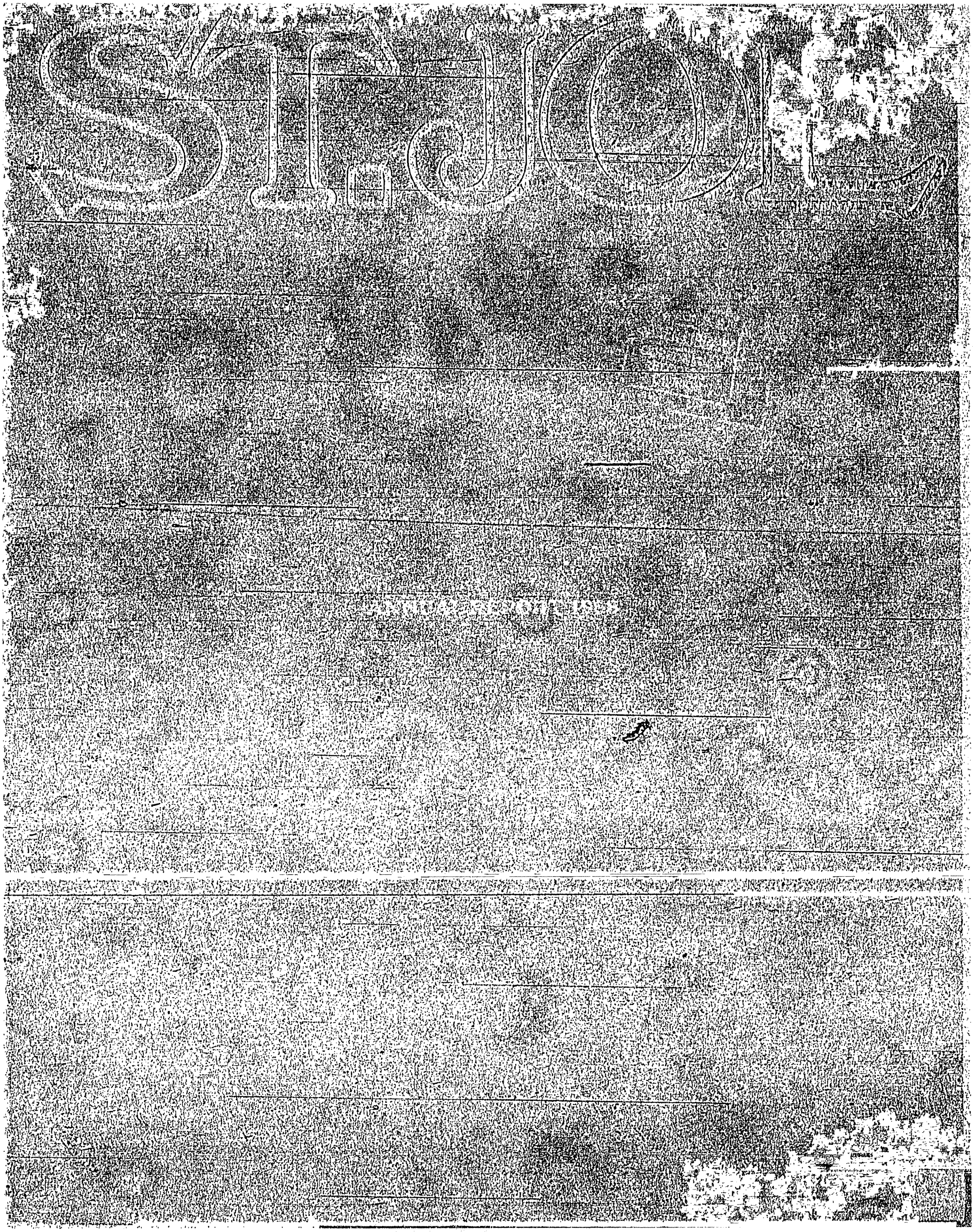

St. Joe

ST. JOSEPH LEAD COMPANY

St. Joe's recent annual reports have detailed particular facets of Company operations of prime interest to our shareholders, in addition to highlighting overall activities and progress associated with the calendar year under review. These presentations have focused on St. Joe's continuous expansion over its 105 year history, its management and employees, and its increasing number of products and their widening end use applications.

The 1968 St. Joe report, in addition to reviewing a record earnings year, focuses on some of the capital expansion and improvement projects, recently completed or in progress, which will have increasing impact on our operational efficiency, profitability, product growth and corporate advancement.

CONTENTS

HIGHLIGHTS

	1968	1967
Sales of metals, etc.	$150,811,758	$129,036,565
Federal and state income taxes	$ 12,448,865	$ 5,812,848
Net income	$ 24,973,475	$ 21,403,886
Dividends:		
Cash	$ 12,308,873	$ 12,568,349
Stock (2 for 1 split effected in the form of a stock dividend)	100%	—
Shares of capital stock outstanding December 31	8,533,800	8,971,276
Net earnings per average share	$2.89	$2.38
Dividends per share	$1.425	$1.40
Ratio of current assets to current liabilities	3.63 to 1	4.87 to 1
Number of employees (U.S.)	4,032	3,959
Number of shareholders	20,472	18,585
Shareholders' equity (book value)	$135,667,395	$132,779,986
Shareholders' equity per share	$15.90	$14.80

All share and per share data adjusted for two-for-one stock split.

TO THE SHAREHOLDERS:

Francis Cameron
Chairman

Lawrason Riggs III
President

For St. Joe, the year 1968 was a highly successful one. Earnings of $24,973,475 were up 16.7%, and earnings per average share outstanding increased from $2.38 in 1967 to $2.89 in 1968. Zinc sales increased by 17.1% and lead sales by 25.5%. Sales of zinc oxide also increased by 18.5%.

In 1968 the Company's unconsolidated subsidiaries operating overseas earned the local currency equivalent of $2,072,500 (based on December 31, 1968 exchange values) more than they paid to St. Joe as dividends. Addition of the Company's approximate 100% equity in these unremitted earnings on a pre-distribution tax basis would increase the Company's 1968 earnings per average share outstanding to $3.08. The corresponding figure for 1967 was $2.49.

The above figures represent new highs for St. Joe in both production and earnings, and were achieved because our mines and plants, with the exception of Meramec, operated continuously during the year, and because the 1967 start-up problems at the Herculaneum Smelter were largely overcome.

Demand for lead and zinc in the first half of the year was fair, but there were indications, in early 1968, that supplies of both metals might exceed demand as the year progressed. Had it not been for the carry-over effect from lost production resulting from certain industry work stoppages, St. Joe's sales might well have been adversely affected. As it was, the lead price declined from 14 cents to 13 cents in May with a further drop to 12½ cents in July. There was a turn-around in demand for both metals in the second half, and the price of lead increased to 13 cents per pound in October. The price of zinc held steady at 13½ cents throughout the year. In January, 1969, prices of both metals were increased with zinc advancing from 13½ cents to 14 cents per pound, and lead, in two steps, from 13 cents to 14 cents per pound, the level prevailing at the start of 1968.

Lead imports, which were at a record level during the first quarter of 1968, eased later in the year, and prices for both lead and zinc were firm in overseas markets at the year-end. The anticipated impact of new lead production coming from the new mines and smelters in Missouri was not apparent during 1968, although St. Joe's own lead smelting production advanced substantially.

The strong demand for iron ore pellets in the first half of the year, resulting partly from inventory build-ups in anticipation of a steel strike which did not materialize, fell off sharply in the second half. Consequently, earnings from this source were lower than had been forecast.

During 1968:

- St. Joe added to lead and zinc ore reserves in Southeast Missouri and New York State.
- Shaft sinking and construction continued at the Balmat Mine in Upstate New York. Plans were completed for a 4,300 ton-per-day capacity mill to be constructed at the site of the new shaft, and the mill is expected to come on stream in 1971, utilizing ore from the mineralized area discovered in 1966 as well as from zinc ore reserves in the older mine areas now in production.
- Construction commenced in July at the Herculaneum Smelter on a new 300 ton-per-day sulfuric acid plant which is scheduled to come into operation in mid-1969.
- The Company announced plans for the sinking of a mine shaft in Missouri's New Lead Belt area, which will make available production from higher grade ore reserves to offset declining production from the older, lower grade mines. New shaft facilities completed at the Indian Creek property in Missouri became operative during the last quarter of the year.
- The new iron oxide facility, installed by Meramec Mining Company to produce high quality iron oxide for specialized non-steel uses, came into production during the latter part of the year, and small tonnages were shipped to users for testing on a commercial

basis. This tonnage is expected to increase as a result of laboratory and marketing efforts now being conducted and from assessments being made by some of the major consuming manufacturers.

• The mine and mill expansion program of Aguilar, in Argentina, which will increase capacity by about 75%, was substantially completed.

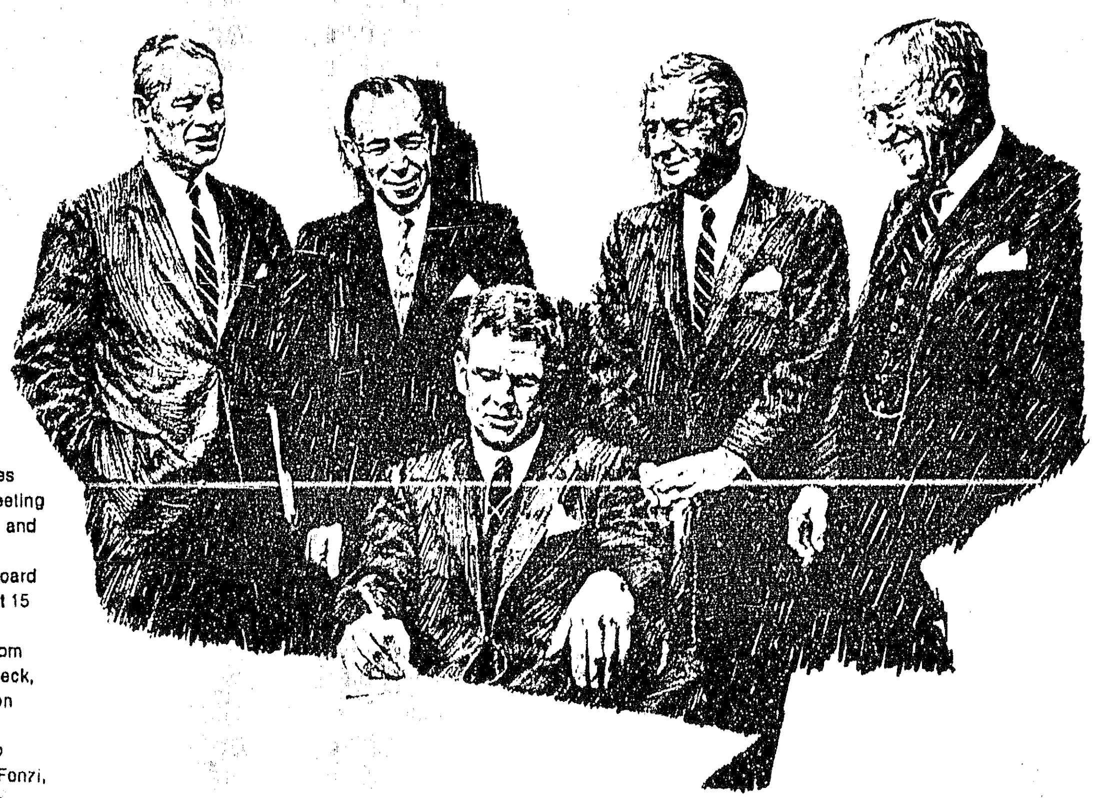
• The open pit mine at Santander, in Peru, was phased out and mining switched to the underground operation which has been under development the past two years. All ore now comes from these new facilities. Although tonnage milled will be somewhat lower, the higher grade of the underground ore will permit maintenance of approximately the same level of zinc and lead concentrate production.

