T. Income Taxes

The components of income from continuing operations before taxes on income were as follows:

	2008	2007	2006
U.S.	$ (999)	$1,960	$ 404
Foreign	1,791	2,842	3,111
	$ 792	$4,802	$3,515

The provision (benefit) for taxes on income from continuing operations before minority interests' share consisted of the following:

	2008	2007	2006
Current:			
Federal*	$ 3	$ 516	$ 56
Foreign	598	774	913
State and local	2	22	(44)
	603	1,312	925
Deferred:			
Federal*	(184)	231	(128)
Foreign	(77)	87	(21)
State and local	-	(7)	77
	(261)	311	(72)
Total	$ 342	$1,623	$ 853

*Includes U.S. taxes related to foreign income

Included in discontinued operations is a tax benefit of $121 in 2008 and $83 in 2007 and a tax expense of $44 in 2006.

The exercise of employee stock options generated a tax benefit of $20 in 2008, $95 in 2007, and $17 in 2006. This amount was credited to additional capital and reduced current taxes payable.

A reconciliation of the U.S. federal statutory rate to Alcoa's effective tax rate for continuing operations is as follows:

	2008	2007	2006
U.S. federal statutory rate	35.0%	35.0%	35.0%
Taxes on foreign income	(10.1)	(4.3)	(7.5)
Permanent differences on restructuring charges and asset disposals	11.8	3.4	0.5
Audit and other adjustments to prior years' accruals	(2.8)	(0.1)	(3.3)*
Minority interests	5.0	0.4	0.4
Statutory tax rate changes	3.5	0.2	0.1
Other	0.8	(0.8)	(0.9)
Effective tax rate	43.2%	33.8%	24.3%

*This figure includes the finalization of certain tax reviews and audits, decreasing the effective tax rate by approximately 1.7% in 2006.

The components of net deferred tax assets and liabilities are as follows:

	2008		2007	
December 31,	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Depreciation	$ -	$1,188	$ -	$1,394
Employee benefits	2,313	-	1,548	-
Loss provisions	475	17	257	-
Deferred income/expense	18	113	32	103
Tax loss carryforwards	1,017	-	691	-
Tax credit carryforwards	320	-	335	-
Derivatives and hedging activities	394	-	212	-
Other	234	224	217	127
	4,771	1,542	3,292	1,624
Valuation allowance	(713)	-	(517)	-
	$4,058	$1,542	$2,775	$1,624

Of the total deferred tax assets associated with the tax loss carryforwards, $283 expires over the next 10 years (of which $196 has been reserved for through the valuation allowance), $379 over the next 20 years, and $355 is unlimited. Generally, the valuation allowance relates to loss carryforwards because the ability to generate sufficient future income in some jurisdictions is uncertain. Of the tax credit carryforwards, $279 expires over the next 10 years (most of this amount relates to foreign tax credits that do not begin to expire until 2015), with the balance expiring over the next 15 to 20 years.

The cumulative amount of Alcoa's foreign undistributed net earnings for which no deferred taxes have been provided was $8,664 at December 31, 2008. Management has no plans to distribute such earnings in the foreseeable future. It is not practical to determine the deferred tax liability on these earnings.

Alcoa and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With a few minor exceptions, Alcoa is no longer subject to income tax examinations by tax authorities for years prior to 2002. All U.S. tax years prior to 2008 have been audited by the Internal Revenue Service. Various state and foreign jurisdiction tax authorities are in the process of examining Alcoa's income tax returns for various tax years through 2007.

As described in Note A, Alcoa adopted FIN 48 and FSP FIN 48-1 effective January 1, 2007. The adoption of FIN 48 and FSP FIN 48-1 did not have an impact on the accompanying Consolidated Financial Statements. A reconciliation of the beginning and ending amount of unrecognized tax benefits (excluding interest and penalties) is as follows:

December 31,	**2008**	**2007**
Balance at beginning of year	$ 33	$22
Additions based on tax positions related to the current year	-	3
Additions for tax positions of prior years	11	14
Reductions for tax positions of prior years	(10)	(7)
Settlements	(7)	-
Foreign currency translation	(3)	1
Balance at end of year	$ 24	$33

As of December 31, 2008 and 2007, a portion of the $24 and $33 balance, respectively, pertains to state tax liabilities, which are stated before any offset for federal tax benefits. The effect of unrecognized tax benefits, if recorded, that would impact the 2008 and 2007 annual effective tax rate is approximately 2% and less than 1%, respectively, of pretax book income. Alcoa does not anticipate that changes in its unrecognized tax benefits will have a material impact on the Statement of Consolidated Operations during 2009.

It is Alcoa's policy to recognize interest and penalties related to income taxes as a component of the Provision for income taxes on the accompanying Statement of Consolidated Operations. In 2008 and 2007, Alcoa recognized $1 and $2, respectively, in interest and penalties. As of December 31, 2008 and 2007, the amount accrued for the payment of interest and penalties was $9.

(28) Income Taxes

The total income tax expense (benefit) provided on pretax income was allocated as follows:

	Year Ended December 31,		
	2008	2007	2006
Continuing operations	$ 39,139	$ 9,195	$ (30,519)
Discontinued operations	1,647	(565)	-
	$ 40,786	$ 8,630	$ (30,519)

Significant components of income tax expense (benefit) from continuing operations were as follows:

	Year Ended December 31,		
	2008	2007	2006
Current tax expense:			
Federal	$ 44,550	$ 8,747	$ 15,671
State	11,389	(626)	2,530
	$ 55,939	$ 8,121	$ 18,201
Deferred tax expense (benefit):			
Federal	$ (13,454)	$ (737)	$ (40,461)
State	(3,346)	1,811	(8,259)
	$ (16,800)	$ 1,074	$ (48,720)
Total income tax expense (benefit):			
Federal	$ 31,096	$ 8,010	$ (24,790)
State	8,043	1,185	(5,729)
	$ 39,139	$ 9,195	$ (30,519)

A reconciliation of the statutory federal income tax expense at 35% to income from continuing operations before income taxes and the actual income tax expense (benefit) is as follows:

	Year Ended December 31,		
	2008	2007	2006
Federal statutory income tax expense	$ 70,169	$ 13,715	$ 34,177
Increases (reductions) in taxes due to:			
Percentage depletion allowance	(22,508)	(9,851)	(6,345)
Extraterritorial income exclusion	(1,945)	-	(1,678)
Deduction for domestic production activities	(3,659)	-	63
State taxes, net of federal tax impact	5,292	766	3,859
Stock-based compensation not deductible	-	203	4,472
Change in valuation allowances	(10,429)	3,776	(67,629)
Loss disallowance	2,147	-	-
Other, net	72	586	2,562
Income tax expense (benefit)	$ 39,139	$ 9,195	$ (30,519)

Deferred income taxes result from temporary differences between the reporting of amounts for financial statement purposes and income tax purposes. The net deferred tax assets and liabilities included in the consolidated financial statements include the following amounts:

	December 31,	
	2008	2007
Deferred tax assets		
Property, plant, and equipment	$ 39,966	$ 45,812
Asset retirement obligation	38,710	35,346
Other liabilities	26,915	17,828
Postretirement medical benefits	23,859	21,233
Alternative minimum tax credit carryforwards	13,507	23,933
Goodwill	13,223	14,415
Workers' compensation benefits	3,988	3,764
Deferred gains on sales of property investments	1,236	1,562
Other Assets	1,068	811
Net operating loss carryforwards	-	887
Gross deferred tax assets	162,472	165,591
Less valuation allowance	(34,462)	(44,368)
Total net deferred tax assets	128,010	121,223
Deferred tax liabilities		
Other assets	(1,129)	(1,691)
Prepaid insurance and other prepaid expenses	(5,333)	(20,117)
Advanced mining royalties	(6,261)	(4,527)
Virginia tax credit	(8,474)	(7,511)
Total deferred tax liabilities	(21,197)	(33,846)
Net deferred tax asset	$ 106,813	$ 87,377

The breakdown of the net deferred tax asset as recorded in the accompanying consolidated balance sheets is as follows:

	December 31,	
	2008	2007
Current liability	$ (639)	$ (9,753)
Noncurrent asset	107,452	97,130
Total net deferred tax asset	$ 106,813	$ 87,377

Changes in the valuation allowance during the year ended December 31, 2008 were as follows:

Valuation allowance at December 31, 2007	$ 44,368
Increase in valuation allowance not affecting income tax expense	1,473
Decrease in valuation allowance recorded as a reduction to income tax expense - continuing operations	(10,429)
Decrease in valuation allowance recorded as a reduction to income tax expense - discontinued operations	(950)
Valuation allowance at December 31, 2008	$ 34,462

The increase in the valuation allowance not affecting income tax expense relates to items recorded in other comprehensive income and includes the impact of SFAS 158 and the interest rate swap. The Company's valuation allowance of $34,462 as of December 31, 2008 includes a full valuation allowance against the $13,507 Alternative Minimum Tax (“AMT”) credit carry-forward, which is available for an unlimited carry-forward period to offset regular federal income tax in excess of the AMT. The remaining valuation allowance is being maintained primarily to account for the expectation that the Company will be a perpetual AMT taxpayer at a 20% effective tax rate.

The Company has concluded that it is more likely than not that deferred tax assets, net of valuation allowances, currently recorded will be realized. The amount of the valuation allowance takes into consideration the Alternative Minimum Tax system as required by SFAS 109. The Company monitors the valuation allowance each quarter and makes adjustments to the allowance as appropriate.

The Company adopted the provisions of Financial Standards Accounting Board Interpretation (“FIN”) No. 48 *Accounting for Uncertainty in Income Taxes* (“FIN 48”) an interpretation of SFAS 109 on January 1, 2007. As a result of the adoption of FIN 48, the Company recognized no adjustment in the unrecognized income tax benefits that existed at December 31, 2006. Total amount of unrecognized tax benefits that would affect the Company’s effective tax rate if recognized is $2,828 as of December 31, 2008. This amount takes into consideration that a valuation allowance would be recorded against certain deferred tax assets if unrecognized tax benefits were settled. The Company does not anticipate that total unrecognized benefits recorded as of December 31, 2008 will significantly change during the next twelve months.

The Company’s policy is to classify interest and penalties related to uncertain tax positions as part of income tax expense. As of December 31, 2008, the Company has recorded accrued interest expense of $145. In addition, the Company has accrued interest income of $488 for those uncertain positions where no additional cash taxes are projected due.

The following reconciliation illustrates the Company's liability for uncertain tax positions:

	December 31, 2008	December 31, 2007
Unrecognized tax benefits – beginning of period	$ 5,500	$ 1,437
Gross increases – tax positions in prior period	14	517
Gross decreases – tax positions in prior period	(642)	(857)
Gross increases – current period tax positions	2,357	4,403
Settlements	-	-
Lapse of statute of limitations	-	-
Unrecognized tax benefits - end of period	$ 7,229	$ 5,500

Tax years 2005, 2006, and 2007 remain open to federal and state examination. The Internal Revenue Service initiated a corporate income tax audit during first quarter 2007 for the Company's 2005 tax year. The audit is still ongoing. Proposed adjustments to date have been included in the provision calculation, and the Company expects the examination to last through the second quarter of 2010.

(29) Quarterly Financial Information (Unaudited)

	Year Ended December 31, 2008			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues from continuing operations	$ 516,326	$ 728,977	$ 714,986	$ 593,835
Income (loss) from continuing operations	26,304	75,314	64,866	(5,139)
Income (loss) from discontinuing operations	(774)	(977)	4,997	946
Net income (loss)	25,530	74,337	69,863	(4,193)
Basic earnings per share - income (loss) from continuing operations	0.40	1.08	0.93	(0.07)
Basic earnings per share - income (loss) from discontinuing operations	(0.01)	(0.01)	0.07	0.01
Diluted earnings per share - income (loss) from continuing operations	0.40	1.05	0.90	(0.07)
Diluted earnings per share - income (loss) from discontinuing operations	(0.01)	(0.01)	0.07	0.01
Basic earnings per share - net income (loss)	0.39	1.07	1.00	(0.06)
Diluted earnings per share - net income (loss)	0.39	1.04	0.97	(0.06)

Income (loss) from continuing operations for the quarter ended December 31, 2008 includes a $56,315 pre-tax net gain reflecting proceeds less transaction costs from the $70,000 payment received from Cliffs upon termination of its planned merger with the Company, a pre-tax unrealized loss of $36,171 related to change in fair value of derivative contracts, a pre-tax $30,172 charge related to the closure of the Whitetail Kittanning mine complex, a pre-tax $12,300 charge to coal revenue relating to a coal contract settlement, a pre-tax impairment charge of $4,534 related to the Company's equity investment in the Excelven joint venture, and an income tax charge of $20,303 to increase the valuation allowance for deferred tax assets.

	Year Ended December 31, 2007			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues from continuing operations	$ 430,591	$ 435,348	$ 509,387	$ 510,506
Income from continuing operations	8,933	5,197	9,433	6,427
Loss from discontinuing operations	(584)	(450)	(484)	(738)
Net income	8,349	4,747	8,949	5,689
Basic earnings per share - income from continuing operations	0.14	0.08	0.15	0.10
Basic earnings per share - loss from discontinuing operations	(0.01)	(0.01)	(0.01)	(0.01)
Diluted earnings per share - income from continuing operations	0.14	0.08	0.15	0.10
Diluted earnings per share - loss from discontinuing operations	(0.01)	(0.01)	(0.01)	(0.01)
Basic earnings per share - net income	0.13	0.07	0.14	0.09
Diluted earnings per share - net income	0.13	0.07	0.14	0.09

may be negatively affected. In addition, should Ashapura not be able to secure freight cargo vessels in the future with these or any other shipping companies, our financial results may be negatively affected.

Further information regarding Ashapura's financial and operating performance is in the following table.

	2008	2007
Ashapura Minechem Limited:		
Net Sales	$ 361,270	$ 338,804
Operating income	37,542	52,053
Net income (loss)	(127,759)	35,055
Current assets	152,411	166,629
Non-current assets	109,071	64,742
Total assets	261,482	231,371
Current liabilities	39,826	56,910
Non-current liabilities	224,369	51,159
Total liabilities	264,195	108,069

We record the majority of our equity in the earnings of our investments in affiliates and joint ventures on a one quarter lag.

(7) Income Taxes

Total income tax expense (benefit) for the years ended December 31 was comprised of the following:

	2008	2007	2006
Continuing operations	$ 15,167	$ 16,646	$ 10,425
Discontinued operations	-	(79)	(585)
	15,167	16,567	9,840

For each of the years ended December 31 in the table below, domestic and foreign components of income from continuing operations before income taxes and equity in income (loss) of affiliates and joint ventures are:

	2008	2007	2006
Income from continuing operations before income taxes and income (loss) from affiliates and joint ventures:			
Domestic	$ 41,027	$ 42,632	$ 30,239
Foreign	21,185	22,641	24,429
	62,212	65,273	54,668

The components of the provision for income taxes attributable to income from continuing operations before income taxes and income (loss) from affiliates and joint ventures for the years ended December 31 consisted of:

	2008	2007	2006
Provision (benefit) for income taxes:			
Federal:			
Current	$ 6,963	$ 10,217	$ 6,595
Deferred	2,356	350	(3,090)
State:			
Current	2,560	2,121	1,229
Deferred	(64)	225	83
Foreign:			
Current	3,606	4,741	5,731
Deferred	(254)	(1,008)	(123)
	15,167	16,646	10,425

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and liabilities as of December 31 were as follows:

	2008	2007
Deferred tax assets attributable to:		
Accounts receivable	$ 741	$ 333
Inventories	2,149	1,477
Employee benefit plans	16,265	8,555
Intangible assets	1,807	2,275
Accrued liabilities	1,336	898
Employee incentive plans	1,217	1,462
Tax credit carryforwards	4,530	1,617
Other	2,332	2,688
Total deferred tax assets	30,377	19,305
Deferred tax liabilities attributable to:		
Plant and equipment	(4,921)	(2,477)
Land and mineral reserves	(1,043)	(1,068)
Joint ventures	(1,825)	(3,581)
Other	(813)	(1,765)
Total deferred tax liabilities	(8,602)	(8,891)
Valuation allowances	(550)	(527)
Net deferred tax assets	21,225	9,887

We believe it is more likely than not that the net deferred tax assets above will be realized in the normal course of business.

The following analysis reconciles the U.S. statutory federal income tax rate to the effective tax rates related to income from continuing operations before income taxes and equity income (loss) of affiliates and joint ventures:

	2008		2007		2006	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Provision for income taxes at						
U.S. statutory rates	$ 21,774	35.0%	$ 22,848	35.0%	$ 19,133	35.0%
Increase (decrease) in taxes resulting from:						
Percentage depletion	(4,107)	-6.6%	(3,568)	-5.5%	(3,208)	-5.9%
State taxes, net of federal benefit	1,845	3.0%	1,600	2.5%	909	1.7%
Foreign tax rates	(3,798)	-6.1%	(4,119)	-6.3%	(4,031)	-7.4%
Depletion and research and experimentation adjustments	-	-	-	-	(3,667)	-6.7%
Other	(547)	-0.9%	(115)	-0.2%	1,289	2.4%
	15,167	24.4%	16,646	25.5%	10,425	19.1%

Tax on reinvested earnings

We have not provided for the United States federal income and foreign income withholding taxes on approximately $96,199 of undistributed earnings from international subsidiaries as of December 31, 2008 because such earnings are intended to be reinvested indefinitely outside of the United States. If these earnings were distributed, foreign tax credits may become available under current law to reduce or eliminate the resulting income tax liability in the United States.

Tax holidays

We benefit from tax holidays in both Poland and Thailand as a result of our locating and investing in special economic zones in each country. These tax holidays resulted in a $1,703, $1,674 and $1,508 reduction in income tax expense in 2008, 2007 and 2006, respectively and a $0.05 benefit to diluted earnings per share in each of these three years.

Our agreement with the Polish tax authorities makes us eligible, based on certain terms and conditions, for a tax holiday exemption for all income tax activities through 2009 and a 50% exemption in 2010; we have enjoyed tax holidays through 2008. We continue to seek tax concessions when applicable.

Our agreement with the Thai tax authorities provides for tax holidays on several investments. The most significant tax exemption is on all income from manufacturing operations (distributed goods are still subject to taxation) related to our initial investment. These initial manufacturing activities are taxable at 50% in years 2006 through 2010. An additional tax holiday was granted in 2007 for the expansion of our Thai facility. Income generated from this expansion is granted a 100% tax holiday from corporate income tax for another eight (8) years beginning in 2007 and then taxable at 50% for five (5) years starting in 2015. We attempt to modify and obtain tax concessions when applicable.

Exams

In the normal course of business, we are subject to examination by tax authorities throughout the world. With few exceptions, we are no longer subject to income tax examinations by tax authorities for years prior to 2003. The United States Internal Revenue Service (“IRS”) has examined our federal income tax returns for all years through 2003, and is currently reviewing the 2005 - 2007 tax years.

NOLs and credit carryforwards

At December 31, 2008, we have $3,979 of foreign tax credits, which we expect to utilize in the carryforward period. We have state net operating loss carryovers that have resulted in a deferred tax asset of $550 at December 31,

2008, against which we have recorded a full valuation allowance as we do not expect to utilize the loss in the carryforward period.

Adoption of FIN 48

We adopted FIN 48 effective January 1, 2007. The following table summarizes the activity related to our unrecognized tax benefits:

	2008	2007
Balance at beginning of the year	$ 5,430	$ 4,846
Increases related to prior year tax positions	1,332	1,081
Increases related to current year tax positions	153	740
Decreases related to the expiration of statute of limitations	(1,882)	(1,237)
Balance at the end of the year	5,033	5,430

Included in the unrecognized tax benefits at December 31, 2008 are $2,265 of benefits that, if recognized, would reduce our annual effective tax rate. These benefits also include benefits of $3,859 relating to items affected by statute of limitations which expire in the next 12 months; of this amount, $1,915 would have an impact on our effective tax rate.

We report penalties and interest relating to uncertain tax positions within the income tax expense line item within our consolidated statement of operations. At December 31, 2008, our consolidated balance sheet includes a liability for possible payment of penalties and interest of $1,101.

(8) Long-term Debt

Long-term debt consisted of the following:

	December 31,	
	2008	2007
Borrowings under revolving credit agreement	$ 166,782	$ 78,595
Senior notes	75,000	75,000
Industrial revenue bond	4,800	4,800
Other notes payable	10,414	5,981
	256,996	164,376
Less: current portion	(175)	(144)
	256,821	164,232

On May 20, 2008, we amended our revolving credit agreement to increase the borrowing capacity from $150,000 to $225,000, extend the maturity to April 1, 2013 and change certain terms affecting the amount of interest we pay; all other substantive terms and conditions remained the same. As of December 31, 2008, there was $58,212 in borrowing capacity available under the line of credit. The revolving credit agreement is a multi-currency arrangement that allows us to borrow certain foreign currencies at an adjusted LIBOR rate plus 1.00% to 2.00%, depending upon the amount of the credit line used and certain capitalization ratios. The facility requires certain covenants to be met, such as specific amounts of net worth, and limits our ability to make additional borrowings and guarantees. We were in compliance with these covenants at December 31, 2008. The borrowings under this revolving credit line at December 31, 2008 carried an average interest rate of 5.07%.

10. Tax on profit on ordinary activities

a) Analysis of charge for the year from continuing operations

US$ million	2008	2007
United Kingdom corporation tax at 28.5%	18	–
United Kingdom corporation tax at 30%	–	163
South Africa tax	840	812
Other overseas tax	1,155	1,259
Prior year adjustments	(78)	(1)
Current tax (excluding special items and remeasurements tax)	1,935	2,233
Deferred tax (excluding special items and remeasurements tax)	610	443
Tax (excluding special items and remeasurements tax)	2,545	2,676
Special items and remeasurements tax	(94)	17
Income tax expense – continuing operations	2,451	2,693

b) Factors affecting tax charge for the year

The effective tax rate for the year of 28.6% (2007: 30.5%) is approximately equal to the applicable standard rate of corporation tax for the year ended 31 December 2008 in the United Kingdom (28.5%) (2007: 30%). The reconciling items are:

US$ million	2008	2007[1]
Profit on ordinary activities before tax – continuing operations	8,571	8,821
Tax on profit on ordinary activities calculated at United Kingdom corporation tax rate of 28.5%	2,443	–
Tax on profit on ordinary activities calculated at United Kingdom corporation tax rate of 30%	–	2,646
Tax effect of share of net income from associates	(317)	(59)
Tax effects of:		
Special items and remeasurements		
Operating special items and remeasurements	28	15
Profits and losses on disposals and financing remeasurements	(255)	(71)
Tax remeasurements	153	–
Items not taxable/deductible for tax purposes		
Exploration expenditure	20	19
Non-deductible net foreign exchange loss	28	2
Non-deductible net interest expense	10	–
Other non-deductible expenses	127	83
Other non-taxable income	(78)	(41)
Temporary difference adjustments		
Changes in tax rates	(84)	12
Movements in tax losses	38	13
Enhanced tax depreciation	(26)	(91)
Other temporary differences	42	(14)
Other adjustments		
Secondary tax on companies and dividend withholding taxes	634	644
Effect of differences between local and UK rates	(181)	(517)
Prior year adjustments to current tax	(78)	(1)
Other adjustments	(53)	53
Income tax expense – continuing operations	2,451	2,693

(1) Comparatives have been reclassified to align with current year presentation.

IAS 1 requires income from associates to be presented net of tax on the face of the income statement. Associates' tax is therefore not included within the Group's total tax charge. Associates' tax included within 'Share of net income from associates' for the year ended 31 December 2008 is $606 million (2007: $303 million). Excluding special items and remeasurements this becomes $623 million (2007: $305 million).

