Phelps Dodge Corporation

1999 Annual Report

Value *Forward*

Shareholder Information

Transfer and Dividend Paying Agent and Registrar

ChaseMellon Shareholder Services, LLC
Overpeck Centre
85 Challenger Road
Ridgefield Park, New Jersey 07660

Phelps Dodge Shareholder Services
(800) 279-1240
Internet: www.chasemellon.com

Independent Accountants

PricewaterhouseCoopers LLP
1850 North Central Avenue, Suite 700
Phoenix, Arizona 85004-4545
(602) 364-8000

Phelps Dodge Common Shares

Phelps Dodge common shares are listed on the New York Stock Exchange. The ticker symbol is PD.

Form 10-K Annual Report

The Annual Report on Form 10-K for 1999 is filed with the Securities and Exchange Commission and may be obtained, excluding exhibits, in a reasonable time without charge upon written request to:

Secretary of the Corporation
2600 North Central Avenue
Phoenix, Arizona 85004-3014

Corporate Address

Phelps Dodge Corporation
2600 North Central Avenue
Phoenix, Arizona 85004-3014
(602) 234-8100

Internet

www.phelpsdodge.com

Phelps Dodge seized opportunities during a challenging 1999 and emerged as a safer, larger and leaner company. Bold thinking, courageous action, and a pioneering spirit have built us into what we are today – a leading producer of metals, minerals and manufactured products that impact our lives in many ways. Those same attributes will drive us forward as we focus on creating value.

TABLE OF CONTENTS

Results in Brief

(Dollars in thousands, except per share amounts and copper prices)	1999 (a)	1998 (b)	1997 (c)
Sales and other operating revenues	$3,114,400	3,063,400	3,914,300
Operating income (loss)	$ (315,600)	422,700	611,000
Net income (loss)	$ (257,800)	190,900	408,500
Earnings (loss) per common share – diluted	$ (4.19)	3.26	6.63
Return on average shareholders' equity	(9.9)%	7.3%	15.4%
Net cash provided by operating activities	$ 204,500	378,400	764,600
Capital expenditures and investments	$ 240,400	668,300	789,200
Depreciation, depletion and amortization	$ 329,100	293,300	283,700
Average number of shares outstanding – diluted *(Thousands)*	61,600	58,500	61,600
At Year End			
Total assets	$8,229,000	5,036,500	4,965,200
Total debt	$2,755,000	1,021,000	1,003,300
Long-term debt	$2,172,500	836,400	857,100
Shareholders' equity	$3,276,800	2,587,400	2,510,400
Shares outstanding *(Thousands)*	78,656	57,934	58,634
Number of employees	16,400	13,924	15,869
Division Financial Results			
Phelps Dodge Mining Company operating income (loss) (d)	$ (301,000)	110,300	459,200
Phelps Dodge Industries operating income (e)	$ 49,700	353,600	207,800
Copper production *(Own production – tons)*	890,100	874,000	812,100
Copper deliveries *(Own production – tons)*	884,200	876,300	812,800
Copper Price (New York Commodity Exchange annual average spot price per pound – cathodes)	$ 0.72	0.75	1.04

(a) 1999 operating income was $139.8 million before non-recurring provisions of $332.3 million for asset impairments primarily at Phelps Dodge Mining Company, $28.2 million for environmental charges at Phelps Dodge Mining Company, and $94.9 million for a restructuring plan announced on June 30, 1999. 1999 after-tax income was $21.7 million, or 35 cents per common share, before the non-recurring provisions which totaled $279.5 million, or $4.54 per common share, on an after-tax basis. Return on average shareholders' equity was 0.8 percent before the non-recurring provisions.

(b) 1998 operating income was $231.8 million before a non-recurring gain of $190.9 million, primarily due to the disposition of Accuride Corporation. 1998 after-tax income was $91.8 million, or $1.57 per common share, before the non-recurring gain which totaled $99.1 million, or $1.69 per common share, on an after-tax basis. Return on shareholders' equity was 3.5 percent before the non-recurring gain.

(c) 1997 operating income was $656.9 million before non-recurring provisions of $45.9 million, primarily for environmental costs and an early retirement program. 1997 after-tax income was $440.1 million, or $7.14 per common share, before non-recurring provisions which totaled $31.6 million, or 51 cents per common share, on an after-tax basis. Return on average shareholders' equity was 16.6 percent before the non-recurring provisions.

(d) 1999 operating income for Phelps Dodge Mining Company was $84.2 million before non-recurring provisions of $320.4 million for asset impairments, $28.2 million for environmental charges and $36.6 million for the June 30, 1999, restructuring plan. 1998 operating income for Phelps Dodge Mining Company was $115.8 million before non-recurring provisions of $5.5 million for costs associated with indefinite closures and curtailments at mining operations. 1997 operating income was $499.7 million before non-recurring provisions of $40.5 million, primarily for environmental costs and an early retirement program.

(e) 1999 operating income for Phelps Dodge Industries was $119.7 million before non-recurring provisions of $11.9 million for asset impairments, $40.4 million for the June 30, 1999, restructuring plan in the wire and cable segment and $17.7 million at our specialty chemicals segment. 1998 operating income for Phelps Dodge Industries includes a pre-tax gain of $198.7 million from the disposition of Accuride Corporation and a non-recurring provision of $2.3 million primarily for costs associated with an early retirement program in the wire and cable segment.

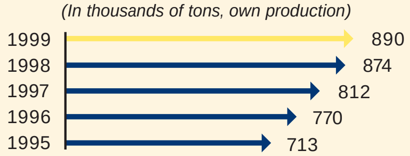
April 1, 2000

Dear Fellow Shareholders: We expected 1999 to be both a challenging and eventful year for Phelps Dodge Corporation, and it was. During the year, we utilized our strong balance sheet to complete the largest acquisition in the company's history — Cyprus Amax Minerals Company — and announced the next generation of management as part of an orderly succession plan. Depressed economies in Asia and Latin America, and the low copper price, which averaged 72 cents per pound for the year and was as low as 61 cents, resulted in disappointing financial performance for our wire and cable and mining segments, and we took aggressive actions to restructure these businesses. Our specialty chemicals business posted record operating earnings and cash flow despite rising feedstock costs and pricing pressures.

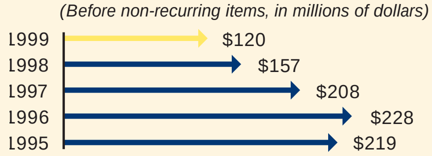
Our annual earnings before non-recurring items fell to $21.7 million, or $0.35 per share. We took charges to earnings of $279.5 million in 1999 to reflect a series of actions taken during the year. Cash flow provided by operating activities, the principal measure of our operating performance, was $205 million in 1999.