New product development continued to receive attention during the year, and although no decision was reached with regard to the establishment of commercial production of wollastonite or of bentonite products, progress was made with the development of special lead alloys. Products using these new alloys have been made available for commercial scale tests by equipment manufacturers.

The pace of the Company's exploration for new orebodies has also continued to increase, as has the activity in connection with development of new areas of interest for St. Joe.

At its November meeting, the Board of Trustees authorized an increase of five cents per share in the quarterly dividend rate, bringing payments for the year to $1.425 per share (adjusted for the two-for-one stock split). At this same meeting, the Board also authorized a two-for-one stock split to be distributed in the form of a 100% stock dividend to shareholders of record at the close of business on November 29, 1968.

Several changes in the Company's financial groups were made early in 1968 following the death of James G. Colvin, Vice President and Treasurer, whose many contributions to St. Joe extended over a period of 39 years. D. Broward Craig, Vice President and Secretary, was appointed Chief Financial Officer and Edward P. Merrell, formerly Assistant Treasurer, was elected Treasurer. At the same time, the responsibilities of William L. Murphy, Jr., Comptroller and Assist-



St. Joe's 1968 Board of Trustees prior to its November 19th meeting at which the dividend increase and two-for-one stock split were authorized. During 1968, the Board or its Executive Committee met 15 times to act on this and other corporate matters. Trustees, from left to right, are: Guido F. Verbeck, Jr., Plato Malozemoff, Lawrason Riggs III, David R. Calhoun, Andrew Fletcher; *center group* Robert H. Ramsey, Warren E. Fonzi, Eli Whitney Debevoise, Joseph Pursglove, Jr.; *far right:* Bernard F. Desloge, J. Wesley Mc Afee, Wing L. Lew and Francis Cameron.

ant Secretary, were expanded, and Frank J. Reidy, Assistant Comptroller, was assigned responsibility for introduction of the new management information system, designed to improve our financial and operational accounting methods.

On February 20, 1968, James L. Broadhead was elected Assistant Secretary.

In September, Robert H. Crossley, Manager—Oxide Sales, died after a short illness. Mr. Crossley had been associated with St. Joe for twenty years and was responsible for much of the Company's success with zinc oxides. Herbert J. Due, formerly Assistant Sales Manager, was appointed Manager—Oxide Sales in November.

At the meeting of the Board of Trustees held January 21, 1969, John R. Englehorn, Vice President—Marketing and Development, was elected a Trustee of the Company to succeed Robert H. Ramsey, who resigned as a Trustee and Executive Vice President for personal reasons. Mr. Ramsey, during his years with St. Joe, made significant contributions to the success of the Company in both North and South America.

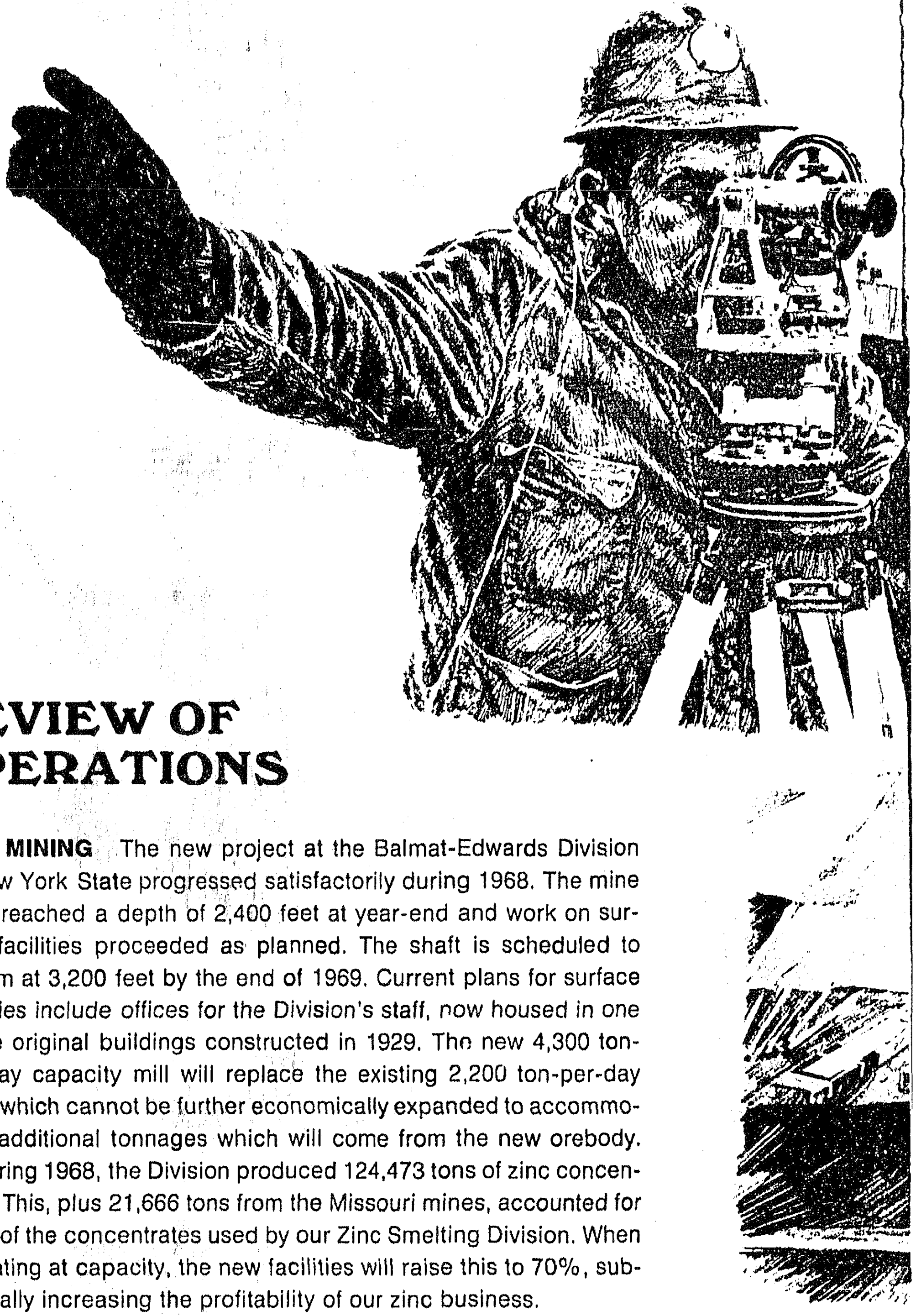
During 1968, St. Joe mining and smelting operations continued to improve in efficiency and in maintaining the high quality of products as detailed in our Review of Operations. All employees contributed to the results achieved, and their support and loyalty, as well as that of the shareholders, have been most gratifying to management.

The year 1969 has started auspiciously with continuing strong demand for our principal products, lead and zinc, reflected in unusually low inventories of both materials in the hands of producers and consumers. Prices for metals are firm, and the prospects are favorable for another successful year in 1969.

It is our belief that the activities pictured in this report will further increase St. Joe's efficiency and capacity in the coming years.

As announced in our February 25, 1969 letter to shareholders, the managements of St. Joseph Lead Company and The Hanna Mining Company have entered into a preliminary merger agreement, which will be subject to the authorization and approval of the boards and shareholders of the two companies.

Chairman President



REVIEW OF OPERATIONS

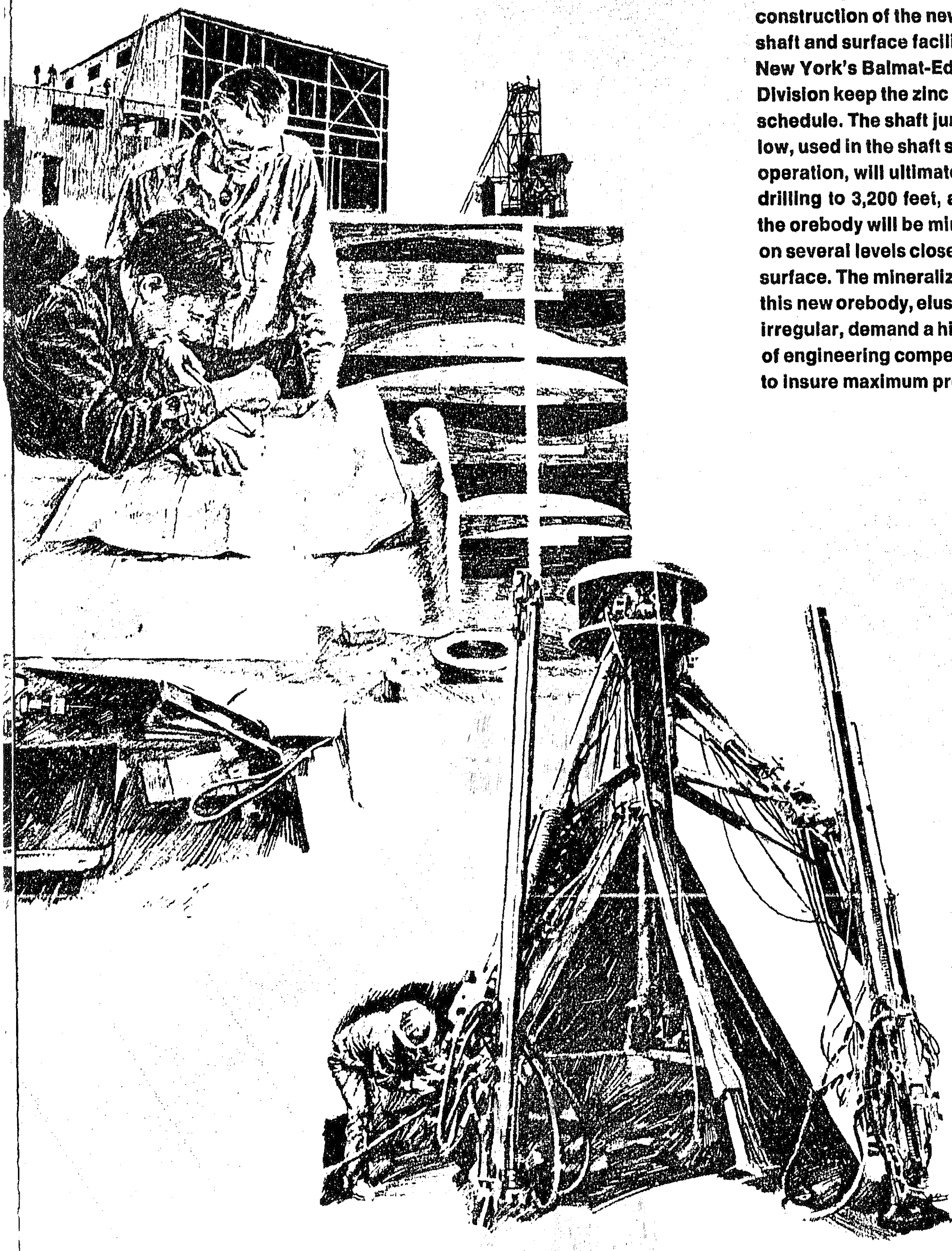
ZINC MINING The new project at the Balmat-Edwards Division in New York State progressed satisfactorily during 1968. The mine shaft reached a depth of 2,400 feet at year-end and work on surface facilities proceeded as planned. The shaft is scheduled to bottom at 3,200 feet by the end of 1969. Current plans for surface facilities include offices for the Division's staff, now housed in one of the original buildings constructed in 1929. The new 4,300 ton-per-day capacity mill will replace the existing 2,200 ton-per-day plant which cannot be further economically expanded to accommodate additional tonnages which will come from the new orebody.

