ANACONDA
COPPER MINING COMPANY

ANACONDA COPPER MINING COMPANY

CAPITAL STOCK

December 31, 1936

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
Executive Vice-President	James R. Hobbins
Vice-President and Treasurer	Robert E. Dwyer
Vice-President	Daniel M. Kelly
Secretary and Assistant Treasurer	David B. Hennessy
General Auditor	James Dickson
Assistant Secretary	Kenneth B. Frazer

DIRECTORS

John A. Coe
Robert E. Dwyer
James R. Hobbins
Cornelius F. Kelley
Andrew J. Miller
Grayson M.-P. Murphy
James H. Perkins
William C. Potter
William D. Thornton

OFFICES

Anaconda, Montana
Butte, Montana
25 Broadway, New York

To the Shareholders of

ANACONDA COPPER MINING COMPANY

THE demand for non-ferrous metals during the year 1936 in the United States continued to increase above that of the prior year and with the demand that had been established in foreign markets caused a rapid expansion of the industry. The monthly consumption of copper during the year reached its peak in October in both the domestic and foreign markets. Stocks of refined copper decreased materially and production was substantially increased during the latter part of the year.

World production of primary blister copper totalled 1,799,940 tons, of which 604,340 tons were domestic duty-free, and 1,195,600 tons were foreign. Production of primary copper in the United States showed an increase of approximately 62% over that of the prior year. Production abroad was approximately the same. World production of primary refined copper was 1,760,299 tons, the domestic duty-free copper amounting to 621,371 tons and foreign to 1,138,928 tons.

In comparison with 1935 world consumption of primary copper amounted to 1,893,543 tons, an increase of 14.2%; consumption of primary copper in the United States to 663,466 tons, an increase of 59.6%; and foreign consumption to 1,230,077 tons, approximately the same as in the previous year. The consumption in the domestic market, including secondary copper, totalled 764,560 tons, an increase of 44.7% compared with the previous year.

Stocks of duty-free refined copper in the United States were reduced during the year by 70,347 tons and refined stocks abroad by 62,897 tons, a total decrease of 133,244 tons. Stocks of refined copper at the end of the year, as reported by the Copper Institute, were 161,068 tons of duty-free and 192,255 tons of foreign. At these levels stocks are normal and future demand must be supplied by production.

Production of zinc in the United States was 524,271 tons, an increase of 21.5% compared with the prior year, and consumption amounted to 563,273 tons, an increase of 23.1%. Stocks of zinc on hand at the close of the year totalled 44,756 tons, the lowest since June 30, 1929.

The trend of non-ferrous metal prices was definitely upward during the year. The domestic price of copper was 9.025¢ per pound f.o.b. refinery at the beginning of the year and was 11.775¢ per pound at the end. The price for export copper f.o.b. refinery was 8.375¢ per pound at the first of the year and at the close was 11.600¢ per pound. Zinc at the end of the year was 5.450¢ per pound St. Louis, compared with 4.850¢ per pound at the beginning. The price for silver mined in the United States remained at 77.57¢ per ounce throughout the year and gold at $35.00 per ounce. The price for foreign silver showed slight variation throughout the year and was 45¢ per ounce at the close.

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

	Jan. 2	*High*	*Low*	*Dec. 31*	*Average*
COPPER—Duty Free f.o.b. Refinery—per lb.........	9.025¢	11.775¢	9.025¢	11.775¢	9.474¢
COPPER—Export f.o.b. Refinery—per lb............	8.375	11.600	8.250	11.600	9.230
LEAD —New York—per lb.....................	4.500	6.000	4.500	6.000	4.710
ZINC —St. Louis—per lb......................	4.850	5.450	4.750	5.450	4.901
SILVER —New York—(Not covered by President's Proclamations)—per oz...............	49.750	49.750	44.750	45.000	45.087

CORPORATE CHANGES

The Chile Copper Company Twenty-Year 5% Debentures due January 1, 1947, of which $26,574,000 were outstanding at the beginning of the year, were called on January 1, 1937, at the redemption price of 101. Funds to the amount of $25,000,000 for the retirement of these Debentures were obtained through serial notes of Chile Copper Company, guaranteed by Anaconda Copper Mining Company, payable to banks, $2,000,000 annually from December 10, 1937, to December 10, 1940, and $17,000,000 December 10, 1941. Subsequently and before the close of the year notes of Chile Exploration Company in like amounts similarly guaranteed were issued to the banks in lieu of notes of Chile Copper Company. The remainder of the funds required was provided from the treasury of Chile Copper Company. Through this financing substantial savings were effected in yearly interest charges.