The effective rate of tax before special items and remeasurements including share of associates' tax for the year ended 31 December 2008 was 33.4%. This was an increase from the equivalent effective rate of 31.8% in the year ended 31 December 2007. The main reasons for this net increase are tax losses not recognised for deferred tax purposes and changes in the geographical mix of profits around the Group, partially offset by changes in statutory tax rates and the impact of prior year adjustments. In addition, the 2007 rate benefited from the availability of enhanced tax depreciation on certain assets. In future periods it is expected that the effective tax rate, including associates' tax, will remain at or above the UK statutory tax rate.

11. Dividends

US$ million	2008	2007
Final ordinary paid – 86 US cents per ordinary share (2007: 75 US cents)	1,021	1,058
Interim ordinary paid – 44 US cents per ordinary share (2007: 38 US cents)	517	469
Interim dividend paid – in specie[1]	–	3,718
	1,538	5,245

(1) In specie dividend relates to the Mondi demerger. See Disposals and demerger of subsidiaries and businesses note 33.

The Board has decided to suspend dividend payments.

As stated in note 28, the employee benefit trust has waived the right to receive dividends on the shares it holds although the waiver was temporarily suspended in respect of the Mondi demerger dividend in specie. Immediately after the dividend was paid, the waiver was reinstated.

12. Earnings per share

	2008			2007		
US$	Continuing operations	Discontinued operations	Total Group	Continuing operations	Discontinued operations	Total Group
Profit for the financial year attributable to equity shareholders of the Company						
Basic earnings per share	4.34	–	4.34	4.04	1.54	5.58
Diluted earnings per share	4.29	–	4.29	3.99	1.51	5.50
Headline earnings for the financial year[1]						
Basic earnings per share	3.78	–	3.78	4.10	0.08	4.18
Diluted earnings per share	3.74	–	3.74	4.04	0.08	4.12
Underlying earnings for the financial year[1]						
Basic earnings per share	4.36	–	4.36	4.18	0.22	4.40
Diluted earnings per share	4.31	–	4.31	4.13	0.21	4.34

(1) Basic and diluted earnings per share are shown based on headline earnings, a Johannesburg stock exchange (JSE Limited) defined performance measure, and underlying earnings, which the directors consider to be a useful additional measure of the Group's performance. Both earnings measures are further explained below.

The calculation of the basic and diluted earnings per share is based on the following data:

	2008			2007		
US$ million (unless otherwise stated)	Continuing operations	Discontinued operations	Total Group	Continuing operations	Discontinued operations	Total Group
Basic and diluted earnings						
Profit for the financial year attributable to equity shareholders of the Company	5,215	–	5,215	5,294	2,010	7,304
Number of shares (million)						
Basic number of ordinary shares outstanding[1]			1,202			1,309
Effect of dilutive potential ordinary shares[2]						
Share options and awards			13			18
Diluted number of ordinary shares outstanding[1]			1,215			1,327

(1) Basic and diluted number of ordinary shares outstanding represent the weighted average for the year. The average number of ordinary shares in issue excludes the shares held by the employee benefit trusts and other Anglo American plc shares held by the Group.

(2) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all potentially dilutive ordinary shares. All outstanding share options and awards are potentially dilutive and have been included in the calculation of diluted earnings per share. No instruments are anti-dilutive for the year ended 31 December 2008 (2007: nil).

Group

notes to the financial statements For the year ended 31 December

11 SHARE-BASED PAYMENTS (CONTINUED)

Time-related share-based remuneration scheme – granted up to 30 April 2002 (continued)

Number of shares	Weighted average exercise price	Figures in million	Number of shares	Weighted average exercise price
SA Rands 2007			SA Rands 2008	
473,260	125.82	Options outstanding at beginning of year	**206,960**	**124.69**
–	–	Options granted as a result of rights offer	**41,806**	**194.00**
–	–	Options lapsed during the year	**(3,942)**	**194.00**
(266,300)	125.89	Options exercised during the year	**(128,333)**	**124.68**
–	–	Options expired during the year	**–**	**–**
206,960	124.69	Options outstanding at end of year	**116,491**	**139.82**
206,960	124.69	Options exercisable at end of year	**116,491**	**139.82**

No grants were made with respect to the time related scheme options and performance related options since 2005. The options granted during the year, as a result of the rights offer, carry no additional accounting charge. The value of each option granted during 2002, 2003 and 2004 is estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model requires the input of subjective assumptions, including the expected term of the option award and share price volatility. The expected term of options granted is derived from historical data on employee exercise and post-vesting employment termination behaviour. Expected volatility is based on the historical volatility of our shares. These estimates involve inherent uncertainties and the application of management's judgement. In addition, we are required to estimate the expected forfeiture rate and only recognise expense for those options expected to vest. As a result, if other assumptions had been used, the recorded share-based compensation expense could have been different from that reported.

The Black-Scholes option-pricing model used the following assumptions, at grant date:

	2002	2003	2004
Risk-free interest rate	11.00%	11.00%	8.18%
Dividend yield	4.27%	4.27%	2.27%
Volatility factor of market share price	0.390	0.390	0.300
Weighted average expected life	7 years	7 years	7 years
Calculated fair value	R100.20	R77.76	R94.65

Restated 2007	2008	Figures in million	2008	Restated 2007
SA Rands			US Dollars	
		12 TAXATION		
		South African taxation		
371	**–**	Mining tax [(1)]	**–**	55
212	**85**	Non-mining tax [(2)]	**12**	29
47	**42**	Under provision prior year	**6**	6
		Deferred taxation:		
285	**(161)**	Temporary differences [(3)]	**(30)**	41
(634)	**841**	Unrealised non-hedge derivatives and other commodity contracts	**89**	(93)
57	**62**	Change in estimated deferred tax rate [(4)]	**6**	8
–	**(70)**	Change in statutory tax rate [(5)]	**(9)**	–
338	**799**		**74**	46

SA Rands Restated 2007	SA Rands 2008	Figures in million	US Dollars 2008	US Dollars Restated 2007
		12 TAXATION (CONTINUED)		
		Foreign taxation		
726	**651**	Normal taxation [1]	**79**	103
(25)	**(41)**	Over provision prior year	**(5)**	(4)
		Deferred taxation:		
(258)	**(3,747)**	Temporary differences [3]	**(372)**	(37)
(47)	**259**	Unrealised non-hedge derivatives and other commodity contracts	**27**	(7)
396	**(2,878)**		**(271)**	55
734	**(2,079)**		**(197)**	101

Tax reconciliation

A reconciliation of the effective tax rate charged in the income statement to the prevailing corporate tax rate is set out in the following table:

SA Rands Restated 2007	SA Rands 2008		US Dollars 2008	US Dollars Restated 2007
%	**%**		**%**	%
(22)	**12**	Effective tax rate	**14**	(19)
		Disallowable items:		
59	**8**	Derivative losses	**12**	53
(3)	**2**	Share of equity accounted investments' profit	**4**	(2)
5	**(2)**	Other	**(2)**	5
(3)	**8**	Foreign income tax allowances and rate differentials	**8**	(2)
(4)	**(1)**	Current tax assets previously unrecognised	**(1)**	(4)
7	**1**	Current unrecognised tax assets	**1**	6
2	**–**	Change in estimated deferred tax rate [4]	**(1)**	1
1	**–**	Prior year under provision	**–**	1
(5)	**7**	Other	**–**	(2)
37	**35**	Estimated corporate tax rate [5]	**35**	37

[1] Included in South African mining taxation is tax on the disposal of tangible assets of nil (2007: \$3m, R21m). There is no mining tax charge in 2008 as the mining income was primarily offset by the non-mining losses from the accelerated non-hedge derivative close-outs. Included in normal foreign taxation is tax on the disposal of tangible assets of \$1m, R10m (2007: \$3m, R19m) (note 14).

[2] In South Africa, non-mining income is taxed at the higher non-mining tax rate of 35% (2007: 37%) as the company has elected to be exempt from STC. Companies who elect to be subject to STC are taxed at the lower company tax rate of 28% (2007: 29%) for non-mining taxation purposes.

[3] Included in temporary differences in South African taxation is a tax credit on the impairment and disposal of tangible assets of \$8m, R75m (2007: tax charge \$1m, R6m). Included in temporary differences of foreign taxation is a tax credit on the impairment and disposal of tangible assets of \$387m, R3,840m (2007: \$4m, R24m) (note 14).

[4] In South Africa the mining operations are taxed on a variable rate that increases as profitability increases. The tax rate used to calculate deferred tax is based on the group's current estimate of future profitability when temporary differences will reverse. Depending on the profitability of the operations, the tax rate can consequently be significantly different from year to year. The change in the estimated deferred tax rate at which the temporary differences will reverse amounts to \$6m, R62m (2007: \$8m, R57m).

[5] Mining tax on mining income in South Africa is determined according to a formula based on profit and revenue from mining operations. The company has elected to be exempt from STC and is taxed at a higher rate of company tax for mining and non-mining income tax purposes.

All mining capital expenditure is deducted to the extent that it does not result in an assessed loss and depreciation is ignored when calculating the South African mining income. Capital expenditure not deducted from mining income is carried forward as unredeemed capital to be deducted from future mining income. South Africa operates under two tax paying operations, Vaal River Operation and West Wits Operation. Under ring-fencing legislation, each operation is treated separately and deductions can only be utilised against income generated by the relevant tax operation.

The formula for determining the South African mining tax rate is:

$Y = 43 - 215/X$ (2007: $Y = 45 - 225/X$)

where Y is the percentage rate of tax payable and X is the ratio of mining profit net of any redeemable capital expenditure to mining revenue expressed as a percentage.

Group

notes to the financial statements For the year ended 31 December

Restated 2007	2008	Figures in million	2008	Restated 2007
SA Rands			US Dollars	
		12 TAXATION (CONTINUED)		
		Unrecognised tax losses		
1,692	3,204	Unrecognised tax losses of the US operations which are available for offset against future profits earned in the USA	339	248
–	1,741	Unrecognised tax losses of the Australian operations which are available for offset against future capital gains in Australia	184	–
1,692	4,945		523	248
		Analysis of tax losses		
		Tax losses available to be used against future profits		
8	–	– utilisation required within one year	–	1
–	1,240	– utilisation required between two and five years	131	–
1,684	3,705	– utilisation in excess of five years	392	247
1,692	4,945		523	248
		Unrecognised tax losses utilised		
191	–	Assessed losses utilised during the year	–	28

13 DISCONTINUED OPERATIONS

The Ergo reclamation surface operation, which formed part of the South African operations and was included under South Africa for segmental reporting, reached the end of its useful life on 1 February 2005 and mining operations ceased on 31 March 2005. The site restoration activities continued after the mining operation was discontinued.

On 8 June 2007, AngloGold Ashanti sold the remaining assets of Ergo, the surface reclamation operation east of Johannesburg, to a consortium of Mintails South Africa (Pty) Limited/DRD South African Operations (Pty) Limited. The Competition Commissioner approved the transaction on 5 May 2008 without conditions. One of the main resolutive conditions of the sale agreement which is still outstanding, is the consent by the Minister of the cession of the mining rights from AngloGold Ashanti to ERGO Mining (Pty) Limited currently owned by Mintails South Africa (Pty) Limited and DRD South African Operations (Pty) Limited. The environmental rehabilitation liability remains with AngloGold Ashanti until all the resolutive sale conditions have been met.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2008 Rm	2007 Rm
9. Taxation		
Current	**1,979**	4,604
Deferred	**2,491**	2,052
	4,470	6,656
Comprising:		
South African normal taxation	**3,923**	4,688
Secondary tax on companies (STC)	**191**	1,680
– current year	**264†**	1,680
– prior year	**(73)**	—
Foreign and withholding taxation	**217**	288
Capital gains taxation	**139**	—
	4,470	6,656
A reconciliation of the standard rate of South African normal taxation compared with that charged in the income statement is set out in the following table:	**%**	%
South African normal taxation	**28.0**	29.0
STC	**1.0**	8.7
	29.0	37.7
Foreign income	**(3.2)**	(3.3)
Capital profits	**(0.9)**	—
Change in corporate tax rate	**(1.7)**	—
Prior-year overprovision	**(0.1)**	(0.1)
Other	**0.3**	0.1
Effective taxation rate	**23.4**	34.4
	Rm	Rm
Amounts which are available for offset against future taxable income		
Unredeemed capital expenditure for which deferred tax liabilities with respect to property, plant and equipment have been reduced	**3,666**	2,972

10. Earnings per ordinary share

The calculation of basic and headline earnings per ordinary share is based on earnings of R14,231 million and R13,280 million respectively (2007: R12,299 million and R12,294 million) and a weighted average of 236,753,969 (2007: 234,667,224) ordinary shares in issue during the year.

The calculation of diluted earnings per ordinary share, basic and headline, is based on earnings of R14,243 million and R13,292 million respectively (2007: R12,330 million and R12,325 million). Refer below for weighted average number of potential diluted ordinary shares in issue during the year.

	2008	2007
Weighted average number of potential diluted ordinary shares in issue		
Weighted average number of ordinary shares in issue	**236,753,969**	234,667,224
Dilutive potential ordinary shares relating to:		
Share option schemes	**897,894**	1,565,814
Weighted average number of potential diluted ordinary shares in issue – basic	**237,651,863**	236,233,038
Dilutive potential ordinary shares relating to:		
Conversion of preference shares	**320,741**	726,752
	237,972,604	236,959,790

†The STC charge reflects a saving of R877 million due to the election of a STC exemption made by Anglo American in respect of dividends received.

9 Net Finance Income

Net finance income was as follows:

	2008 US$m	2007 US$m
Investment income		
Interest receivable	78.9	113.4
Interest expense		
Interest payable	(13.1)	(19.8)
Amortisation of deferred finance costs	(0.4)	(0.4)
Preference dividends	(0.2)	(0.2)
	(13.7)	(20.4)
Other finance items		
Time value effect of derivatives	(1.6)	0.7
Foreign exchange derivatives not hedge accounted for under IAS 39	(1.4)	–
Unwinding of discount on provisions	(2.0)	(1.2)
Foreign exchange	(3.9)	2.9
	(8.9)	2.4
Net finance income	56.3	95.4

Net interest expense and other finance items of US$6.2 million loss relating to the Esperanza project were capitalised within the development expenditure of that project during the year.

10 Taxation

	2008 US$m	2007 US$m
Current tax charge		
– Corporate tax (principally first category tax in Chile)	(284.8)	(441.3)
– Mining tax (Royalty)	(70.3)	(50.6)
– Withholding tax provision	(120.3)	(135.3)
– Exchange (losses)/gains on corporate tax balances	(66.3)	28.5
	(541.7)	(598.7)
Deferred tax charge		
– Corporate tax (principally first category tax in Chile)	(30.3)	(8.1)
– Mining tax (Royalty)	4.1	(0.8)
– Withholding tax provision	48.2	(30.8)
	22.0	(39.7)
Total tax charge (Income tax expense)	(519.7)	(638.4)

The current tax charge of US$541.7 million (2007 – US$598.7 million) comprises Chilean taxes of US$540.9 million (2007 – US$598.1 million) and other overseas taxes of US$0.9 million (2007 – US$0.6 million).

Current tax is based on taxable profit for the year. Deferred tax is the tax expected to be payable or recoverable on temporary differences (i.e. differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit). Deferred tax is accounted for using the balance sheet liability method and is provided on all temporary differences with certain limited exceptions. The Group incurs withholding taxes on the remittance of profits from Chile and the other countries in which it operates and deferred tax is provided on undistributed earnings to the extent that remittance is probable in the foreseeable future.

10 Taxation continued

The rate of first category (i.e. corporation) tax in Chile was 17% for both 2008 and 2007. Los Pelambres, El Tesoro and Michilla are also subject to a mining tax (royalty) which imposes an additional tax of 4% of tax-adjusted operating profit. Until 2007, 50% of the mining tax could be offset against first category tax and the remaining 50% was tax deductible (i.e. an allowable expense in determining liability to first category tax). From 2008, the ability to offset was is no longer available, but 100% of the mining tax will be tax deductible. The effect is to increase the effective tax rate of these three operations (before taking into account deductibility against corporation tax) by approximately 2% in 2007 and 4% from 2008 and thereafter.

In addition to first category tax and the mining tax, the Group incurs withholding taxes on the remittance of profits from Chile. Withholding tax is levied on remittances of profits from Chile at 35% less first category tax already paid. Accordingly, the effective tax rate of withholding tax for the purpose of paying dividends to Group shareholders is approximately 18% of the amount remitted or expected to be remitted.

	2008		2007	
	US$m	%	US$m	%
Profit before tax	2,609.5		2,750.2	
Tax at the Chilean corporation tax rate of 17%	(443.6)	17.0	(467.5)	17.0
Tax effect of share of results of associate	(0.4)	–	(0.3)	–
Deferred tax assets not recognised in the year	(5.9)	0.2	(2.7)	0.1
Effect of items not subject to or deductible from first category tax	134.8	(5.2)	21.1	(0.8)
Royalty	(66.2)	2.5	(51.4)	1.9
Withholding taxes provided in year	(72.1)	2.8	(166.1)	6.0
Exchange differences	(66.3)	2.6	28.5	(1.0)
Tax expense and effective tax rate for the year	(519.7)	19.9	(638.4)	23.2

The tax charge for the year was US$519.7 million and the effective tax rate was 19.9%. This rate varies from the standard rate principally due to the provision of withholding tax of US$72.1 million, the effect of mining tax which resulted in a charge of US$66.2 million, exchange losses of US$66.3 million on Chilean peso denominated tax prepayments due to the weakening of the Chilean peso during the year, and the effect of items which are not subject to or deductible from first category tax.

In 2007 the total tax charge was US$638.4 million and the effective tax rate was 23.2%. This was principally due to the provision of withholding tax of US$166.1 million, and the effect of the mining tax, which resulted in a charge of US$51.4 million, partly offset by exchanges gains of US$28.5 million on Chilean-peso denominated tax prepayments due to the weakening of the US dollar during the year.

11 Earnings Per Share

	2008 US$m	2007 US$m
Profit for the year attributable to equity holders of the Company (Net earnings)	1,706.5	1,382.1
Profit for the year attributable to equity holders of the Company (Net earnings) – excluding exceptional items	842.9	1,382.1

	2008 Number	2007 Number
Ordinary shares in issue throughout each year	985,856,695	985,856,695

	2008 US cents	2007 US cents
Basic earnings per share	173.1	140.2
Basic earnings per share – excluding exceptional items	85.5	140.2

8. Taxes

Income taxes

The Company is subject to U.S. federal income tax as well as income tax in multiple state jurisdictions. The tax years 2004 through 2008 remain open to examination for U.S. federal income tax matters and 1998 through 2008 remain open to examination for various state income tax matters.

Significant components of the provision for (benefit from) income taxes are as follows:

	Year Ended December 31		
	2008	2007	2006
		(In thousands)	
Current:			
Federal	$ 24,066	$ 3,687	$ 1,213
State	1,027	—	—
Total current	25,093	3,687	1,213
Deferred:			
Federal	35,545	(20,090)	22,700
State	(18,864)	(3,447)	(16,263)
Total deferred	16,681	(23,537)	6,437
	$ 41,774	$(19,850)	$ 7,650

A reconciliation of the statutory federal income tax expense on the Company's pretax income to the actual provision for (benefit from) income taxes follows:

	Year Ended December 31		
	2008	2007	2006
		(In thousands)	
Income tax expense at statutory rate	$138,637	$ 54,278	$ 94,003
Percentage depletion allowance	(45,336)	(36,028)	(38,754)
State taxes, net of effect of federal taxes	4,060	569	1,576
Change in valuation allowance	(57,973)	(38,681)	(49,129)
Other, net	2,386	12	(46)
	$ 41,774	$(19,850)	$ 7,650

In 2008, 2007 and 2006, compensatory stock options and other equity based compensation awards were exercised resulting in a tax benefit of $9.8 million, $5.6 million and $7.9 million, respectively, which will be recorded to paid-in capital at such point in time when a cash tax benefit is recognized.

During 2006, the tax effect of the adoption of EITF 04-6 relating to the accounting for stripping costs was a $16.7 million benefit that was recorded to retained earnings.

Significant components of the Company's deferred tax assets and liabilities that result from carryforwards and temporary differences between the financial statement basis and tax basis of assets and liabilities are summarized as follows:

	December 31	
	2008	2007
	(In thousands)	
Deferred tax assets:		
Net operating loss carryforwards	$120,291	$154,222
Plant and equipment	22,016	104,774
Alternative minimum tax credit carryforwards	125,744	98,900
Reclamation and mine closure	49,612	42,790
Workers' compensation	17,634	19,633
Derivatives	19,224	445
Advance royalties	27,447	17,766
Postretirement benefits other than pension	37,235	15,195
Other	57,288	57,176
Gross deferred tax assets	476,491	510,901
Valuation allowance	(395)	(69,326)
Total deferred tax assets	476,096	441,575
Deferred tax liabilities:		
Deferred development	59,401	57,884
Investment in tax partnerships	50,913	56,209
Other	18,182	12,134
Total deferred tax liabilities	128,496	126,227
Net deferred tax asset	347,600	315,348
Less current asset	52,918	18,789
Long-term deferred tax asset	$294,682	$296,559

The Company has net operating loss carryforwards for regular income tax purposes of $120.3 million at December 31, 2008 that will expire from 2009 to 2027. The Company has an alternative minimum tax credit carryforward of $125.7 million at December 31, 2008, which has no expiration date and can be used to offset future regular tax in excess of the alternative minimum tax.

During 2008, the Company reached a settlement with the IRS regarding the Company's treatment of the acquisition of the coal operations of Atlantic Richfield Company ("ARCO") and the simultaneous combination of the acquired ARCO operations and the Company's Wyoming operations into the Arch Western joint venture. The settlement did not result in a net change in deferred tax assets, but involved a re-characterization of deferred tax assets, including an increase in net operating loss carryforwards of $145.1 million and other amortizable assets which will provide additional tax deductions through 2013. A portion of the cash tax benefits associated with these additional tax deductions accrue to ARCO pursuant to the original purchase agreement, including $6.8 million that was paid in 2008 and recorded as goodwill.

The Company has recorded a valuation allowance for a portion of its deferred tax assets that management believes, more likely than not, will not be realized. The valuation allowance decreased $68.9 million during the year ended December 31, 2008 and $44.7 million during the year ended December 31, 2007. Management reassesses the ability to realize its deferred tax assets annually in the fourth quarter or when circumstances indicate that the ability to realize deferred tax assets has changed. In determining the appropriate valuation

allowance, the assessment takes into account expected future taxable income and available tax planning strategies. This review resulted in decreases in the valuation allowance of $61.9 million, $44.7 million and $49.1 million in 2008, 2007 and 2006, respectively. Of the decreases in 2008 and 2007, $3.9 million and $2.6 million, respectively, were recorded in paid in capital associated with the exercise of compensatory stock options. Also during 2008, the valuation allowance was reduced $7.0 million relating to state net operating losses that were lost as a result of changes to West Virginia's income tax laws during the year. The remaining valuation allowance of $0.4 million relates to certain state net operating loss benefits.

A reconciliation of the beginning and ending amounts of gross unrecognized tax benefits is as follows (in thousands):

Balance at December 31, 2007	$4,070
Additions based on tax positions related to the current year	122
Additions for tax positions of prior years	909
Reductions for tax positions of prior years	(223)
Balance at December 31, 2008	$4,878

If recognized, $4.9 million of the gross unrecognized tax benefits at December 31, 2008 would affect the effective tax rate. No gross unrecognized tax benefits are expected to be reduced in the next 12 months due to the expiration of the statute of limitations.

Other taxes

The Emergency Economic Stabilization Act ("the Act") enacted on October 3, 2008 enabled certain coal producers to file for refunds of black lung excise taxes paid on export sales subsequent to October 1, 1990, along with interest computed at statutory rates. The Company filed for a refund under the Act and recognized a refund of $11.0 million plus interest of $10.3 million in the fourth quarter of 2008.

