Proxies for the Annual Meeting of Stockholders to be held on April 9, 1947 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 24, 1947. Stockholders of record March 28, 1947 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
H. A. Glover ................. Huntington, W. Va.
George Gund ................. Cleveland, Ohio
Sidney W. Winslow, Jr. ....... Brookline, Mass.

EXECUTIVE COMMITTEE

Thomas B. Davis
James D. Francis
I. F. Freiberger
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 Chase National Bank ............. New York, N.Y.
OFFICIALS OF
ISLAND CREEK COAL COMPANY

Thomas B. Davis, Chairman, Board of Directors, New York, N. Y.
James D. Francis, President, Huntington, W. Va.
H. A. Glover, Vice-President in Charge of Sales, Huntington, W. Va.
H. L. Smith, Vice-President and Comptroller, Huntington, W. Va.
P. E. Coyle, Vice-President, Boston, Mass.
Rolla D. Campbell, General Counsel, Huntington, W. Va.
A. L. Lynn, Assistant to President, Huntington, W. Va.
M. L. Brennan, Secretary and Treasurer, Boston, Mass.
C. A. Rouse, Assistant Secretary, Holden, W. Va.
E. F. Clevenger, Assistant to Vice-President, Holden, W. Va.
F. A. Macdonald, Real Estate Agent, 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

700 Guaranty Bank Building .......... Huntington 1, W. Va.
930 Dixie Terminal Building .......... Cincinnati 2, Ohio
75 Federal Street .................... Boston 10, Mass.
20 Exchange Place ................... New York 5, N. Y.
3825 Board of Trade Building ......... Chicago 4, Ill.
1141 Terminal Tower Building ......... Cleveland 13, Ohio
402 Washington Building ............. Washington 5, D. C.
To the Stockholders:

Your Directors present herewith their report for the year ended December 31, 1946.

The year 1946, which it was hoped would end a period of war adjustments and start the country on an era of large production and prosperity, was in many ways a year of maladjustments and difficulties. The anticipated large production with a plentiful supply of goods at lower prices was not realized, due largely to the succession of strikes in coal and other major industries, country-wide in scope, which disrupted operation and distribution schedules and presented management problems more difficult in many respects than the problems of the war years. These strikes were largely the result of administration policies and legislation which permitted the creation of national unions in basic industries, with power to shut down indispensable industries and paralyze the economic life of the country.

STRIKES

The Island Creek mines lost 57 days’ work as a result of the strikes, in addition to other losses from absenteeism. These strikes were costly to the company’s employees, its customers, and its stockholders. The loss of earnings to the company’s employees approximated 2 million dollars, the average per employee being slightly in excess of $750. In addition to this loss of earnings, the employee saw his cost of living advance as, due to strikes, goods became scarcer and prices rose. These losses were unnecessary, as the employees were offered almost the same wage increase in March that was agreed upon by the Government at the end of May.

While there was a substantial rise in the cost of coal due to the increased wage scale under the Government contract, coal consumers suffered additional losses due to interruption of operations at their plants and factories which made it impossible to meet production and delivery schedules. The total losses to the public as a result of the 1946 coal strikes have been estimated at 4 billion dollars, or more than twice the mine value of all coal produced in 1946. From a long-range standpoint, the coal industry and its employees will suffer losses in markets, wages, and working time due to the loss of business and good will of customers who were forced to use poorer grade coals and other fuels at a higher cost than they should have been required to pay.

The first major strike in the bituminous coal industry in 1946 began on April 1 and extended to May 13; the other began November 20 and ended December 7. In addition, there were numerous local and district strikes. There were no quarrels between your company and its employees, and both were victims of a so-called “nation-wide collective bargaining contract” which prevented your company from bargaining collectively with its own employees, or with groups of other employers and employees in the fields in which your mines are located. The 1945 contract was an attempt to bargain for an industry operating in 28 states, representing several thousand employers with hostile or divergent interests and views, serving different markets in different geographic locations or the same markets with different freight rates, employers who are com-
petitors and not employers with a common interest — and 400,000 miners whose only common interest is membership in both a local and a national union. The United Mine Workers asked that this contract be reopened, and a conference for this purpose was called in March, 1946.

At this conference, the representatives of the Union presented their proposals in vague and general terms, which, among other things, included a demand for the establishment of a Union health and welfare fund, and the right to take into a branch of their Union the greater part of management and supervisory employees. They used up a large part of the time in criticising the industry and the employers. They did not make known their specific demands on wages or any other matter and refused to discuss any of them unless the principle of a health and welfare fund was agreed to. The operators rejected that demand but offered to extend the 1945 contract from March 31, 1946, to increase wages 18½ cents per hour, provided approval for such increase could be obtained from the Stabilization Board, and to continue negotiations of other matters. This offer was refused by the United Mine Workers and they went on strike from April 1 to May 13. On May 22 the Government, for the fourth time since 1941, seized the mines, and on May 29 the Secretary of the Interior made a contract on behalf of the Government with the United Mine Workers, granting them almost all their demands. The producers had no voice in making this contract, which contains terms the coal industry and your company cannot afford to accept.