The Anaconda Lead Products Company was organized in 1919, and produced at its plant at East Chicago, Indiana, dry white lead by an electrolytic process under patents acquired from the late Elmer A. Sperry. The total stock of the Company was 13,650 shares of which 10.99% had been issued to the Sperry interests in exchange for the above patents. This stock was purchased for the sum of $80,000, in June, 1936. Thereafter the Company was dissolved and its assets transferred to the International Smelting and Refining Company.

In conformity with the steps being taken to simplify and integrate the holdings of the Company, Andes Exploration Company (Delaware), Butte Electric Railway Company, Mountain Trading Company, and New York and Hastings Steamboat Company, all 100% owned subsidiaries, were dissolved during the year and their assets transferred to the parent Company or its consolidated subsidiaries. The assets of the New York and Hastings Steamboat Company were acquired by Chile Steamship Company Incorporated, a wholly-owned subsidiary of Chile Copper Company.

The substitution of natural gas and oil developed in the State of Montana for other fuels, so impaired the market for coal that it became advisable to discontinue operations at the plant of the Company at Washoe, Montana. The Milltown plant, no longer needed in the operation of the Lumber Department, was discarded during the year. These items, together with some mining prospects, carried on the books at $637,081.32, were written off and charged to surplus.

FINANCIAL

Gross sales and earnings of the Company upon a consolidated basis totalled $160,882,734.15, compared with $127,678,576.68 for the prior year, an increase of $33,204,157.47, or 26%. This increase was accounted for both by larger sales volume and higher prices received for the products.

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 $129,811,064.67, compared with $100,266,618.82 for the previous year.

The resulting operating income was	$31,071,669.48
Other Income, including Dividends from unconsolidated subsidiaries, was	2,385,648.91
Total Income was	$33,457,318.39
Deductions from Income for Interest on Bonds and Current Obligations $3,818,412.48, Expenses pertaining to Non-operating Units $2,420,080.51, United States and Foreign Income Taxes $2,975,917.76, and Discount, etc., on Bonds and Debentures retired through sinking fund operations $286,970.73, amounted to	9,501,381.48
Leaving a balance of	$23,955,936.91
Provision for Depreciation and Obsolescence and for Depletion of Coal Mines, Timber Lands, Phosphate Deposits and Clay Lands was $7,608,862.61, and Discount and Expenses on Bonds and Debentures was $388,210.02, a total of	7,997,072.63
Consolidated Net Income, without deduction for depletion of metal mines, was	$15,958,864.28
Of which Minority Share amounted to	77,034.69
Leaving Consolidated Net Income of	$15,881,829.59

The Consolidated Net Income of $15,881,829.59 compares with $11,180,087.45 for the year 1935. Sales of metals and manufactured products are included in the income account as they are invoiced and delivered to customers. Forward sales contracts are not included nor does the income account reflect the profit that may be derived from such sales.

The dividends declared and paid during the year on the capital stock of your Company amounted to $10,842,922.50, or $1.25 per share.

Charges to surplus for the year totalled $2,248,761.06, consisting of write-offs on account of discarded plants and properties $637,081.32; adjustment through write-down of assets of subsidiary dissolved $73,311.49; and discount and premium applicable to 5% Debentures of Chile Copper Company redeemed up to and including December 31, 1936, $1,538,368.25.

The principal subsidiaries included in the consolidated statements are Andes Copper Mining Company and its wholly-owned subsidiary; Chile Copper Company and its wholly-owned subsidiaries; Greene Cananea Copper Company and its Mexican subsidiary; International Smelting and Refining Company, The American Brass Company, Anaconda Sales Company, Butte, Anaconda & Pacific Railway Company, Tooele Valley Railway Company, Diamond Coal & Coke Company, and Butte Water Company.

The assets and liabilities of subsidiaries in which a majority but less than 75% of the issued stock is held are not distributed under the various headings in the consolidated balance sheet, but the cost of the holdings in such subsidiaries is shown as a separate item under "Investments". The consolidated income account shows as a separate item the dividends received from such subsidiaries. The principal unconsolidated subsidiaries are Anaconda Wire and Cable Company, Mountain City Copper Company and Walker Mining Company.