9. Debt and Financing Arrangements

Debt consists of the following:

	December 31	
	2008	2007
	(In thousands)	
Commercial paper	$ 65,671	$ 74,959
Indebtedness to banks under credit facilities	273,597	250,816
6.75% senior notes ($950.0 million face value) due July 1, 2013	956,148	957,514
Other	16,997	19,904
	1,312,413	1,303,193
Less current maturities and short-term borrowings	213,465	217,614
Long-term debt	$1,098,948	$1,085,579

On August 15, 2007, the Company entered into a commercial paper placement program, as amended, to provide short-term financing at rates that are generally lower than the rates available under the revolving credit facility. Under the commercial paper program, the Company may sell interest-bearing or discounted short-term unsecured debt obligations with maturities of no more than 270 days. Market conditions may impact the Company's ability to issue commercial paper. The Company amended the program on April 11, 2008 to increase the maximum aggregate principal amount outstanding to $100.0 million from $75.0 million. The commercial paper placement program is supported by a revolving credit facility, which is subject to renewal

b) Impairment Charges

For the years ended December 31	2008	2007	2006
Impairment of goodwill (note 17)	$ 678	$ 42	$ –
Impairment of long-lived assets[1]	71	–	17
	$ 749	$ 42	$ 17
Write-down of investments (note 12)[2]	205	23	6
	$ 954	$ 65	$ 23

1. In 2008, an impairment charge of $69 million was recorded to reduce the carrying amount to the estimated fair value for Osborne and Marigold. In 2006, the carrying amount of Cuerpo Sur, an extension of Pierina, was tested for impairment on completion of the annual life of mine planning process. An impairment charge of $17 million was recorded to reduce the carrying amount to the estimated fair value.
2. In 2008, we recorded an impairment charge on our investment in Highland Gold ($140 million), on Asset-Backed Commercial Paper ($39 million) and various other investments in junior gold mining companies ($26 million). In 2007, we recorded an impairment charge on Asset-Backed Commercial Paper of $20 million.

c) Other Income

For the years ended December 31	2008	2007	2006
Gains on sale of assets[1]	$ 187	$ 2	$ 9
Gains on sale of investments[2] (note 12)	59	71	6
Royalty income	25	17	10
Non-hedge derivative gains	–	–	2
Currency translation gains	–	–	2
Gain on vend-in to Highland Gold (note 12)	–	–	51
Interest income[3]	4	2	1
Sale of water rights	4	5	5
Other	12	13	11
	$ 291	$ 110	$ 97

1. In 2008, we recorded a gain of $167 million on the disposition of royalties to Royal Gold and a gain of $9 on the sale of Doyon royalty. In 2007, we sold certain properties in South America and Australia, including an $8 million gain on the sale of the Paddington Mill. In 2006, we sold certain properties in Canada and Chile.
2. In 2008, we recorded a gain of $12 million on the sale of our investment in QGX Ltd. We also sold Asset-Backed Commercial Paper for cash proceeds of $49 million and recorded a gain on sale of $42 million. Refer to note 12 for further details.
3. Represents interest income on our note receivable from NovaGold (note 12).

9 ▪ Income Tax Expense

For the years ended December 31	2008	2007	2006
Current			
Canada	$ 22	$ (3)	$ 13
International	613	518	444
	$ 635	$ 515	$ 457
Deferred			
Canada	$ 3	$ 19	$ (131)
International	(146)	(25)	46
	$ (143)	$ (6)	$ (85)
Income tax expense before elements below	$ 492	$ 509	$ 372
Net currency translation (gains) losses on deferred tax balances	98	(76)	(5)
Canadian tax rate changes	–	64	12
Change in tax status in Australia	–	–	(31)
Release of end of year valuation allowances – Tanzania	–	(156)	–
Total expense	$ 590	$ 341	$ 348

Currency Translation

Deferred tax balances are subject to remeasurement for changes in currency exchange rates each period. The most significant balances are Canadian deferred tax assets with a carrying amount of approximately $334 million and Australian and Papua New Guinea net deferred tax liabilities with a carrying amount of approximately $118 million. In 2007, the appreciation of the Canadian and Australian dollar against the US dollar resulted in net translation gains arising totaling $76 million. These gains are included within deferred tax expense/recovery. In 2008, following the strengthening of the US dollar, we recorded translation losses of $98 million.

Canadian Tax Rate Changes

In the second and fourth quarters of 2007 and the second quarter of 2006, federal rate changes were enacted in Canada that lowered the applicable tax rate. The impact of these tax rate changes was to reduce net deferred tax assets in Canada by $64 million in 2007 and $35 million in 2006 that were recorded as a component of deferred income tax expense. Also in second quarter 2006, on change of tax status of a Canadian subsidiary, we recorded a deferred income tax credit of $23 million to reflect the impact on the measurement of deferred income tax assets and liabilities.

Change in Tax Status in Australia

In first quarter 2006, an interpretative decision ("ID") was issued by the Australia Tax Office that clarified the tax treatment of currency gains and losses on foreign denominated liabilities. Under certain conditions, for taxpayers who have made the functional currency election, and in respect of debt that existed at the time the election was made, the ID provided clarification that unrealized foreign exchange gains that currently exist on intercompany debt will not crystallize upon repayment of the debt. The effect of the ID was recorded as a $31 million reduction of deferred tax liabilities.

Release of Tanzanian Valuation Allowances

In 2007, we released $156 million of end of year deferred tax valuation allowances in Tanzania due to the impact of higher market gold prices.

Reconciliation to Canadian Statutory Rate

For the years ended December 31	**2008**	2007	2006
At 33.50% (2006 and 2005: 36.12%) statutory rate	**$ 486**	$ 535	$ 563
Increase (decrease) due to:			
Allowances and special tax deductions[1]	**(100)**	(99)	(55)
Impact of foreign tax rates[2]	**(82)**	38	(131)
Expenses not tax-deductible	**13**	48	14
Impairment charges not tax deductible	**227**	15	6
Net currency translation (gains)/losses on deferred tax balances	**98**	(76)	(5)
Release of end of year valuation allowances – Tanzania	**–**	(156)	–
Release of valuation allowances – Other	**(175)**	(88)	(53)
Valuation allowances set up against current year tax losses	**74**	5	7
Impact of changes in tax status in Australia	**–**	–	(31)
Canadian tax rate changes	**–**	64	12
Withholding taxes	**21**	17	19
Mining taxes	**19**	19	9
Other items	**9**	19	(7)
Income tax expense	**$ 590**	$ 341	$ 348

1. We are able to claim certain allowances and tax deductions unique to extractive industries that result in a lower effective tax rate.
2. We operate in multiple foreign tax jurisdictions that have tax rates different than the Canadian statutory rate. Additionally, we have reinvested earnings and cash flow generated by the Zaldívar mine in Chile to fund a portion of the construction cost of Pascua-Lama. The reinvestment of these earnings and cash flow resulted in a lower tax rate applied for the period. Amounts in 2007 included the impact of losses realized on deliveries into corporate gold sales contracts in a low tax jurisdiction.

10 ▪ Earnings per share

For the years ended December 31 ($ millions, except shares in millions and per share amounts in dollars)	**2008**		2007		2006	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Income from continuing operations	**$ 785**	**$ 785**	$ 1,110	$ 1,110	$ 1,209	$ 1,209
Plus: interest on convertible debentures	**–**	**3**	–	2	–	4
Income available to common shareholders and after assumed conversions	**785**	**788**	1,110	1,112	1,209	1,213
Income from discontinued operations	**–**	**–**	9	9	297	297
Net income	**$ 785**	**$ 788**	$ 1,119	$ 1,121	$ 1,506	$ 1,510
Weighted average shares outstanding	**872**	**872**	867	867	842	842
Effect of dilutive securities						
Stock options	**–**	**4**	–	3	–	4
Convertible debentures	**–**	**9**	–	9	–	9
	872	**885**	867	879	842	855
Earnings per share						
Income from continuing operations	**$ 0.90**	**$ 0.89**	$ 1.28	$ 1.27	$ 1.44	$ 1.42
Net income	**$ 0.90**	**$ 0.89**	$ 1.29	$ 1.28	$ 1.79	$ 1.77

8. Income tax and deferred tax

	2008 US$M	2007 US$M	2006 US$M
Total taxation expense comprises:			
Current tax expense	**7,103**	6,435	5,194
Deferred tax expense	**418**	(719)	(612)
	7,521	5,716	4,582
UK taxation	**217**	85	294
Australian taxation	**3,397**	2,768	2,548
Overseas taxation	**3,907**	2,863	1,740
	7,521	5,716	4,582

	2008		2007		2006	
	%	**US$M**	%	US$M	%	US$M
Factors affecting tax charge for the period						
The tax expense is different than the standard rate of corporation tax (30 per cent) [(a)]						
The differences are explained below:						
Profit before tax		**23,483**		19,212		15,116
Tax on profit at standard rate of 30 per cent	**30.0**	**7,045**	30.0	5,764	30.0	4,535
Investment and development allowance	**(1.6)**	**(386)**	(1.7)	(321)	(1.4)	(219)
Amounts under/(over) provided in prior years	**(0.3)**	**(61)**	0.2	28	(0.3)	(48)
Recognition of previously unrecognised tax assets [(b)]	**(0.8)**	**(183)**	(1.5)	(290)	(2.9)	(431)
Non-deductible depreciation, amortisation and exploration expenditure	**0.6**	**147**	0.3	58	0.4	58
Tax rate differential on foreign income	**0.7**	**166**	0.7	142	1.3	195
Foreign tax on remitted and unremitted earnings from investments	**0.7**	**158**	0.6	121	0.5	82
Non tax-effected operating losses and capital gains	**0.2**	**54**	0.4	71	–	5
Foreign exchange gains and other translation adjustments	**(1.0)**	**(229)**	(2.1)	(395)	(0.5)	(83)
Tax rate changes	**–**	**(9)**	0.3	47	0.2	25
Other	**0.4**	**96**	0.5	80	–	3
Income tax expense	**28.9**	**6,798**	27.7	5,305	27.3	4,122
Royalty related taxation (net of income tax benefits)	**3.1**	**723**	2.1	411	3.0	460
Total taxation expense	**32.0**	**7,521**	29.8	5,716	30.3	4,582

(a) On 1 April 2008, the rate of corporation tax in the UK changed from 30 per cent to 28 per cent.
(b) Includes US$159 million (2007: US$ nil, 2006: US$ nil) relating to the acquisition of WMC. Refer to note 5.

The movement for the year in the Group's net deferred tax position was as follows:

	2008 US$M	2007 US$M	2006 US$M
Net deferred tax asset/(liability)			
At the beginning of the financial year	**572**	(147)	(787)
Income tax (charge)/credit recorded in the income statement	**(427)**	764	612
Effect of change in tax rates	**9**	(45)	–
Income tax credit/(charge) recorded directly in equity [(a)]	**234**	55	(24)
Acquisitions and disposals of subsidiaries and operations	**–**	29	20
Transfers (from)/to assets and liabilities held for sale	**–**	(93)	69
Exchange differences and other movements	**(18)**	9	(37)
At the end of the financial year	**370**	572	(147)

(a) The amounts charged directly to the SORIE include deferred tax relating to actuarial gains/(losses) on pension and medical plans, effective cash flow hedges and available for sale investments, and other amounts charged directly to equity including deferred tax relating to employee share awards.

16. Income Taxes

The significant components of future income tax assets and liabilities at December 31 are as follows:

	2008	2007
Assets		
Property, plant and equipment	$291,874	$201,560
Provision for reclamation	93,349	78,335
Foreign exploration and development	56,535	46,389
Other	68,731	65,060
Future income tax assets before valuation allowance	510,489	391,344
Valuation allowance	(128,064)	(113,092)
Future income tax assets, net of valuation allowance	**$382,425**	**$278,252**
Liabilities		
Property, plant and equipment	$420,559	$473,734
Inventories	31,914	19,601
Long-term investments and other	80,161	116,506
Future income tax liabilities	**$532,634**	**$609,841**
Net future income tax liabilities	**$150,209**	**$331,589**
Less current portion	(68,857)	(84,653)
	$81,352	**$246,936**

The provision for income taxes differs from the amount computed by applying the combined expected federal and provincial income tax rate to earnings before income taxes. The reasons for these differences are as follows:

	2008	2007
Earnings before income taxes and minority interest	$484,897	$465,932
Combined federal and provincial tax rate	32.3%	35.7%
Computed income tax expense	156,622	166,338
Increase (decrease) in taxes resulting from:		
Reduction in income tax rates	-	(18,036)
Provincial royalties and other taxes	1,988	1,240
Federal and provincial resource allowance	-	(492)
Manufacturing and processing deduction	(771)	(5,112)
Difference between Canadian rate and rates applicable to subsidiaries in other countries	(198,642)	(187,328)
Restructuring of gold business	(37,053)	40,156
Change in valuation allowance	14,972	(4,827)
Capital and other taxes	-	1,938
Stock-based compensation plans	13,707	(306)
Other permanent differences	24,422	35,897
Income tax (recovery) expense	**$(24,755)**	**$29,468**

In 2008, as part of the ongoing annual audits of Cameco's Canadian tax returns, Canada Revenue Agency (CRA) disputed the transfer pricing methodology used by Cameco and its wholly-owned Swiss subsidiary, Cameco Europe Ltd. (CEL), in respect of sale and purchase agreements for uranium products. In December 2008, CRA issued a notice of reassessment, which increased Cameco's 2003 Canadian taxable income by approximately $43,000,000 (which does not result in any cash taxes becoming payable for that year). Cameco believes it is likely that CRA will reassess Cameco's tax returns for the years 2004 through 2008 on a similar basis.

Late in 2008, CRA's Transfer Pricing Review Committee decided not to impose a penalty for 2003 based on the documentation that had been submitted by Cameco.

Having regard to advice from its external advisors, Cameco's opinion is that CRA's position is incorrect, and Cameco intends to contest CRA's position. However, to reflect the uncertainties of CRA's appeals process and litigation, Cameco has decided to increase its reserve for uncertain tax positions and recognize an income tax expense of $15,000,000 in 2008 for the years 2003 through 2008. No provisions for penalties or interest have been recorded. We do not expect any cash taxes to be payable due to availability of elective deductions and tax loss carryforwards. While the resolution of this matter may result in liabilities that are higher or lower than the reserve, management believes that the ultimate resolution will not be material to Cameco's financial position, results of operations or liquidity over the period. However, an unfavourable outcome for the years 2003 to 2008 could be material to Cameco's financial position, results of operations or cash flows in the year(s) of resolution.

In 2007, the federal government introduced amendments to the Canadian Income Tax Act that provide for a 4% reduction in the general corporate income tax rate. The federal tax rate will decline in 2012 from 19% to 15%. This legislation was substantively enacted in 2007. Under Canadian accounting rules, the cumulative effect of a change in income tax legislation on future income tax assets and liabilities is included in a company's financial statements in the period of substantive enactment. Accordingly, Cameco reduced its balance sheet provision for future income taxes and recognized a non-cash income tax adjustment of $25,400,000 in 2007.

	2008	**2007**
Earnings before income taxes and minority interest		
Canada	$(389,608)	$(297,519)
Foreign	874,505	763,451
	$484,897	**$465,932**
Current income taxes		
Canada	$44,752	$99,066
Foreign	72,689	64,531
	$117,441	**$163,597**
Future income taxes (recovery)		
Canada	$(138,798)	$(126,303)
Foreign	(3,398)	(7,826)
	$(142,196)	**$(134,129)**
Income tax (recovery) expense	**$(24,755)**	**$29,468**

Other comprehensive income included on the consolidated statements of shareholders' equity and the consolidated statements of comprehensive income is presented net of income taxes. The following income tax amounts are included in each component of other comprehensive income:

	2008	2007
(Losses) gains on derivatives designated as cash flow hedges	$(6,773)	$92,860
Gains on derivatives designated as cash flow hedges transferred to net earnings	(38,415)	(28,104)
Unrealized losses on assets available-for-sale	(2,072)	(1,152)
Losses on assets available-for-sale transferred to net earnings	3,024	-
Total income tax (recovery) expense included in OCI	**$(44,236)**	**$63,604**

Accumulated other comprehensive income included on the consolidated statements of shareholders' equity and the consolidated statement of accumulated other comprehensive income is presented net of income taxes. The following income tax amounts are included in each component of accumulated other comprehensive income:

	2008	2007
Gains on derivatives designated as cash flow hedges	$103,259	$110,032
Gains on derivatives designated as cash flow hedges transferred to net earnings	(66,519)	(28,104)
Unrealized losses on assets available-for-sale	(3,224)	(1,152)
Losses on assets available-for-sale transferred to net earnings	3,024	-
Total income tax expense included in AOCI	**$36,540**	**$80,776**

17. Statements of Cash Flows
Other Operating Items

	2008	2007
Changes in non-cash working capital:		
Accounts receivable	$(143,266)	$103,118
Inventories	10,718	(61,810)
Supplies and prepaid expenses	(62,352)	(35,631)
Accounts payable and accrued liabilities	22,941	27,677
Hedge position settlements	52,152	67,948
Other	(16,872)	17,203
Total	**$(136,679)**	**$118,505**

For the year ended 31 December 2008
(Amounts expressed in thousands of RMB except per share data or unless otherwise stated)

35 INCOME TAX EXPENSE

	2008	2007 (restated)
Current income tax		
– PRC enterprise income tax (note (a))	2,351,736	1,358,303
Deferred income tax (Note 27)	139,915	591,764
	2,491,651	1,950,067

Notes:

(a) The provision for PRC enterprise income tax ("EIT") is calculated based on the statutory income tax rate of 25%. On 16 March 2007, The National People's Congress of the People's Republic of China announced a reduction of the statutory income tax rate from 33% to 25% commencing 1 January 2008. As such, the applicable income tax rate in 2008 is 25% of the assessable income of each of the companies, now comprising the Group, determined in accordance with the relevant PRC income tax rules and regulations, except for certain subsidiaries which are taxed at preferential tax rates ranging from 12.5% to 25% based on the relevant PRC tax laws and regulations.

(b) The taxation of the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average of the rates prevailing in the jurisdictions in which the Group operates as follows:

	2008	2007 (restated)
Profit before income tax	10,511,824	8,356,298
Tax calculated at applicable tax rates	2,627,956	2,757,579
Effect of changes in tax rates on deferred income tax	—	(148,435)
Preferential tax rates on the income of certain subsidiaries	(184,003)	(614,029)
Income not subject to taxation	(13,336)	(25,808)
Expenses not deductible for taxation purposes	99,127	45,653
Utilisation of previously unrecognised tax losses	(15,339)	(71,398)
Tax losses for which no deferred income tax asset has been recognised	24,478	34,457
Additional expenses allowable for tax purposes	(47,232)	(27,952)
Income tax expense	2,491,651	1,950,067

Note 7 Income tax expense

	Consolidated		Parent entity	
(a) Income tax expense	**2008 $m**	2007 $m	**2008 $m**	2007 $m
Current tax	**352.7**	26.3	**2.6**	(4.6)
Deferred tax	**(17.2)**	(9.1)	**(20.3)**	6.0
Under (over) provided in prior years	**(1.6)**	(47.7)	**(0.2)**	0.7
Aggregate income tax (benefit) expense attributable to profit from continuing operations	**333.9**	(30.5)	**(17.9)**	2.1
Deferred income tax (revenue) expense included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (note 17)	**(0.2)**	(5.9)	**(13.2)**	-
(Decrease) increase in deferred tax liabilities (note 22)	**(18.1)**	1.4	**(7.1)**	6.2
	(18.3)	(4.5)	**(20.3)**	6.2
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax expense	**1,137.7**	79.3	**292.7**	228.3
Tax at Australian tax rate of 30% (2007: 30%)	**341.3**	23.8	**87.8**	68.5
Less: Income tax expense/(benefit)	**333.9**	(30.5)	**(17.9)**	2.1
Difference	**7.4**	54.3	**105.7**	66.4
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Rebateable dividends	**0.9**	-	**105.5**	67.1
Share of net profits of equity accounted units	**4.6**	2.8	**-**	-
Amortisation of foreign exchange gains	**-**	3.9	**-**	-
Research and development	**0.3**	0.8	**-**	-
Sundry	**-**	(0.9)	**-**	-
	5.8	6.6	**105.5**	67.1
Over (under) provision in prior period	**1.6**	47.7	**0.2**	(0.7)
	7.4	54.3	**105.7**	66.4
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity:				
Net deferred tax – debited (credited) directly to equity (notes 17 and 22)	**16.7**	(32.1)	**-**	-
(d) Tax losses				
Unused capital losses for which no deferred tax asset has been recognised	**64.7**	72.1	**64.7**	68.1
Potential tax benefit @ 30%	**19.4**	21.6	**19.4**	20.4

Note 7 Income tax expense (cont'd)

(e) Tax consolidation legislation

Coal & Allied and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in note 1(f).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Coal & Allied Industries Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Coal & Allied for any current tax payable assumed and are compensated by Coal & Allied for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Coal & Allied under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements. The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amount is recognised as current inter-company receivables (note 9) or payables (note 18).

Note 8 Cash and cash equivalents

	Consolidated		Parent entity	
	2008 $m	2007 $m	**2008 $m**	2007 $m
Cash at bank and in hand	**781.0**	48.1	**744.5**	-
Reconciliation to cash at the end of the year				
The above figures are reconciled to cash at the end of the financial year as shown in the cash flow statements as follows:				
Balances as above	**781.0**	48.1	**744.5**	-
Less: Bank overdrafts (note 19)	**-**	(35.7)	**-**	(35.7)
Balances per cash flow statements	**781.0**	12.4	**744.5**	(35.7)
Cash and cash equivalents comprises:				
Coal & Allied – cash held	**767.4**	10.0	**744.5**	(35.7)
Coal & Allied's share of cash held in Joint Ventures	**13.6**	2.4	**-**	-
	781.0	12.4	**744.5**	(35.7)

The cash at bank is earning interest rates between 4.2 per cent and 7.3 per cent (2007: 0.00 per cent and 7.67 per cent). The interest rate of bank overdraft facilities range from 4.2 per cent to 7.2 per cent (2007: 6.00 per cent and 6.50 per cent).

Note 9 Trade and other receivables

	Consolidated 2008 $m	Consolidated 2007 $m	Parent entity 2008 $m	Parent entity 2007 $m
Current				
Trade receivables	**195.4**	131.5	**-**	-
Long service leave receivable from Coal Mining Industry Corporation	**43.1**	44.2	**-**	-
Amounts receivable from controlled entities	**-**	-	**1,501.3**	1,224.5
Amounts receivable from related entities	**81.6**	0.5	**5.2**	34.9
Other receivables	**44.7**	66.7	**2.1**	0.6
	364.8	242.9	**1,508.6**	1,260.0
Non-current				
Other receivables	**0.2**	-	**-**	-
Long service leave receivable from Coal Mining Industry Corporation	**2.6**	1.6	**-**	-
Amounts receivable from related entities	**0.3**	-	**-**	-
	3.1	1.6	**-**	-

(a) Related parties

Further information relating to receivables from related parties is set out in note 36.

beginning after November 15, 2008. The adoption of this statement will not have any effect on the Company's results of operations, financial condition or cash flows.

During the second quarter of 2008, the FASB issued FASB Staff Position EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP 03-6-1"). FSP 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the computation of earning per share under the two-class method per FASB Statement No. 128, "Earnings per Share." FSP 03-6-1 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008 and earlier adoption is prohibited. The adoption of this statement will not have a material effect on the Company's results of operations.

3. INVENTORIES

Inventories consist of the following at December 31 (in millions):

	2008	2007
Finished goods	**$ 94.1**	$ 105.1
Raw materials and supplies	**29.2**	23.3
Total inventories	**$ 123.3**	$ 128.4

4. PROPERTY PLANT AND EQUIPMENT

Property, plant and equipment consists of the following at December 31 (in millions):

	2008	2007
Land and buildings	**$ 190.2**	$ 197.7
Machinery and equipment	**381.6**	407.2
Office furniture and equipment	**17.7**	19.3
Mineral interests	**164.3**	181.0
Construction in progress	**36.5**	21.6
	790.3	826.8
Less accumulated depreciation and depletion	**(407.2)**	(430.0)
Property, plant and equipment, net	**$ 383.1**	$ 396.8

5. INTANGIBLE ASSETS

Intangible assets consist primarily of purchased rights to produce SOP and customer relationships acquired in connection with the 2007 purchase of IRM. The SOP production rights and customer relationships are being amortized over 25 years and 7 years, respectively. The weighted average amortization period for all intangibles is approximately 24 years. None of the intangible assets has a residual value. Aggregate amortization expense was $1.3 million during 2008 and $1.1 million in 2007 and 2006 and is projected to be approximately $1.2 million per year over the next five years.