The average daily earnings of your employees under this Government-Union contract has been $13.42. This does not include the provision for vacation with pay at the rate of $100 per year nor does it include the 5 cents a ton which the Government, under its contract has directed us to pay into a so-called “health and welfare fund”. The stockholders should understand that this contract is not between the company and its employees and that payments made thereunder are by order and direction of the Government and over the protest of your company. The contract was made for the period of Government control of the mines and is still in effect. It was this contract which the Union attempted to cancel in November, 1946, precipitating the November-December strike.

The United States Government, under the direction of the President, asked the United States District Court to enjoin the Mine Workers and Mr. Lewis, their President, from carrying out and maintaining the November-December strike and that the Mine Workers be directed to return to work in compliance with the terms of the contract between the Interior Department and the Mine Workers’ organization. Temporary injunction was granted, but Mr. Lewis and other officers of the Union refused to abide by the decree of the United States District Court. Contempt proceedings were instituted, which resulted in a fine of $10,000 against Mr. Lewis, the President of the Union, and a fine of $33½ million against the Union itself. The defendants carried the case to the Supreme Court and the Government joined in a request to have the disposition of the case expedited. This was done, and on March 6, 1947 the Supreme
Court sustained the decision of the lower court but modified and reduced the fine against the Union, on the condition that the Mine Workers' officials recognize the validity of the contract dated May 29, 1946, between the Government and the Union and so notify its members five days after the decree of the Supreme Court reaches the District Court.

While this litigation was pending, the operators composing the Wage Negotiating Committee decided that their views and interests are so divergent that they cannot negotiate as a national group. The views of your management on this matter are well known, it being their opinion that collective bargaining on a national basis cannot result in wage scales that are fair and just for either producers or employees — that bargaining on a nation-wide basis has created an effective national monopoly and will, if continued, result in the formation of government-controlled cartels with resulting loss of freedom for both employees and employers, and the imposition of unfair and improper burdens on the public.

The Government contract with the miners expires on June 30 unless the Government turns the mines back to the owners at an earlier date. Whether contract negotiations will be by individual companies, local or state-wide districts, or on a larger regional basis is not known. It is in the interest of the miners, the coal industry, and the public that these collective bargaining contracts be made on no larger than a regional basis where coals, working conditions, and freight rates are similar, and, further, that these various regional agreements do not expire at the same time so that in the event of a disagreement, the consuming public can get coal from other districts and not be injured by the disagreement between operators and miners. It is the duty of Congress to see that monopolies detrimental to the public interest be prohibited by amending the anti-trust laws so that they will apply to labor monopolies as they now do to monopolies in industry.

The Government-Union agreement for the coal industry imposes a royalty tax of 5 cents on each ton of coal produced, which would create a fund for the Union workers of between $26 million and $28 million a year. If the rate were 7% of gross payrolls, as finally demanded by the Union, the fund would be almost tripled. Such a fund administered for Union members would give the Union bargaining agents, as administrators thereof, tremendous power over the men they represent. If such Union funds should become established in all industries at rates demanded by the Unions, i.e., 3% to 7% of the gross payroll, the annual payments into them by industry would be from $2 to $5 billion. The public interest is not served by employer-financed Union-administered health and welfare funds. They tend to create a monopoly and Congress should pass whatever legislation is necessary to expressly prohibit any representative of employees from demanding or collecting money to be used in a so-called "welfare fund" and such demands or agreements should be made an unfair labor practice.

To protect individual freedom and free enterprise, Congress should also make it clear that management, supervisory, and technical employees are not subject to the National Labor Relations Act. If the Union demand for unionization of management employees had been
granted, many of these employees would have been forced to quit their jobs in the industry and give up chances of promotion and advances in pay, or join and pay dues to a union against their wills. This attack on the freedom of the individual and of management is of the most serious importance. Your management employees are largely selected from union employees by way of promotion, so the danger to them is very great. There should be a return to a system of freedom for the individual employee under a fair and equal system of laws. While the country has a supply of other fuels, including wood, petroleum, natural gas, and hydropower, they are not in adequate supply and this country cannot prosper and have an abundance of goods at low prices without an abundant and regular supply of coal at reasonable cost. Nothing is of more importance to our economy and the general wellbeing of all our people, and Congress has no more important duty than to revise our labor laws and bring about regular and continuous employment in the coal industry. Socialism is not the answer — the answer lies in individual freedom and free enterprise.

**AGREEMENT WITH GOVERNMENT**

Your company, along with many others in the industry, has entered into an agreement with the Government electing to operate your mines during the period of Government possession for the company's account rather than for the account of the Government, but reserving the right to assert claims against the Government for damages resulting from certain specific orders of the Coal Mines Administrator. This contract is subject to cancellation by your company upon 10 days' notice.

