

PHELPS DODGE CORP  
Form 10-Q  
July 28, 2003

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended June 30, 2003

Commission file number 1-82

**PHELPS DODGE CORPORATION**

(a New York corporation)

13-1808503

(I.R.S. Employer Identification No.)

One North Central Avenue, Phoenix, AZ 85004

Registrant's telephone number: (602) 366-8100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No  .

Indicate by a check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No  .

Number of Common Shares outstanding at July 24, 2003: 89,040,960 shares.

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**PHELPS DODGE CORPORATION**

**Quarterly Report on Form 10-Q**

**For the Quarter Ended June 30, 2003**

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## PHELPS DODGE CORPORATION AND SUBSIDIARIES

## Part I. Financial Information

## Item 1. Financial Statements

## STATEMENT OF CONSOLIDATED OPERATIONS

(Unaudited; in millions except per share data)

	Second Quarter		Six Months Ended June 30,	
	2003	2002	2003	2002
		(As Restated)*		(As Restated)*
<b>Sales and other operating revenues</b>	\$962.2	966.8	1,940.2	1,885.3
<b>Operating costs and expenses</b>				
Cost of products sold (exclusive of items shown separately below)	787.0	804.6	1,594.3	1,570.4
Depreciation, depletion and amortization	107.2	103.1	208.8	206.0
Selling and general administrative expense	35.8	29.8	68.5	62.0
Exploration and research expense	12.9	9.2	22.5	17.9
Special items and provisions, net (see Note 5)	2.1	30.3	0.2	26.5
	945.0	977.0	1,894.3	1,882.8
<b>Operating income (loss)</b>	17.2	(10.2)	45.9	2.5
Interest expense	(37.0)	(49.2)	(73.0)	(102.0)
Capitalized interest	0.1		0.2	
Miscellaneous income (expense), net	12.3	(0.3)	13.2	1.7
<b>Loss before taxes, minority interests, equity in net earnings of affiliated companies and cumulative effect of accounting change</b>	(7.4)	(59.7)	(13.7)	(97.8)
Benefit (provision) for taxes on income (see Note 10)	(6.5)	27.5	(21.9)	64.5
Minority interests in consolidated subsidiaries	(1.9)	(2.7)	(4.0)	(4.0)
Equity in net earnings of affiliated companies	0.6	0.6	1.0	1.1
<b>Loss before cumulative effect of accounting change</b>	(15.2)	(34.3)	(38.6)	(36.2)
Cumulative effect of accounting change, net of tax of \$(1.3) in 2003 and \$10.1 in 2002			8.4	(22.9)
<b>Net loss</b>	\$ (15.2)	(34.3)	(30.2)	(59.1)
Preferred stock dividends	(3.4)	(2.4)	(6.8)	(2.4)
<b>Loss applicable to common shares</b>	\$ (18.6)	(36.7)	(37.0)	(61.5)
<b>Average number of common shares outstanding basic</b>	88.6	80.6	88.6	79.6
<b>Basic loss per common share before cumulative effect of accounting change</b>	\$ (0.21)	(0.46)	(0.51)	(0.48)
Cumulative effect of accounting change			0.09	(0.29)
<b>Basic loss per common share</b>	\$ (0.21)	(0.46)	(0.42)	(0.77)

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<b>Average number of common shares outstanding diluted**</b>	88.6	80.6	88.6	79.6
<b>Diluted loss per common share before cumulative effect of accounting change</b>	\$ (0.21)	(0.46)	(0.51)	(0.48)
Cumulative effect of accounting change			0.09	(0.29)
<b>Diluted loss per common share**</b>	\$ (0.21)	(0.46)	(0.42)	(0.77)

\* Refer to Note 2 to Consolidated Financial Information.

