Annual Report

TO THE STOCKHOLDERS

for the

YEAR ENDED DECEMBER 31,

1945

ISLAND CREEK COAL COMPANY

1945
Annual Report

Island Creek Coal Company

for the year ended

December 31, 1945

Proxies for the Annual Meeting of Stockholders to be held on April 10, 1946 will be requested later, and the mailing to stockholders of the notice of meeting, proxy statement, and proxy will be started on or about March 29, 1946. Stockholders of record March 29, 1946 will be entitled to notice of, and to vote at such meeting or any adjournment thereof.

This report is not proxy-soliciting material, or a communication transmitted to stockholders in solicitation of proxies for any meeting of stockholders.
ISLAND CREEK COAL COMPANY

DIRECTORS

THOMAS B. DAVIS .................. New York, N. Y.
JAMES D. FRANCIS ................. Huntington, W. Va.
I. F. FREIBERGER ................. Cleveland, Ohio
GEORGE GUND ..................... Cleveland, Ohio
NEIL W. RICE ..................... Wenham, Mass.
ROBERT G. STONE .................. Brookline, Mass.

EXECUTIVE COMMITTEE

THOMAS B. DAVIS I. F. FREIBERGER
JAMES D. FRANCIS GEORGE GUND

NEIL W. RICE

CLERK

H. P. SWEETSER, Portland, Maine

TRANSFER AGENTS

ISLAND CREEK COAL COMPANY ................ Boston, Mass.
The New York Trust Company ................ New York, N. Y.

REGISTRARS OF STOCK

THE NATIONAL SHAWMUT BANK ................ Boston, Mass.
The Chase National Bank .................. New York, N. Y.
OFFICIALS OF
ISLAND CREEK COAL COMPANY

THOMAS B. DAVIS, Chairman, Board of Directors,
JAMES D. FRANCIS, President,
RAYMOND E. SALVATI, Vice-President in Charge of Operations,
H. A. GLOVER, Vice-President in Charge of Sales,
H. L. SMITH, Vice-President and Comptroller,
P. E. COYLE, Vice-President,
ROLLA D. CAMPBELL, General Counsel,
A. L. LYNN, Assistant to President,
M. L. BRENNAN, Secretary and Treasurer,
R. G. HELFRICH, Assistant Treasurer,
C. A. ROUSE, Assistant Secretary,
J. J. FOSTER, General Manager,
E. F. CLEVENGER, Assistant to Vice-President,
R. G. LAZZELL, General Superintendent,
W. T. SMYTHE, Director of Purchases,
R. S. FLINT, General Manager of Stores,
F. A. MACDONALD, Real Estate Agent,
F. C. HONCHELL, Auditor, West Virginia Properties,

New York, N. Y.
Huntington, W. Va.
Huntington, W. Va.
Huntington, W. Va.
Huntington, W. Va.
Boston, Mass.
Huntington, W. Va.
Huntington, W. Va.
Boston, Mass.
Huntington, W. Va.

CORPORATE OFFICE
85 EXCHANGE STREET, PORTLAND, MAINE

GENERAL OFFICE
75 FEDERAL STREET, BOSTON, MASS.

OFFICE OF CHAIRMAN, BOARD OF DIRECTORS
20 EXCHANGE PLACE, NEW YORK, N. Y.

PRESIDENT'S, GENERAL SALES, AND COMPTROLLER'S
OFFICES
700 GUARANTY BANK BUILDING, HUNTINGTON, W. VA.