The intangible asset value and accumulated amortization as of December 31, 2008 are as follows (in millions):

	SOP Production Rights	Customer Relationships	Total
Intangible assets	$ 24.3	$ 1.8	$ 26.1
Accumulated amortization	(5.0)	(0.7)	(5.7)
Intangible assets, net	$ 19.3	$ 1.1	$ 20.4

As of December 31, 2007, intangible assets included SOP production rights and a related customer list valued at $24.3 million and $2.3 million, respectively, with accumulated amortization of $4.0 million and $0.4 million, respectively.

6. INCOME TAXES

The Company files U.S., Canadian and U.K. tax returns at the federal and local taxing jurisdictional levels. The Company's U.S. federal tax returns for tax years 2006 forward remain open and subject to examination. Generally, the Company's state, local and foreign tax returns for years as early as 2002 forward remain open and subject to examination, depending on the jurisdiction.

The following table summarizes the Company's income tax provision related to earnings for the years ended December 31 (in millions):

	2008	2007	2006
Current:			
Federal	**$ 25.3**	$ (6.5)	$ 22.2
State	**5.8**	—	1.3
Foreign	**20.2**	6.9	14.5
Total current	**51.3**	0.4	38.0
Deferred:			
Federal	**10.1**	5.3	(19.5)
State	**2.6**	1.0	(1.6)
Foreign	**3.5**	(6.6)	(2.1)
Total deferred	**16.2**	(0.3)	(23.2)
Total provision for income taxes	**$ 67.5**	$ 0.1	$ 14.8

The Company's 2007 tax provision includes tax benefits totaling approximately $18.1 million related to items unique to 2007. In 2007, the Company entered into a program with a taxing authority to begin the process of resolving an uncertain tax position. Communications with the taxing authority have caused the Company to change its assessment of the measurement of uncertain tax positions resulting in the reversal of tax reserves. The Company also released reserves following the closure of certain tax examination years. The Company's 2007 provision also includes benefits totaling $1.0 million to reduce net deferred tax liabilities for the effects of income tax rate reductions in certain jurisdictions.

The following table summarizes components of earnings before taxes and shows the tax effects of significant adjustments from the expected tax expense computed at the federal statutory rate for the years ended December 31 (in millions):

	2008	2007	2006
Domestic income	**$ 169.5**	$ 50.8	$ 45.5
Foreign income	**57.5**	29.3	24.3
Earnings before tax	**227.0**	80.1	69.8
Computed tax at the federal statutory rate of 35%	**79.4**	28.0	24.4
Foreign income, mining, and withholding taxes, net of U.S. federal deduction	**1.5**	3.5	3.9
Percentage depletion in excess of basis	**(12.5)**	(7.2)	(6.9)
Release of previously established foreign tax reserves	**—**	(13.0)	—
Domestic tax reserves, net of reversals	**(2.4)**	(4.9)	4.1
State income taxes, net of federal income tax benefit	**6.2**	0.5	0.1
Change in valuation allowance on deferred tax assets	**0.4**	0.2	(7.5)
Interest expense recognition differences	**(6.3)**	(4.5)	(2.9)
Other	**1.2**	(2.5)	(0.4)
Provision for income taxes	**$ 67.5**	$ 0.1	$ 14.8
Effective tax rate	**30%**	0%	21%

Under SFAS No. 109, deferred tax assets and liabilities are recognized for the estimated future tax effects, based on enacted tax law, of temporary differences between the values of assets and liabilities recorded for financial reporting and tax purposes, and of net operating losses and other carry-forwards. The significant components of the Company's deferred tax assets and liabilities were as follows at December 31 (in millions):

	2008	2007
Current deferred tax assets:		
Net operating loss carryforwards	**$ —**	$ 2.7
Alternative minimum tax credit carryforwards	**2.4**	—
Accrued expenses	**1.7**	1.9
Other, net	**8.4**	6.7
Current deferred tax assets	**$ 12.5**	$ 11.3
Non-current deferred taxes:		
Property, plant and equipment	**$ 66.6**	$ 71.8
Total deferred tax liabilities	**66.6**	71.8
Deferred tax assets:		
Net operating loss carryforwards	**11.0**	16.9
Alternative minimum tax credit carryforwards	**16.9**	19.9
Interest on discount notes	**13.5**	23.9
Other, net	**7.3**	3.1
Subtotal	**48.7**	63.8
Valuation allowance	**(3.7)**	(4.6)
Total non-current deferred tax assets	**45.0**	59.2
Net non-current deferred tax liabilities	**$ 21.6**	$ 12.6

At December 31, 2008, the Company had U.S. and Canadian federal net operating loss ("NOL") carry-forwards of approximately $27.9 million which expire at various dates through 2028. Ownership changes, as defined in Internal Revenue Code Section 382, limit the amount of U.S. NOLs that can be utilized annually to offset future taxable income and reduce the tax liability. The Company has previously incurred three ownership changes which has placed annual limitations on the amount of utilization of each U.S. NOL. The Company also has tax-affected state and Canadian provincial NOL carry-forwards of approximately $1.9 million which will expire in various years through 2028, and, in connection with its 2007 acquisition of IRM, the Company acquired approximately $3.6 million of foreign NOL carryforwards with no expiration date. The Company also has a U.S. federal alternative minimum tax credit carry-forward at December 31, 2008 of approximately $19.3 million. This credit carry-forward may be carried forward indefinitely to offset any excess of regular tax liability over alternative minimum tax liability.

The Company has recorded a valuation allowance for a portion of its deferred tax asset relating to net operating loss carryforwards that it does not believe will, more-likely-than-not, be realized. As of December 31, 2008 and 2007, the Company's valuation allowance was $3.7 million and $4.6 million, respectively. The $0.9 million decrease in the valuation allowance in 2008 was primarily due to the realization of additional NOLs offset by management's assessment that the Company will not be able to realize all of its foreign interest deductions. In the future, if the Company determines, based on existence of sufficient evidence, that it should realize more or less of its deferred tax assets, an adjustment to the valuation allowance will be made in the period such a determination is made.

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations in multiple jurisdictions. Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertain Taxes." The Company recognizes potential liabilities for unrecognized tax benefits in the U.S. and other tax jurisdictions in accordance with FIN 48, which requires uncertain tax positions to be recognized only if they are more-likely-than-not to be upheld based on their technical merits. The measurement of the uncertain tax position is based on the largest benefit amount that is more-likely-than-not (determined on a cumulative probability basis) to be realized upon settlement of the matter. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when the Company determines the liabilities are no longer necessary. If the Company's estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense would result.

The Company's uncertain tax positions primarily relate to transactions and deductions involving U.S. and Canadian operations. If favorably resolved, these unrecognized tax benefits would decrease the Company's effective tax rate. Management expects that there will be no uncertain tax positions resolved during the next twelve months. The following table shows a reconciliation of the beginning and ending amount of unrecognized tax benefits (in millions).

	2008	2007
Unrecognized tax benefits:		
Balance at January 1	**$ 25.7**	$ 36.4
Additions resulting from current year tax positions	**0.7**	2.4
Additions relating to tax positions taken in prior years	**2.4**	3.2
Reductions due to cash payments	**(2.2)**	(4.0)
Reductions relating to tax positions taken in prior years	**(4.1)**	(5.8)
Reductions due to expiration of tax years	**(4.4)**	(6.5)
Balance at December 31	**$ 18.1**	$ 25.7

The Company accrues interest and penalties related to its uncertain tax positions within its tax provision. During the years ended December 31, 2008, 2007 and 2006, the Company accrued interest and penalties, net of reversals, of $1.0 million, ($4.8) million and $2.7 million, respectively. As of December 31, 2008 and 2007, accrued interest and penalties included in the Consolidated Balance Sheets totaled $4.0 million and $4.7 million, respectively.

The Company does not provide U.S. federal income taxes on undistributed earnings of foreign companies that are not currently taxable in the United States. No undistributed earnings of foreign companies were subject to U.S. income tax in the years ended December 31, 2008, 2007 and 2006. Total undistributed earnings on which no U.S. federal income tax has been provided were $147.0 million at December 31, 2008. If these earnings are distributed, foreign tax credits may become available under current law to reduce or possibly eliminate the resulting U.S. income tax liability.

7. PENSION PLANS AND OTHER BENEFITS

The Company has a defined benefit pension plan for certain of its U.K. employees. Benefits of this plan are based on a combination of years of service and compensation levels. This plan was closed to new participants in 1992. Beginning December 1, 2008, future benefits ceased to accrue for the remaining active employee participants in the plan concurrent with the establishment of a defined contribution plan for these employees. Through May 31, 2007, the Company also had a defined benefit pension plan available to a limited number of its U.S. employees. The U.S. plan was not material in relation to the U.K. plan. Effective May 31, 2007, the Company terminated the U.S. plan and by December 31, 2007 this U.S. plan was substantially settled.

The Company's U.K. investment strategy is to maximize return on investments while minimizing risk. This is accomplished by investing in high-grade equity and debt securities. The Company's portfolio guidelines recommend that equity securities comprise approximately 75% of the total portfolio, and that approximately 25% be invested in debt securities. In early September 2008, the Company elected to temporarily move the plan's investments into debt securities while it evaluated the investment climate. The Company expects to return to a greater percentage of equity securities in the future as, in management's judgment, conditions warrant. The weighted-average asset allocations by asset category are as follows (in millions):

	Plan Assets at December 31,	
Asset Category	2008	2007
Cash and cash equivalents	**—**	5%
Equity Securities	**—**	70
Debt Securities	**100%**	25
Total	**100%**	100%

The Company adopted the recognition and disclosure provisions of SFAS 158 for its 2006 annual pension valuation and the measurement date provision for its 2008 annual pension valuation. The measurement date provision requires that plan assets and benefit obligations be measured as of the Company's fiscal year end date. The Company had previously measured its plan assets and benefit obligation as of November 30 of each year. The adoption of the measurement provisions of SFAS 158 was not material to the Company's Consolidated Financial Statements.

As of December 31, 2008 and 2007, amounts recognized in accumulated other comprehensive income, net of tax, consisted of actuarial net losses of $3.7 million and $5.2 million, respectively.

The assumptions used in determining pension information for the plans for the years ended December 31 were as follows:

	2008	2007	2006
Discount rate	**5.80%**	5.80%	5.00%
Expected return on plan assets	**6.00**	7.00	6.60
Rate of compensation increase	**N/A**	3.30	2.75

The overall expected long-term rate of return on plan assets is a weighted-average expectation based on the targeted and expected portfolio composition. The Company considers historical performance and current benchmarks to arrive at expected long-term rates of return in each asset category. The Company determines its discount rate based on a forward yield curve for a portfolio of high credit quality bonds with expected cash flows and an average duration closely matching the expected benefit payments under our plan.

The Company's funding policy is to make the minimum annual contributions required by applicable regulations. Management expects total contributions during 2009 will be approximately $3.8 million, unless a supplemental funding is assessed as discussed below.

The U.K. pension plan includes a provision whereby supplemental benefits may be available to participants under certain circumstances after case review and approval by the plan trustees. Because instances of this type of benefit have historically been infrequent, the development of the projected benefit obligation and net periodic pension cost has not provided for any future supplemental benefits. If additional benefits are approved by the trustees, it is likely that an additional contribution would be required and the amount of incremental benefits would be expensed by the Company.

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(Dollars in thousands, except per share data)

Note 6—Income Taxes:

Income taxes (benefits) provided on earnings consisted of:

	For the Years Ended December 31,		
	2008	2007	2006
Current:			
U.S. Federal	$ 87,658	$ 62,704	$ 72,839
U.S. State	14,549	11,284	12,247
Non-U.S.	2,133	2,594	770
	104,340	76,582	85,856
Deferred:			
U.S. Federal	101,869	40,278	46,332
U.S. State	33,725	19,277	(19,758)
	135,594	59,555	26,574
Total Income Taxes	$ 239,934	$ 136,137	$ 112,430

The components of the net deferred tax assets are as follows:

	December 31, 2008	December 31, 2007
Deferred Tax Assets:		
Postretirement benefits other than pensions	$ 990,336	$ 997,930
Alternative minimum tax	168,276	197,009
Mine closing	133,591	139,742
Pneumoconiosis benefits	75,124	59,506
Net operating loss	57,370	63,866
Workers' compensation	59,687	57,055
Salary retirement	74,967	38,839
Capital lease	32,212	41,415
Reclamation	14,581	13,277
Other	78,923	81,702
Total Deferred Tax Assets	1,685,067	1,690,341
Valuation Allowance**	(60,898)	(59,908)
Net Deferred Tax Assets	1,624,169	1,630,433
Deferred Tax Liabilities:		
Property, plant and equipment	(1,085,054)	(1,058,596)
Advance mining royalties	(23,445)	(23,493)
Gas hedge	(81,061)	(3,738)
Other	(40,467)	(38,975)
Total Deferred Tax Liabilities	(1,230,027)	(1,124,802)
Net Deferred Tax Assets	$ 394,142	$ 505,631

** Valuation allowances of ($2,663) and ($58,235) have been allocated between current and long-term deferred tax assets respectively for 2008. Valuation allowances of ($2,476) and ($57,432) have been allocated between current and long-term deferred tax assets respectively for 2007.

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According to Statement of Financial Accounting Standards Board Statement 109, “Accounting for Income Taxes”, a deferred tax asset should be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. All available evidence, both positive and negative, must be considered in determining the need for a valuation allowance. For the years ended December 31, 2008 and December 31, 2007, positive evidence considered included future income projections based on existing fixed price contracts and forecasted expenses, reversals of book to tax temporary differences, and the implementation of and/or ability to employ various tax planning strategies. Negative evidence included book and tax losses generated in prior periods, and the inability to achieve forecasted results for those periods.

During 2006, CONSOL Energy concluded that a valuation allowance was no longer warranted against a portion of its state net operating loss carry forwards in certain tax jurisdictions. In 2007 CONSOL Energy implemented a prudent and feasible tax strategy that ensured the realization of Pennsylvania loss carry forward tax benefits. For 2008 and 2007, CONSOL Energy continues to report a deferred tax asset of $22,656 and $27,881, respectively, on an after Federal tax adjusted basis relating to the remainder of its state operating loss carry forwards after valuation allowance. A review of the positive and negative evidence regarding these tax benefits, primarily the history of book and tax losses on a separate company basis, concluded that a valuation allowance was warranted. A valuation allowance of $26,184 and $23,123 on an after Federal tax adjusted basis have also been recorded for 2008 and 2007, respectively, against the deferred state tax asset attributable to future deductible temporary differences for certain CONSOL Energy subsidiaries with histories of book and tax losses. The net operating losses expire at various times between 2009 and 2027. Management will continue to assess the potential for realizing deferred tax assets based upon updated income forecast data and the feasibility of future tax planning strategies, and may record adjustments to valuation allowances against deferred tax assets in future periods as appropriate that could materially impact net income. Included in the valuation allowance against the deferred state tax assets attributable to future deductible temporary differences for 2008 and 2007 are $8,496 and $7,687, respectively, of valuation allowances for deferred tax assets related to Statement of Financial Accounting Standards No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Post Retirement Plans” (SFAS No. 158) in state jurisdictions which are subject to a full valuation allowance. The increase in the valuation allowances recognized on SFAS No. 158 was recognized through other comprehensive income in the applicable period.

We estimate that CONSOL Energy will utilize Federal alternative minimum tax credits of $30,464 for the year ended December 31, 2009, thereby reducing the deferred tax asset associated with the prior years’ minimum tax credits. During 2008, the Federal alternative minimum tax credits were increased $1,731 as a result of the 2007 accrual to 2007 return adjustments.

Source: CONSOL ENERGY INC, 10-K, February 17, 2009

CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

The following is a reconciliation stated as a percentage of pretax income, of the United States statutory federal income tax rate to CONSOL Energy's effective tax rate:

	For the Years Ended December 31,					
	2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent
Statutory U.S. federal income tax rate	$ 253,958	35.0%	$ 150,135	35.0%	$ 192,822	35.0%
Excess tax depletion	(48,859)	(6.7)	(43,502)	(10.1)	(55,229)	(10.0)
Effect of medicare prescription drug, improvement and modernization act of 2003	2,112	0.3	1,796	0.4	1,796	0.3
Effect of domestic production activities	(7,721)	(1.1)	(915)	(0.2)	(2,538)	(0.4)
Net effect of state tax	31,169	4.3	20,086	4.7	(15,549)	(2.8)
Effect of foreign tax	2,133	0.3	787	0.2	770	0.1
Other	7,142	1.0	7,750	1.7	(9,642)	(1.8)
Income Tax (Benefit) Expense/Effective Rate	$ 239,934	33.1%	$ 136,137	31.7%	$ 112,430	20.4%

CONSOL Energy adopted the provisions of FASB Interpretation No. 48 (FIN 48), "Accounting for Uncertainty in Income Taxes, an interpretation of FASB No. 109" on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized an increase of $3,202 in the liability for unrecognized tax benefits upon adoption, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. During the year ending December 31, 2008, the Company recognized a decrease of $2,726 in the liability for unrecognized tax benefits as a result of reevaluating the potential outcome of the ongoing audit of its 2004 and 2005 tax returns by the IRS, and identifying additional uncertain tax positions relating to state income taxes. During the year ending December 31, 2007, the Company recognized an increase of $13,317 in the liability for unrecognized tax benefits as a result of tax positions taken during the current period, and uncertain tax positions identified upon the acquisition of Amvest Corporation. Of the total increase in the liability for unrecognized tax benefits for the year ending December 31, 2007, $10,497 was accounted for as a reclassification from deferred Federal and state income taxes and $2,520 is attributable to uncertain tax positions recognized as a result of the acquisition of Amvest Corporation. The change in unrecognized tax benefits during 2008 and 2007 resulted in reductions in net income of $1,833 and $300, respectively.

The total amount of unrecognized tax benefits as of December 31, 2008 and 2007 were $60,691 and $63,417, respectively. If these unrecognized tax benefits were recognized, $14,657 and $12,871, respectively, would affect CONSOL Energy's effective income tax rate.

CONSOL Energy and its subsidiaries file income tax returns in the U. S. federal, various states and Canadian jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2003. The IRS is currently finalizing its audit report relating to CONSOL Energy's income tax returns filed for 2004 and 2005. The Company expects to conclude this examination, and remit payment of the resulting tax deficiencies to Federal and state taxing authorities before June 30, 2009. The estimated Federal tax deficiency payable to the IRS is $12,500. This payment will have no impact on net income since the tax deficiencies for 2004 and 2005 are primarily the result of changes in the timing of tax deductible expenses.

The IRS' examination of the Company's 2002 and 2003 tax returns has been completed. CONSOL Energy estimates that an additional payment of approximately $1,300 of interest related to the examination will be made before March 31, 2009.

CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

CONSOL recognizes interest accrued related to unrecognized tax benefits in its interest expense. As of December 31, 2008 and 2007, the Company had an accrued liability of $10,518 and $8,503, respectively, for interest related to uncertain tax positions. The accrued interest liabilities include $2,012 and $3,426 that were recorded in the Company's Consolidated Income Statements for the years ended December 31, 2008 and 2007, respectively.

CONSOL recognizes penalties accrued related to unrecognized tax benefits in its income tax expense. As of December 31, 2008, there were no accrued penalties recognized. As of December 31, 2007, there was $1,200 of accrued penalties.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance of unrecognized tax benefits at December 31, 2007	$ 63,417
Increase in unrecognized tax benefits resulting from tax positions taken during current period	$ 14,444
Decrease in unrecognized tax benefits resulting from tax positions taken during prior period	($17,170)
Balance of unrecognized tax benefits at December 31, 2008	$ 60,691

The majority of CONSOL Energy earnings before income tax was generated from domestic entities.

Note 7—Mine Closing, Reclamation & Gas Well Closing Costs:

CONSOL Energy accrues for mine closing, perpetual water care costs, and dismantling and removal costs for gas related facilities using the accounting treatment prescribed by Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). CONSOL Energy recognizes capitalized asset retirement costs by increasing the carrying amount of related long-lived assets, net of the associated accumulated depreciation. The obligation for asset retirements is included in Mine Closing, Reclamation, Other Accrued Liabilities and Other Liabilities in the Consolidated Balance Sheets.

The reconciliation of changes in the asset retirement obligations at December 31, 2008 and 2007 is as follows:

	As of December 31,	
	2008	2007
Balance at beginning of period	$ 530,897	$ 492,308
Accretion Expense	34,888	32,469
Payments	(32,085)	(28,427)
Revisions in Estimated Cash Flows	30,409	2,901
Other	(19,795)	31,646
Balance at end of period	$ 544,314	$ 530,897

For the year ended December 31, 2008, Other includes ($19,618) for asset dispositions and ($177) of various other items, none of which are individually significant. For the year ended December 31, 2007, Other includes obligations for reclamation, mine closing, and perpetual care of $18,974 related to the acquisition of AMVEST in July 2007. In addition, $14,907 is included in Other for gas well closing obligations related to gas wells acquired with the acquisition of the outstanding shares of an oil and gas company in October 2007. The remaining ($2,235) included in Other relates to various other items, none of which are individually significant.

COEUR D'ALENE MINES CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Dollar amounts in thousands, unless otherwise specified)

In addition, the Company has accrued $1.4 million and $1.7 million as of December 31, 2008 and 2007, respectively, for environmental remediation liabilities related to former mining operations. These amounts are also included in reclamation and mine closure liabilities.

