40-1162

Phelps Dodge Corporation One North Central Avenue, Phoenix, AZ 85004 • (602) 366-7826
Fax: (602) 366-7313

William E. Cobb
Director, Environment Department

March 12, 2007

United States Nuclear Regulatory Commission
Attn: Mr. Gary Janosko
Mail Stop 8 – F42
Washington, DC 20555-001

Dear Mr. Janosko,

On behalf of our subsidiary, Western Nuclear, Inc. Split Rock Facility located at 22 Ore Road Jeffrey City, Fremont County, Wyoming, Phelps Dodge Corporation submits the following documentation to satisfy the financial assurance requirements as specified in Parent Company Guarantee for Decommissioning Activities, License SUA-56;

1. Letter from the Chief Financial Officer;

2. Copy of Phelps Dodge Corporation's 2006 Form 10-K, which includes a copy of the independent certified public accountant's report on page 104; and

3. A special report from the independent certified public accountant (per 10 CFR 30, Appendix A II.B).

Should you have any questions regarding the enclosed documents, please call me at 602-366-7826.

Sincerely,

WE Cobb

William E. Cobb

Enclosures

phelps dodge Corporation One North Central Avenue, Phoenix, AZ 85004 • (602) 366-8178
Fax: (602) 366-7321

Ramiro G. "Ramey" Peru
Executive Vice President and Chief Financial Officer

March 12, 2007

United States Nuclear Regulatory Commission
Attn: Mr. Gary Janosko
Mail Stop 8 – F42
Washington, DC 20555-001

Dear Mr. Janosko:

I am the chief financial officer of Phelps Dodge Corporation (the "Company") located at One North Central Avenue, Phoenix, Arizona 85004, a New York corporation. This letter is in support of the Company's use of the financial test to demonstrate financial assurance using a parent company guarantee as specified in NRC's 1988 *Technical Position on Financial Assurances for Reclamation, Decommissioning, and Long-Term Surveillance and Control of Uranium Recovery Facilities* ("Technical Position").

The Company guarantees, through a parent company guarantee submitted to demonstrate compliance under 10 CFR Part 40, including Appendix A, and the above-mentioned NRC Technical Position, the decommissioning of the following facility owned and for operated by a subsidiary of this Company. The current cost estimates or certified amounts for decommissioning, so guaranteed, are shown for such facility:

Name and Location Facility	License Number	Certified Amounts or Current Cost Estimates
Western Nuclear, Inc. Split Rock Facility 22 Ore Road Jeffrey City, Fremont County, Wyoming 82310	SUA-56	$12,279,018

This Company is required to file a Form 10-K with the U.S. Securities and Exchange Commission for the latest fiscal year.

The fiscal year of this firm ends on December 31. The figures for the following items marked with an asterisk are derived from this Company's independently audited, year-end financial statements and footnotes for the latest completed fiscal year, ended December 31, 2006. A copy of the Company's most recent financial statements is enclosed.

PARENT COMPANY GUARANTEE FINANCIAL TEST I

1. Current decommissioning cost estimates or certified amounts

a.	Decommissioning amounts covered by this parent company guarantee	$ 12,279,018
b.	All decommissioning amounts covered by other NRC or Agreement State parent company guarantees or self-guarantees	$ -0-
c.	All amounts covered by parent company guarantees, self-guarantees or financial tests of other Federal or State agencies	$366,504,478
TOTAL		$378,783,496

Attached as Exhibit "A" is a spreadsheet demonstrating compliance with the Financial Test as specified in 10 C.F.R. Part 30, Appendix A II.A.1. The Company previously certified its compliance with the financial test for self-assurance in the amount of $12,279,018 pursuant to Financial Test as specified in 10 C.F.R. Part 30, Appendix A II.A.2. On February 28, 2007, the Company received notice from Standard & Poor's and Moody's Investor Service, Inc. that its senior unsecured debt no longer has an investment grade rating as required in 10 C.F.R. Part 30, Appendix A II.A.2(i). Copies of press releases announcing these changes are enclosed. As indicated in the press releases, these changes reflect the anticipated merger between the Company and a subsidiary of Freeport-McMoRan Copper & Gold, Inc., which is expected to occur later this month. Consequently, the Company is no longer relying upon Financial Test A.2 and is demonstrating compliance with Financial Test A.1.

