PHELPS DODGE CORP
Form DEF 14A
April 15, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A
(RULE 14a-101)
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant þ

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

þ Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

Phelps Dodge Corporation

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required

o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3)

Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

---

(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

---

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

---

(2) Form, Schedule or Registration Statement No.:

---

(3) Filing Party:

---

(4) Date Filed:

Notice of
Annual Meeting
of Shareholders
and Proxy
Statement
May 27, 2005

J. Steven Whisler
Chairman and
Chief Executive Officer

April 15, 2005

Dear Shareholder:

You are cordially invited to attend our annual meeting of shareholders to be held at 9:00 a.m. (MST) on Friday, May 27, 2005, at the Heard Museum, 2301 North Central Avenue, Phoenix, Arizona. Enclosed with this proxy statement are your proxy card and the 2004 annual report to shareholders, which includes the Corporation s Annual Report on Form 10-K.

Your vote is important. Whether you plan to attend the annual meeting or not, you may access electronic voting via the internet or the automated telephone voting feature, both of which are described on your enclosed proxy card, or you may sign, date and return the proxy card in the envelope provided. If you plan to attend the annual meeting you may vote in person.

Registration and seating will begin at 8:30 a.m. Each shareholder will be asked to sign an admittance card and may be asked to present a valid picture identification. Shareholders holding stock in brokerage accounts will need to bring a copy of a brokerage statement reflecting stock ownership as of the April 7, 2005 record date. Cameras and recording devices will not be permitted at the meeting.

Last year, 88% of our outstanding shares were represented in person or by proxy, and we hope to increase our shareholder participation this year.

Sincerely,

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of Phelps Dodge Corporation:

The annual meeting of shareholders of Phelps Dodge Corporation will be held at the Heard Museum, 2301 North Central Avenue, Phoenix, Arizona, on Friday, May 27, 2005, at 9:00 a.m. (MST), to consider and take action on the following:

1. Elect four directors;

2. Approve the Phelps Dodge Corporation 2006 Executive Performance Incentive Plan;

3. Approve an amendment to the Corporation s Restated Certificate of Incorporation to increase the number of authorized Common Shares;

4. Ratify the appointment of PricewaterhouseCoopers LLP as independent accountants for the year 2005; and

5. Transact any other business that may properly be brought before the annual meeting.

Only holders of record of the Corporation s common shares at the close of business on April 7, 2005 will be entitled to vote at the meeting. On April 7, 2005, we had 96,893,021 common shares outstanding.

If you participate in the Mellon Investor Services LLC Investor Services Program for Phelps Dodge Corporation Shareholders, all common shares held for your account under that plan will be voted in accordance with your proxy.

Proxies are solicited by the Board of Directors. You may revoke your proxy before it is voted at the annual meeting by delivering a signed revocation letter or a new proxy, dated later than your first proxy, to Catherine R. Hardwick, Assistant General Counsel and Secretary.

Shareholders who do not expect to attend the meeting in person are asked to access electronic voting via the internet or telephone voting as described on the enclosed proxy card or date, sign and complete the proxy card and return it without delay in the enclosed envelope, which requires no postage stamp if mailed in the United States. If you are attending in person and have previously mailed your proxy card, you may revoke your proxy and vote in person at the meeting.

This proxy statement and accompanying materials are being first sent to shareholders on April 15, 2005.

By order of the Board of Directors,

Catherine R. Hardwick
Assistant General Counsel and Secretary

Phoenix, Arizona
April 15, 2005

ELECTION OF DIRECTORS

Board Structure The Corporation currently has eleven directors divided into three classes: three in Class I, four in Class II and four in Class III. The terms of office of the four Class II directors expire at the 2005 annual meeting of shareholders.

Class II Election The four nominees for election as Class II directors are listed below. If elected, the nominees for election as Class II directors will serve for a term of three years and until their successors are elected and qualify. Unless you instruct us on the proxy card to vote differently, we will vote signed, returned proxies FOR the election of such nominees. If for any reason any nominee cannot or will not serve as a director, we may vote such proxies for the election of a substitute nominee designated by the Board of Directors.

