pounds of copper, 2,786,049.15 ounces silver, and 45,279.196 ounces gold. Deliveries for the year in both domestic and foreign markets amounted to 608,799,689 pounds; resulting, after allowing for custom, secondary and purchased copper, in a decrease of 86,055,211 pounds in stocks of copper on hand.

Zinc

The production of electrolytic zinc amounted to 133,447,352 pounds. Deliveries were 138,758,445 pounds, resulting in a decrease in stocks of 5,311,093 pounds. Metals produced in zinc residue amounted to 14,419,071 pounds lead, 1,376,679 pounds copper, 1,491,688.45 ounces silver, and 3,929.284 ounces gold.

Custom Smelting and Refining

The smelting plant of the International Smelting Company at Inspiration, Arizona, remained shut down the entire year. The smelting plant of the same company at Tooele, Utah, continued operations, but on a curtailed basis.

Operations of the lead refinery at East Chicago, Indiana, were on a slightly higher basis than in the previous year, treating lead bullion received from the smelting plant at Tooele, lead bullion derived from zinc residues produced by the zinc plants, and secondary lead materials.

Operations of the Raritan Copper Works at Perth Amboy, New Jersey, were on a slightly improved basis, due to the larger quantities of copper refined in bond for the Greene Cananea Copper Company, Andes Copper Mining Company, and for toll account. The facilities of this plant were increased during the year by the construction of a plant to treat secondary metals.

The custom smelting and refining operations produced from custom and scrap materials 22,637,432 pounds of copper, 62,391,730 pounds of lead, 2,718,913.62 ounces of silver, and 19,424.783 ounces of gold. Deliveries of lead during the year were 71,536,593 pounds, and stocks at the end of the year were normal.

Miscellaneous Products

Miscellaneous products consisted of 49,741,527 feet of lumber; 20,770 tons of treble-superphosphate and phosphoric acid; 4,760 tons arsenic; 575,146 pounds cadmium; 150,480 pounds nickel sulphate; and 195,515 pounds copper sulphate.

Fabricating Plants

The combined output of manufactured products of The American Brass Company including Toronto Plant) and of the Anaconda Wire and Cable Company, amounted to 425,516,899 pounds, compared with 384,479,098 pounds in the prior year, an increase of 11%.

SILESIAN-AMERICAN CORPORATION

This company has been adversely affected by the course of international events in recent years, particularly by the difficulty in securing dollar payments from Germany and the extremely low price of zinc in foreign markets. Every operating improvement forecast for the Polish subsidiary of the Silesian-American company has been realized, but the price of zinc has fallen to the lowest levels recorded in the industry, current price showing a decline of 75% measured in Polish currency. As Poland has remained on the gold standard, the cost of production is relatively higher than that of competing producers operating under depreciated currencies.

The principal amount of bonds outstanding at the end of the year was $7,048,000.00.

The average price of zinc per pound in London was equivalent to 1.830¢ on a gold basis. At the end of the year the average for spot and future was 1.563¢ gold.

Principal production for the year was:

Zinc	90,331,143	pounds
Lead	16,644,075	"
Coal	1,712,781	metric tons
Sulphuric Acid	43,442	" "
Superphosphate	17,930	" "

NUMBER OF STOCKHOLDERS

The number of registered stockholders appearing on the books of the Company at December 31, 1934, was 118,094.

Your Board of Directors records with deep regret the death on September 25, 1934, of Percy A. Rockefeller who succeeded his father, the late William Rockefeller, and who served as a director of the Company from September 26, 1922, to the date of his death.

There is attached hereto a Consolidated Balance Sheet showing the financial condition of the Company and its subsidiary companies at the close of business December 31, 1934, together with an Income Statement for the year, prepared and certified to by Messrs. Pogson, Peloubet & Company, Certified Public Accountants.

By Order of the Board of Directors.

CORNELIUS F. KELLEY,
President.

New York, N. Y., March 23, 1935.