**BITUMINOUS COAL PRODUCTION AND STOCKS**

In the year 1946 the United States produced approximately 532 million tons of bituminous coal, which compares with a production of 578 million tons in 1945. The stock of coal at the beginning of the year was 45.7 million tons, and at the end of the year 1946 was 47.1 million tons. These figures do not show the loss of production and consumption both at home and abroad. Due to the shortage of coal, factories were closed, railroads reduced service, domestic consumers restricted consumption, and schools, hospitals and other public institutions greatly limited their activities. All this resulted in loss, inconvenience, unemployment, shortages of goods, and higher prices. Not only did it affect this country but it greatly limited restoration of normal conditions in foreign lands. A very substantial quantity of coal was needed in Canada, Europe, Africa, and South America, which this country was unable to ship because of strikes. Since these countries could not get coal, they could not supply themselves nor their neighboring countries with food, clothing, and manufactured goods, and thus the whole international situation has deteriorated on account of these strikes, and the expense to our Government has been greatly increased.

Coal production from your properties during the last two years follows:
<table>
<thead>
<tr>
<th></th>
<th>Year 1946</th>
<th>Year 1945</th>
</tr>
</thead>
<tbody>
<tr>
<td>Island Creek Mines</td>
<td>5,664,704</td>
<td>6,116,479</td>
</tr>
<tr>
<td>Lessees</td>
<td>1,174,990</td>
<td>1,563,038</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,839,694</strong></td>
<td><strong>7,679,517</strong></td>
</tr>
</tbody>
</table>

Production of coal from the Island Creek mines, like that of other mines in the industry, was below expectations in 1946, and the company was unable to supply the needs of its customers in a satisfactory manner. But for the strikes, production at your Island Creek mines would have approximated 7 million tons, as compared with 5,664,704 tons actually produced. Your mines and other deep mines producing high-grade coals suffered more than those producing low-grade coals, which have smaller output in normal times. As a result, some of your best customers were compelled to buy low-grade coal, not satisfactory to their needs, and others to use fuel oil, natural gas, or hydro-power. Under Government orders your mines and others were prohibited from shipping coal for export, and only low-grade coals as a rule were shipped in the overseas export trade. The reputation of American coal, both for quality and good service, has been injured thereby.

As a result of these shortages of coal, the selling prices of coal throughout the year generally were maximum OPA prices. This restricted the earnings of the industry and, together with the higher wages, increased cost of materials, shutdown expense, and absenteeism, caused the coal industry as a whole to operate on a very narrow margin of profit in 1946. The coal industry as a whole has been limited to a very much lower return on the value of its properties during the war period than manufacturing industries generally. For the 6-year period 1941-46, inclusive, the net earnings of the industry after Federal taxes amounted to approximately 1½ per cent on an estimated $3 billion investment in the industry, while most other producing and manufacturing industries were earning from 2 to 5 times as great a return. The limited profit which the coal industry has been allowed to make over these years as well as the restrictions under the anti-trust laws on marketing and distribution in normal times has handicapped its efforts to improve properties and to broaden research and development programs and has subjected it to much unjust criticism by public officials, so-called “economists”, and writers, who blame the industry for not making expenditures for research and improvements on a grand scale, without realizing that Government policy for many years and in both wars so limited returns on investment in the coal industry that earnings were not available to carry out research and development programs.

NEW MINES

In the 1945 report, reference was made to your management’s plan for the development of new mines as the coal reserves in the old mines become exhausted, in order to be in a position to maintain an average annual production of 7 million tons.
In line with that program, development on Mine No. 24 continued throughout the year, and development on two additional mines to be known as Nos. 25 and 26 was started late in the year. These three mines are located on the property of your subsidiary, United Thacker Coal Company, and will operate in the Cedar Grove series of seams.

Progress in the development of your No. 24 mine, while delayed by strikes and shortage of materials, has been satisfactory; and underground conditions are better than expected. The coal is of high quality and should be readily accepted in the market. Your management expects to mine this coal at a reasonable cost and to find a ready market for it with established customers. At the end of the year this mine was producing at the rate of 50,000 tons per month, and if there are no further interruptions in delivery of materials and equipment, or slow-downs of construction and operation due to strikes, the mine should reach its expected annual production of 1,200,000 tons shortly after July 1, 1947. The tipple and screening and sizing plant of this mine were put in operation about the first of February, 1947, and the washing and treating plant and blending bins should be completed and in operation by May 1. This will permit shipment from this mine of well-prepared and well-sized Lump, Egg, Stove and Nut coals, properly treated and blended. Also under contract for completion on December 31 is an additional plant for further washing, sizing and mixing the \( \frac{3}{4} \times 0'' \) coal from this mine and drying it for shipping separately or remixing with the larger sizes to fit the requirements of the most exacting trade. This plant will be one of the most modern your company has ever built, and the coal from this mine under normal conditions should have ready acceptance in your usual markets at a satisfactory price.

