Notes To Consolidated Financial Statements

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Commodity contracts:				
Open contracts in asset position	$ 950	$ 950	$ —	$ —
Open contracts in liability position	(1,806)	(1,806)	(3,374)	(3,374)
Embedded derivatives in concentrate sales contracts	16,082	16,082	10,611	10,611
Foreign exchange contracts:				
$U.S./Indonesian rupiah	2,879	2,879	—	—
Long-term debt[a]	(1,951,906)	(2,353,987)	(2,228,330)	(3,277,320)
Interest rate swap contracts	(96)	(96)	(1,576)	(1,576)

a. Includes redeemable preferred stock classified as debt in accordance with SFAS No. 150 (see Note 5).

FCX follows SFAS No. 133 and changes in the fair value of unrealized derivative contracts that qualify as hedges are not reported in current earnings, but are included in other comprehensive income (see Note 1). A recap of gains (losses) charged to earnings for redeemable preferred stock redemptions, derivative contracts and embedded derivatives follows (in millions):

	2004	2003	2002
FCX:			
Silver-Denominated preferred stock	$(1.4)	$ 1.7	$ 0.8
Gold-Denominated preferred stock	—	22.1	—
PT Freeport Indonesia:			
Foreign currency exchange contracts	—	—	11.0
Embedded derivatives in concentrate sales contracts	56.9	38.9	1.0
Atlantic Copper:			
Foreign currency exchange contracts	—	9.6	(1.2)
Forward copper contracts	(5.6)	8.0	0.6
Interest rate contracts	(1.4)	(2.1)	(3.2)

Commodity Contracts. From time to time, PT Freeport Indonesia has entered into forward and option contracts to hedge the market risk associated with fluctuations in the prices of commodities it sells. The primary objective of these contracts has been to set a minimum price and the secondary objective is to retain market upside, if available at a reasonable cost. As of December 31, 2004, FCX had no price protection contracts relating to its mine production. FCX has outstanding gold-denominated and silver-denominated redeemable preferred stock with dividends and redemption amounts determined by commodity prices. FCX elected to continue its historical accounting for its redeemable preferred stock indexed to commodities under the provisions of SFAS No. 133 which allow such instruments issued before January 1, 1998, to be excluded from those instruments required to be adjusted for changes in their fair values. Therefore, FCX's redeemable preferred stock is recorded at its original issue value less redemptions, and totaled $192.4 million at December 31, 2004 (see Note 5).

Certain of PT Freeport Indonesia's concentrate sales contracts allow for final pricing in future periods. Under SFAS No. 133, these pricing terms cause a portion of the contracts to be considered embedded derivatives, which must be recorded at fair value. PT Freeport Indonesia adjusts its revenues for these embedded derivatives to reflect fair value based on forward prices for the final pricing periods on each reporting date. Changes in the fair value of these embedded derivatives are recorded in current period revenues.

Atlantic Copper enters into forward copper contracts designed to hedge its copper price risk whenever its physical purchases and sales pricing periods do not match. Although these contracts are intended to hedge against changes in copper prices, they do not qualify for hedge accounting treatment under SFAS No. 133 because Atlantic Copper bases its hedging contracts on its net sales and purchases position, and contracts to hedge a net position do not qualify for hedge accounting under SFAS No. 133. At December 31, 2004, Atlantic Copper held forward copper sales contracts for 12.7 million pounds at an average price of $1.40 per pound through March 2005.