\*\* Diluted loss per share would have been anti-dilutive if based on fully diluted shares adjusted to reflect the assumed conversion of mandatory convertible preferred shares to common shares and stock option exercises.  
See Notes to Consolidated Financial Information

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**CONSOLIDATED BALANCE SHEET**

(Unaudited; in millions except per share prices)

	<u>June 30, 2003</u>	<u>December 31, 2002</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 298.2	349.8
Accounts receivable, less allowance for doubtful accounts (2003 - \$15.4; 2002 - \$14.1)	492.1	391.1
Mill and leach stockpiles	32.6	48.9
Inventories	385.4	398.5
Supplies	142.2	142.8
Prepaid expenses and other current assets	22.9	26.5
Deferred income taxes	72.2	70.6
	<u>          </u>	<u>          </u>
Current assets	1,445.6	1,428.2
Investments and long-term receivables	134.1	132.3
Property, plant and equipment, net (see Note 3)	4,740.9	4,813.7
Long-term mill and leach stockpiles	77.3	64.3
Deferred income taxes	8.5	11.0
Goodwill	99.6	90.7
Intangible assets (see Note 3)	334.6	345.9
Other assets and deferred charges	117.3	142.9
	<u>          </u>	<u>          </u>
	\$6,957.9	7,029.0
	<u>          </u>	<u>          </u>
<b>Liabilities</b>		
Current liabilities:		
Short-term debt	\$ 61.5	35.2
Current portion of long-term debt	134.7	127.0
Accounts payable and accrued expenses	562.9	609.1
Dividends payable	3.4	3.4
Accrued income taxes	22.0	9.4
	<u>          </u>	<u>          </u>
Current liabilities	784.5	784.1
Long-term debt	1,864.9	1,948.4
Deferred income taxes	434.7	430.8
Other liabilities and deferred credits	983.0	986.8
	<u>          </u>	<u>          </u>
	4,067.1	4,150.1
	<u>          </u>	<u>          </u>
<b>Minority interests in consolidated subsidiaries</b>	71.8	65.3
	<u>          </u>	<u>          </u>
<b>Shareholders equity</b>		
Common shares, par value \$6.25; 200.0 shares authorized; 89.0 outstanding in 2003 and 88.9 outstanding in 2002	556.2	555.6
Cumulative preferred shares, par value \$1.00; 6.0 shares authorized; 2.0 outstanding in 2003 and 2002	2.0	2.0
Capital in excess of par value	1,554.6	1,552.1
Retained earnings	1,136.3	1,173.3
Accumulated other comprehensive loss	(418.3)	(458.5)
Other	(11.8)	(10.9)
	<u>          </u>	<u>          </u>

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	2,819.0	2,813.6
	<u>          </u>	<u>          </u>
	\$6,957.9	7,029.0
	<u>          </u>	<u>          </u>

See Notes to Consolidated Financial Information

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**CONSOLIDATED STATEMENT OF CASH FLOWS**

(Unaudited; in millions)

	Six Months Ended June 30,	
	2003	2002
		(As Restated)*
<b>Operating activities</b>		
Net loss	\$ (30.2)	(59.1)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion and amortization	208.8	206.0
Deferred income taxes	3.5	(3.1)
Equity earnings (losses), net of dividends received	(0.3)	1.2
Special items and provisions	(6.2)	27.7
Cumulative effect of accounting change	(9.7)	33.0
Changes in current assets and liabilities:		
Accounts receivable	(86.8)	(24.2)
Proceeds from sale of accounts receivable	(5.3)	4.7
Mill and leach stockpiles	16.3	11.5
Inventories	18.8	37.4
Supplies	1.6	(0.3)
Prepaid expenses	(2.7)	(9.9)
Interest payable	0.5	(7.5)
Other accounts payable	(9.2)	(29.7)
Accrued income taxes	13.9	1.5
Other accrued expenses	(47.9)	(15.6)
Other adjustments, net	(28.1)	6.1
Net cash provided by operating activities	<u>37.0</u>	<u>179.7</u>
<b>Investing activities</b>		
Capital outlays	(76.7)	(48.9)
Capitalized interest	(0.2)	
Investment in subsidiaries, net of cash received	(0.6)	(1.9)
Proceeds from asset dispositions	13.1	24.6
Other investing, net	3.4	(28.7)
Net cash used in investing activities	<u>(61.0)</u>	<u>(54.9)</u>
<b>Financing activities</b>		
Proceeds from issuance of debt	23.2	16.8
Payment of debt	(78.3)	(246.7)
Preferred dividends	(6.8)	
Issuance of shares		592.2
Other financing, net	34.3	(3.7)
Net cash provided by (used in) financing activities	<u>(27.6)</u>	<u>358.6</u>
<b>(Decrease) increase in cash and cash equivalents</b>	(51.6)	483.4
<b>Cash and cash equivalents at beginning of period</b>	<u>349.8</u>	<u>386.9</u>
<b>Cash and cash equivalents at end of period</b>	\$298.2	870.3