HOME OFFICE
HOLDEN, WEST VIRGINIA
OFFICIALS OF SALES COMPANIES

H. A. Glover,  
Vice-President,  
Island Creek Coal Sales Co.,  
Huntington, W. Va.

C. R. Mabley, Jr.,  
General Manager of Industrial Sales,  
Island Creek Coal Sales Co.,  
Huntington, W. Va.

A. J. Chouinard,  
General Manager of Domestic Sales,  
Island Creek Coal Sales Co.,  
Huntington, W. Va.

L. C. Percival,  
Manager of Sales,  
Island Creek Coal Sales Co.,  
Cincinnati, Ohio

R. V. Jungwirth,  
Manager of Sales,  
Island Creek Coal Sales Co.,  
Detroit, Mich.

J. R. Evans,  
Manager of Sales,  
Island Creek Coal Sales Co.,  
Boston, Mass.

H. A. Damcke,  
Manager of Sales,  
Island Creek Coal Sales Co.,  
New York, N. Y.

A. E. Call,  
Manager of Sales,  
Island Creek Coal Sales Co.,  
Richmond, Va.

J. A. Sullivan,  
Manager of Sales,  
Island Creek Coal Sales Co.,  
Chicago, Ill.

J. A. Reilly,  
Vice-President,  
Queen City Coal Co.,  
Cincinnati, Ohio

SALES OFFICES
ISLAND CREEK COAL SALES COMPANY

<table>
<thead>
<tr>
<th>Address</th>
<th>City</th>
<th>State</th>
</tr>
</thead>
<tbody>
<tr>
<td>700 Guaranty Bank Building</td>
<td>Huntington</td>
<td>W. Va.</td>
</tr>
<tr>
<td>930 Dixie Terminal Building</td>
<td>Cincinnati</td>
<td>Oh.</td>
</tr>
<tr>
<td>1014 Book Building</td>
<td>Detroit</td>
<td>Mich.</td>
</tr>
<tr>
<td>75 Federal Street</td>
<td>Boston</td>
<td>Mass.</td>
</tr>
<tr>
<td>20 Exchange Place</td>
<td>New York</td>
<td>N. Y.</td>
</tr>
<tr>
<td>1418 Central National Bank Building</td>
<td>Richmond</td>
<td>Va.</td>
</tr>
<tr>
<td>3325 Board of Trade Building</td>
<td>Chicago</td>
<td>Ill.</td>
</tr>
<tr>
<td>1141 Terminal Tower Building</td>
<td>Cleveland</td>
<td>Ohio</td>
</tr>
<tr>
<td>402 Washington Building</td>
<td>Washington</td>
<td>D. C.</td>
</tr>
</tbody>
</table>
It is with a deep sense of personal loss and a keen realization
that the Company has been deprived of a trusted and always
dependable source of strength that the Directors enter on their
records the death on June 30, 1945 of

CLARENCE A. HIGHT

a Director and a Vice President of the Company, to which offices
he was elected, respectively, on October 1, and October 4, 1910,
and which he held to the date of his death.

Mr. Hight was one of the original incorporators of the Island
Creek Coal Company on September 30, 1910, as well as of its
predecessor, the Boston Petroleum Company, on September 25,
1895, the name of which company was changed on October 1, 1895
to United States Oil Company, and again on June 2, 1902 to United
States Coal and Oil Company. For years he was a Director and
Clerk of the latter company.

Throughout this period of almost fifty years, many perplexing
and difficult questions growing out of organization, reorganiza-
tions, business conditions and economic changes arose, calling for
sound judgment and wise decisions. Here Mr. Hight's legal knowl-
edge and practical experience in matters of corporate organization
and management were of great value to the Company, and his
honest, straightforward and thorough thinking materially aided
his associates in carrying on its affairs with courage and confidence.

In years to come, with all the complicated problems that
must be dealt with, those who were privileged to work with Mr.
Hight will always remember his friendly cooperation and the help-
fulness of his advice and decisions. Through these remembrances
he will long continue to be a vital force in future councils of the
Company.
To the Stockholders:

Your Directors present herewith their report for the year ended December 31, 1945.

The Consolidated Balance Sheet as of December 31, 1945, the Consolidated Statement of Income and Earned Surplus for the year then ended, together with the report of the Independent Auditors, appear on pages 15 to 18, inclusive.

The year just ended will go down in history as an important one. It saw the end of World War II, in which the United States played a decisive part. The military victory of our nation and its allies was complete and overwhelming, and resulted from a combination of military power, industrial capacity, and scientific attainment. In this the coal industry played a vital part, and it can be justifiably proud of the contribution it made toward victory. Your management fully realized that the war could not be won without an adequate supply of coal, and every effort was put forth to produce maximum tonnages from your properties. In the 5-year period 1941-1945 your company and its lessees produced in excess of 41 million tons of coal, while the bituminous industry as a whole produced the almost inconceivable total of 2,883 million tons.

This nation is now involved in the problems of converting to a peacetime economy, a transition that will require the greatest possible effort if we are to be as successful in peace as in war. Your management is coping with these problems and looking toward the future, formulating plans and policies that will best serve the nation, the company's customers, its employees, and its stockholders.

EARNINGS AND DIVIDENDS

Consolidated net profits for the year 1945, after all charges, were $1,937,834.48, which, after deducting Preferred dividends of $151,614.00, were equal to $3.01 per share for the Common stock. In 1944, net profits amounted to $2,172,011.89, which, after deducting Preferred dividend requirements, represented earnings for the Common stock of $3.40 per share.

The consolidated results for 1945 and 1944 are summarized below:

<table>
<thead>
<tr>
<th>Year 1945</th>
<th>Year 1944</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings before deductions indicated below</td>
<td>$5,128,279.70</td>
</tr>
</tbody>
</table>

Deductions:

| Provision for depletion, depreciation, and obsolescence | $1,008,078.01 | $1,194,814.14 |
| Transferred to general reserve | — | 150,000.00 |
| Taxes of all kinds | 2,182,967.21 | 3,845,293.17 |

| Total deductions | $3,190,445.22 | $5,190,107.31 |

Net Profits to Surplus | $1,937,834.48 | $2,172,011.89 |
Dividends totaling $6.00 per share on the Preferred stock and $2.00 per share on the Common stock were paid in 1945.

