MAGMA COPPER COMPANY

INCORPORATED UNDER THE LAWS OF THE STATE OF MAINE IN 1910

Office of President and General Manager
Superior, Arizona

Offices of the Secretary and Treasurer
300 Park Avenue, New York 22, N. Y.

CAPITALIZATION

Authorized . . . . . . . . . . . . . . . . . . . 3,000,000 shares of $10 par value
Outstanding . . . . . . . . . . . . . . . . . . 1,204,704 shares of $10 par value

DIRECTORS
ROY C. BONEBRAKE
R. H. CHANNING
WESLEY P. GOSS
PLATO MALOZEMOFF

GEORGE MURNANE
ARTHUR NOTMAN
WALTER P. SCHMID

OFFICERS
WESLEY P. GOSS . . . . . . . . . . . President and General Manager
ROY C. BONEBRAKE . . . . . . . . Vice-President, Secretary and General Counsel
WALTER P. SCHMID . . . . . . . Treasurer and Assistant Secretary
WILLIAM F. RICHIARDS, JR. . . . Assistant Treasurer

OPERATING STAFFS (Arizona)

Magma Copper Company and San Manuel Copper Corporation

J. F. BUCHANAN, Assistant General Manager Operations
FRANK G. SARVER, Assistant to the President and General Manager

Magma
C. B. FORAKER,
General Manager
DARRELL GARDNER,
Assistant General Manager
GARVIN L. AUGUSTADT,
Mine Superintendent
II. J. REX,
Mill Superintendent
E. J. CALDWELL,
Smelter Superintendent
W. J. SWANSON,
Chief Accountant
R. L. MEDLOCK,
Purchasing Agent

San Manuel
F. H. BUCHELLA,
General Manager
C. L. PILLAR,
Mine Superintendent
E. V. GIVEN,
Mill Superintendent
R. C. WILSON,
Smelter Superintendent
J. E. DURKEE,
Chief Accountant
J. A. GARDNER,
Purchasing Agent

TRANSFER AGENT
GUARANTY TRUST COMPANY OF NEW YORK, 140 Broadway, New York 15, N. Y.

REGISTRAR
BANKERS TRUST COMPANY, 46 Wall Street, New York 15, N. Y.

ANNUAL MEETING
Second Monday in May, at Augusta, Maine
To The Stockholders:

Earnings

Your Company’s earnings for the year 1956 were $7,475,827, as compared to $6,227,572 for 1955. The earnings per share were $6.21 on 1,204,704 shares in 1956, compared with $5.17 per share in 1955 for the same number of shares. The 1956 earnings for the first time include profits of the Company’s wholly-owned subsidiary, San Manuel Copper Corporation, which commenced production January 8, 1956. The amount of the year’s consolidated earnings attributable to San Manuel is relatively small, however, because it was in the “starting up” stages of its operations. San Manuel’s profits are expected to increase as its production increases, but the effect of its full operations on consolidated earnings will not be felt until the latter part of 1957.

Production

Production of copper in 1956 was 126,087,088 pounds, of which 47,934,948 pounds were from the Magma Mine and 78,152,140 from the San Manuel Mine, as compared to the 1955 production of 48,001,819 pounds from the Magma Mine only. San Manuel’s rate of mine production increased gradually through the first nine months of operation to a rate of about 65% of its scheduled annual capacity of 140,000,000 pounds. Mining problems (referred to in the “Review of Operations” section of this report) were encountered which slowed the originally anticipated rate of expansion, but which were not unusual in such block caving type of mining operation. Wholly unforeseen trouble with the electrical equipment of one of San Manuel’s two main ore hoists forced a shutdown of that hoist in early November and delayed any further production increase until the present time. The equipment has been repaired by the manufacturer and San Manuel’s production rate is now expected to again increase steadily and to reach full production by July 1957. With the exception of that electrical equipment failure, no serious or unusual operating problems have been experienced at San Manuel, and its mining operations are proceeding satisfactorily.
As by-products of the copper production, the Magma Mine produced 11,702 ounces of gold and 493,299 ounces of silver, and San Manuel produced 591,970 pounds of molybdenum sulphide (in concentrates), 9,719 ounces of gold, and 136,074 ounces of silver. San Manuel’s molybdenum production commenced in April 1956. The molybdenum is not uniformly disseminated through the ore body and the area currently under production has a lower than average molybdenum content. The gold and silver recoveries at San Manuel were equal to or slightly in excess of the estimated average for the ore body.