NOTE K — INCOME TAXES

The components of income from continuing operations before income taxes were as follows (in thousands):

	Years Ended December 31,		
	2008	2007	2006
United States	$ 494	$21,909	$33,252
Foreign	(14,003)	36,908	50,393
Total	$(13,509)	$58,817	$83,645

The components of the consolidated income tax benefit (provision) from continuing operations were as follows (in thousands):

	Years Ended December 31,		
	2008	2007	2006
Current:			
United States — Alternative minimum tax	$ (644)	$ (381)	$ (900)
United States — Foreign withholding tax	(1,498)	(904)	(713)
Foreign — Argentina	(2,047)	(6,590)	(4,842)
Foreign — Australia	(5,084)	(4,898)	(4,673)
Foreign — Canada	(34)	—	—
Foreign — Mexico	(623)	—	—
Deferred:			
Foreign — Argentina	(1,410)	172	65
Foreign — Australia	1,115	(664)	(93)
Foreign — Australia	(2,480)	—	—
Foreign — Chile	113	(1,662)	2,930
Foreign — Mexico	(27,753)	—	—
United States	53,846	—	—
Income tax benefit (provision)	$ 13,501	$(14,927)	$(8,226)

A reconciliation of the Company's effective tax rate with the federal statutory tax rate for the periods indicated is as follows (in thousands):

	Years Ended December 31		
	2008	2007	2006
Tax benefit (provision) from continuing operations	$ 4,728	$(20,600)	$(29,276)
State tax provision from continuing operations	405	(1,766)	(2,509)
Percentage depletion and related deductions	3,890	4,860	6,199
Change in valuation allowance	6,652	3,896	14,778
Non-deductible imputed interest	(2,168)	—	—
Uncertain tax positions	(2,665)	—	—
U.S. and Foreign non-deductible expenses	(2,767)	(663)	(711)
Partially reinvested	19,886	—	—
Foreign exchange rates	(6,663)	—	—
Foreign inflation and indexing	1,425	—	—
Foreign tax rate differences	(6,019)	2,309	4,744
Foreign withholding taxes	(1,604)	(904)	(713)
Other, net	(1,599)	(2,059)	(738)
	$13,501	$(14,927)	$ (8,226)

As of December 31, 2008 and 2007, the significant components of the Company's deferred tax assets and liabilities were as follows (in thousands):

	Years Ended December 31	
	2008	2007
Deferred tax liabilities:		
Mineral properties	$ 332,399	$ 552,007
Investment in foreign subsidiaries	275,127	18,430
Property, plant and equipment, net	30,149	2,836
	637,675	573,273
Deferred tax assets:		
Net operating loss carryforwards	175,678	111,996
Investment in foreign subsidiaries	24,753	16,331
Capital loss carryforwards	9,547	10,305
Asset retirement obligation	8,314	10,234
Unrealized foreign currency loss and other	6,381	8,651
Accrued expenses	5,168	3,330
Alternative minimum tax credit carryforwards	2,691	2,520
Inventory	1,036	1,523
	233,568	164,890
Valuation allowance	(148,435)	(160,898)
	85,133	3,992
Net deferred tax assets (liabilities)	$(552,542)	$(569,281)

The Company has evaluated the amount of taxable income and periods over which it must be earned to allow for realization of the deferred tax assets. Based upon this analysis, the Company determined it is more likely than not that net deferred tax assets of $3.6 million will be realized in Chile. Thus, the Company has recorded valuation allowances as follows (In thousands):

	Years Ended December 31	
	2008	2007
U.S.	$106,239	$111,685
Argentina	3,376	1,966
Australia	2,679	7,282
Canada	6,732	8,220
New Zealand	28,125	30,999
Chile and other	1,284	746
	$148,435	$160,898

The Company continues to monitor the valuation allowance quarterly, and will make the appropriate adjustments as necessary.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," (FIN 48) an interpretation of FASB Statement No. 109, "Accounting for Income Taxes" on January 1, 2007. FIN 48 clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. FIN 48 prescribes a recognition threshold of more likely than not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return. The Company determined that FIN 48 had no impact on the financial statements, and as a result, did not record any cumulative effect adjustment related to the adoption of FIN 48.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Unrecognized tax benefits at January 1, 2008	$ —
Gross increase to current period tax positions	2,665
Unrecognized tax benefits at December 31, 2008	$2,665

The Company's policy is to classify interest and penalties associated with these uncertain tax positions as a component of income tax expense and has recorded approximately $0.1 million during 2008.

The Company files income tax returns in the US federal jurisdiction, various U.S. states and in certain foreign jurisdictions. To the extent there are loss carryovers in any such jurisdictions, the statute of limitations generally remains open.

The Company has previously determined the earnings from certain foreign jurisdictions were not indefinitely reinvested. Accordingly, the Company has recognized deferred taxes and withholding taxes related to those jurisdictions. During 2008, the Company determined that it was reasonable, appropriate and prudent that a portion of the anticipated future cash flows from Mexico would be indefinitely reinvested to fund ongoing capital improvements and additional exploration activities within and around the Palmarejo operating site.

During 2007, the Company incurred an ownership change which generally limits the availability of existing tax attributes, including net operating loss carryforwards to reduce future taxable income. The Company has the following tax attribute carryforwards as of December 31, 2008 (In thousands):

	U.S.	Australia	Bolivia	Canada	Chile	Mexico	New Zealand	Other	Total
Regular net operating losses	$102,987	$ —	$37,098	$1,099	$19,976	$325,900	$93,750	$4,508	$585,318
Alternative minimum tax net operating losses	9,065	—	—	—	—	—	—	—	9,065
Capital losses	18,774	8,044	—	—	—	—	—	—	26,818
Alternative minimum tax credits	2,691	—	—	—	—	—	—	—	2,691

The U.S. net operating losses expire from 2017 through 2025 and the Canada net operating losses expire from 2028 through 2029. The Mexico net operating losses expire in 2017 and 2019, while the remaining net operating losses from the foreign jurisdictions have an indefinite carryforward period. The U.S. capital losses expire in 2012 while the Australia capital losses generally have an indefinite carryforward period. Alternative minimum tax credits do not expire.

NOTE L — SHAREHOLDER'S EQUITY

On May 11, 1999, the Company's shareholders adopted a shareholder rights plan (the "Plan"). The Plan entitles each holder of the Company's common stock to one right. Each right entitles the holder to purchase one one-hundredth of a share of newly authorized Series B Junior Preferred Stock at an exercise price of $100. The rights will not be distributed and become exercisable unless and until ten business days after a person acquires 20% of the outstanding common shares or commences an offer that would result in the ownership of 30% or more of the shares. Each right also carries the right to receive upon exercise that number of Coeur common shares which has a market value equal to two times the exercise price. Each preferred share issued is entitled to receive 100 times the dividend declared per share of common stock and 100 votes for each share of common stock and is entitled to 100 times the liquidation payment made per common share. The Board may elect to redeem the rights prior to their exercisability at a price of $0.01 per right. The rights will expire on May 24, 2009, unless earlier redeemed or exchanged by the Company. Any preferred shares issued are not redeemable. At December 31, 2008 and 2007, there were a total of 566,739,877 and 550,453,019 rights outstanding, respectively, which was equal to the number of outstanding shares of common stock.

During the first quarter of 2006, the Company completed a public offering of 27.6 million shares of common stock at a public offering price of $5.60 per share. The Company realized net proceeds of $146.2 million after payment of the underwriters' discount. Offering costs incurred were $8.3 million.

NOTE M — STOCK-BASED COMPENSATION PLANS

The Company has an Annual Incentive Plan, a Long-Term Incentive Plan (the "2003 Long-Term Incentive Plan"), the "1989 Long-Term Incentive Plan" and the 2005 Non-Employee Directors' Plan (the "2005 Non-Employee Directors' Plan"). Total employee compensation expense charged to operations and capital projects under these Plans was $5.1 million, $6.3 million and $4.7 million for 2008, 2007 and 2006, respectively.

Annual Incentive Plan

Under the Annual Incentive Plan, the Board of Directors may annually approve cash-based awards to the executive officers and key management employees based on certain Company and employee performance measures. Cash payments for awards for 2008, 2007 and 2006 amounted to $2.2 million, $2.6 million and $2.2 million, respectively.

Notes to the financial statements (continued)

for the year ended 31 December 2008

(Expressed in Renminbi)

8 Finance income/(expenses)

	2008 **RMB million**	*2007* *RMB million*
Interest income	**816**	622
Foreign exchange gain, net	**–**	129
Gain on remeasurement of derivative financial instruments to fair value	**472**	283
Finance income	**1,288**	1,034
Interest on loans from banks and other financial institutions, and other borrowings wholly repayable within five years	**(4,830)**	(3,816)
Less: Interest expense capitalised*	**1,044**	399
Net interest expense	**(3,786)**	(3,417)
Foreign exchange loss, net	**(895)**	–
Finance expenses	**(4,681)**	(3,417)
Net finance costs	**(3,393)**	(2,383)
* Interest expense was capitalised in construction in progress at the following rates per annum	**3.69%-7.83%**	3.60%-7.29%

9 Income tax

Income tax in the consolidated income statement represents:

	2008 **RMB million**	*2007* *RMB million*
Provision for PRC income tax (Note 27(a))	**6,769**	6,737
Deferred taxation (Note 27(b))	**307**	5
	7,076	6,742

A reconciliation of the expected tax expense with the actual tax expense is as follows:

	2008 **RMB million**	*2007* *RMB million*
Profit before income tax	**36,975**	30,779
Expected PRC income tax expense at a statutory tax rate of 25% (2007: 33%) (Note i)	**9,244**	10,157
Tax effect of differential tax rate on branches and subsidiaries' income (Note i)	**(2,586)**	(3,467)
Effect of change in tax rate (Note ii)	**–**	(140)
Tax effect of non-deductible expenses (Note iii)	**512**	232
Tax effect of non-taxable income	**–**	(2)
Tax effect in respect of share of profits less losses of associates	**(166)**	(207)
Tax effect of tax losses not recognised	**32**	162
Others	**40**	7
Actual tax expense	**7,076**	6,742

Notes to the financial statements (continued)

for the year ended 31 December 2008
(Expressed in Renminbi)

9 Income tax (continued)

Notes:

(i) The provision for PRC current income tax is based on a statutory rate of 25% (2007: 33%) of the assessable profit of the entities comprising the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain branches and subsidiaries of the Company, which are exempted or taxed at preferential rates.

(ii) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which has taken effect from 1 January 2008. As a result of the new tax law, the statutory income tax rate adopted by the Company and its subsidiaries has changed from 33% to 25% with effect from 1 January 2008.

Pursuant to the grandfathering arrangement under the new tax law, the preferential policies enjoyed by the entities with operations in the western developing region of the PRC remain effective after the implementation of the new tax law until the preferential periods are expired. The income tax rates of entities that previously enjoyed a preferential tax rate of 15% have been revised to 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 respectively.

The deferred tax assets and liabilities were remeasured for the change in applicable tax rates as a result of the new tax law during the year ended 31 December 2007.

(iii) Non-deductible expenses mainly represent personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purposes.

NOTES TO ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 December 2008

	GROUP		COMPANY	
	2008 Rm	2007 Rm	2008 Rm	2007 Rm
6. INCOME FROM INVESTMENTS				
Subsidiaries				
Unlisted shares				
– dividends			142	193
– net interest received			138	42
			280	235
Associates				
– dividends			1 037	373
Other				
Listed shares				
– dividends	2	2	2	2
Total	2	2	1 319	610
7. INCOME TAX EXPENSE				
Charge to income				
South African normal tax				
– Current – current year	757	298		
– prior year		2		5
	757	300		5
– Deferred – current year	(95)	(40)	(9)	(21)
– prior year		(8)	(1)	
– rate adjustment	(12)		3	
	(107)	(48)	(7)	(21)
Foreign normal tax				
– Current – current year	8	168		
– prior year		(4)		
	8	164		
– Deferred – current year	(97)	5		
– prior year	(68)	22		
	(165)	27		
Secondary Tax on Companies	1	58		58
Non-residents withholding tax	16	11		
Total	510	512	(7)	42

	GROUP		COMPANY	
	2008	2007	**2008**	2007
	%	%	**%**	%
7. INCOME TAX EXPENSE (continued)				
Reconciliation of tax rates				
Tax as a percentage of profit before tax	**13,1**	26,1	**(0,2)**	9,0
Tax effect of				
– assessed losses (not provided for)	**(0,3)**	(0,2)		
– capital profits	**0,2**	0,5	**17,2**	
– disallowable expenditure	**(0,7)**	(2,1)	**(0,4)**	(2,0)
– reclassification of previously disallowable expenditure	**1,1**			
– exempt income	**1,0**	0,3	**11,4**	35,5
– special tax allowances		0,2		
– share of associates' and joint ventures'	**11,9**	10,8		
– tax rate differences	**0,4**	(2,1)		
– rate change on deferred tax balance	**0,3**			
– Secondary Tax on Companies (STC)	**(0,1)**	(2,9)		(12,4)
– withholding tax	**(0,4)**	(0,5)		
– Controlled Foreign Company profits (CFC)	**(0,1)**	(0,3)		
– foreign exchange differences	**(0,1)**	(0,1)		
– prior year adjustment	**1,7**	(0,7)		(1,1)
Standard tax rate	**28,0**	29,0	**28,0**	29,0
Effective tax rate for operations, excluding income from equity accounted investments, impairment charge and share of tax thereon	**22,7**	41,0		

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FMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We have mining operations in Green River, Wyoming for our soda ash business as well as mining operations in our lithium operations. We have legal reclamation obligations related to these facilities upon closure of the mines. Additionally, we have obligations at the majority of our manufacturing facilities in the event of a permanent plant shutdown. Certain of these obligations are recorded in our environmental and restructuring liability reserves described in Notes 6 and 12. For those not already accrued, we have calculated the fair value of these asset retirement obligations ("ARO's") and concluded that the present value of the obligations was immaterial as of December 31, 2008.

The changes in the carrying amounts of ARO's for the years ended December 31, 2008 and 2007 are as follows.

(in Millions)	
Balance at December 31, 2006	$ 6.3
Acceleration due to facility shutdowns (1)	8.5
Accretion expense	0.3
Payments	—
Balance at December 31, 2007	$ 15.1
Acceleration due to facility shutdowns (1)	5.2
Additional ARO liability (2)	3.6
Accretion expense	0.4
Payments	(16.6)
Balance at December 31, 2008	$ 7.7

(1) This increase was primarily associated with our 2007 decision to phase out operations at our Baltimore facility and in 2008, our Jacksonville facility. As a result of these decisions, the estimated settlement dates associated with asset retirement obligations at the facilities were accelerated, resulting in an increase to the liability and an increase to capitalized asset retirement costs. The capitalized asset retirement costs were depreciated on an accelerated basis over the period that we operated the facilities. See Note 6 for further details on these phase outs.

(2) The additions to the ARO liability primarily related to the acquisitions in our Specialty Chemicals segment. Refer to Note 3.

NOTE 10: INCOME TAXES

Domestic and foreign components of income from continuing operations before income taxes are shown below:

	Year Ended December 31,		
	2008	2007	2006
		(in Millions)	
Domestic	$317.0	$124.4	$138.8
Foreign	137.9	61.3	73.6
Total	$454.9	$185.7	$212.4

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FMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The provision (benefit) for income taxes attributable to income from continuing operations consisted of:

	Year Ended December 31,		
	2008	2007	2006
		(in Millions)	
Current:			
Federal	$ (1.2)	$ —	$ —
Foreign	29.7	22.5	11.5
State	—	—	—
Total current	28.5	22.5	11.5
Deferred	96.9	6.5	56.8
Total	$125.4	$29.0	$68.3

Total income tax provisions (benefits) were allocated as follows:

	Year Ended December 31,		
	2008	2007	2006
		(in Millions)	
Continuing operations	$ 125.4	$ 29.0	$ 68.3
Discontinued operations	(15.0)	(15.0)	(6.8)
Items charged directly to stockholders' equity	(132.7)	10.2	(27.0)
Total	$ (22.3)	$ 24.2	$ 34.5

Significant components of the deferred income tax provision (benefit) attributable to income from continuing operations before income taxes are as follows:

	Year Ended December 31,		
	2008	2007	2006
		(in Millions)	
Deferred tax (exclusive of valuation allowance)	$97.8	$ 22.9	$47.9
Increase (decrease) in the valuation allowance for deferred tax assets	(0.9)	(16.4)	8.9
Deferred income tax provision	$96.9	$ 6.5	$56.8

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FMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Significant components of our deferred tax assets and liabilities were attributable to:

	Year Ended December 31,	
	2008	2007
	(in Millions)	
Reserves for discontinued operations, environmental and restructuring	$ 95.3	$ 96.3
Accrued pension and other postretirement benefits	103.0	14.4
Other reserves	55.4	45.5
Alternative minimum and foreign tax credit carryforwards	81.8	81.0
Net operating loss carryforwards	136.7	224.7
Other	59.3	47.0
Deferred tax assets	531.5	508.9
Valuation allowance	(55.3)	(65.1)
Deferred tax assets, net of valuation allowance	$ 476.2	$ 443.8
Property, plant and equipment, net	$ 55.7	$ 67.8
Deferred tax liabilities	$ 55.7	$ 67.8
Net deferred tax assets	$ 420.5	$ 376.0

We have recognized that it is more likely than not that certain future tax benefits may or may not be realized as a result of current and future income. During the year ended December 31, 2008, the valuation allowance was decreased by $9.8 million. We believe that it is more likely than not that future earnings will generate sufficient taxable income to utilize the net deferred tax assets recorded as of December 31, 2008.

At December 31, 2008, we had net operating loss and tax credit carryforwards as follows: U.S. net operating loss carryforwards of $321.8 million expiring in varying amounts and years through 2028, state net operating loss carryforwards of $926.4 million expiring in various amounts and years through 2028, foreign net operating loss carryforwards of $113.5 million expiring in various years, U.S. foreign tax credit carryforwards of $36.9 million expiring in various amounts and years through 2018, and alternative minimum tax credit carryforwards of $44.9 million with no expiration date.

The effective income tax rate applicable to income from continuing operations before income taxes was different from the statutory U.S. federal income tax rate due to the factors listed in the following table:

	Year Ended December 31,		
	2008	2007	2006
Statutory U.S. tax rate	35%	35%	35%
Net difference:			
U.S. export sales benefit	—	—	(1)
Percentage depletion	(4)	(9)	(8)
State and local income taxes, less federal income tax benefit	1	1	1
Foreign earnings subject to different tax rates	(4)	(10)	(7)
Net operating loss carryforwards unbenefited (benefited)	—	(1)	1
Tax on intercompany dividends and deemed dividend for tax purposes	1	1	—
Nondeductible expenses	—	2	6
Minority interests	1	2	1
Changes to unrecognized tax benefits	(2)	5	—
Change in valuation allowance	—	(10)	4
Total difference	(7)	(19)	(3)
Effective tax rate	28%	16%	32%

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FMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of December 31, 2008, our federal income tax returns for years through 2003 have been examined by the Internal Revenue Service ("IRS") and all issues have been settled. We believe that adequate provision for both federal and foreign income taxes has been made for the open years 2000 and after. Income taxes have not been provided for the equity in undistributed earnings of foreign consolidated subsidiaries of $504.2 million or for foreign unconsolidated subsidiaries and affiliates of $9.1 million at December 31, 2008. Restrictions on the distribution of these earnings are not significant. It is not practical to estimate the amount of taxes that might be payable upon the remittance of such earnings. Foreign earnings taxable as dividends were $5.1 million, $4.4 million and $1.4 million in 2008, 2007 and 2006, respectively.

FASB Interpretation No. 48 ("FIN 48")

FIN 48 prescribes a model for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure and transition. We adopted this Interpretation on January 1, 2007. As a result of the implementation of FIN 48, we recognized a net increase in our liability for unrecognized tax benefits which was accounted for as a $2.8 million decrease to the January 1, 2007 balance of retained earnings. After adoption of FIN 48, the liability for unrecognized tax benefits was $43.1 million as of January 1, 2007.

We file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. The income tax returns for FMC entities taxable in the U.S and significant foreign jurisdictions are open for examination and adjustment. As of December 31, 2008, the United States income tax returns are open for examination and adjustment for years 2004-2008. Our significant foreign jurisdictions, which total 16, are open for examination and adjustment during varying periods from 2000-2008.

The total amount of unrecognized tax benefits as of December 31, 2008 that, if recognized, would affect the effective tax rate is $42.4 million. We recognize accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense in the consolidated financial statements. Included in the $42.4 million liability for unrecognized tax benefits as of December 31, 2008 is $0.4 million associated with interest and penalties.

We reasonably expect reductions in the liability for unrecognized tax benefits of up to $29 million within the next 12 months on account of settlements and the expirations of statutes of limitations. See the reconciliation of the total amounts of unrecognized tax benefits below:

	(in Millions)
Balance, January 1, 2007	$ 43.1
Additions for tax positions of the current year	4.0
Additions for tax positions of prior years	5.9
Reductions for tax positions of prior years for:	
Settlements during the period	(3.6)
Lapses of applicable statutes of limitations	—
Balance, December 31, 2007	$ 49.4
Additions for tax positions of the current year	2.7
Additions for tax positions of prior years	1.0
Reductions for tax positions of prior years for:	
Settlements during the period	(10.7)
Lapses of applicable statutes of limitations	—
Balance, December 31, 2008	$ 42.4

Notes to Consolidated Financial Statements

A summary of outstanding restricted stock units as of December 31, 2008, and activity during the year ended December 31, 2008, is presented below:

	Number of Restricted Stock Units	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Balance at January 1	**796,373**		
Granted	**1,359,915**		
Vested	**(376,460)**		
Forfeited	**(3,366)**		
Balance at December 31	**1,776,462**	**1.9**	**$ 43**

The grant-date fair value of restricted stock units granted to FCX senior executives who elected to receive restricted stock units in lieu of all or part of their cash incentive compensation during the year ended December 31, 2008, was $40 million. Because this was a performance-based award and the requisite service period under SFAS No. 123R is considered to be the calendar year prior to the grant date, the entire value of this award on the date of grant was charged to expense during 2007. The total grant-date fair value of all other restricted stock units granted during the year ended December 31, 2008, was $78 million.

The total intrinsic value of restricted stock units vesting during the year ended December 31, 2008, was $33 million. As of December 31, 2008, FCX had $24 million of total unrecognized compensation cost related to unvested restricted stock units expected to be recognized over a weighted-average period of 1.3 years.

Restricted Stock Awards. As discussed above, FCX has restricted stock awards that were issued in connection with the Phelps Dodge acquisition. A summary of outstanding restricted stock awards as of December 31, 2008, and activity during the year ended December 31, 2008, is presented below:

Balance at January 1	49,241
Vested	(2,884)
Forfeited	(1,036)
Balance at December 31	45,321

The total grant-date fair value of restricted stock awards was $5 million at the acquisition date. The total fair value of shares released or vested was less than $1 million during 2008 and $2 million during 2007. As of December 31, 2008, FCX had $4 million of total unrecognized compensation cost, including the cash portion resulting from the conversion of restricted stock awards at the acquisition date, related to unvested restricted stock awards expected to be recognized over a weighted-average period of 2.1 years.

NOTE 14. INCOME TAXES

Geographic sources of (loss) income from continuing operations before income taxes, minority interests and equity in affiliated companies' net earnings for the years ended December 31, 2008, 2007 and 2006, consist of the following:

	2008	2007	2006
United States	**$(13,850)**	$ 977	$ 25
Foreign	**541**	5,134	2,795
Total	**$(13,309)**	$6,111	$2,820

The (benefit from) provision for income taxes from continuing operations for the years ended December 31, 2008, 2007 and 2006, consists of the following:

	2008	2007	2006
Current income taxes:			
Federal	**$ 536**	$ 458	$ –
State	**14**	72	–
Foreign	**1,213**	1,942	1,035
Total current	**1,763**	2,472	1,035
Deferred income taxes (benefits):			
Federal	**(3,635)**	(295)	–
State	**(686)**	(20)	–
Foreign	**(609)**	243	166
Total deferred	**(4,930)**	(72)	166
Valuation allowance on prior year deferred tax asset	**323**	–	–
(Benefit from) provision for income taxes	**$(2,844)**	$2,400	$1,201

A reconciliation of the U.S. federal statutory tax rate to FCX's effective income tax rate for the years ended December 31, 2008, 2007 and 2006, follows:

	2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent
U.S. federal statutory tax rate	**$(4,658)**	**35%**	$2,139	35%	$ 987	35%
Foreign withholding tax	**(55)**	**1**	371	6	168	6
Foreign tax credit limitation	**95**	**(1)**	125	2	–	–
Reversal of APB Opinion No. 23 assertion	**–**	**–**	111	2	–	–
Percentage depletion	**(336)**	**3**	(284)	(5)	–	–
International tax rate differential	**59**	**(1)**	(184)	(3)	48	2
Valuation allowance on minimum tax credits	**359**	**(3)**	–	–	–	–
Goodwill impairment	**2,095**	**(16)**	–	–	–	–
State income taxes	**(437)**	**3**	–	–	–	–
Other items, net	**34**	**–**	122	2	(2)	–
(Benefit from) provision for income taxes	**$(2,844)**	**21%**	$2,400	39%	$1,201	43%

FCX paid federal, state, local and foreign income taxes totaling $2,656 million in 2008, $2,660 million in 2007 and $1,288 million in 2006. FCX received refunds of federal, state, local and foreign income taxes of $123 million in 2008 and 2007 and $1 million in 2006.

FCX's income tax receivables increased by $544 million primarily as a result of Indonesian estimated tax overpayments in 2008 made in accordance with statutory requirements.