I hereby certify that the content of this letter is true and correct to the best of my knowledge.

R.G. Peru, Executive Vice President and
Chief Financial Officer

Date: 3\12\07

Exhibit A
Certificate of Parent Company's Compliance with 10 C.F.R. Part 40 and Part 30 Appendix A
As of December 31, 2006
(in millions)

Parent Company Guarantees

1. a. Amount of Phelps Dodge Corporation (Guarantor) guarantee on behalf of Western Nuclear, Inc. for decommissioning the Split Rock Facility	$12.3
b. All other guarantees for decommissioning for which Guarantor is obligated.	$ 366.5
TOTAL Other Guarantees	$366.5
c. TOTAL Guarantees (1.a plus 1.b)	$378.8

Guarantor's Financial Balances and Calculations

2.a. Total Assets	$14,632.3
b. Total Assets in the United States	9,919.8
c. Total Liabilities	5,692.3
d. Net income	3,017.8
e. Depreciation, Depletion and Amortization	448.7
f. Current Assets	7,600.9
g. Current Liabilities	3,262.9
h. Net Working Capital	4,338.0
3. NET WORTH (including minority interest)(line 2.a minus line 2.c)	$8,940.0
a. Intangible Assets (including goodwill)	19.5
4. TANGIBLE NET WORTH (line 3 minus line 3.a)	$8,920.5
5. Net Income plus Depreciation, Depletion and Amortization (sum of lines 2.d and e)	$3,466.5

FINANCIAL TEST

	Minimum Criteria		Actual Result	Test Status
6. Test (40 C.F.R. Part 30, Appendix A)				**PASS**
a. Is Tangible Net Worth (line 4) at least $10 million?	At least	$10	$8,920.5	PASS
b. Is ratio of Total Liabilities (line 2.c) to Net Worth (line 3) less than 2.0?	Less than	2.0	0.6	PASS
c. Is ratio of sum of Net Income plus Depreciation, Depletion and Amortization (line 5) to Total Liabilities (line 2.c) greater than 0.1?	Greater than	0.1	0.6	PASS
d. Is ratio of Current Assets (line 2.f) to Current Liabilities (line 2.g) greater than 1.5?	Greater than	1.5	2.3	PASS
e. Are at least two of lines 6.b, 6.c and 6.d answered "PASS"?	**2 of 3**			**PASS**
f. Is Net Working Capital (line 2.h) more than six times Total Decommissioning Guarantees (line 1.c)?	More than	6	11.5	PASS
g. Is Tangible Net Worth (line 4) at least six times Total Decommissioning Guarantees (line 1.c)?	At least	6	23.5	PASS
h. Are 90% of Guarantor's assets located in the United States? If not, complete line 6.i.	90%		68%	FAIL **or**
i. Is the amount of Guarantor's assets located in the U.S. (line 2.b) more than six times Total Decommissioning Guarantees (line 1.c)?	**More than**	**6**	26.2	PASS

Cite source and page number, or provide other documentation or written explanation for items 2. through 5.

Moody's Investors Service

Summary Opinion: Freeport-McMoRan Copper & Gold Inc.

Freeport-McMoRan Copper & Gold Inc.

Opinion

Recent Developments

Moody's Investors Service confirmed Freeport-McMoRan Copper & Gold Inc.'s (Freeport) Ba3 corporate family rating and announced a number of rating actions with respect to Freeport and Phelps Dodge Corporation (Phelps Dodge). The ratings actions are based on the assumption that Freeport completes the acquisition of Phelps Dodge on substantially the terms agreed. The ratings reflect the overall probability of default of Freeport, to which Moody's assigns a PDR of Ba3 (LGD4, 50%). The outlook for both Freeport and Phelps Dodge is stable.

In related rating actions, Moody's assigned a Baa3 (LGD1, 1.0%) senior secured rating to Freeport's $500 million secured revolver and Ba2 (LGD2, 29%) senior secured ratings to each of Freeport's $1 billion secured revolver, $2.5 billion secured Term Loan A, and $7.5 billion secured Term Loan B. Freeport's existing 6.875%, 10.125% and 7.20% senior unsecured notes, which are being granted a security and guarantee package equivalent to the $1 billion revolver and Term Loans A & B, were upgraded to Ba2 (LGD2, 29%) from B1. Moody's downgraded Phelps Dodge's Cyprus Amax notes, which mature in May 2007, as well as the ratings on Phelps Dodge's other existing senior unsecured notes to B1 (LGD4, 63%) from Baa2. Moody's also affirmed Freeport's SGL-1 Speculative Grade Liquidity rating. This concludes Moody's review of the ratings of Freeport and Phelps Dodge begun on November 20, 2006 following the announcement that Freeport had agreed to acquire Phelps Dodge for $26 billion.