Mines Nos. 25 and 26 will work two of the Cedar Grove seams of coal lying but 40 feet apart, Mine No. 25 in the lower seam, No. 26 in the upper. The slopes will be approximately 100 feet apart and development is proceeding at both mines simultaneously. Coal was reached in Mine No. 26 on March 1, 1947. It is expected that a temporary tipple will be in operation, and production will start on a commercial basis around July 1, 1947; and this mine, when developed, will have an annual capacity of from 500,000 to 600,000 tons. It is expected that capacity production will be reached before the first of July, 1948. The slope to Mine No. 25 should be completed by May 1, 1947, and development and production of coal should start within a very few weeks thereafter. Temporarily, this coal will be put over the No. 26 tipple. It is expected that the Mine No. 25 tipple will be completed by April 1, 1948, and that the mine will reach full production at the rate of 100,000 tons per month by fall of 1948.

The coal from Mine No. 25 is identical in quality with that from Mine No. 24, and this mine will be completely mechanized with what is believed to be the most economical type of machinery for this seam of coal. The tipple, screening, washing, treating, sizing, and blending plants and equipment will be similar to those being installed at your No. 24 Mine, and the coal produced will be well prepared, high quality, low ash, low sulphur, and high fusion coal which will be highly satisfactory for
industrial steam, gas making, metallurgical, and domestic uses and will be the equivalent of the best coals ever produced by the Island Creek Coal Company and superior in quality to most of the coals we have marketed for the past several years.

The coals from Mine No. 26 will also be mined mechanically with the same general type of inside equipment and slightly different type of tipple and preparation plant, but on the whole, both of these coals will be well prepared for their respective markets. No. 26 coal will be highly desirable for industrial, railroad, and domestic purposes; and it is equivalent in quality with most of the better coals the company has produced over the past decade.

Plans are also being made for the opening of three additional mines within the next two or three years, one of which will be in the Eagle seam with an annual capacity of 500,000 tons, the other two to be in the Cedar Grove series of seams with an annual capacity of 1 million tons each. The expenditures for development, construction and equipment at No. 24, No. 25, No. 26 and the three additional plants projected are expected to total from $7\frac{1}{2}$ to $10$ million, but when these plants are completed — as it is now expected they will be some time in 1949 — the capacity of your mines will be adequate to serve your normal customers for a number of years to come.

Options have been taken on approximately 6,000 acres of new lands which are now being drilled, surveyed, and examined to determine whether or not purchase is warranted. The property is strategically located; and if the development work proves satisfactory and they are purchased by your company, it is expected that an additional plant will be installed on this property in the very near future with a capacity of between $\frac{3}{4}$ and 1 million tons per annum.

**GAS AND OIL**

Drilling for gas and oil continued during 1946 under the working arrangement with Columbian Carbon Company, and at the end of the year a total of 37 wells had been completed and drilling was in progress on 3 others. The results of this venture to December 31, 1946 are summarized below:

<table>
<thead>
<tr>
<th>Number of Wells Completed:</th>
<th>Year 1944</th>
<th>Year 1945</th>
<th>Year 1946</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas producers</td>
<td>6</td>
<td>8</td>
<td>8</td>
<td>22</td>
</tr>
<tr>
<td>Oil producers</td>
<td></td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Abandoned</td>
<td>1</td>
<td>6</td>
<td>6</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7</td>
<td>15</td>
<td>15</td>
<td>37</td>
</tr>
<tr>
<td>Wells drilling at end of year</td>
<td>2</td>
<td>5</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td><strong>Final daily open flow of gas in millions of cubic feet</strong></td>
<td>7.6</td>
<td>15.5</td>
<td>15.8</td>
<td>38.9</td>
</tr>
<tr>
<td><strong>Production of oil — barrels</strong></td>
<td>871</td>
<td>11,134</td>
<td>12,005</td>
<td></td>
</tr>
</tbody>
</table>

Since the beginning of 1947, approximately 10 million feet per day of additional gas has been brought in. This, with the gas that will come from oil wells, will bring the total open flow to approximately 50 million feet per day. Drilling for both oil and gas will be continued in 1947, plans calling for the completion of from 10 to 15 additional wells during the
year. Oil output has been retarded to conserve the substantial quantity of natural gas which comes out of the well with the oil, and until arrangements are made for the disposition of this gas, very small oil deliveries will be made. One additional oil well is now being drilled and locations for additional wells are being made.

Negotiations are now being carried on with prospective purchasers for gas already developed and to be developed on your property, with good prospects that these negotiations will be concluded within a short period of time. These negotiations contemplate the building of several miles of pipe lines by the purchaser to tie in with collecting lines now being constructed by Columbian Carbon Company and your company to bring this gas to a central point on your property. It will require several months to complete these connecting pipe lines, and we anticipate no deliveries before the Fall of 1947 or early 1948. This entire venture has proved satisfactory to date and has exceeded your management's expectations.

**SUBSIDIARY AND ASSOCIATED COMPANIES**

While the increased volume of business expected in 1946 for your subsidiary and associated companies did not materialize because of the strikes, the net earnings for the companies on the whole were satisfactory.