\* Refer to Note 2 to Consolidated Financial Information.  
See Notes to Consolidated Financial Information

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**CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY**  
(Unaudited; in millions)

	Common Shares		Preferred Shares		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Shareholders Equity
	Number of Shares	At Par Value	Number of Shares	At Par Value			Other		
<b>Balance at December 31, 2002</b>	88.9	\$555.6	2.0	\$2.0	\$1,552.1	\$1,173.3	\$ (458.5)	\$(10.9)	\$2,813.6
Stock options exercised					0.1				0.1
Restricted shares issued/cancelled, net	0.1	0.6			2.4			(0.9)	2.1
Dividends on preferred shares						(6.8)			(6.8)
Comprehensive income (loss):									
Net loss						(30.2)			(30.2)
Other comprehensive income (loss), net of tax:									
Translation adjustment							35.7		35.7
Net gain on derivative instruments							4.1		4.1
Other investment adjustments							(0.2)		(0.2)
Unrealized gains on securities							0.6		0.6
Other comprehensive income							40.2		40.2
Comprehensive loss									10.0
<b>Balance at June 30, 2003</b>	89.0	\$556.2	2.0	\$2.0	\$1,554.6	\$1,136.3	\$ (418.3)	\$(11.8)	\$2,819.0

See Notes to Consolidated Financial Information

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**FINANCIAL DATA BY BUSINESS SEGMENT**

(Unaudited; in millions)

	U.S. Mines					South American Mines			
	Morenci	Bagdad/ Sierrita	Miami/ Bisbee	Chino/ Cobre	Tyrone	Candelaria	Cerro Verde	El Abra	Primary Molybdenum
<b>Second Quarter 2003</b>									
Sales and other operating revenues:									
Unaffiliated customers				0.1		60.0	9.0	30.0	93.4
Intersegment	138.1	119.4	9.2	8.4	21.9	7.1	28.4	20.8	
Depreciation, depletion and amortization	20.3	7.8	1.5	2.0	3.5	9.7	7.3	17.1	6.8
Operating income (loss) before special items and provisions	4.9	18.3	(2.6)	(2.8)	(4.5)	13.6	8.6	5.2	0.4
Special items and provisions			(0.5)						
Operating income (loss)	4.9	18.3	(3.1)	(2.8)	(4.5)	13.6	8.6	5.2	0.4
Assets at June 30	1,051.2	749.0	122.0	297.1	164.3	643.6	433.4	539.9	784.3
Expenditures for segment assets	3.8	4.6	0.1	0.6		1.0	0.9	0.5	2.7
<b>Second Quarter 2002 (as restated)</b>									
Sales and other operating revenues:									
Unaffiliated customers				0.3		37.6	10.7	47.7	63.0
Intersegment	138.0	72.9	2.4	12.1	25.8	40.4	23.6	30.5	
Depreciation, depletion and amortization	19.9	6.6	1.3	2.7	3.1	9.4	7.6	16.2	6.2
Operating income (loss) before special items and provisions	12.9	4.5	(3.8)	1.3	0.6	13.2	6.8	0.2	0.5
Special items and provisions			(3.8)	1.3	0.6	13.2	6.8	0.2	0.5
Operating income (loss)	12.9	4.5	(3.8)	1.3	0.6	13.2	6.8	0.2	0.5
Assets at June 30	1,121.0	767.5	129.0	407.4	145.9	646.9	441.0	542.8	792.5
Expenditures for segment assets	0.6	8.8	0.1	0.8	2.5	0.6	1.2	1.1	2.6