Current assets at the close of the year, including cash on hand of $16,282,190.76, amounted to $82,268,579.93, compared with $76,588,329.97 for the prior year, and current liabilities, including $2,000,000 of notes payable of Chile Exploration Company due December 10, 1937, were $15,442,097.08, compared with $10,016,210.18.

There were purchased and retired during the year $3,129,000 par value of 4½% Sinking Fund Debentures of your Company and $5,000 par value of First Mortgage Sinking Fund Bonds of Butte, Anaconda & Pacific Railway Company. The sum of $3,196,129, an amount equivalent to twenty percent of the estimated consolidated net income of the year 1936, was set aside and deposited with the Trustee for the purchase of 4½% Debentures of the Company for the sinking fund and to the extent not so used, to be paid into the sinking fund on August 15, 1937; and $7,913.21 remained in the sinking fund of Butte, Anaconda & Pacific Railway Company First Mortgage Bonds. The Twenty-Year 5% Debentures of Chile Copper Company outstanding at the beginning of the year in the amount of $26,574,000 were called for redemption. These items total $32,912,042.21. Of this sum $25,000,000 was, as previously explained, obtained by bank loans; the net result being that the outstanding indebtedness of your Company was reduced, or its reduction provided for, to the extent of $7,912,042.21 from current cash.

The Inspiration Consolidated Copper Company paid in 1936 the current interest payments on its notes, and in addition paid $336,868.08 of interest accrued prior to January 1, 1936, reducing its indebtedness to your Company to $7,864,005.00.

Capital expenditures during the year amounted to $3,426,386.19, summarized as follows:

Mines, Mining Claims, and Lands (less sales)	$ 288,566.60
Buildings, Machinery and Equipment at the Mines, Smelting, Refining and Manufacturing Plants of the Company and its subsidiaries (less sales)	2,999,797.76
Miscellaneous—Including acquisition of shares of stock of subsidiary companies	138,021.83

OPERATIONS

The operations at the mines and the reduction, refining, fabricating and other plants of your Company and its consolidated subsidiaries were conducted continuously during the year, with the exception of the properties of the Mexican subsidiary of Greene Cananea Copper Company which were closed down by a strike for two and one-half months in the early part of the year. During the latter half of the year the increasing demand for metals necessitated a rapid increase in operations, particularly of the copper producing units, and by the end of the year the consumptive demands were such that all metal producing and fabricating properties were operating, or were being prepared for operation, on a normal basis, with the exception of the zinc plants in Montana which were obliged by low temperature and shortage of water for power to curtail output. (Note—Such conditions caused suspension of operations of zinc plants for one month at the beginning of 1937).

Copper:

The production of metals from the mines of your Company and its consolidated subsidiary mining companies through copper plant operations was 552,807,952 pounds of copper, 6,508,847 ounces of silver, and 30,579 ounces of gold. The metal production through custom smelting and refining operations is not included in the foregoing figures. Including copper production from purchased custom ores and concentrates and secondary metals the output was 651,365,607 pounds.

Deliveries of copper for the year in both the domestic and foreign markets amounted to 849,321,306 pounds. Deliveries of copper include not only the copper production from the mines of your Company and its subsidiaries but also the custom, secondary and purchased intake.

Zinc:

Production of electrolytic zinc during the year amounted to 211,969,707 pounds, of which 43,448,219 pounds were from Company mines, and the remainder from custom ores and concentrates and leased mines. Deliveries of zinc amounted to 227,307,370 pounds, including the zinc delivered to the fabricating plants of subsidiaries of your Company and zinc used in the manufacture of zinc oxide at the zinc oxide plants. The metals paid for in zinc residues and dross sold to other companies amounted to 6,985,433 pounds of zinc, 27,227,017 pounds of lead, 330,321 pounds of copper, 2,899,867 ounces of silver, and 6,405 ounces of gold.

Custom Smelting and Refining:

The custom smelting and refining plants, both copper and lead, of International Smelting and Refining Company were operating at satisfactory levels at the close of the year.