Class II Nominees A nominee must receive a plurality of the votes cast at the annual meeting to be elected. Abstentions and broker non-votes, therefore, have no effect on the election of directors.

Nominee	Age, Principal Occupation, Business Experience and Other Directorships Held	Director Since
Archie W. Dunham (Class II)	Mr. Dunham was Chairman of ConocoPhillips (integrated energy company) from August 2002, following the merger of Conoco Inc. and Phillips Petroleum Company in August 2002, until his retirement on September 30, 2004. He was Chairman, President and Chief Executive Officer of Conoco Inc. (integrated energy company) from August 1999 to August 2002, and President and Chief Executive Officer of Conoco Inc. from January 1996 to August 2002. He was an Executive Vice President of E.I. du Pont de Nemours and Company, Conoco s former parent, from 1995 to October 1998. Mr. Dunham is a director of Louisiana Pacific Corporation and Union Pacific Corporation. Age 66.	1998

Nominee	Age, Principal Occupation, Business Experience and Other Directorships Held	Director Since
William A. Franke (Class II)	Mr. Franke was Chairman and Chief Executive Officer of America West Holdings Corporation from February 1997 and President from April 1999 until his retirement on September 1, 2001. He was Chief Executive Officer of its principal subsidiary, America West Airlines, Inc. (airline carrier), from April 1999 until his retirement on September 1, 2001 and was Chairman of its Board from 1992 until his retirement on September 1, 2001. He was also its President from April 1999 until May 24, 2000. He has been President of Franke and Company, Inc., Phoenix, Arizona, an investment firm, since 1987. He is the managing member of Indigo Partners, LLC and Indigo Pacific Partners, LLC, private equity funds focused on investments in the air transportation sector. He is also a managing partner of Newbridge Latin America, L.P., a private equity fund with investments in that region and an officer of several of the investment funds portfolio companies. Age 68.	1980
Robert D. Johnson (Class II)	Mr. Johnson was named on January 7, 2005 as non-executive Chairman of Honeywell Aerospace (supplier of aircraft engines, equipment, systems and services) a division of Honeywell Inc., and plans to retire from Honeywell in January, 2006. From December 1999 until January 2005 Mr. Johnson was the President and Chief Executive Officer of Honeywell Aerospace. From March 1999 to December 1999, he was President and Chief Executive Officer of Allied Signal Aerospace (supplier of aircraft engines, equipment, systems and services), a division of Allied Signal Inc. From January 1999 until March 1999, he was President and Chief Executive Officer of the Marketing, Sales and Services division of Allied Signal Aerospace-Allied Signal Inc. From September 1997 until December 1998, he was President and Chief Executive Officer of Electronic and Avionics Systems, Allied Signal Aerospace, a division of Allied Signal Inc. From July 1994 until September 1997, he was Vice President and General Manager of Aerospace Services at Allied Signal Aerospace, a division of Allied Signal Inc. He is a director of Ariba, Inc. Age 57.	2003
J. Steven Whisler (Class II)	Mr. Whisler was elected Chairman of the Corporation on May 3, 2000, and he has been Chief Executive Officer since January 1, 2000. He was President from December 1997 to October 31, 2003 and was also Chief Operating Officer from December 1997 until January 1, 2000. He was President of Phelps Dodge Mining Company, a division of the Corporation, from 1991 to October 1998. He is a director of Burlington Northern Santa Fe	1995

Corporation and America West Holdings Corporation. Age 50.

The Board of Directors recommends a vote FOR all of the Class II nominees.

Continuing Directors The seven directors whose terms will continue after the annual meeting and will expire at the 2006 annual meeting (Class III) or the 2007 annual meeting (Class I) are listed below.