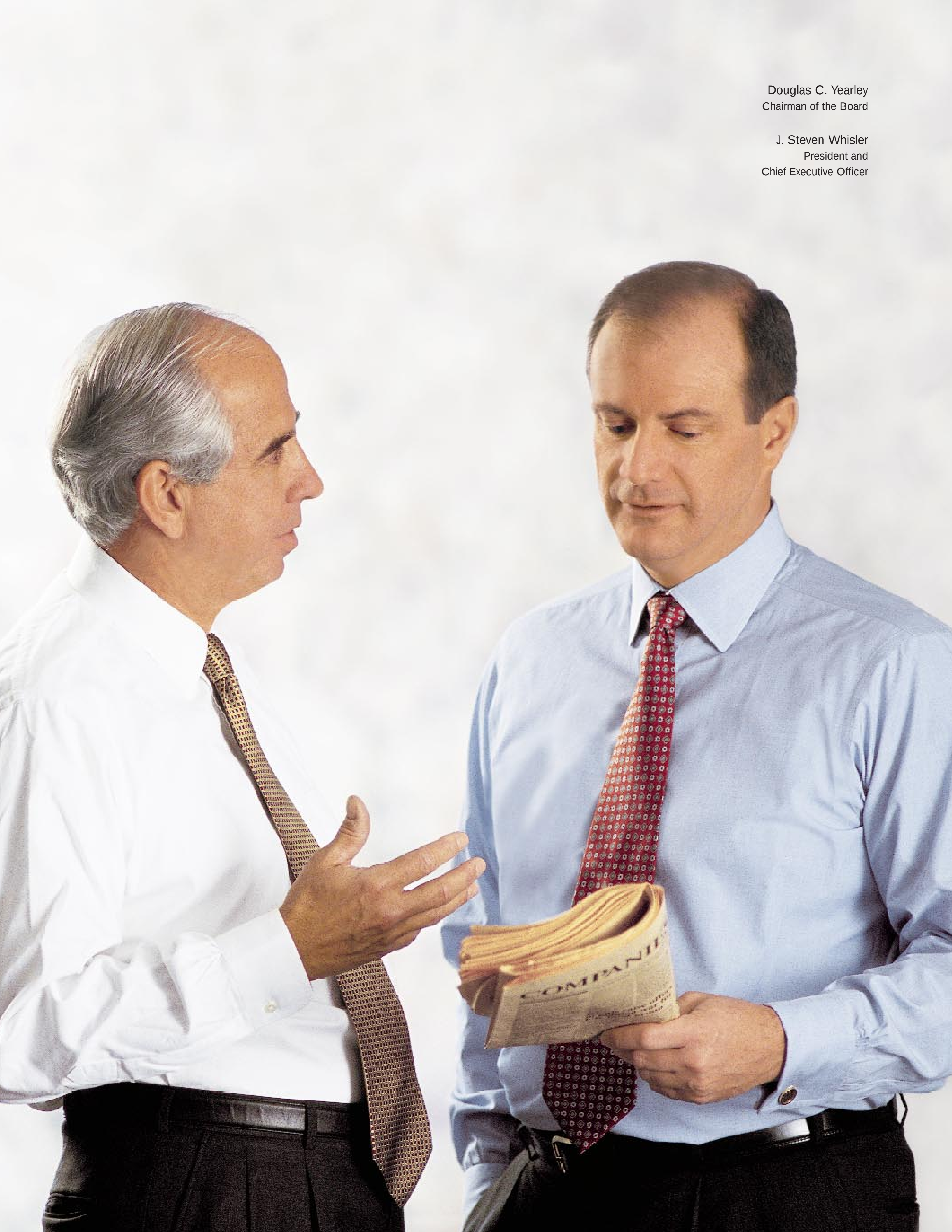
Cyprus Amax Acquisition. In the fourth quarter, we successfully completed the acquisition of Cyprus Amax, including its significant copper and molybdenum operations in North America, South America and Europe. By year-end 2001, the combined company will realize annual cash cost savings of $135 million — $35 million more each year than originally projected.

Phelps Dodge Mining Company Copper Production
(In thousands of tons, own production)



Phelps Dodge Industries Operating Income
(Before non-recurring items, in millions of dollars)





Douglas C. Yearley
Chairman of the Board

J. Steven Whisler
President and
Chief Executive Officer

We

will focus

relentlessly on

operational excellence,

achieving quality growth, and

reducing our capital intensity. As we

work to achieve our aspirations, our vision and values

will remain firmly in place. Our commitment

to work safely and build shareholder

value will continue to drive

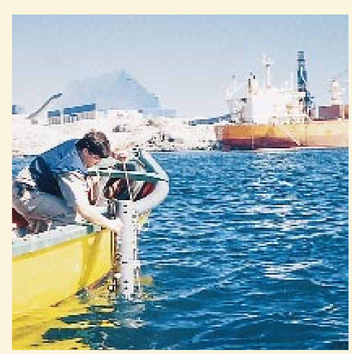
our pioneering

actions.

We recognized from the beginning that both the similarities *and* the differences between the two organizations would contribute to the success of our expanded company. The importance of "cultural fit" between companies is often overlooked during mergers and acquisitions, but we knew it was an important factor in uniting our people quickly around a common vision and goals. The "sameness" in the operating cultures of Phelps Dodge and Cyprus Amax enabled us to integrate the operations without major difficulty in a relatively short period of time.

The former Cyprus operations also bring to our company different approaches and strengths in operating excellence, capital deployment and growth. Some processes already have been combined to capture synergies. For example, the General Equipment Management System, one of the principal components of the Cyprus Quest 21 quality program, has been combined already with the Phelps Dodge "predictive maintenance" efforts to form the new PD-Equipment Management System. The result is an estimated $15 million in annual savings in the cost of maintaining our loading and haulage fleet. In the next year, we expect to create additional "best of both" synergies across a number of operational and functional areas. The new equipment management program is one of several comprehensive efforts in cost reduction, capital efficiency and quality improvement that comprise our *Value Mining* initiative.

Climax Molybdenum Company, the world's leading producer of molybdenum and a business we acquired as part of the Cyprus transaction, is a new business for Phelps Dodge and we continue to gain an understanding of its operating and marketing issues. Given its significant market position, its recent performance has been disappointing and is being carefully scrutinized. We believe, however, that Climax has attractive opportunities, some of which may be captured from the downstream value added in higher-margin, specialty applications.



The environmental management system at the Candelaria mining operation and port facility in Chile received independent certification under the strict ISO 14001 standards.

The wire and cable sectors were restructured in 1999, consolidating three units into one.

1999 Review. During 1999, our mining and wire and cable businesses took important restructuring steps.

▶▶ Phelps Dodge Mining Company curtailed copper production by a further 130 million pounds (which brought total annual production curtailments in the past two years to 310 million pounds), began the conversion of our Morenci operation to 100 percent solution extraction/electrowinning production, and reduced smelting and refining production, including the cessation of smelting operations at Hidalgo, to gain additional cost and capital efficiencies.

▶▶ Continuing economic difficulties in Southeast Asia and Latin America, and lack of market discipline in the fragmented wire and cable industry, caused us to reconfigure our wire and cable business. In August, we consolidated our magnet wire, high-performance conductor, and international energy and telecommunications businesses under one entity, Phelps Dodge Wire & Cable Group. Under the new structure, PD Wire & Cable will leverage its size and product lines, and will execute new strategies and programs to return the business to acceptable profitability.

▶▶ In 1999, our safety value of "Zero and Beyond" flourished at 14 Phelps Dodge operations whose employees completed the year without a lost-time injury or recordable incident, and our overall safety record, as measured by the total recordable incident rate, improved 15 percent compared with 1998. However, our resolve to return every employee home safely each day grew even stronger when during the year a contractor lost his life and one employee was seriously injured on the job. The contrast in the significance of these events affirms that safety must be much more than just statistical improvements.