BITUMINOUS COAL PRODUCTION

According to preliminary figures, national production of bituminous coal in 1945 was approximately 576 million tons, against 620 million tons in the previous year. Coal stocks in the hands of consumers and retail dealers at December 31, 1945 totaled 45,665,000 tons, a reduction of 11,339,000 tons from a year ago. There was ample market throughout the year for all coal that could be produced in all districts. The decline in production was due largely to lack of manpower, absenteeism, strikes, and exhaustion of developed reserves. The decline in production of underground mines was proportionately far greater. A substantial part of the country's increased production for the past three years has come from strip mines with limited reserves and inadequate or no preparation facilities, and from mines which cannot operate under competitive conditions because of high cost or poor quality.

In 1945, production from your properties totaled 7,679,517 tons, of which 6,116,479 tons were produced by Island Creek mines and 1,563,038 tons by lessees of your company and its subsidiaries. Output of the Island Creek mines in 1945 was 1,110,900 tons less than in 1944. This reduction in output was due almost entirely to shortage of manpower, absenteeism, and strikes. War demands were largely responsible for the manpower shortage, absenteeism was partially unavoidable due to inadequate transportation, illness, and increased age of workmen, and the strikes were not due to any local difficulty between the mine management and the workers.

A table of production since the beginning of operations in 1905 appears on page 19.

GAS AND OIL DEVELOPMENT

Under the working arrangement with the Columbian Carbon Company referred to in last year's report, prospecting and drilling for gas and oil continued throughout 1945 and will continue during 1946. To date, 27 wells have been drilled and completed. Of these, 17 are productive gas wells, one produces a small quantity of high-grade oil, and 9 had gas showings in insufficient quantity to be of commercial value. The productive gas wells indicate an open flow of approximately 38 million cubic feet per day. None of the gas has been sold nor are any sales contemplated until the drilling program has progressed to the point where pipe line layouts and other transportation facilities can be planned intelligently. It is expected that from 15 to 18 additional wells will be drilled in 1946. During 1945 the company expended a total of $207,089.43 on this oil and gas development.

The results of the venture to date are gratifying. With completion of the drilling program for 1946 it is believed that marketing of gas can be started early in 1947. On the whole, your officers feel that this department will prove profitable over a period of years.
SUBSIDIARY AND ASSOCIATED COMPANIES

The outlook for your various subsidiaries for the coming year is good. Both the Island Creek Fuel and Transportation Company, a wholly-owned river transportation subsidiary, and the Queen City Coal Company, a wholly-owned retail subsidiary in Cincinnati, Ohio, were able to serve your company and its customers well in 1945. The Transportation Company handled a total of 1,236,163 tons over its river facilities. Of this, 616,077 tons were shipped from the mines of the companies and largely supplied the requirements of regular customers. Operation of the river facilities has been handicapped by lack of coal supplies which, under orders of the Solid Fuels Administration, had to go in other directions during the war. It is hoped that a substantial increase in tonnage will be made in 1946. Towing capacity on the river was substantially increased by the purchase of the Steamer Renown in January, 1945, which, prior to being put into commission, was changed from an oil burner to a coal burner. This steamer has greater power and more towing ability than your other steamers.

The leases of the Carnegie Coal Corporation property and the United Thacker Coal Company property have made substantial progress in their development and the outlook is that their production in 1946 should be equal to that in 1945.

The Carnegie Dock & Fuel Company, with docks at Duluth, Minnesota, and Superior, Wisconsin, serving customers in Minnesota, Wisconsin, North and South Dakota, and Iowa, performed a satisfactory service in 1945, handling 895,800 tons of coal as compared with 890,170 tons in 1944. The outlook for 1946 is indicative of a satisfactory year.

The sales and administrative facilities jointly used by your company and the Pond Creek Pocahontas Company, and its subsidiary, the Marianna Smokeless Coal Company, continue to work to the mutual advantage of all companies.

PROPERTY

Capital expenditures in 1945 totaled $1,221,821.90, and covered principally the cost of 245 acres of mineral lands; additions to machinery, buildings, and equipment at the Island Creek mines and towing equipment for the River Transportation Company. Credits for property sold or otherwise disposed of totaled $295,067.73. The property reserves increased a net of $855,844.07 in 1945, through a reservation from profits of $1,008,078.01 less the elimination of $152,233.94 provided on the property sold or otherwise disposed of during the year.