Sales

All copper produced at the Magma Mine was sold currently as produced. All San Manuel copper produced and available for sale likewise was sold currently. However, the San Manuel copper does not become available for sale until about three months after produced and therefore production exceeded sales by the amount tied up in transit and in the refinery (the “refining pipeline”). For that reason, total copper sales for 1956 were 100,997,089 pounds while total production from both mines was 126,087,088 pounds. Copper available for sale should equal production by the latter part of 1957 after full production is reached by San Manuel and the filling of its refining pipeline completed. The molybdenum is sold currently as produced in the form of high grade concentrates from the San Manuel mill. The molybdenum, gold and silver being by-products of the copper production, the proceeds from all the sales thereof are included in the reported income from metals produced and sold.

Prices

Market prices quoted by the Engineering and Mining Journal for domestic copper increased from slightly under 44 cents per pound for January 1956 to almost 47 cents for March, and then declined over the remainder of the year to about 35 or 36 cents by the year-end, for an average of 41.8 cents for the year. The market price is now about 32 cents per pound. The higher prices existing during the first half of 1956 were the result of a demand which exceeded the immediate supply. During the last half of the year supply began to equal or exceed demand and prices accordingly declined. While copper continues in good demand the supply at the present time appears to be in excess of demand and sales have become difficult. It is not known how this situation will develop in the future, but it appears that a reasonable balance is being reached between production and consumption of copper.

Costs

Operating costs increased substantially in 1956 as a result of continuing inflationary forces. Employees received wage increases and fringe benefits comparable to the in-
dustry pattern. Prices of purchased supplies and commodities were higher, following wage increases in industry generally throughout the United States. Rising expenditures by local government brought higher taxes. The higher costs and lower copper prices indicate substantially less profits from the Magma Mine operations in 1957. San Manuel’s costs per pound of copper produced should decrease substantially as its production increases because fixed charges such as depreciation and interest do not vary with production and a relatively small increase in the labor force will be required to achieve full production.

Development

Development work in the Magma Mine continued throughout 1956 at approximately the same rate as formerly and with generally favorable and encouraging results. Additions to the ore reserves were made on the 4,800 level of the Main West Ore Body and also in the Far East Ore Body of the mine, which slightly exceeded the amount of ore extracted during the year.

In the San Manuel Mine, considerable development work was done and must continue to be done to prepare the ore body for orderly and continuous long term mining operations. During the year substantial work was done in shaft deepening and on the second or 2,075 level. Such development work now planned for the second level will require substantial expenditures over the next six years and these deferred or prepaid development costs will be written off as the ore so developed is mined in future years.

Capital Expenditures

Capital expenditures in the Magma Mine in 1956 were $81,542, principally for buildings and automotive equipment, and are not expected to exceed $100,000 in 1957. The Company’s wholly-owned subsidiary, San Manuel Townsite Company, plans to construct fifty additional houses needed for employees of San Manuel Copper Corporation, and approximately $600,000 may be required and will be provided by the Company for that purpose in 1957.

San Manuel’s capital expenditures were $4,370,238 in 1956, being $213,731 for property, $2,159,077 for deferred development and $1,997,430 for plant. Its 1957 expenditures for deferred development, equipment, plant, and community facilities are estimated at $4,000,000. Total capital expenditures to the year-end at San Manuel, including the railroad but excluding the townsite, were $102,589,445, being $1,150,847 for property, $27,701,948 for deferred development and $73,736,650 for plant. Of this total, $88,587,000 were expended on the production “project” which commenced January 1, 1952 and has now been substantially completed.
**Capital Stock**

The stockholders of the Company at a special meeting held October 15, 1956, acting upon the recommendation of the Board of Directors, increased the authorized capital stock of the Company from $12,000,000 consisting of 1,200,000 shares of the par value of $10 each, to $30,000,000 consisting of 3,000,000 shares of the same par value.

**Dividends**

On December 3, 1956 the Company paid from its current earnings a five per cent stock dividend, being one share for every twenty shares held on November 2, 1956. The issuance of 57,367 shares in payment of the dividend increased the shares outstanding from 1,147,337 to 1,204,704 shares. Under the San Manuel loan agreement with the Government no cash dividends may be paid without the Government’s consent. No cash dividend in any case could be contemplated in 1957 as the Company must continue to conserve its cash for the planned capital expenditures, needed working capital, and provision for debt retirement.