During 1968, the Division produced 124,473 tons of zinc concentrate. This, plus 21,666 tons from the Missouri mines, accounted for 46% of the concentrates used by our Zinc Smelting Division. When operating at capacity, the new facilities will raise this to 70%, substantially increasing the profitability of our zinc business.

LEAD MINING The Southeast Missouri Mining and Milling Division's production continued to rise during 1968 and lead concentrate output of the mills totalled 259,536 tons, up from 220,074 tons in 1967. Mill recoveries of lead and zinc continued to be excellent at the new Fletcher mill and a copper circuit was added permitting

BALMAT

Carefully laid and efficiently executed plans associated with construction of the new mine shaft and surface facilities at New York's Balmat-Edwards Division keep the zinc project on schedule. The shaft jumbo, below, used in the shaft sinking operation, will ultimately be drilling to 3,200 feet, although the orebody will be mined on several levels closer to the surface. The mineralized areas of this new orebody, elusive and irregular, demand a high degree of engineering competence to insure maximum profitability.



FLETCHER

The rotary percussion jumbo performs one of the first functions in Missouri's underground lead mining operations, drilling at many times the speed possible with earlier generations of equipment. St. Joe's mines and mining methods have changed markedly over the years in response to improved technology and advances in our knowledge of sub-surface rock characteristics.

recovery of this by-product material as well. Copper produced by the Division totalled 18,849 tons of concentrate in 1968.

Hoisting from the new 1,180-foot Goose Creek shaft commenced prior to year-end and the ore was trucked to the nearby Indian Creek mill for processing. The ore which this new shaft will make available will add substantially to the life of the Indian Creek operation.

Division personnel continued their search for new and improved methods applicable to mining operations and in 1968 initiated use of a modified "down-the-hole-drill" developed by Howard V. Sears, Southeast Missouri's General Prospecting Superintendent. This device, which combines two operations formerly performed separately (casing placement and drilling), has substantially reduced the cost of underground core samples and has radically increased the speed with which these operations can be completed.

Underground improvements have been equally impressive. Tons of ore mined per-division-employee doubled in the last ten years. Tons of lead produced per-division-employee more than tripled over the same period, due to higher grade of ore mined as well as to operating efficiencies introduced.

The mobile, large-capacity underground equipment, modified by the Division to give maximum performance at the Fletcher mine, permits production rates almost six times the maximum level attained with 1958's equipment and methods.

Production at the Viburnum and Federal operations continued to be satisfactory and while improvements are more readily introduced in the newest mines and mills, all facilities performed exceptionally well in 1968.

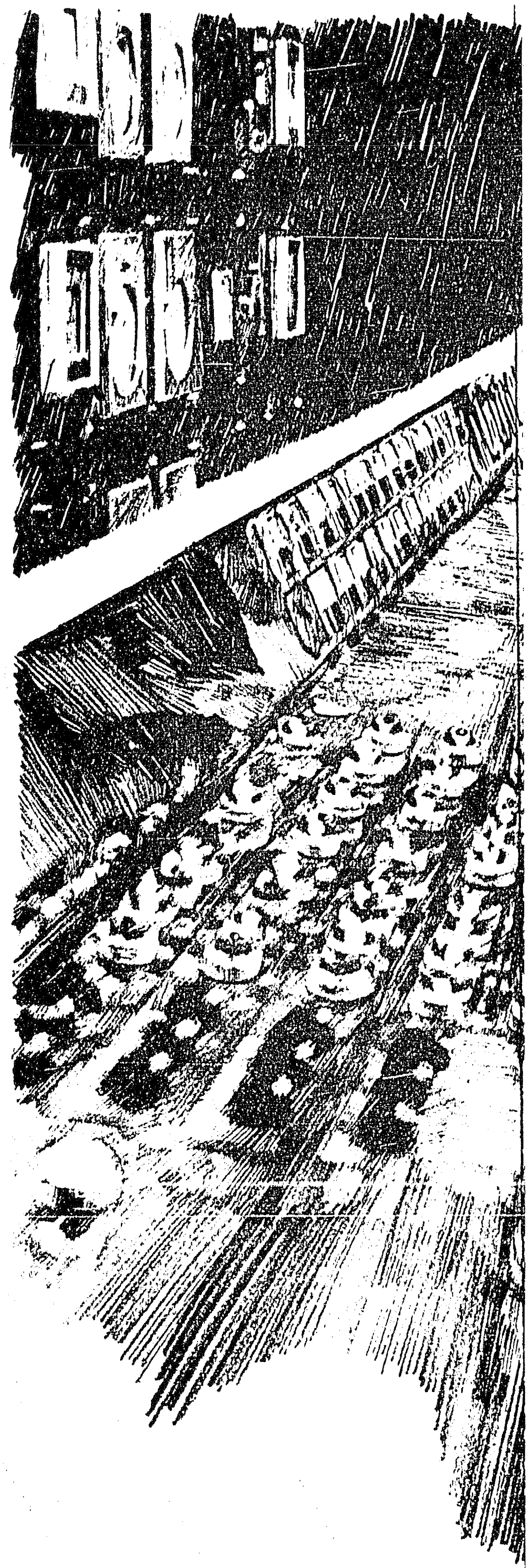
Shaft sinking at Brushy Creek, ten miles north of Southeast Missouri's Fletcher mine, is expected to commence in the fall of 1969 after site preparations have been completed.

ZINC SMELTING The Zinc Smelting Division at Monaca, Pennsylvania, increased metal production to 206,213 tons from the 188,470 tons produced in 1967. Zinc oxide production advanced by 14.2%.

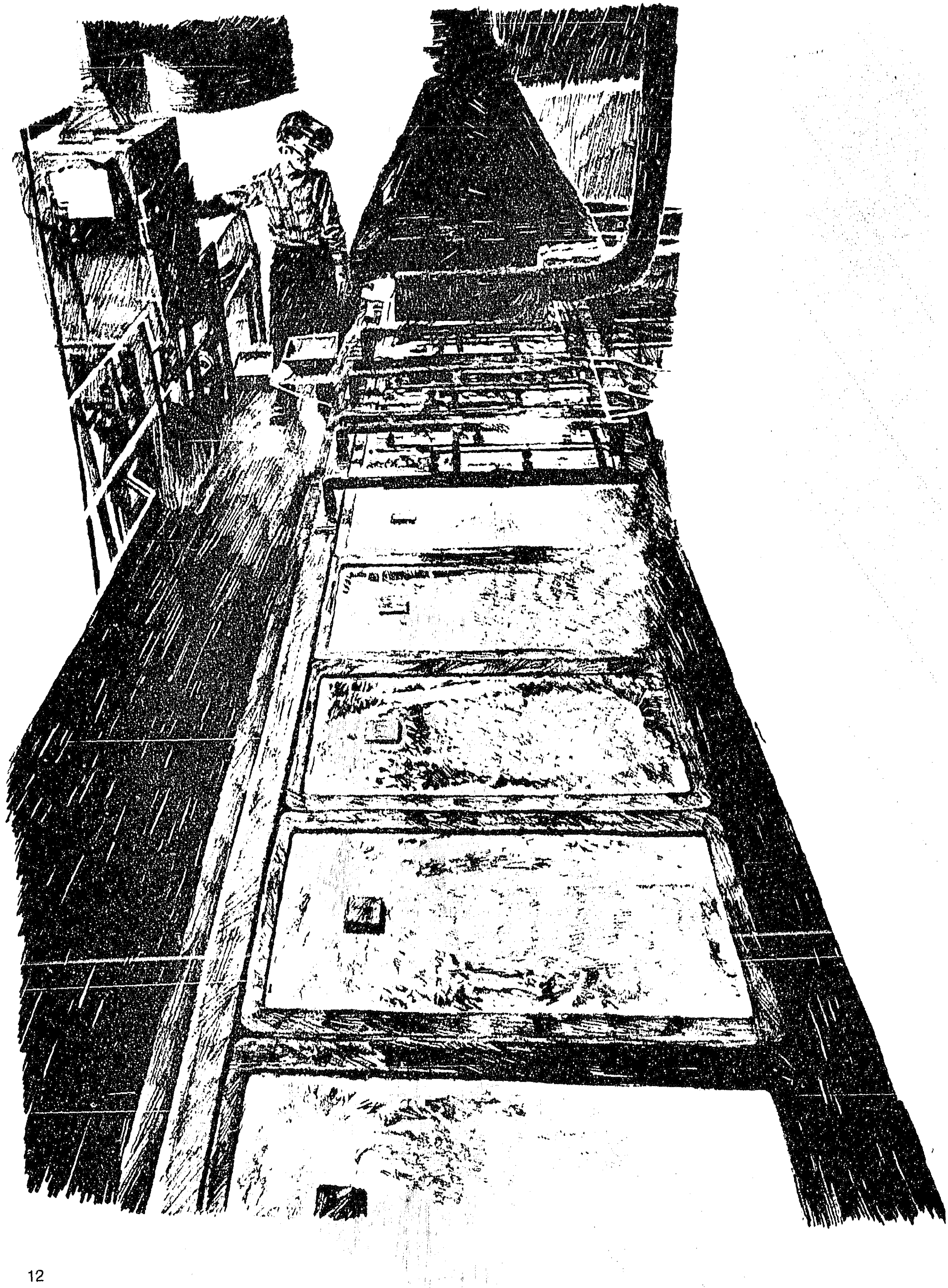
In response to the successful introduction of its photo-conductive grade zinc oxide, the plant's capacity for production of French process oxide—produced from zinc metal—was increased. The change will increase the Division's ability to deliver tailor-made oxides to fit specific customer requirements.

Another accomplishment of the Zinc Smelting Division's 1968 program was a further improvement of its customer service capabilities along with production and product improvements. Research activities and laboratory facilities have been expanded and increasingly geared to provide customer advice as well as to maintain high quality production standards. The technical group now utilizes a new pilot galvanizing facility to investigate hot-dip galvanizing problems and applications. Technical service activities have also been stepped up and provide any customer with direct assistance from St.Joe's metallurgical testing facilities and personnel.To complete the "package" relationship, the Division maintains a secondary and scrap materials service which permits the customer to receive assistance relating to these items.

LEAD SMELTING After experiencing start-up and operating difficulties in 1967 in connection with its new and expanded facilities,



Southeast Missouri Division people engineered many of the automated control features of the Fletcher mill and completed most of the computer programming of the on-stream X-Ray Analyzer during 1968. This device controls and adjusts reagents used in the milling process by the rapid assay of the mill heads, tails and concentrate every 7½ minutes.



ZINC CASTING

The automated casting and stacking equipment designed by Zinc Smelting Division engineers, insures a smooth flow of zinc from its molten form to the shipping unit loads. The equipment's capabilities are now being tied to computerized inventory and order records, further improving the speed and reliability of shipments moving out of the plant.

the Herculaneum, Missouri Smelter produced a record 170,799 tons of refined lead and lead alloys in 1968. The increased production reflected improvements in all departments. Modification and improvement of equipment was completed and extensive personnel training was conducted to take advantage of the new plant's larger tonnage capacity.

