TWIN DISC INC
Form 4
July 30, 2014

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Wilcox Denise

(Last) (First) (Middle)

TWIN DISC, INC., 1328 RACINE ST.

(Street)

RACINE, WI 53403

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
TWIN DISC INC [TWIN]

3. Date of Earliest Transaction (Month/Day/Year)
07/28/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
VP-Human Resources

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock (1)	07/28/2014		F		869	D	$ 30.705	22,694	D	
Common Stock								367.2898	I	401(k)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Wilcox Denise TWIN DISC, INC. 1328 RACINE ST. RACINE, WI 53403			VP-Human Resources	

Signatures

/s/ Denise L. Wilcox	07/30/2014
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares surrendered to Company to satisfy tax withholding obligation upon vesting of restricted stock granted 7/28/11.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ht" style="border-top: 1px solid #000000">

PDI

Specialty Chemicals

Disposal and dismantling
0.6 (0.1) 0.5
Employee severance and relocation**
0.8 0.8

1.4 (0.1) 1.3

Corporate and Other

Employee severance and relocation**
0.9 (0.9)

$24.3 (5.3) 19.0

* Provision excluded $6.3 million of pension and other postretirement charges for the 2001 second quarter restructuring, included in long-term liabilities.
** Relocation costs were charged to expense as incurred.

	12/31/01	Reassess-ments	Payments	12/31/02
PDMC				
U.S. Mines				
Morenci				
Employee severance	$ 0.3	0.1	(0.3)	0.1
Bagdad/Sierrita				
Employee severance	3.5	(1.1)	(2.4)	
Mothballing/take-or-pay contracts	3.1	(0.8)	(2.1)	0.2
	6.6	(1.9)	(4.5)	0.2
Miami/Bisbee				
Employee severance	1.8	(0.5)	(1.3)	
Mothballing/take-or-pay contracts	1.0	(0.4)	(0.5)	0.1
	2.8	(0.9)	(1.8)	0.1
Chino/Cobre				
Employee severance	1.2	(0.7)	(0.4)	0.1
Mothballing/take-or-pay contracts	0.2	(0.1)	(0.1)	
	1.4	(0.8)	(0.5)	0.1
Tyrone				
Employee severance	0.2		(0.2)	
	11.3	(3.5)	(7.3)	0.5

Manufacturing and Sales				
Employee severance	1.4	(0.2)	(1.1)	0.1
Mothballing/take-or-pay contracts	4.1	(1.2)	(2.9)	
	5.5	(1.4)	(4.0)	0.1
Primary Molybdenum				
Employee severance	0.1		(0.1)	
Other Mining				
Employee severance	0.8	(0.2)	(0.6)	
	17.7	(5.1)	(12.0)	0.6
PDI				
Specialty Chemicals				
Disposal and dismantling	0.5	(0.4)	(0.1)	
Employee severance	0.8	(0.1)	(0.7)	
	1.3	(0.5)	(0.8)	
	$19.0	(5.6)	(12.8)	0.6

A reassessment of $2.6 million for employee termination benefits at PDMC s segments was made because subsequently, as the plan was being implemented, it was determined that certain employees identified in the restructuring plan would be retained to fill open positions or would not be eligible for supplemental unemployment as originally anticipated. In addition, there was reassessment of $2.5 million related to savings from renegotiated contracts or from reduced penalties on demand contracts. Further, a $6.4 million charge was recognized for additional pension-related benefits, which are included in long-term liabilities, for employees at our Chino, Miami, Sierrita and Bagdad operations because these operations were expected to remain curtailed beyond one year from their January 2002 curtailment.

Table of Contents

PDI s Specialty Chemicals segment reassessment related to (i) $0.4 million for an adjustment to disposal and dismantling charges for the El Dorado plant facility and (ii) a reclassification of $0.1 million to long-term pension benefits.

	12/31/02	Reassess-ments	Payments	12/31/03
PDMC				
U.S. Mines				
Morenci				
Employee severance	$0.1		(0.1)	
Bagdad/Sierrita				
Mothballing/take-or-pay contracts	0.2		(0.2)	
Miami/Bisbee				
Mothballing/take-or-pay contracts	0.1		(0.1)	
Chino/Cobre				
Employee severance	0.1		(0.1)	
	0.5		(0.5)	
Manufacturing and Sales				
Employee severance	0.1		(0.1)	
	$0.6		(0.6)	

In the second quarter of 2000, we announced a plan to reduce operating costs and restructure operations at our Miami/Bisbee, Primary Molybdenum and Wire and Cable segments by (i) curtailing high-cost copper production at the Miami copper mine in Arizona and reducing its mining activities; (ii) curtailing molybdenum production by approximately 20 percent at the Henderson mine in Colorado; (iii) ceasing production at two wire and cable plants in Venezuela; and (iv) closing a telephone cable operation in El Salvador.

The following tables present a roll-forward of the liabilities incurred in connection with the 2000 restructuring programs, which were reflected as current liabilities in our Consolidated Balance Sheet:

	12/31/00	Reassess-ments	Payments	12/31/01
PDMC				
U.S. Mines				
Miami/Bisbee				
Employee severance	$0.7	(0.7)		

Primary Molybdenum				
Employee severance	0.9	(0.6)	(0.3)	
	1.6	(1.3)	(0.3)	
PDI				
Wire and Cable				
Plant removal and dismantling	3.0		(1.1)	1.9
	$4.6	(1.3)	(1.4)	1.9

A reassessment of $1.3 million for employee termination benefits at PDMC s segments was made because subsequently, as the plan was being implemented, it was determined that certain employees identified in the restructuring plan would be retained after all and moved to positions being filled by contractors.

	12/31/01	Reassess-ments	Payments	12/31/02
PDI				
Wire and Cable				
Plant removal and dismantling	$1.9	(1.3)	(0.1)	0.5

PDI s Wire and Cable segment reassessment related to (i) a $0.5 million adjustment to plant dismantling charges related to the wire and cable plant closures in Venezuela and (ii) a $0.8 million non-cash deduction related to the devaluation of Venezuelan currency.

	12/31/02	Reassess-ments	Payments	12/31/03
PDI				
Wire and Cable				
Plant removal and dismantling	$0.5			0.5

In the second quarter of 1999, we announced a plan to reduce operating costs and improve operating performance at our Manufacturing and Sales, Other Mining, Specialty Chemicals and Wire and Cable segments by (i) curtailing higher cost copper production by temporarily closing our Hidalgo smelter in New Mexico and Morenci s Metcalf concentrator, as well as curtailing production by 50 percent at our copper refinery in El Paso, Texas; (ii) selling a non-core South African fluorspar mining unit; (iii) restructuring certain wire and cable assets to respond to changing market conditions; and (iv) suspending operations at Columbian Chemicals carbon black plant in the Philippines.

The following tables present a roll-forward from December 31, 1999, of the liabilities incurred in connection with the June 1999 restructuring program, which were reflected as current liabilities in our Consolidated Balance Sheet:

Reassess-

	12/31/00	ments	Payments	12/31/01
PDMC				
Other Mining				
Employee severance	$0.4		(0.2)	0.2
Mothballing/take-or-pay contracts	2.5		(1.1)	1.4
	2.9		(1.3)	1.6
PDI				
Specialty Chemicals				
Disposal and dismantling	1.3	(1.0)		0.3
Environmental	0.7		(0.1)	0.6
	2.0	(1.0)	(0.1)	0.9
Wire and Cable				
Employee severance	0.4		(0.4)	
Take-or-pay contracts	2.0		(0.9)	1.1
Plant removal and dismantling	0.8		(0.6)	0.2
	3.2		(1.9)	1.3
	5.2	(1.0)	(2.0)	2.2
	$8.1	(1.0)	(3.3)	3.8

PDI s Specialty Chemicals segment reassessment of $1.0 million related to the closure of our carbon black manufacturing facility in the Philippines. At the time of closure, there was some equipment that had been purchased previously in conjunction with an earlier planned expansion of the Philippine facility. When the Philippine closure was announced, an accrual was included for this equipment reflecting our assessment that its disposition would result in a loss of $0.9 million. This accrual was reclassified subsequently as a deduction to property, plant and equipment. The remaining $0.1 million related to a non-cash deduction resulting from foreign currency devaluation.

Table of Contents

106

	12/31/01	Reassess-ments	Payments	12/31/02
PDMC				
Other Mining				
Employee severance	$0.2	(0.1)	(0.1)	
Mothballing/take-or-pay contracts	1.4		(0.8)	0.6
	1.6	(0.1)	(0.9)	0.6
PDI				
Specialty Chemicals				
Disposal and dismantling	0.3	(0.3)		
Environmental	0.6	(0.6)		
	0.9	(0.9)		
Wire and Cable				
Take-or-pay contracts	1.1	(0.1)		1.0
Plant removal and dismantling	0.2	(0.2)		
	1.3	(0.3)		1.0
	2.2	(1.2)		1.0
	$3.8	(1.3)	(0.9)	1.6

PDMC s Other Mining segment reassessment included a $0.1 million reclassification to long-term liabilities related to pension and other postretirement benefits.

PDI s Specialty Chemicals segment reassessment related to a Philippine plant for (i) a $0.3 million adjustment to disposal and dismantling charges and (ii) a $0.6 million for environmental costs that were relieved as the property was sold during the period.

PDI s Wire and Cable segment reassessment related to (i) a $0.1 million adjustment related to a lease contract and (ii) a $0.2 million adjustment related to dismantling charges at a Venezuelan plant, which included a $0.1 million non-cash deduction resulting from the devaluation of Venezuelan currency.

	12/31/02	Reassess-ments	Payments	12/31/03
PDMC				
Other Mining				
Mothballing/take-or-pay contracts	$0.6			0.6

PDI		
Wire and Cable		
Take-or-pay contracts	1.0	1.0
	$1.6	1.6

4. Investments and Long-Term Receivables

Investments and long-term receivables at December 31 were as follows:

	2003	2002
Equity basis:		
International wire and cable manufacturers	$ 5.9	5.2
Port Carteret (50%)	20.7	20.9
Other	6.4	5.7
Cost basis and notes receivable:		
Southern Peru Copper Corporation (14%)	13.2	13.2
Long-term bond investments*	33.7	31.7
Other investments	27.8	16.7
Notes receivable and other**	42.6	38.9
	$150.3	132.3

* $17.3 million of long-term bond investments has been secured against a letter of credit.

** Included $29.4 million in 2003 and 2002, due from El Abra for funding CODELCO s 49 percent share of El Abra subordinated loans. In addition, 2003 included $3.4 million of interest receivable on the El Abra subordinated loans, which is based on LIBOR plus 5.5 percent per year and will mature in May 2007 after El Abra s senior loans are paid.

Equity earnings (losses) were as follows (in millions): 2003 $2.7; 2002 $2.7; 2001 ($0.3).

Dividends from equity basis investments received were as follows (in millions): 2003 $2.5; 2002 $4.3; 2001 $1.4.

Our retained earnings include undistributed earnings of equity basis investments of (in millions): 2003 $63.8; 2002 $63.6; 2001 $65.2.

Condensed financial information for our equity basis investments at December 31 was as follows:

	2003	2002	2001
Sales	$123.1	87.0	109.7
Net income (loss)	$ 7.5	7.1	3.1

	2003	2002	2001
Net current assets	$ 25.6	10.8	14.8
Property, plant and equipment, net	87.6	73.0	62.9
Long-term debt	(29.1)	(27.6)	(7.3)
Other assets and liabilities, net	(1.4)	3.1	(1.0)
Net assets	$ 82.7	59.3	69.4

5. Miscellaneous Income and Expense, Net

Miscellaneous income and expense, net for the years ended December 31 was as follows:

	2003	2002	2001
Interest income	$ 16.4	15.8	23.3
Investment impairments*		(1.2)	(12.9)
Southern Peru Copper Corporation dividend (14% minority interest)	6.3	4.0	4.0
Gain on sale of Viohalco investment	6.4		
Interest on IRS refund			4.3
Willow Creek insurance settlement			1.5
Foreign currency exchange loss	(0.1)	(3.0)	(1.2)
Non-qualified trust asset mark-to-market	4.6	(2.7)	(3.3)
Miscellaneous non-operating expenses	(18.0)	(11.8)	(7.7)
Royalties and rental income	1.5	1.1	2.7
Other	1.9	0.4	(2.6)
	$ 19.0	2.6	8.1

* Write-down of cost investments ($1.2 million) during 2002, and impairment of investment in SIMSA ($9.1 million) and Equatorial Mining ($3.8 million) during 2001.

6. Income Taxes

Geographic sources of income (loss) before taxes, minority interests, equity in net earnings (losses) of affiliated companies, extraordinary item and cumulative effect of accounting change for the years ended December 31 were as follows:

	2003	2002	2001
United States	$(141.4)	(498.0)	(320.6)
Foreign	212.8	73.0	74.0
	$ 71.4	(425.0)	(246.6)

The (provision) benefit for income taxes for the years ended December 31 was as follows:

	2003	2002	2001
Current:			
Federal	$ 10.7	133.5	(6.0)

State	0.5	1.2	6.2
Foreign	(60.6)	(18.7)	(14.3)
	(49.4)	116.0	(14.1)
Deferred:			
Federal	(1.6)	18.4	13.4
State	1.0	(5.7)	1.2
Foreign	1.7	(13.8)	(78.3)
	1.1	(1.1)	(63.7)
	$(48.3)	114.9	(77.8)

A reconciliation of the U.S. statutory tax rate to our effective tax rate was as follows:

Expense (benefit)	2003	2002	2001
Statutory tax rate	35.0%	(35.0)	(35.0)
Depletion	(27.3)	(2.7)	(1.9)
State and local income taxes	(7.3)	1.2	(2.8)
Effective international tax rate	(3.2)	5.8	4.3
Adjustments to prior years			(3.0)
Valuation allowance	65.7	6.8	70.7
Other items, net	4.7	(4.1)	(0.8)
	67.6%	(28.0)	31.5

We paid federal, state, local and foreign income taxes of approximately $28 million in 2003, compared with approximately $25 million in 2002 and approximately $43 million in 2001. U.S. losses cannot offset income in foreign jurisdictions, resulting in payment of foreign taxes. We received refunds of federal, state, local and foreign income taxes of approximately $80 million in 2003, compared with approximately $66 million in 2002 and approximately $36 million in 2001.

At December 31, 2003, we had alternative minimum tax credits of approximately $342 million available for carryforward for U.S. federal income tax purposes. These credits can be carried forward indefinitely, but may only be used to the extent the regular tax exceeds the alternative minimum tax in any given year.

The Company has U.S. net operating loss carryforwards for regular tax purposes of approximately $1,037 million expiring from 2004 to 2023; Hungarian net operating loss carryforwards of approximately $4 million expiring in 2007; and Chilean and Brazilian net operating loss carryforwards of approximately $307 million and $67 million, respectively, that do not expire. The Brazilian tax loss carryforwards can only be used to offset 30 percent of taxable income in any one year. The Company also has U.S. alternative minimum tax net operating loss carryforwards of approximately $550 million expiring from 2019 to 2023.

The Company has approximately $87 million of U.S. capital loss carryforwards for regular tax purposes expiring in 2005 and approximately $160 million of U.S. capital loss carryforwards for alternative minimum tax purposes expiring from 2004 to 2005. Capital loss carryforwards may only be used to offset capital gains in the carryforward periods.

On the basis of currently available information, we have provided valuation allowances for certain of our deferred tax assets where we believe it is likely that the related tax benefits will not be realized. Our valuation allowances, which totaled $458.5 million and $508.4 million at December 31, 2003 and 2002, respectively, relate to all or a portion of our U.S. net operating loss, capital loss, and alternative minimum tax credit carryforwards and our Chilean net operating loss carryforwards. The decrease in our valuation allowances in 2003 related primarily to expiration of U.S. tax benefits for capital loss carryforwards and foreign tax credit carryforwards and the utilization of Chilean net operating loss carryforwards while the decrease in 2002 related primarily to our ability to utilize U.S. net operating loss carryforwards as a result of the enactment of the Job Creation and Worker Assistance Act of 2002 that enabled us to obtain a refund of taxes paid in prior years. The tax benefit recognized in 2002 is primarily attributable to these refunds and the related reduction in the valuation allowances, as well as the release of deferred taxes previously provided with regard to an arbitration award.

Table of Contents

Deferred income tax assets (liabilities) comprised the following at December 31:

	2003	2002
Tax credits	$ 341.7	353.4
Postretirement and postemployment benefits	123.1	113.4
Reserves	232.5	208.7
Mining costs	34.3	30.7
Net operating loss carryforwards	527.1	480.7
Capital loss carryforwards	30.5	41.9
Pensions	34.6	33.2
Other	16.9	33.4
Deferred tax assets	1,340.7	1,295.4
Valuation allowances	(461.3)	(508.4)
Net deferred tax assets	879.4	787.0
Goodwill	(11.2)	(13.1)
Capitalized interest and financing costs	(42.0)	(41.8)
Depreciation	(763.4)	(723.4)
Mining properties	(259.5)	(202.4)
Intangible mining assets	(144.8)	(155.5)
Deferred tax liabilities	(1,220.9)	(1,136.2)
	$ (341.5)	(349.2)

The Internal Revenue Service audit of the pre-acquisition Cyprus Amax federal income tax returns for the years 1997 through October 15, 1999, was closed in December 2003 without material adjustment to the tax liability as filed. The Phelps Dodge federal income tax returns for the years 1998 through 2002 are currently under examination by the Internal Revenue Service. Our management believes that resolution of any issues raised, including application of those determinations to subsequent open years, will not have an adverse effect on our consolidated financial condition or results of operations.

Income taxes have not been provided on our share (approximately $818 million) of undistributed earnings of our foreign manufacturing and mining subsidiaries over which we have sufficient influence to control the distribution of such earnings and have determined that such earnings have been reinvested indefinitely. These earnings could become subject to additional tax if they were remitted as dividends, if foreign earnings were loaned to any of our U.S. entities, or if we sell our stock in the subsidiaries. It is estimated that repatriation of these earnings would generate additional foreign tax withholdings and U.S. tax of approximately $99 million and $15 million, respectively.

7. Mill and Leach Stockpiles, Inventories and Supplies

Mill and leach stockpiles, inventories and supplies at December 31, 2003, were as follows:

	PDMC	PDI	Total
Mill and Leach Stockpiles			
Current:			
Leach stockpiles	$ 22.4		22.4
Long-term:*			
Mill stockpiles	$ 40.6		40.6
Leach stockpiles	48.6		48.6
	$ 89.2		89.2
Inventories			
Raw materials	$ 0.4	48.9	49.3
Work-in-process	38.7	12.7	51.4
Finished goods	204.7	74.3	279.0
	$243.8	135.9	379.7
Supplies	$123.9	26.8	150.7

* Stockpiles not expected to be processed within the next 12 months are classified as long-term.

Mill and leach stockpiles, inventories and supplies at December 31, 2002, were as follows:

	PDMC	PDI	Total
Mill and Leach Stockpiles			
Current:			
Leach stockpiles	$ 48.9		48.9
Long-term:*			
Mill stockpiles	$ 31.9		31.9
Leach stockpiles	32.4		32.4
	$ 64.3		64.3
Inventories			
Raw materials	$ 0.5	34.2	34.7
Work-in-process	18.8	13.4	32.2
Finished goods	260.4	71.2	331.6
	$279.7	118.8	398.5
Supplies	$118.0	24.8	142.8

* Stockpiles not expected to be processed within the next 12 months are classified as long-term.

Mill and leach stockpiles valued by the last-in, first-out method would have been greater if valued at current costs by approximately $464 million and $510 million at December 31, 2003 and 2002, respectively. Current costs for mill and leach stockpiles for both 2003 and 2002 are significantly higher than their respective carrying costs primarily due to 0.7 million tons at December 31, 2003, and 0.5 million tons at December 31, 2002, of copper contained in leach stockpiles that are carried at a zero value. That material was originally mined as waste, but as a result of changes in our technological capabilities is now expected to be processed.

Inventories valued by the last-in, first-out method would have been greater if valued at current costs by approximately $137 million and $79 million at December 31, 2003 and 2002, respectively.

Table of Contents

Supplies are stated net of a reserve for obsolescence of $31.8 million and $28.4 million at December 31, 2003 and 2002, respectively. We use valuation allowances for defective, unusable or obsolete inventories.

8. Property, Plant and Equipment

Property, plant and equipment at December 31 comprised the following:

	2003	2002
Buildings, machinery and equipment	$7,110.5	7,019.6
Mining properties	1,025.8	907.4
Capitalized mine development	188.2	171.8
Land and water rights	144.5	150.3
	8,469.0	8,249.1
Less accumulated depreciation, depletion and amortization	3,822.5	3,435.4
	$4,646.5	4,813.7

Refer to Note 21, Contingencies, for property, plant and equipment associated with properties on care-and-maintenance status.