**Indebtedness**

San Manuel, under its original $94,000,000 Government loan authorization obtained in 1952 to carry on its production “project”, to date has borrowed $70,754,137. It also has borrowed from Magma Copper Company $27,595,000. The Government, by agreement with San Manuel, has extended to May 10, 1957 the time within which a final disbursement of loan funds may be made and has reduced to $6,000,000 the maximum amount which hereafter may be disbursed under the loan authorization. It is not now known whether or not San Manuel will borrow all or any part of the remaining presently authorized $6,000,000, as such decision will depend upon its working capital and cash position at the time the final decision must be made.

**Income Taxes**

Referring to the financial statements for 1956 included in this report, it should be noted that no provision was made for federal income taxes. The Company expects to file a consolidated tax return for which the allowable deductions, particularly San Manuel’s total development costs and accelerated amortization, will result in a net loss for tax purposes. The corporate financial accounts, however, defer a portion of San Manuel’s development costs as a capitalized item and reflect depreciation on a normal straight line basis at the rate of five per cent per annum. While the full amount of the accelerated amortization believed allowable as a tax deduction for 1956 will be taken, this amount being approximately $9,000,000, the Company may or may not continue to
take the accelerated amortization in future years depending upon all relevant circumstances as they develop. At the present copper price level, however, and by reason of its presently available carry-forward operating losses, the Company in any case is not expected to be liable for any federal income taxes for 1957 or 1958.

**Pensions**

The stockholders of the Company at the meeting on June 15, 1956, approved a new Retirement Plan for salaried employees. The previously existing Pension Plan was amended to exclude salaried employees and in certain other respects. The Retirement Plan for salaried employees and the Pension Plan for hourly paid employees are being funded with Bankers Trust Company of New York acting as trustee, and provide benefits similar to those provided by plans of other copper producing companies.

**Labor**

At Magma, the labor supply has been adequate and efficiency improved somewhat over the year. The employees at an election held in February 1956 voted against representation by labor unions seeking to represent them.

At San Manuel, the supply of skilled labor was not adequate to maintain the originally planned schedule of production expansion. The supply of unskilled labor being adequate, the training program was accelerated to increase the skilled labor force. It is now expected that sufficient labor will be available to carry on the production program. At an election held in October, a majority of the employees in appropriate units voted in favor of representation by six craft unions and a majority of the production employees voted for representation by the Mine, Mill and Smelter Workers. Those unions have now been certified as the bargaining agents and contract negotiations are in progress. Contracts already have been concluded with two unions certified to represent the employees of San Manuel Arizona Railroad Company.

**Organization**

With great sorrow we regret to report the unexpected death on July 4, 1956 of Alexander J. McNab, Chairman of the Board and the chief executive officer of your Company. Mr. McNab had been an officer and director of Magma since 1924, and a director and chief executive officer of San Manuel since its inception. An extremely able and outstanding executive and leader, he contributed immeasurably to the Company's growth and success.

By amendment of the by-laws of the Company after Mr. McNab's death, the President became the chief executive officer and the office of Chairman of the Board was dis-
continued. Mr. Plato Malozemoff, President of Newmont Mining Corporation, was elected a director of the Company on August 26, 1956 to fill the vacancy on the Board.

We are also sorry to report that Mr. John L. Draeger, Magma’s Mine Superintendent, died suddenly on November 5, 1956. An employee since 1937, he was an asset to the Company and the community. Mr. Garvin L. Augustadt has been promoted to the position of Mine Superintendent at the Magma Mine. Mr. Augustadt has been in the employ of the Company since 1936. He is a graduate engineer and has served as a Division Foreman since 1952.

On behalf of my fellow directors and myself I wish to commend the staff and employees at Magma and at San Manuel, and to express our appreciation of their efforts and accomplishments. The operating staff at San Manuel deserve special commendation for their notable accomplishment in attaining a rate of mine production in excess of 580,000 tons of ore per month within nine months after undercutting the first stope and starting production in January 1956. This is an achievement believed never before equalled in the history of underground mining.