Company Profile

Freeport-McMoRan Copper & Gold Inc. and Phelps Dodge Corporation signed a definitive merger agreement on November 19, 2006 under which Freeport agreed to acquire all of the outstanding shares of Phelps Dodge for approximately $25.9 billion in cash and stock. Based on the closing price of Freeport stock on November 17, 2006, Freeport will pay a total consideration of $126.46 per Phelps Dodge share comprised of $88.00 per share in cash plus 0.67 common shares of Freeport. The cash portion of $18 billion is expected to be funded primarily with debt of approximately $16 billion. The transaction is expected to close in March 2007.

Prior to the acquisition of Phelps Dodge, Freeport's principal asset was the Grasberg mine in Indonesia, which is owned by Freeport's 90.6% subsidiary, P.T. Freeport Indonesia (PT-FI). PT-FI is one of the lowest cost copper operations in the world, a status that is attained through the significant amount of gold that is also mined and accounted for as a by-product. Notwithstanding the low cost nature of the Grasberg mine, Freeport's ratings have been held back by its concentration in one mining district, and also reflected the challenging conditions and political and economic uncertainty associated with Indonesia.

Phelps Dodge is the largest copper producer in the US (third largest in the world), and is also the world's second largest producer of molybdenum. Its ratings have traditionally been held back by the relatively high cost nature of its mining operations and lack of commodity diversity. In 2006, Phelps Dodge generated approximately 78% of its revenues from copper and 22% from molybdenum. Phelps Dodge also produces wire and cable products, which is the company's sole remaining non-mining business.

The acquisition of Phelps Dodge will enhance Freeport's operational, geographic and political risk diversity. Using 2006 production numbers as a proxy, 42% of the Freeport's production would come from North America, 35% from Indonesia, 19% from Chile and 4% from Peru. The acquisition however, will not significantly augment Freeport's commodity diversity. Added exposure to molybdenum may lessen volatility in Freeport's revenue stream, but the combined entity will remain predominantly a copper producer, as it will continue to derive more than 75% of its revenues from copper mining, smelting, and refining operations, based on 2006 production levels and metals prices. Freeport may also benefit from Phelps' SX/EW production technology, which should enable the extraction of copper from sources that in the past would have gone unused. This, however, is not likely to have more than a marginal effect on Freeport's results.

The acquisition of Phelps Dodge will make Freeport one of the largest players in the world's copper markets and create a significant North America based mining company that, based on 2006 results, would have had revenues of $17.7 billion. Freeport will also have a significant presence on three continents and produce approximately 4 billion pounds of copper, 1.9 million ounces of gold and 75 million pounds of molybdenum in 2007.

Rating Rationale

The Ba3 corporate family rating reflects Freeport's very high debt level of approximately $19 billion and what Moody's believes will be a protracted time frame for debt reduction in the face of softening metals prices and continued high cost challenges. The rating also considers the high concentration in copper and resultant variability in earnings and cash flow, significant capital expenditures, and a high level of reliance on the Grasberg mine in Indonesia. The rating also reflects the cultural challenges inherent in the acquisition of the larger Phelps Dodge by Freeport, and the execution and political risk of Phelps Dodge's development project in the Congo. The Ba3 rating favorably considers the company's leading positions in copper and molybdenum, a significant amount of gold production, the low cost, long-life reserves at PT-FI, and improved operating and political diversity.

In accordance with Moody's global rating methodology for mining companies (Rating Methodology: Global Mining Industry, September 2005), Freeport's improved diversity and size may permit Freeport's overall performance to map to a level higher than the assigned Ba3 level over the next two to three years in a moderately softening metals price environment. However, the very significant debt level of $19 billion, coupled with the high concentration in a single metal - copper - will be the determining factor in the rating until such time as the debt is reduced to a more manageable level. The copper price has already declined significantly since the acquisition was announced, and Moody's believes that a combination of lower copper prices, continued input and development cost pressures, and the challenges of achieving targeted production and overall cost objectives from new developments, may leave the company challenged to produce positive free cash flow over the next few years. The company's sensitivity to copper prices and ability to reduce debt in a timely manner is illustrated by the approximate $2.5 billion decline in annual pre-tax cash flow that results from a decline in the copper price from $3.13 /lb (when the acquisition was announced) to a recent range of $2.50 /lb.