PORTAL TO PORTAL

On May 7, 1945, the United States Supreme Court handed down its decision in the Jewel Ridge portal-to-portal case. By this 5 to 4 decision the coal industry must pay for travel time as work time. In your mines the actual productive time is approximately 7 1/2 hours per day while the men are paid for the entire 9-hour period they are in the mines.
The 1945 contract between the coal producers and the United Mine Workers allowed either party to reopen contract negotiations at any time after March 1, 1946, and the Mine Workers have requested a conference beginning March 12, 1946, to consider a new wage contract. The earnings of bituminous coal miners are at an all-time high for the coal industry. In our opinion, the take-home earnings of the miners will not decline as long as the present demand for coal continues.

On January 1, 1941, the miner working at the basic hourly rate received $28 for a 5-day work week; at present he receives, including pay for travel time within the mines, $50 for 5 days or $63.50 for 6 days' work. Your machine operators earn $62.15 for a 5-day work week or $79.08 for a 6-day week. In addition, shift differential payments have been inaugurated for night workers, vacation allowances of $75 per year are now paid, and tools and supplies, formerly purchased by the employee, are now furnished by the employer. The present wage scale became effective April 1, 1945 and during the 9 months ended December 31, 1945 the average daily earnings at Island Creek were $11.63 per man and the average annual earnings of men who worked full available time in each pay period during the full year approximated $3,600.

Bituminous coal is facing stern competition from petroleum, natural gas, hydro-electric power and other sources of heat and energy, and because of the high percentage of labor cost to total cost of production of coal, a 3% increase in coal mine wage rates would have as much effect on total cost as a 15% increase in petroleum or natural gas wage rates. There is great danger both to the coal industry and the mine workers in a wage scale under which coal cannot be economically marketed in competition with these fuels.

Your productive organization as represented by your management from the Operating Vice-President to the General Manager, Superintendents, Mine and Section Foremen, Assistant Foremen, and all the supervisory force, have cooperated fully and are working in the closest harmony, and we know of no finer cooperation between foremen and the supervisory force and management in any other industry. This cooperation is essential to safe, efficient and economic coal production, and any effort to break down this management system is detrimental to all segments of the industry — to production organizations as well as to the rank and file of Union workers. It is highly desirable that these controversial legal questions be corrected by Congress so that individual freedom and employment relations that have been the basis of America's great progress can again be restored and recognized as a fundamental right to all free men.

The Chesapeake & Ohio Railway Company, on which your mines are located, and its affiliates, the Nickel Plate Railroad and Pere Marquette Railroad, have rendered excellent service during the year. No war task was greater than
that assigned to our American railroads, and that they have been able to carry out this assignment and still give satisfactory service to their customers is an achievement for which they should be given all due credit.

**TIMBER SUPPLY**

One of the largest items of expense in coal mines is timber and due to the excessive cutting during the war the timber supply adjacent to your mines has been materially reduced. Your company and its subsidiary, the United Thacker Coal Company, have approximately 70,000 acres of surface lands, about two-thirds of which are available for growing timber for mine use. Well-trained forestry engineers have been added to your timber department staff, and as a matter of both protection and economy it is planned to push a comprehensive program of growing and harvesting from your own property a larger part of the timbers that will be needed in the mine operations.

**INSURANCE AND PENSIONS**

Since the inauguration of the Group Life Insurance plan in September, 1937, beneficiaries of 40 employees have received death benefits in the amount of $157,700. At the end of 1945, 495 employees were insured for $2,429,100.

At December 31, 1945, 260 employees of your company and its subsidiaries were participating in the Retirement Annuity Plan for salaried employees earning $225 or more per month, which plan became effective on October 1, 1944 and was referred to in the Annual Report for that year. Company contributions to this plan in 1945 totaled $41,183.

**STOCKHOLDERS AND EMPLOYEES**

At December 31, 1945, there were 528 Preferred stockholders and 4,567 Common stockholders of Island Creek Coal Company, an increase of 8 Preferred and 93 Common stockholders over a year ago. Geographically the stocks were widely held, the owners representing every state in the Union. At the end of 1945 the average number of shares held per Preferred stockholder was 48 and per Common stockholder, 130.

At December 31, 1945, the employees of your company and its subsidiaries totaled 3,517 as compared to 3,382 at the end of 1944.

**FUTURE OUTLOOK AND PLANS**

Due primarily to the return of employees from military service, the manpower situation has improved in recent months, and is expected to continue to show improvement during the coming year. These men are being welcomed back and are being readily fitted into positions which are mutually advantageous to them and to your present organization.

With adequate manpower supply and maintenance of present working time, your management estimates production from your mines in 1946 will exceed 1945, provided no time is lost due to strikes or other interruptions to operation. On that same assumption, production for the
country as a whole is estimated at approximately 540 million tons in 1946, which, it is felt, will closely approximate the national consumption plus foreseeable demands for export coal.