The components of deferred taxes follow:

December 31,	2008	2007
Deferred tax assets:		
Foreign tax credits	**$ 1,260**	$ 1,004
Net operating loss carryforwards	**128**	164
Minimum tax credits	**359**	323
Accrued expenses	**767**	812
Intercompany profit elimination	**25**	65
Deferred compensation	**9**	45
Postretirement benefits	**53**	35
Employee benefit plans	**183**	–
Provisionally priced sales adjustments	**112**	–
Other	**128**	77
Deferred tax assets	**3,024**	2,525
Valuation allowances	**(1,763)**	(1,165)
Net deferred tax assets	**1,261**	1,360
Deferred tax liabilities:		
Property, plant, equipment and development costs	**(2,956)**	(7,441)
Undistributed earnings	**(569)**	(603)
Inventory	**(38)**	(458)
Employee benefit plans	**–**	(75)
Other	**(34)**	(142)
Total deferred tax liabilities	**(3,597)**	(8,719)
Net deferred tax liabilities	**$(2,336)**	$(7,359)

At December 31, 2008, FCX had U.S. foreign tax credit carryforwards from continuing operations of $1.3 billion that will expire between 2009 and 2018. In addition, FCX had U.S. minimum tax credit carryforwards from continuing operations of $359 million. These credits can be carried forward indefinitely, but may be used only to the extent that regular tax exceeds the alternative minimum tax in any given year.

At December 31, 2008, FCX had Spanish net operating loss carryforwards from continuing operations of $282 million that expire between 2012 and 2022. In addition, FCX has U.S. state net operating loss carryforwards from continuing operations of $705 million that expire between 2009 and 2028.

On the basis of available information at December 31, 2008, FCX has provided valuation allowances for certain of its deferred tax assets where FCX believes it is likely that the related tax benefits will not be realized. At December 31, 2008, valuation allowances totaled $1.8 billion and covered all of FCX's U.S. foreign tax credit carryforwards, U.S. minimum tax credit carryforwards, foreign net operating loss carryforwards and U.S. state net operating loss carryforwards, and also a portion of its net U.S. deferred tax assets. At December 31, 2007, valuation allowances totaled $1.2 billion and covered all of FCX's U.S. foreign tax credit carryforwards, a portion of its foreign net operating loss carryforwards and a portion of its U.S. state net operating loss carryforwards. The $598 million increase in the valuation allowance during 2008 was primarily a result of additional valuation allowances recorded against U.S. foreign tax credit carryforwards, U.S. minimum tax credit carryforwards and U.S. state net operating loss carryforwards. The establishment of a valuation allowance against all of the U.S. minimum tax credit carryforwards was primarily the result of the decline in copper and molybdenum prices and the long-lived asset impairment charges recorded in the fourth quarter of 2008.

Income taxes are provided on the earnings of FCX's material foreign subsidiaries under the assumption that these earnings will be distributed. FCX has not provided for other differences between the book and tax carrying amounts of these investments as FCX considers its ownership position to be permanent in duration and quantification of the related deferred tax liability is not practicable.

A summary of the activities associated with FCX's FIN 48 reserve for unrecognized tax benefits, interest and penalties follows:

	Unrecognized Tax Benefits	Interest	Penalties
Balance at January 1, 2007	$ 41	$11	$ –
Additions:			
Acquisition of Phelps Dodge	169	7	2
Prior year tax positions	9	*	*
Current year tax positions	38	*	*
Associated with interest and penalties	–	6	–
Decreases:			
Prior year tax positions	(53)	*	*
Lapse of statute of limitations	(2)	*	*
Associated with interest and penalties	–	(5)	(2)
Balance at December 31, 2007	202	19	–
Additions:			
Prior year tax positions	14	*	*
Current year tax positions	32	*	*
Associated with interest and penalties	–	5	–
Decreases:			
Prior year tax positions	(3)	*	*
Lapse of statute of limitations	(7)	*	*
Associated with interest and penalties	–	(1)	–
Balance at December 31, 2008	**$238**	**$23**	**$ –**

* Amounts not allocated.

The reserve for unrecognized tax benefits of $238 million at December 31, 2008, includes $143 million ($84 million net of income tax benefits) that, if recognized, would reduce FCX's provision for income taxes.

Changes in the reserve for unrecognized tax benefits associated with current year tax positions were primarily related to uncertainties associated with FCX's cost recovery methods. Changes in the reserve for unrecognized tax benefits associated with prior year tax positions were primarily related to the refinement of estimated information to actual.

It is reasonably possible that FCX will experience a $25 million to $35 million decrease in its reserve for unrecognized tax benefits within the next twelve months. FCX would experience this decrease in relation to uncertainties associated with its cost recovery methods if a settlement is reached with taxing authorities.

FCX or its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The tax years for FCX and its significant subsidiaries that remain subject to examination are as follows:

Jurisdiction	Years Under Examination	Additional Open Years
U.S. Federal	2003-2005	2006-2008
Indonesia	2005-2006	2004, 2007-2008
Peru	2002-2005	2006-2008
Chile	2007	2005-2006, 2008
Arizona	–	2003-2008
New Mexico	–	2003-2008

NOTE 15. CONTINGENCIES

Environmental. FCX incurred aggregate environmental capital expenditures and other environmental costs, including joint venture partners' share, totaling $468 million in 2008, $320 million in 2007 and $63 million in 2006.

FCX subsidiaries that operate in the U.S. are subject to various federal, state and local environmental laws and regulations that govern emissions of air pollutants; discharges of water pollutants; and generation, handling, storage and disposal of hazardous substances, hazardous wastes and other toxic materials. FCX subsidiaries that operate in the U.S. also are subject to potential liabilities arising under CERCLA or similar state laws that impose responsibility on persons who arranged for the disposal of hazardous substances, and on current and previous owners and operators of a facility for the cleanup of hazardous substances released from the facility into the environment, including damages to natural resources. With the passage of CERCLA in 1980, companies like FMC became legally responsible for environmental remediation on properties previously owned or operated by them, irrespective of when the damage to the environment occurred or who caused it. That liability often is shared on a joint and several basis with all other owners and operators, meaning that each owner or operator of the property is fully responsible for the clean-up, although in many cases some or all of the other historical owners or operators no longer exist, do not have the financial ability to respond or cannot be found. As a result, because of FCX's acquisition of Phelps Dodge in 2007, many of the subsidiary companies FCX now owns are responsible for a wide variety of environmental remediation projects throughout the U.S. FCX expects to spend substantial sums annually for many years to address those remediation issues. Certain FCX subsidiaries have been advised by the U.S. Environmental Protection Agency (EPA), the Department of the Interior, the Department of Agriculture and several state agencies that, under CERCLA or similar state laws and regulations, they may be liable for costs of responding to environmental conditions at a number of sites that have been or are being investigated to determine whether releases of hazardous substances have occurred and, if so, to develop and implement remedial actions to address environmental concerns. As of December 31, 2008, FCX had more than 100 active remediation projects in the U.S. in approximately 25 states. FCX is also subject to claims where the release of hazardous substances is alleged to have damaged natural resources.

The Company has a policy not to hedge gold sales. Commencing in 2006, the Company has entered into copper forward contracts *(note 13(a))* to manage its exposure to fluctuations in copper prices. At December 31, 2008, the Company has not entered into any such contracts relating to its future copper production.

The costs relating to the Company's production, development and exploration activities vary depending on the market prices of certain mining consumables including diesel fuel and electricity. A 10% increase or decrease in diesel fuel market prices would result in a $7.0 million decrease or increase in the Company's after-tax net earnings. The Company does not intend to hedge against diesel fuel price fluctuations in Mexico as prices in Mexico are regulated by the government. As and when it is determined to be favourable, the Company will enter into hedges against diesel fuel price fluctuations in Canada and the United States. Electricity is regionally priced in Ontario, Canada and Mexico and semi-regulated by the provincial and federal governments, respectively. The regulation of electricity prices reduces the risk of price fluctuation and the Company therefore does not contemplate entering into contracts to hedge against such risk.

14. INCOME AND MINING TAXES

Years ended December 31	**2008**	2007	2006
Current income and mining tax expense	**$ 138.1**	$ 203.6	$ 215.9
Future income and mining tax expense (recovery)	**157.3**	(43.3)	(62.7)
	$ 295.4	$ 160.3	$ 153.2

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings from continuing operations before income taxes and non-controlling interests. These differences result from the following items:

Years ended December 31	**2008**	2007	2006
Earnings from continuing operations before income taxes and non-controlling interests	**$ 1,778.7**	$ 581.8	$ 589.6
Canadian federal and provincial income tax rates	**31.45%**	34.12%	36.12%
Income tax expense based on Canadian federal and provincial income tax rates	**559.4**	198.5	213.0
Increase (decrease) attributable to:			
Impact of reduction in tax rates on future income taxes	**-**	(42.7)	(45.8)
Provincial mining taxes	**21.3**	28.0	16.0
Non-deductible expenditures	**10.9**	12.4	3.7
Resource allowance	**(11.5)**	(8.1)	(8.4)
Lower statutory tax rates on earnings of foreign subsidiaries	**(28.4)**	(63.1)	(55.9)
Dilution gains not subject to tax	**(0.6)**	(3.4)	(23.0)
Foreign exchange and other permanent differences	**(409.1)**	17.1	(16.0)
Mining duties deduction	**(4.3)**	(5.1)	(3.6)
Non-taxable portion of realized capital (gains) losses	**-**	(1.8)	(15.6)
Change in valuation allowance	**10.0**	(8.0)	(5.7)
Non-deductible asset write-down	**16.5**	-	63.1
Tax on disposition of Peak and Amapari mines	**-**	33.5	-
Tax on disposition of Silver Wheaton shares	**156.0**	-	23.8
Use of Mexican flat tax credits	**(37.8)**	-	-
Other	**13.0**	3.0	7.6
	$ 295.4	$ 160.3	$ 153.2

Mexico introduced a flat tax effective January 1, 2008 to replace the previous asset tax as the minimum tax. The flat tax is calculated on a cash flow basis, with the tax base determined by reducing taxable revenue with specific deductions. In general if deductions exceed revenues, a credit is granted which may be credited against the flat tax in the following years. Taxpayers first compute their income tax liability and their flat tax liability for a fiscal year. As the income tax liability may be credited against the flat tax liability, the flat tax is payable only to the extent it exceeds the income tax payable by a Mexican entity. In certain circumstances flat tax credits can be used to reduce income taxes in the year they are generated. In 2008 flat tax credits earned by a subsidiary reduced Mexican income taxes payable by the Company by $37.8 million.

The components of future income taxes are as follows:

At December 31	2008	2007
Future income and mining tax assets		
Non-capital losses	$ 95.9	$ 94.3
Deductible temporary differences and other	222.1	183.8
Future income and mining tax assets	318.0	278.1
Valuation allowance	(80.6)	(71.8)
	237.4	206.3
Future income and mining tax liabilities		
Taxable temporary differences	(3,619.5)	(4,053.9)
Future income and mining tax liabilities, net	$(3,382.1)	$ (3,847.6)
Presented on the Consolidated Balance Sheets as:		
Future income and mining tax assets - current	$ 3.3	$ 10.7
Future income and mining tax liabilities - current	(181.5)	-
Future income and mining tax liabilities - long-term	(3,203.9)	(3,858.3)
Future income and mining tax liabilities, net	$(3,382.1)	$ (3,847.6)

Deductible temporary differences are comprised primarily of book to tax differences relating to the Company's reclamation liabilities, certain plant and equipment, investment tax credits and stock options. Taxable temporary differences are comprised primarily of book to tax differences relating to the value of the Company's mining interests acquired from corporate acquisitions.

The Company believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the above-noted future income and mining tax assets.

Tax Loss Carry Forwards

At December 31, 2008, Goldcorp had Canadian income tax losses for federal income tax purposes totaling $238.0 million that expire from 2009 through 2028. A valuation allowance of $33.0 million has been applied against the future tax asset representing these losses. Goldcorp had investment tax credits of $32.0 million that expire from 2011 through 2028. A valuation allowance of $2.0 million has been applied against the investment tax credits. Goldcorp had capital loss carryforwards of $42.0 million against which a full valuation allowance has been recorded.

In the United States, Goldcorp had regular tax net operating losses of $70.0 million that expire from 2012 through 2028. Alternative Minimum Tax (AMT) credits totaled $8.0 million. A valuation allowance of $7.0 million has been applied against the AMT tax credits.

In Mexico, Goldcorp had tax losses of $5.0 million that expire from 2009 through 2017. A valuation allowance of $1.0 million has been applied against the related future tax asset. Goldcorp also had flat tax credits to utilize in future years of $41.0 million which expire in 2018.

Notes to the consolidated financial statements continued

FOR THE YEAR ENDED 30 JUNE 2008

Figures in millions unless otherwise stated

United States Dollars 2007	2008		South African Rand 2008	2007
		6. INCLUDED IN PROFIT BEFORE TAXATION ARE THE FOLLOWING:		
		Expenses		
		Auditors' remuneration		
2.7	**3.2**	– audit fee	**22.9**	19.3
0.4	**0.1**	– non-audit services	**1.0**	2.9
5.4	**8.1**	Environmental rehabilitation inflation adjustment	**59.0**	39.1
0.7	**0.8**	Operating lease charge – Corporate office	**5.6**	5.2
		7. MINING AND INCOME TAX		
		The components of mining and income tax are the following:		
		South African taxation		
(53.9)	**(111.7)**	– mining tax	**(812.3)**	(387.8)
(1.0)	**(1.9)**	– non-mining tax	**(13.7)**	(7.0)
(5.1)	**(6.7)**	– company and capital gains tax	**(48.4)**	(37.0)
3.3	**(0.4)**	– prior year adjustment – current tax	**(3.2)**	24.1
(64.4)	**(37.1)**	– deferred	**(269.6)**	(463.6)
–	**(1.1)**	– prior year adjustment – deferred	**(8.0)**	–
		Foreign taxation		
(36.3)	**(42.8)**	– current	**(311.3)**	(261.3)
–	**2.6**	– prior year adjustment – current tax	**19.2**	–
(28.1)	**(33.5)**	– foreign levies and royalties	**(243.4)**	(202.9)
(30.2)	**(34.0)**	– deferred	**(247.0)**	(217.2)
(215.7)	**(266.6)**	**Total mining and income tax**	**(1,937.7)**	(1,552.7)
		Major items causing the Group's income tax to differ from the maximum South African statutory mining tax rate of 43.0 per cent (2007: 45.0 per cent) were:		
		Tax on profit before taxation at maximum South African statutory mining tax rate	**(2,857.0)**	(1 900.6)
		Rate adjustment to reflect the actual realised company tax rates in South Africa and offshore	**423.7**	566.3
		South African mining tax formula rate adjustment	**221.6**	201.0
		Use of assessed loss not previously recognised	**30.5**	53.7
		Adjustment to Australian tax benefit from tax consolidation	**–**	23.8
		Net non-taxable income and non-deductible expenditure	**490.9**	(279.6)
		Foreign levies and royalties	**(243.3)**	(202.9)
		Deferred tax asset not recognised	**(7.2)**	(4.9)
		Capital gains tax	**(6.9)**	–
		Other	**10.0**	(9.5)
		Mining and income tax expense	**(1,937.7)**	(1,552.7)

7. MINING AND INCOME TAX (continued)

	2008	2007
Tax rates		
South Africa		
Mining tax[1]	**Y = 43 – 215/X**	Y = 45 – 225/X
Non-mining tax[2]	**35.0%**	37.0%
Company tax rate	**28.0%**	29.0%

[1] South African mining tax on mining income is determined according to a formula which takes into account the profit and revenue from mining operations. South African mining taxable income is determined after the deduction of all mining capital expenditure, with the proviso that this cannot result in an assessed loss. Capital expenditure amounts not deducted are carried forward as unredeemed capital expenditure to be deducted from future mining income. Depreciation is ignored for the purpose of calculating South African mining taxation.

In the formula above, Y is the percentage rate of tax payable and X is the ratio of mining profit, after the deduction of redeemable capital expenditure, to mining revenue expressed as a percentage.

[2] Non-mining income of South African mining operations consists primarily of interest received.

	2008	2007
International operations		
Company tax rate		
Australia	**30.0%**	30.0%
Ghana	**25.0%**	25.0%
Peru*	**35.6%**	n/a
Royalties		
Australia	**2.5%**	2.5%
Ghana	**3.0%**	3.0%
Peru	**3.0%**	n/a

**The tax rate applicable to Peru is 30 per cent excluding an effective 5.6 per cent Workers Participation tax payable on taxable profits.*

Deferred tax is provided at the expected future rate for mining operations arising from temporary differences between the carrying values and tax values of assets and liabilities.

Financial Statements

7. MINING AND INCOME TAX (continued)

At 30 June 2008 the Group had the following estimated amounts available for set-off against future income:

	F2008			F2007		
	Unredeemed capital expenditure R million	**Tax losses R million**	**Deferred tax asset not recognised on tax losses R million**	Unredeemed capital expenditure R million	Tax losses R million	Deferred tax asset not recognised on tax losses R million
South Africa[3]						
Driefontein Division	**–**	**–**	**–**	–	–	–
Kloof Division	**–**	**–**	**–**	–	–	–
Beatrix Division	**1,572.5**	**–**	**–**	1,701.6	–	–
GFI Mining South Africa (Pty) Limited	**1,572.5**	**–**	**–**	1,701.6	–	–
Gold Fields Limited	**–**	**11.6**	**–**	–	62.7	62.7
Gold Fields Shared Services Limited	**–**	**–**	**–**	–	23.5	–
GFL Mining Services Limited	**–**	**–**	**–**	–	41.6	–
Gold Fields Protection Services (Pty) Limited	**–**	**–**	**–**	–	0.2	–
Gold Fields Operations Limited	**2,216.4**	**4,463.3**	**–**	1,948.6	3,969.2	–
GFI Joint Venture Holdings (Pty) Limited	**5,788.9**	**831.8**	**–**	5,493.1	742.3	–
Living Gold (Pty) Limited	**–**	**134.8**	**134.8**	–	120.0	120.0
Golden Oils (Pty) Limited	**–**	**3.2**	**3.2**	–	2.0	2.0
Agrihold (Pty) Limited	**–**	**8.5**	**8.5**	–	4.2	4.2
Golden Hytec Farming (Pty) Limited	**–**	**9.3**	**9.3**	–	9.3	9.3
	9,577.8	**5,462.5**	**155.8**	9,143.3	4,975.0	198.2

[3] These deductions are available to be utilised against income generated by the relevant tax entity and do not expire unless the tax entity concerned ceases to commercially mine for a period longer than one year. Under South African mining tax ring-fencing legislation, each tax entity is treated separately and as such these deductions can only be utilised by the tax entities in which the deductions have been generated. South African tax losses have no expiration date.

	F2008			F2007		
	Capital allowances US$ million	**Tax losses US$ million**	**Deferred tax asset not recognised on tax losses US$ million**	Capital allowances US$ million	Tax losses US$ million	Deferred tax asset not recognised on tax losses US$ million
International operations						
Orogen Investments SA (Luxembourg)[4]	**–**	**211.5**	**211.5**	–	133.9	133.9
Gold Fields Arctic Platinum Oy	**–**	**106.1**	**106.1**	–	81.7	81.7
Gold Fields Ghana Limited	**28.1**	**–**	**–**	27.2	–	–
Abosso Goldfields Limited	**7.8**	**–**	**–**	6.2	–	–
Gold Fields La Cima	**707.9**	**–**	**–**	326.5	–	–
	743.8	**317.6**	**317.6**	359.9	215.6	215.6

[4] In terms of current Luxembourg taxation legislation, losses incurred in accounting periods subsequent to 31 December 1990, can be carried forward indefinitely. All losses incurred by Orogen Investment SA (Luxembourg) were incurred subsequent to 31 December 1990.

	AUS$ million	**AUS$ million**	**AUS$ million**	AUS$ million	AUS$ million	AUS$ million
Gold Fields Australia (Pty) Limited	**–**	**34.2**	**–**	–	23.4	–

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17. Income Taxes

Following is a summary of the provision for income taxes (in thousands):

Years Ended December 31,	2008	2007	2006
Federal:			
Current	$ 56,364	$ 61,189	$ 57,416
Deferred	(838)	(7,313)	(26,444)
Total federal	55,526	53,876	30,972
State:			
Current	12,326	12,417	10,724
Deferred	(160)	(823)	(3,018)
Total state	12,166	11,594	7,706
Total provision for income taxes	$ 67,692	$ 65,470	$ 38,678

Following is a reconciliation of the statutory to effective tax rate:

Years Ended December 31,	2008	2007	2006
Federal statutory tax rate	35.0%	35.0%	35.0%
State taxes, net of federal tax benefit	3.4	3.7	3.6
Percentage depletion deduction	(0.9)	(1.7)	(3.1)
Domestic production deduction	(1.5)	(1.9)	(1.5)
Minority interest	(6.6)	(3.5)	2.2
Other	(0.4)	1.4	(2.0)
Effective tax rate	29.0%	33.0%	34.2%

The impact on the effective tax rate related to minority interest is a result of the consolidation of construction joint ventures and other entities which are not subject to income taxes on a stand-alone basis. The change in the minority interest rate reflects the increased profitability of joint venture work and an increase in the volume and size of our joint venture contracts.

GRANITE CONSTRUCTION INCORPORATED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Following is a summary of the deferred tax assets and liabilities (in thousands):

December 31,	2008	2007
Deferred tax assets:		
Accounts receivable	$ 6,393	$ 3,158
Inventory	9,157	3,740
Insurance	2,914	3,784
Deferred compensation	15,488	13,588
Other accrued liabilities	11,514	11,431
Contract recognition	16,101	25,201
Other	941	1,478
Net operating loss carryforward	10,307	9,126
Valuation allowance	(11,649)	(10,591)
Total deferred tax assets	$ 61,166	$ 60,915
Deferred tax liabilities:		
Property and equipment	$ 35,790	$ 34,441
Unrealized gain on marketable securities	-	706
Total deferred tax liabilities	$ 35,790	$ 35,147

The deferred tax asset for other accrued liabilities relates to various items including accrued vacation and accrued reclamation costs which are deductible in future periods.

Our deferred tax asset for net operating loss carryforward relates to state and local net operating loss carryforwards which expire between 2021 and 2028. We have provided a valuation allowance on the net deferred tax assets for certain state and local jurisdictions because of uncertainty regarding their realizability due to recent losses and uncertainty regarding the impact of any future tax law changes.

The following is a summary of the change in valuation allowance (in thousands):

December 31,	2008	2007	2006
Beginning balance	$ 10,591	$ 8,805	$ 7,133
Additions	1,058	1,786	1,672
Ending balance	$ 11,649	$ 10,591	$ 8,805

GRANITE CONSTRUCTION INCORPORATED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Uncertain tax positions: We file income tax returns in the U.S. federal and various state and local jurisdictions. We are currently under examination by the Internal Revenue Service for the year 2006. We are also under examination by various state taxing authorities for the years 2004 through 2007. We do not anticipate that any of these audits will result in a material change in our financial position. With few exceptions, we are no longer subject to U.S. federal or state and local examinations by tax authorities for years before 2004.

We had approximately $4.3 million and $4.8 million of total gross unrecognized tax benefits as of December 31, 2008 and 2007, respectively. There were no unrecognized tax benefits that would impact the effective tax rate in any future period at either December 31, 2007 or December 31, 2008 and we do not believe it is reasonably possible that the total amount of our liability will significantly increase or decrease within twelve months of December 31, 2008.

The following represents a tabular reconciliation of unrecognized tax benefits (in thousands), the balance of which is included in other long -term liabilities on the consolidated balance sheet:

December 31,	**2008**	**2007**
Beginning balance	$ 4,378	$ 4,726
Gross increases - current-period tax positions	664	1,079
Lapse of statue of limitations	(1,154)	(1,427)
Ending balance	$ 3,888	$ 4,378

We record interest related to uncertain tax positions as interest expense and penalties as other expense in our consolidated statement of income. During the years ended December 31, 2008, 2007 and 2006, we recognized approximately $0.1 million, $0.2 million and $(0.6) million of interest expense (income), respectively. Approximately $0.4 million of accrued interest was included in our consolidated balance sheet at both December 31, 2008 and 2007.