9. Goodwill

Changes in the carrying amount of goodwill for the years ended December 31, 2003 and 2002, were as follows:

	Specialty Chemicals Segment	Wire and Cable Segment	Total
Balance as of December 31, 2001	$ 88.5	54.6	143.1
Goodwill acquired during period			
Impairment losses upon adoption of SFAS No. 142		(33.0)	(33.0)
Goodwill included in the disposal of a business unit			
Foreign currency translation adjustments	(19.4)		(19.4)
Balance as of December 31, 2002	69.1	21.6	90.7
Impairment losses		(0.9)	(0.9)
Foreign currency translation adjustments	8.6		8.6
Balance as of December 31, 2003	$ 77.7	20.7	98.4

The Company completed its annual goodwill impairment test as of December 31, 2003. The Wire and Cable segment recorded an impairment charge of $0.9 million in 2003 to write off magnet wire s goodwill. The Company will continue to test its goodwill annually as of December 31, unless events occur or circumstances change between annual tests that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

10. Intangible Assets

Intangible assets at December 31 comprised the following:

	2003	2002
Mining land concessions*	$426.6	422.8
Water and grazing rights	9.9	9.9
Non-mining land	5.6	5.0
Easements	1.9	1.8
	444.0	439.5
Less accumulated amortization	122.7	93.6
	$321.3	345.9

* Included mining concessions containing proven and probable ore reserves and mineralized material at the Company s South American mines; and included amounts for recording asset retirement costs associated with the implementation of SFAS No. 143. (Refer to Note 1, Summary of Significant Accounting Policies, under New Accounting Standards, for further discussion.)

Amortization expense related to intangible assets was $27.1 million, $26.0 million, and $28.4 million for 2003, 2002, and 2001, respectively.

The estimated annual aggregate amortization expense for intangible assets is $26.8 million, $27.3 million, $27.3 million, $27.4 million, and $27.6 million for 2004, 2005, 2006, 2007, and 2008, respectively.

11. Other Assets and Deferred Charges

Other assets and deferred charges at December 31 were as follows:

	2003	2002
Employee benefit plans*	$ 45.7	58.8
Debt issue costs	11.5	13.9
Interest rate swap contracts**		32.7
Trust assets***	106.4	31.4
Other	6.0	6.1
	$169.6	142.9

* Refer to Note 12, Accounts Payable and Accrued Expenses, for short-term liability; Note 13, Other Liabilities and Deferred Credits, for long-term liability; Note 17, Pension Plans; and Note 18, Postretirement and Other Employee Benefits Other Than Pensions, for further discussion.

** Refer to Note 22, Derivative Financial Instruments and Fair Value of Financial Instruments, for further discussion.

*** Trust assets consist of $64.0 million of cash received from Heisei that is restricted for the use of reclamation activities at Chino. The remainder of trust assets (approximately $42.4 million) related to assets to fund non-qualified retirement benefits.

12. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at December 31 were as follows:

	2003	2002
Accounts payable	$267.1	246.9
Salaries, wages and other compensation	55.8	49.5
Pension, postretirement, postemployment and other employee benefit plans*	147.1	51.5
Insurance reserves**	15.1	14.8
Environmental reserves**	45.9	44.2
Restructuring reserves***	2.1	4.0
Smelting, refining and freight	8.9	9.0
Other accrued taxes	42.5	28.5
Closure reserves**	12.6	1.7
Accrued utilities	12.0	15.8
Interest****	20.5	20.0
Professional fees	11.8	10.3
Lawsuit accruals*****	0.4	49.2
Maintenance contracts/contractor accruals	12.9	11.0
Other	46.0	52.7
	$700.7	609.1

* Refer to Note 13, Other Liabilities and Deferred Credits, for long-term portion; Note 17, Pension Plans; and Note 18, Postretirement and Other Employee Benefits Other Than Pensions, for further discussion.

** Short-term portion of these reserves. Refer to Note 13, Other Liabilities and Deferred Credits, for long-term portion of reserves and Note 21, Contingencies, for further discussion.

*** Refer to Note 3, Special Items and Provisions, for further discussion.

**** Third-party interest paid by the Company in 2003 was $154.2 million, compared with $198.9 million in 2002 and $225.6 million in 2001.

***** Included $43.5 million charge for lawsuit settlement with RAG American Coal Company in 2002, which was paid in 2003.

13. Other Liabilities and Deferred Credits

Other liabilities and deferred credits at December 31 were as follows:

	2003	2002
Pension, postretirement, postemployment and other employee benefit plans*	$ 485.6	539.2
Environmental reserves**	271.3	261.7
Insurance reserves**	30.7	37.9
Closure reserves**	212.7	136.9

Other	9.2	11.1
	$1,009.5	986.8

* Refer to Note 12, Accounts Payable and Other Accrued Expenses, for short-term portion; Note 17, Pension Plans; and Note 18, Postretirement and Other Employee Benefits Other Than Pensions, for further discussion.

** Refer to Note 12, Accounts Payable and Other Accrued Expenses, for short-term portion of reserves and Note 21, Contingencies, for further discussion.

14. Debt and Other Financing

Long-term debt at December 31 is summarized below:

	2003	2002
6.375% Notes due 2004	$ 85.0	85.0
6.625% Notes due 2005	224.7	226.0
7.375% Notes due 2007	187.4	186.8
8.75% Notes due 2011	389.3	389.8
Air Quality Control Obligations:		
5.45% Notes due 2009	81.1	81.1
6.50% Installment Sale Obligations due 2013	90.0	90.0
8.375% Debentures due 2023	148.8	148.8
7.125% Debentures due 2027	115.0	115.0
9.50% Notes due 2031	197.0	197.0
Candelaria Project Financing	144.9	186.1
Capital Lease Obligations	7.2	10.5
Cerro Verde Bank Loan due 2004		3.0
Cerro Verde Project Financing		30.9
Columbian Chemicals Korea	14.5	24.5
Columbian Tiszai Carbon Ltda. (Hungary)		5.3
Columbian Carbon Spain, S.A.	0.8	1.4
Cyprus Amax Chile Ltd.		10.0
El Abra Project Financing	187.9	246.3
Phelps Dodge Dublin	1.4	2.4
Various Pollution Control and Industrial Development Revenue Bonds	33.5	35.5
Long-term debt and capital lease obligations, including current portion	1,908.5	2,075.4
Less current portion	204.6	127.0
Long-term debt and capital lease obligations excluding current portion	$1,703.9	1,948.4

The amounts included above are shown net of unamortized discounts and purchase price adjustments of $9.6 million and $13.3 million at December 31, 2003 and 2002, respectively.

The following is a table of future maturities of long-term debt at December 31, 2003:

	Corporate	Project and Subsidiary Debt Financing	Total
2004	$ 97.2	107.4	204.6
2005	230.8	96.4	327.2
2006	6.3	82.0	88.3
2007	180.7	45.3	226.0
2008	1.9	18.5	20.4
Thereafter	1,042.0		1,042.0
	$1,558.9	349.6	1,908.5

Our Cerro Verde mine had project financing that required semi-annual installments of varying amounts through April 1, 2005. In April 2003, Cerro Verde made a $6.0 million installment payment and, during July and August of 2003, prepaid the remaining $24.0 million of its outstanding project financing and terminated an interest rate swap contract that converted a portion of its floating-rate debt into fixed-rate debt.

Table of Contents

111

In July 2002, the Company purchased $480.7 million of its long-term debt on the open market for $511.2 million, which resulted in a 2002 third quarter charge of $31.3 million ($26.6 million after taxes) for early debt extinguishment costs that included issuance costs and other book adjustments ($0.8 million). The face value of debt repurchased comprised the following:

	Face Value
6.375% Notes due 2004	$ 15.0
6.625% Notes due 2005	32.0
7.375% Notes due 2007	74.5
8.75% Notes due 2011	240.7
8.375% Debentures due 2023	2.2
7.125% Debentures due 2027	35.0
9.50% Notes due 2031	81.3
	$480.7

On April 1, 2002, we retired our 10.125 percent Notes ($150.0 million), then due, in their entirety.

The 6.375 percent Notes, due in 2004, bear interest payable semi-annually on May 1 and November 1. These notes are not redeemable by the Company prior to maturity and will not be entitled to any sinking fund.

The 6.625 percent Notes, due October 15, 2005, bear interest payable semi-annually on October 15 and April 15. In the event of a rating decline occurring within 90 days of certain designated events (which, to the extent beyond our control, generally involve a change of or contest for control), each holder of a note may require the Company to redeem the holder s notes, in whole or in part, at 100 percent of the principal amount plus accrued interest to the date of redemption. Otherwise, the notes are not redeemable by the Company prior to maturity.

The 7.375 percent Notes, due May 15, 2007, bear interest payable semi-annually on May 15 and November 15. These notes are not redeemable by the Company prior to maturity and will not be entitled to any sinking fund.

The 5.45 percent Air Quality Control Obligations, due June 1, 2009, bear interest payable semi-annually on June 1 and December 1. Beginning on June 1, 2004, these tax-exempt, unsecured notes are redeemable at the option of the Company at 102 percent of the principal amount, together with any accrued and unpaid interest, declining at a rate of 1 percent per year until June 1, 2006, and at 100 percent on June 1, 2006, and thereafter.

The 6.5 percent Air Quality Control Obligations, due April 1, 2013, bear interest payable semi-annually on April 1 and October 1. Beginning on April 1, 2003, these tax-exempt, unsecured notes are redeemable at the option of the Company at 102 percent of the principal amount, together with any accrued and unpaid interest, declining at a rate of 1 percent per year until April 1, 2005, and at 100 percent on April 1, 2005, and thereafter.

The 8.75 percent Notes, due June 1, 2011, and the 9.5 percent Notes, due June 1, 2031, bear interest payable semi-annually on June 1 and December 1. These notes are redeemable in whole or in part, at the option of the Company, at a redemption price equal to any accrued and unpaid interest plus the greater of (i) 100 percent of the principal amount of the notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments discounted to the redemption date, on a semi-annual basis, at the yield of a U.S. Treasury security having a comparable maturity to the remaining term of the notes plus, in the case of the notes due 2011, 45 basis points and, in the case of the notes due 2031, 50 basis points. The notes are not entitled to any sinking fund. We applied proceeds from the sale of these notes to repay corporate short-term borrowings and current maturities of long-term debt. We reduced principal outstanding on our 8.75 percent and 9.5 percent Notes by $240.7 million and $81.3 million, respectively, in July 2002 by means of open-market repurchases.

The 8.375 percent Debentures, due in 2023, bear interest payable semi-annually on February 1 and August 1. The debentures were not redeemable prior to February 1, 2003. Since that date, at the option of the Company, the debentures may be redeemed in whole or in part at 103.73 percent of the principal amount, together with any accrued and unpaid interest, declining at the rate of 0.375 percent per year to February 1, 2013, and at 100 percent on February 1, 2013, and thereafter. In the event of a rating decline occurring within 90 days (subject to extension under limited circumstances) of certain designated events (which, to the extent beyond our control, generally involve a change of or contest for control), each holder of a note may require the Company to redeem the holders notes, in whole or in part, at 100 percent of the principal amount plus accrued interest to the date of redemption. Rating declines that occur at any other time do not trigger an obligation to redeem any such notes.

The 7.125 percent Debentures, due in 2027, bear interest payable semi-annually on May 1 and November 1. The debentures are redeemable by the Company at any time prior to maturity at par plus a yield maintenance premium.

As of December 31, 2003, our 80 percent-owned joint venture interest in Candelaria mining operation in Chile had project debt outstanding of $144.9 million. The debt comprised $120.6 million of floating-rate, dollar-denominated debt (tied to six-month LIBOR), $12.6 million of fixed-rate, dollar-denominated debt and $11.7 million to recognize the market value of interest rate swap agreements that convert the floating-rate debt to fixed rates. The debt and repayments are scheduled to vary from period to period with all debt maturing by the year 2008. Candelaria did not borrow funds in 2003 or 2002. At December 31, 2003, the overall weighted average interest rate including the interest rate swap was 7.85 percent. The debt obligations and the interest rate swaps are non-recourse to us. Under the proportional consolidation method, the debt amounts listed above represent our 80 percent share.

Cerro Verde had a revolving credit facility, for up to $35 million, that could be used and repaid whenever it had excess cash. In 2003, the revolving credit facility was not renewed; therefore, there was no amount outstanding on the revolving facility as of December 31, 2003, compared with a balance outstanding of $3.0 million as of December 31, 2002.

On December 31, 2003, our Columbian Chemicals Korea operation had long-term debt outstanding in the amount of $14.5 million. The debt comprises three bank loans that bear variable-rate, semi-annual interest based on LIBOR plus spreads ranging from 1.80 to 1.95 percent. Each loan amortizes principal semi-annually, with $12.5 million due in 2004 and final maturity in April 2005.

Table of Contents

112

During 2003, Cyprus Amax Chile Ltd., a Chilean entity, repaid an outstanding $10 million bank loan that was secured by a cash time deposit in the same amount. The loan had a variable-rate, semi-annual interest at a rate of LIBOR plus 0.2375 percent per year and would have matured in November 2004.

At year-end 2003, our 51 percent joint venture interest in El Abra mining operations had outstanding project-financed debt of $187.9 million. This debt comprised: (i) a syndicated loan facility with two tranches totaling $159.7 million (Tranche A: $122.1 million; Tranche B: $37.6 million); and (ii) a trade-related facility with a German institution totaling $28.2 million. The Company currently has guarantees outstanding of $73.7 million on this project debt (including its share of Tranche B debt, as well as Corporación Nacional del Cobre de Chile s (CODELCO s) share). The debt had an initial 9.5-year term, due May 15, 2007, and requires semi-annual principal payments that began on May 15, 1998. The Company had converted a portion of this floating-rate debt to fixed-rate debt with the use of interest rate swap agreements. These agreements terminated in November 2003. The weighted average interest rate of this debt at December 31, 2003, was 2.89 percent. The loan agreement specifies certain restrictions on additional borrowings by El Abra and on dividend and subordinated debt payments. Under the proportional consolidation method, the debt amounts listed above represent our 51 percent share.

The various pollution control and industrial development revenue bonds are due through 2009. The interest on the bonds is paid either quarterly or semi-annually at various times of the year. The interest rates on the bonds at December 31, 2003, ranged from 1.10 percent to 7.25 percent.

The revolving credit agreement between the Company and several lenders that became effective on May 10, 2000, remains in effect. The facility is to be used for general corporate purposes. The agreement permits borrowings of up to $1 billion from time to time until its scheduled maturity on May 10, 2005. The agreement allows for one-year extensions of the maturity date under certain conditions subject to the approval of lenders holding at least a majority of the commitments. In the event of such approval, total commitments under the agreement may total less than $1 billion depending upon the willingness of the approving and other lenders to assume the commitments of those lenders electing not to participate in the renewal. Under the agreement, interest is payable at a variable rate based on the agent bank s prime rate or at a fixed rate, based on the LIBOR or at fixed rates offered independently by the several lenders, for maturities of up to 360 days. This agreement provides for a facility fee (currently 22.5 basis points (0.225 percent)) ranging from 9 basis points to 35 basis points (depending on our public debt rating) on total commitments. The agreement requires us to maintain a minimum consolidated tangible net worth of $1.5 billion and limits indebtedness to 60 percent of total consolidated tangible capitalization. There were no borrowings under the agreement at December 31, 2003 or 2002.

We established a commercial paper program on August 15, 1997, under a private placement agency agreement between the Company and two placement agents. The agreement permits us to issue up to $1 billion of short-term promissory notes (generally known as commercial paper) at any time. Commercial paper may bear interest or be sold at a discount, as mutually agreed by the placement agents and us at the time of each issuance. Our commercial paper program requires that issuances of commercial paper be backed by an undrawn line of credit; the revolving credit agreement described above provides such support. At our current short-term credit ratings (A-3 by Standard and Poor s and P-3 by Moody s), market demand for our commercial paper is extremely limited. There were no borrowings under this commercial paper program at December 31, 2003 or 2002.

On December 31, 2003, our Columbian Chemicals Canada operation had short-term debt outstanding against its revolving credit facility in the amount of $3.4 million. The $3.9 million facility is guaranteed by the Company and matures in November 2004. Variable-rate interest is paid monthly based on the Canadian prime rate.

Short-term debt was $50.5 million, all by our international operations, at December 31, 2003, compared with $35.2 million at December 31, 2002.

The weighted average interest rate on total short-term borrowings at December 31, 2003, and December 31, 2002, was 5.75 percent and 3.1 percent, respectively.

15. Shareholders Equity

As of December 31, 2003, there were 91.0 million shares of common stock outstanding and 1.7 million shares authorized for repurchase. In June 2002, the Company issued 10.0 million common shares along with 2.0 million of mandatory convertible preferred shares in a block trade with J.P. Morgan.

As of December 31, 2003, there were 2.0 million shares of cumulative preferred stock outstanding; 6.0 million shares are authorized with a par value of $1.00 each.

The Series A Mandatory Convertible Preferred Stock (Series A Stock) is convertible into 2.083 shares of Common Stock, subject to certain adjustments, at any time prior to August 15, 2005, and is entitled to an annual dividend of $6.75, paid quarterly. On August 15, 2005, each share of Series A Stock will automatically convert, subject to certain adjustments, into between 2.083 and 2.5 shares of Common Stock depending on the then-current market price of our Common Stock based on the average closing price of the 20-day period preceding the conversion date. Each share of Series A Stock is non-voting and entitled to a liquidation preference of $100 plus any accrued but unpaid dividends.

We have in place a Preferred Share Purchase Rights Plan that contains provisions to protect stockholders in the event of unsolicited offers or attempts to acquire Phelps Dodge, including acquisitions in the open market of shares constituting control without offering fair value to all stockholders and other coercive or unfair takeover tactics that could impair the ability of the Board of Directors to represent the stockholders interests fully.

16. Stock Option Plans; Restricted Stock

Executives and other key employees have been granted options to purchase common shares under stock option plans adopted in 1993, 1998 and 2003. The option price equals the fair market value of the common shares on the day of the grant, and an option s maximum term is 10 years. Options granted vest ratably over a three-year period.

Table of Contents

The 2003 plan provides (and the 1993 and 1998 plan provided) for the issuance to executives and other key employees, without any payment by them, of common shares subject to certain restrictions (Restricted Stock). There were 451,906 shares of Restricted Stock outstanding and 2,206,391 shares available for grant at December 31, 2003.

At December 31, 2003, 4,547,819 shares were available for option grants (including 2,206,391 shares as Restricted Stock awards) under the 2003 plan. These amounts are subject to future adjustment as described in the plan document. No further options may be granted under the 1998, 1993 or 1989 plans.

During 2003, 2002 and 2001, the Company awarded 118,000, 205,700 and 11,700 shares, respectively, of Restricted Stock under the 1998 plan, with weighted-average fair values at the date of grant of $34.95, $40.35 and $40.33 per share, respectively. Compensation expense recorded in 2003, 2002 and 2001 for Restricted Stock was $4.5 million, $2.7 million and $2.1 million, respectively. Restricted Stock generally becomes fully vested in five years. Although the July 2002 award becomes fully vested in five years, a portion of the shares included in that award will vest on the third and fourth anniversaries of the award.

In connection with the 1999 acquisition, former Cyprus Amax stock options were converted into 1,870,804 Phelps Dodge options, which retain the terms by which they were originally granted under the Management Incentive Program of Cyprus Amax Minerals Company. These options carry a maximum term of 10 years and became fully vested upon the acquisition of Cyprus Amax in October 1999. Exercise periods ranged up to eight years at acquisition. No further options may be granted under this plan.

The 1997 Directors Stock Unit Plan provides to each non-employee director an annual grant of stock units having a value equivalent to our common shares. This plan replaced the 1989 Directors Stock Option Plan. The options granted under the 1989 Directors Stock Option Plan expire three years after the termination of service as a director.