BY ORDER OF THE BOARD OF DIRECTORS

W. P. GOSS, President

Proxies will be requested for the Annual Meeting of the Stockholders to be held on May 13, 1957. In connection with such request a proxy statement and form of proxy will be sent on or about April 8th to Stockholders entitled to vote.
MAGMA COPPER COMPANY AND SUBSIDIARIES

Review of Operations

MAGMA COPPER COMPANY

Development

Development work done in 1956 at the Magma Mine, Superior, Arizona, as compared to the preceding year, is summarized as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>1956</th>
<th>1955</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drifts and Crosscuts</td>
<td>11,382 ft.</td>
<td>10,879 ft.</td>
</tr>
<tr>
<td>Raises</td>
<td>5,737 ft.</td>
<td>5,450 ft.</td>
</tr>
<tr>
<td>No. 6 Shaft</td>
<td>765 ft.</td>
<td>151 ft.</td>
</tr>
<tr>
<td>Diamond Drilling</td>
<td>1,587 ft.</td>
<td>1,1451 ft.</td>
</tr>
</tbody>
</table>

FAR EAST REPLACEMENT AREA

Ore reserves between the 2,550 and 3,000 levels were substantially increased. Development in the new discovery area west of the fault, mentioned in last year’s report, has been very favorable and the full extent of this orebody has not yet been determined.

151,340 tons of ore averaging 5.4% copper were produced from the far east area, constituting about 33% of total ore production from the Magma Mine for the year.

KOERNER VEIN

Production from the Koerner vein was 106,700 tons of ore. Development work failed to add appreciably to the reserves on this vein.

MAIN VEIN

The results of development to the west on the Main and North Branch veins were favorable and added to the ore reserves.

Ore Production

<table>
<thead>
<tr>
<th>Magma Mine</th>
<th>1956</th>
<th>1955</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tons</td>
<td>% Copper</td>
</tr>
<tr>
<td>Milling Ore</td>
<td>425,310</td>
<td>5.48</td>
</tr>
<tr>
<td>Smelting Ore</td>
<td>28,373</td>
<td>5.08</td>
</tr>
<tr>
<td>Total</td>
<td>453,683</td>
<td>5.45</td>
</tr>
</tbody>
</table>

In addition, 2,850 tons of ore were purchased from other producers and smelted in 1956, as compared with 1,774 tons the preceding year.
Net Metal Production

<table>
<thead>
<tr>
<th></th>
<th>1956</th>
<th>1955</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Copper (Lbs.)</td>
<td>Silver (Ozs.)</td>
</tr>
<tr>
<td>From:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Magma Mine Ore</td>
<td>47,770,617</td>
<td>491,148</td>
</tr>
<tr>
<td>Purchased Ore</td>
<td>164,331</td>
<td>2,151</td>
</tr>
<tr>
<td>Total</td>
<td>47,934,948</td>
<td>493,299</td>
</tr>
</tbody>
</table>

Magma Arizona Railroad Company

The Railroad connecting the Magma Mine with the Southern Pacific lines hauled 30,555 tons of inbound and 43,414 tons of outbound freight during the year, which compares with 36,975 tons and 60,224 tons respectively for 1955. The decrease in the outbound freight for 1956 was due largely to the discontinuance of mining of manganese ore by lessees in November 1955.

San Manuel Townsite Company

Dwellings in the San Manuel Townsite were fully occupied except for a few houses being held for key personnel yet to be hired. More than 100 house rental applications are pending for which no houses are available. Construction of an additional 50 housing units in 1957 is planned, to accommodate essential employees who otherwise may leave San Manuel’s employ. A modern shopping center is being constructed by tenants on ground leased to them by the Townsite Company. Initial school facilities are being enlarged by the School District to meet the growing needs of the community. Additional recreational facilities are planned for 1957, to be constructed by the San Manuel Copper Corporation.

San Manuel Copper Corporation

Ore Production

5,496,328 tons of sulfide ore assaying 0.77 percent copper were produced and milled at the San Manuel Mine during the year. In addition 43,253 tons of oxide ore assaying 0.7 percent copper were mined from the surface pit for smelter flux. 17,523 tons of limestone and 11,179 tons of silica were quarried for smelter and concentrator requirements.