Harmony

For the years ended 30 June

SA RAND 2007	SA RAND 2008	Figures in million	US DOLLAR 2008	US DOLLAR 2007
		12 Finance costs		
		Financial instruments		
3	37	Bank and short-term facilities	5	–
151	159	Convertible unsecured fixed-rate bonds	22	21
127	277	Nedbank Limited	38	18
94	17	Rand Merchant Bank	2	13
22	6	Other creditors	1	5
397	496		68	57
		Non-financial instruments		
10	10	Post-retirement benefits	1	1
105	107	Time value of money and inflation component of rehabilitation costs	15	15
16	59	South African Revenue Services (SARS)	8	2
131	176		24	18
528	672		92	75
(74)	(158)	Interest capitalised	(22)	(10)
454	514		70	65
		13 Taxation		
		SA normal taxation		
		Mining tax (a)		
–	(35)	– current year	(5)	–
–	(112)	– prior year	(15)	–
		Non-mining tax (b)		
(13)	(7)	– current year	(1)	(2)
4	(6)	– prior year	(1)	1
		Deferred tax (c)		
(423)	(394)	– deferred tax	(55)	(60)
		Foreign normal taxation		
155	89	– deferred tax (d)	12	22
(277)	(465)	Total normal taxation	(65)	(39)

(a) Mining tax on gold mining income in South Africa is determined according to a formula, based on the taxable income from mining operations. Gold Mining Companies within the Group that have elected to be exempt from Secondary Tax on Companies (STC) are taxed at higher rates than those that have not made the election.

Notes to the group financial statements (continued)

For the years ended 30 June

SA RAND			US DOLLAR	
2007	2008	Figures in million	2008	2007

13 Taxation (continued)

All qualifying mining capital expenditure is deducted from taxable mining income to the extent that it does not result in an assessed loss and accounting depreciation is eliminated when calculating the South African mining tax income. Excess capital expenditure is carried forward as unredeemed capital to be claimed from future mining taxable income. The Group has several tax paying entities in South Africa. In terms of the mining ring-fencing application, each ring-fenced mine is treated separately and deductions can normally only be utilised against mining income generated from the relevant ring-fenced mine.

The formulas for determining the South African gold mining tax rates are:

$Y = 43 – 215/X$ (elect not to pay STC)
$Y = 45 – 225/X$ (elect not to pay STC for 2007)
$Y = 34 – 170/X$ (no election made)
$Y = 35 – 175/X$ (no election made for 2007)

Where Y is the percentage rate of tax payable and X is the ratio of taxable income, net of any qualifying capital expenditure that bears to mining income so derived, expressed as a percentage.

(b) Non-mining income is taxed at 35% (exempt from STC) (2007: 37%) and 28% (no election made) (2007: 29%). Non-mining companies are taxed at the statutory corporate rate of 28% (2007: 29%).

(c) The tax rate used to calculate deferred tax is based on the current estimate of future profitability when temporary differences will reverse, based on tax rates (and tax laws) that have been enacted at balance sheet date. Depending on the profitability of the operations, the tax rate can consequently be significantly different from year to year.

(d) Mining and non-mining income of Australia operations are taxed at a standard rate of 30% (2007: 30%). Deferred tax is provided at the estimated expected future mining tax rate for temporary differences, based on tax rates (and tax laws) that have been enacted at balance sheet date.

The taxation rates in South African were changed in the 2008 year after an announcement of a reduction in the applicable rates by the Finance Minister in his annual budget speech in February 2008.

For the years ended 30 June

13 Taxation (continued)

SA RAND 2007	SA RAND 2008	Figures in million	US DOLLAR 2008	US DOLLAR 2007
		Major items causing the Group's income tax provision to differ from the maximum mining statutory tax rate of 43% (2007: 45%) were:		
(242)	(223)	Tax on net income at the maximum mining statutory tax rate	(33)	(34)
(86)	(366)	Non-taxable income/non-allowable deductions	(50)	(12)
–	30	Difference between effective mining tax rate and statutory mining rate on mining income	4	–
7	2	Difference between non-mining tax rate and statutory mining rate on non-mining income	–	1
40	(64)	Effect on temporary differences due to changes in effective tax rates	(8)	5
4	(118)	Prior year adjustment – mining and non-mining tax	(16)	1
–	274	Capital allowance and sale of business	38	–
(277)	(465)	Income and mining taxation	(65)	(39)
-25%	140%	Effective income and mining tax rate	172%	-25%
		Deferred tax liabilities and assets on the balance sheet as of 30 June 2008 and 30 June 2007, relate to the following:		
		Deferred tax liabilities		
4 219	4 525	Gross deferred tax liability	579	599
4 090	4 219	Amortisation and depreciation	540	581
101	99	Product inventory not taxed	13	14
22	8	Convertible bonds	1	3
6	199	Other	25	1
(1 521)	(1 485)	Gross deferred tax assets	(190)	(216)
(25)	–	Deferred financial liability	–	(4)
(872)	(817)	Unredeemed capital expenditure	(105)	(124)
(262)	(212)	Provisions, including non-current provisions	(27)	(37)
(362)	(456)	Tax losses	(58)	(51)
21	(50)	Non-current assets reclassified as held for sale	(6)	3
2 719	2 990	Net deferred tax liability	383	386
		Movement in the net deferred tax liability recognised in the balance sheet is as follows:		
2 323	2 719	At the beginning of the year	386	324
333	341	Total charge per income statement (a)	47	46
42	(6)	Foreign currency translation adjustments	(41)	13
–	(28)	Tax directly charged to equity (b)	(4)	–
21	(36)	Non-current assets reclassified as held for sale	(5)	3
2 719	2 990	At the end of the year	383	386
		The following amounts that will realise or be recovered in the next 12 months have been included in the deferred tax liabilities and assets:		
116	297	Deferred tax liabilities	38	16
(123)	(167)	Deferred tax assets	(21)	(17)
(7)	130		17	(1)

Notes to the group financial statements (continued)

For the years ended 30 June

SA RAND			US DOLLAR	
2007	2008	Figures in million	2008	2007

13 Taxation (continued)

As at 30 June 2008, certain subsidiaries in the Group had unredeemed capital expenditure of R9 323 million (US$1 195.2 million) (2007: R8 696 million (US$1 235.2 million)) available against future mining taxable income, tax losses carried forward of R2 636 million (US$337.9 million) (2007: R1 391 million (US$197.6 million)) and Capital Gains Tax (CGT) losses of R571 million (US73.2 million) (at 50%) are available to be utilised against future CGT gains and taxable income. These future deductions are utilisable against income.

As at 30 June 2008, the Group has not recognised the deferred tax asset amount of R2 575 million (US$330.1 million) resulting from unredeemed capital expenditure of R6 206 million (US$795.6 million), tax losses of R1 037 million (US$132.9 million) and CGT losses of R571 million (US$73.2 million) in the determination of the net deferred tax liability.

(a) The charge includes the amounts for both continuing and discontinued operations.

(b) The charge relates to deferred tax asset on the downward mark-to-market adjustment during the year on available-for-sale financial assets by Australian operations. See note 19 and 27 in this regard.

14 Non-current assets or disposal group held-for-sale and discontinued operations

The assets and liabilities related to Mt Magnet and South Kal (operations in Australia), Orkney operations (operations in North West Provinces), have been presented as held for sale following approval of the Group's management and Board of Directors on 20 April 2007.

On 6 December 2007, the sale relating to the South Kal operation (operation in Australia) was concluded at a loss, net of tax, of R51 million (US$7.6 million) and the assets were derecognised.

On 27 February 2008, the sale relating to the Orkney operations (operations in the Northwest province) was concluded at a profit of R66 million (US$8.9 million) and the assets were derecognised.

Balance at December 31, 2008	$ 121,347

Below is a reconciliation as of December 31, 2008 and 2007 (in thousands), of our asset retirement obligations, which are included in our total accrued reclamation and closure costs of $121.3 million and $106.1 million, respectively, reflected above. The sum of our estimated reclamation and abandonment costs was discounted using a credit adjusted, risk-free interest rate of 7% from the time we incurred the obligation to the time we expect to pay the retirement obligation.

	2008	2007
Balance January 1	$ 11,579	$ 9,921
Changes in obligations due to acquisition of 70.3% of Greens Creek	12,145	—
Changes in obligations due to changes in reclamation plans	13,114	1,363
Accretion expense	475	354
Changes in obligations due to sale of discontinued operations	(4,474)	—
Payment of reclamation obligations	(835)	(59)
Balance at December 31	$ 32,004	$ 11,579

For additional information as it pertains to the acquisition of the remaining 70.3% interest in Greens Creek, see *Note 19*. See *Note 13* for further discussion of the sale of our discontinued Venezuelan operations.

Note 6: Income Taxes

Major components of our income tax provision (benefit) for the years ended December 31, 2008, 2007 and 2006, relating to continuing operations are as follows (in thousands):

	2008	2007	2006
Continuing operations:			
Current:			
Federal	$ 3	$ 811	$ 1,371
State	(170)	88	89
Foreign	370	504	442
Total current income tax provision	203	1,403	1,902
Deferred:			
Federal	3,604	(9,906)	(11,594)
Foreign	—	—	—
Total deferred income tax (benefit) provision	3,604	(9,906)	(11,594)
Total income tax (benefit) provision from continuing operations	3,807	(8,503)	(9,692)
Discontinued operations:			
Tax provision for loss on sale of discontinued operations	2,944	—	—
Tax provision (benefit) for loss from discontinued operations	—	(627)	2,391
Total income tax (benefit) provision	$ 6,751	$ (9,130)	$ (7,301)

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Domestic and foreign components of income (loss) from operations before income taxes for the years ended December 31, 2008, 2007 and 2006, are as follows (in thousands):

	2008	2007	2006
Domestic	$ (23,823)	$ 72,104	$ 61,510
Foreign	(9,543)	(12,450)	(6,414)

Discontinued operations	(26,446)	(15,587)	6,725
Total	$ (59,812)	$ 44,067	$ 61,821

The annual tax provision (benefit) is different from the amount that would be provided by applying the statutory federal income tax rate to our pretax income (loss). The reasons for the difference are (in thousands):

	2008		2007		2006	
Computed "statutory" (benefit) provision	$ (20,934)	(35)%	$ 15,423	35%	$ 21,637	35%
Percentage depletion	(2,594)	(4)	(10,416)	(24)	(9,126)	(15)
Net increase (utilization) of U.S. and foreign tax loss carryforwards	23,528	39	(3,534)	(8)	(23,159)	(37)
Change in valuation allowance other than utilization	3,604	6	(10,481)	(24)	(1,219)	(2)
Discontinued operations	2,944	5	—	—	—	—
Effect of U.S. AMT, state, foreign taxes and other	203	—	(122)	—	4,566	7
	$ 6,751	11%	$ (9,130)	(21)%	$ (7,301)	(12)%

Pursuant to guidelines contained in SFAS No. 109, Accounting for Income Taxes, we evaluated the positive and negative evidence available to determine whether a valuation allowance is required on our net deferred tax assets for the period ended December 31, 2008. At December 31, 2008 and 2007, the balance of our valuation allowance used to offset our net deferred tax assets was $139 million and $115 million, respectively.

For the period ended December 31, 2008 three significant factors made an impact on our net deferred tax position. The Company acquired control of the Greens Creek Joint Venture in April and added net a deferred tax asset of $23 million related to the purchase price allocation and purchase accounting. In July, the Company sold its Venezuelan business and the deferred tax assets related the Venezuelan business were eliminated, resulting in a net deferred tax reduction of $3.2 million. Lastly, the economic conditions of recent months and the evidence available at year-end reduced the amount of deferred tax assets that the Company can expect to use in the future to $38.6 million which required a net increase to the valuation allowance of $3.6 million for the year. The year 2007 benefited from favorable metal prices resulting in higher taxable income and we utilized significant tax net operating loss carryforwards. We increased our net deferred tax assets by $10.5 million, to a total of $22.3 million at December 31, 2007, to reflect the total net deferred tax asset that we expect to utilize over a 2-year period based on income from operations. Due to our return to profitability in 2007 and 2006, we felt that 24 months was an appropriate period to measure based on all available evidence at that time.

The deferred tax asset will be amortized against taxable income in the U.S. in future periods. We will review available evidence in future periods to determine whether more or less of our deferred tax asset should be realized. Adjustment to the valuation allowance will be made in the period for which the determination is made.

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The components of the net deferred tax asset were as follows (in thousands):

	December 31,	
	2008	2007
Deferred tax assets:		
Accrued reclamation costs	$ 44,281	$ 40,709
Deferred exploration	8,523	4,564
Investment valuation differences	—	43
Postretirement benefits other than pensions	1,761	2,880
Deferred compensation	2,253	3,158
Foreign net operating losses	8,058	21,300
Federal net operating losses	85,200	64,589
State net operating losses	10,578	4,927
Capital loss carryforward	767	—
Tax credit carryforwards	2,809	3,075
Stock compensation	1,926	1,618
Other comprehensive income	10,009	—

Miscellaneous	2,162	9,080
Total deferred tax assets	178,327	155,943
Valuation allowance	(138,848)	(115,413)
Total deferred tax assets	39,479	40,530
Deferred tax liabilities:		
Unrealized gain on marketable securities	—	(4,074)
Pension costs	—	(12,231)
Properties, plants and equipment	(927)	(1,917)
Total deferred tax liabilities	(927)	(18,222)
Net deferred tax asset	$ 38,552	$ 22,308

We plan to permanently reinvest earnings from foreign subsidiaries. For the years 2008, 2007 and 2006 we had no unremitted foreign earnings. Foreign net operating losses carried forward are shown above as a deferred tax asset.

We recorded a valuation allowance to reflect the estimated amount of deferred tax assets, which may not be realized principally due to the expiration of net operating losses and tax credit carryforwards. The changes in the valuation allowance for the years ended December 31, 2008, 2007 and 2006, are as follows (in thousands):

	2008	2007	2006
Balance at beginning of year	$(115,413)	$(133,363)	$(160,396)
Increase related to non-utilization of net operating loss carryforwards and non-recognition of deferred tax assets due to uncertainty of recovery	(39,679)	(38,325)	(19,569)
Decrease related to net recognition of deferred tax assets	16,244	10,486	11,822
Decrease related to recognition of deferred tax liability on unrealized gain	—	5,192	—
Decrease related to utilization and expiration of deferred tax assets	—	25,967	34,780
Decrease due to utilization on gain on sale of subsidiary	—	14,630	—
Balance at end of year	$(138,848)	$(115,413)	$(133,363)

As of December 31, 2008, for U.S. income tax purposes, we have net operating loss carryforwards of $243.4 million and $140.6 million, respectively, for regular and alternative minimum tax purposes. These operating loss carryforwards expire over the next 15 to 20 years, the majority of which expire between 2011 and 2024. In addition, we have foreign tax operating loss carryforwards of approximately $25 million, which expire between 2009 and 2017. Our U.S. tax loss carryforwards may also be limited upon a change in control. We have approximately $1 million in alternative minimum tax credit carryforwards which do not expire and are eligible to reduce future regular U.S. tax liabilities.

Uncertain Tax Positions

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, various state and foreign jurisdictions. We are no longer subject to income tax examinations by U.S. federal and state tax authorities for years prior to 2005, or examinations by foreign tax authorities for years prior to 2002. We currently have no tax years under examination.

Based on our assessment of FIN 48, "Accounting for Uncertainty in Income Taxes," we concluded that consistent with 2007, FIN 48 had no significant impact on our results of operations or financial position as of December 31, 2008. We do not have an accrual for uncertain tax positions as of December 31, 2008. As a result, tabular reconciliation of beginning and ending balances would not be meaningful. If interest and penalties were to be assessed, we would charge interest to interest expense, and penalties to other operating expense. It is not anticipated that unrecognized tax benefits would significantly increase or decrease within 12 months of the reporting date.

Note 7: Long-term Debt and Credit Agreement

In September 2005, we entered into a $30.0 million revolving credit agreement for an initial two-year term, with the right to extend the facility for two additional one-year periods, on terms acceptable to us and the lenders. In both September 2006 and September 2007, we amended and extended the agreement one additional year. Amounts borrowed under the credit agreement were to be available for general corporate purposes. Our then 29.7 % interest in the Greens Creek Joint Venture, which is held by Hecla Alaska LLC, our indirect wholly owned subsidiary, was pledged as collateral under the credit agreement. The interest rate on the agreement was either 2.25% above the London InterBank Offered Rate ("LIBOR") or an

13 Income taxes

Million CHF	2008	2007
Current taxes	(883)	(1,255)
Deferred taxes	220	54
Total	**(663)**	**(1,201)**

Deferred tax by type

Million CHF	2008	2007
Property, plant and equipment	92	94
Intangible and other assets	(13)	(2)
Provisions	42	(11)
Tax losses carryforward	46	(57)
Other	53	30
Total	**220**	**54**

Reconciliation of tax rate

	2008	2007
Group's expected tax rate	**27%**	**28%**
Effect of non-deductible or non-taxable items and income taxed at different tax rates	(4%)	(7%)
Net change of unrecognized tax loss carryforwards	(1%)	1%
Prior year and other items	1%	(1%)
Group's effective tax rate	**23%**	**21%**

The Group's expected tax rate is a weighted average tax rate based on profits (losses) before taxes of the Group companies.

The reduction in 2008 is based in particular on lower statutory tax rates in certain countries and a change of the relative weight of the profit at the Group companies.

The Group's effective tax rate in 2007 is substantially impacted by tax free capital gains from divestments to third parties.

14 Research and development

Research and development projects are carried out with a view to generate added value for customers through end user oriented products and services. Additionally, process innovation aims at environmental protection and production system improvements. Research and development costs of CHF 24 million (2007: 27) were charged directly to the consolidated statement of income. No significant costs were incurred for licenses obtained from third parties, nor was any major revenue generated from licenses granted.

13 Income tax expense

	Year ended 31 December 2008			Year ended 31 December 2007		
	Before exceptional items US$000	Exceptional items[1] US$000	Total US$000	Before exceptional items US$000	Exceptional items US$000	Total US$000
Current tax:						
Current tax charge from continuing operations	**13,058**	**(56)**	**13,002**	44,933	–	44,933
	13,058	**(56)**	**13,002**	44,933	–	44,933
Deferred taxation:						
Origination and reversal of temporary differences from continuing operations (note 27)	**15,809**	**(6,792)**	**9,017**	(11,641)	1,299	(10,342)
	15,809	**(6,792)**	**9,017**	(11,641)	1,299	(10,342)
Withholding taxes	**895**	**-**	**895**	1,161	–	1,161
Total taxation charge in the income statement	**29,762**	**(6,848)**	**22,914**	34,453	1,299	35,752

1 This amount corresponds to the related tax impact of exceptional items (refer to note 2(x)).

The weighted average statutory income tax rate was 40.6% for 2008 and 29.7% for 2007. This is calculated as the average of the statutory tax rates applicable in the countries in which the Group operates, weighted by the profit/(loss) before tax of the Group companies in their respective countries as included in the consolidated financial statements.

The change in the weighted average statutory income tax rate is due to a change in the weighting of profit/(loss) before tax in the various jurisdictions in which the Group operates.

The total taxation charge on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the consolidated profits of the Group companies as follows:

	Year ended 31 December	
	2008 US$000	2007 US$000
Profit from continuing operations before income tax	**9,400**	116,667
At average statutory income tax rate of 40.6% (2007: 29.7%)	**3,818**	34,598
Expenses not deductible for tax purposes	**5,315**	2,381
Non-taxable income	**(2,055)**	(505)
Deferred tax recognised on special investment regime[1]	**(6,063)**	(4,479)
Recognition of previously unrecognised deferred tax assets[2]	**(1,102)**	(2,917)
Non-taxable share of losses of associates	**2,534**	–
Net deferred tax assets generated in the year not recognised[3]	**13,871**	5,214
Change in tax regime[4]	**(1,544)**	3,403
Change in statutory Income Tax Rate[5]	**786**	–
Recognition of deferred tax assets on restructuring	**-**	(767)
Foreign exchange rate effect[6]	**7,731**	(1,611)
Other	**(377)**	435
At average effective income tax rate of 243.8% (2007: 30.6%)	**22,914**	35,752
Taxation charge attributable to continuing operations	**22,914**	35,752
Total taxation charge in the income statement	**22,914**	35,752

1 Corresponds to the deferred tax income asset recognised for the additional tax losses generated during the year arising from the double deduction claimed for tax purposes by Minera Santa Cruz during the year (refer to note (i) on page 83).
2 Mainly corresponds to the tax effect of certain mine closure expenses which are now expected to be deductible against taxable income, when incurred.

13 Income tax expense continued

3 Deferred tax assets generated in the year not recognised are comprised by:

	As at 31 December	
	2008	2007
	US$000	US$000
Tax losses not recognised	**3,851**	4,672
Impairment of available-for-sale financial assets	**3,234**	–
Impairment of the San Felipe project	**4,350**	–
Provision for mine closure	**1,483**	542
Write-off of bank account	**364**	–
Change in fair value of derivative instruments	**341**	–
Other	**248**	–
	13,871	5,214

4 Corresponds to the effect of the change in the Mexican tax regime (refer to note (ii) below).
5 Corresponds to an increase in the statutory corporate income tax rate for the Arcata mining unit from 30% to 32% with effect from 1 January 2009, refer to note 34.
6 Mainly corresponds to the foreign exchange effect from converting tax bases and monetary items from local currency to the functional currency.

(i) Special investment regime

Minera Santa Cruz benefits from a special investment regime that allows for a double deduction in the calculation of its corporate income tax liability for all costs relating to prospecting, exploration and metallurgical analysis, pilot plants and other expenses incurred prior to the completion of the feasibility studies for mining projects. In this regard, the total investment eligible for additional deduction amounts to approximately 95,061,000 Argentinian pesos (US$27,853,000) as at 31 December 2008 (2007: 79,680,000 Argentinian pesos (US$25,596,000)). As this additional deduction does not affect either taxable profit or accounting profit on initial recognition, no deferred tax was recognised in accordance with IAS 12 'Income Taxes'. However under the Argentina tax regime, following commencement of operations in 2007, this amount could be claimed in equal amounts over 1 to 5 years. At 31 December 2007, the Group decided to make this claim over 2 years, resulting in 50% of the available deduction being included in the tax losses for the year 2007. In 2008 the Group included in the tax losses of the year 54,797,000 Argentinian pesos (US$17,324,000). This amount includes the remaining 50% of eligible costs calculated as at 31 December 2007 of 79,680,000 Argentinian pesos plus 15,381,000 Argentinian pesos of additional eligible costs. The balance of the eligible costs of 1,582,000 Argentinean pesos (US$464,000) will be claimed in 2009.

(ii) Change in Mexican tax regime

On 28 September 2007, the Mexican Government enacted a bill for tax reform that significantly changed the current income tax structure in Mexico. Effective from 1 January 2008, the tax reform requires companies to pay tax equal to the greater of the tax charge calculated under the new flat rate business tax ('IETU' as abbreviated in Spanish) or the tax charge calculated under the current income corporate tax regime ('ISR' as abbreviated in Spanish).

The Group has performed an analysis of the future impact of this tax reform on its Mexican companies and has determined that Santa Maria de Moris S.A. de C.V. (the operator of the Moris mine) will be required to pay IETU in each period until the end of the mine's life. Therefore, as at 31 December 2007 the Group recognised a deferred tax liability in connection with IETU of US$3,403,000 due to the resulting reduction in the amount of capital allowances arising on the investment in the mine to date. As at 31 December 2008 the IETU deferred tax liability had decreased by US$1,554,000 to U$1,859,000.

14 Basic and diluted earnings per share

Earnings per share ('EPS') is calculated by dividing profit for the year attributable to equity shareholders of the Company by the weighted average number of Ordinary Shares issued during the year.

The Company has no dilutive potential Ordinary Shares.

