

## Notes To Consolidated Financial Statements

FCX has provided a valuation allowance equal to its tax credit carryforwards (\$509.6 million at December 31, 2004, and \$466.0 million at December 31, 2003) as these would only be used should FCX be required to pay regular U.S. tax, which is considered unlikely for the foreseeable future and because the foreign tax credits expire after ten years. Atlantic Copper is subject to taxation in Spain and has not generated significant taxable income in recent years. FCX has provided a valuation allowance equal to the future tax

benefits resulting from Atlantic Copper's net operating losses totaling \$423.8 million at December 31, 2004, and \$282.6 million at December 31, 2003, which expire through the year 2019.

PT Freeport Indonesia's Indonesian income tax returns prior to 2000 have been audited or are no longer subject to review by the Indonesian tax authorities. FCX's provision for income taxes consists of the following (in thousands):

	2004	2003	2002
Current income taxes:			
Indonesian	\$236,836	\$218,017	\$186,418
United States and other	7,049	9,383	7,624
	<u>243,885</u>	<u>227,400</u>	<u>194,042</u>
Deferred Indonesian taxes	86,795	110,653	51,476
Provision for income taxes per income statements	<u>330,680</u>	<u>338,053</u>	<u>245,518</u>
Tax effect of cumulative effect adjustments	—	6,306	(2,352)
Total provision for income taxes	<u>\$330,680</u>	<u>\$344,359</u>	<u>\$243,166</u>

Differences between income taxes computed at the contractual Indonesian tax rate and income taxes recorded

follow (dollars in thousands):

	2004		2003		2002	
	Amount	Percent	Amount	Percent	Amount	Percent
Income taxes computed at the contractual Indonesian tax rate	\$201,034	35%	\$204,321	35%	\$157,382	35%
Indonesian withholding tax on:						
Earnings/dividends	47,347	8	42,632	7	34,955	8
Interest	1,120	—	1,223	—	1,551	—
Other adjustments:						
Parent company costs	40,435	7	61,923	11	45,279	10
Atlantic Copper net loss	36,186	6	20,488	3	12,093	3
U.S. alternative minimum tax	8,200	2	9,300	2	8,200	2
Intercompany interest expense	—	—	(4,789)	(1)	(8,496)	(2)
Other, net	(3,642)	—	2,955	1	(5,446)	(1)
Provision for income taxes per income statements	<u>330,680</u>	<u>58%</u>	<u>338,053</u>	<u>58%</u>	<u>245,518</u>	<u>55%</u>
Tax effect of cumulative effect adjustments	—		6,306		(2,352)	
Total provision for income taxes	<u>\$330,680</u>		<u>\$344,359</u>		<u>\$243,166</u>	

### Note 9. Investment in PT Smelting and Employee Benefits

**PT Smelting.** PT Smelting, an Indonesian company, operates a smelter/refinery in Gresik, Indonesia. In 2004, PT Smelting increased its stated production capacity of 200,000 metric tons of copper metal per year to 250,000 metric tons. PT Freeport Indonesia, Mitsubishi Materials Corporation (Mitsubishi Materials), Mitsubishi Corporation (Mitsubishi) and Nippon Mining & Metals Co., Ltd. (Nippon) own 25 percent, 60.5 percent, 9.5 percent and 5 percent, respectively, of the outstanding PT Smelting common stock. PT Freeport Indonesia provides nearly all of PT Smelting's copper concentrate requirements. Under the PT Smelting contract,

for the first 15 years of PT Smelting's commercial operations beginning December 1998, the treatment and refining charges on the majority of the concentrate PT Freeport Indonesia provides will not fall below specified minimum rates, subject to renegotiation in 2008. The rate was \$0.23 per pound during the period from the commencement of PT Smelting's operations in 1998 until April 2004, when it declined to a minimum of \$0.21 per pound. In December 2003, PT Smelting's shareholder agreement was amended to eliminate PT Freeport Indonesia's assignment of its earnings in PT Smelting to support a 13 percent cumulative annual return to Mitsubishi Materials, Mitsubishi and Nippon for