"Our specialty chemicals business posted record operating earnings and cash flow despite rising feedstock costs and pricing pressures."

Phelps Dodge is now the world's second largest producer of copper with anticipated production of 2.4 billion pounds in 2000.

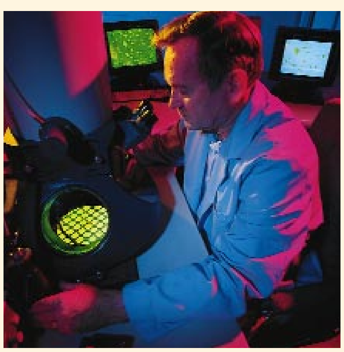
2000 Outlook. Phelps Dodge emerged from 1999 as a safer, larger and leaner company with anticipated copper production of 2.4 billion pounds in 2000. And our work is not finished. Our principal focus in 2000 will be:

- *Achieving the synergy savings from the Cyprus Amax transaction, and*
- *Fixing the wire and cable and molybdenum businesses.*

We will continue our long-standing commitment to shareholder value. As we examine the economic landscape, it is clear to us that we, as an industry and as a company, must improve our returns to shareholders if we want to be competitive in the capital marketplace and continue to capture the attention of investors. Our long-term goal is to exceed 15 percent return on equity through the length of our business cycle, consistently earning more than our cost of capital. We believe we can deliver superior returns through a relentless focus on:

- *Maintaining operational excellence with an emphasis on production costs,*
- *Achieving quality growth that meets our stringent financial hurdles, and*
- *Reducing the capital intensity of our businesses.*

Candidly, a single area of success will not be sufficient; it will take a combination of all three ingredients and reasonably stable world economies to achieve our goals. Internally, we have set some aggressive stretch goals that are designed to force us out of our comfort zones and to focus our managers beyond small, incremental improvements.



The Technology Center at Columbian Chemicals Company uses electron microscopy to characterize carbon black and applies that knowledge to the development of engineered products for customers.

Our

work is

not finished. Our

expectations remain high.

Internally, we have set aggressive

stretch goals designed to force us out of our

comfort zones and to focus our managers beyond small,

incremental improvements. We are prepared

for the exciting opportunities ahead,

and we will challenge our

organization to seize

them.

"Our long-term goal is to exceed 15 percent return on equity through the length of our business cycle, consistently earning more than our cost of capital."

We currently are working to ascertain the best long-term capital structure for our company. Our current debt-to-capital ratio is approximately 45 percent — a level we believe is too high for the long term. Despite our leverage to the copper price — each 10 cent improvement equals approximately $2.40 in earnings per share and a similar amount in cash flow — we may conclude we can best serve our shareholders by maintaining a capital structure nearer our historical 30 percent ratio. The copper price will ultimately determine how quickly we can reduce debt, and it will influence the timing of two important growth projects: the promising and recently announced copper/gold resource in Brazil known as Sossego, and the Safford mine-for-leach project in Arizona.

Our leadership transition began in January when Steve Whisler became chief executive officer. In May, he assumes the role of chairman of the board when Doug Yearley retires after 40 years of service to our company, the last 11 as chief executive officer.

Many changes occurred in 1999, and the years ahead will bring countless others. We are prepared for the exciting opportunities ahead, and we will challenge our organization to seize them.

In closing, it is the outstanding people of our company that have made us a success generation after generation. As we work together to achieve our growth aspirations, our vision, *Pioneering the Creation of Value*, and the values that have made our company a success for 166 years will remain firmly in place. Our expectations remain high. Our commitment to build shareholder value will continue to drive our actions.

Sincerely,

Douglas C. Yearley
Chairman of the Board

J. Steven Whisler
President and
Chief Executive Officer

1999 Milestones

In addition to the activities discussed in the shareholder letter, our company reached key milestones in achieving our four company strategies.

Operating Excellently

- Phelps Dodge remained among the safest companies in our industries and improved our previous safety results.
- Produced 1.8 billion pounds of copper.
- Restructured Phelps Dodge Mining Company — began $220 million conversion of Morenci operation to mine-for-leach production by 2001; closed Morenci's Metcalf concentrator; temporarily closed the Cobre mine; ceased Hidalgo smelting operations; and reduced El Paso refinery production.
- Increased productivity of magnet wire operations and reduced operating costs by $12.4 million.
- Received ISO 14001 certification of Candelaria's environmental management system.
- Implemented a plan to reduce molybdenum production and headcount at Henderson by 20 percent.
- Fort Madison plant was named one of 25 finalists in America's Best Plants Competition sponsored by *Industry Week*.
- Columbian Chemicals Company's CTC venture won the Hungarian National Quality Prize from the Hungarian government in recognition of the plant's product quality focus.
- Announced plans to rationalize five high-cost wire and cable operations and close Columbian's facility in the Philippines.

Growing Globally

- Acquired Cyprus Amax, increasing our current annual copper production from 1.5 billion pounds to 2.4 billion pounds.
- Withdrew from competitive bidding for Asarco Inc. when the price reached a level we believed would not have created shareholder value.
- Sold a small, non-core South African fluorspar mine.
- Further defined the Sossego joint-venture project, a potentially significant copper/gold deposit in Brazil.
- Columbian Chemicals Company increased worldwide production 31 percent; acquired South Korean plant early in the year; South Korean and Brazilian plants set annual production records; achieved record operating income (before non-recurring, pre-tax charges of $17.7 million) of $110 million and operating cash flow (before interest) of $111 million.
- Completed a portion of the environmental impact study and other permit applications for the proposed Safford copper mining project in Arizona.

Satisfying Our Customers

- Fort Madison molybdenum plant was awarded "Supplier of the Year" from GE Lighting and "Award of Excellence" from BP Chemical.
- Columbian Chemicals Company partnered with customers to introduce improved carbon black products for tires, mechanical rubber goods, plastics and inks.
- Achieved new labor agreements in wire and cable and carbon black businesses with no disruptions in customer service/delivery.

Investing in People

- Continued to unite employees around our vision — *Pioneering the Creation of Value*.
- Strengthened our senior leadership team with the promotions of Ramiro G. Peru to chief financial officer and S. David Colton to senior vice president, and the addition of David L. Pulatie as senior vice president, human resources.
- Using teamwork processes, completed a three-year conversion of most U.S. mining production and maintenance employees (pre-merger) to salaried status.
- Developed a company-wide performance partnering process to link employee performance to business strategy and accelerate employee development.

A Farewell Message

For the past 40 years, 11 of them as chairman and CEO, I have been privileged to serve and lead our great company. At the May annual meeting, I will retire and, following our custom, withdraw from all active participation.

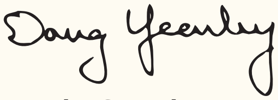
Some have said that my middle initial "C" stands for copper, and it is certainly true that this company and the industry are in my blood. Life is about making a difference, and I was fortunate to have the opportunity to make a difference in our company and our industry. How profound that impact is for others to judge. I am pleased with the progress made.