Net Metal Production (1956)

<table>
<thead>
<tr>
<th></th>
<th>Copper</th>
<th>Molybdenum Sulfide</th>
<th>Silver</th>
<th>Gold</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>78,152,140 lbs.</td>
<td>591,970 lbs.</td>
<td>136,074 ozs.</td>
<td>9,719 ozs.</td>
</tr>
</tbody>
</table>

Mine Operation

Undercutting of stopes (preparing for production) was under way the first of the year. 157,000 tons of ore were produced from underground in January of 1956 and the first stope undercut was completed on January 23, 1956. Production increased gradu-
ally as more stopes were prepared and men and equipment became available until November when 587,470 tons were hoisted.

Underground conditions affecting mining operations have been found to be normal for this type of ore deposit and substantially as anticipated at the start of operations. However, they are not uniform throughout the orebody. Work was commenced in an area where conditions proved to be favorable for quickly increasing production. As new areas were developed for stoping ore it became apparent that different areas required different methods of support. Experimentation to determine the best support for each particular area slowed down the originally indicated rate of production increase and required more skilled labor than was immediately available. Unskilled labor was hired and trained as fast as practicable, the methods of support were improved or changed as necessary to suit the different ground conditions experienced, and by fall production was again increasing at a rate which encouraged the expectation that full production would be reached by the year-end.

Trouble then began to develop in the electrical equipment of the No. 3B ore hoist in October, which resulted in a complete shut-down of that hoist on November 6th. Production could not be further expanded as it already had reached the full capacity of the remaining No. 3A ore hoist. Repairs of the defective equipment by the manufacturer were started immediately and diligently made, but the damage was such that the repairs were not completed and the hoist restored to service until the end of January 1957. Overhaul, re-insulation and altering of the electrical equipment of the other hoist was then done by the manufacturer to avoid a similar breakdown of its operation. Both hoists were back in operation by the middle of February, and the gradual expansion of production is now being resumed. The delays caused by this defective equipment were unforeseeable and the result of conditions beyond San Manuel’s control. It is now anticipated that full production of 900,000 tons of ore per month will be reached by July of 1957.

Development of the 2,075 (second haulage) level and the deepening of the No. 1 Shaft were commenced. During the year this ventilation and development shaft was deepened 236 feet to the 1,879 level, and 1,799 feet of advance was made on the 2,075 level.

**Plant Operation**

The ore transportation railroad from the mine to the plant operated satisfactorily and demonstrated the ability to handle full production as originally estimated.

The mill or concentrating plant successfully treated the year’s available mine production and proved its ability to handle full ore production with recoveries of metal values as anticipated. The molybdenum sulfide section of the concentrator was put into operation in April 1956 and continued operating satisfactorily throughout the year, making a high grade molybdenum concentrate which was marketed without further treatment.

The smelter produced its first copper on January 8, 1956 and continued to operate satisfactorily throughout the year with excellent economy and recovery. Short runs on
accumulated concentrate were made which successfully proved its ability to handle full production as scheduled.

SAN MANUEL ARIZONA RAILROAD COMPANY

This railroad connecting the San Manuel plant with the Southern Pacific lines at Hayden, Arizona, operated satisfactorily throughout the year, handling 72,598 tons of inbound and 39,080 tons of outbound freight. The inbound freight included limestone and quartzite from San Manuel’s quarry situated midway between Hayden and San Manuel.

GENERAL

No changes of importance were made in the real property of the Company or its subsidiaries during the year. The land and improvements purchased by the Company from the St. Anthony Mining and Development Company in 1953 were transferred to San Manuel Copper Corporation pursuant to a requirement made by Reconstruction Finance Corporation when the property was acquired, it having been acquired for San Manuel’s benefit.

Wage and salary increases of approximately 5%, averaging 10.5 cents per hour for daily paid employees, were made as of July 1, 1956 by the Company and its subsidiaries in line with the industry pattern.

There are presently approximately 1,200 employees at Magma and 2,200 at San Manuel. To reach full production at San Manuel about 150 additional employees will be needed and are expected to be available.
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
MAGMA COPPER COMPANY:

We have examined the consolidated balance sheet of Magma Copper Company and subsidiaries as at December 31, 1956 and the related statements of income and surplus 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 surplus present fairly the financial position of Magma Copper Company and subsidiaries at December 31, 1956 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; however, with our approval the subsidiaries referred to in Note (1) to the accompanying financial statements have been included in the consolidated statements for the first time in 1956.

PEAT, MARWICK, MITCHELL & CO.