The tonnage volumes for 1946 and 1945 are shown below:

<table>
<thead>
<tr>
<th>Company</th>
<th>1946</th>
<th>1945</th>
</tr>
</thead>
<tbody>
<tr>
<td>Island Creek Fuel and Transportation Company</td>
<td>643,284</td>
<td>616,077</td>
</tr>
<tr>
<td>Island Creek coal handled</td>
<td>643,284</td>
<td>616,077</td>
</tr>
<tr>
<td>Other coal handled</td>
<td>517,562</td>
<td>620,086</td>
</tr>
<tr>
<td>Total</td>
<td>1,160,846</td>
<td>1,236,163</td>
</tr>
<tr>
<td>Queen City Coal Company—tons sold</td>
<td>110,156</td>
<td>134,319</td>
</tr>
<tr>
<td>Carnegie Dock &amp; Fuel Company—tons handled</td>
<td>816,005</td>
<td>895,796</td>
</tr>
<tr>
<td>Production of coal by lessees of Carnegie Coal Corporation and United Thacker Coal Co.</td>
<td>1,100,736</td>
<td>1,344,430</td>
</tr>
</tbody>
</table>

Barring serious interruptions to operations, the outlook for 1947 is for increased volume and some increase in earnings for all subsidiary companies.

**PROPERTY AND AMORTIZATION RESERVES**

Capital expenditures in 1946 totalled $1,146,621.54, and covered principally the cost of approximately 1,150 acres of coal lands purchased by your subsidiary, United Thacker Coal Company; the construction of 50 dwellings and the development, construction and equipment of new Island Creek mines referred to elsewhere in this report. Other additions were the cost of dry cleaning equipment for Mine No. 1 Preparation Plant, mine cars, cutting machines, loading machines, shuttle cars and a number of other items of plant and equipment for the operating mines and your River Company. Credits for property sold, retired from service, or destroyed by fire totalled $938,908.65. The properties destroyed by fire were fully covered by insurance.
Reserves for depletion and depreciation increased a net of $356,573.05 through a reservation from profits of $921,198.22 less the elimination of $664,635.17 provided on property disposals during the year.

**RAILROAD SERVICE**

Despite the operating difficulties encountered, the Chesapeake and Ohio Railway Company and its affiliates, the Nickel Plate Railroad and the Pere Marquette, serving your Mines Nos. 1, 7, 15, 16, 20, 22 and 23, and the Norfolk & Western Railway, which served your new Mine No. 24, furnished excellent transportation service throughout the year.

**INSURANCE AND PENSIONS**

Since the inauguration of the Group Life Insurance plan in September, 1937, beneficiaries of 43 employees have received death benefits in the amount of $175,800. At the end of 1946, 520 employees were insured for $3,061,800.

At December 31, 1946, 260 employees of this company and its subsidiaries were participating in the Retirement Annuity Plan for salaried employees. Company contributions to this Plan in 1946 totalled $50,948.86.

**STOCKHOLDERS**

At December 31, 1946, there were 535 Preferred stockholders and 4,400 Common stockholders of Island Creek Coal Company, a decrease of 3 Preferred and 167 Common stockholders from a year ago. At the end of 1946 the average number of shares held per Preferred stockholder was 48 and per Common stockholder, 133.

At December 31, 1946, the employees of your company and its subsidiaries totalled 3,750, as compared with 3,517 at the end of 1945.

**BITUMINOUS COAL REQUIREMENTS 1947**

According to the best information available, the demand for coal in 1947 should be in excess of 575 million tons, or almost 50 million tons more than was produced in 1946. This estimate is based on the tremendous demand for steel, automobiles, and other durable goods, coupled with an unusually large demand for export coal for Canada and overseas. Great industrial activity means high demand for electric power and railroad service, two of the largest coal consumers. A great deal of overseas export coal is needed to make up the shortages resulting from the war and from reduced production in England and on the Continent, but the supplying of this demand depends upon exchanges and credits. The greater part of this demand should disappear within the next two to five years as production is restored in foreign mines — if production is not restored, the economy of these countries will probably be on such an unsound basis that they will not have credits to pay for American coal and shipping.

While the coal industry is faced with increased competition from natural gas and petroleum products as well as with the reduction in demand due to a more efficient use of coal, the increased population and
It is gratifying to report that the bituminous coal industry as a whole, as well as your company, is approaching the problems of marketing, research, and development in a more constructive manner than at any time in its history. Tremendous improvements in mining and preparing coal and in burning methods have resulted in a more efficient fuel for railroads, industry, and house heating. These improvements have brought about a very large saving to the consuming public, have contributed greatly to the economy of the nation, and have benefited the coal industry. If these improvements had not been made, the nation's coal requirements in 1945 (a typical war year) would have been almost 900 million tons rather than the 600 million actually consumed. For example, in 1900 it required approximately 7 pounds of coal to generate one kilowatt hour of electricity, as compared to about 1.3 pounds today — a decrease of over 80 per cent. At the same time, the consumption of coal in electric plants increased from approximately 6 million tons in 1900 to 69 million tons in 1946. But for the improvement in quality of coal and the increase in efficiency of locomotive coal-burning equipment since 1920, the railroads would have required over 40 per cent more coal in 1946, or approximately 45 million tons additional, to perform the service they rendered.