Director	Age, Principal Occupation, Business Experience and Other Directorships Held	Director Since
Robert N. Burt (Class III)	Mr. Burt retired as Chairman of the Board and Chief Executive Officer of FMC Corporation (chemicals and machinery for industry, agriculture and government) in November 2001. He held those positions since 1991. He is a director of Pfizer Corporation and Janus Capital Group Inc. Age 67.	1993
Robert D. Krebs (Class III)	Mr. Krebs retired as Chairman of Burlington Northern Santa Fe Corporation (transportation) in April 2002. He held that position since December 2000. He was Chairman and Chief Executive Officer from June 1999 until December 2000, and Chairman, President and Chief Executive Officer from April 1997 to May 1999. Age 62.	1987
William J. Post (Class III)	Mr. Post has been Chairman of the Board of Pinnacle West Capital Corporation (holding company of subsidiaries operating, selling and delivering electricity and energy-related products and services) since February 2001, and its Chief Executive Officer since February 1999. He was also its President from August 1999 to February 2001, and from February 1997 to February 1999. He is currently Chairman of the Board of Arizona Public Service Company (APS) (supplier of electricity), a subsidiary of Pinnacle West Capital Corporation. He was Chairman of the Board and Chief Executive Officer of APS from February 2001 to September 2002. From October 1998 to February 2001, he was APS s Chief Executive Officer. He was APS s President and Chief Executive Officer from February 1997 to October 1998. Age 54.	2001
Jack E. Thompson (Class III)	Mr. Thompson is the Vice Chairman of Barrick Gold Corporation (multinational gold mining company), a position he has held since December 2001. Mr. Thompson has announced that he will retire from Barrick and its Board of Directors effective April 28, 2005. From April 1999 until December 2001 he was the Chairman and Chief Executive Officer of Homestake Mining Company (multinational gold mining company) which merged with Barrick Gold Corporation in December 2001. From July 1998 until March 1999 he was the Chairman, President and Chief Executive Officer of Homestake Mining Company and its President and Chief Executive Officer from May 1996 until July 1998. He is a director of Stillwater Mining Co., Century Aluminum Company and Tidewater Inc. He also sits on the advisory board of Resource Capital Funds III, LLP. Age 55.	2003

3

Director	Age, Principal Occupation, Business Experience and Other Directorships Held	Director Since
Marie L. Knowles (Class I)	Mrs. Knowles was Executive Vice President and Chief Financial Officer of Atlantic Richfield Company (diversified energy company) from July 1996 until her retirement on June 1, 2000. From 1993 until 1996 she was Senior Vice President of Atlantic Richfield Company and President of ARCO Transportation Company, a former subsidiary of Atlantic Richfield Company. Mrs. Knowles is a director of McKesson Corporation and a trustee of the Fidelity Funds. Age 57.	1994
Jon C. Madonna (Class I)	Mr. Madonna was Chairman of the Board of DigitalThink, Inc. (e- learning company) from April 2002 until it was sold in May 2004. From April 2001 until March 2002 he was President and Chief Executive Officer of DigitalThink, and from January 1999 until October 2000 he was the President and Chief Executive Officer of Carlson Wagonlit Corporate Travel (business travel and expense management company). He was Vice Chairman of The Travelers Group (financial services and insurance company) from January 1997 until October 1998. Mr. Madonna was Chairman of KPMG International (international accounting and tax services company) from July 1995 to January 1996 and Chairman and Chief Executive Officer of KPMG Peat Marwick USA from 1990 until 1996. Mr. Madonna is a director of AT&T, Albertsons Inc., and Tidewater Inc. Age 61.	2003
Gordon R. Parker (Class I)	Mr. Parker was Chairman of Newmont Mining Corporation from 1986 until his retirement in 1994. He was Chief Executive Officer from 1985 until 1993. Mr. Parker is a director of Caterpillar, Inc. and Gold Fields Limited. Age 69.	1995

CORPORATE GOVERNANCE AND GENERAL INFORMATION CONCERNING THE BOARD OF DIRECTORS AND ITS COMMITTEES

Board Governance

Adherence to the highest standards of corporate governance practices has been the foundation for conducting the businesses of Phelps Dodge since 1885. In 2004, the Corporation celebrated the 75th anniversary of its listing on the New York Stock Exchange. Additional information about the Corporation s corporate governance practices, including its Corporate Governance Guidelines, the Charters for the Audit Committee, Compensation and Management Development Committee and the Committee on Directors and Corporate Governance, are published on the Corporation s website at *www.phelpsdodge.com*. The Phelps Dodge Corporation Code of Business Ethics & Policies (to which every non-bargained domestic and international employee attests annually) and the Code of Ethics for Directors are also available on the Corporation s website. Each of these documents is also available free of charge to any shareholder who requests a copy in writing.