Today, Phelps Dodge Corporation is larger, stronger and more diversified than it was 11 years ago. Things like building the Candelaria mine in Chile, the growth of Phelps Dodge Industries, leading the market development for copper, and the acquisition of Cyprus Amax are all significant. But most important to me is the talent of Steve Whisler and the management team that will follow. That will be my greatest legacy.

My biggest disappointment is the current stock price. After watching Phelps Dodge stock grow from a split-adjusted $6 1/2 in 1984 to $89 5/8 in June 1997, the combination of a weak copper market and diversion of investor interest to other sectors has negatively affected our stock's performance. Still, the lowest stock price during this market trough is more than seven times the price during the downturn of the 1980s. I am confident the continued growth and performance by the company ultimately will be rewarded.

I would like to express my gratitude to members of our Board of Directors, past and present, for their wisdom, counsel, support and friendship. I thank our shareholders, customers, suppliers and partners for their confidence in our company. And I am particularly grateful to the Phelps Dodge employees. It was their unrelenting drive to work safely and with excellence that made it all possible.

Sincerely,



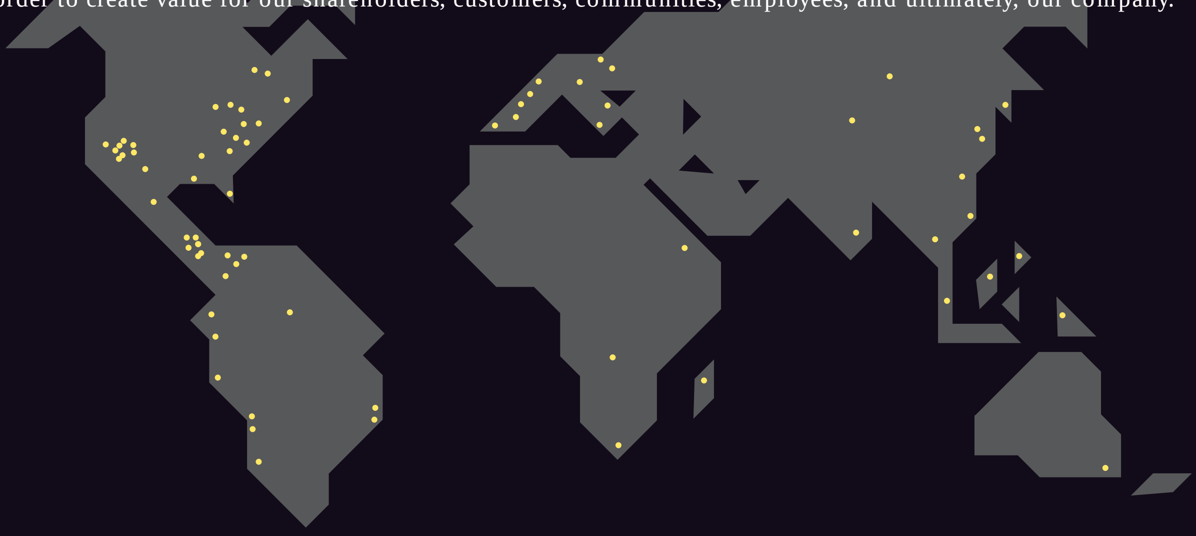
Douglas C. Yearley
Chairman of the Board

Career Accomplishments (1989-1999)

- Introduced Zero and Beyond safety commitment — safety performance improved 85 percent
- Unrelenting commitment to shareholder value — bought back 20 million shares using surplus cash
- Copper production up by 140 percent from 1 billion to 2.4 billion pounds per year; SX/EW production rose from 23 to 64 percent of total production (after completion of the Morenci mine-for-leach project)
- Grew Phelps Dodge Industries and verified its strategy of an alternate earnings and cash flow stream
- Market capitalization more than doubled
- Assets nearly tripled
- Average return on equity of 17 percent outperformed peer group
- Earned returns greater than cost of capital
- 29 major growth projects (acquisitions, new developments, joint ventures)
- Introduced new company vision — *Pioneering the Creation of Value*
- Championed change process to empower employees through teamwork
- Co-founder and Chairman, International Copper Association
- Chairman, Copper Development Association and National Mining Association

Company Overview

Phelps Dodge Corporation is an international natural resource and industrial manufacturing company. We develop products that maintain and enhance the standard of living for people throughout the world. From the industrial revolution to the information technology revolution, our products are at the heart of energy and lighting, telecommunications systems, infrastructure development, and the automotive, aerospace and biomedical sectors. Today, our mining and manufacturing divisions employ more than 16,000 people on six continents and serve customers across the globe. ▶▶ Since the founding of Phelps Dodge in 1834, our company has been led by the adventurous and pioneering spirit of our employees. Our vision — *Pioneering the Creation of Value* — provides a common focal point as we carry that spirit forward and work toward new levels of success. Our four corporate strategies — growing globally, operating excellently, satisfying our customers and investing in people — are integrated within that vision. It also encompasses the values and behaviors we must demonstrate each day in order to create value for our shareholders, customers, communities, employees, and ultimately, our company.



Phelps Dodge Mining Company (PDMC) is an industry leader in the safe, efficient and environmentally responsible production of low-cost, high-quality metals and minerals. PDMC is a fully integrated producer of copper and molybdenum and ranks as the world's second largest producer of copper and the leading producer of continuous-cast copper rod and molybdenum. ▶▶ Copper possesses a unique combination of characteristics that positions it as the material of choice when conductivity, extreme temperature tolerance, corrosion resistance and reliability are critical for downstream product success. Although considered a finite natural resource, the properties of copper enable it to be recycled in environmentally clean and efficient ways. Often considered "invisible" to the consumer, copper is at the core of modern infrastructure — energy, telecommunications, plumbing and transportation. ▶▶ Molybdenum also is used in a wide variety of applications such as increasing the strength of construction steels and improving corrosion resistance in stainless steel. Molybdenum chemical applications include refining and chemical catalysts, automobile air bags, low-smoke-emitting wire coatings, and electronic components. ▶▶ As by-products, PDMC also produces other minerals, such as gold, silver and rhenium. ▶▶ Phelps Dodge Exploration Corporation and our Process Technology Center ensure the discovery and development of economically viable mineral reserves, and the refinement and creation of competitive production and process technologies.

Phelps Dodge Industries (PDI) comprises two global companies — PD Wire & Cable Group and Columbian Chemicals Company — which manufacture engineered products for the energy, telecommunications, transportation and specialty chemicals sectors both in established and emerging markets worldwide. The companies of PDI conduct extensive product research and development in partnership with customers, and enjoy strong technology positions within their business segments. ▶▶ PD Wire & Cable produces products that deliver energy and transmit voice and data communications in the electronic-based economy. The business unit produces six distinct product lines: magnet wire, high-performance conductors, power and extra-high-voltage cable, telephone cable, industrial/specialty wire and cable, and building wire. With production, sales, service and engineering professionals in Africa, Asia, Europe, Latin America and the United States, PD Wire & Cable is an integral source for global wire and cable procurement and is driven by our customers' needs for the highest quality products delivered "just in time." All PD Wire & Cable operations are ISO 9000 and/or QS 9000 quality certified. ▶▶ Columbian Chemicals Company is among the world's largest producers of carbon black. Its primary products, rubber and industrial blacks, contribute strength, durability and overall performance to tires, inks, paint, plastics, electrical cable and other products. Customers around the world consider Columbian to be a product innovator and a premier supplier.