Changes during 2001, 2002 and 2003 in options outstanding for the combined plans were as follows:

	Shares	Average Option Price Per Share
Outstanding at December 31, 2000	8,179,836	$ 60.95
Granted	1,420,090	34.80
Exercised	(12,403)	40.30
Expired or terminated	(468,670)	60.73
Outstanding at December 31, 2001	9,118,853	56.91
Granted	802,800	40.12
Exercised	(8,080)	30.24
Expired or terminated	(978,972)	57.56
Outstanding at December 31, 2002	8,934,601	55.36
Granted	15,500	43.23
Exercised	(1,958,523)	50.82
Expired or terminated	(501,536)	74.32

Outstanding at December 31, 2003	6,490,042	55.23

Options outstanding based on a range of exercise prices at December 31, 2003, were as follows:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Term	Weighted Average Outstanding Option Price
$27-40	1,046,558	8 years	$ 34.46
40-60	3,046,752	6 years	50.14
60-80	2,266,756	3 years	70.02
80-100	129,976	1 year	83.82
	6,490,042		

Exercisable options by plan at December 31, 2003, were as follows:

	Shares	Weighted Average Option Price Per Share
PD Plans		
2003 Plan		$
1998 Plan	2,976,068	48.52
1993 Plan	1,650,166	67.88
1989 Directors Stock Option Plan	37,884	51.53
Cyprus Amax Plans	900,558	72.37
	5,564,676	

Exercisable options by range of exercise prices at December 31, 2003, were as follows:

Range of Exercise Prices	Options Exercisable at 12/31/03	Weighted Average Outstanding Option Price
$27-40	604,338	$ 34.42
40-60	2,563,606	51.88
60-80	2,266,756	70.02

80-100	129,976	83.82
	5,564,676	

Table of Contents

114

Equity compensation plans at December 31, 2003, were as follows:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	6,490,042	$ 55.23	4,547,819
Equity compensation plans not approved by security holders			
Total	6,490,042	$ 55.23	4,547,819

Changes during 2001, 2002 and 2003 in Restricted Stock were as follows:

	Shares
Outstanding at December 31, 2000	219,578
Granted	11,700
Terminated	(26,533)
Released	(15,011)
Outstanding at December 31, 2001	189,734
Granted	205,700
Terminated	(19,800)
Released	(16,450)
Outstanding at December 31, 2002	359,184
Granted	118,000
Terminated	(6,200)
Released	(19,078)
Outstanding at December 31, 2003	451,906

The fair value of each option grant is estimated on the date of grant using a Black-Scholes option-pricing model with the following assumptions:

	2003	2002	2001
Expected dividend yield	0.00%	3.04%	3.16%
Expected stock price volatility	43.4%	38.8%	40.9%
Risk-free interest rate	2.9%	3.3%	3.4%
Expected life of options	5 years	3 years	3 years

The weighted-average fair value of options per share granted during 2003 was $18.06 per share, compared with $9.76 in 2002 and $8.84 in 2001.

17. Pension Plans

We have trusteed, non-contributory pension plans covering substantially all our U.S. employees and some employees of international subsidiaries. The applicable plan design determines the manner in which the benefits are calculated for any particular group of employees. With respect to certain of these plans, the benefits are calculated based on final average monthly compensation and years of service. In the case of other plans, the benefits are calculated based on a fixed amount for each year of service. Participants generally vest in their accrued benefits after five years of service.

Our funding policy provides that contributions to pension trusts shall be at least equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended, for U.S. plans; or, in the case of international plans, the minimum legal requirements that may be applicable in the various countries. Additional contributions also may be made from time to time. Contributions were approximately $7 million in 2003 and 2002, mostly for plans at international subsidiaries and a supplemental retirement plan. The minimum 2004 cash contribution for the Phelps Dodge Retirement Plan and U.S. pension plans for bargained employees is approximately $4 million. However, the Company expects to contribute approximately $87 million in the 2004 third quarter based on its current assessment of the economic environment. A final determination will be made prior to the required contribution date.

In some of our plans, the plan assets exceed the accumulated benefit obligations (overfunded plans), while in the remainder, the accumulated benefit obligations exceed the plan assets (underfunded plans). The following table presents underfunded plans at December 31:

	2003	2002
Projected benefit calculation	$1,174	1,064
Accumulated benefit obligation	$1,086	981
Fair value of plan assets	$ 864	770

Our pension plans were valued between December 1, 2001, and January 1, 2002, and between December 1, 2002, and January 1, 2003. Obligations were projected to and assets were valued as of the end of 2002 and 2003. The majority of plan assets are invested in a diversified portfolio of stocks, bonds and cash or cash equivalents. A small portion of the plan assets is invested in pooled real estate and other private investment funds.

The Phelps Dodge Corporation Defined Benefit Master Trust (Master Trust), which holds plan assets for the Phelps Dodge Retirement Plan and U.S. pension plans for bargained employees, constituted 95 percent of total plan assets as of year-end 2003. These plans accounted for approximately 90 percent of benefit obligations. The following table represents the asset mix of the investment portfolio for this trust at December 31:

	2003	2002
Asset category:		
Equity securities	57%	52%
Fixed income	33	38
Real estate	7	7
Other	3	3
	100%	100%

At December 31, 2003, the equity securities included 36 percent U.S. equities, 13 percent international equities and 8 percent emerging market equities; and the fixed income included 17 percent U.S. fixed income, 5 percent international fixed income, 3 percent emerging market fixed income, 5 percent U.S. high yield, and 3 percent treasury inflation-protected securities. At December 31, 2002, the equity securities included 37 percent U.S. equities, 12 percent international equities and 3 percent emerging market equities; and the fixed income included 20 percent U.S. fixed income, 5 percent international fixed income, 4 percent emerging market fixed income, 5 percent U.S. high yield, and 4 percent treasury inflation-protected securities.

Our policy for determining asset-mix targets for the Master Trust includes the periodic development of asset/liability studies by a nationally recognized third-party investment consultant (to determine our expected long-term rate of return and expected risk for various investment portfolios). Management considers these studies in the formal establishment of asset-mix targets that are presented to the Finance Committee of the board of directors.

Our expected long-term rate of return on plan assets is updated at least annually, taking into consideration our asset allocation, historical returns on the types of assets held in the Master Trust, and the current economic environment. Based on these factors, we expect our pension assets will earn an average of 8.5 percent per annum during the 20 years beginning December 1, 2003, with a standard deviation of 10.7 percent. The 8.5 percent estimation was based on a passive return on a compound basis of 8.0 percent and a premium for active management of 0.5 percent. On an arithmetic average basis, the passive return would have been 8.5 percent with a premium for active management of 0.5 percent. The expected return as of December 1, 2002, was 8.75 percent with a standard deviation of 10.6 percent.

For estimation purposes, we assume our long-term asset mix generally will be consistent with the current mix. Changes in our asset mix could impact the amount of recorded pension income or expense, the funded status of the plan and the need for future cash contributions. A lower-than-expected return on assets also would decrease plan assets and decrease the amount of recorded pension income (or increase recorded pension expense) in future years. When calculating the expected return on plan assets, the Company uses a market-related value of assets that spreads asset gains and losses over five years. As a result, changes in the fair value of assets prior to January 1, 2004, will be reflected in the results of operations by January 1, 2009.

The fair value of all plan assets ($893 million at year-end 2003 and $830 million at year-end 2002) is impacted by general market conditions. If actual returns on plan assets vary from the expected returns, actual results could differ.

A third-party independent actuary determines our net pension asset or liability and associated income or expense. We recognize in our financial statements an accrued liability (or a prepaid pension expense) for the difference between pension cost and contributions to the plan. In addition, as required by SFAS No. 87, a minimum pension liability is recorded when a plan s accumulated benefit obligation exceeds the plan s assets by more than the amount of accrued liability recognized for that plan.

Our benefit obligation totaled $1,197 million and $1,111 million at year-end 2003 and 2002, respectively. Among the assumptions used to estimate the benefit obligation is a benchmark discount rate used to calculate the expected present value of future benefit payments. For our U.S. plans, the discount rate assumption is designed to reflect yields on high-quality, fixed-income investments for a given duration. We utilized a nationally recognized third-party actuary to construct a bond portfolio comprising non-callable bonds from the S&P bond listing rated AA- or higher. The portfolio was constructed such that cash flow generated by the portfolio matched projected future cash flow from the pension plan. The model portfolio used 33 bonds resulting in a discount rate of approximately 6.25 percent for our pension plans. Changes in this assumption are reflected in our benefit obligation and, therefore, in the liabilities and income or expense we record.

We periodically review our actual asset mix, benchmark discount rate, expected rate of return and other actuarial assumptions and adjust them as deemed necessary. Our assumption concerning the average rate of compensation increase was 4 percent for all periods.

The following table presents the benefit obligation, changes in plan assets, the funded status of the pension plans and the assumptions used at December 31:

	2003	2002
Weighted-average assumptions:		
Discount rate	6.25%	6.75%
Rate of increase in salary levels	4.00%	4.00%
Change in benefit obligation:		
Benefit obligation at beginning of year	$1,111	1,006
Service cost benefits earned during the period	21	20
Interest cost on benefit obligation	72	70
Plan amendments		1
Actuarial loss	60	71
Benefits paid	(78)	(73)
Special retirement benefits	2	10
Currency translation adjustments	9	6
Benefit obligation at end of year	$1,197	1,111
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 830	940
Actual return (loss) on plan assets	129	(48)
Employer contributions	7	7
Currency translation adjustments	5	4
Benefits paid	(78)	(73)
Fair value of plan assets at end of year	$ 893	830
Funded status	$ (304)	(281)
Unrecognized actuarial loss	274	257
Unrecognized prior service cost	18	20
Net amount recognized	$ (12)	(4)
Amounts recognized in the balance sheet consist of:		
Prepaid benefit cost	$ 13	29
Accrued benefit liability	(223)	(211)
Intangible asset	21	20
Deferred tax benefit	13	12
Accumulated other comprehensive income	164	146
Net amount recognized	$ (12)	(4)

Table of Contents

Assumptions used as of the beginning of the plan year to determine the listed components of net periodic benefit cost for the associated year consist of the following:

	2003	2002	2001
Weighted-average assumptions:			
Discount rate	6.75%	7.25%	7.75%
Expected long-term rate of return	8.75%	9.00%	9.50%
Rate of increase in salary levels	4.00%	4.00%	4.00%
Components of net periodic benefit cost:			
Service cost benefits earned during the period	$ 20.9	20.3	18.8
Interest cost on benefit obligation	72.1	70.0	69.4
Expected return on plan assets	(86.4)	(92.7)	(99.0)
Amortization of transition obligation	0.1	1.1	0.3
Amortization of prior service cost	3.5	3.7	3.9
Amortization of actuarial loss (gain)	2.8	(0.4)	(6.0)
Curtailments and special retirement benefits	2.0	10.2	3.9
Recognized prior service cost	0.2	2.1	0.2
Net periodic benefit cost (income)	$ 15.2	14.3	(8.5)

We recognize a minimum liability in our financial statements for our underfunded pension plans. The accrued pension benefit cost was $223 million, which included an additional minimum liability of $198 million and was included in Other Liabilities and Deferred Credits at December 31, 2003, compared with $211 million, which included an additional minimum liability of $178 million (included in Other Liabilities and Deferred Credits) at December 31, 2002. The additional minimum liability was offset by a $21 million intangible asset, a $164 million reduction in Shareholders Equity and a $13 million deferred tax benefit at December 31, 2003, compared with a $20 million intangible asset, a $146 million reduction in Shareholders Equity and a $12 million deferred tax benefit at December 31, 2002.

18. Postretirement and Other Employee Benefits Other Than Pensions

We record obligations for postretirement medical and life insurance benefits on the accrual basis. One of the principal requirements of this method is that the expected cost of providing such postretirement benefits be accrued during the years employees render the necessary service.

Our postretirement plans provide medical coverage benefits for many employees retiring from active service. The coverage is provided on a non-contributory basis for certain groups of retirees and on a contributory basis for other groups. The majority of these medical benefits are paid by the Company. We also provide life insurance benefits to our U.S. employees who retire from active service and to some of our international employees. Life insurance benefits for retirees also are available pursuant to the terms of certain collective bargaining agreements. The majority of the costs of such life insurance benefits were paid out of a previously established fund maintained by an insurance company.

Our funding policy provides that contributions to our postretirement and other employee benefits other than pensions shall be at least equal to our cash basis obligation. Additional contributions also may be made from time to time. Contributions for our postretirement benefit plans were approximately $28 million in 2003 and approximately $28 million in 2002. Cash contributions (net of employee contributions) for 2004 are expected to range between $26 million to $30 million.

The following table represents the asset mix of the investment portfolio for our postretirement benefit plans at December 31:

	2003	2002
Asset category:		
Core U.S. fixed income	60%	60%
Growth equity	40%	40%
	100%	100%

The fair value of all plan assets ($5 million at year-end 2003 and $7 million at year-end 2002) is impacted by general market conditions. If actual returns on plan assets vary from the expected returns, actual results could differ.

A third-party independent actuary determines our net postretirement liability and associated income or expense. We recognize in our financial statements an accrued liability for the difference between postretirement cost and contributions to the plan.

The long-term expected rate of return on plan assets for our postretirement medical and life insurance benefit plans and the discount rate were determined on the same basis as our pension plan. Based on our asset allocation, historical returns on the types of assets held in the trust, and the current economic environment we expect our postretirement medical and life insurance benefit assets will earn an average of 6.50 percent per annum over the long-term beginning December 1, 2003. The cash flow generated by the constructed bond portfolio comprising non-callable bonds from the S&P bond listing rated AA- or higher that was matched to projected future cash flow from the postretirement medical and life insurance benefit plans resulted in a discount rate of approximately 6.25 percent. Changes in this assumption are reflected in our benefit obligation and, therefore, in our liabilities and income or expense we record.

We periodically review our actual asset mix, benchmark discount rate, expected rate of return and other actuarial assumptions and adjust them as deemed necessary. Our assumption concerning the average rate of compensation increase was 4 percent for all periods.

Table of Contents

117

The following table presents the change in benefit obligation, change in plan assets, the funded status of the postretirement benefit plans and the assumptions used at December 31:

	2003	2002
Weighted-average assumptions:		
Expected long-term rate of return on plan assets	6.50%	8.00%
Discount rate	6.25%	6.75%
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 369	329
Service cost benefits earned during the year	4	4
Interest cost on benefit obligation	23	22
Actuarial loss	9	40
Benefits paid, net of employee contributions	(30)	(29)
Other	14	3
Benefit obligation at end of year	$ 389	369
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 7	8
Actual return on plan assets		
Employer contributions	28	28
Benefits paid, net of employee contributions	(30)	(29)
Fair value of plan assets at end of year	$ 5	7
Unfunded status	$ (384)	(362)
Unrecognized actuarial loss (gain)	43	32
Unrecognized prior service cost	9	11
Net amount recognized accrued liability	$ (332)	(319)

Assumptions used as of the beginning of the plan year to determine the listed components of net periodic postretirement benefit cost were as follows:

	2003	2002	2001
Weighted-average assumptions:			
Discount rate	6.75%	7.25%	7.75%
Expected long-term rate of return on plan assets	8.00%	8.00%	8.00%
Rate of increase in salary levels	4.00%	4.00%	4.00%
Components of net periodic benefit cost:			
Service cost benefits earned during the year	$ 4.4	4.2	3.9
Interest cost	23.4	21.7	22.6

Expected return on plan assets	(0.6)	(0.7)	(0.8)
Amortization of:			
Unrecognized prior service cost	1.3	1.3	1.3
Unrecognized net gain	(0.4)	(0.3)	(1.1)
Curtailments and special retirement benefits	12.5	3.4	0.5
Net periodic benefit cost	$40.6	29.6	26.4

The assumed medical care trend rates at December 31 were:

	2003	2002
Medical care cost trend rate assumed for major medical plan for the next year	11%	11%
Medical care cost trend rate assumed for basic only plan for the next year	8%	8%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5%	5%
Year that the rate reaches the ultimate trend rate	2010	2009

Assumed medical care cost trend rates have a significant effect on the amounts reported for the postretirement medical benefits. A 1-percentage-point change in the medical care cost trend rates assumed for postretirement medical benefits would have the following effects:

	1 Percentage-Point	
	Increase	Decrease
Effect on total of service and interest cost components	$ 1.4	1.3
Effect on postretirement benefit obligation	$18.4	16.7

In December 2003, The Medicare Prescription Drug, Improvement and Modernization Act of 2003 was enacted. Our accumulated postretirement benefit obligation and net periodic postretirement benefit cost do not reflect the effects that the requirements of this law may have on those calculations. FASB is expected to provide additional guidance for the accounting treatment related to the requirements of this statute, which could require changes to previously reported information.

We have a number of postemployment plans covering severance, long-term disability income, health care, life insurance, continuation of health and life insurance coverage for disabled employees or other welfare benefits. At December 31, 2003 and 2002, the accumulated postemployment disability benefit consisted of a current portion of $5.9 million and $3.6 million, respectively, included in accounts payable and accrued expenses and $22.7 million and $18.0 million, respectively, included in other liabilities and deferred credits.

We also sponsor savings plans for the majority of our employees. The plans allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with specified guidelines. The principal savings plan is a qualified 401(k) plan for all U.S. salaried and non-bargained hourly employees. In this plan, participants exercise control and direct the investment of their contributions and account balances among a broad range of investment options, including company stock. Participants also may direct their contributions into a brokerage option through which they can invest in stocks, bonds and mutual funds. Participants may change investment direction or transfer existing balances at any time without restriction, with some exceptions for certain officers and other insiders. We match a percentage of employee pre-tax deferral contributions up to certain limits. These matching contributions are made in cash, which is immediately invested according to each employee s current investment direction. Our contributions amounted to $11.4 million in 2003, $11.5 million in 2002 and $13.3 million in 2001.

19. Commitments

Phelps Dodge leases mineral interests and various other types of properties, including shovels, offices and miscellaneous equipment. Certain of the mineral leases require minimum annual royalty payments, and others provide for royalties based on production.

Summarized below at December 31, 2003, are future minimum rentals and royalties under non-cancelable leases:

	Operating Leases	Mineral Royalties	Capital Leases
2004	$ 18.3	1.3	4.1
2005	16.6	1.3	4.0
2006	15.4	1.3	
2007	12.8	1.3	
2008	11.9	1.3	
After 2008	32.9	16.1	
Total payments	$107.9	22.6	8.1
Less imputed interest			(0.9)
Present value of lease payments			7.2
Less current portion			(3.5)
Present value of long-term payments			$ 3.7

Summarized below at December 31, 2003, is future sub-lease income:

	Sub-lease Income
2004	$0.4
2005	0.5
2006	0.4
2007	0.5
2008	0.5
After 2008	1.8
	$4.1

Rent and royalty expenses for the years ended December 31 were as follows:

	2003	2002	2001
Rental expense	$23.0	21.4	22.4
Mineral royalty	1.3	1.3	0.6
	$24.3	22.7	23.0

Phelps Dodge has unconditional purchase obligations (take-or-pay contracts) of $584.9 million comprising the procurement of electricity (approximately 39 percent); petroleum-based products (approximately 24 percent); copper anode (approximately 14 percent); natural gas (approximately 5 percent); transportation (approximately 3 percent); sulfuric acid (approximately 4 percent); oxygen (approximately 3 percent); port fee commitments (approximately 2 percent); and other supplies (approximately 6 percent) that are essential to our operations worldwide. Approximately 85 percent of our take-or-pay electricity obligations are through PD Energy Services, the legal entity used to manage power for PDMC, at generally fixed-price arrangements. PD Energy Services has the right and the ability to resell the electricity as circumstances warrant. Obligations for petroleum-based feedstock at our Specialty Chemicals segment, which is converted into carbon black, are for specific quantities and will ultimately be purchased based upon prevailing market prices at that time. These petroleum-based products may be re-sold to others if circumstances warrant. Obligations for natural gas provide for deliveries of specified volumes, at market-based prices, primarily to our carbon black operation in Brazil. Obligations for copper anode provide for deliveries of specified volumes, at market-based prices, to our El Paso Refinery. Transportation obligations are primarily for importing sulfuric acid to El Abra. Our sulfuric acid purchases provide for deliveries of specified volumes, based primarily on negotiated rates, to El Abra and Cerro Verde. Our oxygen obligations provide for deliveries of specified volumes, at fixed prices, to Bagdad. Our carbon black facility in the United Kingdom has port fee commitments.

Our future commitments are $200.1 million, $108.9 million, $77.0 million, $68.2 million, $44.4 million, and $86.3 million for 2004, 2005, 2006, 2007, 2008, and after 2008, respectively.

20. Guarantees

In November 2002, FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 requires that upon issuance of certain guarantees, a guarantor must recognize a liability for the fair value of an obligation assumed under the guarantee. FIN 45 also requires significant new disclosures by guarantors, in both interim and annual financial statements, about obligations associated with guarantees issued. FIN 45 disclosure requirements were effective for our year ended December 31, 2002, and the initial recognition and measurement provisions were applicable on a prospective basis to guarantees issued or modified after December 31, 2002. Phelps Dodge as a guarantor is involved in financial guarantees (including option guarantees and indirect guarantees of the indebtedness of others) and indemnities.

Our financial guarantees primarily consist of the Cyprus Amax guarantee to cover our partner s share of El Abra s Tranche B debt. The value of our partner s 49 percent share of the project debt we guarantee (which reflects our maximum potential payment) totaled $36.1 million at December 31, 2003. This debt matures in May 2007 (refer to Note 14, Debt and Other Financing, for additional discussions concerning our project debt and guarantee arrangement at El Abra). As of December 31, 2003, the Company has not recorded any liability on its financial statements in connection with this guarantee as the Company does not believe, based on information available, that it is probable that any amounts will be paid under this guarantee.

At our Morenci mine in Arizona, we have a venture agreement dated February 7, 1986, with our business partner, Sumitomo, that includes a put/call option guarantee clause. We hold an 85 percent undivided interest in the Morenci complex. Under certain conditions defined in the venture agreement, our partner has the right to sell its 15 percent share to the Company. Likewise, under certain conditions, the Company has the right to exercise its purchase option to acquire our business partner s share of the venture. Based on calculations defined in the venture agreement, at December 31, 2003, the maximum potential payment the Company is obligated to make to our business partner upon exercise of the put option (or the Company s exercise of its call option) totaled approximately $101 million. As of December 31, 2003, the Company has not recorded any liability on its financial statements in connection with this guarantee as the Company does not believe, based on information available, that it is

Table of Contents

probable that any amounts will be paid under this guarantee as the fair value is well in excess of the exercise price.