Board Independence

The Board of Directors requires that a majority of its members be independent. The Board adopted the following independence standards, which are consistent with criteria established by the New York Stock Exchange, to assist the Board in making these independence determinations.

A Director is independent if the Board has made an affirmative determination that such Director has no material relationship with the Corporation (directly or as a partner, shareholder or officer of an organization that has a relationship with the Corporation). In addition:

A Director who is an employee or whose immediate family member is an executive officer, of the Corporation is not independent until three years after the end of such employment relationship.

A Director who receives, or whose immediate family member receives, more than $100,000 during any twelve-month period in direct compensation from the Corporation, other than Director and Committee fees and a pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent until three years after he or she ceased to receive more than $100,000 in any twelve-month period in such compensation.

A Director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the company is not independent until three years after the end of the affiliation or the auditing relationship.

A Director who is employed or whose immediate family member is employed, as an executive officer of another company where any of the Corporation s present executives serve on that company s compensation committee is not independent until three years after the end of such service or the employment relationship.

A Director who is a current employee, or whose immediate family member is an executive officer, of a company that has made payments to, or receives payments from, the Corporation for property or services in an amount which, in any single fiscal year, exceeds the greater of

$1 million or 2% of

such other company s consolidated gross revenues, in each case is not independent until three years after falling below such threshold.

The Board has reviewed all material transactions and relationships between each director, or any member of his or her immediate family, and the Corporation, its senior management and its independent accounting firm and internal audit firm. Based on this review and in accordance with the independence standards outlined above, the Board of Directors has affirmatively determined that all of the non-employee directors, other than Mr. Post, are independent. As a result, nine of the Corporation s eleven directors are independent.

The Board has determined that Mr. Post is not independent because he is an executive officer of another company that during 2003 and 2004 received payments from the Corporation in an amount which exceeded the greater of $1 million or 2% of such other company s consolidated gross revenues. Mr. Post is an executive officer of Pinnacle West Capital Corporation (Pinnacle West) and its subsidiary, Arizona Public Service Company (APS). Pinnacle West and APS are engaged in the business of supplying electricity to substantial portions of Arizona and other parts of the western United States. The rates charged by Pinnacle West and APS for electricity, which in some cases were fixed by governmental authority, offered economic advantages to the Corporation, in part because of the proximity of APS s generation and transmission facilities to certain of the Corporation s Arizona operations. Because the Corporation s purchases of electricity from Pinnacle West and APS amounted to approximately 2.3% of Pinnacle West s consolidated gross revenues in 2004, Mr. Post does not qualify as an independent director. We understand the NYSE is reviewing its independence standards with respect to circumstances such as Mr. Post s, where fees charged to customers are at regulated rates.

Board Meetings

The Board of Directors met sixteen times during 2004. Each director attended at least 75% of the combined number of meetings of the Board and of the committees on which such director served. The average attendance for all directors was 94%. The non-management directors meet regularly in executive sessions without management. Executive sessions are presided over by the Chair of the Committee on Directors and Corporate Governance. The Chair of that Committee may, if desired, delegate such responsibility to another independent director, including the Chair of the Committee having jurisdiction over the bulk of the issues to be discussed at an executive session. The Corporation does not require directors to attend the annual meeting of shareholders. The Corporation believes that information concerning the Corporation is readily available from a variety of sources, including from management, and the Board is accessible to shareholders through additional, more effective means. Mr. Whisler was the only director who attended the 2004 annual meeting.

The Board of Directors at its meeting on February 2, 2005 adopted a policy limiting the non-employee directors to membership on four boards of publicly held companies in addition to membership on the Phelps Dodge Board of Directors.

Shareholders may communicate with the directors by sending written correspondence in care of the Assistant General Counsel and Secretary of the Corporation to One North Central Avenue, Phoenix, Arizona, 85004. Shareholder communications will be delivered to the director, or group of directors, to whom they are addressed, or if addressed to all directors as a group, to the Chair of the Committee on Directors and Corporate Governance.