New York, N. Y.,
February 19, 1957.
MAGMA COPPER COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1956

ASSETS

CURRENT ASSETS:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$3,373,846.61</td>
</tr>
<tr>
<td>United States Government securities, at cost</td>
<td>$4,730,364.93</td>
</tr>
<tr>
<td>Accounts receivable:</td>
<td></td>
</tr>
<tr>
<td>Metals</td>
<td>$4,010,436.86</td>
</tr>
<tr>
<td>Other</td>
<td>204,210.22</td>
</tr>
<tr>
<td>Inventories, at cost:</td>
<td></td>
</tr>
<tr>
<td>Ores and metals in process</td>
<td>6,386,984.00</td>
</tr>
<tr>
<td>Materials and supplies</td>
<td>5,927,877.13</td>
</tr>
<tr>
<td>Total current assets</td>
<td>12,314,861.13</td>
</tr>
</tbody>
</table>

PROPERTY, PLANT AND EQUIPMENT, AT COST:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining claims and land</td>
<td></td>
</tr>
<tr>
<td>$2,972,242.51</td>
<td></td>
</tr>
<tr>
<td>Less reserve for depletion</td>
<td>1,071,523.19</td>
</tr>
<tr>
<td>Buildings, machinery and equipment</td>
<td></td>
</tr>
<tr>
<td>92,124,953.04</td>
<td></td>
</tr>
<tr>
<td>Less reserve for depreciation</td>
<td>13,496,544.13</td>
</tr>
<tr>
<td>Prepaid mine development-net (Note 2)</td>
<td>27,788,591.70</td>
</tr>
<tr>
<td>Total</td>
<td>108,317,719.93</td>
</tr>
</tbody>
</table>

INVESTMENTS, AT COST ........................................... |

DEFERRED CHARGES ................................................ |

LIABILITIES AND CAPITAL

CURRENT LIABILITIES:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and sundry accruals</td>
<td>$1,936,835.86</td>
</tr>
<tr>
<td>Instalments of mortgages payable, due within one year</td>
<td>154,632.00</td>
</tr>
<tr>
<td>Accrued interest on loans</td>
<td>1,329,462.23</td>
</tr>
<tr>
<td>Accrued taxes</td>
<td>1,004,905.63</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>4,425,835.72</td>
</tr>
</tbody>
</table>

LOANS PAYABLE:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury Department-Defense Lending Division</td>
<td></td>
</tr>
<tr>
<td>($Note 3)</td>
<td>$70,754,137.76</td>
</tr>
<tr>
<td>Mortgages payable, F. H. A. insured (Note 4)</td>
<td>8,182,465.58</td>
</tr>
<tr>
<td>Less payable in 1957</td>
<td>154,632.00</td>
</tr>
<tr>
<td></td>
<td>8,027,833.58</td>
</tr>
<tr>
<td></td>
<td>78,781,971.34</td>
</tr>
</tbody>
</table>

CAPITAL:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital stock, par value $10.00 per share:</td>
<td></td>
</tr>
<tr>
<td>Authorized, 3,000,000 shares</td>
<td></td>
</tr>
<tr>
<td>Issued, 1,204,859 shares</td>
<td>12,048,590.00</td>
</tr>
<tr>
<td>Less, in treasury, 155 shares (cost $1,149.13)</td>
<td>1,550.00</td>
</tr>
<tr>
<td></td>
<td>12,047,040.00</td>
</tr>
<tr>
<td>Surplus :</td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td>22,305,376.55</td>
</tr>
<tr>
<td>Earned</td>
<td>16,296,482.55</td>
</tr>
<tr>
<td></td>
<td>38,601,859.10</td>
</tr>
<tr>
<td></td>
<td>50,648,899.10</td>
</tr>
<tr>
<td></td>
<td>$133,856,706.16</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
MAGMA COPPER COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME
Year Ended December 31, 1956

SALES AND OTHER INCOME:
Sales of metals .................................. $43,838,980.21
Interest and dividends ............................. 77,111.39

43,916,091.60

COSTS AND EXPENSES:
Operating costs, including development, maintenance and administrative expenses ... $25,987,496.78
Taxes, other than Federal income tax ...... 2,464,160.65
Depreciation and depletion .................. 4,091,292.39
Interest expense .................................. 3,897,313.90
Provision for Federal taxes on income (Note 5) — 36,440,263.72