Estimates for the 5-year period 1946-1950, inclusive, based on surveys by the Department of Commerce, Appalachian Coals, Inc., and your own sales organization, show a probable annual production of between 525 and 550 million tons. These estimates are based on the expectation that industrial peace will be restored and that artificial government restrictions will be removed, permitting production and sales to go forward on the basis of a sound, free economy, looking toward the replacement of the present shortage of goods with an abundant supply.

Looking forward to this demand, and planning for the continuous operation of your mines for many years, your production, sales, and distribution departments are formulating plans to provide an adequate supply of coals best suited to customers' needs and to market these coals advantageously. To maintain an average production of 7 million tons per year it is necessary to anticipate the closing of mines as their coal reserves are exhausted. One new mine is now under construction, to be known as Mine 24. It will begin producing about July 1, 1946 and it is hoped it will be completed and up to its expected annual rate of production of one million tons by the end of 1946. This mine will operate in one of the Cedar Grove series of coal seams and will be served by the Norfolk & Western Railway, whose lines had already been extended to this area and are now in substantial readiness to give service. The territory covered by this new mine is on the property of the United Thacker Coal Company, a subsidiary acquired by Island Creek Coal Company in 1941. The new mine will be completely mechanized and the preparation plant, through which the coal will be cleaned, sized and loaded into railroad cars, will be of the latest design to facilitate advantageous marketing of the coal. This coal will be of high quality, low sulphur, low ash and high heat value, and with the sizing and preparation planned it is the opinion of your sales department that this coal will meet a most satisfactory consumer acceptance.

Plans are being completed to open another operation to be known as Mine 25, as soon as materials and equipment are available. This mine, also, will operate in one of the Cedar Grove series of seams, adjacent to Mine 24, and is scheduled for an average annual output of one million tons. It is hoped it will be in full operation by July, 1947.

In addition, present plans call for the opening of five more mines within the next five to eight years on the Chesapeake and Ohio Railroad, with a combined annual capacity of approximately three million tons. Your property contains various seams of coal and when a new mine is opened it will operate in the seam that will produce the coal deemed best suited to meet market requirements at that time. All these mines will be completely mechanized and will have entirely modern preparation plants.

The entire program for new mines will require an expenditure during the next seven or eight years of eight to ten million dollars, after
transferring as much equipment as is practicable from exhausted mines. Plans and designs for layouts of these mines and the construction of the necessary plants are under the management and direction of your own operating and engineering departments.

MARKETING The successful marketing of your company’s coal requires an extensive and efficient sales and distribution department. This is the function of your subsidiary, Island Creek Coal Sales Company, which acts as a sub-agent for Appalachian Coals, Inc. Island Creek Coal Sales Company directly sells the output of Pond Creek Pocahontas Company and its subsidiary, Marianna Smokeless Coal Company, whose tonnages, added to Island Creek’s, make a yearly average of approximately 10 million tons.

Retailers and domestic consumers, as well as consumers of industrial coal, are all striving for greater satisfaction and convenience in domestic coal and greater efficiency and economy in industrial coal. Retailers and industrial buyers had grown much more discriminating before the outbreak of the war and this condition must be anticipated to an even greater degree with the return of competitive markets. To meet these demands, your sales department and combustion engineers are analyzing available markets, equipment trends, and consumer requirements in order to recommend the sizes and grades which can be delivered from each mine to perform the most efficient and satisfactory service for each type of consumer and on each type of burning equipment. In opening new mines or changing preparation plants, full joint consideration is given by both sales and operating departments to the marketing problems and advantages involved.

Appalachian Coals, Inc., which is the primary sales agent for Island Creek coals, is a selling agent with identical contracts with many producing companies. One of its important functions is the study of markets, trends in equipment, changes in competitive conditions in various consuming areas and in various types of consumption for the common good of all producing companies affiliated with it. Another important function is the promotion of active cooperation with the retail coal dealers in the merchandising of coal. Through intelligent analysis of markets and proper selection and application of sizes and grades of coal for different uses, in the opinion of your company, Appalachian Coals, Inc., is responsible under normal competitive conditions for an average realization 12½ to 15½ per ton higher than would be obtained otherwise. Likewise, the consumer has received a greater value for his coal dollar through the selection and application of the coal best suited to his needs.

RESEARCH, PUBLIC RELATIONS AND DOMESTIC MERCHANDISING

You have been advised of your management’s interest in, and its support of, cooperative movements within the industry carried on by the National Coal Association through its affiliates, Bituminous Coal Research, Incorporated, and Bituminous Coal Institute. Bituminous Coal Research has made encouraging progress during the past year in developing new and improved
burning equipment for both domestic and industrial use. It has also made considerable progress in various experiments directed toward the development of a gas turbine locomotive which should be a tremendous advance over the present steam-driven locomotives and should be able to compete most favorably with the most modern Diesels. The successful culmination of this project should go a long way toward maintaining the supremacy of coal as locomotive fuel.