One of our subsidiaries has entered into an indirect guarantee to pledge certain of our land and improvements as collateral to a lender for a real estate development loan issued on behalf of our joint venture investment. The Company owns a 50 percent interest in the joint venture and has guaranteed payment of any amounts due on the loan in the event of the joint venture s loan default. The loan value and maximum potential payment for this guarantee at December 31, 2003, was approximately $23 million. The estimated fair value of our collateralized land at year-end was approximately $5 million. As of December 31, 2003, the Company has not recorded any liability on its financial statements in connection with this guarantee as the Company does not believe, based on information available, that it is probable that any amounts will be paid under this guarantee.

The Company (and its subsidiaries, including Cyprus Amax Minerals Company) has, as part of its merger, acquisition, divestiture and other transactions, entered into during the ordinary course of business (including transactions involving the purchase and sale of property), from time to time, indemnified certain sellers, buyers or other parties related to the transaction from and against certain liabilities associated with conditions in existence (or claims associated with actions taken) prior to the closing date of the transaction. In certain transactions, the Company indemnified the counterparty from and against certain excluded or retained liabilities existing at the time of sale that would otherwise have been transferred to the party at closing. These indemnity provisions generally require Phelps Dodge (or its subsidiaries) to indemnify the party against certain liabilities that may arise in the future from the pre-closing activities of the Company or assets sold or purchased. The indemnity classifications include environmental, tax and certain operating liabilities, claims or litigation existing at closing and various excluded liabilities or obligations. Most of these indemnity obligations arise from transactions that closed many years ago, and given the nature of these indemnity obligations, it is impossible to estimate the maximum potential exposure. Except as described in the following sentence, we do not consider any of such obligations as having a probable likelihood of payment that is reasonably estimable, and accordingly, we have not recorded any obligations associated with these indemnities. With respect to our environmental indemnity obligations, any expected costs from these guarantees are accrued when potential environmental obligations are considered by management to be probable and the costs can be reasonably estimated (refer to Note 21, Contingencies, for further discussions concerning our environmental reserve process).

21. Contingencies

Letters of Credit and Surety Bonds

Phelps Dodge had standby letters of credit totaling $103.6 million at December 31, 2003, primarily for Candelaria s project financing; insurance programs associated with workers compensation, casualty and owner controlled reinsurance, indemnity agreements, general and automobile liability; and reclamation and environmental obligations. In addition, Phelps Dodge had surety bonds totaling $173.1 million at December 31, 2003, associated with reclamation and closure bonds ($152.6 million or 88.2 percent), which are discussed below, and self-insurance bonds for workers compensation ($19.9 million or 11.5 percent). Phelps Dodge also had performance guarantees of $28.1 million primarily associated with our Wire and Cable segment s sales contracts.

The terms and conditions presently available from one of our principal surety bond providers for reclamation and other types of long-lived surety bonds have made this type of financial assurance economically impracticable in many instances.

Insurance

The Company purchases a variety of insurance products to mitigate insurable losses. The various insurance products typically have specified deductible amounts, retention requirements and policy limits. The Company purchases all-risk property insurance with varying site deductibles and an annual aggregate corporate property deductible of $30 million. The Company generally is self-insured for workers compensation, but purchases excess insurance up to statutory limits. An actuarial study is performed annually by a licensed third-party actuary for the Company s various casualty programs, including workers compensation, to estimate required insurance reserves. Insurance reserves totaled $45.8 million and $52.7 million at December 31, 2003 and 2002, respectively.

The Company pays its portion of a variety of insurance claims and losses associated with property, general liability, workers compensation and auto. The total amount paid pursuant to these programs was $13.1 million, $20.2 million and $26.8 million in 2003, 2002 and 2001, respectively. Group medical and other insurance benefit costs paid by the Company for both active and retired participants totaled approximately $98 million, $104 million and $102 million in 2003, 2002 and 2001, respectively.

Other Taxes

It is possible that Phelps Dodge Corporation and certain of its subsidiaries may be considered to conduct business in Texas where they do not directly operate due to the processing of copper by affiliates in that state. If they were considered to conduct business in Texas, they would be obligated to pay franchise taxes they have not previously paid. We are analyzing whether any taxes, interest or penalties should be paid, and have applied to resolve the matter through a voluntary compliance program. Based upon our review, we have estimated a range of reasonably possible loss of $8 million to $25 million, and, as no point within that range is more likely than any other, the lower end of the range has been recorded.

Environmental

Phelps Dodge is 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. The Company is also 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. In addition, the Company is subject to potential liabilities under the Resource Conservation and Recovery Act (RCRA) and analogous state laws that require responsible par-

Table of Contents

ties to remediate releases of hazardous or solid waste constituents into the environment associated with past or present activities.

Phelps Dodge or its subsidiaries have been advised by EPA, the U.S. Forest Service and several state agencies that they may be liable under CERCLA or similar state laws and regulations for costs of responding to environmental and natural resource conditions at a number of sites that have been or are being investigated by EPA, the U.S. Forest Service or states to determine whether releases of hazardous substances have occurred and, if so, to develop and implement remedial actions to address environmental and natural resource concerns.

Phelps Dodge has provided reserves for potential environmental obligations that management considers probable and for which reasonable estimates can be made. For closed facilities and closed portions of operating facilities with closure obligations, an environmental liability is considered probable and is accrued when a closure determination is made and approved by management. Environmental liabilities attributed to CERCLA or analogous state programs are considered probable when a claim is asserted, or is probable of assertion, and we have been associated with the site. Other environmental remediation liabilities are considered probable based upon specific facts and circumstances. Liability estimates are based on an evaluation of, among other factors, currently available facts, existing technology, presently enacted laws and regulations, Phelps Dodge s experience in remediation, other companies remediation experience, Phelps Dodge s status as a potentially responsible party (PRP), and the ability of other PRPs to pay their allocated portions. Accordingly, total environmental reserves of $317.2 million and $305.9 million were recorded as of December 31, 2003 and 2002, respectively. The long-term portion of these reserves is included in other liabilities and deferred credits on the Consolidated Balance Sheet and amounted to $271.3 million and $261.7 million at December 31, 2003 and 2002, respectively.

The site currently considered to be the most significant is the Pinal Creek site near Miami, Arizona.

Pinal Creek Site

The Pinal Creek site was listed under the Arizona Department of Environmental Quality (ADEQ) Water Quality Assurance Revolving Fund program in 1989 for contamination in the shallow alluvial aquifers within the Pinal Creek drainage near Miami, Arizona. Since that time, environmental remediation has been performed by the members of the Pinal Creek Group (PCG), comprising Phelps Dodge Miami, Inc. (a wholly owned subsidiary of the Company) and two other companies. In 1998, the District Court approved a Consent Decree between the PCG members and the state of Arizona resolving all matters related to an enforcement action contemplated by the state of Arizona against the PCG members with respect to the groundwater matter. The Consent Decree committed Phelps Dodge Miami, Inc. and the other PCG members to complete the remediation work outlined in the Consent Decree. That work continues at this time pursuant to the Consent Decree and consistent with the National Contingency Plan prepared by EPA under CERCLA.

Phelps Dodge Miami, Inc. and the other members of the PCG are pursuing contribution litigation against three other parties involved with the site. At least two of the three defendants now have admitted direct liability as responsible parties. The first phase of the case has been assigned a trial date in August 2004. Phelps Dodge Miami, Inc. also asserted claims against certain past insurance carriers. As of November 2002, all of the carriers have settled or had their liability adjudicated. One carrier has appealed the judgment against it.

In addition, a dispute between one dissenting PCG member and Phelps Dodge Miami, Inc. and the other PCG member was filed in Superior Court in 2002. The litigation seeks a declaratory judgment on the dissenting member s contract liability under the PCG agreement. Trial for this matter is scheduled for mid-2004.

While significant recoveries may be achieved in the contribution litigation, the Company cannot reasonably estimate the amount and, therefore, has not taken potential recoveries into consideration in the recorded reserve.

Phelps Dodge Miami, Inc. s share of the planned remediation work has a cost range for reasonably expected outcomes estimated to be from $110 million to $216 million. Approximately $113 million remained in the Company s Pinal Creek remediation reserve at December 31, 2003.

The sites that had the largest adjustments to their reserves were the Yonkers and American Zinc and Chemical sites.

Yonkers Site

In 1984, the Company sold a cable manufacturing facility located in Yonkers, New York. In 2000, the owner of the property entered into a consent order with the New York State Department of Environmental Conservation (NYSDEC) under which the owner committed to complete a remedial investigation and feasibility study. In December 2001, the Company entered into an Interim Agreement with the owner of the property regarding the owner s claim for indemnification from the Company for certain environmental liabilities at the facility. The owner submitted its feasibility study to NYSDEC in December 2003. The feasibility study recommends excavation of PCB-contaminated soil, either removal of PCB and lead contamination from, or demolition of PCB- and lead-contaminated buildings, and monitored natural recovery of PCB-contaminated sediments in the Hudson River. Based on the feasibility study, and taking into consideration the reasonably possible allocation percentages that could apply to the Company and the property owner, the Company s remedial costs may range from $20 million to $37 million, with a most likely point in the range of $20 million.

American Zinc and Chemical Site

In June 1999, Cyprus Amax, now a subsidiary of Phelps Dodge, received an information request from the Pennsylvania Department of Environmental Protection (PADEP) regarding the former American Zinc and Chemical (AZC) site in Langeloth, Pennsylvania. The AZC site consists primarily of a former zinc smelter facility operated until 1947 by the former American Zinc and Chemical Company and includes some or all of a contiguous, currently operating molybdenum refinery formerly owned by the Climax Molybdenum Company, which is indirectly owned by Cyprus Amax. The American Zinc and Chemical Company, which was dissolved in 1951, also was a subsidiary of a corporate predecessor to Cyprus Amax.

In discussions with Cyprus Amax in 2001 and early 2002, PADEP informally indicated that it expects Cyprus Amax to investigate and remediate negative environmental conditions at the AZC site, which predominate at and about the former zinc smelter facility. The Company s Form 10-K for the year ended December 31, 2002, indicated preliminary evaluations of the nature and extent of conditions at the site may range in cost from $18 million to $52 million. The Company reserved $20 million for possible remediation work at this site. Recently, an engineering evaluation and reasonable-cost analysis was performed to estimate the cost and feasibility of implementing the most likely remedial action that PADEP would accept based on effectiveness and implementability. To check the validity of the analysis, estimated site remedial costs were compared with costs from other environmental sites that have implemented similar remedial actions. In addition, a reasonable-cost analysis was performed on other possible remedial alternatives so a range of costs could be established for consideration. This analysis indicated that remediation of the site may range from $9 million to $43 million, with a most likely point in the range of $9 million. The most likely remedial action would include an additional site investigation study, implementation of storm water controls, constructing an engineered cap over 60 acres of slag and process waste, and long-term monitoring and operation and maintenance of the site. While the Company has reduced its reserve to $9 million for possible remediation work at the site, Cyprus Amax continues to believe and will continue to indicate to PADEP that the Company is not liable for the actions of its former subsidiary, American Zinc and Chemical Company, under existing federal and state environmental laws. To date, PADEP has not responded to Cyprus Amax s assertion that it is not liable.

Other

In 2003, the Company recognized charges of $28.4 million for environmental remediation. The two sites with significant changes were the Yonkers site (an increase of $16.7 million) and the AZC site (a decrease of $10.4 million). The remainder of environmental remediation charges was primarily at closed sites, none of which increased or decreased individually more than approximately $7 million.

At December 31, 2003, the cost range for reasonably possible outcomes for all reservable environmental remediation sites other than Pinal Creek, Yonkers and AZC was estimated to be from $133 million to $329 million, of which $175 million has been reserved. Work on these sites is expected to be substantially completed in the next several years, subject to inherent delays involved in the remediation process.

Phelps Dodge believes certain insurance policies partially cover the foregoing environmental liabilities; however, some of the insurance carriers have denied coverage. We presently are negotiating with the carriers over some of these disputes. Further, Phelps Dodge believes it has other potential claims for recovery from other third parties, including the United States Government and other PRPs. Neither insurance recoveries nor other claims or offsets are recognized unless such offsets are considered probable of realization. In 2003 and 2002, the Company recognized proceeds from settlements reached with several insurance companies on historic environmental liability claims of $0.5 million and $34.3 million, net of fees and expenses, respectively.

Phelps Dodge has a number of sites that are not the subject of an environmental reserve because it is not probable that a successful claim will be made against the Company for those sites, but for which there is a reasonably possible likelihood of an environmental remediation liability. At December 31, 2003, the cost range for reasonably possible outcomes for all such sites was estimated to be from $3 million to $17 million. The liabilities arising from potential environmental obligations that have not been reserved at this time may be material to the results of any single quarter or year in the future. Management, however, believes the liability arising from potential environmental obligations is not likely to have a material adverse effect on the Company s liquidity or financial position as such obligations could be satisfied over a period of years.

The following table summarizes environmental reserve activities for the years ended December 31:

	2003	2002	2001
Balance, beginning of year	$305.9	311.2	307.1
Additions to reserves*	54.6	18.3	37.1
Reductions in reserve estimate	(12.7)	(4.3)	(6.0)
Spending against reserves	(24.1)	(19.3)	(27.0)
Reclassification to asset retirement obligation**	(6.5)		
Balance, end of year	$317.2	305.9	311.2

* 2003 included $13.5 million for our acquisition of Heisei s one-third interest in Chino Mines Company.

** Upon adoption of SFAS No. 143, reserves for certain matters ($6.5 million) required by reclamation rules or laws were reclassified to asset retirement obligations (previously classified as environmental reserves).

Closure and Reclamation

Since adopting SFAS No. 143, effective January 1, 2003, we recognize asset retirement obligations (AROs) as liabilities when incurred, with initial measurement at fair value. These liabilities are accreted to full value over time through charges to income. In addition, asset retirement costs (ARCs) are capitalized as part of the related asset s carrying value and are depreciated on a units-of-production basis over the asset s respective useful life. Reclamation costs for future disturbances are recognized as an ARO and as a related ARC in the period incurred. Prior to the adoption of SFAS No. 143, the Company recognized estimated final reclamation costs over the life of active mining properties on a units-of-production basis. For non-operating sites on care-and-maintenance status, we suspended accrual of mine closure costs until the site resumed production. When management determined a mine should be permanently closed, any unrecognized closure obligation was recognized. The Company s cost estimates for reclamation and closure consider mining and operating plans, use of Company resources, and other factors necessary to achieve compliance with laws and regulations. These cost estimates may differ from financial assurance cost estimate requirements due to a variety of factors including historical cost advantages, savings from use of the Company s own personnel and equipment versus third-party contractor costs, and opportunities to prepare each site for more efficient reclamation through careful development of the site over time.

The following tables summarize the asset retirement obligation/closure and reclamation accrual and asset retirement cost activities for the years ended December 31:

Asset retirement obligations

	2003*	2002**	2001**
Balance, beginning of year	$138.6	100.6	98.6
Liability recorded upon adoption of SFAS No. 143***	10.4		
New liabilities during period	16.8	33.1	10.1
Accretion expense	14.7	6.7	6.4
Payments	(1.8)	(1.8)	(9.6)
Revisions in estimated cash flows	46.4		
Foreign currency translation adjustments	0.2		
Deductions			(4.9)
Balance, end of year	$225.3	138.6	100.6

* Reflected accrual balances under SFAS No. 143.

** Reflected accrual balances on a units-of-production basis.

*** Amount includes $7.9 million of reclassifications from environmental reserves ($6.5 million) and other liabilities ($1.4 million). Refer to Note 1, Summary of Significant Accounting Policies, for further discussion.

Asset retirement costs*

	2003	2002	2001
Balance, beginning of year	$		
Net asset recorded upon adoption of SFAS No. 143**	36.3		
New assets during the period	1.0		
Depreciation expense	(5.5)		
Revisions in estimated cash flows	46.4		
Balance, end of year	$78.2		

* Only required under SFAS No. 143.

** Refer to Note 1, Summary of Significant Accounting Policies, for further discussion.

During 2003, we revised our cash flow estimates ($43.9 million discounted) for the Chino and Tyrone mines based on an agreement reached in May 2003 with the New Mexico Environment Department (NMED) and the Mining and Minerals Division (MMD) of the New Mexico Energy, Minerals and Natural Resources Department for the financial assurance requirements as part of the closure plans related to our operations at Chino, Cobre and Tyrone. In September 2003, this agreement was finalized with NMED and MMD. In December 2003, MMD approved Chino s closeout plan and Phelps Dodge tentatively finalized the closure project listing and cash flow estimates for the accelerated reclamation as described in the September 2003 finalized agreement (refer to discussion below). Additionally, we revised our cash flow estimates at Twin Buttes ($2.2 million discounted) resulting from a change in probabilities due to the property s lease agreement expiring in the 2003 fourth quarter (although lease renewal negotiations are ongoing) and at Hidalgo ($0.3 million discounted) associated with the Brockman Silica mine. The impact of these changes in estimates resulted in an increase to accretion and depreciation expense of approximately $4 million for the year ended December 31, 2003.

Additionally, we recognized reclamation costs of $1.0 million for new disturbances and $15.8 million associated with our acquisition of Heisei s one-third interest in Chino Mines Company. In connection with the transaction, we received $64 million placed in a trust that is legally restricted to fund Chino s financial assurance obligations. (Refer to Note 2, Acquisitions and Divestitures, for further discussion.)

We have estimated that our share of the total cost of asset retirement obligations, including anticipated future disturbances, for the year ended December 31, 2003, aggregated approximately $1.2 billion (unescalated, undiscounted and on a third-party cost basis), leaving approximately $1.0 billion remaining to be accreted over time. These aggregate costs may increase or decrease materially in the future as a result of changes in regulations, technology, mine plans or other factors. Asset retirement obligation activities and expenditures generally are made over an extended period of time commencing near the end of the mine life.

Significant Arizona Closure and Reclamation Programs

ADEQ has adopted regulations for its aquifer protection permit (APP) program that replaced the previous Arizona groundwater quality protection permit regulations. Several of our properties continue to operate pursuant to the transition provisions for existing facilities under the APP regulations. The APP regulations require permits for certain facilities, activities and structures for mining, concentrating and smelting. The APP requires compliance with aquifer water quality standards at an applicable point of compliance well or location. The APP also may require mitigation and discharge reduction or elimination of some discharges. Existing facilities operating under the APP transition provisions are not required to modify operations until requested by the state of Arizona, or unless a major modification at the facility alters the existing discharge characteristics. We have received an APP for our Morenci operations, for portions of our Bagdad and Miami mines, for the sewage treatment facility at Ajo, and for a closed tailing pile in Clarkdale, Arizona. We have also conducted groundwater studies and submitted APP applications for several of our other properties and facilities, including the Bagdad, Sierrita and Miami mines, our Safford development property and Ajo, Copper Queen and United Verde branches. We will continue to submit all required APP applications for our remaining properties and facilities, as well as for any new properties or facilities. We do not know what the APP requirements are going to be for all existing and new facilities and, therefore, it is not possible for us to estimate costs associated with those requirements. We are likely to continue to have to make expenditures to comply with the APP program.

An application for an APP requires a description of a closure strategy to meet applicable groundwater protection requirements following cessation of operations and a cost estimate to implement the closure strategy. An APP may specify closure requirements, which may include post-closure monitoring and maintenance requirements. A more detailed closure plan must be submitted within 90 days after a permittee notifies ADEQ of its intent to cease operations. A permit applicant must demonstrate its financial capability to meet the costs required under the APP, including closure costs.

Portions of the Company s Arizona mining operations that operated after January 1, 1986, also are subject to the Arizona Mined Land Reclamation Act (AMLRA). AMLRA requires reclamation to achieve stability and safety consistent with post-mining land use objectives specified in a reclamation plan. Reclamation plans require approval by the State Mine Inspector and must include a cost estimate to perform the reclamation measures specified in the plan.

Table of Contents

Financial assurance must be provided under AMLRA covering the estimated cost of performing the reclamation plan.

Both under APP regulations and AMLRA, a publicly traded company may satisfy the financial assurance requirements by showing that its unsecured debt rating is investment grade and that it meets certain requirements regarding assets in relation to the estimated closure and post-closure cost and reclamation cost estimates. An investment-grade bond rating is one of the financial strength tests under the Arizona Act. Phelps Dodge s senior unsecured debt currently carries an investment-grade rating, albeit at the lowest level in the category. Additionally, the Company currently meets another financial strength test in Arizona that is not ratings dependent.

At December 31, 2003 and 2002, we had accrued closure costs of approximately $43 million for our Arizona operations. The amount of financial assurance currently demonstrated for closure and reclamation activities is approximately $105 million. If the Company s bond rating falls below investment-grade, the Arizona mining operations would be required to supply financial assurance in another form.