The custom smelting and refining operations, other than zinc, produced from the treatment of custom ores and concentrates and secondary metals 98,557,655 pounds of copper, 67,629,153 pounds of lead (including 1,759,577 pounds of lead from own mines), 4,620,201 ounces of silver, 78,170 ounces of gold, and certain byproduct metals and materials. The foregoing includes production from ores and concentrates received from the Walker and Mountain City companies. In addition, production from materials treated on toll was 132,193,838 pounds of copper, 861,251 pounds of lead, 1,513,666 ounces of silver, and 15,099 ounces of gold. Deliveries of lead during the year, including that used in the manufacture of white lead at East Chicago, Indiana, plant, were 100,383,367 pounds.

Ores and Concentrates from Subsidiary Mining Companies:

The concentrator at the mine of the Mountain City Copper Company for the treatment of the lower grade ores was completed and put into operation in August, 1936. The mine was operating at normal capacity by the close of the year, its ores and concentrates being shipped mainly to the Tooele Copper Plant of International Smelting and Refining Company for treatment. Recoverable copper production during the year amounted to 25,054,996 pounds.

The Walker Mining Company operated its mine throughout the year, the concentrates being shipped to the Tooele Copper Plant for treatment. Recoverable copper production amounted to 9,614,277 pounds.

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 682,287,179 pounds, an increase of approximately 28% over those of the prior year. The demand for fabricated products increased steadily throughout the year.

The American Brass Company and Anaconda Wire and Cable Company, through their respective sales and research organizations, are constantly at work to widen the field for the use of copper and brass products and to meet the more exacting requirements of the trade.

Miscellaneous Products:

Miscellaneous products consisted of 97,541,356 feet lumber; 22,589 tons treble-superphosphate and phosphoric acid; 7,442 tons arsenic; 853,018 pounds cadmium; 130,098 pounds nickel sulphate; and 359,266 pounds copper sulphate.

GROUP INSURANCE

The Board of Directors of your Company authorized the placement of group life insurance with The Prudential Insurance Company of America for employees of your

Company and those of its subsidiary companies operating in the United States and Canada, under which joint contributions are made by the Company and each insured employee. The plan provides insurance for all eligible employees, including officers, without physical examination. More than 75% of the eligible employees made application, and the contributory insurance became effective July 31, 1936. During the period when individual applications were being made by the employees from July 6th to and including July 31st, 1936, the entire cost of the insurance was paid by the Company. The amount of insurance to which each eligible employee is entitled is approximately one-year's wage or salary, the limitations being a minimum of $1,250. and a maximum of $10,000. The charge to the employee is 60¢ per month per thousand of insurance, the Company paying the cost above that amount. Employees covered at December 31st, 1936, totalled 27,067, or approximately 96% of the eligible employees. The total insurance in force was $38,514,250.

EMPLOYEES

During the year 1936 the average number of employees of the Company and its consolidated subsidiary companies was 36,377, of which 25,562 were within the United States. The number of employees on the payrolls at the end of the year totalled 40,996 compared with 34,976 at the close of the prior year, of which 28,282 were within the United States, compared with 24,650 at the end of 1935.

NUMBER OF SHAREHOLDERS

The number of registered shareholders appearing on the transfer books of the Company at December 31st, 1936, was 106,745, as compared with 110,229 at the same date of the prior year.

SILESIAN-AMERICAN CORPORATION

Principal production for the year of the subsidiaries of Silesian-American Corporation operating in Poland was 94,669,593 pounds of zinc, 22,298,980 pounds of lead, 1,750,909 metric tons of coal, 47,148 metric tons of sulphuric acid, and 18,703 metric tons of superphosphate. Of the above 1,169,311 pounds of zinc and 4,774,652 pounds of lead were produced from custom materials.

Although the currency of Poland has continued on a Gold basis, the products of the subsidiaries of Silesian-American Corporation are sold in the World markets on the basis of the Pound Sterling, which adversely affects such subsidiaries. Difficulties were further increased during the year by governmental restrictions on the transfer of funds, which still continue in effect. At current exchange rates the average price of zinc for the year on the London market was equivalent to 3.34¢ per pound, and at December 31st, 1936, was equivalent to 4.38¢ per pound.

The principal amount of bonds of Silesian-American Corporation outstanding at the end of the year was $5,345,000, a reduction of $885,000 during 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, 1936, together with a Consolidated Income Account and a Consolidated Surplus Account for the year, certified to by Messrs. Pogson, Peloubet & Co., Certified Public Accountants.

By Order of the Board of Directors.

CORNELIUS F. KELLEY,
President.