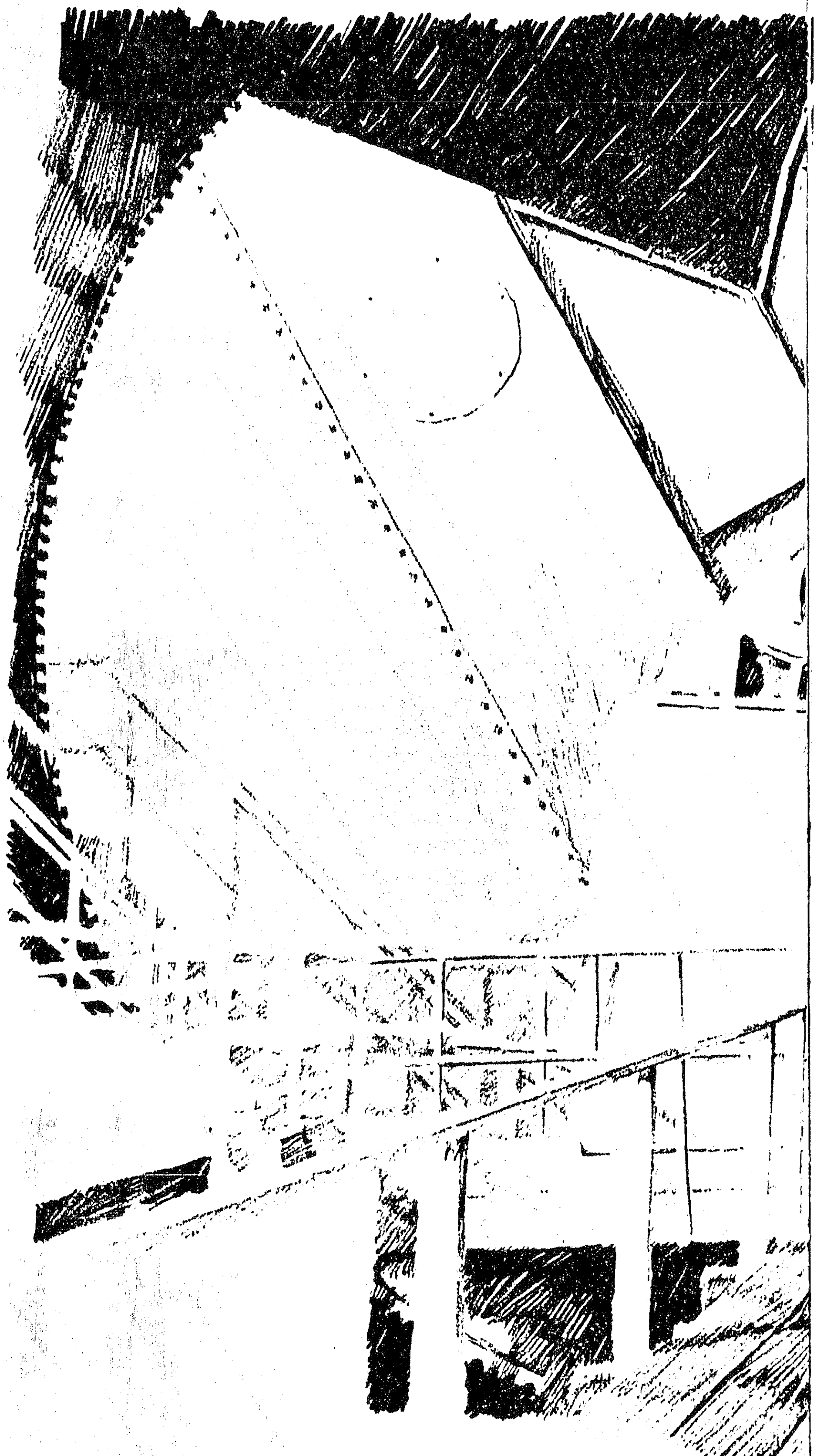
The sulfuric acid plant, scheduled for completion this spring, will utilize the waste gas from the new up-draft sintering, a process which desulfurizes lead concentrates for further treatment in the blast furnaces. Barge loading facilities on the Mississippi River will be constructed adjacent to the plant to permit barge transport of the acid along with rail and truck shipment. Sale of the acid produced will add to the profit margin of the Herculaneum plant.

Early in 1969, the Smelter completed installation of a straight line casting machine, of greater efficiency than the wheel casting devices presently in use.

Purchases of United States Government stockpile lead, on which no profit can be realized, were negligible during 1968.

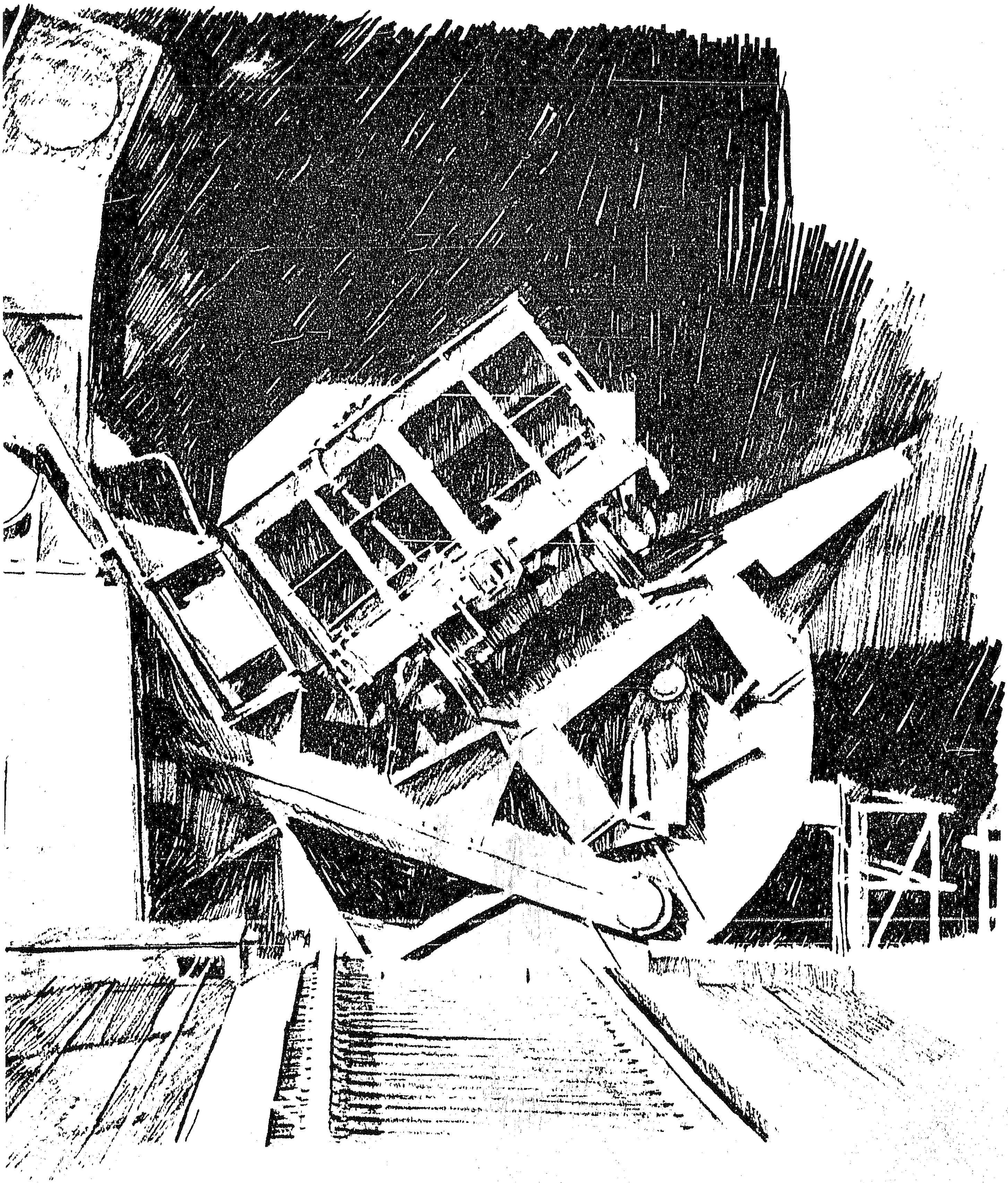
INTERNATIONAL OPERATIONS AND EXPLORATION Compania Minera Aguilar, S. A., in Argentina's Jujuy Province, mined and milled approximately the same tonnage as in 1967 despite interruptions for installation of new equipment and additions to the mill. Mill production—51,069 tons of zinc concentrate and 31,139 tons of lead concentrate in 1968—was sold in the Argentine market to meet increasing needs of Argentine industry.

The expansion involved the addition of secondary crushers, new ball mills and enlarged flotation equipment in the mill. Electrification



HERCULANEUM

Herculaneum Smelter's railroad car dumper, a part of the recent expansion program, typifies the plant's use of large-scale material handling equipment. Concentrates from St. Joe mines and other raw materials are unloaded in a fraction of the time formerly required.



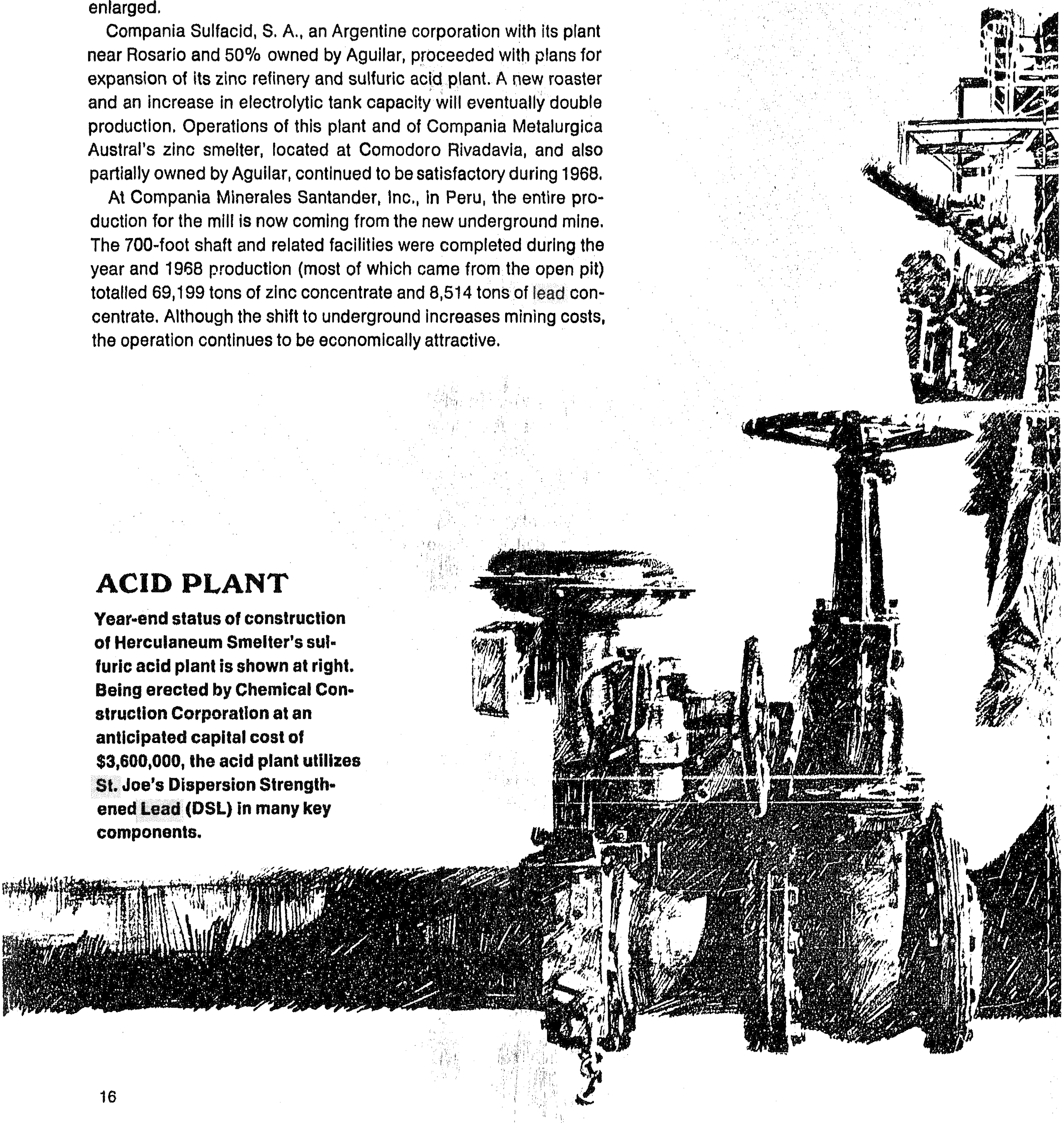
of the mine's main haulage system, a new primary crusher, automatic dumping station and increased capacity of the aerial tramway completed the chain of expanded production components. The power plant, shops and community facilities are being similarly enlarged.