ANACONDA COPPER MINING COMPANY

and Subsidiary Companies

Consolidated Balance Sheet—December 31st, 1934

ASSETS

FIXED:			
Mines and Mining Claims, Coal Mines, Timber Lands, Phosphate Deposits, Water Rights and Lands for Metal Producing and Manufacturing Plants		$296,815,108.03	
Buildings and Machinery at Mines, Reduction Works, Refineries, Manufacturing Plants, Saw-mills, Foundries, Waterworks, Steamships and Railroads (including Railroad concessions to the extent of $1,002,976.37)	$265,746,907.57		
Less Reserve for Depreciation	108,624,814.80	157,122,092.77	
Patents		86,617.87	
Investments in Sundry Companies—at cost		28,968,542.01	
Indebtedness of Affiliated Companies—not current		743,775.19	$483,736,135.87
DEFERRED CHARGES:			
Stripping and Development		$7,628,353.88	
Discount on Bonds		2,705,753.09	10,334,106.97
CURRENT, WORKING AND OTHER ASSETS:			
Current Assets:			
Supplies on hand	$12,333,523.16		
Metals and Manufactured Products:			
In Process—at cost	5,383,514.80		
Finished—at cost, which is below market	30,493,185.61		
Accounts Receivable less reserves applicable thereto	5,862,419.24		
Marketable Securities — at cost (market value $1,185,436.49)	1,538,746.37		
Cash	12,245,431.10	$67,856,820.28	
Working and Other Assets:			
Instalment house and land sales and other accounts receivable less reserves and deferred credits to income applicable thereto	$1,153,762.87		
Prepaid expenses	265,340.23		
Deferred expenses	462,893.34		
Advances to sundry mining companies, including advances on ores less reserves applicable thereto	271,891.57		
Ores produced during development period not being currently treated during period of curtailed production—at cost of mining	1,559,956.05		
Cupriferous material held for future treatment	3,336,346.76		
Notes Receivable secured by Inspiration Consolidated Copper Co. First Mortgage 7% Gold Bonds and interest accrued	6,893,788.08	13,943,978.90	81,800,799.18
			$575,871,042.02

ANACONDA COPPER MINING COMPANY
and Subsidiary Companies
Consolidated Balance Sheet—December 31st, 1934

LIABILITIES

Capital Stock of Anaconda Copper Mining Company:			
Authorized: 12,000,000 shares of $50.00 each			
Issued	8,919,086 shares		$445,954,300.00
Held in Treasury or through Subsidiaries	244,744 shares		12,237,200.00
Outstanding	8,674,342 shares		$433,717,100.00
Capital Stock and Surplus of Subsidiary Companies owned by Minority Interest			4,595,438.83
Bonds Outstanding less held in Treasury:			
Chile Copper Co. Twenty Year 5% Gold Debentures, due 1947		$27,826,000.00	
Butte, Anaconda & Pacific Railway Co. First Mortgage 5% Sinking Fund Gold Bonds, due 1944		1,611,000.00	29,437,000.00
Reserves:			
For Repairs, Renewals and Replacements		$344,513.31	
For Workmen's Compensation Insurance, etc.		432,680.79	
For Contingencies		275,000.00	
For Deferred Payment under power contract in connection with curtailment of operations		1,907,713.54	2,959,907.64
Current:			
Notes Payable—Banks		$59,549,120.00	
Accrued Liabilities		3,946,089.61	
Accounts Payable		4,150,152.40	67,645,362.01
Deferred Credits to Income			264,169.96
Surplus			37,252,063.58
			$575,871,042.02

Note—In order to comply with the Government Income Tax requirements for the purpose of computing depletion, additional valuations of the mining properties have been recorded upon the books of the companies; but the result of those entries has been omitted from the current statements.

ANACONDA COPPER MINING COMPANY
and Subsidiary Companies

Consolidated Income and Surplus Account—Year Ended December 31st, 1934

Gross Sales and Earnings		$99,149,535.64
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 current cost		82,053,027.58
Income from operations of mining, smelting, refining and manufacturing plants		$17,096,508.06
Other Income—Interest, dividends and miscellaneous income	$297,747.64	
—Profit on bonds retired	405,396.56	
—Interest and dividends of affiliated companies	532,026.82	1,235,171.02
Total Income		$18,331,679.08
Interest on Bonds and Current Obligations	$4,527,349.60	
Expenses pertaining to non-operating units, including expenditure during strike period	3,747,090.70	
United States and Foreign Income Taxes—estimated	1,565,803.47	9,840,243.77
		$8,491,435.31
Provision for depreciation and obsolescence and for depletion of timber, coal and phosphate lands	$6,295,321.70	
Discount on Bonds	236,019.86	6,531,341.56
Net Income—on current basis—before depletion of Metal Mines		$1,960,093.75
Deduct:		
Reserved for additional charges during curtailment of operations under power contract	$443,342.65	
Additions to reserves for contingencies and other adjustments applicable to prior years	741,146.66	1,184,489.31
Net increase in Surplus before adjustments through dissolution of subsidiary companies		$775,604.44
Deduct Adjustments through dissolution of subsidiary companies		1,489,382.48
		$713,778.04
Minority share (income)		33,387.87
Net decrease in Surplus		$747,165.91
Surplus, December 31st, 1933	$37,960,880.74	
Minority Interest (deficit)	38,348.75	37,999,229.49
Surplus, December 31st, 1934	$37,248,060.14	
Minority Interest (deficit) including adjustments for Minority Interest acquired during year	4,003.44	
Surplus, December 31st, 1934, per Balance Sheet		$37,252,063.58