Board Committees

The Audit Committee comprises Messrs. Franke, (Mrs.) Knowles (Chair), Krebs, Madonna, Parker and Thompson and met nine times during 2004. The Board of Directors determined, at its February 25, 2005 meeting, that Mrs. Knowles (Chair) is an audit committee financial expert (as defined by SEC regulations) and that each member of the Committee is independent, financially literate and possesses financial management expertise. The Committee generally performs the following functions:

Selects, evaluates and makes all decisions concerning the performance, compensation, retention and termination of the Corporation s independent public accounting firm;

Assists the Board of Directors with oversight of: (i) the quality and integrity of the Corporation s financial statements; (ii) the Corporation s compliance with legal and regulatory requirements; (iii) the independence and qualifications of the Corporation s independent registered public accounting firm; and (iv) the performance of the Corporation s internal audit function;

Prepares the report of the Audit Committee to be included in the Corporation s proxy statement as required under the rules of the Securities and Exchange Commission; and

Provides an open avenue of communication among the independent accountants, financial and senior management, the internal auditing function, and the Board of Directors.

The Compensation and Management Development Committee, comprises Messrs. Burt, Dunham (Chair), Franke, Johnson, (Mrs.) Knowles and Parker and met four times during 2004. The Board of Directors, at its February 25, 2005 meeting, determined that each member of the Committee is independent. The Committee generally performs the following functions:

Reviews and approves the compensation of the Corporation s senior officers;

Reviews management recommendations concerning the compensation of other officers and key personnel;

Reviews the Corporation s program for management development; and

Reviews and approves incentive compensation awards, stock option grants and awards of restricted stock.

The Committee on Directors and Corporate Governance comprises Messrs. Burt (Chair), Dunham, Johnson, Krebs and Madonna and met three times during 2004. The Board of Directors, at its February 25, 2005 meeting, determined that each member of the Committee is independent. The Committee generally performs the following functions:

Makes recommendations concerning the composition of the Board and its Committees, and reviews director compensation;

Reviews the qualifications of potential director candidates and recommends to the Board nominees for election as directors; and

Develops and reviews the Board governance policies and makes recommendations concerning the corporate governance program for the Corporation.

Applications, recommendations or proposed nominations for directors will be referred to the Committee on Directors and Corporate Governance. Applications, recommendations and nominations should be sent to the Assistant General Counsel and Secretary of the Corporation and should include the address and a brief description of the background, professional experience and qualifications of the individual recommended.

The Committee on Directors and Corporate Governance considers candidates for Board membership suggested by its members and other Board members, as well as management and shareholders. There are no differences in the manner in which the Committee on Directors and Corporate Governance evaluates nominees for the Board of Directors based on whether or not the nominee is recommended by a shareholder. The Committee on Directors and Corporate Governance evaluates prospective nominees against a number of standards and qualifications, including the qualifications in the Phelps Dodge Corporate Governance Guidelines under the heading, Membership Criteria for Non-Employee Directors of Phelps Dodge Corporation. The Corporate Governance Guidelines are published on the corporation s website at *www.phelpsdodge.com*. The Committee also considers such other factors as it deems appropriate, including the current composition of the Board, the balance of management and independent directors, the need for Audit Committee expertise and the evaluations of other prospective nominees. The Committee then determines whether to interview the prospective nominees, and, if warranted, one or more of the members of the Committee on Directors and Corporate Governance, and others as appropriate, interview such prospective nominees whether in person or by telephone. After completing this evaluation and interview, the Committee on Directors and Corporate Governance makes a recommendation to the full Board of Directors as to the persons who should be nominated by the Board of Directors. The Board of Directors then determines the nominees after considering the recommendation and report of the Committee on Directors and Corporate Governance.

The Corporation has in the past retained an executive search firm to assist it in identifying and evaluating potential director candidates as and when necessary.

The Environmental, Health and Safety Committee, comprises Messrs. Burt, Johnson, (Mrs.) Knowles, Parker (Chair), Post and Thompson and met four times in 2004. The Committee generally performs the following functions:

Reviews the Corporation s environmental, health and safety policies;

Reviews management s implementation of these policies; and

Makes reports and recommendations to the Board concerning the results of its reviews.