COPPER

Primary products
- Copper concentrate
- Copper cathode
- Copper rod

Operations (active)
Copper mines:
- Arizona — Bagdad, Miami, Morenci, Sierrita
- New Mexico — Chino, Tyrone
- Chile — Candelaria, El Abra
- Peru — Cerro Verde

Copper smelters:
- Arizona — Miami
- New Mexico — Chino

Copper refineries:
- Arizona — Miami
- Texas — El Paso

Copper rod mills:
- Arizona — Miami
- Connecticut — Norwich
- Illinois — Chicago
- Texas — El Paso

1999 production*
- 1.8 billion pounds

Employees
- 9,100

** Includes Cyprus Amax production for two and one-half month period beginning October 16, 1999 (effective acquisition date by Phelps Dodge).*

MOLYBDENUM

Primary products
- Molybdenum concentrate
- Molybdenum oxides
- Molybdenum chemicals

Operations (active)
Underground mine:
- Colorado — Henderson

By-product, open-pit mines:
- Arizona — Bagdad, Morenci, Sierrita

Processing plants:
- Iowa — Fort Madison
- The Netherlands — Rotterdam
- United Kingdom — Stowmarket

1999 production*
- Primary molybdenum: 1.7 million pounds
- By-product molybdenum: 5.9 million pounds

Employees
- 900

** Includes Cyprus Amax production for two and one-half month period beginning October 16, 1999 (effective acquisition date by Phelps Dodge).*

EXPLORATION, RESEARCH & DEVELOPMENT

Objectives
- Discovery/delineation of new ore bodies
- Primary targets: copper, gold, nickel and zinc
- Project evaluation, formation of strategic alliances
- Development of new process technology

Exploration and research activities are ongoing in the following areas:
- Australia, Brazil, Canada, Chile, CIS, Eritrea, Europe, India, Indonesia, Madagascar, Mexico, Peru, Philippines, southern Africa, United States, Zambia

1999 highlights
- Continued evaluation of potentially significant Sossego copper/gold project in Brazil; feasibility study to be completed in 2000.
- Completed environmental assessment for nickel/cobalt deposit in Madagascar.
- Received exploration licenses for copper and gold targets in India.
- Conducted pilot tests of ore fragmentation technologies and continued leaching optimization test work.
- Continued permitting activities for copper mine-for-leach project in Safford, Arizona.
- Proceeded with development of several leading-edge, but proprietary, processes for enhanced copper extraction.
- The Process Technology Center received ISO 9001 certification.

Employees
- 200

WIRE & CABLE

Primary products

- Magnet wire
- High-performance conductors
- Power and extra-high-voltage cable
- Telephone cable
- Industrial/specialty wire and cable
- Building wire

Operations

Manufacturing plants:

- Austria, Brazil, Chile (2), Costa Rica, El Salvador, Honduras, Mexico, Thailand (4), United States (8), Venezuela (4), Zambia

Equity operations:

- China, Hong Kong (2), Philippines (2), Thailand

Distribution centers:

- Colombia, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, United States

Technology center:

- Fort Wayne, Indiana

Global Leadership Center:

- Coral Gables, Florida

Employees

- 4,300

SPECIALTY CHEMICALS

Primary products

- Rubber carbon blacks
- Industrial carbon blacks

Operations

Manufacturing plants:

- Brazil, Canada, Germany, Hungary, Italy, South Korea, Spain, United Kingdom, United States (4)

Technology centers:

- Marietta, Georgia; Bristol, United Kingdom

Global Leadership Center:

- Marietta, Georgia

1999 production

- 2.2 billion pounds

Employees

- 1,500

Health & Safety: A Core Value

The Chairman's Health & Safety Award recognizes outstanding health and safety performance across the business units of Phelps Dodge Corporation. Eligibility for the award is based on completion of the calendar year with zero recordable occupational injuries or illnesses. Fourteen Phelps Dodge operations were eligible for the award in 1999. Three winners were selected for their exemplary health and safety management systems:

UNITED STATES OPERATION
Phelps Dodge Wire & Cable, Trenton, Georgia

INTERNATIONAL OPERATION
Columbian Carbon Deutschland GmbH, Hannover, Germany

SUPPORT AND TRANSITION OPERATION
Columbian Chemicals Company, European Central Laboratory, Bristol, United Kingdom

Market Review

Copper

The copper price is effectively set by the two major metals exchanges — the New York Commodity Exchange (COMEX) and the London Metal Exchange (LME). Its price primarily reflects the worldwide balance of copper supply and demand, although it may be influenced by speculative actions and currency exchange rates.

In 1999, the COMEX price averaged 72 cents per pound of copper cathode. This is the lowest annual average price of the century (when adjusted for inflation) and is a few cents less than the 1998 average price of 75 cents per pound. The daily copper price reached its low point in 1999 of 61 cents per pound on March 18 and rose to its high point of 85 cents per pound on December 30, the final trading day of the year.

Record-level inventories and soft demand for copper in key markets caused depressed prices in the first half of 1999. Market sentiment and prices were strengthened at year end following production curtailments, industry consolidation, optimism about continued economic strength and growth in copper consumption.

The general expectation of the market is that a strong world economy in the next few years will result in sustained consumption growth. Modest production increases combined with forecast demand are expected to move the copper supply/demand balance into a deficit in 2001.

Molybdenum

Capital spending is a primary driver of worldwide molybdenum consumption, although the market continues to broaden its base of applications. New high-growth applications of molybdenum are being driven by environmental regulations, technology, and life-cycle savings that favor molybdenum's unique metallurgical and chemical properties.

Steels and cast iron comprise the single biggest market segment, although molybdenum use is increasing in superalloys, nickel base alloys, lubricants, chemicals, electronics and many other applications. The United States is the leading molybdenum producer and is the location of the world's largest identified reserve base with nearly half of the world's total reserves.

High inventories and declining consumption continued to adversely affect the molybdenum business in 1999. Free market prices for molybdic oxide averaged about $2.66 per pound for the year. This represents a decrease of about 22 percent from the 1998 average price and nearly 40 percent from the $4.31 average price per pound for 1997. This marked drop in prices reflects the global reduction in capital spending which began in late 1997.

Global consumption of molybdenum dropped for the second consecutive year to 258 million pounds in 1999, a decline of approximately 6 percent from 1998 and 9 percent since 1997. With gradual recovery of the Asian economy under way, molybdenum consumption is projected to increase by approximately 5 percent in 2000.

Wire and Cable

Wire and cable products serve the energy, construction, consumer and industrial products, aerospace, medical, automotive, natural resources and telecommunications sectors. Applications of wire and cable products are integrally linked to infrastructure development in growing regions of the world. In recent years, the economies of the Far East and Latin America have slowed infrastructure development.

Sales of wire and cable products were down in 1999, due primarily to continued economic difficulties in three of the segment's largest international markets: Brazil, Southeast Asia and the Andean region of South America. Although the U.S. economy remains strong, demand for wire and cable products has slowed from the aerospace industry and relevant electronic markets. These markets, combined with a simultaneous drop in demand from key customer segments, consolidation of customers, changes in trade policy for certain countries, and excess capacity in Europe and Asia, have resulted in significant pricing pressures across all product lines.