NET INCOME FOR YEAR .......................... $ 7,475,827.88

CONSOLIDATED STATEMENT OF SURPLUS
Year Ended December 31, 1956

SURPLUS, JANUARY 1, 1956 ......................... $31,696,913.62

CAPITAL SURPLUS:
Balance at January 1, 1956 ........ $17,321,618.42
Add transfer from earned surplus upon distribution of 57,367 shares of capital stock. 4,983,758.13
Balance at December 31, 1956 .... 22,305,376.55

EARNED SURPLUS:
Balance at January 1, 1956 14,375,295.20
Add:
Net income of San Manuel Arizona Railroad Company to December 31, 1955 2,787.60
Net income for year 7,475,827.88
21,853,910.68
Deduct earned surplus transferred to capital stock, $573,670.00, and to capital surplus, $4,983,758.13, upon distribution to stockholders of a 5% stock dividend on stock held at November 2, 1956 5,557,428.13
Balance at December 31, 1956 16,296,482.55

SURPLUS, DECEMBER 31, 1956 .................. $38,601,859.10

See accompanying notes to financial statements.
MAGMA COPPER COMPANY AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

(1) The accounts for 1956 are consolidated to include all the subsidiaries of Magma Copper Company. The subsidiary companies consolidated for the first time are San Manuel Copper Corporation, San Manuel Arizona Railroad Company (a subsidiary of San Manuel Copper Corporation) and San Manuel Townsite Company, and their accounts were consolidated in 1956 as San Manuel Copper Corporation came into production in January 1956.

(2) The basis of writing off prepaid mine development is to charge annually to operations the estimated amount applicable to copper produced during the year. In determining development costs included in operations of San Manuel Copper Corporation, consideration was given to the fact that development expenditures benefit both current and future production.

(3) Treasury Department-Defense Lending Division (successor to Reconstruction Finance Corporation) authorized a loan to San Manuel Copper Corporation of $94,000,000.00 under a loan authorization dated July 10, 1952, as amended. This amount of authorized loan was reduced in 1956 to $76,754,000.00. The amount now authorized but not yet borrowed may be borrowed on or before May 10, 1957. The proceeds of the loan must be used for certain mine development, plant construction and equipment. The loan is evidenced by a note maturing February 20, 1973 and bearing interest at the rate of 5% per annum. Payment on account of principal of the note is required in the amount of $1,550,000.00 quarter-annually beginning January 1, 1959, together with annual payment of certain earnings of the Corporation. The note is secured by a first mortgage covering substantially all real property, machinery, equipment, furniture and fixtures now owned or hereafter acquired by the Corporation.

Magma Copper Company guaranteed the loan and agreed to advance certain of its earnings to San Manuel Copper Corporation during the period of the loan. The amount of such advances based on 1956 earnings is expected to be approximately $7,000,000.00 of which $3,000,000.00 was advanced during 1956. Restrictions on the payment of cash dividends also are imposed upon Magma Copper Company and its subsidiaries.

Under an agreement between Defense Materials Procurement Agency and San Manuel Copper Corporation, dated August 29, 1952, the United States Government may purchase or be required to purchase all or substantially all of the Corporation's first five years of estimated production of refined copper and molybdenum concentrates.

(4) Mortgages payable consist of 985 mortgages insured by the Federal Housing Administration and are applicable to family dwelling units of San Manuel Townsite Company. Principal and interest at 4% per annum are payable in monthly installments to maturity of the mortgages in 1984. San Manuel Copper Corporation guaranteed payment of principal, interest, taxes and insurance on these mortgages.

(5) Computations made indicate that on the basis of filing a consolidated income tax return for 1956, there will be no liability for Federal income tax for that year. The carry-forward loss at January 1, 1956 is sufficient to eliminate any taxable income for 1956 exclusive of accelerated depreciation and current expenditures for prepaid mine development of San Manuel Copper Corporation taken as deductions for Federal income tax purposes.

(6) During the year the Company revised its Pension Plan and adopted a Retirement Plan for salaried employees. The Plans cover employees of Magma Copper Company, San Manuel Copper Corporation and San Manuel Townsite Company. They are noncontributory and generally provide for pensions when an employee attains the age of 65 years. The Company reserved the right to amend or terminate the Plans. The cost of the Plans for 1956 was $435,038.00 including amortization of past service benefits over a thirty year period. The liability for past service benefits at December 31, 1956 is approximately $2,196,000.00.