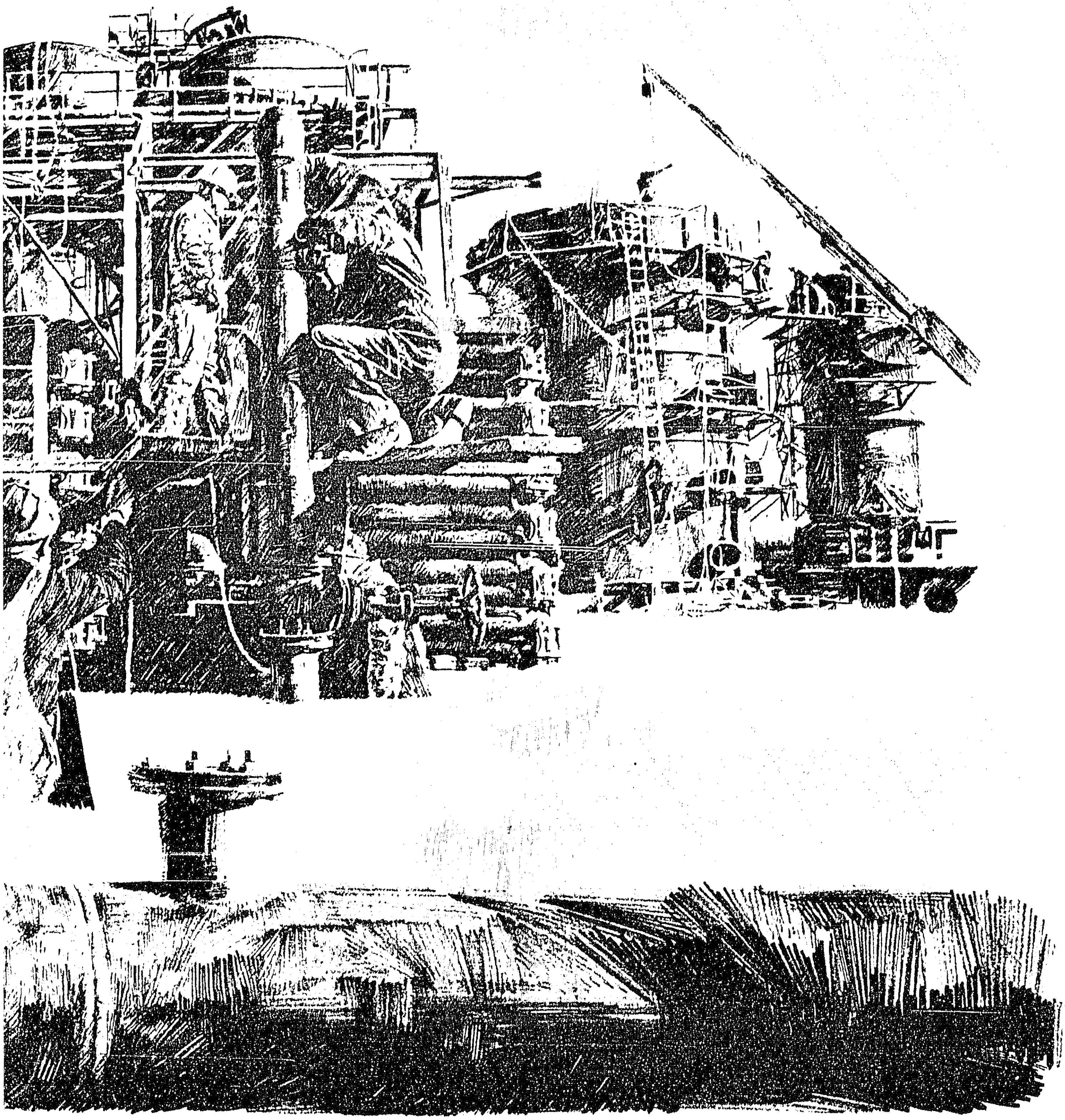
Compania Sulfacid, S. A., an Argentine corporation with its plant near Rosario and 50% owned by Aguilar, proceeded with plans for expansion of its zinc refinery and sulfuric acid plant. A new roaster and an increase in electrolytic tank capacity will eventually double production. Operations of this plant and of Compania Metalurgica Austral's zinc smelter, located at Comodoro Rivadavia, and also partially owned by Aguilar, continued to be satisfactory during 1968.

At Compania Minerales Santander, Inc., in Peru, the entire production for the mill is now coming from the new underground mine. The 700-foot shaft and related facilities were completed during the year and 1968 production (most of which came from the open pit) totalled 69,199 tons of zinc concentrate and 8,514 tons of lead concentrate. Although the shift to underground increases mining costs, the operation continues to be economically attractive.

ACID PLANT

Year-end status of construction of Herculaneum Smelter's sulfuric acid plant is shown at right. Being erected by Chemical Construction Corporation at an anticipated capital cost of $3,600,000, the acid plant utilizes St. Joe's Dispersion Strengthened Lead (DSL) in many key components.





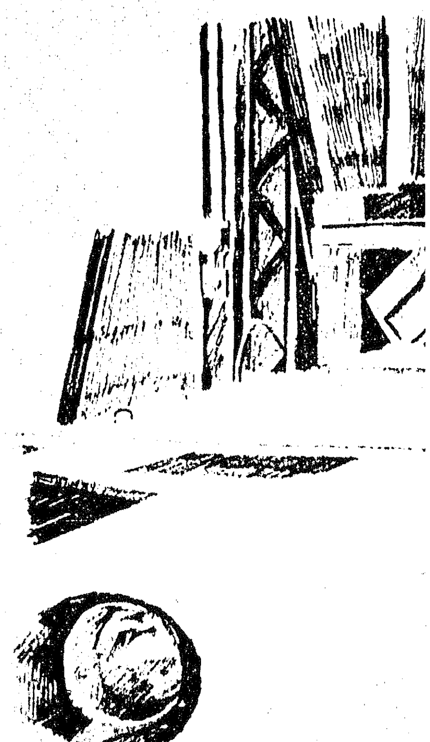
Exploration activities in both Peru and Argentina continued with accelerated use of the newest geological techniques. In Australia, St. Joseph Phelps Dodge Exploration Pty. Ltd., St. Joe's joint venture with Phelps Dodge Corporation, also continued its exploration activities.

MERAMEC MINING COMPANY Iron ore pellet production of the Pea Ridge Mine decreased in 1968 to 1,674,034 net tons from the 2,017,530 tons produced in 1967. Cutbacks in steel production, reducing second half demand for pellets and a plant-wide work stoppage of 5½ weeks in the late summer caused the production reductions. The work stoppage involved disputes over local issues following steel industry agreement on the economic aspects of a new labor contract. Meramec's 1968 contribution to St. Joe earnings was, therefore, reduced.

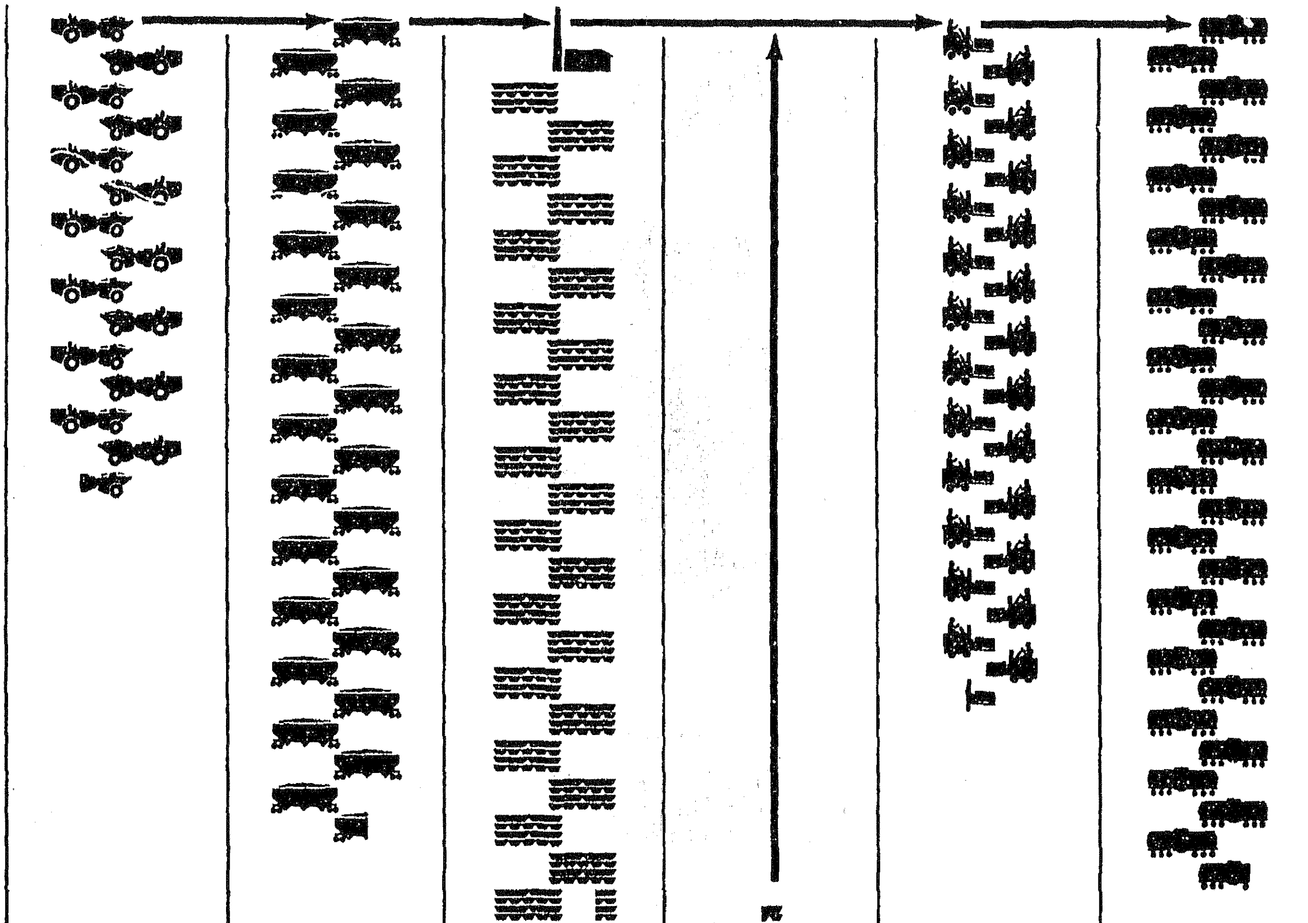
Manufacturers of ferrites are continuing their programs evaluating Meramec's high purity iron oxide, and St. Joe's marketing staff is expanding product introduction into a number of other fields, such as magnetic printing inks and brake linings. It is estimated that 1969 shipments of the oxide will be much greater than in 1968.