New York, N. Y., March 27, 1937.

ANACONDA COPPER MINING COMPANY

and Subsidiary Companies

Consolidated Balance Sheet—December 31st, 1936

ASSETS

FIXED ASSETS:			
Mines and mining claims, water rights and lands for metal producing and manufacturing plants—see note G		$290,832,622.07	
Coal mines, timber lands, phosphate deposits and clay lands—see note G	$ 9,567,299.87		
Less reserve for depletion	2,054,400.35	7,512,899.52	
Buildings and machinery at mines, reduction works, refineries, manufacturing plants, sawmills, foundries, waterworks, steamships and railroads (including railroad concessions to the extent of $973,833.48)—see note G	$284,687,354.28		
Less reserve for depreciation	140,842,533.87	143,844,820.41	
Patents		6,105.00	
Investments:			
Securities of subsidiaries not consolidated—see notes C and F	$ 15,476,172.39		
Other security investments—see note F	13,767,103.91		
Indebtedness of subsidiaries not consolidated—not current	752,404.78	29,995,681.08	$472,192,128.08
CASH DEPOSITED WITH TRUSTEES—see note J:			
Amount deposited December 30th, 1936, equivalent to 20% of estimated consolidated net income for 1936, payable as part of sinking fund for discharge of Anaconda Copper Mining Company 4½% Sinking Fund Debentures due 1950		$ 3,196,129.00	
Amount deposited December 10th, 1936 for holders of Chile Copper Company Twenty Year 5% Debentures due 1947 called on December 1st, 1936 for redemption January 1st, 1937, including amount required for payment of premium and interest—per contra		9,524,950.00	
Amount held in sinking fund for Butte, Anaconda & Pacific Railway Company First Mortgage 5% Sinking Fund Gold Bonds due 1944		7,913.21	12,728,992.21
DEFERRED CHARGES:			
Stripping and development		$ 7,378,550.13	
Prepaid expenses		261,022.99	
Deferred expenses		323,736.05	
Discount, premium and expense on bonds and debentures—see note J		3,204,387.21	11,167,696.38
CURRENT AND OTHER ASSETS:			
Current assets:			
Supplies on hand—see note E page 13	$ 12,997,040.65		
Metals and manufactured products:			
In process—see note D page 13	6,603,386.19		
Finished—see note D page 13	33,775,538.81		
Accounts and notes receivable—trade, less reserve	10,357,903.57		
Indebtedness of subsidiaries not consolidated—current	865,024.26		
Marketable securities—at cost (market value $1,206,259.35)	1,387,495.69		
Cash	16,282,190.76	82,268,579.93	
Other assets:			
Installment house and land sales and other accounts receivable, less reserve	$ 952,959.99		
Advances to sundry mining companies, including advances on ores, less reserve	305,598.25		
Ores produced during development period not being currently treated during period of curtailed operations—see note H	1,390,647.92		
Cupriferous material held for future treatment—see note I	3,151,282.25		
Notes receivable of Inspiration Consolidated Copper Company and interest accrued thereon secured by First Mortgage Bonds of that company in the principal amount of $7,643,000 (being total amount of said bonds issued)	7,864,005.00	13,664,493.41	95,933,073.34
			$592,021,890.01

See explanatory notes, pages 13 and 14.

ANACONDA COPPER MINING COMPANY

and Subsidiary Companies

Consolidated Balance Sheet—December 31st, 1936

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 subsidiary companies owned by minority interest			4,543,706.38
BONDS AND NOTES OUTSTANDING:			
Anaconda Copper Mining Company 4½% Sinking Fund Debentures due 1950—see note J		$51,871,000.00	
Chile Exploration Company—Serial Notes—payable to banks, due December 10th, 1938 to December 10th, 1941, interest 2% to 3½% (guaranteed as to both principal and interest by Anaconda Copper Mining Company)		23,000,000.00	
Butte, Anaconda & Pacific Railway Company First Mortgage 5% Sinking Fund Gold Bonds, due 1944 (guaranteed as to both principal and interest by Anaconda Copper Mining Company) see note J		1,498,000.00	76,369,000.00
CHILE COPPER COMPANY 5% GOLD DEBENTURES due 1947—called for redemption January 1st, 1937—see note J—per contra:			
Not presented for redemption at December 31st, 1936		$ 9,077,500.00	
Premium and interest thereon		447,450.00	9,524,950.00
RESERVES:			
For repairs, renewals and replacements		$ 338,802.76	
For workmen's compensation insurance, etc.		638,816.18	
For contingencies		275,000.00	1,252,618.94
CURRENT LIABILITIES:			
Chile Exploration Company—Serial Notes—payable to banks, due December 10th, 1937 (guaranteed as to both principal and interest by Anaconda Copper Mining Company)		$ 2,000,000.00	
Accounts payable—trade		6,525,827.45	
Wages payable		1,302,040.23	
Accrued taxes		4,584,115.49	
Accrued interest		671,455.41	
Other accrued liabilities		192,707.04	
Other accounts payable		165,951.46	15,442,097.08
DEFERRED CREDITS TO INCOME			218,820.74
SURPLUS			50,953,796.87
			$592,021,890.01