Bituminous Coal Institute has made marked progress during the year in its efforts to create a better understanding of the coal industry and the service it performs not only for American industries but for the great majority of the people. It is hoped this public relations work can now be greatly accelerated through active cooperation of retail coal merchants in all coal-burning areas of the United States.

A further movement has now been organized in conjunction with retail coal merchants to launch a nation-wide, cooperative program to improve the merchandising of domestic coal, promote the sale of modern burning equipment, and improve coal heating service to the householder. This plan has been approved by the Board of Directors of the National Coal Association and the American Retail Coal Association and will constitute the first nation-wide, cooperative merchandising effort between the producers and retail distributors of coal and coke.

YOUR EMPLOYEES This report would not be complete without an expression of appreciation for the loyalty and cooperation shown by your employees during the past year, as in other years. Under trying conditions they have done a splendid job, and the war record made by your company would have been impossible without their efforts.

BY ORDER OF THE BOARD OF DIRECTORS,

JAMES D. FRANCIS, President.

March 12, 1946.
REPORT OF INDEPENDENT AUDITORS

TO THE DIRECTORS OF
ISLAND CREEK COAL COMPANY

Boston, Massachusetts

We have examined the consolidated balance sheet of Island Creek Coal Company and subsidiary companies as at December 31, 1945, and the consolidated statement of income and earned surplus for the year 1945. We have reviewed the system of internal control and the accounting procedures of the companies, and without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

The policy of the companies in respect to depletion and depreciation has been, in general, to charge against earnings such amounts, based upon rates applied to tonnage sold, as will provide, in the opinion of the management, for the retirement of fixed assets at the end of their expected useful lives.

In our opinion, the accompanying consolidated balance sheet and related consolidated statement of income and earned surplus present fairly the position of Island Creek Coal Company and subsidiary companies at December 31, 1945, 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 previous year.

BARROW, WADE, GUTHRIE & CO.

Accountants and Auditors.

Boston, Massachusetts
March 6, 1946
## ISLAND CREEK COAL COMPANY
### CONSOLIDATED BALANCE

### ASSETS

**Property (Appraised Value June 30, 1915, and Subsequent Additions at Cost):**

<table>
<thead>
<tr>
<th>Description</th>
<th>Gross</th>
<th>Less Reserves</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal, timber and surface lands</td>
<td>$12,464,615.51</td>
<td>$5,972,038.24</td>
<td>$6,492,577.27</td>
</tr>
<tr>
<td>Mines development, plant construction and equipment</td>
<td>17,988,636.02</td>
<td>12,082,519.83</td>
<td>5,906,116.19</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$30,453,251.53</strong></td>
<td><strong>$18,054,558.07</strong></td>
<td><strong>$12,398,693.46</strong></td>
</tr>
</tbody>
</table>

### Current Assets:

- **Cash**                                      : $1,973,950.13
- **United States Government securities (at cost):**
  - Treasury bills                              : $3,996,234.00
  - Defense and treasury bonds                  : 300,000.00
  - Excess profits tax refund bonds             : 500,011.20
  - **Total**                                    : 4,796,245.20
- **Accounts and notes receivable, less reserve for doubtful accounts** : 2,496,187.02
- **Inventories at cost or market, whichever lower:**
  - Coal                                        : $156,749.45
  - Operating supplies and store merchandise    : 1,424,031.61
  - **Total**                                    : 1,580,781.06
  - **Deferred Charges**                        : 10,847,163.41

### Carnegie Dock and Fuel Company:

- **Investments and advances** : $7,515,367.64
- **Accounts receivable** : 635,606.76
  - **Total**                                    : 1,150,974.40

### Miscellaneous Investments

- **Total**                                    : $16,736.00

### Deferred Charges:

<table>
<thead>
<tr>
<th>Description</th>
<th>Gross</th>
<th>Less Reserves</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid insurance, taxes, etc.</td>
<td>$166,013.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-life equipment at depreciated values</td>
<td>73,594.15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment and supplies — gas properties</td>
<td>51,673.63</td>
<td></td>
<td>291,280.78</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$247,048.85</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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## Liabilities

### Capital Stock and Paid-In Surplus of Island Creek Coal Company:

**Capital Stock:**
- $6.00 cumulative preferred stock, par value $1.00 (entitled to $120.00 per share and accrued dividends on liquidation)
- Common stock, par value $1.00