INTERNATIONAL OPERATIONS

Expanded operations and exploration highlighted 1968 activities in South America. El Aguilar, the Argentine mine of Cia. Minera Aguilar, utilizes the new ore haulage equipment shown at right and the two-mile aerial tramway moves crushed ore from the mine to the mill, 2,000 feet below. Exploration activities, which started in Peru with aerial reconnaissance, frequently require ground follow-up by geologists working in remote areas, as shown at left.

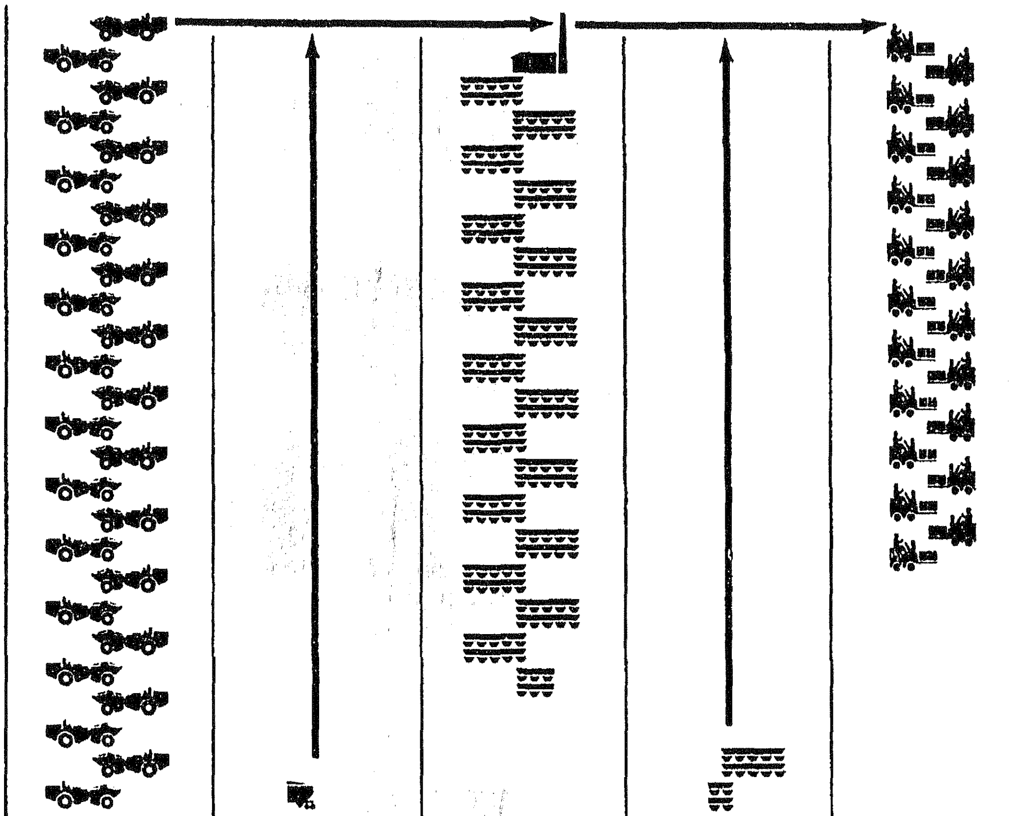


ST. JOE ZINC STATISTICS The basic elements of St. Joe's 1968 zinc production flow are shown below, each symbol representing 10,000 short tons. Column headings describe the major components of each element. This and the related ten year total tonnage statistics indicate the amount of purchased materials which now make up the smelter input. On completion of the new zinc mine and mill facilities, the purchased proportion of the input will be substantially reduced.



	Total tons of zinc concentrates from St. Joe mines and mills . . .	. . . plus total tons of purchased zinc bearing materials . . .	. . . produce zinc and zinc oxide, totalled as "slab zinc equivalent" in this column	Additional purchases of slab zinc tonnages . . .	. . . are included in total "slab zinc equivalent" sold.	Sulfuric acid is a major smelter by-product
1959	81,292	121,611	128,670	44,334	179,478	176,607
1960	128,762	166,613	148,788	26,730	158,276	186,722
1961	111,598	123,882	141,309	8,511	162,005	194,327
1962	104,080	170,281	153,968	4,709	152,258	189,866
1963	99,914	153,053	174,089	6,726	178,515	211,930
1964	117,473	214,772	193,444	15,538	211,731	243,920
1965	140,284	229,958	202,657	21,058	221,329	237,305
1966	147,860	250,413	216,910	9,874	214,189	252,987
1967	147,361	231,283	212,338	1,118	208,150	229,678
1968	146,139	264,818	233,454	2,591	244,883	287,594

ST. JOE LEAD STATISTICS The basic elements of St. Joe's lead metal production chain—from mine to finished metal—are shown below for the year 1968, each symbol representing 10,000 short tons. Column headings describe the major components of each element The related ten year total tonnage statistics shown below indicate the increasing proportion of St. Joe mine production in the expanded smelter output.



	Total tons of lead concentrates from St. Joe mines and mills . . .	. . . plus total tons of purchased lead concentrates are . . .	. processed at our smelter to produce pig lead and lead alloys	Additional purchases of finished pig lead tonnages . . .	. are included in total tons of pig lead sold in the year
1959	143,167	8,300	101,478	50,306	164,084
1960	147,879	13,656	98,447	33,209	131,852
1961	139,817	4,927	116,148	17	108,447
1962	86,375	4,453	77,156	—	112,857
1963	113,801	2,773	81,319	10,357	96,692
1964	170,704	3,528	117,643	8,724	125,177
1965	189,962	4,086	133,601	9,135	142,243
1966	189,225	4,796	118,354	69,301	175,762
1967	224,233	4,489	124,480	18,996	160,115
1968	262,079	3,396	175,717	13,989	210,172

CONSOLIDATED BALANCE SHEET DECEMBER 31, 1968 AND 1967

ASSETS	1968	1967
Current Assets:		
Cash	$ 2,411,351	$ 3,105,082
Marketable securities, at cost (market value, 1968, $24,629,773; 1967, $23,307,172)	25,653,924	23,249,984
Trade accounts receivable, less reserve, 1968 and 1967, $68,054	16,091,064	16,344,966
Other accounts receivable	1,486,936	1,613,498
Inventories (Note 1):		
Lead, zinc, etc.	16,217,702	17,288,565
Materials and supplies	8,663,615	7,631,663
Total Current Assets	70,524,592	69,233,758
Investments and Advances (at cost or below):		
Fifty-percent owned companies (Note 2)	14,321,574	14,489,542
Subsidiaries not consolidated (Note 3)	1,062,072	1,299,072
Other	49,511	57,786
Total Investments and Advances	15,433,157	15,846,400
Property (Note 4):		
Ore reserves	44,573,153	43,334,998
Land, buildings, plant and equipment	138,527,664	132,168,843
Mine development	11,995,063	10,236,282
Total	195,095,880	185,740,123
Accumulated depletion, depreciation, and amortization	108,955,488	104,940,947
Property—Net	86,140,392	80,799,176
Deferred Charges	3,939,969	4,237,410
Other Assets:		
Security deposits	3,108,589	962,666
Cash and marketable securities—Fire Insurance Fund	399,557	419,694
Other	783,674	602,382
Total Other Assets	4,291,820	1,984,742
Total	$180,329,930	$172,101,486

See Notes to Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	1968	1967
Current Liabilities:		
Accounts payable and accrued liabilities	$ 11,573,717	$ 8,696,316
Long-term debt due within one year (Note 5)	1,000,000	1,000,000
Federal income taxes	6,832,893	4,531,756
Total Current Liabilities	19,406,610	14,228,072
Long-Term Debt (Note 5)	13,666,669	14,666,669
Deferred Federal Income Taxes (Note 4)	10,511,317	9,204,604
Reserves for Self Insurance	1,077,939	1,222,155

Shareholders' Equity (Notes 6 and 7):
Capital Stock, par value $10 per share:
Authorized—10,000,000 shares

	Shares 1968	Shares 1967	1968	1967
Issued	9,188,406	4,594,203	91,884,067	45,942,033
In Treasury	654,606	108,565	6,546,067	1,085,653
Outstanding	8,533,800	4,485,638	85,338,000	44,856,380

	1968	1967
Other Capital—representing principally excess of amount of stock dividends over par value of capital stock	13,084,182	20,675,895
Retained Earnings	37,245,213	67,247,711
Total Shareholders' Equity	135,667,395	132,779,986
Total	$180,329,930	$172,101,486

See Notes to Financial Statements.

STATEMENT OF CONSOLIDATED INCOME FOR THE YEARS ENDED DECEMBER 31, 1968 AND 1967

	1968	1967
Net Sales	$150,811,758	$129,036,565
Cost of Sales	109,386,665	98,770,092
	41,425,093	30,266,473
Other Income:		
Dividends from unconsolidated subsidiaries	4,469,713	4,464,991
Interest	1,397,397	1,188,680
Royalty, Meramec Mining Company	1,250,000	1,250,000
Sundry, net	263,499	768,901
Total	48,805,702	37,939,045
Expenses:		
Administration and selling	3,691,600	3,310,558
Research and exploration	982,100	1,060,336
Depletion, depreciation and amortization (Note 4)	6,029,037	5,625,792
Interest	680,625	725,625
Total	11,383,362	10,722,311
Income Before Income Taxes	37,422,340	27,216,734
Federal and State Income Taxes (Note 9):		
Current	11,142,152	4,334,315
Deferred	1,306,713	1,478,533
Total	12,448,865	5,812,848
Net Income for the Year	$ 24,973,475	$ 21,403,886
Per Share—based upon average shares outstanding during the year (1967 adjusted for two-for-one stock split in 1968)	$2.89	$2.38

STATEMENT OF CONSOLIDATED RETAINED EARNINGS FOR THE YEARS ENDED DECEMBER 31, 1968 AND 1967

	1968	1967
Retained Earnings at Beginning of the Year (Note 4)	$ 67,247,711	$ 58,412,174
Net Income for the Year	24,973,475	21,403,886
Total	92,221,186	79,816,060
Cash Dividends Paid (1968, $1.425 per share; 1967, $1.40 per share—adjusted for two-for-one stock split in 1968)	12,308,873	12,568,349
Transfer to Capital Stock (Note 6)	42,667,100	—
Total	54,975,973	12,568,349
Retained Earnings at End of the Year	$ 37,245,213	$ 67,247,711

See Notes to Financial Statements.