Market conditions should begin to improve gradually in 2000. Economic improvement is projected in certain regions that are relevant to the industry. Moderate growth in gross domestic product is anticipated for key Latin American markets, including Brazil, Chile and Venezuela. Conditions in the biomedical and communication/network systems markets served by the high-performance conductors business sector also are expected to improve.

Carbon Black

The Asian crisis resulted in a weakening of worldwide market conditions for industrial and rubber carbon blacks. Major tire producers—the leading consumers of carbon black products — shifted their production to lower-cost, under-utilized plants in Asia and exported significant quantities of tires to North America, which reduced carbon black demand. Weak economic conditions in Europe, plus imports of carbon black from Asia and the Middle East, weakened domestic requirements and put pressure on European profitability. Economic conditions in Brazil and South Korea improved during the year as exports led a general recovery. Carbon black demand strengthened during the year.

The year ended with a sharp increase in feedstock costs worldwide as OPEC reduced production. In 2000, we anticipate generally good carbon black demand in North America, Brazil and South Korea, and some strengthening in economic conditions in Europe. However, the over-capacity throughout the worldwide carbon black industry, combined with the escalation of feedstock costs, will place continued pressure on industry profitability.

Financial Report

Management's Discussion and Analysis

The U.S. securities laws provide a "safe harbor" for certain forward-looking statements. This annual report contains forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those projected in such forward-looking statements. Statements regarding the expected commencement dates of operations, projected quantities of future production, capital costs, production rates and other operating and financial data are based on expectations that the Company believes are reasonable, but we can give no assurance that such expectations will prove to have been correct. Factors that could cause actual results to differ materially include, among others: risks and uncertainties relating to general U.S. and international economic and political conditions, the cyclical and volatile price of copper and other commodities, political and economic risks associated with foreign operations, unanticipated ground and water conditions, unanticipated grade and geological problems, metallurgical and other processing problems, availability of materials and equipment, delays in the receipt of or failure to receive necessary government permits, appeals of agency decisions or other litigation, volatility in the price of oil (the main feedstock for our carbon black operations), changes in laws or regulations or the interpretation and enforcement thereof (including changes in treaties or laws governing international trade or tariffs), the occurrence of unusual weather or operating conditions, force majeure events, lower than expected ore grades, the failure of equipment or processes to operate in accordance with specifications or expectations, unanticipated difficulties consolidating acquired operations and obtaining expected synergies, labor relations, accidents, delays in anticipated start-up dates, environmental risks and the results of financing efforts and financial market conditions. These and other risk factors are discussed in more detail herein. Many such factors are beyond our ability to control or predict. Readers are cautioned not to put undue reliance on forward-looking statements. We disclaim any intent or obligations to update these forward-looking statements, whether as a result of new information, future events or otherwise.

Earnings. In 1999, consolidated earnings were $21.7 million, or 35 cents per common share, before non-recurring items. (All references to per share earnings or charges are based on diluted earnings per share.) Results for the year include those of Cyprus Amax Minerals Company (Cyprus Amax) for the two and one-half month period beginning on October 16, 1999 (the effective acquisition date by Phelps Dodge). Non-recurring items and their impact on earnings are illustrated in the following table:

	Dollars in millions	Dollars per share
1999 full-year earnings before non-recurring items	$ 21.7	0.35
After-tax, non-recurring items:*		
Asset impairments	(222.5)	(3.61)
Environmental provisions	(17.8)	(0.29)
June 30, 1999, restructuring plan	(65.7)	(1.07)
Cumulative effect of accounting change	(3.5)	(0.06)
Adjustment for prior years' taxes	30.0	0.49
Total non-recurring items	(279.5)	(4.54)
1999 full-year net loss after non-recurring items	$(257.8)	(4.19)

* *Please see Note 3 to the Consolidated Financial Statements for further discussion of these non-recurring items.*

In the 1999 fourth quarter, the Company recognized non-recurring, pre-tax charges for asset impairments of $320.4 million at Phelps Dodge Mining Company (PD Mining) and $21.7 million at Phelps Dodge Industries (PD Industries). The PD Mining impairments included the write down of the Hidalgo smelter in New Mexico ($201.5 million) and the Metcalf concentrator at the Morenci operations in Arizona ($88.0 million). As a result of the successful acquisition of Cyprus Amax and the planned conversion of Morenci to a mine-for-leach operation, the Hidalgo smelter is expected to be reconfigured to allow it to continue to be a reliable source of acid. Also as a result of the Cyprus Amax acquisition and conversion of Morenci to mine-for-leach, it was determined that the Metcalf concentrator, which was on standby, will be permanently closed and the Morenci concentrator, which will be required through the mine-for-leach start-up, will be maintained thereafter on standby to provide alternative processing capability. In addition, as the Company began integrating the acquired Cyprus Amax mining properties, a review of copper resources was performed and a determination of the viability of each resource reviewed was made. Based on that review, PD Mining wrote off a mine development project at the Tyrone operation in New Mexico ($11.9 million) and wrote off a mine development project at the Copper Basin operation in Arizona ($6.8 million). Management further decided to write down a real estate development project in Arizona ($12.2 million). The PD Industries impairment charge comprised $6.7 million for the write off of an equity investment in China (charged to non-operating expense) and $15.0 million for the impairment of value of the Wire and Cable Group's telecommunications assets ($3.1 million of which was charged to non-operating expense). The minority interest add-back against the impairment of value of the Wire and Cable Group's telecommunications assets totaled $1.5 million.

In the 1999 fourth quarter, the Company also recognized a non-recurring, pre-tax charge of $28.2 million for estimated future costs associated with environmental matters applicable to PD Mining. For further information, see Environmental Matters later in this discussion and Note 19 to the Consolidated Financial Statements.

On June 30, 1999, Phelps Dodge announced a wide-ranging plan to reduce costs and improve operating performance by further curtailing higher cost copper production, restructuring certain wire and cable assets to respond to changing market conditions, suspending operations at Columbian Chemicals Company's carbon black plant in the Philippines, and selling a non-core South African fluorspar mining unit. These actions resulted in a non-recurring, pre-tax charge of $36.6 million in 1999 at PD Mining, $42.2 million in 1999 at the wire and cable segment ($1.9 million of which was charged to non-operating expense) and $17.7 million in 1999 at Columbian Chemicals Company. The minority interest add-back to the restructuring reserve in 1999 totaled $2.2 million at the wire and cable segment and $0.2 million at Columbian Chemicals Company.

During 1999, culminating with Notices of Tax Due received in December, the Company reached a settlement with the Internal Revenue Service on several issues raised in its audits of the years 1990 through 1994. As a result, the Company recorded a $30 million reduction in its tax liabilities.

In 1998, consolidated earnings were $91.8 million, or $1.57 per common share, before non-recurring items. Non-recurring items included an after-tax gain of $131.1 million, or $2.24 per common share, from the disposition of Accuride Corporation (Accuride), and an after-tax loss of $32.0 million, or 55 cents per common share, in the fourth quarter. The fourth quarter non-recurring loss included $26.4 million, or 45 cents per common share, from the sale of our 44.6 percent interest in a South African mining company, and $5.6 million, or 10 cents per common share, for costs associated with previously announced curtailments and indefinite closures primarily at PD Mining. Net income including non-recurring items was $190.9 million, or $3.26 per common share.