To the Board of Directors,

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

We have made a general audit of the books and records of Anaconda Copper Mining Company and its subsidiary corporations, which are 75% or more owned, for the calendar year 1934 and in accordance therewith submit herewith a Consolidated Balance Sheet and Consolidated Income and Surplus Account. In connection with our audit we examined or tested the accounting records of the company and other supporting evidence and made a general review of the accounting methods and of the operating and income accounts for the year but we did not make a detailed audit of the transactions.

Fixed Assets are carried on the same basis as in previous years, i. e.:

(a) Physical properties of parent company are carried at cash cost, or in the case of physical properties acquired for stock of parent company, at par value of such stock, with the exception of certain properties appraised at approximately $350,000.

(b) Physical properties of subsidiary companies are carried as follows:

From the amount at which the investment in the stocks of such subsidiary companies are included in the Consolidated Balance Sheet there was deducted the net current assets of such subsidiaries and the remainder of such amount was applied to physical properties. The basis for the amount shown as investment in subsidiary companies is the cash cost of such stock to the consolidated group of the stock of the respective subsidiary companies owned, or where such stock was acquired for stock of parent company the par value of such stock, except as to properties of Andes Copper Mining Company acquired by it for 1,229,143 shares of stock of Andes Copper Mining Company, such properties being carried at the original par value of such shares, i. e., $25 per share, and as to properties of Santiago Mining Company acquired by it for 65,431 shares of Santiago Mining Company, such properties being carried at the original par value of such shares, i. e., $25 per share.

Owing to curtailment of operations and distance from source of supply and markets, supplies on hand are somewhat in excess of current requirements.

Metals in process are carried at normal cost which approximates current production cost. Silver and gold are carried at market quotations or less. In accordance with the principle used in the preparation of the accounts for the year 1933, finished metals sold have been valued at current production costs to the extent of metals produced during the year. December 31st, 1933 inventory costs have been applied to sales made in excess of production and inventories now on hand, being smaller than those at December 31st, 1933, are valued at prices used in those inventories, which are below current market. Certificates for refined copper of a market value of approximately $2,450,000 are pledged with holders of notes payable.

Ores produced during development period not being currently treated are carried at cost of extraction which is less than a conservatively estimated realizable value.

Cupriferous material held for future treatment is valued at United States Treasury Department valuation for income tax purposes, which approximates realizable value based on current metal prices as estimated by metallurgists of the company.

Investments, Marketable Securities, Inventories, Collateral, Cash, Notes Receivable and Payable, Bonds and Capital Stock have been verified by inspection, certificate, or correspondence, and found in order and all known liabilities, except as noted below, are provided for in the Balance Sheet.

A contingent liability existed at December 31st, 1934 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 already been received and for exchange commitments most of which have been liquidated. A contingent liability also exists in respect of United States Federal Income taxes but the amount payable, if any, can not be stated until a settlement is arrived at with the United States Treasury Department.

The usual depreciation has been charged, that of metal producing plants being calculated on a unit of production basis. No depletion on metal mines, either on a cost or on the Treasury Department valuation basis, has been charged in the Accounts.

While there have been no changes of principle in the methods of accounting employed by the company during the year, we have made certain recommendations as to changes in classification and description of items which have been given effect to in these accounts.

In our opinion the accompanying Balance Sheet and related statement of Income and Surplus fairly present on the basis outlined above the financial position of the company at December 31st, 1934 and the results of its operations for the year.

We have also audited the books and records of your principal affiliated companies (Anaconda Wire and Cable Company, Silesian-American Corporation and Walker Mining Company—not consolidated in these Accounts) and all their subsidiaries upon which we report separately.

POGSON, PELOUBET & CO.
Certified Public Accountants.

New York, March 7th, 1935.