Key Rating Drivers:

Financial Policies: The key driver for the rating is the very high debt level of approximately $19 billion, including Moody's adjustments for preferred shares ($1.1 billion), operating leases ($206 million), and unfunded pensions ($150 million). While pro forma 2006 debt to capitalization (67.5% excluding approximately $8 billion of goodwill related to this acquisition) and debt to EBITDA (2.3x) map to Ba and A ratings, respectively, the amount of debt, in combination with exposure to highly cyclical metals prices, exposes the company to a potentially protracted period of high debt in a declining metals price environment. The debt to EBITDA ratio, as well of the Financial Strength ratios below, are very strong on a 2006 pro forma basis but reflect unusually high copper prices, which averaged $3.13 for the year, up from $1.67 in 2005 and $1.31 in 2004.

Financial Strength: While the three ratios that comprise this category, EBIT to Interest (6.1x pro forma 2006), CFO minus dividends to debt (20.7%) and FCF to Debt (12.8%), map to low Baa and Ba ratings, at copper prices of even $2.25 /lb we would expect these ratios to migrate down to the Ba, B and Caa levels respectively. These metrics may be further negatively impacted by the challenges of developing new mines, particularly in the Congo. Additionally, in the past Freeport has paid significant special shareholder dividends, a practice we do not expect to continue pending a substantial reduction in debt, but which would pressure the cash flow ratios and ratings if it were to resume.

Diversity and Size: Freeport's diversity and size are significantly improved as discussed above, and currently map to Baa and Aa levels, respectively. These measures, however, are offset by the amount of debt. Freeport will continue to have significant operating concentration in Indonesia and in the Grasberg mine, but at the appropriate debt level these concentrations should not be impediments to the attainment of an investment grade rating.

Reserves: The company has ample reserves, with a 21 year life at current mining rates. However, the longest lived and lowest cost reserves are in the politically risky regions of Indonesia (46%), Peru (11%) and the Congo. On a net interest basis, the company will have reserves of approximately 77.2 billion pounds of copper, 38.3 million ounces of gold and 1.8 billion pounds of molybdenum. The Grasberg mine in Indonesia will continue to operate as a very low cost copper mine, owing to its significant gold credits.

Cost Efficiency and Profitability: Pro forma 2006 levels are positive (EBIT margin, 42%; ROA, 17% and Other Liabilities to Equity, 9%), mapping to Aa and A levels, respectively, again reflecting the unusually high copper price environment. While the other liabilities to equity ratio is unlikely to change, the other two ratios reflect what Moody's believes will be the high point in the current metals environment and will trend down rapidly when metal prices decline. In recent years, the company's cash operating costs have increased significantly as energy, explosives, and other raw material based costs have risen in conjunction with copper prices. If these costs do not move in rough tandem with falling copper prices, Freeport's margins could narrow appreciably should copper prices move below $2 /lb.

Rating Outlook

The stable outlook reflects the substantial reserve base, a reasonably favorable outlook for copper prices, although we do expect them to trend down, and the diversity of operations and assets, some of which could potentially be liquidated to reduce debt if necessary.

What Could Change the Rating - Up

The outlook could be changed to positive or the rating raised to Ba2 if the company is able to successfully reduce its debt position to approximately $15 billion in an environment in which the copper price and its outlook remain at least in the $2.25 /lb to $2.50 /lb range, and the company is able to demonstrate sustainable CFO minus dividends to debt in the 10% to 12% range and FCF to debt in the range of 3% to 4%.

What Could Change the Rating - Down

The ratings could be lowered if copper prices appear to be unsustainable above $2.00 /lb, before a material reduction in debt occurs. The ratings could also be lowered if, before the debt position is significantly reduced, the company reverts to its propensity to pay significant shareholder dividends or if it takes on any debt financed acquisitions.