As at 31 December 2008 and 2007, EPS has been calculated as follows:

	Year ended 31 December	
	2008	2007
(Loss)/profit for the year and from continuing operations attributable to equity holders of the Company US$000	**(19,003)**	85,073
Weighted average number of ordinary shares in issue (thousands)	**307,350**	307,350
Basic and diluted earning/(loss) per share from:		
Before exceptional items US$	**0.08**	0.27
Exceptional items US$	**(0.14)**	0.01
Total for the year and from continuing operations US$	**(0.06)**	0.28

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

Note 8. Income tax

	Consolidated		Parent entity	
	2008	2007	**2008**	2007
	$M	$M	**$M**	$M
(a) Income tax (benefit) expense				
Current tax	**13.7**	24.4	**(14.1)**	(17.1)
Deferred tax	**(20.1)**	(4.8)	**(4.2)**	10.4
Under (over) provided in prior years	**(1.3)**	0.5	**(2.7)**	(1.9)
	(7.7)	20.1	**(21.0)**	(8.6)
Income tax (benefit) expense is attributable to:				
Profit from continuing operations*	**(9.4)**	15.5	**(21.0)**	(8.6)
Profit from discontinued operations (note 9)	**1.7**	4.6	**-**	-
Aggregate income tax (benefit) expense	**(7.7)**	20.1	**(21.0)**	(8.6)

* Includes a benefit of $11.9 million from the recognition of previously unrecognised US tax losses for utilisation in future years.

Deferred income tax (revenue) expense included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (Note 19)	**23.8**	1.5	**4.0**	-
(Decrease) increase in deferred tax liabilities (Note 26)	**(43.9)**	(6.3)	**(8.2)**	10.4
	(20.1)	(4.8)	**(4.2)**	10.4

(b) Numerical reconciliation of income tax expense (benefit) to prima facie tax payable				
Profit (loss) from continuing operations before income tax expense	**45.6**	65.0	**(39.4)**	(4.7)
Profit from discontinued operation before income tax expense	**31.7**	15.5	**-**	-
	77.3	80.5	**(39.4)**	(4.7)
Tax at the Australian tax rate of 30% (2007: 30%)	**23.2**	24.1	**(11.8)**	(1.4)
Tax effect at 30% of amounts which are not deductible (taxable) in calculating taxable income:				
Unfranked dividends received	**0.1**	-	**-**	-
Share-based payments	**1.2**	-	**0.9**	-
Net foreign exchange gains (losses)	**-**	-	**6.1**	(2.2)
Capital gains offset by previously unrecognised capital losses	**(10.2)**	(0.5)	**(10.2)**	-
Research and development	**(3.4)**	(3.5)	**(3.4)**	(3.5)
Other non-deductible / non-assessable items	**0.2**	0.6	**0.1**	0.4
Benefit of tax losses utilised in the year not previously recognised *	**(4.2)**	-	**-**	-
Benefit of tax losses for utilisation in future years, not previously recognised **	**(17.8)**	-	**-**	-
	(10.9)	20.7	**(18.3)**	(6.7)
Difference in overseas tax rates	**4.5**	(1.1)	**-**	-
Under (over) provision in prior years	**(1.3)**	0.5	**(2.7)**	(1.9)
Total income tax expense	**(7.7)**	20.1	**(21.0)**	(8.6)

* Relates to revenue losses in the United States that were not recognised in respect of impairment charges in 2006 due to uncertainty over their future use which have been utilised against current year taxable income. The benefit of the tax expense is $2.8 million after adjusting for the difference in tax rates to the prevailing US tax rate of 20 per cent.

** Relates to revenue losses in the United States that were not recognised in respect of impairment charges in 2006 due to uncertainty over their future use for which future use is now considered probable. The benefit to the tax expense for the year and the associated deferred tax asset at 31 December 2008 is $11.9 million when measured at the prevailing US tax rate of 20 per cent.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008

Note 8. Income tax (continued)	Consolidated 2008 $M	Consolidated 2007 $M	Parent entity 2008 $M	Parent entity 2007 $M
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Net deferred tax-debited (credited) directly to equity (Notes 19 and 26)	**(53.4)**	(8.8)	**(46.7)**	(7.2)

(d) Tax losses

Unused capital losses for which no deferred tax asset has been recognised relating to the wholly-owned Australian controlled entities of approximately $76.9 million (2007: $120.0 million) (tax at the Australian tax rate of 30%: $23.0 million (2007: $36.0 million)). The benefit of these unused capital losses will only be obtained if these entities derive future capital gains sufficient to enable the benefit to be realised and these entities continue to comply with the conditions for deductability imposed by tax legislation and no changes in tax legislation adversely effect these entities in realising the benefit from the deduction for the losses.

Note 9. Discontinued operation

(a) Description

In February 2007, Iluka announced its intention to consider the divestment of its 50 per cent interest in the Narama Coal joint venture. On 7 August 2007, Iluka announced that it had reached agreement to sell its interest in the joint venture. The interest in the joint venture was sold on 15 January 2008 with effect from 1 January 2008 and is reported in this financial report as a discontinued operation.

Financial information relating to the discontinued operation is set out below. Further information is set out in note 4 - segment information.

(b) Financial performance and cash flow information	Consolidated 2008 $M	Consolidated 2007 $M
Revenue (note 5)	-	40.7
Expenses (note 7)	-	(25.2)
Profit before income tax	-	15.5
Income tax expense (note 8)	-	(4.6)
Profit after income tax of discontinued operations	-	10.9
Gain on sale of the Interest in the Joint Venture before income tax	**31.7**	-
Income tax expense (note 8)	**(1.7)**	-
Gain on sale of the Interest in the Joint Venture after income tax	**30.0**	-
Profit from discontinued operations	**30.0**	10.9
Net cash inflow from operating activities	**3.0**	21.4
Net cash inflow (outflow) from investing activities	**53.4**	(0.3)
Net increase in cash generated by the discontinued operation	**56.4**	21.1

(c) Carrying amounts of assets and liabilities	Consolidated 2007 $M
The carrying amounts of assets and liabilities at the date of sale and 31 December 2007 were:	
Property, plant and equipment	26.9
Trade receivables	3.0
Inventories	1.7
Total assets	31.6
Provision for rehabilitation and mine closure	(6.8)
Total liabilities	(6.8)
Net assets	24.8

For the year ended 30 June

(All amounts in rand millions unless otherwise stated)	2008	2007
8 Finance income		
Interest income – associate (note 14)	74	58
South African Revenue Service	2	–
	76	58
Dividend received – investments	64	15
Dividend received – subsidiaries	6 345	3 170
	6 485	3 243
9 Income tax		
Current tax		
South Africa company tax	51	18
Deferred tax [1]	(357)	–
	(306)	18

[1] The Secondary Tax on Companies credit represents the future tax benefit on dividends received that will realise when future dividends are declared.

The tax of the group's profit differs as follows from the theoretical charge that would arise using the basic tax rate for South African companies:

	2008 %	2007 %
Normal tax rate for companies	28.0	29.0
Adjusted for:		
Exempt income	(14.6)	(29.1)
Non taxable income	(13.4)	–
Capital gains tax	0.3	–
Other	(2.8)	0.5
Average effective tax rate	(2.5)	0.4

During the current year, a reduction in the South African Corporate Tax rate was effected from 29% to 28%.

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Due to the non-cash charges and resulting net income impact in the fourth quarter of 2008, the Company's revolving credit agreement would have precluded payment of its normal quarterly dividend due to a limitation based on net earnings. As a result, on January 9, 2009, the Company and certain of subsidiaries of the Company entered into an amendment pursuant to which the lenders agreed to permit the Company, among other things, to declare and pay dividends ratably with respect to its common shares in an aggregate amount not to exceed $25 during any fiscal year, provided that no such dividend may be paid unless at the time of such payment and after giving effect thereto, (i) no default is continuing or would result therefrom and (ii) the borrowing availability under the revolving credit facility is at least $100. As part of the amendment, the Company agreed to, among other things, an increase of the non-use commitment fee rate from 0.20% to 0.50% and an increase of the applicable interest rate margin. The borrowings under the revolving credit facility bear interest at a rate equal to a base rate or LIBOR, at the Company's option, plus a specified variable percentage determined by reference to the then-remaining borrowing availability under the revolving credit facility. The amendment increases the specified variable percentages. The amendment also prohibits the Company from repurchasing its own common shares.

On December 19, 2008, the Company executed a promissory note (the "Note") in the amount of $7.0 in connection with the purchase of real property of the Los Angeles, California facility. Interest is payable on the unpaid principal balance of this Note monthly in arrears on the outstanding principal balance at the prime rate, as defined in the Note, plus 1.5%, in no event to exceeding 10% per annum, on the first day of each month commencing on February 1, 2009. A principal payment of $3.5 will be due on February 1, 2012 and the remaining $3.5 will be due on February 1, 2013. The Note is secured by the deed of trust of the property. For the twelve months ended December 31, 2008, the Company incurred an immaterial amount of interest expense relating to this Note. The interest rate applicable to borrowings under the Note was 4.8% at December 31, 2008.

9. Income Tax Matters

Tax Attributes. Although the Company had approximately $981 of tax attributes, including the NOL carry-forwards available at December 31, 2006 to offset the impact of future income taxes, the Company did not meet the "more likely than not" criteria for recognition of such attributes primarily because the Company did not have sufficient history of paying taxes. As such, the Company recorded a full valuation allowance against the amount of tax attributes available and no deferred tax asset was recognized. The benefit associated with any reduction of the valuation allowance was first utilized to reduce intangible assets with any excess being recorded as an adjustment to Stockholders' equity rather than as a reduction of income tax expense. In order to assess whether a valuation allowance was still required at December 31, 2007, the Company executed a process for determining the need for a valuation allowance. The process included extensive review of both positive and negative evidence including the Company's earnings history; existing contracts and backlog; future earnings; adverse recent occurrences; carry forward periods; an assessment of the industry; loss contingencies; and the impact of timing differences. At the conclusion of this process the Company concluded that it had met the "more likely than not" criteria for recognition of its deferred tax assets and thus released the vast majority of the valuation allowance at December 31, 2007. In accordance with fresh start accounting, the release of the valuation allowance was recorded as an adjustment to Stockholders' equity rather than through the income statement. The Company maintains a valuation allowance on deferred tax assets that did not meet the "more likely than not" recognition criteria and these assets are primarily state NOL carryforwards that the Company believes will likely expire unused.

At December 31, 2008, the Company had $878.6 of NOL carryforwards available to reduce future cash payments for income taxes in the United States. Of the $878.6 of NOL carryforwards at December 31, 2008, $1.0 relates to the excess tax benefits from employee restricted stock. Equity will be increased by $1.0 if and when such excess tax benefits are ultimately realized. Such NOL carryforwards expire periodically through 2027. The Company also had $32.1 of other tax attributes including $31.7 of alternative minimum tax ("AMT") credit carryforwards with an indefinite life, available to offset regular federal income tax requirements. The remaining tax attributes are general business credits that will expire periodically through 2011.

Pursuant to the Plan, to preserve the NOL carryforwards that may be available to the Company after emergence, on the Effective Date, the Company's certificate of incorporation was amended and restated to, among other things,

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

include certain restrictions on the transfer of common stock and the Company and the Union VEBA, the Company's largest stockholder, entered into a stock transfer restriction agreement.

Tax benefit (Provision). (Loss) income before income taxes and minority interests by geographic area (excluding discontinued operations and cumulative effect of change in accounting principle) is as follows:

			Year Ended December 31, 2006	
	Year Ended December 31, 2008	Year Ended December 31, 2007	July 1, 2006 through December 31, 2006	Predecessor January 1, 2006 to July 1, 2006
Domestic	$ (105.9)	$ 127.9	$ 27.0	$ 3,082.6
Foreign	14.6	54.5	22.9	60.5
Total	$ (91.3)	$ 182.4	$ 49.9	$ 3,143.1

Income taxes are classified as either domestic or foreign, based on whether payment is made or due to the United States or a foreign country. Certain income classified as foreign is also subject to domestic income taxes.

The benefit (provision) for income taxes on (loss) income before income taxes and minority interests (excluding discontinued operations and cumulative effect of change in accounting principle) consists of:

	Federal	Foreign	State	Total
2008				
Current	$ (0.8)	$ .5	$ (1.3)	$ (1.6)
Deferred	64.3	(.2)	5.5	69.6
Benefit applied to (increase)/decrease Additional capital/Other comprehensive income	(33.4)	(6.9)	(4.9)	(45.2)
Total	$ 30.1	$ (6.6)	$ (0.7)	$ 22.8
2007				
Current	$ —	$ (22.1)	$ (.4)	$ (22.5)
Deferred	—	(.5)	—	(.5)
Benefit applied to (increase)/decrease Additional capital/Other comprehensive income	(55.8)	3.9	(6.5)	(58.4)
Total	$ (55.8)	$ (18.7)	$ (6.9)	$ (81.4)
July 1, 2006 through December 31, 2006				
Current	$ —	$ (9.4)	$ (.5)	$ (9.9)
Benefit applied to reduce intangible assets and increase Additional capital	(14.1)	—	(1.3)	(15.4)
Deferred	—	1.6	—	1.6
Total	$ (14.1)	$ (7.8)	$ (1.8)	$ (23.7)
	Predecessor			
January 1, 2006 to July 1, 2006				
Current	$ .9	$ (7.9)	$ (.1)	$ (7.1)
Deferred	—	.9	—	.9
Total	$ .9	$ (7.0)	$ (.1)	$ (6.2)

KAISER ALUMINUM CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A reconciliation between the (provision) benefit for income taxes and the amount computed by applying the federal statutory income tax rate to income (loss) before income taxes and minority interests (excluding discontinued operations and cumulative effect of change in accounting principle) is as follows:

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006: July 1, 2006 through December 31, 2006	Year Ended December 31, 2006: Predecessor January 1, 2006 to July 1, 2006
Amount of federal income tax benefit (expense) based on the statutory rate	$ 32.0	$ (63.8)	$ (17.5)	$ (1,100.1)
Decrease (increase) in valuation allowances(1)	(3.9)	—	—	1,099.3
Non-deductible Expense	(0.3)	(1.6)	—	—
State income taxes, net of federal benefit	(0.5)	(4.5)	(1.2)	—
Foreign income taxes	(4.7)	(11.5)	(4.7)	(.5)
Other	0.2	—	(.3)	(4.9)
Provision for income taxes	$ 22.8	$ (81.4)	$ (23.7)	$ (6.2)

(1) At December 31, 2008 the valuation allowance was $29.5 compared to $24.8 at December 31, 2007. The entire change in the valuation was recorded as a charge to income tax provision.

The table above reflects a full statutory U.S. tax provision despite the fact that the Company is only paying AMT in the U.S. in some years. See *Tax Attributes* above.

Deferred Income Taxes. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. The components of the Company's net deferred income tax assets (liabilities) are as follows:

	December 31, 2008	December 31, 2007
Deferred income tax assets:		
Loss and credit carryforwards	$ 390.3	$ 398.1
Pension benefits	1.9	3.3
Other assets	52.1	15.3
Inventories and other	22.1	13.6
Valuation allowances	(29.5)	(24.8)
Total deferred income tax assets — net	436.9	405.5
Deferred income tax liabilities:		
Property, plant, and equipment	(23.3)	(14.7)
VEBA	(16.2)	(50.8)
Other		(12.2)
Total deferred income tax liabilities	(39.5)	(77.7)
Net deferred income tax assets (liabilities)	$ 397.4(1)	$ 327.8(2)

(1) Of the total net deferred income tax assets of $397.4, $84.1 was included in Prepaid expenses and other current assets and $313.3 was presented as Deferred tax assets, net on the Consolidated Balance Sheet as of December 31, 2008.

(2) Of the total net deferred income tax assets of $327.8, $59.2 was included in Prepaid expenses and other current assets and $268.6 was presented as Deferred tax assets, net on the Consolidated Balance Sheet as of December 31, 2007.

In assessing the realizability of deferred tax assets, management considers whether it is "more likely than not" that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers taxable income in carryback years, the scheduled reversal of deferred tax liabilities, tax planning strategies and projected future taxable income in making this assessment. As of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

December 31, 2008, due to uncertainties surrounding the realization of some of the Company's deferred tax assets including state NOLs sustained during the prior years and expiring tax benefits, the Company has a valuation allowance of $29.5 against its deferred tax assets. When recognized, the tax benefits relating to any reversal of the valuation allowance will be recorded as a reduction of income tax expense pursuant to SFAS No.141R.

Other. The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The audit of the Company's federal income tax return for the 2004 tax year was completed in April 2008. The results of the audit did not have a material effect on the Company's financial condition or results of operations. The Canada Revenue Agency audited and issued assessment notices for 1998 through 2001 for which Notices of Objection have been filed. If the outcome of the Notice of Objection is in favor of the Company, an expected payment of approximately $7 will be paid in the third quarter of 2009, otherwise approximately $11.8 may be required to be paid. The 2002 to 2004 tax years are currently under audit by the Canada Revenue Agency. The Company does not expect the results of these examinations to have a material effect on its financial condition or results of operations. Certain past years are still subject to examination by taxing authorities and the use of NOL carryforwards in future periods could trigger a review of attributes and other tax matters in years that are not otherwise subject to examination.

No U.S. federal or state liability has been recorded for the undistributed earnings of the Company's Canadian subsidiary at December 31, 2008. These undistributed earnings are considered to be indefinitely reinvested. Accordingly, no provision for U.S. federal and state income taxes or foreign withholding taxes has been provided on such undistributed earnings. Determination of the potential amount of unrecognized deferred U.S. income tax liability and foreign withholding taxes is not practicable because of the complexities associated with its hypothetical calculation.

In accordance with the requirements of SOP 90-7, the Company adopted the provisions of FIN 48 on July 1, 2006. The Company had gross unrecognized tax benefits of $15.8 and $19.7 at December 31, 2008 and December 31, 2007, respectively. The change during the twelve months ended December 31, 2008 was primarily due to currency fluctuations and change in tax positions. The change during the year ended December 31, 2007 was primarily due to currency fluctuations and $3.0 of additional unrecognized tax benefits that were offset by net operating losses. The Company recognizes interest and penalties related to these unrecognized tax benefits in the income tax provision. The Company had $9.4 and $10.7 accrued at December 31, 2008 and December 31, 2007, respectively, for interest and penalties which were included in Long-term liabilities in the Consolidated Balance Sheets. Of the $9.4 of total interest and penalties at December 31, 2008, $5.2 is included in current liabilities in the Consolidated Balance Sheet. During the year ended December 31, 2008 and 2007, the Company recognized $(1.3) and $5.1 in interest and penalties, respectively. During the year ended December 31, 2008, the foreign currency impact on gross unrecognized tax benefits, interest and penalties resulted in a $5.2 currency translation adjustment that was recorded in Accumulated other comprehensive income (loss), of which $2.9 related to gross unrecognized tax benefits and $2.3 related to accrued interest and penalties. In 2007, the foreign currency impact on gross unrecognized tax benefits, interest and penalties resulted in a $3.8 currency translation adjustment that was recorded in Accumulated other comprehensive income, of which $2.7 related to gross unrecognized tax benefits and $1.1 related to accrued interest and penalties. During the year ended December 31, 2008, the Company also reduced unrecognized tax benefits and the related interest and penalties by $.8 and $1.0, respectively, relating to a Canadian pre-emergence exposure. In accordance with fresh start accounting, the Company recorded the amount in Additional capital rather than in income tax provision. The Company expects its gross unrecognized tax benefits to be reduced by $2.7 within the next twelve months.

A reconciliation of changes in the gross unrecognized tax benefits is as follows:

	December 31, 2008	December 31, 2007
Gross unrecognized tax benefits at beginning of period	$ 19.7	$ 14.6
Gross increases for tax positions of prior years	1.9	2.5
Gross decreases for tax positions of prior years	(3.2)	—
Gross increases for tax positions of current years	0.3	.2
Settlements	—	(.3)
Foreign currency translation	(2.9)	2.7
Gross unrecognized tax benefits at end of period	$ 15.8(1)	$ 19.7(2)

(1) Of the $15.8, $14.1 is recorded as a FIN 48 liability on the Consolidated Balance Sheets and $1.7 is offset by net operating losses and indirect tax benefits at December 31, 2008. If and when the $15.8 ultimately is recognized, $15.2 will go through the Company's income tax provision and thus affect the effective tax rate in future periods.

(2) Of the $19.7 at December 31, 2007, $15.8 is recorded as a FIN 48 liability on the Consolidated Balance Sheets in Long-term liabilities and $3.9 is offset by net operating losses and indirect tax benefits. If and when the $19.7 ultimately is recognized, $15.8 will go through the Company's income tax provision and thus affecting the effective

tax rate in future periods.

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In connection with the sale of the Company's interests in and related to Queensland Alumina Limited ("QAL"), the Company made payments totaling approximately $8.5 for AMT in the United States (approximately $8.0 of federal AMT and approximately $.5 of state AMT). Such payments were made in the fourth quarter of 2005. Upon completion of the Company's 2005 federal income tax return, the Company determined that approximately $1.0 of AMT was overpaid and was refundable. The Company applied for the refund in the 2005 federal income tax return filed in September 2006 and received the refund in October 2006. The Company believed that the remainder of the United States AMT amounts paid in respect of the sale of its QAL interests should, in accordance with the Intercompany Settlement Agreement entered into in connection with the Company's chapter 11 bankruptcy, be reimbursed to the Company from the funds held by the liquidating trustee for the plan of liquidation of two former subsidiaries of the Company (Kaiser Alumina Australia Corporation and Kaiser Finance Corporation). A claim for reimbursement of $7.2 was made in January 2007. In May 2007, the liquidating trust approved the claim and the Company received the $7.2 reimbursement, which amount was recorded as a benefit in Other operating benefits (charges), net in the second quarter of 2007 (see Note 14).

Income tax matters of the Predecessor are discussed in Note 23.

10. Employee Benefits

Pension and Similar Plans. Pensions and similar plans include:

- Monthly contributions of one dollar per hour worked by each bargaining unit employee to the appropriate multi-employer pension plans sponsored by the United Steelworkers and International Association of Machinists and certain other unions at six of our production facilities. This obligation came into existence in December 2006 for four of our production facilities upon the termination of four defined benefit plans. The arrangement for the other two locations came into existence during the first quarter of 2005. The Company currently estimates that contributions will range from $2 to $4 per year.
- A defined contribution 401(k) savings plan for hourly bargaining unit employees at five of the Company's production facilities. The Company is required to make contributions to this plan for active bargaining unit employees at these production facilities ranging from $800 to $2,400 per employee per year, depending on the employee's age and/or service. This arrangement came into existence in December 2004 for two production facilities upon the termination of one defined benefit plan. The arrangement for the other three locations came into existence during December 2006. The Company currently estimates that contributions to such plans will range from $1 to $3 per year.
- A defined benefit plan for our salaried employees at the Company's facility in London, Ontario with annual contributions based on each salaried employee's age and years of service. At December 31, 2008, approximately 53% of the plan assets are invested in equity securities, 40% of plan assets are invested in debt securities and the remaining plans assets are invested in short term securities. The Company's investment committee reviews and evaluates the investments portfolio. The asset mix target allocation on the long term is approximately 60% in equity securities and 36% in debt securities with the remaining assets in short term securities (see Part II Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of this Report for discussion on long tern rate of return assumption).
- A defined contribution savings plan for salaried and non-bargaining unit hourly providing for a match of certain contributions made by employees plus a contribution of between 2% and 10% of their compensation depending on their age and years of service. All new hires after January 1, 2004 receive a fixed 2% contribution. The Company currently estimates that contributions to such plans will range from $4 to $6 per year.
- A non-qualified defined contribution plan for key employees who would otherwise suffer a loss of benefits under the Company's defined contribution plan as a result of the limitations by the Bankruptcy Code.

Postretirement Medical Obligations. As a part of the Company's reorganization efforts, the Company's postretirement medical plan was terminated in 2004. Participants were given the option of coverage under the