The Finance Committee comprises Messrs. Dunham, Franke, Krebs (Chair), Madonna, Post and Thompson and met three times during 2004. The Committee generally performs the following functions:

Reviews the financial affairs of the Corporation and its subsidiaries;

Recommends to the Board financial policies and actions to accommodate the Corporation s goals and operating strategies while maintaining a sound financial condition; and

Reviews the funding and management of assets for retirement income plans of the Corporation and its subsidiaries.

Board Compensation

Directors who are not salaried employees of the Corporation (non-employee directors) receive compensation for their Board service comprised of both cash and equity components. The Committee on Directors and Corporate Governance reviewed director compensation and based upon a study of director compensation recommended certain increases and changes in structure. The following compensation structure for directors was approved by the full Board effective July 1, 2004:

Annual Retainer	$65,000
Annual Committee Chair Retainers	Audit Committee: $12,500 Compensation and Management Development Committee: $7,500 Committee on Directors and Corporate Governance: $5,000 Environmental, Health and Safety Committee: $3,000 Finance Committee: $3,000
Attendance Fees	$1,500 for each Board meeting $1,500 for each Board Committee meeting
Shares of Stock	The foregoing retainers and fees, at the election of the Director, may be received in an equivalent number of the Corporation s common shares in lieu of cash.
Stock Units	Number of stock units equal in value to $75,000 on date of grant under the Directors Stock Unit Plan described below.

Directors Stock Unit Plan

In order to encourage increased stock ownership, the Board of Directors adopted the Corporation s Directors Stock Unit Plan. Pursuant to this plan, effective as of January 1, 2005, each non-employee director receives an annual grant of stock units having a value equal to $75,000 on the date of the grant. One unit is equal in value to one share of the Corporation s common stock. While stock units do not confer on a director the right to vote, each stock unit is credited on each dividend payment date with stock units equal to the applicable dividend payable on the Corporation s common shares. Upon termination of service as a director, the director is entitled to payment of his or her accumulated stock units in an equivalent number of the Corporation s common shares or in cash.

Deferred Compensation Plan for Directors

Directors may defer payment of retainers and/or meeting fees to future years and may elect to have such deferred compensation deemed to:

receive interest at prevailing market rates;

be invested in the Corporation s common shares; or be invested in one of several investment funds designated for that purpose.

Matching Gifts Plan Directors are eligible to participate in the Corporation s Matching Gifts Plan. The Corporation will match a Director s contributions to qualified organizations up to $10,000 annually.

Expenses and Benefits All directors are reimbursed for travel and other related expenses incurred in attending Board and Committee meetings. During 2004, travel expenses (including certain travel expenses for spouses) increased significantly due to site visits and board meetings held at the Corporation s operations in Peru and Chile. The Corporation also provides non-employee directors with life insurance benefits.

Directors Stock Ownership Policy The Board of Directors in 1997 adopted a policy that each director, within three years of his or her election, shall own a total of not less than 2,000 common shares of the Corporation. Stock units granted to a director under the Corporation s Directors Stock Unit Plan or shares elected in lieu of cash compensation under the Deferred Compensation Plan for the Directors of Phelps Dodge Corporation apply toward attainment of this requirement All directors are in compliance with the stock ownership policy.

Directors and Officers Liability Insurance

The Corporation maintains directors and officers (D&O) liability insurance policies issued by National Union Fire Insurance Company of Pittsburgh, PA, Federal Insurance Company, American Casualty Company of Reading, PA, Zurich American Insurance Company, XL Insurance (Bermuda) Ltd., and Allied World Assurance Company, Ltd. The policies insure (i) directors, officers, division presidents and vice presidents of the Corporation and its subsidiaries for certain liabilities they may incur in the performance of their duties that are not indemnifiable under the Bylaws, (ii) the Corporation for its obligations to indemnify such persons against such liabilities, and (iii) the Corporation for losses arising from a securities claim. These policies are placed on an annual basis from June 1, 2004 to June 1, 2005. The Corporation also purchases additional D&O liability insurance coverage from Corporate Officers and Directors Assurance Ltd. and Starr Excess Liability Insurance International Ltd. These policies also are placed on an annual basis from June 1, 2004 to June 1, 2005. The annual premium for the D&O liability insurance is $2,658,375. The Corporation also purchases pension trust liability insurance policies on an annual basis for the period June 1, 2004 to June 1, 2005. These policies insure directors, officers and employees who are fiduciaries of employee benefit plans of the Corporation and its subsidiaries and the sponsor organizations. The annual premium for the pension trust liability insurance is $201,250.