1. Inventories

Inventories of lead, zinc, etc. (finished, in process, and concentrates) are valued at cost (not in excess of market), determined substantially on the last-in, first-out (LIFO) method. Materials and supplies are valued at average cost.

2. Fifty-Percent Owned Companies

Meramec Mining Company (50% owned by Bethlehem Steel Corporation) is a "cost company" whose income and expenses are included in the financial statements of its owners. At December 31, 1968 the Company's investment in Meramec amounted to $14,321,573.

The Company's equity in the net assets of Mine La Motte Corporation (50% owned by National Lead Company) at December 31, 1968 was $213,476 and its equity in the corporation's net loss for the year then ended was $25,796 Mine La Motte is an inactive corporation and the Company's investment therein is carried at $1

3. Subsidiaries not Consolidated

A balance sheet of Compania Minera Aguilar, S A. (99.9% owned) as of December 31, 1968 and a related statement of income for the year then ended, both in summary form and stated in Argentine pesos, follow:

BALANCE SHEET	Argentine Pesos*
Current Assets	2,740,709,897
Investments	201,160,072
Capital Assets	4,168,716,884
Deferred Charges	12,337,618
Total Assets	7,122,924,471
Current Liabilities	805,689,845
Long Term Debt	708,685,515
Reserves	367,732,177
Unearned Interest	7,964,446
Shareholders' Equity	5,232,852,488
Total Liabilities and Shareholders' Equity	7,122,924,471

STATEMENT OF INCOME	Argentine Pesos*
Gross Profit from Sales	2,867,376,611
Other Income	410,441,217
Total	3,277,817,828
Expenses, Other Taxes, Depreciation, Depletion and other Deductions	723,836,537
Argentine Income and Emergency Taxes, Net	504,892,046
Special Appropriation for Replacement of Capital Assets	118,806,400
Total	1,347,534,983
Net Income for the Year	1,930,282,845

*The quoted free rate of exchange was approximately 345 pesos to the dollar at December 31, 1968 and 1967.

The above financial statements are in conformity with accounting principles generally accepted in Argentina, which differ in respect to the accounting for capital assets and related depletion and depreciation and for special appropriations out of income for the replacement of capital assets, from those generally accepted in the United States of America.

The equity of the Company in the net income of the Argentine subsidiary exceeded dividends received by 526,867,485 pesos Dividends received are recorded as they are converted into U S. dollars or U.S. dollar bonds of the Argentine government. The Company's investment in Aguilar is included at $1.

The net assets of Compania Minerales Santander, Inc. (wholly owned) and its liability to the Company on debentures totaled $5,741,324 (which exceeded the Company's investment by $4,679,253) at December 31, 1968 and its net income for the year then ended was $946,202, which exceeded dividends received by $480,950.

4. Property and Deferred Federal Income Taxes

All properties are stated at cost except for $17,000,000 of mining properties and mineral rights stated at appraised values, for which full allowances for depletion have been provided.

Buildings, plants, and equipment (including the Company's share of Meramec capital assets) are depreciated on the straight-line method over their estimated service lives. Mining properties and mineral rights are depleted on the unit-of-production method based on estimated recoverable ore reserves. Deferred Federal income taxes resulting from the use of accelerated depreciation methods for tax purposes aggregate $6,003,457 at December 31, 1968.

The Company follows the practice of capitalizing mine development expenditures on new ventures for financial accounting purposes, and amortizing such expenditures on the straight-line or unit-of-production basis over the lives of the estimated recoverable ore reserves; for computation of Federal income taxes such expenditures are charged against income as incurred. Effective January 1, 1968, mine development expenditures are included in property, and related deferred Federal income taxes, aggregating $5,179,094 at December 31, 1968, are provided in accordance with Accounting Principles Board Opinion No. 11. Previously, such mine development expenditures had been included in deferred charges net of estimated related tax savings. Also, effective January 1, 1968, the Company provided for deferred Federal income taxes, aggregating $671,234 at December 31, 1968, on its reserves for self insurance. The change in accounting, which has been applied retroactively, did not materially affect net income for 1968; the financial statements for 1967 have been restated and retained earnings at January 1, 1967 has been decreased by $781,699 to reflect this change.

5. Long-Term Debt

Long-term debt at December 31, 1968, exclusive of amounts due within one year, comprises 4½% Notes Payable to Bethlehem Steel Corporation, aggregating $13,666,669 due March 31, 1984. Under its Credit Agreement with Bethlehem Steel Corporation the Company has assigned royalties to be received from Meramec Mining Company, up to $1,000,000 annually, as collateral security for the Notes.

6. Stock Split and Stock Options

On November 19, 1968, the Board of Trustees declared a two-for-one stock split to be effected in the form of a 100% stock dividend. On January 15, 1969, the Company issued 4,594,203 shares of Capital Stock and transferred $42,667,100, representing the par value of the shares issued (excluding 327,493 shares of Capital Stock added to Treasury) from Retained Earnings to Capital Stock The financial statements for 1968 give effect to this transaction.

Under the Company's Stock Option Incentive Plans adopted in 1958 and 1967, options have been granted to officers and other key employees under 60 years of age to purchase shares of the common stock of the Company at a price not less than the fair market value on the date the options are granted. The options are exercisable in equal annual instalments and any part of an option not exercised at the end of five years from the date of the grant becomes void and available for future grants.

During the year 1968, options for 36,752 shares were exercised. Other Capital was increased by $951,215 representing the excess of the aggregate option price over the par value of the shares issued.

Outstanding options at December 31, 1968, adjusted to reflect the three-for-two stock split in 1964 and the two-for-one stock split in 1968, are as follows:

Date of Grant	No. of Shares	Option Price
January 10, 1964	16,890	$17.79
July 8, 1965	55,150	20.62
September 14, 1966	80,550	18.81
	152,590	

At December 31, 1968, there were 400,000 shares available for future grants.

7. Treasury Stock

In 1968, Other Capital was reduced by $8,542,928 representing the excess of cost over par value of 255,300 shares of treasury stock purchased.

8. Retirement and Pension Plans

The Company and its subsidiaries have several pension plans covering substantially all of their employees, including certain employees in foreign countries. The total pension expense for the year was $1,696,749 The Company's policy is to fund pension cost accrued. The plans are non-contributory and all past service costs have been funded. At December 31, 1968, deferred past service costs were $1,822,166, which amount is to be amortized over the period as allowed by the Internal Revenue Code. The actuarially computed value of the vested benefits for the plans does not exceed the total of the pension fund.

9. Provision for Federal Income Taxes

The provision for Federal Income Taxes is affected by tax benefits (which may fluctuate from year to year) relating principally to statutory depletion and investment and foreign tax credits.

10. Subsequent Event

Subsequent to December 31, 1968, the managements of St Joseph Lead Company and The Hanna Mining Company have entered into a preliminary merger agreement subject to the approval of the boards and shareholders of the two Companies.

ACCOUNTANTS' OPINION

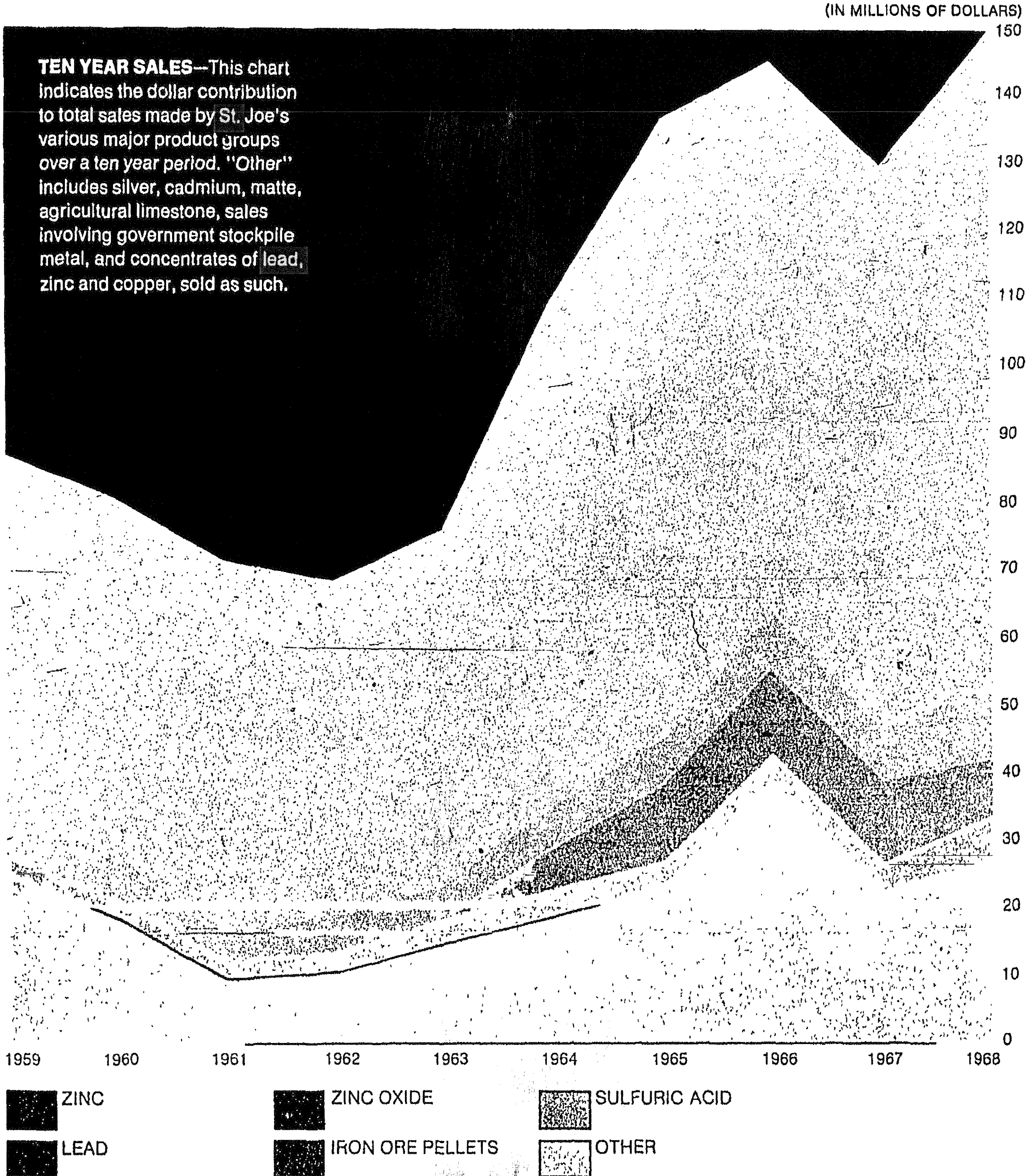
HASKINS & SELLS

To the Shareholders of St. Joseph Lead Company:

We have examined the consolidated balance sheet of St. Joseph Lead Company and its consolidated subsidiaries as of December 31, 1968 and the related statements of consolidated income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and retained earnings present fairly the financial position of St. Joseph Lead Company and its consolidated subsidiaries at December 31, 1968 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 24, 1969 HASKINS & SELLS



TEN YEAR SALES—This chart indicates the dollar contribution to total sales made by St. Joe's various major product groups over a ten year period. "Other" includes silver, cadmium, matte, agricultural limestone, sales involving government stockpile metal, and concentrates of lead, zinc and copper, sold as such.