Your sales department, in cooperation with Appalachian Coals, Inc., is following all developments closely and is attempting in every possible way to establish and maintain the best possible customer relationships by giving the best service and the most suitable coals available to every account. There has been great difficulty in doing this during the war due to the necessary diversion of coals by the Government for emergency purposes, but it is believed the period is approaching when it will be possible for the company to take care of its commercial commitments in a manner that will be satisfactory to all concerned. The greatest interference with orderly deliveries, of course, has been the strikes within our own industry over which we have had no control.

Neither the coal industry nor your company is satisfied with the progress made to date, and your executives and sales and engineering departments are cooperating in every way not only to mine and prepare your coal better but to develop more efficient equipment for burning and using coal. Through Bituminous Coal Research, Inc., your company is associated with a large number of other coal producers in developing new and more efficient burning equipment — stoves and furnaces that will burn bituminous coal smokelessly — stokers that will supply clean, uniform, and comfortable heat to the home with a minimum of attention— locomotives which will compete with Diesels from every standpoint of performance — better methods of transporting coal in winter — cheaper methods of handling coal through retail yards — in fact, literally dozens
of projects which, when finally completed, will be of tremendous benefit to your company, the coal industry generally, and coal consumers.

Consumers of coal, like those of other commodities, are influenced in their purchases of coal or competing fuels by what they think of the industry, its methods, and its products. Your management is convinced that no industry has performed a greater service to the consuming public than the coal industry. They are convinced that for most uses and in most consuming markets, coal is the cheapest and most economical fuel, and that especially in the home it furnishes the safest, most uniform, and most dependable heat that can be purchased. It is not enough, however, that the industry knows these facts. A great deal of propaganda is being spread by competitors and by writers who neither have nor seek the facts, in an effort to convince consumers that the coal industry is not performing its full duty intelligently. In order to meet this sometimes false and often misleading propaganda, Bituminous Coal Institute, an affiliate of National Coal Association, was formed some 5 years ago to advise not only the consumers of coal but the builders and planners of coal-burning equipment about the coal industry, its methods of operation, and the value and use of its products. Great progress has been made, but it is necessary that this work be extended and expanded. An undertaking of this kind requires a number of years of careful research to ascertain the real facts about coal, its problems, and its uses, as compared with competing fuels. Great care is being taken that only well-established facts are presented to the public through advertising, pictures, books, and articles of various types. The work is bearing fruit and should prove to be of great value to the entire coal industry.

Further, as a service department to the coal industry, the Coal Heating Division of the National Coal Association is working out and putting into effect a nation-wide plan for improving the service of coal to domestic consumers through cooperation with retail coal merchants. The objectives of this movement are:

1. Improve and standardize the retail sale, delivery and servicing of solid fuel.
2. Promote the use of better burning equipment and controls and provide for servicing of such equipment.
3. Improve public opinion of coal and the coal industry through retail dealers whose service and advertising strongly affect the thinking of all coal consumers, domestic and industrial alike.
4. Through these means, to retain present and promote additional business for domestic coal, particularly in the new home market.

Your management is participating in all these activities, and several members of your staff have devoted considerable time and effort to the promotion and organization of these plans.

Every effort is being made to develop improved mining methods, mining machinery, and coal preparation and cleaning facilities. Millions of dollars are being invested in mining machinery and beneficiation and sizing plants and the industry is making preparations as rapidly as equipment is available to produce and prepare the very best product at the
The lowest cost modern knowledge of the science of mining and beneficiation will permit.

**EARNINGS AND DIVIDENDS**

Consolidated net profits after all charges for the year 1946, including a profit after income taxes of $188,182.18 from sale of capital assets, were $2,561,912.56, which, after deducting Preferred dividends of $151,614 were equal to $3.72 per share for the Common stock. In 1945, net profits amounted to $1,937,834.48, which, after Preferred dividend requirements, represented earnings for the Common stock of $3.01 per share.

The consolidated results for 1946 and 1945 are summarized below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Earnings before deductions indicated below:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>From operations</td>
</tr>
<tr>
<td></td>
<td>From sales of capital assets:</td>
</tr>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>Deductions:</td>
<td>Provision for depletion, depreciation and obsolescence</td>
</tr>
<tr>
<td></td>
<td>Taxes of all kinds</td>
</tr>
<tr>
<td></td>
<td>Total Deductions</td>
</tr>
<tr>
<td></td>
<td>Net Profit to Surplus</td>
</tr>
</tbody>
</table>

* Loss

As shown above, the 1946 provision for taxes of all kinds amounted to $1,629,720.59, which is equal to $2.74 per share of Common stock.

Dividends totalling $6 per share on the Preferred stock and $2.50 per share on the Common stock were paid in 1946.