Structural Considerations

Upon consummation of the proposed acquisition transaction, Phelps Dodge Corporation will become a wholly-owned subsidiary of Freeport-McMoRan Copper & Gold Inc., and the pre-merger legal entity structure underneath Phelps Dodge will remain unchanged. Notching of the various classes of debt reflects the rank ordering of seniority in accordance with Moody's LGD methodology and considers upstream and downstream guarantees as well as various security packages for existing and new Freeport debt and for Phelps Dodge's existing debt.

To finance the acquisition, Freeport will enter into $11.5 billion of new secured credit agreements (the "Senior Secured Credit Facilities"). Additionally, Moody's anticipates that Freeport will issue senior unsecured notes in the amount of approximately $6.0 billion (the "Senior Unsecured Notes"). The Senior Secured Credit Facilities will consist of a $0.5 billion secured revolver, a $1.0 billion secured revolver, a $2.5 billion secured Term Loan A, and a $7.5 billion secured Term Loan B. Freeport will have access to both the $0.5 billion and $1.0 billion revolving facilities, but the $0.5 billion revolver will also be made available to PT-FI.

The $0.5 billion revolver will receive upstream guarantees from certain existing and future subsidiaries of Freeport (which will include PT-FI, Phelps Dodge and certain of its subsidiaries), will receive stock pledges from Freeport and most of the non Indonesian "guarantor" subsidiaries, and will have various asset guarantees from PT-FI. The $1.0 billion revolver, the Term Loan A, the Term Loan B and Freeport's existing 6.875%, 10.125% and 7.20% unsecured notes (the "Existing FCX Senior Notes") will have the same guarantee and security package as the $0.5 billion revolver but will not receive an upstream guarantee or security from PT-FI. Moody's anticipates that the $6.0 billion senior unsecured notes that may be issued by Freeport to complete the financing will be unsecured and will not have any upstream or downstream guarantees.

Except for the Cyprus Amax notes, all of the existing Phelps Dodge senior unsecured notes will only receive a downstream guarantee from Freeport, a holding company (the ultimate parent). The Cyprus Amax notes will receive stock pledges from various Phelps Dodge subsidiaries in addition to a downstream guarantee from Freeport. The Cyprus Amax notes lien covenant requires the notes to be equally and ratably secured to the extent liens are granted on other indebtedness in excess of certain thresholds (5% of consolidated net tangible assets and other permitted liens). The liens securing the Senior Secured Credit Facilities exceed these thresholds. The pledge of stock and subsidiary guarantees for the Senior Secured Credit Facilities also trips a similar 5% consolidated net tangible assets test and future subsidiary guarantor covenant under the Existing FCX Senior Notes and therefore, the Existing FCX Senior Notes will receive the same collateral package as the Senior Secured Credit Facilities. The existing Phelps Dodge senior unsecured notes do not benefit from upstream guarantees from any of the Phelps Dodge operating companies. The negative pledge language in the Phelps Dodge's existing notes applies to principal properties only and therefore does not capture the stock pledges granted to the Cyprus Amax notes, the Existing Freeport Senior Notes or to the Senior Secured Credit Facilities. Consequently, the existing Phelps Dodge notes rank behind all but the proposed senior unsecured and unguaranteed notes at Freeport, which Moody's anticipates will be issued in an amount of approximately $6 billion.

Liquidity

Freeport's SGL-1 speculative grade liquidity rating reflects the company's very good liquidity and Moody's expectation that following the acquisition of Phelps Dodge Corporation, Freeport's cash balance and operating cash flow will continue to be at sufficiently high levels to cover capital expenditures, on-going working capital requirements, and dividend payments over the next 12 months. At closing of the acquisition of Phelps Dodge, Freeport will have approximately $3.0 billion in cash and no borrowings under its proposed $1.5 billion revolving credit facilities. In conjunction with the acquisition, Freeport will enter into new senior secured revolving credit agreements that will include a $0.5 billion revolver and a $1.0 billion revolver. Usage of the revolvers is not expected to be constrained by their financial covenants. Freeport's expanded operating asset base will provide it with alternatives for arranging other sources of liquidity.