COMPARATIVE FINANCIAL REVIEW 1959-1968

	1968	1967	1966
Average Metal Prices (Cents per pound)			
Lead, New York	**13.212**	14.000	15.100
Zinc, St. Louis	**13.500**	13.843	14.500
Sales	**$150,811,758**	$129,036,565	$145,109,767
Cost of Sales	**109,386,665**	98,770,092	112,595,456
Gross profit	**41,425,093**	30,266,473	32,514,311
Other Income:			
Dividends	**4,469,713**	4,523,185	5,560,331
Interest and other (net)	**1,660,896**	1,899,387	2,480,559
Royalty-Meramec Mining Company	**1,250,000**	1,250,000	1,250,000
Total	**48,805,702**	37,939,045	41,805,201
Expenses:			
Administration, selling and research	**4,332,484**	4,153,225	3,732,142
Strike and shutdown expense	**227,722**	—	—
Mine development and exploration[1]	**113,494**	217,669	686,490
Depletion, depreciation and amortization	**6,029,037**	5,625,792	4,517,848
Interest	**680,625**	725,625	853,906
U.S. and foreign income taxes	**12,448,865**	5,812,848	9,573,341
Total	**23,832,227**	16,535,159	19,363,727
Net Income Before Extraordinary Items	**24,973,475**	21,403,886	22,441,474
Extraordinary Items	—	—	—
Net Income	**$ 24,973,475**	$ 21,403,886	$ 22,441,474
Per Share Outstanding[2]	**$2.89[3]**	$2.38[3]	$2.46[3]
Percent Gross Profits from Sales Applicable to:			
Lead	**47**	40	36
Zinc	**48**	48	52
Iron	**5**	12	12
Total Assets	**$180,329,930**	$172,101,486	$166,766,587
Current Assets	**70,524,592**	69,233,758	68,814,652
Current Liabilities	**19,406,610**	14,228,072	17,768,371
Current Ratio (to 1)	**3.63**	4.87	3.85
Shareholders' Equity:			
Amount	**$135,667,395**	$132,779,986	$124,390,204
Per share outstanding at end of year[2]	**$15.90**	$14.80	$13.67

(1) Includes mine development 1959-1962. In subsequent years such expenditures were capitalized and the stated figures represent exploration charges.

(2) Adjusted to reflect the 10% stock dividend paid December 21, 1962, the three-for-two stock split effected September 30, 1964 and the two-for-one split as of November 29, 1968.

(3) 1968-1966 stated at average shares outstanding during the year; prior years at shares outstanding at end of the year.

1965	1964	1963	1962	1961	1960	1959
16.000	13.596	11.137	9.631	10.871	11.948	12.211
14.500	13.568	11.997	11.625	11.542	12.946	11.448
$136,156,901	$109,509,039	$ 75,598,525	$ 67,981,883	$ 71,008,301	$ 79,970,908	$ 86,611,677
96,979,226	83,481,096	57,932,666	58,106,248	58,063,668	69,062,502	72,804,292
39,177,675	26,027,943	17,665,859	9,875,635	12,944,633	10,908,406	13,807,385
1,982,553	4,455,494	2,613,188	3,588,027	1,634,422	1,991,830	2,276,864
2,300,335	1,779,855	781,304	952,053	2,493,264	551,587	732,196
1,250,000	1,250,000	1,250,000	729,166	—	—	—
44,710,563	33,513,292	22,310,351	15,144,881	17,072,319	13,451,823	16,816,445
3,478,610	3,209,101	2,657,207	2,542,330	2,272,135	2,322,476	2,355,219
—	—	1,566,461	1,844,107	—	—	316,272
402,011	300,990	290,406	2,770,751	2,304,202	2,880,829	1,850,551
4,980,737	4,602,631	3,897,981	3,538,848	3,180,607	3,766,920	3,334,648
1,121,922	1,378,073	975,111	1,142,997	1,136,735	1,172,042	1,154,307
12,132,229	6,223,069	4,089,719	461,300	1,827,226	333,898	1,501,169
22,115,509	15,713,864	13,476,885	12,300,333	10,720,905	10,476,165	10,512,166
22,595,054	17,799,428	8,833,466	2,844,548	6,351,414	2,975,658	6,304,279
14,610	2,332,715	—	1,532,241	—	—	—
$ 22,609,664	$ 20,132,143	$ 8,833,466	$ 4,376,789	$ 6,351,414	$ 2,975,658	$ 6,304,279
$2.47	$2.21	$.97	$.49	$.70	$.33	$.70
50	41	29	6	26	26	42
43	59	71	94	74	74	58
7	—	—	—	—	—	—
$160,465,864	$155,502,831	$124,616,808	$117,897,308	$120,298,163	$116,545,876	$117,549,738
74,347,349	70,071,803	45,422,385	46,823,524	54,787,270	45,178,167	50,098,983
17,129,015	14,222,293	11,352,128	8,753,333	11,276,912	7,485,650	7,456,767
4.31	4.91	3.98	5.35	4.86	6.04	6.72
$116,784,519	$104,443,842	$ 91,584,022	$ 85,427,260	$ 83,758,992	$ 80,121,775	$ 79,832,839
$12.78	$11.45	$10.08	$ 9.53	$ 9.34	$ 8.94	$ 8.91

WORKING CAPITAL ANALYSIS 1959-1968

	1968	1967	1966
Source			
Net Income	**$ 24,973,475**	$ 21,403,886	$ 22,441,474
Provision for Depreciation, Depletion and Amortization	**6,029,037**	5,625,792	4,517,848
Long-term Borrowing	—	—	—
Sale of Investments	—	—	4,000
Other, Net	—	—	1,251,360
Total	**$ 31,002,512**	$ 27,029,678	$ 28,214,682
Use			
Dividends Paid:			
Shares outstanding at end of year*	**8,533,800**	8,971,276	8,992,534
Per share*	**$1.425**	$1.40	$1.325
Amount	**$ 12,308,873**	$ 12,568,349	$ 12,050,896
Capital Expenditures	**10,303,990**	8,316,355	15,711,952
Investments	—	484,871	217,411
Repayment of Debt	**1,000,000**	1,000,000	3,550,000
Purchase of Company stock	**11,095,929**	507,813	2,856,476
Other, Net	**181,424**	192,885	—
Total	**$ 34,890,216**	$ 23,070,273	$ 34,386,735
Working Capital at End of Year	**$ 51,117,982**	$ 55,005,686	$ 51,046,281

* Adjusted to reflect the 10% stock dividend paid December 21, 1962, the three-for-two stock split

GENERAL STATISTICS 1959-1968

	1968	1967	1966
Number of Shareholders	**20,472**	18,585	16,204
United States Employees:			
Number	**4,032**	3,959	3,986
Salary and wage costs	**$ 33,983,700**	$ 32,038,839	$ 30,098,896
Pension and Retirement Plans:			
Members	**2,796**	2,796	2,910
Contributions	**$ 2,006,421**	$ 1,967,573	$ 1,154,212
Pensioners	**1,133**	1,097	1,081
Pension Payments	**$ 781,714**	$ 700,907	$ 624,676
Deferred Profit Sharing Plan:			
Eligible employees	**746**	758	675
Contributions	**$ 754,960**	$ 649,042	$ 679,585

1965	1964	1963	1962	1961	1960	1959
$ 22,609,664	$ 20,132,143	$ 8,833,466	$ 4,376,789	$ 6,351,414	$ 2,975,658	$ 6,304,279
4,980,737	4,602,631	3,897,981	3,538,848	3,180,607	3,766,920	3,334,648
—	18,000,000	—	3,000,000	—	—	5,000,000
5,724,028	197,213	—	—	8,549,758	—	—
603,060	1,834,237	376,409	—	160,211	—	1,468,425
$ 33,917,489	$ 44,766,224	$ 13,107,856	$ 10,915,637	$ 18,241,990	$ 6,742,578	$ 16,107,352
9,141,130	9,120,156	9,084,651	8,968,146	8,967,163	8,966,833	8,963,533
$1.15	$.83	$.414	$.303	$.303	$.303	$.303
$ 10,503,786	$ 7,588,828	$ 3,763,404	$ 2,717,622	$ 2,717,247	$ 2,717,222	$ 2,716,222
10,265,587	8,314,200	3,186,963	3,750,014	2,445,243	5,912,656	9,283,290
607,863	2,376,800	5,866,947	4,634,987	3,554,516	1,891,994	620,879
11,171,429	4,707,143	4,290,476	4,290,476	3,707,143	850,000	850,000
—	—	—	—	—	—	—
—	—	—	962,705	—	320,405	—
$ 32,548,665	$ 22,986,971	$ 17,107,790	$ 16,355,804	$ 12,424,149	$ 11,692,277	$ 13,470,391
$ 57,218,334	$ 55,849,510	$ 34,070,257	$ 38,070,191	$ 43,510,358	$ 37,692,517	$ 42,642,216

ected September 30, 1964 and the two-for-one split as of November 29, 1968.

1965	1964	1963	1962	1961	1960	1959
11,792	9,107	8,772	8,986	9,740	10,651	11,812
3,820	3,769	3,621	3,774	3,871	4,171	4,263
$ 27,900,722	$ 24,926,760	$ 20,813,527	$ 19,781,411	$ 22,598,389	$ 24,803,687	$ 22,670,522
2,911	2,788	2,628	2,777	2,789	2,690	2,622
$ 2,384,779	$ 1,314,415	$ 814,733	$ 939,017	$ 944,152	$ 1,049,557	$ 780,000
1,047	1,023	937	920	886	819	822
$ 606,841	$ 537,621	$ 496,194	$ 457,701	$ 434,517	$ 355,782	$ 331,550
666	669	687	683	702	698	682
$ 636,135	$ 590,768	$ 297,113	—	$ 189,966	—	$ 187,892

ST. JOSEPH LEAD COMPANY

Incorporated March 25, 1864, under the laws of the State of New York
Executive Office: 250 Park Avenue, New York, N.Y. 10017

EXECUTIVE OFFICERS

Francis Cameron
Chairman

Lawrason Riggs III
President

Robert H. Ramsey†
Executive Vice President

Malcolm Bonynge
Vice President

D. Broward Craig
Vice President & Secretary

John R. Englehorn
Vice President—Marketing & Development

Edward P. Merrell
Treasurer

William L. Murphy, Jr
Comptroller & Assistant Secretary

James L. Broadhead
Assistant Secretary

Frank J. Reidy
Assistant Comptroller

†Resigned January 31, 1969

MANAGER OF EXPLORATIONS

Norman H. Donald, Jr.

UNITED STATES DIVISION MANAGERS

Mines

Lawrence W. Casteel, *Southeast Missouri*
Mark E. Riley, *Balmat-Edwards, New York*

Smelters

John W. Sherman, *Herculaneum, Missouri*
Charles D. Henderson, *Josephtown, Pennsylvania*

Cia. Minera Aguilar, S.A., Argentina
Wing L. Lew, *Executive Vice President*
John E. Loser, *Managing Director*

Cia. Minerales Santander, Inc., Peru
Clinton L. Miller, *Vice President & General Manager*

Meramec Mining Company
Robert G. Peets, *Manager*

General Counsel
Debevoise, Plimpton, Lyons & Gates, *320 Park Avenue, New York, N.Y. 10022*

Transfer Agent
Bankers Trust Company, *16 Wall Street, New York, N.Y. 10015*

Auditors
Haskins & Sells, *Two Broadway, New York, N.Y. 10004*

Registrar
The First National City Bank, *111 Wall Street, New York, N.Y. 10015*

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