**FINANCIAL STATEMENTS AND TABLE OF PRODUCTION**

The Consolidated Balance Sheet as of December 31, 1946, the Consolidated Statement of Income and Earned Surplus for the year then ended, together with the report of the Independent Auditors, appear on pages 19 to 22, inclusive.

A table of coal production from the beginning of operations appears on page 23.

**EMPLOYEES**

Your management feels that the success of any enterprise depends upon the loyalty, training, resourcefulness and ability of its employees. It is pleasing to report that during the past year a substantial number of your junior executives and workmen of all ranks have returned to the company after military service. These men are being welcomed back and are adding to the efficiency and welfare of the organization as a whole.
The management desires to express appreciation for the loyal, efficient and faithful service of the employees in all ranks. It is only through their loyal cooperation that it has been possible for the company to serve its customers.

**By Order of the Board of Directors**

JAMES D. FRANCIS, *President.*

March 11, 1947.
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, 1946, and the consolidated statement of income and earned surplus for the year 1946. 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, 1946, 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 7, 1947
# ISLAND CREEK COAL COMPANY
## CONSOLIDATED BALANCE

### ASSETS

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

<table>
<thead>
<tr>
<th>Gross</th>
<th>Less Reserves</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal, timber and surface lands</td>
<td>$12,463,490.22</td>
<td>$6,102,968.71</td>
</tr>
<tr>
<td>Mines development, plant construction and equipment</td>
<td>18,197,474.20 12,208,162.41</td>
<td>5,989,311.79</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$30,660,964.42</strong></td>
<td><strong>$18,311,131.12</strong></td>
</tr>
</tbody>
</table>

**Current Assets:**

- **Cash:** $2,215,755.96
- **United States Government securities (at cost):**
  - Treasury bills: $4,955,411.55
  - Defense and treasury bonds: 300,000.00
- **Accounts and notes receivable, less reserve for doubtful accounts:** 2,439,683.45
- **Inventories at cost or market, whichever lower:**
  - Coal: $166,870.59
  - Operating supplies and store merchandise: $1,918,468.45

**Carnegie Dock and Fuel Company:**

- **Investment and advances:** $515,367.64
- **Accounts receivable:** 836,031.34

**Other Assets:** 318,263.99

**Deferred Charges:**

- Prepaid insurance, taxes, etc.: $134,089.23
- Short-life equipment at depreciated values: 108,574.86
- Equipment and supplies — gas properties: 88,838.18

**Total Deferred Charges:** $326,877.185.54
## LIABILITIES

### Capital Stock and Paid-In Surplus:

**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></th>
<th>Preferred</th>
<th>Common</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares authorized</td>
<td>100,000</td>
<td>650,000</td>
</tr>
<tr>
<td>Shares issued</td>
<td>49,860,45</td>
<td>591,000,75</td>
</tr>
<tr>
<td>Shares in treasury and purchased for retirement</td>
<td>24,600,45</td>
<td>144,75</td>
</tr>
<tr>
<td>Shares issued and outstanding</td>
<td>25,269,45</td>
<td>593,865,75</td>
</tr>
</tbody>
</table>

**Paid-In Surplus**

<table>
<thead>
<tr>
<th></th>
<th>11,124,721.03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>$11,748,385.69</td>
</tr>
</tbody>
</table>

### Current Liabilities:

- Accounts and drafts payable: $1,457,323.02
- Reserve for estimated Federal taxes on income: $1,560,864.77
- Less: U.S. Treasury tax notes: 1,000,000.00
- Other taxes and accrued payroll: 544,755.02
- Preferred dividend payable January 2, 1947: 37,903.10

<table>
<thead>
<tr>
<th></th>
<th>2,600,846.31</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Reserve</td>
<td>750,000.00</td>
</tr>
<tr>
<td>Minority Interest in Subsidiary</td>
<td>385.00</td>
</tr>
</tbody>
</table>

**Reserve for Workmen's Compensation Awards and Claims:** $15,459.98
- Less: Cash deposited with trustee: 15,459.98

<table>
<thead>
<tr>
<th></th>
<th>113,944.04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred Income</td>
<td>11,178,154.50</td>
</tr>
<tr>
<td>Earned Surplus</td>
<td>$26,387,185.54</td>
</tr>
</tbody>
</table>

21
### CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

**FOR THE YEAR ENDED DECEMBER 31, 1946**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GROSS SALES</strong></td>
<td>$24,065,861.23</td>
</tr>
<tr>
<td><strong>Less: Cost of sales</strong></td>
<td>$19,123,008.18</td>
</tr>
<tr>
<td><strong>INCOME FROM OPERATIONS</strong></td>
<td>$4,942,853.05</td>
</tr>
<tr>
<td><strong>PROFIT FROM SALE OF CAPITAL ASSETS</strong></td>
<td>$250,909.58</td>
</tr>
<tr>
<td><strong>INTEREST, ROYALTIES AND MISCELLANEOUS INCOME</strong></td>
<td>$263,824.16</td>
</tr>
<tr>
<td><strong>TOTAL INCOME</strong></td>
<td>$5,577,586.79</td>
</tr>
</tbody>
</table>