Research Update:

Freeport-McMoRan Copper & Gold Upgraded, Phelps Dodge Downgraded; Both To 'BB'; All Off Watch

Current Ratings >>

Publication date:	28-Feb-2007
Primary Credit Analyst:	Thomas Watters, New York (1) 212-438-7818; thomas_watters@standardandpoors.com

Rationale

On Feb. 28, 2007, Standard & Poor's Ratings Services raised its corporate credit rating on New Orleans, La.-based Freeport-McMoRan Copper & Gold Inc. to 'BB' from 'BB-'. Simultaneously, Standard & Poor's lowered its corporate credit rating on Phelps Dodge Corp. to 'BB' from 'BBB'. In addition, all ratings were removed from CreditWatch where they were placed on Nov. 20, 2006, following the announcement that Freeport had agreed to acquire Phelps in a transaction valued at $26 billion. The outlook is stable. Under terms of the transaction, the acquisition will be funded by $18.5 billion in cash, of which $16.0 billion is through new debt offerings, with the remainder in common stock. Pro forma for the transaction, total adjusted debt will approximate $18 billion.

In addition, Standard & Poor's has taken the following issue-specific rating actions:

For Phelps Dodge:

- We lowered our senior unsecured rating to 'BB-' from 'BBB.' Phelps'
- existing senior unsecured notes, which do not benefit from any subsidiary
- guarantee, will receive a guarantee from the parent; and
- We lowered our ratings on Cyprus Amax Minerals Co.,'s existing 7.375%
- senior notes, which will become secured effective this transaction, due
- 2007 to 'BB+' from 'BBB'.
-

For Freeport McMoRan:

- We raised our ratings on Freeport's existing $613 million of aggregate
- Senior notes, which will become secured effective this transaction, to
- 'BB+' from 'B+'; and
- We raised our ratings on Freeport's preferred stock to 'B' from 'B-'.

Standard & Poor's assigned:

- Its 'B+' rating to Freeport's proposed $6 billion of senior unsecured
- notes.
- Its 'BB+' bank loan rating and '1' recovery rating to Freeport's proposed
- $11.5 billion senior secured credit facility.
- Its '1' recovery rating to the secured notes for Phelps and Freeport as
- they are pari passu with the proposed first lien credit facility.

The credit facility will consist of

- A five-year $1.5 billion revolving credit facility (including Freeport's
- $500 million existing facility);
- A $2.5 billion senior secured five-year Term Loan A; and
- A $7.5 billion senior secured seven-year Term Loan B.

The security is limited to the pledge of stock of the borrower and certain of its subsidiaries. Although Standard & Poor's determined that there was adequate enterprise value to warrant the expectation of full recovery of principal for the senior secured facilities and, thus, issued ratings one notch above the corporate credit rating, additional notching is restrained by the lack of a pledge of the company's tangible and intangible assets.

The $6 billion of senior unsecured notes will not share in any subsidiary guarantees. These notes are rated two notches below the corporate credit rating, reflecting their disadvantaged position in the capital structure relative to the significant amount of priority claims--specifically secured debt and priority subsidiary liabilities. We deem the Phelps Dodge unsecured notes to have fewer priority claims ahead of it, thus the differentiation on the notching.

The upgrade of Freeport's ratings reflects the marked improvement of Freeport's business profile and position in the mining industry. The acquisition augments its reserves, production, and geographic diversity, while somewhat mitigating Freeport's exposure to the political and legal risks of operating in Indonesia, which historically have been key risk factors in the assessment of Freeport's corporate credit rating. The downgrade of Phelps' ratings reflects the material increase in debt for the combined entity.

The ratings on Freeport reflect its leading position in copper mining, its significant and diverse reserve base, its very low-cost Indonesian operations, strong liquidity, and current favorable metals prices. The ratings also reflect very aggressive pro forma debt leverage, exposure to cyclical and volatile commodity prices, rising costs, challenges faced at its mature, U.S.-based operations, and exposure to the political and sovereign risks of Indonesia.

Pro forma for the acquisition, Freeport will be the world's second-largest copper producer, with 3.6 billion pounds of equity production in 2006, ranking behind Corporacion Nacional del Cobre de Chile (A/Stable) (Codelco). Freeport's Indonesian-based Grasberg operations is one of the world's lowest-cost copper mines because of the favorable geologic conditions of its reserves, high ore grades, cheap labor and power costs, and meaningful gold by-product. Freeport should also benefit from Phelps' good production pipeline potential--specifically, the low-cost Tenke Fungurame project in the Congo, which is, however, exposed to that country's political risks.