	Manufacturing and Sales	Other Mining	PDMC Elimi- nations	PDMC Subtotal	Specialty Chemicals	Wire & Cable	PDI Subtotal	Corporate, Other & Elimi- nations	Totals
<b>Second Quarter 2003</b>									
Sales and other operating revenues:									
Unaffiliated customers	443.4	5.7		641.6	166.1	154.5	320.6		962.2
Intersegment	70.1	17.7	(410.2)	30.9		0.1	0.1	(31.0)	
Depreciation, depletion and amortization	4.0	2.0		82.0	11.7	8.9	20.6	4.6	107.2
Operating income (loss) before special items and provisions	6.5	(21.3)		26.3	15.0	3.5	18.5	(25.5)	19.3
Special items and provisions				(0.5)				(1.6)	(2.1)
Operating income (loss)	6.5	(21.3)		25.8	15.0	3.5	18.5	(27.1)	17.2
Assets at June 30	486.2	1,490.6	(1,593.4)	5,168.2	737.0	518.2	1,255.2	534.5	6,957.9
Expenditures for segment assets	1.9	1.0		17.1	5.9	4.1	10.0	22.9	50.0
<b>Second Quarter 2002 (as restated)</b>									

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Sales and other operating

revenues:

Unaffiliated customers	478.8	6.4		644.5	140.5	181.8	322.3		966.8
Intersegment	109.3	13.0	(430.7)	37.3				(37.3)	
Depreciation, depletion and amortization	6.0	0.6		79.6	10.7	10.7	21.4	2.1	103.1
Operating income (loss) before special items and provisions	(1.0)	(17.9)		17.3	17.0	3.3	20.3	(17.5)	20.1
Special items and provisions		20.9		20.9				(51.2)	(30.3)
Operating income (loss)	(1.0)	3.0		38.2	17.0	3.3	20.3	(68.7)	(10.2)
Assets at June 30	528.5	1,724.5	(1,831.5)	5,415.5	687.8	572.3	1,260.1	1,216.8	7,892.4
Expenditures for segment assets	1.5	0.9		20.7	3.2	2.6	5.8	1.5	28.0

**FINANCIAL DATA BY BUSINESS SEGMENT**

(Unaudited; in millions)

	U.S. Mines					South American Mines			
	Morenci	Bagdad/ Sierrita	Miami/ Bisbee	Chino/ Cobre	Tyrone	Candelaria	Cerro Verde	El Abra	Primary Molybdenum
<b>Six Months Ended 2003</b>									
Sales and other operating revenues:									
Unaffiliated customers				0.2		119.2	18.9	61.5	169.3
Intersegment	274.3	214.8	18.2	17.8	48.6	30.6	55.6	41.8	
Depreciation, depletion and amortization	39.0	15.1	3.4	4.0	6.8	20.5	14.6	31.6	12.9
Operating income (loss) before special items and provisions	17.3	25.0	(3.3)	(4.9)	(8.9)	36.7	16.1	10.8	0.5
Special items and provisions			(0.5)						
Operating income (loss)	17.3	25.0	(3.8)	(4.9)	(8.9)	36.7	16.1	10.8	0.5
Assets at June 30	1,051.2	749.0	122.0	297.1	164.3	643.6	433.4	539.9	784.3
Expenditures for segment assets	9.9	10.8	0.1	1.6	0.2	1.6	1.9	0.7	5.2
<b>Six Months Ended 2002 (as restated)</b>									
Sales and other operating revenues:									
Unaffiliated customers				0.5		85.4	19.2	85.5	124.3
Intersegment	268.5	172.4	11.9	34.0	50.1	59.7	48.4	48.3	
Depreciation, depletion and amortization	39.4	13.2	2.6	5.8	6.1	19.4	15.0	32.7	11.7
Operating income (loss) before special items and provisions	24.7	0.2	(8.3)	7.0	(1.1)	33.4	13.6	0.7	0.2
Special items and provisions			(8.3)	7.0	(1.1)	33.4	13.6	0.7	0.2
Operating income (loss)	24.7	0.2	(8.3)	7.0	(1.1)	33.4	13.6	0.7	0.2
Assets at June 30	1,121.0	767.5	129.0	407.4	145.9	646.9	441.0	542.8	792.5
Expenditures for segment assets	2.3	16.4	0.1	0.9	2.6	1.0	3.4	2.6	4.5