See explanatory notes, pages 13 and 14.

ANACONDA COPPER MINING COMPANY
and Subsidiary Companies

Consolidated Income Account—Year Ended December 31st, 1936

Gross Sales and Earnings		$160,882,734.15
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		129,811,064.67
Income from operations of mining, smelting, refining and manufacturing plants		$ 31,071,669.48
Other Income—Dividends from subsidiaries not consolidated—see note D page 14	$ 1,562,197.14	
—Other dividends and interest—see note E page 14	558,151.46	
—Miscellaneous income	186,759.62	
—Profit on sale of capital assets	78,540.69	2,385,648.91
Total Income		$ 33,457,318.39
Interest on bonds, debentures and serial notes	$ 3,818,412.48	
Expenses pertaining to non-operating units, including expenses at Cananea during strike period	2,420,080.51	
United States and Foreign Income Taxes—estimated (including $6,256.71 estimated surtax on undistributed income)	2,975,917.76	
Discount, premium and expense on bonds and debentures retired through sinking fund operations	286,970.73	9,501,381.48
		$ 23,955,936.91
Provision for depreciation and obsolescence	$ 7,525,374.16	
Provision for depletion of coal mines, timber lands, phosphate deposits and clay lands (without deduction for depletion of metal mines)	83,488.45	
Discount and expense on bonds and debentures	388,210.02	7,997,072.63
Net Income, without deduction for depletion of metal mines		$ 15,958,864.28
Minority share of income		77,034.69
Consolidated Net Income, without deduction for depletion of metal mines		$ 15,881,829.59

See explanatory notes, page 14.

Consolidated Surplus Account—Year Ended December 31st, 1936

Surplus, December 31st, 1935	$48,235,924.09	
Minority Interest	72,273.25	48,163,650.84
Consolidated Net Income, without deduction for depletion of metal mines		15,881,829.59
		$ 64,045,480.43
Deduct:		
Dividends Nos. 113, 114, 115, 116 and extra		10,842,922.50
		$ 53,202,557.93
Mines and mining claims, plant, development and other expenses on coal mining properties and sawmill written off, the projects being abandoned or discontinued	$ 637,081.32	
Adjustment through dissolution of subsidiary arising from write-down of assets transferred to a wholly owned subsidiary	73,311.49	
Discount and premium on 5% Gold Debentures of Chile Copper Company called on December 1st, 1936 for redemption January 1st, 1937, applicable to such debentures as were redeemed up to and including December 31st, 1936 in accordance with offer to holders of debentures	1,538,368.25	2,248,761.06
Surplus, December 31st, 1936	$51,315,365.88	
Minority Interest	361,569.01	
Consolidated Surplus, December 31st, 1936		$ 50,953,796.87

NOTES TO CONSOLIDATED BALANCE SHEET—DECEMBER 31st, 1936

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, except that four small subsidiaries more than 75% owned, the operations of which are not an integral part of the operations of the consolidated group, are carried as investments in the Consolidated Balance Sheet. The interest of minority stockholders of subsidiaries, the accounts of which are consolidated, is shown on the Consolidated Balance Sheet. Accounts of subsidiaries in which the Company's interest is less than 75% of the issued stock are not consolidated and the shares owned in these subsidiaries are carried as investments in the Consolidated Balance Sheet. The term "subsidiaries" is intended to mean corporations in which a majority of the voting stock is owned directly by the Company or through other corporations in which the stock interest of the Company is more than 95%.