Cyprus Tohono Corporation (Cyprus Tohono), a wholly owned subsidiary of Cyprus Amax, leases lands on the Tohono O odham Indian Nation (the Nation). The leased lands include the site of a mining operation, currently on care-and-maintenance status, comprising an open pit, underground mine workings, leach and non-leach rock stockpiles, tailing and evaporation ponds, SX/EW operations, and ancillary facilities. Many of these facilities are covered by Mine Plans of Operations (MPOs) that were issued by the federal Bureau of Land Management (BLM). The leases and MPOs impose certain environmental compliance, closure and reclamation requirements upon Cyprus Tohono. The closure and reclamation requirements under the leases require action to be taken upon termination of the leases, which currently expire between 2012 and 2017, unless terminated earlier in accordance with the terms of the leases. Preliminary studies indicate that closure and reclamation requirements, excluding any potential Superfund environmental response costs, are estimated to cost $5.0 million.

The Nation, along with several federal agencies, have notified Cyprus Tohono of groundwater quality concerns and concerns with other environmental impacts of historical mining operations. In 2003, Cyprus Tohono expanded its groundwater monitoring well network, and samples from a few of the new wells show values above primary and secondary drinking water standards. Tests of a neighboring Native American village s water supply well indicate elevated concentrations of sulfate. Cyprus Tohono has installed new water wells and provided an alternative water supply to the village.

EPA has completed a Preliminary Assessment and Site Investigation (PA/SI) of the Tohono mine under the federal Superfund program and has concluded that the site is eligible for listing on the National Priorities List. We are unable to project the remedial action measures, if any, that may be required as a result of the PA/SI; however, based upon our best estimates of remedial actions that Cyprus Tohono may undertake, the Company reserved $11.1 million for Cyprus Tohono for this Superfund matter. Cyprus Tohono has submitted to EPA a proposal for closure of several of the facilities of concern identified in the PA/SI. Cyprus Tohono is subject to financial assurance for mine reclamation. It has proposed interim financial assurance in the amount of $5.1 million, of which $5.0 million would be in the form of a Company performance guarantee. Both the Nation and the Bureau of Indian Affairs have conditionally accepted this proposal.

The Company s historic United Verde mine has obtained an APP for closure of a tailing pond located near Clarkdale, Arizona, and is awaiting approval of an APP for existing mine water discharge containment facilities at the mine near Jerome, Arizona. The tailing pond has not received tailing discharges since the early 1950s, but has received discharges of municipal sewage effluent from the town of Clarkdale since the late 1970s. Closure work under the APP for the tailing pond has been partially completed, but the remaining work has not been completed pending the issuance of a storm water discharge permit under the Clean Water Act for construction of a related development project. Construction of improvements under the proposed APP for the mine are expected to begin following issuance of the APP. Implementation of the plan under the proposed APP is required under the terms of a Consent Decree settling alleged Clean Water Act violations and entered by the U.S. District Court for the District of Arizona on November 23, 2003. A voluntary remediation project also is under way under supervision of ADEQ at the nearby historic Iron King mine to treat potential discharges of acidic water from an adit. Additional work may be required at historical mine workings in the district that are owned by the Company to satisfy requirements under storm water discharge permits. At the United Verde mine, APP costs are estimated to be $13.5 million; at the Clarkdale tailing, APP costs are estimated to be $12.1 million; and at the Iron King mine, voluntary remediation costs are estimated to be $2.1 million. These amounts, totaling $27.7 million, are included in environmental reserves.

Significant New Mexico Closure and Reclamation Programs

Background

The Company s New Mexico operations, Chino Mines Company (Chino), Phelps Dodge Tyrone, Inc. (Tyrone), Cobre Mining Company (Cobre), and Phelps Dodge Hidalgo, Inc. (Hidalgo), each are subject to regulation under the New Mexico Water Quality Act and the Water Quality Control Commission (WQCC) regulations adopted under that Act. Each of these operations holds one or more discharge permits issued by NMED under WQCC regulations. The discharge permits specify operational and monitoring requirements to protect groundwater quality. Under the discharge permits for Chino, Tyrone, Cobre and Hidalgo, NMED has required each of these operations to submit closure plans for approval. The closure plans must describe the measures to be taken to prevent groundwater quality standards from being exceeded following closure of the discharging facilities and to abate any groundwater or surface water contamination. Each discharge permit is issued for a period of no more than five years and the permit is reviewed each time that it is renewed. Under certain circumstances, NMED may require submission and approval of abatement plans to address the exceedance of applicable water quality standards.

In addition, Chino, Tyrone and Cobre are subject to regulation under the New Mexico Mining Act (the Mining Act), which was enacted in 1993, and the Mining Act Rules, which were adopted by the New Mexico Mining Commission (the Mining Commission) in their original form in 1994. Chino, Tyrone and Cobre hold permits issued by MMD

Table of Contents

of the Energy, Minerals and Natural Resources Department under the Mining Act. Under the Mining Act, Chino, Tyrone and Cobre are required to submit and obtain approval of closeout plans describing the reclamation to be performed following closure of the mines. The reclamation must be designed to achieve a self-sustaining ecosystem or a post-mining land use, unless MMD approves a waiver of this requirement because achieving this requirement is technically or economically infeasible or would be environmentally unsound. Regardless of whether a waiver is issued, however, reclamation must be performed to achieve all applicable air, water quality, and other environmental standards.

Financial assurance is required to ensure that funding will be available to perform both the closure plans and the closeout plans. The amount of the financial assurance is based upon a cost estimate to complete the closure and/or closeout plan. The cost estimate is based upon the assumption that the operator will default at the point in time when closure and reclamation will be most expensive and that the state will use the financial assurance to hire and oversee a third-party contractor to perform the closure and/or closeout plan. The cost estimates are subject to approval by NMED and MMD. When an operation is subject to both a closure plan and a closeout plan, the plans typically overlap. In that case, the financial assurance typically is provided jointly to NMED and to MMD. Both NMED and MMD calculate the required amount of financial assurance based upon a net present value (NPV) method when the closure plan and/or closeout plan require performance over a long period of time. Use of the NPV method requires NMED and/or MMD approval of appropriate discount and escalation rates.

The Company s cost estimates to perform the work itself generally are substantially lower than the cost estimates used for financial assurance due to the Company s historical cost advantages, savings from the use of the Company s own personnel and equipment as opposed to third-party contractor costs, opportunities to prepare the site for more efficient reclamation and the omission of agency oversight costs.

The process of obtaining approved closure plans and closeout plans has been long and difficult, particularly for the operations subject to both WQCC regulations and the Mining Act. The plans must be site-specific. Detailed scientific studies have been required for each site. The sites are very large and complex, involving many different types of facilities such as open pits, mine stockpiles, tailing impoundments and smelter facilities. Many of the regulatory requirements, as well as closure and reclamation technologies, are relatively new and have been evolving while the plans have been developed, including recent rule changes. Some of the closure and reclamation measures are unproven over long periods of time at these or similar sites; so this performance is not easily predicted. NMED and MMD have separate procedures for review of closure and closeout plans, including consideration of waiver requests, approval of plans, issuance of permits and approval of financial assurance. These procedures include public notice, comment, and hearing requirements, opportunities for appeals, and reviews of NMED and MMD actions by WQCC and the Mining Commission.

Chino Mines Company

Chino submitted its first proposed site-wide combined closure/closeout plan (CCP) at the end of 1997, the original deadline for approval of closeout plans under the Mining Act, and obtained an extension for closeout plan approval until December 31, 1999. The closure and closeout plans were combined into one plan due to the overlapping requirements of WQCC regulations and the Mining Act. In 1999, NMED required Chino to provide interim financial assurance, pending approval of the closure plan, and Chino complied by providing a surety bond for approximately $56 million. Also in 1999, the Mining Commission extended the closeout plan approval deadline until December 31, 2001.

Chino submitted a comprehensive CCP incorporating the results of the scientific studies performed by Chino in March 2001. That CCP requested a waiver of requirements to reclaim the open pit and steep stockpile slopes and included a cost estimate for approximately $100 million, which included the estimated cost of 30 years of water treatment. In July 2001, NMED published a draft site-wide closure permit and set a public hearing for August 2001. NMED s draft closure permit required that all stockpiles be regraded, required thicker soil covers than proposed by Chino, required 100 years of water treatment and more stringent water treatment requirements, and proposed additional permit conditions not proposed by Chino. A two-week public hearing was held in August 2001 concerning NMED s draft closure permit. Following that hearing, Chino, NMED and MMD conducted negotiations concerning a possible compromise on the CCP. Agreement was reached on a compromise closure permit in December 2001. In December 2001, the Mining Commission again extended the closeout plan approval deadline until October 1, 2002.

Another public hearing was held in February 2002 on the compromise closure permit supported by both Chino and NMED. The estimated cost of the compromise CCP was approximately $391 million over 100 years on an undiscounted and unescalated basis. The conditions of the compromise permit required additional studies and submission of a revised closure plan reflecting the outcome of those studies prior to expiration of the five-year period of the closure permit.

As of October 1, 2002, NMED had not finalized its decision on the compromise permit, and, consequently, MMD was unable to approve the closeout plan. MMD then issued a Notice of Violation (NOV) to Chino for failing to meet the October 1, 2002, deadline. The NOV did not impose any penalties, but ordered Chino to obtain approval by a new deadline and reserved the right to assess penalties for noncompliance. Chino appealed the NOV to the Mining Commission, which held a public hearing on the NOV in December 2002. The Mining Commission upheld the NOV, but modified the deadline for closeout plan approval until seven months after NMED issued Chino s closure permit, subject to extension by MMD for good cause.

On February 24, 2003, NMED issued Chino s closure permit, consistent with the compromise permit. Under the closure permit, the amount of financial assurance was established at approximately $191 million on an NPV basis. In May 2003, Chino and Phelps Dodge reached an agreement with NMED and MMD on a framework for financial assurance providing for a cash trust fund, collateral and a third-party guarantee from Phelps Dodge. In June 2003, MMD filed a petition with the Mining Commission to amend the Mining Act Rules to allow a trust fund to be used as financial assurance. In July 2003, the Company announced that a Phelps Dodge subsidiary would acquire Heisei s one-third partnership interest in Chino. As part of the terms of that acquisition, Heisei agreed to provide cash funding for one-third of the financial assurance amount.

To reflect the agreement with Heisei, in September 2003 the financial assurance agreement was modified to provide for one-third of the financial assurance in the form of a trust fund and the remainder in the form of a third-party guarantee by Phelps Dodge. The September 2003 agreement also included a schedule for accelerated reclamation at Chino. MMD extended the deadline for Chino to obtain approval of its closeout plan pending the conclusion of the Mining Commission hearings on the proposed rule changes and to allow time to hold a public hearing on the closeout plan and financial assurance. The Mining Commission finalized the rule changes at a public hearing on November 17, 2003.

In October 2003, WQCC dismissed an appeal of Chino s closure permit filed by a third party. WQCC s action has since been appealed to the New Mexico Court of Appeals.

MMD held a public hearing on Chino s closeout plan and financial assurance proposal on December 13, 2003. Following consideration of the public comments and finalization of the permit and financial assurance documentation, MMD approved the closeout plan and financial assurance on December 18, 2003, meeting the December 19, 2003, deadline for closeout plan approval set by MMD and satisfying the requirements of the NOV.

The closeout plan approved by MMD incorporates the requirements of the NMED closure permit and includes a waiver from the requirement to achieve a self-sustaining ecosystem or post-mining land use for the open pit and a portion of the mine stockpiles, consistent with the terms of the NMED closure permit. It also incorporates a schedule for reclamation of inactive portions of the Chino operations and for reclamation following closure of active operations. Based upon minor adjustments to reflect additional requirements, the approved third-party cost estimate is approximately $395 million, and the approved financial assurance requirement is approximately $192 million on an NPV basis. Heisei provided funding of approximately $64 million on behalf of Chino for the Chino trust fund. Phelps Dodge issued a third-party guarantee for approximately $128 million for the balance of the financial assurance. Following NMED s and MMD s acceptance of the financial assurance, NMED released Chino s $56 million interim surety bond as of December 31, 2003.

The Company estimates its cost to perform the requirements of the approved Chino closure permit and closeout plan to be approximately $287 million (undiscounted and unescalated) over the 100-year period of the CCP. That estimate is approximately one-third lower than the estimated cost used as the basis for the financial assurance amount due to the factors discussed above and reflects our internal cost estimate. Our cost estimate used to determine the fair value of our reclamation accrual was approximately $389 million (undiscounted, unescalated and on a third-party cost basis), as required by SFAS No. 143, and excludes approximately $6 million of environmental costs from the financial assurance cost estimate, which are recognized in environmental reserves (they are not within the scope of SFAS No. 143). At December 31, 2003 and 2002, we had accrued approximately $39 million (100 percent basis) and $8 million (two-thirds basis), respectively, for reclamation at Chino.

In December 1994, Chino entered into an Administrative Order on Consent (AOC) with NMED. The AOC requires Chino to perform a CERCLA quality investigation of environmental impacts and potential risks to human health and the environment associated with portions of the Chino property affected by historical mining operations. The remedial investigations began in 1995 and are still under way, although substantial portions of the remedial investigations are near completion. While some remediation is expected to be required, no feasibility studies have yet been completed, and NMED has not yet issued a record of decision regarding any remediation that may be required under the AOC. The Company s estimated cost is $23.6 million. In addition to work under the AOC, Chino is continuing ongoing projects to control blowing dust at an estimated cost of $4.8 million and to excavate and remove copper-bearing sediments from an area known as Lake One for copper recovery in existing leach stockpiles at the mine. The Company s estimated cost for Lake One is $4.7 million. The Company s aggregate reserve for liability under the Chino AOC and for the interim work on the tailing ponds and Lake One is $33.1 million.

Phelps Dodge Tyrone, Inc.

Tyrone submitted its first proposed site-wide combined CCP at the end of 1997, the original deadline for approval of closeout plans under the Mining Act, and obtained an extension for closeout plan approval until December 31, 1999. The closure and closeout plans were combined into one plan due to the overlapping requirements of WQCC regulations and the Mining Act. In 1999, NMED required Tyrone to provide interim financial assurance, pending approval of the closure plan, and Tyrone complied by providing a surety bond for approximately $58 million. Also in 1999, the Mining Commission extended the closeout plan approval deadline until December 31, 2001.

Tyrone submitted a comprehensive CCP in May 2001 incorporating the results of the scientific studies performed by Tyrone. That CCP requested a waiver of requirements to reclaim the open pit and steep stockpile slopes and included a cost estimate for approximately $121 million, which included the estimated cost of 30 years of water treatment. In late 2001, the Mining Commission again extended the closeout plan approval deadline until October 1, 2002.

In April 2002, NMED published a draft site-wide closure permit and set a public hearing for May 2002. NMED s draft closure permit required that all stockpiles be regraded, required thicker soil covers than proposed by Tyrone, required 100 years of water treatment and more stringent water treatment requirements, and proposed additional permit conditions opposed by Tyrone. NMED estimated the cost of its proposed permit at approximately $440 million on an unescalated and undiscounted basis over a 100-year closure period. Tyrone submitted a revised plan in response to NMED s draft permit, including concepts for regrading and covering the mine stockpiles modeled after the Chino compromise permit and proposing upgraded water treatment technology. Tyrone estimated the cost of its proposal at approximately $328 million on the same basis. A two-week public hearing was held in May 2002.

As of October 1, 2002, NMED had not reached a decision on Tyrone s permit, and, consequently, MMD was unable to approve the closeout plan. MMD then issued an NOV to Tyrone for failing to meet the October 1, 2002 deadline. The NOV did not impose any penalties, but ordered Tyrone to obtain closeout plan approval by a new deadline and reserved the right to impose penalties for noncompliance. Tyrone appealed the NOV to the Mining Commission, which held a public hearing on the NOV in December 2002. The Mining Commission upheld the NOV, but modified the deadline for closeout plan approval until twelve months after NMED issued Tyrone s closure permit, subject to extension by MMD for good cause.

NMED s Hearing Officer issued a decision concerning the contested permit conditions on March 7, 2003. The Hearing Officer adopted many of Tyrone s proposed changes to NMED s draft permit, but sided with the NMED staff on requirements for regrading and covers. NMED issued Tyrone s closure permit on April 8, 2003, in accordance with the Hearing Officer s decision. The estimated third-party cost under the closure permit is approximately $433 million. Tyrone appealed the closure permit to WQCC, which held a public hearing to take evidence concluding on November 13, 2003. WQCC has scheduled closing arguments and deliberation on the appeal at a meeting beginning on April 13, 2004.

Based upon the closure permit issued by NMED, the amount of financial assurance for Tyrone on an NPV basis is approximately $267 million. In May 2003, Tyrone and Phelps Dodge reached an agreement with NMED and MMD on a framework for financial assurance providing for a cash trust fund, collateral and a third-party guarantee from Phelps Dodge. The agreement also requires Chino, Tyrone and Cobre to expend a combined minimum of $30 million on accelerated reclamation over 10 years. In September 2003, the financial assurance agreement was modified to include additional details. Tyrone agreed to establish a trust fund in the initial amount of $17 million, and to contribute $500,000 per quarter over a five-year period to increase the cash funding to a total of $27 million. Tyrone also agreed to provide collateral to NMED and MMD so that at least 30 percent of the financial assurance is in the form of a trust fund or collateral. Once the trust fund and collateral are in place, NMED will release the $58 million interim surety bond. NMED and MMD agreed that the balance, or 70 percent of the financial assurance, may be provided in the form of a third-party guarantee issued by Phelps Dodge. The September 2003 agreement also included a schedule for accelerated reclamation at Tyrone. Financial assurance under this agreement is subject to completion of the permitting process, including consideration of public comments.

On October 15, 2003, Tyrone and NMED finalized a settlement agreement establishing a detailed schedule for reclamation of the inactive tailing impoundments at Tyrone over an eight-year period. As reclamation is completed on portions of the facilities, the closure cost estimate and, accordingly, the required amount of financial assurance, may be reduced.

The deadline for Tyrone to obtain MMD s approval of its closeout plan is April 8, 2004, subject to extension by MMD for good cause. Tyrone is working with MMD on permit conditions for approval of the closeout plan and with both MMD and NMED on financial assurance consistent with the September 2003 agreement. MMD must hold a public hearing and consider public comments before it approves the closeout plan and financial assurance. Approval of a closeout plan consistent with the NMED closure permit also will require approval of a waiver of the requirement to achieve a self-sustaining ecosystem or post-mining land use for the open pit and a portion of the mine stockpiles where regrading and cover are not proposed.

Management s internal cost estimate for performance of reclamation at Tyrone is approximately $257 million (undiscounted and unescalated) over the 100-year period of the CCP. That estimate is approximately one-third lower than the estimated cost used as the basis for the financial assurance amount due to the factors discussed above and reflects our internal cost estimate. Our cost estimate used to determine the fair value of our reclamation accrual was approximately $427 million (undiscounted, unescalated and on a third-party cost basis), as required by SFAS No. 143, and excludes approximately $6 million of environmental costs from the financial assurance cost estimate, which are recognized in environmental reserves (they are not within the scope of SFAS No. 143). At December 31, 2003 and 2002, we had accrued approximately $81 million and $27 million, respectively, for reclamation at Tyrone.

Cobre Mining Company

At the time of our acquisition of Cobre in 1998, Cobre had submitted proposed closure and closeout plans and had posted a surety bond for approximately $2 million with both MMD and NMED. Cobre submitted a comprehensive proposed CCP in May 2001 incorporating the results of the scientific studies completed by Cobre to both NMED and MMD.

As of October 1, 2002, NMED had not issued a closure permit to Cobre, and, consequently, MMD was unable to approve the proposed closeout plan. MMD then issued an NOV to Cobre for failing to meet the October 1, 2002 deadline. The NOV did not impose any penalties, but ordered Cobre to obtain closeout plan approval by a new deadline. Cobre appealed the NOV to the Mining Commission, which held a public hearing on the NOV in December 2002. The Mining Commission upheld the NOV, but modified the deadline for closeout plan approval until nine months after NMED issues Cobre s closure discharge plan, subject to extension by MMD for good cause. Cobre is currently awaiting a draft closure permit from NMED.

In May 2003, Cobre and Phelps Dodge reached an agreement with NMED and MMD on a framework for financial assurance providing for a cash trust fund, collateral and a third-party guarantee from Phelps Dodge. The agreement also requires Chino, Tyrone and Cobre to expend a combined minimum of $30 million on accelerated reclamation over 10 years. In September 2003, the financial assurance agreement was modified to include additional details. Cobre agreed to establish a trust fund in the initial amount of $1 million, and to contribute $100,000 per quarter over a five-year period to increase the cash funding to a total of $3 million. Cobre also agreed to provide collateral to NMED and MMD so that at least 30 percent of the financial assurance is in the form of a trust fund or collateral. NMED and MMD agreed that the balance, or 70 percent of the financial assurance, may be provided in the form of a third-party guarantee issued by Phelps Dodge. The September 2003 agreement also included a schedule for accelerated reclamation at Cobre. Financial assurance under this agreement is subject to completion of the permitting process, including consideration of public comments.