<table>
<thead>
<tr>
<th>Preferred</th>
<th>Common</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares authorized</td>
<td>100,000</td>
</tr>
<tr>
<td>Shares issued</td>
<td>49,869½</td>
</tr>
<tr>
<td>Shares in treasury and purchased for retirement</td>
<td>24,600½</td>
</tr>
<tr>
<td>Shares issued and outstanding</td>
<td>25,269½</td>
</tr>
</tbody>
</table>

**Paid-In Surplus**

<table>
<thead>
<tr>
<th>Preferred</th>
<th>Common</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid-In Surplus</td>
<td>11,124,721.03</td>
</tr>
<tr>
<td>Total</td>
<td>$11,743,855.69</td>
</tr>
</tbody>
</table>

### Current Liabilities:

- Accounts and drafts payable: $1,018,970.15
- Reserve for estimated federal taxes on income: $2,035,484.15
- Less: U.S. treasury tax notes: 1,900,000.00
- Accrued payrolls and other taxes: 500,328.20
- Preferred dividend payable January 2, 1946: 37,908.50

**General Reserve**

<table>
<thead>
<tr>
<th>Preferred</th>
<th>Common</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Reserve</td>
<td>750,000.00</td>
</tr>
</tbody>
</table>

**Minority Interest in Subsidiary**

<table>
<thead>
<tr>
<th>Preferred</th>
<th>Common</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minority Interest in Subsidiary</td>
<td>385.00</td>
</tr>
</tbody>
</table>

### Reserve for Workmen’s Compensation Awards and Claims

<table>
<thead>
<tr>
<th>Preferred</th>
<th>Common</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserve for Workmen’s Compensation Awards and Claims</td>
<td>$20,976.33</td>
</tr>
<tr>
<td>Less: Cash and U.S. treasury bonds deposited with Trustee</td>
<td>20,976.33</td>
</tr>
</tbody>
</table>

**Deferred Income**

<table>
<thead>
<tr>
<th>Preferred</th>
<th>Common</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred Income</td>
<td>65,403.76</td>
</tr>
</tbody>
</table>

**Earned Surplus**

<table>
<thead>
<tr>
<th>Preferred</th>
<th>Common</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earned Surplus</td>
<td>10,452,517.60</td>
</tr>
<tr>
<td>Total</td>
<td>$24,704,848.05</td>
</tr>
</tbody>
</table>
ISLAND CREEK COAL COMPANY
And Subsidiary Companies
CONSOLIDATED STATEMENT OF INCOME
AND EARNED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1945

GROSS SALES . . . . . $23,247,896.41
Less: Cost of sales . . . 17,768,091.57

INCOME FROM OPERATIONS . . . $ 5,479,804.84

INTEREST, ROYALTIES AND MISCEL-
ELLANEOUS INCOME . . . 302,341.32

TOTAL INCOME . . . . . $ 5,782,146.16

Deduct:
Administrative and general
costs . . . . . $ 555,914.63
Taxes, other than federal
taxes on income . . . 582,367.21
Loss on sale of physical
properties . . . . . 97,951.83 1,230,333.67

PROFIT BEFORE DEPLETION AND
DEPRECIATION CHARGES AND
FEDERAL TAXES ON INCOME . $ 4,545,912.49

Deduct:
Provision for depletion and
depreciation . . . 1,008,078.01

PROFIT BEFORE FEDERAL TAXES
ON INCOME . . . . . $ 3,537,834.48

Deduct:
Provision for federal income
and excess profits taxes . 1,600,000.00

BALANCE CARRIED TO EARNED
SURPLUS . . . . . $ 1,937,834.48
EARNED SURPLUS—JANUARY 1, 1945

Total . . . . . 9,854,026.44

DIVIDENDS:
Preferred . . . . . $ 151,614.00
Common . . . . . 1,187,729.32 1,339,343.32