NOTE B—BALANCES IN FOREIGN CURRENCIES

Cash balances in foreign currencies (equivalent to $578,408.06 in United States currency) are converted into dollars at rates not more favorable than those effective at December 31st, 1936. Current assets and liabilities at the Toronto plant of Anaconda-American Brass, Ltd. are carried in Canadian currency and have been converted into U. S. dollars at rates not in excess of rates current at December 31st, 1936.

Contingent liabilities existed at December 31st, 1936 (a) for acceptances covering foreign sales of copper discounted in the ordinary course of business at various banks on the greater part of which payments have already been received and (b) for exchange commitments most of which have been liquidated.

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, 1936, to the extent of $304,552.04, since the dates of acquisition as the result of profits, losses, distributions and surplus adjustments as shown by the books of said unconsolidated subsidiaries, but the cost thereof as shown in 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 cupriferous materials, and zinc and lead ores and concentrates, while in treatment at reduction plants up to the production of blister copper, electrolytic copper, metallic zinc and lead bullion, are classified as metals in process. Blister and electrolytic copper, metallic zinc, lead bullion, and other products and metals produced in connection therewith or therefrom, including stock in works at fabricating plants, are classified as finished.

Inventory in process is calculated at "normal 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, 1936 (except silver and gold which are carried at market quotations or less), have been valued (a) as to that part of the inventory which was equal to the quantity on hand at December 31st, 1935, at the inventory price of December 31st, 1935, such inventory being carried either at production costs for year 1933 or for years following according to period in which accumulated and (b) as to that part of the inventory which exceeds in quantity inventory on hand at December 31st, 1935 at production costs during the year ended December 31st, 1936. Inventory valuations determined in accordance with the foregoing method were below market prices for the various metals and products at December 31st, 1936.

See Note C to Consolidated Income Account.

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. Other security investments include 333,000 shares of Inspiration Consolidated Copper Company carried at $10,914,107.51.

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 subsidiaries (the accounts of which are included in this Consolidated Balance Sheet) are carried at the difference between (1) the investment basis for the respective subsidiary as set forth below, and (2) all net assets (other than property, plant and equipment) 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 the 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, where the same was acquired by the group for cash, or where the same was acquired by the consolidated group for stock of the Company, the par value of the stock of the Company so issued, except as to properties of Andes Copper Mining Company and Santiago Mining Company acquired by said companies respectively for shares of their capital stock, which properties 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), amounting in the case of Andes Copper Mining Company to 1,000,000 shares and in the case of Santiago Mining Company to 70,566 shares. Of said stock of Andes Copper Mining Company issued for property 998,036 shares were acquired by the Company and subsidiaries at less than the original par value thereof and of said stock of Santiago Mining Company 65,431 shares were acquired (in 1930) by the Company at less than the original par value thereof. The 65,431 shares of Santiago Mining Company prior to their acquisition by the Company were carried in the consolidated financial statements as outstanding minority interest at par from the date when Santiago Mining Company was first included in such statements. Upon the acquisition of such shares by the Company in 1930 the difference of $1,519,566.66 between the par value thereof and the cost of such shares to the Company was transferred from minority interest to consolidated surplus. The total amount credited 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 $23,429,106.58.

(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, clay 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 PRODUCED DURING DEVELOPMENT PERIOD

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

NOTE I—CUPRIFEROUS MATERIAL

Cupriferous material held for future treatment is valued at United States Treasury Department valuation for income tax purposes, which is 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 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 was obligated on August 15th, 1936 and will be obligated on August 15th of each year thereafter, to and including August 15th, 1949, to pay to the Trustee, 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 debentures to be received by the Trustee in lieu of an amount of cash equal to the purchase price of such debentures paid by the Company in the acquisition thereof. Under these provisions there were deposited with the Trustee on August 15th, 1936 debentures of the par value of $3,129,000 in full satisfaction of the sinking fund payment due on that date. There was also on December 30th, 1936 set aside out of the profits of the year 1936 and deposited in trust with Guaranty Trust Company of New York $3,196,129, being an amount equivalent to 20% of the estimated consolidated net income of the year 1936, to be used either in the purchase of debentures for cancellation in the sinking fund or to the extent not so used to be paid into the sinking fund on August 15th, 1937.