* * * * *

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The following directors served on the Compensation and Management Development Committee during 2004: Messrs. Burt, Dunham (Chair), Franke, Johnson, (Mrs.) Knowles and Parker, effective March 1, 2004. None of these directors is or has been an officer or employee of the Corporation or any of its subsidiaries or has had any other relationship with the Corporation or any of its subsidiaries requiring disclosure under the applicable rules of the Securities and Exchange Commission.

SHARE OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

The following table lists the common share ownership as of March 31, 2005 for our directors and executive officers. Beneficial Ownership includes shares a director or officer has the power to vote or transfer, and stock options that were exercisable on March 31, 2005 or within 60 days thereafter. On March 31, 2005, the directors and the five named executive officers of the Corporation owned, in the aggregate, 650,851 shares of the Corporation s common stock (less than one percent of the shares outstanding). The Corporation s non-employee directors also have interests in stock-based units under Corporation s plans. While these units may not be voted or transferred, they are listed in the table below because they represent a component of the total economic interest of our directors in the Corporation s stock.

Name of Beneficial Owner	Shares Beneficially Owned	Options Exercisable Within 60 Days	Stock Units(1)	Total
Robert N. Burt	2,437	0	7,808	10,245
Archie W. Dunham	1,000	0	14,744(2)	15,744
William A. Franke	2,000	0	8,535	10,535
Robert D. Johnson	542	0	1,414	1,956
Marie L. Knowles	1,000	2,296	7,555	10,851
Robert D. Krebs	2,156	8,036	8,140	18,332
Kalidas V. Madhavpeddi	25,348(3)	1,733	0	27,081
Jon C. Madonna	1,000	0	1,414	2,414
Arthur R. Miele	22,522(3)	1,733	0	24,255
Gordon R. Parker	3,122	2,296	7,695	13,113
Ramiro G. Peru	57,926(3)	0	0	57,926
William J. Post	1,000	0	4,564	5,564
Timothy R. Snider	65,638(3)	0	0	65,638
Jack E. Thompson	2,000	0	1,414	3,414
J. Steven Whisler	199,583(3)	184,200	0	383,783
Directors and executive officers as a group (19 persons)	453,445	201,560	63,283	718,288

(1) Except where indicated below, represents stock units awarded under the Directors Stock Unit Plan.

(2) Includes stock units credited under the Deferred Compensation Plan for Directors of the Corporation.

(3) Includes, as of March 31, 2005, the following shares of restricted stock awarded under the Phelps Dodge 1998 Stock Option and Restricted Stock Plan and the Phelps Dodge 2003 Stock Option and Restricted Stock Plan: Mr. Whisler, 109,625 shares, Mr. Snider, 46,360 shares, Mr. Peru, 33,540 shares, Mr. Miele 11,245 shares and

Mr. Madhavpeddi, 17,470 shares.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based on a review of reports filed by our directors, executive officers and beneficial holders of 10% or more of our outstanding shares, and upon representations from those persons, all reports required to be filed by our reporting persons during 2004 were filed on time, with the exceptions of the initial Form 3 filings for newly elected officers Denise R. Danner, Vice President and Controller, and David C. Naccarati, the President of Phelps Dodge Mining Company, a division of the Corporation.