	Manufacturing and Sales	Other Mining	PDMC Eliminations	PDMC Subtotal	Specialty Chemicals	Wire & Cable	PDI Subtotal	Corporate, Other & Eliminations	Totals
<b>Six Months Ended 2003</b>									
Sales and other operating revenues:									
Unaffiliated customers	916.8	10.7		1,296.6	328.2	315.4	643.6		1,940.2
Intersegment	155.4	34.0	(830.2)	60.9		0.1	0.1	(61.0)	
Depreciation, depletion and amortization	8.2	3.1		159.2	22.7	17.8	40.5	9.1	208.8
Operating income (loss) before special items and provisions	15.0	(42.3)		62.0	25.9	6.9	32.8	(48.7)	46.1
Special items and provisions				(0.5)	3.2		3.2	(2.9)	(0.2)
Operating income (loss)	15.0	(42.3)		61.5	29.1	6.9	36.0	(51.6)	45.9
Assets at June 30	486.2	1,490.6	(1,593.4)	5,168.2	737.0	518.2	1,255.2	534.5	6,957.9
Expenditures for segment assets	3.5	1.5		37.0	9.7	6.7	16.4	23.9	77.3
<b>Six Months Ended 2002 (as restated)</b>									

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Sales and other operating

revenues:

Unaffiliated customers	932.5	8.8		1,256.2	269.8	359.3	629.1		1,885.3
Intersegment	205.5	28.7	(853.2)	74.3		0.2	0.2	(74.5)	
Depreciation, depletion and amortization	12.0	1.4		159.3	21.2	21.4	42.6	4.1	206.0
Operating income (loss) before special items and provisions	(2.7)	(36.9)		30.8	30.2	6.1	36.3	(38.1)	29.0
Special items and provisions		34.7		34.7				(61.2)	(26.5)
Operating income (loss)	(2.7)	(2.2)		65.5	30.2	6.1	36.3	(99.3)	2.5
Assets at June 30	528.5	1,724.5	(1,831.5)	5,415.5	687.8	572.3	1,260.1	1,216.8	7,892.4
Expenditures for segment assets	3.0	1.3		38.1	5.2	4.3	9.5	3.2	50.8

**NOTES TO CONSOLIDATED FINANCIAL INFORMATION**

(Unaudited)

1. *General Information*

The unaudited consolidated financial information of Phelps Dodge Corporation (the Company, which may be referred to as Phelps Dodge, PD, we, us or ours) presented herein has been prepared in accordance with the instructions to Form 10-Q and does not include all of the information and note disclosures required by generally accepted accounting principles. Therefore, this information should be read in conjunction with the consolidated financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2002. This information reflects all adjustments that are, in the opinion of management, necessary to a fair statement of the results for the interim periods reported. Our business consists of two divisions, Phelps Dodge Mining Company (PDMC) and Phelps Dodge Industries (PDI).

The results of operations for the quarter and six-month periods ended June 30, 2003, are not necessarily indicative of the results to be expected for the full year.

2. *Restatements*

In Note 1, Summary of Significant Accounting Policies, and Note 22, Restatement of Consolidated Financial Statements, in the Company's Form 10-K for the year ended December 31, 2002, we identified certain accounting matters in the fourth quarter of 2002 that required restatement of our December 31, 2001 and 2000, Consolidated Financial Statements and our financial information for the quarterly periods ended March 31, 2001, through September 30, 2002. Additionally, our presentation of reportable segment information for PDMC for the quarter and six months ended June 30, 2002, has been revised to reflect additional segments.

Following are summaries of selected unaudited quarterly financial data, as restated for the quarter and six months ended June 30, 2002: (Unaudited; \$ in millions except per share data)

	<b>Second Quarter 2002</b>		
	<b>As Previously Reported</b>	<b>Adjust- ments</b>	<b>As Restated</b>
Sales and other operating revenues	\$966.8		\$966.8
Operating loss	(15.8)	5.6	(10.2)
Loss before cumulative effect of accounting change	(36.4)	2.1	(34.3)
Net loss	(36.4)	2.1	(34.3)
Basic and diluted loss per common share before cumulative effect of accounting change	(0.48)	0.02	(0.46)
Basic and diluted loss per common share	(0.48)	0.02	(0.46)

Adjustments comprise the following:

- (1) To adjust the units-of-production depreciation rate calculation for PDMC's mining, smelting and refining operations. This change reduced our depreciation and amortization expense and reduced our operating loss by \$3.0 million in the second quarter of 2002. Additionally, this change decreased our net loss by \$2.4 million, or 3 cents per common share, in the second quarter of 2002.
- (2) To adjust the acquired reclamation obligations assumed in the Cyprus Amax Minerals Company acquisition. This change increased our cost of products sold and our operating loss by \$0.9 million in the second quarter of 2002. Additionally, this change increased our net loss by \$0.7 million, or 1 cent per common share, in the second quarter of 2002.
- (3)

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To adjust the estimated reclamation obligation at our Tyrone mine in 2002 to exclude mineralized material from the determination of the unit reclamation and closure accrual rate. This change increased both our cost of products sold and our operating loss and increased our net loss by \$2.1 million, or 3 cents per common share, in the second quarter of 2002.

- (4) To capitalize costs associated with material in mill and leach stockpiles and the consequent in-process material being converted to salable copper products, which were stated at lower of cost or market. This change decreased both our cost of products sold and our operating loss by \$5.6 million in the second quarter of 2002. Additionally, this change decreased our net loss by \$5.1 million, or 7 cents per common share, in the second quarter of 2002.
  - (5) In 2001, a deferred tax asset valuation allowance of \$57.9 million associated with our El Abra copper mine in Chile was established. The adjustment to the deferred tax asset caused an increase to our net loss by \$2.2 million, or 3 cents per common share, in the second quarter of 2002.
  - (6) The overall effect of the aforementioned adjustments resulted in an incremental income tax expense that increased our net loss by \$0.4 million, or 1 cent per common share, in the second quarter of 2002.
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(Unaudited; \$ in millions except per share data)

**Six Months Ended  
June 30, 2002**

	As Previously Reported	Adjust- ments	As Restated
Sales and other operating revenues	\$ 1,885.3		\$ 1,885.3
Operating income (loss)	(8.8)	11.3	2.5
Loss before cumulative effect of accounting change	(41.2)	5.0	(36.2)
Net loss	(64.1)	5.0	(59.1)
Basic and diluted loss per common share before cumulative effect of accounting change	(0.55)	0.07	(0.48)
Basic and diluted loss per common share	(0.84)	0.07	(0.77)

Adjustments comprise the following:

- (1) To adjust the units-of-production depreciation rate calculation for PDMC's mining, smelting and refining operations. This change reduced our depreciation and amortization expense and decreased our operating loss by \$5.7 million for the six months ended June 30, 2002. Additionally, this change decreased our net loss by \$4.6 million, or 6 cents per common share, for the six months ended June 30, 2002.
- (2) To adjust the acquired reclamation obligations assumed in the Cyprus Amax Minerals Company acquisition. This change increased both our cost of products sold and our operating loss by \$1.8 million for the six months ended June 30, 2002. Additionally, this change increased our net loss by \$1.5 million, or 2 cents per common share, for the six months ended June 30, 2002.
- (3) To adjust the estimated reclamation obligation at our Tyrone mine in 2002 to exclude mineralized material from the determination of the unit reclamation and closure accrual rate. This change increased our cost of products sold and our operating loss and net loss by \$4.2 million, or 5 cents per common share, for the six months ended June 30, 2002.
- (4) To capitalize costs associated with material in mill and leach stockpiles and the consequent in-process material being converted to salable copper products, which were stated at lower of cost or market. This change decreased our cost of products sold and our operating loss by \$11.6 million for the six months ended June 30, 2002. Additionally, this change decreased our net loss by \$10.7 million, or 14 cents per common share, for the six months ended June 30, 2002.
- (5) In 2001, a deferred tax asset valuation allowance of \$57.9 million associated with our El Abra copper mine in Chile was established. The adjustment to the deferred tax asset caused an increase to our net loss by \$4.2 million, or 5 cents per common share, for the six months ended June 30, 2002.
- (6) The overall effect of the aforementioned adjustments resulted in an incremental income tax expense that increased our net loss by \$0.4 million, or 1 cent per common share, for the six months ended June 30, 2002.