On December 1st, 1936 the outstanding Chile Copper Company 5% Debentures were called for redemption. On December 10th, 1936 Chile Copper Company offered to make full payment of principal, premium and interest due January 1st, 1937 on debentures presented at any time after December 10th. Of the total amount of debentures covered by the call for redemption, $16,989,500 face value were presented for redemption before January 1st, 1937. The remaining debentures, $9,077,500 principal amount, were retired in accordance with the provisions of the call for redemption as of January 1st, 1937. The amount of $821,951.06 included in discount, premium and expense on bonds and debentures in respect of said $9,077,500 principal amount of debentures will be written off as of January 1st, 1937.

Under the sinking fund provision of the indenture providing for the issue of First Mortgage 5% Sinking Fund Bonds of Butte, Anaconda & Pacific Railway Company the annual cash sinking fund requirements for 1937 will amount to $105,000.

NOTE K—SURPLUS

Included in Consolidated Surplus are: (a) a credit of $21,909,339.72 arising from inclusion in Consolidated Balance Sheet of assets and liabilities of Andes Copper Mining Company at the amounts shown on its books (see note G), (b) a credit of $1,519,565.66 arising from acquisition in 1930 of minority shares in Santiago Mining Company issued for property and carried at their par value, said amount representing the excess of par value over acquisition cost, (c) 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 (d) 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.

NOTES TO CONSOLIDATED INCOME ACCOUNT—YEAR ENDED DECEMBER 31st, 1936

NOTE A—BASIS

Principles applying to the Consolidated Income Account are the same as set forth in Note A to the Consolidated Balance Sheet. The equity of the Company in the income of four small unconsolidated subsidiaries more than 75% owned, the operations of which are not an integral part of the operations of the consolidated group, amounted for the year ended December 31st, 1936 to $18,956.17.

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.

NOTE B—INTER-COMPANY SALES AND PROFITS

Sales to consolidated subsidiaries have been eliminated and the sales shown in the Consolidated Income Account include only sales to others than the Company and consolidated subsidiaries.

Inter-company profits, where these are material, have been eliminated in the Consolidated Income Account. The principal inter-company transactions are sales of copper and other metals to manufacturing subsidiaries. The inventories of manufacturing subsidiaries include, so far as is ascertainable, no inter-company profit.

Any inter-company profits resulting from transactions in connection with purchases and sales of supplies and furnishing of services and in connection with refining and smelting operations are not material in amount and have not been eliminated.

NOTE C—COST OF SALES

The general practice of inventory valuation followed in the year ended December 31st, 1936 was as follows:

In ascertaining consolidated income during the year 1936, the Consolidated Income Account was stated on the basis of last-in first-out, that is, applying current cost of metal production to sales (see Note A) to the extent of current production and sales in excess of current production were carried in the Consolidated Income Account at the inventory cost, such cost being the same as the inventory cost used for Balance Sheet purposes. (See Note D to Consolidated Balance Sheet.)

NOTE D—DIVIDENDS AND EARNINGS OF PRINCIPAL UNCONSOLIDATED SUBSIDIARIES

In the year 1936 the equity of the Company in the combined net current earnings 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 amounted to $1,966,316.63. Out of that equity there was paid to the Company the amount of $1,562,197.14 in dividends by said unconsolidated subsidiaries.

NOTE E—INTEREST—INSPIRATION CONSOLIDATED COPPER COMPANY

There is included in Income Account under the item "Other Dividends and Interest" interest on notes of Inspiration Consolidated Copper Company, in the amount of $388,519.15 for the year ended December 31st, 1936. Such interest has been paid during the year as well as $336,868.08 on account of interest accrued prior to January 1st, 1936.

POGSON, PELOUBET & CO.

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MAURICE E. PELOUBET
LEWIS M. NORTON
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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, 1936, of Anaconda Copper Mining Company and of 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 1936.

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 1936, but we did not make a detailed audit of the transactions.

The practice of the Company and its subsidiaries with respect to the computation of their net income or net loss without deduction for depletion of metal mines is, in our opinion, in accordance with accepted principles of accounting in industries engaged in the mining of copper, gold, lead, silver and zinc.

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 principles of accounting in the industries in which the Company and its subsidiaries operate, consistently maintained by the Company and its subsidiaries, the consolidated position of the Company and its consolidated subsidiaries as of December 31st, 1936 and the combined results of their operations for the calendar year 1936.

POGSON, PELOUBET & CO.,
Certified Public Accountants.

New York, March 15th, 1937.