Based upon the proposed CCP for Cobre submitted in 2001, the current cost estimate for reclamation at Cobre is approximately $9 million. Our cost estimate used to determine the fair value of our reclamation accrual was approximately $41 million (undiscounted, unescalated and on a third-party cost basis), as required by SFAS No. 143. Both of these estimates will be updated when NMED issues

Table of Contents

the closure permit. At December 31, 2003 and 2002, we had accrued closure costs of approximately $7 million and $2 million, respectively, at Cobre.

Phelps Dodge Hidalgo, Inc.

Hidalgo obtained approval of a closure plan under a discharge permit issued by NMED in 2000. In accordance with the permit, Hidalgo provided financial assurance to NMED in the form of surety bonds for approximately $11 million. Since obtaining approval of the closure plan, Hidalgo has completed the closure of a former wastewater evaporation pond by construction of a soil cap approved by NMED. The discharge permit under which the closure plan was approved also requires corrective action for contaminated groundwater near the smelter s closed former wastewater evaporation pond. Impacted groundwater is pumped from a series of wells, treated in a neutralization facility, and discharged to a series of lined impoundments or to an irrigation system. The discharge permit requires a comprehensive groundwater study to characterize groundwater at the site. The discharge permit requires updates of the closure plan, and NMED could require future enhancement of the system based upon the results of the ongoing study when the permit expires in 2005 or, in certain circumstances, earlier. Hidalgo is not subject to the Mining Act and, consequently, does not require a closeout plan. Our cost estimate used to determine the fair value of our reclamation accrual was approximately $7 million (undiscounted, unescalated and on a third-party cost basis), as required by SFAS No. 143. At December 31, 2003 and 2002, we had accrued closure costs of approximately $4 million and $7 million, respectively, at Hidalgo.

Significant Colorado Reclamation Program

Our Climax and Henderson mines in Colorado are subject to permitting requirements under the Colorado Mined Land Reclamation Act, which requires approval of reclamation plans and provisions for financial assurance. These mines have had approved mined-land reclamation plans for several years and have provided the required financial assurance to the state of Colorado in the amount of $52.4 million and $10.1 million, respectively, for Climax and Henderson. As a result of adjustments to the approved cost estimates for various reasons, the amount of financial assurance requirements can increase or decrease over time. At December 31, 2003 and 2002, we had accrued closure costs of approximately $18 million and $19 million, respectively, for our Colorado operations.

Other

Some portions of our mining operations located on public lands are subject to mine plans of operation approved by the federal BLM. BLM s regulations include financial assurance requirements for reclamation plans required as part of the approved plans of operation. As a result of recent changes to BLM s regulations, including more stringent financial assurance requirements, increases in existing financial assurance amounts held by BLM could be required. Currently, financial assurance for the Company s operations held by BLM totals $3.4 million.

The Company is investigating available options to provide additional financial assurance and, in some instances, to replace existing financial assurance. The cost of surety bonds, the traditional source of financial assurance, has increased significantly over the past few years, and many surety companies are now requiring an increased level of collateral supporting the bonds such that they no longer are economically prudent. Some surety companies that issued surety bonds to the Company are seeking to exit the market for reclamation bonds. The terms and conditions presently available from one of our principal surety bond providers for reclamation and other types of long-lived surety bonds have made this type of financial assurance economically impracticable in certain instances. We are working with the impacted state and federal agencies to put in place acceptable alternative forms of financial assurance in a timely fashion.

Portions of Title 30, Chapter 2, of the United States Code govern access to federal lands for exploration and mining purposes (the General Mining Law). In 2002, legislation was introduced in the U.S. House of Representatives to amend the General Mining Law. Similar legislation has been introduced in Congress during the 1990s. None of these bills has been enacted into law. Concepts in the legislation over the years have included the payment of royalties on minerals extracted from federal lands, payment of fair market value for patenting federal lands and reversion of patented lands used for non-mining purposes to the federal government. Several of these same concepts and others likely will continue to be pursued legislatively in the future.

Our Chino and Cobre copper operations in New Mexico; our Climax molybdenum mine in Colorado; our Ojos del Salado copper operations in Chile; and our Miami copper mine and refinery and Tohono copper operations in Arizona were on care-and-maintenance status during 2003.

The following table lists for each operation: (i) the date it was placed on care-and-maintenance status; (ii) net property, plant and equipment; (iii) estimated closure costs; (iv) accrued closure costs; and (v) unaccrued closure costs.

	At 12/31/03				
	Date Placed on Care-and-Maintenance	Net Property, Plant and Equip. (1)	Est. Closure Costs*	Accrued (2)	Unaccrued
Chino (3)	1Q02	$325	389	39	350
Cobre	1Q99	59	41	7	34
Climax (4)	Acq. 4Q99	137	60	15	45
Ojos del Salado	4Q98	23	2		2
Miami Mine and Refinery	1Q02	143	41	15	26
Tohono	4Q99	1	5	2	3
		$688	538	78	460

* Estimated closure costs are unescalated, undiscounted and on a third-party cost basis and reflect the closure cost estimate for the entire site.

(1) Because depreciation for our mines and smelters is principally recognized on a units-of-production basis, these assets are generally not subject to depreciation due to their temporary curtailment status. Depreciation is recognized at the Chino and Miami operations associated with residual SX/EW cathode production, and at Climax primarily associated with equipment for water management. Additionally, there are certain short-lived assets that are continuing to be depreciated on a straight-line basis while the sites are on care-and-maintenance status.

(2) For sites placed on care-and-maintenance status, we continue to recognize accretion expense for our asset retirement obligations.

(3) Our closure cost estimates for Chino were updated effective December 2003 to reflect the change in closure estimates associated with the stipulated agreement reached with the state of New Mexico and for our acquisition of Heisei s one-third share in Chino Mines Company (refer to Note 2, Acquisitions and Divestitures, for further discussion). The estimated unaccrued closure costs increased as of December 2003 by approximately $190 million at Chino.

(4) We acquired Climax in the fourth quarter of 1999 as part of the Cyprus Amax acquisition. The Climax molybdenum mine had been placed on care-and-maintenance in 1995 by the predecessor owner. At year-end 2003, as well as at the acquisition, we expected to bring Climax into production concurrent with the exhaustion of the Henderson molybdenum mine reserves.

The Company considers the curtailment of these operations to be temporary and not permanent. Given the long lives of our base metal ore reserves and the pronounced price cycles that have repeated with regularity over a long period, the Company conducts its business and believes it is appropriate to evaluate the viability of its base metal reserves with a long-term perspective. While operations are considered permanently closed and written off as they become technologically obsolete or as ore reserves are depleted, we do not consider operations permanently impaired as a result of short- to intermediate-term fluctuations in base metal prices. There is persuasive evidence that copper and molybdenum price cycles range from eight to 10 years in duration on average.

Because these are non-replenishable natural resources and we have the flexibility to curtail or produce in order to optimize their value, we do not consider the operations in question permanently closed. Nonetheless, each of these care-and-maintenance operations is evaluated at least annually for closure and/or impairment. If and when management determines any of these properties should be permanently closed, any unrecognized closure obligation would be recognized in that period. Similarly, any impairment of assets would be recognized.

Legal

In November 2002, Columbian Chemicals Company was contacted by U.S. and European antitrust authorities regarding a joint investigation they initiated into alleged price fixing in the carbon black industry. European antitrust authorities reviewed documents at three of Columbian Chemicals facilities in Europe, and U.S. authorities contacted Columbian Chemicals headquarters in Marietta, Georgia.

The Company and Columbian Chemicals Company, together with several other companies, were named as defendants in an action entitled Technical Industries, Inc. v. Cabot Corporation, et al., filed on January 30, 2003, in the U.S. District Court in Boston, Massachusetts, and 14 other actions filed in four U.S. district courts, on behalf of a purported class of all individuals or entities who purchased carbon black directly from the defendants since January 1999. The Judicial Panel on Multidistrict Litigation, consolidated all of these actions in the U.S. District Court for the District of Massachusetts under the caption *In re Carbon Black Antitrust Litigation*. The consolidated complaint filed in these actions by the plaintiffs has dropped the Company as a defendant. The consolidated complaint, which alleges that the defendants fixed the prices of carbon black and engaged in other unlawful activities in violation of the U.S. antitrust laws, seeks treble damages in an unspecified amount and attorneys fees. The Company and Columbian Chemicals Company, together with several other companies, have also been named as defendants in an action entitled Level Construction, Inc. v. Cabot Corporation, et al., filed in Superior Court of the state of California for the County of San Francisco and eight other actions filed in California Superior Courts on behalf of a purported class of indirect purchasers of carbon black in the state of California from as early as November 1998 to the present. The complaints allege similar claims by indirect purchasers under California state law and seek treble damages in an unspecified amount and attorneys fees. These complaints have been consolidated in the Superior Court of the State of California for the County of San Francisco under the caption *Carbon Black Cases*. The consolidated complaint filed in these actions by the plaintiffs has dropped the Company as a defendant. Similar class actions have been filed in state courts in North Carolina, Florida, Kansas, New Jersey, South Dakota and Tennessee on behalf of indirect purchases of carbon black in those and six other states alleging violations of state antitrust and deceptive trade practices laws. Columbian has also received a demand for relief on behalf of indirect purchasers in Massachusetts, but no lawsuit has been filed. The Company believes the claims are without merit and intends to defend the lawsuits vigorously.

Since approximately 1990, Phelps Dodge or its subsidiaries have been named as a defendant in a number of product liability or premises lawsuits brought by electricians and other skilled tradesmen or contractors claiming injury from exposure to asbestos found in limited lines of electrical wire products produced or marketed many years ago, or from asbestos at certain Phelps Dodge properties. Phelps Dodge presently believes its liability, if any, in these matters will not have a material adverse effect, either individually or in the aggregate, upon its business, financial condition, liquidity, results of operations or cash flow. There can be no assurance, however, that future developments will not alter this conclusion.

Table of Contents

22. Derivative Financial Instruments and Fair Value of Financial Instruments

The following is a summary of our price protection programs:

(Units in millions)

	12/31/03	12/31/02
Fair Value Hedges		
Copper fixed-price (lbs.)	11	17
Foreign currency (USD)	$ 19	16
Fixed-to-floating interest rate swaps (USD)	$	375
Cash Flow Hedges		
Metal purchase (lbs.)	10	14
Floating-to-fixed interest rate swaps (USD)	$121	274
Diesel fuel price protection (gallons)	37	24
Natural gas price protection (decatherms)	8	4
Derivative Financial Instruments Not Qualifying for Hedge Accounting		
Copper fixed-price rod sales (lbs.)	42	37
Copper quotational period swaps (lbs.)	14	
Other diesel fuel price protection (gallons)	13	

We do not purchase, hold or sell derivative contracts unless we have an existing asset or obligation or we anticipate a future activity that is likely to occur and will result in exposing us to market risk. We do not enter into any contracts for speculative purposes. We will use various strategies to manage our market risk, including the use of derivative contracts to limit, offset or reduce our market exposure. Derivative financial instruments are used to manage well-defined commodity price, energy, foreign exchange and interest rate risks from our primary business activities. The fair values of our derivative instruments are based on quoted market prices for similar instruments and on market closing prices at year end. A summary of the derivative instruments we hold is discussed below.

Metals Hedging

Fair Value Hedges

Copper Fixed-Price Hedging. Some of our copper wire customers request a fixed sales price instead of the COMEX average price in the month of shipment or receipt. As a convenience to these customers, we enter into copper swap and futures contracts to hedge our fixed-price sales exposure in a manner that will allow us to receive the COMEX average price in the month of shipment or receipt while our customers receive the fixed price they requested. We accomplish this by liquidating the copper futures contracts and settling the copper swap contracts during the month of shipment or receipt, which generally results in the realization of the COMEX average price.

At December 31, 2003, our copper futures and swap contracts had maturities through December 2004. We did not have any significant gains or losses during the year resulting from ineffectiveness.

Cash Flow Hedges

Copper Price Protection Program. We may purchase or sell copper options to hedge a portion of our expected future sales in order to limit the effects of potential decreases in copper selling prices. We did not have any outstanding copper price protection contracts in place during 2003 or 2002.

Metal Purchase Hedging

Our South American wire and cable operations may enter into aluminum or copper swap contracts to hedge our raw material purchase price exposure on fixed-price sales contracts to allow us to lock in the cost of raw material used in fixed-price cable sold to customers. These swap contracts generally are settled during the month of shipment or receipt of metal, which results in a net LME price consistent with that agreed to with our customers. Hedge gains or losses from the swap contracts are recognized in cost of products sold.

At December 31, 2003, our outstanding metal swap contracts had maturities through April 2005. We did not have any significant gains or losses during the year resulting from ineffectiveness.

Foreign Currency Hedging

Fair Value Hedges

As a global company, we transact business in many countries and in many currencies. Foreign currency transactions of our international subsidiaries increase our risks because exchange rates can change between the time agreements are made and the time foreign currency transactions are settled. We manage these exposures by entering into forward exchange contracts in the same currency as the transaction to lock in or minimize the effects of changes in exchange rates. With regard to foreign currency transactions, we may hedge or protect the functional currencies of our international subsidiaries transactions for which we have a firm legal obligation or when anticipated transactions are likely to occur.

Our foreign exchange contracts in place at December 31, 2003, have maturities through March 2004. We did not have any significant gains or losses during the year resulting from ineffectiveness.

Interest Rate Hedging

Fair Value Hedges

Fixed-to-Floating Interest Rate Swaps. In some situations, we may enter into interest rate swap contracts to protect against changes in the fair value of the underlying fixed-rate debt that result from changes in the general level of market interest rates. In May 2003, we terminated $375 million of interest rate swaps associated with corporate debt maturing in 2005 and 2007. We received cash proceeds of $35.9 million; $34.6 million was reflected as a deferred gain on the balance sheet and will be amortized over the remaining life of the underlying debt using the effective interest method. Amortization of these gains reduced interest expense by $6.3 million in 2003.

During the third quarter of 2002, the Company repurchased debt hedged by interest rate swaps that resulted in our termination of a like portion of the interest rate swaps ($25 million), which resulted in the recognition of a gain of $1.3 million.

In addition, during May 2001, we entered into $900 million in interest rate swap contracts to convert fixed-rate debt to floating-rate debt. In August 2001, we unwound these interest rate swaps, resulting in a gain of $23.2 million of which $4.7 million related to reduced interest expense. The remaining $18.5 million is being amortized into earnings over the remaining life of the respective notes.

Our interest rate swaps were considered to be fully effective with any resulting gains or losses on the derivative offset by a similar amount on the underlying interest payments or fair value of the debt. We did not recognize any significant gains or losses during the year resulting from ineffectiveness. At December 31, 2003, we did not have any outstanding fixed-to-floating interest rate swaps.

Cash Flow Hedges

Floating-to-Fixed Interest Rate Swaps. In some situations, we are exposed to increasing costs from interest rates associated with floating-rate debt. We may enter into interest rate swap contracts to protect against our exposure to variability in future interest payments attributable to increases in interest rates of the designated floating-rate debt. At year-end 2003, we had approximately $12 million in unrealized losses recorded in other comprehensive income (loss) related to the swap contracts. At December 31, 2003 interest rates, approximately $5 million of this amount would be charged to earnings in 2004. The interest rate swaps have maturities through December 2008. Hedge ineffectiveness did not have a material impact during the year ended December 31, 2003.

Energy Price Protection Programs

Cash Flow Hedges

Diesel Fuel Price Protection Program. We purchase significant quantities of diesel fuel to operate our mine sites as an input to the manufacturing process. Price volatility of diesel fuel impacts our cost of products sold. The objective of the diesel fuel price protection program is to protect against a significant upward movement in diesel fuel prices while retaining the flexibility to participate in some downward price movement. To implement these objectives, we may purchase out-of-the-money (OTM) diesel fuel call options and/or fixed-price swaps. Purchase of these call options protect us against significant upward movement in diesel fuel prices while allowing us full participation in downward movements. Purchase of fixed-price swaps create certainty of the diesel fuel purchase price during the hedge period.

Our diesel fuel option contracts have maturities through December 2004. Effectiveness is assessed using an intrinsic value method with the time value of money component recognized immediately in earnings. During 2003, approximately $1 million in option premiums were reflected in cost of products sold associated with amounts excluded from the hedge effectiveness assessment.

Natural Gas Price Protection Program. We purchase significant quantities of natural gas to supply our operations primarily as an input for electricity generation, copper refining and carbon black manufacturing. Price volatility of natural gas impacts our cost of products sold. The objective of the natural gas price protection program is to protect against a significant upward movement in natural gas prices while retaining the flexibility to participate in downward price movements. To implement these objectives, we may purchase OTM call options for natural gas. Purchase of these call options protects us against significant upward movement in natural gas prices while allowing us full participation in downward movements in natural gas prices.

Our natural gas call option contracts outstanding at year-end 2003 protect our domestic operations through December 2004. Effectiveness is assessed using an intrinsic value method with the time value of money component recognized immediately in earnings. During 2003, approximately $3 million of option premiums were reflected in cost of products sold associated with amounts excluded from the hedge effectiveness assessment.

Feedstock Oil Price Protection Program. We purchase significant quantities of feedstock oil (a derivative of petroleum) that is the primary raw material used in the manufacture of carbon black. Feedstock oil typically exceeds 50 percent of the total manufacturing costs for our Specialty Chemicals segment. The objective of the feedstock oil price protection program is to protect against a significant upward movement in feedstock oil prices while retaining the flexibility to participate in downward price movements. To implement these objectives, we may purchase OTM call options for feedstock oil. Purchase of these call options protects us against significant upward movement in feedstock oil prices while allowing us full participation in downward movements in prices.

Our feedstock oil option contracts (119,000 barrels) outstanding at year-end 2003 are in place through February 2004. Effectiveness is assessed using an intrinsic value method with the time value of money component recognized immediately in earnings. During 2003, approximately $0.8 million of option premiums were reflected in cost of products sold associated with amounts excluded from the hedge effectiveness assessment.

Other Protection Programs

Our copper fixed-price rod sales program, gold price protection program, copper quotational period swap program and other diesel fuel price protection programs did not meet all of the criteria to qualify under SFAS Nos. 133, 138 and 149 as hedge transactions. These derivative contracts and programs are discussed below.

Copper Fixed-Price Rod Sales Program. Some of our copper rod customers request a fixed sales price instead of the COMEX average price in the month of shipment or receipt. As a convenience to these customers, we enter into copper swap and futures contracts to protect the sales in a manner that will allow us to receive the COMEX average price in the month of shipment or receipt while our customers receive the fixed price they requested. We accomplish this by liquidating the copper futures contracts and settling the copper swap contracts during the month of shipment or receipt, which generally results in the realization of the COMEX average price.

At year-end 2003, an unrealized gain of approximately $4.4 million associated with the rod price protection program was recorded to cost of products sold. At December 31, 2003, our copper rod protection program had maturities through March 2005.

Gold Price Protection Program. Our 80 percent partnership interest in Candelaria (mining operation in Chile) produces and sells a substantial amount of copper concentrate. The copper concentrate contains small amounts of precious metals, including gold. To protect our exposure to reduced gold selling prices while retaining the ability to participate in some price increases, we entered into zero-cost gold collars. The simultaneous purchase of a put option and sale of a call option (collar) provides downside price protection against substantial declines in gold selling prices while retaining the ability to participate in some price increases.

At year-end 2003, an unrealized loss of approximately $1.8 million associated with the sold call options was recorded to cost of products sold. At December 31, 2003, our gold price protection program (86,400 ounces) had maturities through December 2004.

Copper Quotational Period Swap Program. Candelaria s copper concentrate is sold at the average LME copper price in the month of shipment. If copper shipments have a price settlement basis other than the month of shipment, copper swap transactions may be used to realign the shipment and pricing month in order that Phelps Dodge receives the month of shipment average LME copper price.

At year-end 2003, an unrealized gain of approximately $1.2 million associated with the copper swap contracts was recorded to cost of products sold. At December 31, 2003, our copper quotational period swap program had maturities through January 2004.

Other Diesel Fuel Price Protection Programs. Some of our diesel fuel price protection programs do not qualify under SFAS Nos. 133, 138 and 149 as hedge transactions. We purchase significant quantities of diesel fuel to operate our mine sites as an input to the manufacturing process. Price volatility of diesel fuel impacts our cost of production sold. The objective of the diesel fuel price protection program is to protect against a significant upward movement in diesel fuel prices while retaining the flexibility to participate in some downward price movement. To implement these objectives, we may purchase OTM diesel fuel call options and/or fixed-price swaps. Purchase of these call options protects us against significant upward movement in diesel fuel prices while allowing us full participation in downward movements. Purchase of fixed-price swaps creates certainty of the diesel fuel purchase price during the hedge period.

At year-end 2003, there was no unrealized gain or loss associated with these diesel fuel option contracts. At December 31, 2003, these diesel fuel option contracts had maturities through December 2004.