### 3. *Reclassification of Intangible Assets*

The Company has recently had discussions with the Staff of the Securities and Exchange Commission regarding the balance sheet classification of certain mining concessions, primarily mining concessions containing proven and probable ore reserves and mineralized material at the Company's South American mines, and whether such assets constitute tangible or intangible assets based upon certain guidance contained in Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, and SFAS No. 142,

Goodwill and Other Intangible Assets. Historically the Company has classified such assets less the related accumulated depreciation, depletion and amortization, as Property, plant and equipment, net on its consolidated balance sheet. The Company has reclassified such mining concessions as intangible assets. Previously reported historical amounts also have been reclassified for comparative purposes. These assets will continue to be amortized over their respective useful lives. The reclassifications had no effect on the Company's net loss

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or shareholders' equity.

The following table summarizes the gross and net carrying amount of intangible assets at December 31, 2002, and June 30, 2003:

(Unaudited; \$ in millions)

	<b>June 30, 2003</b>	<b>December 31, 2002</b>
Gross carrying amount	\$ 443.6*	439.5
Less accumulated amortization	(109.0)*	(93.6)
	<b>\$ 334.6</b>	<b>345.9</b>

\* Includes amounts for recording an asset retirement cost associated with the implementation of SFAS No. 143. (See Note 6, Accounting Standards, for further discussion.)

Amortization expense related to intangible assets was \$6.2 million and \$6.5 million for the three months ended June 30, 2003 and 2002, respectively, and \$13.4 million and \$13.1 million for the six months ended June 30, 2003 and 2002, respectively.

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The estimated annual aggregate amortization expense for intangibles is as follows:

(Unaudited; \$ in millions)

2004	\$27.2
2005	27.3
2006	27.3
2007	27.4
2008	27.6

#### 4. Stock Compensation

We account for our stock option plans by measuring compensation cost using the intrinsic-value-based method presented in Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No compensation cost is reflected in consolidated net loss, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of the grant. The following table presents the effect on net loss and loss per common share as if we had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to compensation cost.

(Unaudited; \$ in millions except per share data)

	Second Quarter	
	2003	2002
		(As Restated)*
Net loss as reported	\$(15.2)	(34.3)
Deduct:		
Total compensation cost determined under fair value based method for all awards, net of tax	(3.1)	(2.9)
<i>Pro forma</i> net loss	\$(18.3)	(37.2)
Loss per common share		
Basic as reported	\$(0.21)	(0.46)
Basic <i>pro forma</i>	\$(0.24)	(0.49)
Loss per common share		
Diluted as reported	\$(0.21)	(0.46)
Diluted <i>pro forma</i>	\$(0.24)	(0.49)

\* Refer to Note 2, Restatements, for further discussion.  
(Unaudited; \$ in millions except per share data)

	Six Months Ended June 30,	
	2003	2002
		(As Restated)*
Net loss as reported	\$(30.2)	(59.1)
Deduct:		
	(6.5)	(6.9)

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Total compensation cost determined under fair value based method for all awards, net of tax		
	—	—
<i>Pro forma</i> net loss	\$(36.7)	(66.0)
	—	—
Loss per common share		
Basic as reported	\$(0.42)	(0.77)
Basic <i>pro forma</i>	\$(0.49)	(0.86)
Loss per common share		
Diluted as reported	\$(0.42)	(0.77)
Diluted <i>pro forma</i>	\$(0.49)	(0.86)

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\* Refer to Note 2, Restatements, for further discussion.

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5. *Special Items and Provisions*

Special items and provisions are unpredictable and atypical of the Company's operations in a given period. We believe consistent identification, disclosure and discussion of such items, both favorable and unfavorable, provide additional information to assess the quality of our performance and our earnings or losses. In addition, management measures the performance of its reportable segments excluding special items. This supplemental information is not a substitute for any U.S. generally accepted accounting principles (GAAP) measure and should be evaluated within the context of our U.S. GAAP results.

Note: Supplemental Data

The following schedule summarizes the special items and provisions for the quarter and six months ended June 30, 2003:  
(Unaudited; gains (losses) in millions except per share amounts)

Statement of Consolidated Operations Line Item	Second Quarter 2003		
	Pre-tax Earnings	After-tax Earnings	\$/Share After-tax
Special items and provisions, net:			
PDMC			
Environmental provisions	\$(0.5)	(0.4)	
Corporate and Other			
Environmental provisions	(2.1)	(2.0)	(0.02)
Environmental insurance recoveries, net	0.5	0.5	