EARNED SURPLUS—DECEMBER 31, 1945 $10,452,517.60
<table>
<thead>
<tr>
<th>Year</th>
<th>Produced by Island Creek Mines</th>
<th>Produced by Lessees</th>
<th>Total Coal Produced</th>
</tr>
</thead>
<tbody>
<tr>
<td>1905</td>
<td>147,703</td>
<td>—</td>
<td>147,703</td>
</tr>
<tr>
<td>1906</td>
<td>351,541</td>
<td>—</td>
<td>351,541</td>
</tr>
<tr>
<td>1907</td>
<td>691,347</td>
<td>—</td>
<td>691,347</td>
</tr>
<tr>
<td>1908</td>
<td>941,036</td>
<td>—</td>
<td>941,036</td>
</tr>
<tr>
<td>1909</td>
<td>1,220,326</td>
<td>—</td>
<td>1,220,326</td>
</tr>
<tr>
<td>1910</td>
<td>1,685,487</td>
<td>—</td>
<td>1,685,487</td>
</tr>
<tr>
<td>1911</td>
<td>1,876,446</td>
<td>—</td>
<td>1,876,446</td>
</tr>
<tr>
<td>1912</td>
<td>2,059,887</td>
<td>185,252</td>
<td>2,245,139</td>
</tr>
<tr>
<td>1913</td>
<td>1,916,100</td>
<td>130,596</td>
<td>2,046,696</td>
</tr>
<tr>
<td>1914</td>
<td>2,207,444</td>
<td>150,322</td>
<td>2,357,766</td>
</tr>
<tr>
<td>1915</td>
<td>2,213,616</td>
<td>88,899</td>
<td>2,302,515</td>
</tr>
<tr>
<td>1916</td>
<td>2,280,444</td>
<td>211,662</td>
<td>2,492,323</td>
</tr>
<tr>
<td>1917</td>
<td>1,933,805</td>
<td>73,983</td>
<td>2,007,788</td>
</tr>
<tr>
<td>1918</td>
<td>1,891,375</td>
<td>138,027</td>
<td>2,029,402</td>
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<tr>
<td>1919</td>
<td>1,731,413</td>
<td>65,949</td>
<td>1,847,362</td>
</tr>
<tr>
<td>1920</td>
<td>1,795,077</td>
<td>2,458</td>
<td>1,797,535</td>
</tr>
<tr>
<td>1921</td>
<td>3,240,993</td>
<td>—</td>
<td>3,240,993</td>
</tr>
<tr>
<td>1922</td>
<td>3,144,423</td>
<td>—</td>
<td>3,144,423</td>
</tr>
<tr>
<td>1923</td>
<td>3,152,919</td>
<td>—</td>
<td>3,152,919</td>
</tr>
<tr>
<td>1924</td>
<td>4,951,403</td>
<td>—</td>
<td>4,951,403</td>
</tr>
<tr>
<td>1925</td>
<td>6,025,715</td>
<td>32,602</td>
<td>6,058,317</td>
</tr>
<tr>
<td>1926</td>
<td>6,506,930</td>
<td>69,497</td>
<td>6,576,427</td>
</tr>
<tr>
<td>1927</td>
<td>7,397,980</td>
<td>33,699</td>
<td>7,431,679</td>
</tr>
<tr>
<td>1928</td>
<td>5,430,843</td>
<td>196,826</td>
<td>5,627,669</td>
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<tr>
<td>1929</td>
<td>6,305,012</td>
<td>272,831</td>
<td>6,577,843</td>
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<tr>
<td>1930</td>
<td>5,406,501</td>
<td>226,090</td>
<td>5,722,591</td>
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<tr>
<td>1931</td>
<td>4,329,022</td>
<td>133,480</td>
<td>4,462,502</td>
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<tr>
<td>1932</td>
<td>3,464,622</td>
<td>105,922</td>
<td>3,533,544</td>
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<tr>
<td>1933</td>
<td>3,688,490</td>
<td>178,248</td>
<td>3,866,738</td>
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<tr>
<td>1934</td>
<td>3,475,825</td>
<td>176,708</td>
<td>3,652,533</td>
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<tr>
<td>1935</td>
<td>3,602,903</td>
<td>124,772</td>
<td>3,727,675</td>
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<tr>
<td>1936</td>
<td>4,450,065</td>
<td>233,102</td>
<td>4,684,167</td>
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<tr>
<td>1937</td>
<td>4,288,877</td>
<td>228,248</td>
<td>4,517,125</td>
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<tr>
<td>1938</td>
<td>3,524,448</td>
<td>214,446</td>
<td>3,738,894</td>
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<tr>
<td>1939</td>
<td>4,701,827</td>
<td>381,174</td>
<td>5,083,001</td>
</tr>
<tr>
<td>1940</td>
<td>5,532,708</td>
<td>324,256</td>
<td>5,856,964</td>
</tr>
<tr>
<td>1941</td>
<td>6,377,786</td>
<td>173,192</td>
<td>6,550,978</td>
</tr>
<tr>
<td>1942</td>
<td>6,871,560</td>
<td>1,466,368</td>
<td>8,337,928</td>
</tr>
<tr>
<td>1943</td>
<td>7,266,038</td>
<td>1,971,835</td>
<td>9,237,873</td>
</tr>
<tr>
<td>1944</td>
<td>7,297,879</td>
<td>2,142,773</td>
<td>9,440,652</td>
</tr>
<tr>
<td>1945</td>
<td>6,116,479</td>
<td>1,563,038</td>
<td>7,679,517</td>
</tr>
<tr>
<td>Total</td>
<td>151,556,606</td>
<td>11,408,645</td>
<td>162,965,251</td>
</tr>
</tbody>
</table>