To the knowledge of the Corporation, the following entities beneficially owned in excess of five percent of the Corporation s common shares as of December 31, 2004:

Name And Address	Number of Shares	Percent of Outstanding
Barclays Global Investors, NA(a) 45 Fremont Street San Francisco, CA 94105	13,474,598	14.12%
Capital Research and Management Company(b) 333 South Hope Street Los Angeles, CA 90071	8,730,500	9.10%
FMR Corp.(c) 82 Devonshire Street Boston, MA 02109	8,553,670	8.96%

(a) A report on Schedule 13G, dated February 14, 2005, disclosed that this entity, as a registered investment adviser, had sole voting power over 12,088,240 shares and sole dispositive power over 13,474,598 shares which represented 14.12% of the outstanding common shares at December 31, 2004.

(b) A report on Schedule 13G, dated February 9, 2005, disclosed that this entity, as a registered investment adviser, had sole dispositive power over 8,730,500 shares which represented 9.10% of the outstanding common shares at December 31, 2004. Shares reported by Capital Research and Management Company include 500,000 shares resulting from the assumed conversion of 200,000 shares of the 6.75% Series A Mandatory Convertible Preferred Shares due August 15, 2005.

(c) A report on Schedule 13G, dated February 14, 2005, disclosed that this entity, as a registered investment adviser, had sole voting power over 1,517,060 shares and sole dispositive power over 8,553,670 shares which represented 8.96% of the outstanding common shares at December 31, 2004.

EQUITY COMPENSATION PLAN INFORMATION

December 31, 2004	(a)	(b)	(c)
Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	1,728,326	$ 46.52	4,227,652
Equity compensation plans not approved by security holders(1)	61,379	$ 53.16	Not Determinable
Total	1,789,705	$ 46.75	4,227,652

Of the 4,227,652 shares available for grant as of December 31, 2004 under the shareholder-approved Phelps Dodge 2003 Stock Option and Restricted Stock Plan, 1,962,406 shares may be issued as Restricted Stock.

(1) Two plans in which members of the Board of Directors may participate and that have not been approved by security holders include provisions that authorize, under certain circumstances the issuance of equity shares. The Phelps Dodge Corporation Directors Stock Unit Plan, effective as of January 1, 1997, provided for an annual grant of 450 units in each of 1998, 1999 and 2000. Commencing in 2001 and continuing through 2004 the grants were equal in value to $50,000 and increased to $75,000 for awards on January 1, 2005. Commencing in 2001, these grants were based upon the fair market value of a share of Phelps Dodge stock on December 31 of the previous year. This plan terminates in accordance with its terms on December 31, 2006. Participants in this plan may elect to receive a distribution from this plan in the form of Phelps Dodge common shares or cash upon termination from service as a director. Directors may elect, in accordance with the provisions of the Deferred Compensation Plan for the Directors of Phelps Dodge Corporation, effective as of January 1, 1999, to defer the payment of their directors fees, and if so elected, to receive in the future the payment of those fees in Phelps Dodge common shares or cash. Participating directors may elect to receive a distribution from this plan, no later than the plan year in which the director reaches age 75, either in cash or in shares of Phelps Dodge common stock, or in a specified combination thereof. Based on the nature of these plans it is not possible to determine the exact number of equity securities that remain for future issuance under these plans, although the number of shares already issued under these plans since their inception, as set forth in column (a) is not material.

EXECUTIVE COMPENSATION

The following table summarizes the compensation we paid our five most highly compensated executive officers in 2004, 2003, and 2002.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation		
Name and Principal Position	**Year**	**Base Salary ($)**	**Bonus $**	**Other Annual Compensation ($)(1)**	**Restricted Stock Awards ($)(2)**	**Options Granted (#)**	**All Other Compensation ($)(3)**
J. Steven Whisler	2004	891,667	1,400,000	3,279	2,068,562	27,600	87,037
Chairman and Chief Executive Officer	2003	850,000	1,000,000	17,481	1,319,000	0	50,733
	2002	750,000	1,150,000	4,507	812,100	150,000	35,049
Timothy R. Snider	2004	512,500	750,000	6,316	787,882	10,500	52,823
President and Chief Operating Officer	2003	450,000	500,000	7,304	659,500	0	21,557
	2002	385,000	600,000	3,724	284,235	45,000	19,624
Ramiro G. Peru	2004	407,917	600,000	5,233	525,254	7,000	61,032
Executive Vice President and	2003	385,000					