Earnings in 1997 were $440.1 million, or $7.14 per common share, before non-recurring, after-tax charges of $31.6 million, or 51 cents per common share. The non-recurring charges primarily reflected provisions for estimated future costs associated with environmental matters and an early retirement program at PD Mining. Net income including non-recurring charges was $408.5 million, or $6.63 per common share.

Note 3 to the Consolidated Financial Statements contains further information to which reference should be made for a fuller understanding of the non-recurring items in 1999, 1998 and 1997.

Consolidated financial results:

(In millions, except per common share amounts)	1999	1998	1997
Sales and other operating revenues	$3,114.4	3,063.4	3,914.3
Operating income (loss)	$ (315.6)	422.7	611.0
Net income (loss)	$ (257.8)	190.9	408.5
Net income (loss) per common share – basic	$ (4.19)	3.28	6.68
Net income (loss) per common share – diluted	$ (4.19)	3.26	6.63

Sales. Consolidated 1999 revenues were $3,114.4 million, compared with $3,063.4 million in 1998. The 1999 increase principally resulted from the October 16, 1999, acquisition of Cyprus Amax ($253 million) and higher sales of carbon black ($88 million), partially offset by lower average copper prices ($70 million) and lower sales of wire and cable products ($146 million). The $850.9 million decrease in 1998 versus 1997 principally resulted from lower average copper prices ($472 million), the absence of Accuride ($333 million) and lower wire and cable sales ($48 million), partially offset by higher sales volumes of carbon black ($25 million) and copper ($3 million).

Copper Prices. Copper is an internationally traded commodity, and its price is effectively determined by the two major metals exchanges – the New York Commodity Exchange (COMEX) and the London Metal Exchange (LME). The prices on these exchanges generally reflect the worldwide balance of copper supply and demand, but also are influenced significantly from time to time by speculative actions and by currency exchange rates.

The price of copper, our principal product, was a significant factor influencing our results over the three-year period ended December 31, 1999. We principally base our selling price on the COMEX spot price per pound of copper cathode, which averaged 72 cents in 1999, 75 cents in 1998 and $1.04 in 1997. The COMEX price averaged 84 cents per pound for the first two months of 2000, and closed at 79 cents on March 6, 2000. Internationally, our copper selling prices are based on LME spot price per tonne of cathode.

Any material change in the price we receive for copper, or in our unit production costs, has a significant effect on our results. Our share of current annual production is approximately 2.4 billion pounds of copper. Accordingly, each 1 cent per pound change in the average annual copper price, or in average annual unit production costs, causes a variation in annual operating income before taxes of approximately $24 million.

Due to the market risk arising from the volatility of copper prices, our objective is to sell copper cathode and rod at the COMEX average price in the month of shipment and copper concentrate at the LME average price in the month of settlement with our customers. We initially record copper concentrate sales at a provisional price at the time of shipment, and adjust the pricing for all outstanding shipments to reflect market conditions at the end of each quarter. A final adjustment is made to the price of the shipments upon settlement with our customers.

Molybdenum Prices. Molybdenum oxide is used primarily in the steel industry for corrosion resistance, strengthening and heat resistance. Molybdenum chemicals are used in a number of diverse applications such as catalysts for petroleum refining and feedstock for pure molybdenum metal used in electronics and lubricants. A substantial portion of Phelps Dodge's expected 2000 molybdenum production is committed for sale throughout the world pursuant to annual agreements based on prevailing market prices at the time of sale.

Molybdenum sales generally are characterized by cyclical and volatile prices, little product differentiation and strong competition. Prices for metallurgical products generally reference prior period Platt's *Metals Week,* Ryans' Notes or *Metal Bulletin* for technical grade molybdenum or ferromolybdenum. Prices for chemical products are generally less directly based on the previously noted reference prices. Prices are influenced by production costs of domestic and foreign competitors, worldwide economic conditions, world supply/demand balances, inventory levels, the U.S. dollar exchange rate and other factors. Molybdenum prices also are affected by the demand for end-use products in, for example, the construction, transportation and durable goods markets. A substantial portion of world molybdenum production is a by-product of copper mining, which is relatively insensitive to molybdenum price levels. Exports from China can also influence competitive conditions.

Copper Hedging. Some of our wire, cathode and rod customers request a fixed sales price instead of the COMEX or LME 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 the sales in a manner that will allow us to receive the COMEX or LME 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 or LME average price.

Because of the nature of the hedge settlement process, the net hedge value, rather than the sum of the face values of our outstanding futures contracts, is a more accurate measure of our market risk from the use of such hedge contracts. The contracts that may result in market risk to us are those related to the customer sales transactions under which copper products have not yet been shipped.

At December 31, 1999, we had futures and swap contracts for approximately 111 million pounds of copper with a net hedge value of $87 million and a total face value of approximately $125 million. At that date, we had $7 million in gains on these contracts not yet recorded in our financial statements because the copper products under the related customer transactions had not yet been shipped or received. At year-end 1998, we had futures and swap contracts in place for approximately 86 million pounds of copper at a net hedge value of $65 million and a total face value of approximately $138 million. We had $7 million in deferred, unrealized losses at that time. At year-end 1997, we had futures and swap contracts in place for approximately 140 million pounds of copper at a net hedge value of $130 million and an approximate total face value of $146 million. We had $19 million in deferred, unrealized losses at that time.

We do not acquire, hold or issue futures contracts for speculative purposes. All of our copper futures and swap contracts have underlying customer agreements or other related transactions. We have prepared an analysis to determine how sensitive our net futures contracts are to copper price changes. In our market risk analysis, if copper prices had dropped a hypothetical 10 percent at the end of 1999, we would have had a net loss from our copper futures contracts of approximately $9 million. That loss would have been virtually offset by a similar amount of gain on the related customer contracts.

From time to time, we may purchase or sell copper price protection contracts for a portion of our expected future mine production. We do this to limit the effects of potential decreases in copper selling prices. For 1999 production, we had fourth quarter protection contracts that gave us a minimum monthly average LME price of 69 cents per pound for approximately 200 million pounds of copper cathode that expired without payment. We did not have any copper price protection contracts at the end of 1998 or 1997.

For first quarter 2000 production, we have protection contracts in place that will give us a minimum monthly average LME price of 71 cents per pound for approximately 200 million pounds of copper cathode. For overall 2000 production, we have a combination of minimum (approximately 72 cents) and maximum (approximately 95 cents) annual average LME prices per pound for approximately 110 million pounds of copper cathode.

Aluminum Hedging. During 1999, our Venezuelan wire and cable operation entered into aluminum futures contracts with a financial institution to lock in the cost of aluminum ingot needed in manufacturing aluminum cable contracted by customers. At December 31, 1999, we had futures contracts for approximately 1 million pounds of aluminum with a net hedge and total face value of approximately $1 million. At the end of the year, these contracts did not have any significant gains or losses that were not recorded in our financial statements. At December 31, 1998, we had futures contracts for approximately 6 million pounds of aluminum with a net hedge and total face value of approximately $4 million. Prior to 1998, we had not entered into aluminum futures contracts. A sensitivity analysis of our aluminum futures contracts indicates that a hypothetical 10 percent unfavorable change in aluminum prices at the end of 1999 would have resulted in a loss of approximately $0.1 million. That loss would have been virtually offset by a similar amount of gain on the related customer contracts.