Credit Risk

We are exposed to credit loss in cases where the financial institutions with which we have entered into derivative transactions (commodity, foreign exchange and currency/interest rate swaps) are unable to pay us when they owe us funds as a result of our protection agreements with them. To minimize the risk of such losses, we only use highly rated financial institutions that meet certain requirements. We also periodically review the creditworthiness of these institutions to ensure that they are maintaining their ratings. We do not anticipate that any of the financial institutions that we deal with will default on their obligations. As of December 31, 2003, the maximum amount of credit exposure was approximately $8 million.

Other Financial Instruments

The methods and assumptions we used to estimate the fair value of each group of financial instruments for which we can reasonably determine a value are as follows:

Cash and Cash Equivalents. The financial statement amount is a reasonable estimate of the fair value because of the short maturity of these instruments.

Investments and Long-Term Receivables. The fair values of some investments are estimated based on quoted market prices for those or similar investments. The fair values of other types of instruments are estimated by discounting the future cash flows using the current rates at which similar instruments would be made with similar credit ratings and maturities.

Long-Term Debt. The fair value of substantially all of our long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current notes offered to us for debt with similar remaining maturities.

A comparison of the carrying amount and the estimated fair values of our financial instruments at December 31, 2003, was as follows:

	Carrying Amount	Fair Value
Cash and cash equivalents	$ 683.8	683.8
Investments and long-term receivables (excluding $33.0 million of equity investments for which it is not practicable to estimate fair value)*	$ 111.3	624.9
Long-term debt (including amounts due within one year)	$1,908.5	2,088.8

* Our largest cost basis investment is our minority interest in SPCC, which is carried at a book value of $13.2 million. Our ownership interest in SPCC is represented by our share of a class of SPCC common stock that is currently not registered for trading on any public exchange. Based on the New York Stock Exchange closing market price of listed SPCC shares on December 31, 2003, an estimate of the fair value of our investment is approximately $527 million.

23. Business Segment Data

Our business consists of two major divisions, PDMC and PDI. The principal activities of each division are described below, and the accompanying tables present results of operations and other financial information by significant geographic area and by segment.

PDMC is our international business division that comprises our vertically integrated copper operations from mining through rod production, primary molybdenum operations through conversion, marketing and sales, and worldwide exploration. PDMC comprises 11 reportable segments.

Our copper mines comprise five reportable segments in the United States (Morenci, Bagdad/Sierrita, Miami/Bisbee, Chino/Cobre and Tyrone) and three reportable segments in South America (Candelaria/Ojos del Salado, Cerro Verde and El Abra). These segments include open-pit mining, sulfide ore concentrating and electrowinning. In addition, they produce gold and silver, and the Bagdad and Sierrita mines also produce molybdenum and rhenium as by-products.

PDMC s Manufacturing and Sales segment consists of conversion facilities including our smelters, refineries and rod mills, as well as sales and marketing. The Manufacturing and Sales segment sells copper to others primarily as rod, cathode or concentrate, and as rod to PDI s Wire and Cable segment. In addition, at times it smelts and refines copper and produces copper rod for customers on a toll basis. Toll arrangements require the tolling customer to deliver appropriate copper-bearing material to our facilities, which we then process into a product that is returned to the customer. The customer pays PDMC for processing its material into the specified products.

The Primary Molybdenum segment consists of the Henderson and Climax mines and related conversion facilities. This segment is an integrated producer of molybdenum, with mining, roasting and processing facilities producing high-purity, molybdenum-based chemical and metallurgical products. In addition, at times it roasts and/or processes material on a toll basis. Toll arrangements require the tolling customer to deliver appropriate molybdenum-bearing material to our facilities, which we then process into a product that is returned to the customer. The customer pays PDMC for processing its material into the specified products.

The Other Mining segment includes our worldwide mineral exploration and development programs, a process technology center that directs its activities at improving existing processes and developing new cost-competitive technologies, and other ancillary operations.

The U.S. mines transfer their copper production to the Manufacturing and Sales segment of PDMC. Intersegment revenues of the individual U.S. mines represent an internal allocation based on PDMC s sales to unaffiliated customers. Additionally, the South American mines sold approximately 44 percent of their copper to the Manufacturing and Sales segment in 2003 and 2002, and approximately 40 percent in 2001. Intersegment sales by the South American mines are based upon arms-length prices at the time of the sale. Intersegment sales of any individual mine may not be reflective of the actual prices PDMC ultimately receives due to a variety of factors, including additional processing, timing of sales to unaffiliated customers and certain transportation premiums.

In addition to the allocation of revenues, management allocates certain operating costs, expenses and capital of PDMC s segments that may not be reflective of market conditions. We also do not allocate all costs and expenses applicable to a mine or operation from the division or corporate offices. Accordingly, the segment information reflects management determinations that may not be indicative of actual financial performance of each segment as if it was an independent entity.

PDI, our manufacturing division, produces engineered products principally for the global energy, telecommunications, transportation and specialty chemicals sectors. Its operations are characterized by products with significant market share, internationally competitive cost and quality, and specialized engineering capabilities. The manufacturing division includes our Specialty Chemicals segment and our Wire and Cable segment. Our Specialty Chemicals segment includes Columbian Chemicals Company and its subsidiaries (Columbian Chemicals or Columbian). Our Wire and Cable segment consists of three worldwide product line businesses including magnet wire, energy and telecommunications cables, and specialty conductors.

Interdivision sales reflect the transfer of copper from PDMC to PDI at the same prices charged to outside customers.

The following tables give a summary of financial data by geographic area and business segments for the years 2000 through 2002. (Refer to Notes 2, Acquisitions and Divestitures, and 3, Special Items and Provisions, to the Consolidated Financial Statements for a discussion of major unusual items during the three-year period.)

Financial Data By Geographic Area

	2003	2002	2001
Sales and other operating revenues:			
Unaffiliated customers			
United States	$2,601.1	2,301.8	2,651.3
Latin America	1,044.6	986.2	929.9
Other	497.0	434.0	421.2
	$4,142.7	3,722.0	4,002.4

Long-lived assets at December 31:

United States	$3,654.9	3,656.0	3,927.2
Latin America*	1,538.7	1,645.3	1,820.4
Other	281.7	288.5	301.7
	$5,475.3	5,589.8	6,049.3
* Long-lived assets in Chile	$ 984.0	1,057.0	1,134.8

Revenue is attributed to countries based on the location the sale originated.

Table of Contents

133

Financial Data By Business Segment

	U.S. Mines					South American Mines			
	Morenci	Bagdad/ Sierrita	Miami/ Bisbee	Chino/ Cobre	Tyrone	Candelaria/ Ojos del Salado	Cerro Verde	El Abra	Primary Molybdenum
2003									
Sales & other operating revenues:									
Unaffiliated customers				0.3		218.5	41.4	136.2	383.6
Intersegment	587.8	469.2	32.9	45.9	93.4	101.4	115.3	93.2	
Depreciation, depletion and amortization	76.1	33.9	6.9	9.0	13.0	43.5	28.7	67.7	25.5
Operating income (loss) before special items and provisions	78.5	81.0	(5.5)	(4.1)	(16.7)	100.5	42.7	39.4	8.6
Special items and provisions	(1.1)		(0.5)	(1.3)	(0.5)				
Operating income (loss)	77.4	81.0	(6.0)	(5.4)	(17.2)	100.5	42.7	39.4	8.6
Interest income						1.0	0.2		0.3
Interest expense						14.2	1.8	14.8	
Equity earnings (losses)									
Extraordinary gain				68.3					
Cumulative effect of accounting change	3.6	2.6	(2.7)	(4.3)	2.7		0.9	(0.4)	1.4
Equity basis investments		0.4	0.9			0.3			
Assets at December 31	1,008.9	739.5	119.0	413.2	168.3	684.5	440.8	532.9	787.6
Expenditures for segment assets*	16.5	18.5	1.2	(46.7)	2.0	4.6	5.1	1.0	13.4

* 2003 expenditures for segment assets included $50 million of cash received and $0.9 million of cash acquired from Heisei in connection with the acquisition of their one-third partnership interest in Chino Mines Company. (Refer to Note 2, Acquisition and Divestitures, for further discussion.)

	Morenci	Bagdad/ Sierrita	Miami/ Bisbee	Chino/ Cobre	Tyrone	Candelaria/ Ojos del Salado	Cerro Verde	El Abra	Primary Molybdenum
2002									
Sales & other operating revenues:									
Unaffiliated customers				0.7		163.5	36.8	172.5	268.7
Intersegment	521.9	363.6	22.8	58.1	103.7	102.7	97.2	89.9	
Depreciation, depletion and amortization	78.7	27.4	5.7	11.2	12.5	39.0	30.8	63.1	24.1
Operating income (loss) before special	24.6	19.9	(13.3)	6.8	1.6	47.6	24.8	(7.0)	7.6

items and provisions									
Special items and provisions	(0.5)	0.3	(2.3)	(117.2)					1.0
Operating income (loss)	24.1	20.2	(15.6)	(110.4)	1.6	47.6	24.8	(7.0)	8.6
Interest income						1.2	0.2	0.3	0.4
Interest expense						20.7	5.3	21.6	(0.4)
Equity earnings (losses)									
Cumulative effect of accounting change									
Equity basis investments		0.4				0.4			
Assets at December 31	1,077.4	766.1	124.7	282.6	150.9	633.5	428.0	504.5	779.0
Expenditures for segment assets	9.9	41.6	0.3	3.1	3.6	2.2	7.3	6.3	9.8
2001									
Sales & other operating revenues:									
Unaffiliated customers				0.7		202.2	32.2	118.8	226.3
Intersegment	494.2	474.8	69.6	73.4	113.7	79.7	86.5	67.5	
Depreciation, depletion and amortization	90.5	36.2	7.2	12.2	13.2	42.6	40.0	42.6	21.2
Operating income (loss) before special items and provisions	(60.4)	18.4	(1.5)	(12.5)	(14.4)	50.0	1.8	5.5	(11.1)
Special items and provisions	(1.5)	(6.9)	(3.6)	(3.0)	(1.9)				(0.6)
Operating income (loss)	(61.9)	11.5	(5.1)	(15.5)	(16.3)	50.0	1.8	5.5	(11.7)
Interest income	0.1			0.1		4.7	0.4	0.1	0.9
Interest expense	0.7	0.1		0.1		21.5	8.1	25.0	0.2
Equity earnings (losses)						(0.1)			
Cumulative effect of accounting change									
Equity basis investments		0.3				0.4			
Assets at December 31	1,155.4	783.8	132.6	420.2	139.4	660.8	452.4	575.6	801.6
Expenditures for segment assets	61.0	9.3	3.3	4.0	5.4	5.7	14.2	40.9	8.9

Note: Refer to Notes 2 and 3 to the Consolidated Financial Statements for a discussion of major unusual items during the three-year period.

Table of Contents

134

Financial Data By Business Segment (continued)

	Manufacturing and Sales	Other Mining	PDMC Eliminations	PDMC Subtotal	Specialty Chemicals	Wire & Cable	PDI Subtotal	Corporate, Other & Eliminations	Totals
2003									
Sales & other operating revenues:									
Unaffiliated customers	2,026.8	21.8		2,828.6	644.2	669.9	1,314.1		4,142.7
Intersegment	302.5	67.4	(1,781.8)	127.2		0.3	0.3	(127.5)	
Depreciation, depletion and amortization	16.9	6.8		328.0	45.9	35.5	81.4	13.2	422.6
Operating income (loss) before special items and provisions	32.0	(85.7)		270.7	51.1	15.7	66.8	(101.9)	235.6
Special items and provisions	(0.1)	(2.0)		(5.5)	3.7	(2.0)	1.7	(34.2)	(38.0)
Operating income (loss)	31.9	(87.7)		265.2	54.8	13.7	68.5	(136.1)	197.6
Interest income		4.8	(4.3)	2.0	7.6	0.9	8.5	5.9	16.4
Interest expense	4.3	0.3	(4.3)	31.1	29.9	5.1	35.0	79.7	145.8
Equity earnings (losses)		(0.1)		(0.1)		0.7	0.7	2.1	2.7
Extraordinary gain				68.3					68.3
Cumulative effect of accounting change		4.7		8.5	0.5		0.5	(0.6)	8.4
Equity basis investments				1.6		6.0	6.0	25.5	33.1
Assets at December 31	467.6	1,489.3	(1,613.7)	5,237.9	759.0	521.6	1,280.6	754.4	7,272.9
Expenditures for segment assets*	9.9	9.6	(1.8)	33.3	23.9	17.1	41.0	28.1	102.4

* 2003 expenditures for segment assets included $50 million of cash received and $0.9 million of cash acquired from Heisei in connection with the acquisition of their one-third partnership interest in Chino Mines Company. (Refer to Note 2, Acquisitions and Divestitures, for further discussion.)

2002									
Sales & other operating revenues:									
Unaffiliated customers	1,823.4	20.2		2,485.8	548.8	687.4	1,236.2		3,722.0
Intersegment	395.8	57.2	(1,676.5)	136.4		0.4	0.4	(136.8)	
Depreciation, depletion and amortization	24.5	2.8		319.8	41.3	40.7	82.0	8.4	410.2
Operating income (loss) before special items and provisions	4.9	(65.6)		51.9	47.0	5.6	52.6	(77.4)	27.1
Special items and provisions	0.2	1.6		(116.9)	1.1	(23.1)	(22.0)	(97.5)	(236.4)
Operating income (loss)	5.1	(64.0)		(65.0)	48.1	(17.5)	30.6	(174.9)	(209.3)
Interest income		3.8	(2.9)	3.0	4.2	1.4	5.6	7.2	15.8
Interest expense	2.9	0.5	(2.9)	47.7	28.9	3.4	32.3	107.0	187.0
Equity earnings (losses)		0.1		0.1		0.7	0.7	1.9	2.7
Cumulative effect of accounting change						(22.9)	(22.9)		(22.9)
Equity basis investments				0.8		5.2	5.2	25.8	31.8
Assets at December 31	476.0	1,696.4	(1,790.8)	5,128.3	679.2	506.9	1,186.1	714.6	7,029.0
Expenditures for segment assets	7.0	2.6		93.7	24.1	9.3	33.4	6.1	133.2
2001									
Sales & other operating revenues:									
Unaffiliated customers	2,056.7	12.6		2,649.5	582.0	770.9	1,352.9		4,002.4
Intersegment	501.3	65.7	(1,873.4)	153.0		0.2	0.2	(153.2)	
Depreciation, depletion and amortization	33.7	4.7		344.1	43.7	47.0	90.7	5.1	439.9
Operating income (loss) before special items and provisions	21.1	(78.4)		(81.5)	63.2	15.5	78.7	(66.6)	(69.4)
Special items and provisions	(6.9)	22.3		(2.1)	(1.4)	(3.3)	(4.7)	47.4	40.6
Operating income (loss)	14.2	(56.1)		(83.6)	61.8	12.2	74.0	(19.2)	(28.8)

Interest income		7.6	(5.9)	8.0	4.3	1.3	5.6	9.7	23.3
Interest expense	5.6	0.9	(5.9)	56.3	42.4	5.7	48.1	123.1	227.5
Equity earnings (losses)		(2.9)		(3.0)		0.9	0.9	1.8	(0.3)
Cumulative effect of accounting change	(2.0)			(2.0)					(2.0)
Equity basis investments		0.1		0.8		4.9	4.9	28.4	34.1
Assets at December 31	559.4	1,748.4	(1,826.6)	5,603.0	709.0	638.1	1,347.1	634.2	7,584.3
Expenditures for segment assets	31.4	7.5	9.0	200.6	28.9	57.6	86.5	23.9	311.0

Note: Refer to Notes 2 and 3 to the Consolidated Financial Statements for a discussion of major unusual items during the three-year period.

PART III

Items 10, 11, 12, 13 and 14.

The information called for by Part III (Items 10, 11, 12, 13 and 14) is incorporated herein by reference from the material included under the captions Election of Directors , Corporate Governance and General Information Concerning the Board of Directors and its Committees , Compensation Committee Interlocks and Insider Participation , Share Ownership of Directors and Executive Officers , Section 16(a) Beneficial Ownership Reporting Compliance , Equity Compensation Plan Information , Executive Compensation , Pension and Other Retirement Benefits and Principal Accounting Firm Fees in Phelps Dodge Corporation s definitive proxy statement (to be filed pursuant to Regulation 14A) for its Annual Meeting of Shareholders to be held May 28, 2004 (the 2004 Proxy Statement), except that the information regarding executive officers called for by Item 401 of Regulation S-K is included in Part I of this report. The 2004 Proxy Statement is being prepared and will be filed with the Securities and Exchange Commission and furnished to shareholders on or about April 16, 2004.

Additionally, the Company s Code of Business Ethics and Policies, Directors Code of Business Conduct and Ethics, Corporate Governance Guidelines, and the charters of the Audit Committee, Committee on Directors and Corporate Governance, and Compensation and Management Development Committee are available and maintained on the Company s Web site (http://www.phelpsdodge.com).

Item 15. Exhibits, Financial Statement Schedule and Reports on Form 8-K

(a)1. Financial Statements:

Statement of Consolidated Operations, page 88.

Consolidated Balance Sheet, page 89.

Consolidated Statement of Cash Flows, page 90.

Consolidated Statement of Shareholders Equity, page 91.

2. Financial Statement Schedule:

Valuation and Qualifying Accounts and Reserves, page 138.

3. Exhibits:

3.1 Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 1999) as amended by the Certificate of Amendment to the Restated Certificate of Incorporation of Phelps Dodge Corporation (incorporated by reference to Exhibit 2.3 of the Company s Registration Statement on Form 8-A, filed with the SEC on June 10, 2002 (SEC File No. 1-82)).

3.2 Amended and Restated By-Laws of the Company, effective as of September 5, 2001 (incorporated by reference to Exhibit 3.2 of the Company s Form 10-Q for the quarter ended September 30, 2001 (SEC File No. 1-82)).

4.1 Credit Agreement, effective May 10, 2000, among the Company, the Lenders parties thereto, Salomon Smith Barney Inc., Bank of Tokyo-Mitsubishi Trust Company, and Citibank, N.A., as agent (incorporated by reference to Exhibit 4.2 of the Company s Form 10-Q for the quarter ended March 31, 2000 (SEC File No. 1-82)).

4.2 Rights Agreement, dated as of February 5, 1998 between the Company and The Chase Manhattan Bank (which replaces the Rights Agreement dated as of July 29, 1988 as amended and restated as of December 6, 1989, the rights issued thereunder having been redeemed by the Company), which includes the form of Certificate of Amendment setting forth the terms of the Junior Participating Cumulative Preferred Shares, par value $1.00 per share, as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C (incorporated by reference to Exhibit 1 of the Company s Current Report on Form 8-K and in the Company s Form 8-A, both filed on February 6, 1998 (SEC File No. 1-82)).

Note: Certain instruments with respect to long-term debt of the Company have not been filed as Exhibits to this Report since the total amount of securities authorized under any such instrument does not exceed 10 percent of the total assets of the Company and its subsidiaries on a consolidated basis. The Company agrees to furnish a copy of each such instrument upon request of the Securities and Exchange Commission.

4.3 Form of Indenture, dated as of September 22, 1997, between the Company and The Chase Manhattan Bank, as Trustee (incorporated by reference to the Company s Registration Statement and Post-Effective Amendment No. 1 on Form S-3 (Registration Nos. 333-36415 and 33-44380)) filed with the Securities and Exchange Commission on September 25, 1997 (incorporated by reference to Exhibit 4.3 of the Company s Form 10-Q for the quarter ended September 30, 1997 (SEC File No. 1-82)).

4.4 Form of 6.375 percent Note, due November 1, 2004, of the Company issued on November 5, 1997, pursuant to the Indenture, dated as of September 22, 1997, between the Company and The Chase Manhattan Bank, as Trustee (incorporated by reference to the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 3, 1997 and Exhibit 4.4 of Form 10-Q for the quarter ended September 30, 1997 (SEC File No. 1-82)).

4.5 Form of 7.125 percent Debenture, due November 1, 2027, of the Company issued on November 5, 1997, pursuant to the Indenture, dated as of September 22, 1997, between the Company and The Chase Manhattan Bank, as Trustee (incorporated by reference to the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 3, 1997 and Exhibit 4.5 of the

Table of Contents

136

Company s Form 10-Q for the quarter ended September 30, 1997 (SEC File No. 1-82)).

4.6 Tripartite/Conversion Agreement, dated as of August 8, 2000, among The Chase Manhattan Bank and First Union National Bank, and acknowledged by the Company, pursuant to which First Union National Bank succeeded The Chase Manhattan Bank as trustee under the Indenture dated as of September 22, 1997 (incorporated by reference to the Company s Registration Statement on Form S-3 (Reg. No. 333-43890) filed with the Securities and Exchange Commission on August 16, 2000).

4.7 Form of 8.75 percent Note due June 1, 2011, of the Company issued on May 30, 2001, pursuant to the Indenture dated September 22, 1997, between the Company and First Union National Bank, as successor Trustee (incorporated by reference to the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 30, 2001 (SEC File No. 1-82)).