**Deduct:**

- **Administrative and general expense** $544,755.42
- **Taxes, other than federal taxes on income** $604,720.59

**PROFIT BEFORE DEPLETION AND DEPRECIATION CHARGES AND FEDERAL TAXES ON INCOME** $4,308,110.78

**Deduct:**

- **Provision for depletion and depreciation** $921,198.22

**PROFIT BEFORE FEDERAL TAXES ON INCOME** $3,386,912.56

**Deduct:**

- **Provision for federal taxes on income** $1,025,000.00

**NET PROFIT FOR THE YEAR** $2,361,912.56

**EARNED SURPLUS — JANUARY 1, 1946** $10,452,517.60

**Total** $12,814,430.16

**DIVIDENDS:**

- **Preferred** $151,614.00
- **Common** $1,484,661.66 $1,636,275.66

**EARNED SURPLUS — DECEMBER 31, 1946** $11,178,154.50
### TABLE SHOWING COAL PRODUCED FROM PROPERTIES OF ISLAND CREEK COAL COMPANY AND ITS SUBSIDIARY COMPANIES

<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>691,547</td>
<td>—</td>
<td>691,547</td>
</tr>
<tr>
<td>1908</td>
<td>941,096</td>
<td>—</td>
<td>941,096</td>
</tr>
<tr>
<td>1909</td>
<td>1,230,936</td>
<td>—</td>
<td>1,230,936</td>
</tr>
<tr>
<td>1910</td>
<td>1,653,487</td>
<td>—</td>
<td>1,653,487</td>
</tr>
<tr>
<td>1911</td>
<td>1,876,446</td>
<td>—</td>
<td>1,876,446</td>
</tr>
<tr>
<td>1912</td>
<td>2,039,087</td>
<td>185,252</td>
<td>2,225,339</td>
</tr>
<tr>
<td>1913</td>
<td>1,910,100</td>
<td>130,526</td>
<td>2,040,626</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>2,219,616</td>
<td>88,899</td>
<td>2,308,515</td>
</tr>
<tr>
<td>1916</td>
<td>2,280,661</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>
</tr>
<tr>
<td>1919</td>
<td>1,781,413</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>3,240,998</td>
<td>—</td>
<td>3,240,998</td>
</tr>
<tr>
<td>1922</td>
<td>3,144,428</td>
<td>—</td>
<td>3,144,428</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>6,585,980</td>
<td>69,497</td>
<td>6,655,477</td>
</tr>
<tr>
<td>1927</td>
<td>7,597,980</td>
<td>83,599</td>
<td>7,681,579</td>
</tr>
<tr>
<td>1928</td>
<td>5,430,843</td>
<td>196,826</td>
<td>5,627,669</td>
</tr>
<tr>
<td>1929</td>
<td>6,305,012</td>
<td>272,391</td>
<td>6,577,403</td>
</tr>
<tr>
<td>1930</td>
<td>5,496,501</td>
<td>226,090</td>
<td>5,722,591</td>
</tr>
<tr>
<td>1931</td>
<td>4,320,822</td>
<td>138,480</td>
<td>4,459,302</td>
</tr>
<tr>
<td>1932</td>
<td>3,484,622</td>
<td>168,922</td>
<td>3,653,544</td>
</tr>
<tr>
<td>1933</td>
<td>3,688,400</td>
<td>178,248</td>
<td>3,866,647</td>
</tr>
<tr>
<td>1934</td>
<td>3,475,325</td>
<td>176,708</td>
<td>3,652,033</td>
</tr>
<tr>
<td>1935</td>
<td>3,602,908</td>
<td>124,772</td>
<td>3,727,675</td>
</tr>
<tr>
<td>1936</td>
<td>4,450,965</td>
<td>233,102</td>
<td>4,684,067</td>
</tr>
<tr>
<td>1937</td>
<td>4,258,877</td>
<td>228,424</td>
<td>4,487,301</td>
</tr>
<tr>
<td>1938</td>
<td>3,924,443</td>
<td>214,446</td>
<td>3,738,889</td>
</tr>
<tr>
<td>1939</td>
<td>4,701,827</td>
<td>381,174</td>
<td>5,083,001</td>
</tr>
<tr>
<td>1940</td>
<td>5,532,703</td>
<td>324,256</td>
<td>5,856,959</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>7,326,033</td>
<td>1,971,835</td>
<td>9,297,868</td>
</tr>
<tr>
<td>1944</td>
<td>7,327,379</td>
<td>2,143,773</td>
<td>9,471,152</td>
</tr>
<tr>
<td>1945</td>
<td>6,116,479</td>
<td>1,563,038</td>
<td>7,679,517</td>
</tr>
<tr>
<td>1946</td>
<td>5,604,704</td>
<td>1,174,990</td>
<td>6,779,694</td>
</tr>
</tbody>
</table>

Total: 157,221,310 | 12,583,635 | 169,804,945