Despite the diversification provided by the acquisition of Phelps, Freeport is still exposed to the operating risks of Indonesia, which accounted for approximately 38% of revenue, 35% of equity production, and 40% of EBITDA pro forma for 2006. Moreover, while we deem Phelps to be a good mining operator, Standard & Poor's views Phelps' U.S.-based operations as mature and relatively high-cost compared to other mining operations. This is primarily because of lower ore grades and exposure to the U.S. labor, environmental compliance, and energy costs, which are higher than for international mining operations. The company has relied on strict adherence to reducing costs throughout its system while advancing new, lower-cost, and more efficient mining techniques.

On a pro forma basis, credit metrics are healthy. However, this reflects peak copper, gold, and molybdenum prices and is not indicative of our expectations for credit metrics in the future. Considering that debt levels are higher than pro forma 2006 consolidated revenue of $17.7 billion, we view the pro forma capital structure as extremely aggressive. Still, meaningful debt reduction could take place in 2007, based on our outlook for copper, gold, and molybdenum prices for the next four to five quarters and a commitment by the company to seek alternative debt-reduction initiatives.

Liquidity

Pro forma for the transaction, Phelps will have full availability under its five-year, $1.5 billion of revolving credit facilities and approximately $3 billion (before minority interest) of cash . However, a portion of this cash is at the subsidiary level and would require tax payment if it were to be upstreamed.

Based on a $2.50-per-pound copper price, flat working capital, capital expenditures of $1.9 billion and dividends approximating $475 million, we expect the company to generate cash flow of approximately $2 billion in 2007, which will be applied to debt reduction.

Recovery analysis

The $11.5 billion credit facility is rated 'BB+', one notch above the corporate credit rating, with a recovery rating of '1', indicating expectations for substantial full recovery of principal in the event of a payment default.

(For the full recovery analysis, please see "Freeport-McMoRan Copper & Gold Inc.'s $11.5B Credit Facilities" to be published on RatingsDirect immediately following this report.)

Outlook

The outlook is stable. A vast reserve base, a diversified production stream, and a good pipeline of developmental projects, support the current rating. On the other hand, Freeport is burdened by very aggressive debt levels, exposure to Indonesia, and the inherent volatility of the commodity markets. Incorporated in the stable outlook is our expectation that through company initiatives to reduce debt and our belief that commodity prices during the near term will remain at relatively healthy levels, Freeport should make meaningful progress in significantly reducing its aggressive debt leverage.

Although Standard & Poor's deems the possibility of a revision of the outlook to positive to be a less likely outcome over the next two years, such a revision would only occur through a significant deleveraging of the balance sheet. For the rating, Standard & Poor's expects funds from operations to total adjusted debt to average 15%-20%. In the event the company does not reduce debt levels in a timely manner and/or a meaningful decline in commodity prices occurs impeding the company's progress in reducing debt, the outlook could be revised to negative.

Ratings List

New Rating

Freeport-McMoRan Copper & Gold Inc.		
Senior Secured		
Local Currency	BB+	

Not Rated Action; CreditWatch/Outlook Action

	To	From
Freeport-McMoRan Copper & Gold Inc.		
Senior Unsecured		
Local Currency	B+	B+/Watch Pos

Upgraded; CreditWatch/Outlook Action

	To	From
Freeport-McMoRan Copper & Gold Inc.		
Corporate Credit Rating	BB/Stable/--	BB-/Watch Pos/--
Preferred Stock		
Local Currency	B	B-/Watch Pos

Downgraded

Phelps Dodge Corp.		
Corporate Credit Rating	BB/Stable/--	BBB/Watch Neg/--

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors of
Phelps Dodge Corporation:

We have audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Phelps Dodge Corporation and its subsidiaries (the "Company") as of December 31, 2006 and the related consolidated statements of income, of cash flows and of shareholders' equity for the year then ended, and have issued our report thereon dated February 23, 2007.

In connection with our audit, nothing came to our attention that caused us to believe that the Company failed to comply with the requirements of Title 10, Chapter I of the Code of Federal Regulations Part 30, including Appendix A, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. The amounts utilized to determine compliance with the requirements of Title 10, Chapter I of the Code of Federal Regulations Part 30, including Appendix A, were derived from the audited financial statements of the Company as of and for the year ended December 31, 2006.

This report is intended solely for the information and use of the Board of Directors and management of Phelps Dodge Corporation and the United States Nuclear Regulatory Commission and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP
February 23, 2007