4.8 Form of 9.5 percent Note due June 1, 2031, of the Company issued on May 30, 2001, pursuant to the Indenture dated September 22, 1997, between the Company and First Union National Bank, as successor Trustee (incorporated by reference to the Current Report on Form 8-K filed with the Securities and Exchange Commission May 30, 2001 (SEC File No. 1-82)).

4.9 Form of Common Share Certificate of the Company (incorporated by reference to Exhibit 4.9 of the Company s Form 10-Q for the quarter ended June 30, 2002 (SEC File No. 1-82)).

4.10 Form of 6.75 percent Series A Mandatory Convertible Preferred Share Certificate of the Company (incorporated by reference to Exhibit 4.10 of the Company s Form 10-Q for the quarter ended June 30, 2002 (SEC File No. 1-82)).

10. Management contracts and compensatory plans and agreements.

10.1 The Company s 1989 Directors Stock Option Plan (the 1989 Directors Plan), as amended to and including June 3, 1992, suspended effective November 6, 1996 (incorporated by reference to Exhibit 10.3 of the Company s Form 10-Q for the quarter ended June 30, 1992 (SEC File No. 1-82)). Form of Stock Option Agreement under the 1989 Directors Plan (incorporated by reference to the Company s Registration Statement on Form S-8 (Reg. No. 33-34362)).

10.2 The Company s 1993 Stock Option and Restricted Stock Plan (the 1993 Plan), as amended through December 1, 1993, and form of Restricted Stock letter under the 1993 Plan (incorporated by reference to Exhibit 10.4 of the Company s 1993 Form 10-K (SEC File No. 1-82)). Amendment to 1993 Plan effective May 7, 1997 (incorporated by reference to Exhibit 10.15 of the Company s Form 10-Q for the quarter ended June 30, 1997 (SEC File No. 1-82)). Amended and restated form of Stock Option Agreement, amended through February 5, 1997 (incorporated by reference to Exhibit 10.3 of the Company s 1997 Form 10-K (SEC File No. 1-82)).

Note: Omitted from filing pursuant to the Instruction to Item 601(b) (10) are actual Stock Option Agreements between the Company and certain officers, under the 1993 Plan, and certain Directors, under the 1989 Directors Plan, which contain substantial similar provisions to Exhibits 10.1 and 10.2 above.

10.3

	Description of the Company s Incentive Compensation Plan (incorporated by reference to Exhibit 10.5 of the Corporation s 1993 Form 10-K (SEC File No. 1-82)).
10.4	Amended and restated Deferred Compensation Plan for the Directors of the Company, dated as of December 3, 1998, effective January 1, 1999 (incorporated by reference to Exhibit 10.5 of the Company s 1998 Form 10-K (SEC File No. 1-82)).
10.5	Form of Change-of-Control Agreement between the Company and certain executives, including all of the current executive officers to be listed in the summary compensation table to the 2003 Proxy Statement (incorporated by reference to Exhibit 10.5 of the Company s 2002 Form 10-K (SEC File No. 1-82)).
10.6	Amended and restated form of Severance Agreement between the Company and certain executives, including all of the current executive officers to be listed in the summary compensation table to the 2003 Proxy Statement (incorporated by reference to Exhibit 10.7 of the Company s 1997 Form 10-K (SEC File No. 1-82)).
10.7	The Company s Retirement Plan for Directors, effective January 1, 1988, terminated for active directors effective December 31, 1997 (incorporated by reference to Exhibit 10.13 of the Company s 1987 Form 10-K (SEC File No. 1-82)).
10.8	The Company s Supplemental Retirement Plan (which amends and restates the provisions of the Company s Supplemental Retirement Plan, which was effective (except as otherwise noted therein) as of January 1, 1997), effective (except as otherwise provided therein) as of January 1, 2001 (SEC File No. 1-82).
10.9	The Company s Supplemental Savings Plan (which amends and restates the provisions of the Company s Supplemental Savings Plan, which was effective (except as otherwise noted therein) as of January 1, 1997), effective (except as otherwise noted therein) as of January 1, 2003 (SEC File No. 1-82).
10.10	The Company s Directors Stock Unit Plan effective January 1, 1997 (incorporated by reference to Exhibit 10.10 of the Company s 1996 Form 10-K (SEC File No. 1-82)) as amended and restated, effective January 1, 1998 (incorporated by reference to Exhibit 10.11 of the Company s 1997 Form 10-K (SEC File No. 1-82)). First Amendment to Plan, effective as of January 1, 2001 (incorporated by reference to Exhibit 10.11 of the Company s Form 10-Q for the quarter ended June 30, 2000 (SEC File No. 1-82)).
10.11	The Company s 1998 Stock Option and Restricted Stock Plan (the 1998 Plan) and forms Restricted Stock Agree-

ment under the 1998 Plan, effective March 4, 1998 (incorporated by reference to Exhibit 10.12 of the Company s Form 10-Q for the quarter ended June 30, 1998 (SEC File No. 1-82)), and amended form of Stock Option Agreement, effective June 22, 1999 (incorporated by reference to the Company s Form 10-Q for the quarter ended June 30, 1999 (SEC File No. 1-82)) and amended Form of Restricted Stock Letter Agreement, effective as of July 8, 2002 (incorporated by reference to the Company s Form 10-Q for the quarter ended September 30, 2002 (SEC File No. 1-82)). First Amendment to the 1998 Plan, effective as of May 4, 2000 (incorporated by reference to Exhibit 10.12 of the Company s Form 10-Q for the quarter ended June 30, 2000 (SEC File No. 1-82)).

Note: Omitted from filing pursuant to the Instruction to Item 601(b) (10) are actual Stock Option Agreements between the Company and certain officers under the 1998 Plan, which contain substantially similar provisions to Exhibit 10.11 above.

10.12 The Company s 2003 Stock Option and Restricted Stock Plan (the 2003 Plan), and forms of: (i) Stock Option Agreement; (ii) Supplement A to Stock Option Agreement; (iii) Supplement B to Stock Option Agreement; (iv) Restricted Stock Letter Agreement; (v) Restricted Stock Letter Agreement (cliff vesting), each effective May 23, 2003 (incorporated by reference to Exhibit 10.14 of the Company s Form 10-Q for the quarter ended June 30, 2003 (SEC File No. 1-82)); form of Restricted Stock Letter (graduated vesting) (incorporated by reference to Exhibit 10.14 of the Company s Form 10-Q for the quarter ended September 30, 2003 (SEC File No. 1-82)); and form of amended Restricted Stock letters (graduated and cliff vesting), effective February 3, 2004 (SEC File No. 1-82).

Note: Omitted from the filing pursuant to the Instruction to Item 601 (b) (10) are any actual agreement between the Company and certain officers under the 2003 Plan, which contain subsequently similar provisions to Exhibit 10.12 above.

11 Computation of per share earnings.

12.1 Computation of ratios of earnings to fixed charges.

12.2 Computation of ratios of total debt to total capitalization.

21 List of Subsidiaries and Investments.

23 Consent of PricewaterhouseCoopers LLP.

24 Powers of Attorney executed by certain officers and directors who signed this Annual Report on Form 10-K.

Note: Shareholders may obtain copies of Exhibits by making written request to the Secretary of the Corporation and paying copying costs of 10 cents per page, plus postage.

31 Certifications of J. Steven Whisler, Chairman and Chief Executive Officer of the Company, and Ramiro G. Peru, Senior Vice President and Chief Financial Officer of the Company, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certifications of J. Steven Whisler, Chairman and Chief Executive Officer of the Company, and Ramiro G. Peru, Senior Vice President and Chief Financial Officer of the Company, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

The Company filed the following Current Reports on Form 8-K during the 2003 fourth quarter: (i) Current Report on Form 8-K bearing cover date of October 29, 2003, in which the Company reported under Item 9 and 12 that it had issued a press release announcing financial results for the three- and nine-months ended September 30, 2003; and (ii) Current Report on Form 8-K bearing cover date of January 29, 2004, in which the Company reported under Item 9 and 12 that it had issued a press release announcing financial results for the three- and twelve-months ended December 31, 2003.

Table of Contents

Schedule II

Phelps Dodge Corporation and Consolidated Subsidiaries

Valuation and Qualifying Accounts and Reserves

(In millions)

		Additions			
	Balance at beginning of period	Charged to costs and expenses	Other	Deductions	Balance at end of period
Reserve deducted in balance sheet from the asset to which applicable:					
Accounts Receivable:					
December 31, 2003	$ 14.1	0.9	(1.4)	3.5	10.1
December 31, 2002	$ 14.2	5.0	(0.5)	4.6	14.1
December 31, 2001	$ 17.6	1.9	0.6	5.9	14.2
Supplies:					
December 31, 2003	$ 28.4	8.1	0.2	4.9	31.8
December 31, 2002	$ 27.2	9.7	1.8	10.3	28.4
December 31, 2001	$ 24.2	4.0	0.5	1.5	27.2
Deferred Tax Assets:					
December 31, 2003	$508.4	47.0		94.1	461.3
December 31, 2002	$550.4	70.6		112.6	508.4
December 31, 2001	$280.2	275.1		4.9	550.4

Table of Contents

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PHELPS DODGE CORPORATION
(Registrant)

February 26, 2004 By: /s/ Ramiro G. Peru

Ramiro G. Peru
Senior Vice President
and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ J. Steven Whisler J. Steven Whisler	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2004
/s/ Ramiro G. Peru Ramiro G. Peru	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 26, 2004
/s/ Stanton K. Rideout Stanton K. Rideout	Vice President and Controller (Principal Accounting Officer)	February 26, 2004
(Robert N. Burt, Archie W. Dunham, William A. Franke, Robert D. Johnson, Marie L. Knowles, Robert D. Krebs, Jon C. Madonna, Gordon R. Parker, William J. Post, Jack E. Thompson, Directors)		February 26, 2004

By: /s/ Ramiro G. Peru

Ramiro G. Peru
Attorney-in-fact

Table of Contents

Exhibit Index

Exhibits:

3.1 Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 1999) as amended by the Certificate of Amendment to the Restated Certificate of Incorporation of Phelps Dodge Corporation (incorporated by reference to Exhibit 2.3 of the Company s Registration Statement on Form 8-A, filed with the SEC on June 10, 2002 (SEC File No. 1-82)).

3.2 Amended and Restated By-Laws of the Company, effective as of September 5, 2001 (incorporated by reference to Exhibit 3.2 of the Company s Form 10-Q for the quarter ended September 30, 2001 (SEC File No. 1-82)).

4.1 Credit Agreement, effective May 10, 2000, among the Company, the Lenders parties thereto, Salomon Smith Barney Inc., Bank of Tokyo-Mitsubishi Trust Company, and Citibank, N.A., as agent (incorporated by reference to Exhibit 4.2 of the Company s Form 10-Q for the quarter ended March 31, 2000 (SEC File No. 1-82)).

4.2 Rights Agreement, dated as of February 5, 1998 between the Company and The Chase Manhattan Bank (which replaces the Rights Agreement dated as of July 29, 1988 as amended and restated as of December 6, 1989, the rights issued thereunder having been redeemed by the Company), which includes the form of Certificate of Amendment setting forth the terms of the Junior Participating Cumulative Preferred Shares, par value $1.00 per share, as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C (incorporated by reference to Exhibit 1 of the Company s Current Report on Form 8-K and in the Company s Form 8-A, both filed on February 6, 1998 (SEC File No. 1-82)).

Note: Certain instruments with respect to long-term debt of the Company have not been filed as Exhibits to this Report since the total amount of securities authorized under any such instrument does not exceed 10 percent of the total assets of the Company and its subsidiaries on a consolidated basis. The Company agrees to furnish a copy of each such instrument upon request of the Securities and Exchange Commission.

4.3 Form of Indenture, dated as of September 22, 1997, between the Company and The Chase Manhattan Bank, as Trustee (incorporated by reference to the Company s Registration Statement and Post-Effective Amendment No. 1 on Form S-3 (Registration Nos. 333-36415 and 33-44380)) filed with the Securities and Exchange Commission on September 25, 1997 (incorporated by reference to Exhibit 4.3 of the Company s Form 10-Q for the quarter ended September 30, 1997 (SEC File No. 1-82)).

4.4 Form of 6.375 percent Note, due November 1, 2004, of the Company issued on November 5, 1997, pursuant to the Indenture, dated as of September 22, 1997, between the Company and The Chase Manhattan Bank, as Trustee (incorporated by reference to the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 3, 1997 and Exhibit 4.4 of Form 10-Q for the quarter ended September 30, 1997 (SEC File No. 1-82)).

4.5	Form of 7.125 percent Debenture, due November 1, 2027, of the Company issued on November 5, 1997, pursuant to the Indenture, dated as of September 22, 1997, between the Company and The Chase Manhattan Bank, as Trustee (incorporated by reference to the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 3, 1997 and Exhibit 4.5 of the Company s Form 10-Q for the quarter ended September 30, 1997 (SEC File No. 1-82)).
4.6	Tripartite/Conversion Agreement, dated as of August 8, 2000, among The Chase Manhattan Bank and First Union National Bank, and acknowledged by the Company,

Table of Contents

pursuant to which First Union National Bank succeeded The Chase Manhattan Bank as trustee under the Indenture dated as of September 22, 1997 (incorporated by reference to the Company s Registration Statement on Form S-3 (Reg. No. 333-43890) filed with the Securities and Exchange Commission on August 16, 2000).

4.7 Form of 8.75 percent Note due June 1, 2011, of the Company issued on May 30, 2001, pursuant to the Indenture dated September 22, 1997, between the Company and First Union National Bank, as successor Trustee (incorporated by reference to the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 30, 2001 (SEC File No. 1-82)).

4.8 Form of 9.5 percent Note due June 1, 2031, of the Company issued on May 30, 2001, pursuant to the Indenture dated September 22, 1997, between the Company and First Union National Bank, as successor Trustee (incorporated by reference to the Current Report on Form 8-K filed with the Securities and Exchange Commission May 30, 2001 (SEC File No. 1-82)).

4.9 Form of Common Share Certificate of the Company (incorporated by reference to Exhibit 4.9 of the Company s Form 10-Q for the quarter ended June 30, 2002 (SEC File No. 1-82)).

4.10 Form of 6.75 percent Series A Mandatory Convertible Preferred Share Certificate of the Company (incorporated by reference to Exhibit 4.10 of the Company s Form 10-Q for the quarter ended June 30, 2002 (SEC File No. 1-82)).

10. Management contracts and compensatory plans and agreements.

10.1 The Company s 1989 Directors Stock Option Plan (the 1989 Directors Plan), as amended to and including June 3, 1992, suspended effective November 6, 1996 (incorporated by reference to Exhibit 10.3 of the Company s Form 10-Q for the quarter ended June 30, 1992 (SEC File No. 1-82)). Form of Stock Option Agreement under the 1989 Directors Plan (incorporated by reference to the Company s Registration Statement on Form S-8 (Reg. No. 33-34362)).

10.2 The Company s 1993 Stock Option and Restricted Stock Plan (the 1993 Plan), as amended through December 1, 1993, and form of Restricted Stock letter under the 1993 Plan (incorporated by reference to Exhibit 10.4 of the Company s 1993 Form 10-K (SEC File No. 1-82)). Amendment to 1993 Plan effective May 7, 1997 (incorporated by reference to Exhibit 10.15 of the Company s Form 10-Q for the quarter ended June 30, 1997 (SEC File No. 1-82)). Amended and restated form of Stock Option Agreement, amended through February 5, 1997 (incorporated by reference to Exhibit 10.3 of the Company s 1997 Form 10-K (SEC File No. 1-82)).

Note: Omitted from filing pursuant to the Instruction to Item 601(b) (10) are actual Stock Option Agreements between the Company and certain officers, under the 1993 Plan, and certain Directors, under the 1989 Directors Plan, which contain substantial similar provisions to Exhibits 10.1 and 10.2 above.

10.3 Description of the Company s Incentive Compensation Plan (incorporated by reference to Exhibit 10.5 of the Corporation s 1993 Form 10-K (SEC File No. 1-82)).

10.4

Amended and restated Deferred Compensation Plan for the Directors of the Company, dated as of December 3, 1998, effective January 1, 1999 (incorporated by reference to Exhibit 10.5 of the Company s 1998 Form 10-K (SEC File No. 1-82)).

10.5	Form of Change-of-Control Agreement between the Company and certain executives, including all of the current executive officers to be listed in the summary compensation table to the 2003 Proxy Statement (incorporated by reference to Exhibit 10.5 of the Company s 2002 Form 10-K (SEC File No. 1-82)).
10.6	Amended and restated form of Severance Agreement between the Company and certain executives, including all of the current executive officers to be listed in the summary compensation table to the 2003 Proxy Statement (incorporated by reference to Exhibit 10.7 of the Company s 1997 Form 10-K (SEC File No. 1-82)).
10.7	The Company s Retirement Plan for Directors, effective January 1, 1988, terminated for active directors effective December 31, 1997 (incorporated by reference to Exhibit 10.13 of the Company s 1987 Form 10-K (SEC File No. 1-82)).
10.8	The Company s Supplemental Retirement Plan (which amends and restates the provisions of the Company s Supplemental Retirement Plan, which was effective (except as otherwise noted therein) as of January 1, 1997), effective (except as otherwise provided therein) as of January 1, 2001 (SEC File No. 1-82).
10.9	The Company s Supplemental Savings Plan (which amends and restates the provisions of the Company s Supplemental Savings Plan, which was effective (except as otherwise noted therein) as of January 1, 1997), effective (except as otherwise noted therein) as of January 1, 2003 (SEC File No. 1-82).
10.10	The Company s Directors Stock Unit Plan effective January 1, 1997 (incorporated by reference to Exhibit 10.10 of the Company s 1996 Form 10-K (SEC File No. 1-82)) as amended and restated, effective January 1, 1998 (incorporated by reference to Exhibit 10.11 of the Company s 1997 Form 10-K (SEC File No. 1-82)). First Amendment to Plan, effective as of January 1, 2001 (incorporated by reference to Exhibit 10.11 of the Company s Form 10-Q for the quarter ended June 30, 2000 (SEC File No. 1-82)).
10.11	The Company s 1998 Stock Option and Restricted Stock Plan (the 1998 Plan) and forms Restricted Stock Agreement under the 1998 Plan, effective March 4, 1998 (incorporated by reference to Exhibit 10.12 of the Company s Form 10-Q for the quarter ended June 30, 1998 (SEC File No. 1-82)), and amended form of Stock Option Agreement,

	effective June 22, 1999 (incorporated by reference to the Company s Form 10-Q for the quarter ended June 30, 1999 (SEC File No. 1-82)) and amended Form of Restricted Stock Letter Agreement, effective as of July 8, 2002 (incorporated by reference to the Company s Form 10-Q for the quarter ended September 30, 2002 (SEC File No. 1-82)). First Amendment to the 1998 Plan, effective as of May 4, 2000 (incorporated by reference to Exhibit 10.12 of the Company s Form 10-Q for the quarter ended June 30, 2000 (SEC File No. 1-82)).
	Note: Omitted from filing pursuant to the Instruction to Item 601(b) (10) are actual Stock Option Agreements between the Company and certain officers under the 1998 Plan, which contain substantially similar provisions to Exhibit 10.11 above.
10.12	The Company s 2003 Stock Option and Restricted Stock Plan (the 2003 Plan), and forms of: (i) Stock Option Agreement; (ii) Supplement A to Stock Option Agreement; (iii) Supplement B to Stock Option Agreement; (iv) Restricted Stock Letter Agreement; (v) Restricted Stock Letter Agreement (cliff vesting), each effective May 23, 2003 (incorporated by reference to Exhibit 10.14 of the Company s Form 10-Q for the quarter ended June 30, 2003 (SEC File No. 1-82)); form of Restricted Stock Letter (graduated vesting) (incorporated by reference to Exhibit 10.14 of the Company s Form 10-Q for the quarter ended September 30, 2003 (SEC File No. 1-82)); and form of amended Restricted Stock letters (graduated and cliff vesting), effective February 3, 2004 (SEC File No. 1-82).
	Note: Omitted from the filing pursuant to the Instruction to Item 601 (b) (10) are any actual agreement between the Company and certain officers under the 2003 Plan, which contain subsequently similar provisions to Exhibit 10.12 above.
11	Computation of per share earnings.
12.1	Computation of ratios of earnings to fixed charges.
12.2	Computation of ratios of total debt to total capitalization.
21	List of Subsidiaries and Investments.
23	Consent of PricewaterhouseCoopers LLP.
24	Powers of Attorney executed by certain officers and directors who signed this Annual Report on Form 10-K.
	Note: Shareholders may obtain copies of Exhibits by making written request to the Secretary of the Corporation and paying copying costs of 10 cents per page, plus postage.
31	Certifications of J. Steven Whisler, Chairman and Chief Executive Officer of the Company, and Ramiro G. Peru, Senior Vice President and Chief Financial Officer of the Company, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications of J. Steven Whisler, Chairman and Chief Executive Officer of the Company, and Ramiro G. Peru, Senior Vice President and Chief Financial Officer of the Company, pursuant to 18 United States

Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.