Foreign Currency Hedging. We are a global company and we transact business in many countries and in many currencies. Foreign currency transactions increase our risks because exchange rates can change between the time agreements are made and the time foreign currencies are actually exchanged. One of the ways we manage these exposures is by entering into forward exchange and currency option 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 transactions for which we have a firm legal obligation or when anticipated transactions are likely to occur. We do not enter into foreign exchange contracts for speculative purposes. In the process of protecting our transactions, we may use a number of offsetting currency contracts. Because of the nature of the hedge settlement process, the net hedge value, rather than the sum of the face value of our outstanding contracts, is a more accurate measure of our market risk from the use of such contracts.

At December 31, 1999, we had a net hedge and total face value of approximately $34 million in forward exchange contracts to hedge intercompany loans between our international subsidiaries or foreign currency exposures with our trading partners.

At December 31, 1998, we had a net hedge and total face value of approximately $44 million in forward exchange contracts to hedge intercompany loans between our international subsidiaries. At year-end 1997, we had foreign currency protection in place for $158 million that represented both the net hedged amount and the total face value of the forward contracts. We did not have any significant gains or losses at year end that had not been recorded in our financial statements for each of the three years in the period ended December 31, 1999.

At year-end 1999, our foreign currency protection contracts included the British pound, euro, German mark and Thai baht. A sensitivity analysis of our exposure to market risk with respect to our forward foreign exchange contracts indicates that if exchange rates had moved against the rates in our protection agreements by a hypothetical 10 percent, we would have incurred a potential loss of approximately $4 million. This loss would have been virtually offset by a gain on the related underlying transactions.

Interest Rate Hedging. In some situations, we may enter into structured transactions using currency swaps that result in lower overall interest rates on borrowings. We do not enter into currency swap contracts for speculative purposes. At December 31, 1999, we had currency swap contracts in place swapping fixed-rate U.S. dollar loans into floating-rate Brazilian real loans with an approximate net hedged and total face value of $21 million. At year-end 1998, we had currency swap contracts in place with an approximate net hedged value of $31 million and a total face value of $36 million. These currency swaps involved swapping fixed-rate Brazilian real loans into fixed-rate U.S. dollar loans, and swapping floating-rate U.S. dollar loans into fixed-rate Thai baht loans. At the end of 1999, we prepared an analysis to determine our sensitivity to changes in interest and exchange rates. A hypothetical interest rate move against our currency swap rates of 1 percent (or 100 basis points) would be insignificant. A hypothetical 10 percent unfavorable change in exchange rates would cause us to incur additional costs of approximately $1 million.

In addition, we are vulnerable to increasing costs from interest rates associated with floating-rate debt. We may enter into interest rate swap contracts to manage or limit such interest expense costs. We do not enter into interest rate swap contracts for speculative purposes. At the end of 1999, we had interest rate swap contracts in place with an approximate net hedged and total face value of $485 million. At the end of 1999, we prepared an analysis to determine the sensitivity of our interest rate swap contracts to changes in interest rates. A hypothetical interest rate move against our interest rate swaps of 1 percent (or 100 basis points) would have resulted in a potential loss of approximately $12 million over the life of the swap.

Business Segments. Results for 1999, 1998 and 1997 can be meaningfully compared by separate reference to our reporting divisions, Phelps Dodge Mining Company and Phelps Dodge Industries. Phelps Dodge Mining Company is a business segment that includes our worldwide copper operations from mining through rod production, marketing and sales; molybdenum operations from mining through manufacturing, marketing and sales; other mining operations and investments, and worldwide mineral exploration and development programs. Through December 31, 1997, Phelps Dodge Industries included our specialty chemicals segment, our wire and cable segment, and our wheel and rim operations. Effective January 1, 1998, 90 percent of Accuride Corporation and its subsidiaries, our wheel and rim business, was sold to an affiliate of Kohlberg Kravis Roberts and Co. (KKR), and the existing management of Accuride. The remaining 10 percent interest was sold to RSTW Partners III, L.P., on September 30, 1998.

In 1998, we adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," that requires financial information to be reported on the basis that it is used by management to evaluate segment performance and determine the allocation of resources between segments. All prior year segment information presented in this report has been restated to reflect the reporting requirements of this new standard. Significant events and transactions have occurred within each segment which, as indicated in the separate discussions presented below, are material to an understanding of the particular year's results and to a comparison with results of the other periods. (See Note 21 to the Consolidated Financial Statements for further segment information.)

Results of Phelps Dodge Mining Company

PD Mining is our international business segment that comprises a group of companies involved in vertically integrated copper operations including mining, concentrating, electrowinning, smelting, refining, rod production, marketing and sales, and related activities. PD Mining sells copper to others primarily as rod, cathode or concentrate, and as rod to our wire and cable segment. In addition, PD Mining at times smelts and refines copper and produces copper rod for customers on a toll basis. It is also an integrated producer of molybdenum, with mining, roasting and processing facilities producing molybdenum concentrate as well as metallurgical and chemical products. In addition, it produces gold, silver, molybdenum and copper chemicals as by-products, and sulfuric acid from its air quality control facilities. This business segment also includes worldwide mineral exploration programs.

	1999*	1998	1997
Copper:			
*(from own mines – thousand tons)***			
Production	890.1	874.0	812.1
Sales	884.2	876.3	812.8
COMEX average spot copper price per pound – cathodes	$ 0.72	0.75	1.04
Molybdenum production (million pounds)	8.1	1.0	1.6
Metals Week – average technical grade molybdenum oxide price per pound	$ 2.66	3.42	4.31
(Dollars in millions)			
Sales and other operating revenues – unaffiliated customers	$1,786.6	1,677.7	2,173.3
Operating income (loss)***	$ (301.0)	110.3	459.2

**1999 includes the results of the acquired Cyprus Amax properties since the date of the merger, October 16, 1999.*

*** Worldwide copper production and sales exclude the amounts attributable to (i) the 15 percent undivided interest in the Morenci, Arizona, copper mining complex held by Sumitomo Metal Mining Arizona, Inc. (Sumitomo), (ii) the one-third partnership interest in Chino Mines Company in New Mexico held by Heisei Minerals Corporation (Heisei), (iii) the 20 percent interest in Candelaria in Chile held by SMMA Candelaria, Inc., a jointly owned indirect subsidiary of Sumitomo Metal Mining Co., Ltd., and Sumitomo Corporation, and (iv) the 49 percent interest in the El Abra copper mining operation in Chile held by Corporación Nacional del Cobre de Chile (Codelco).*

(Thousand tons)	*1999*	*1998*	*1997*
Excluded production :			
Morenci – for Sumitomo	*72.0*	*78.4*	*81.3*
Chino – for Heisei	*43.3*	*52.9*	*56.3*
Candelaria – for Sumitomo	*50.0*	*47.4*	*34.4*
El Abra – for Codelco	*25.9*	*–*	*–*

**** Operating income for 1999 includes non-recurring, pre-tax charges of $385.2 million comprising the following: asset impairments of $320.4 million, environmental provisions of $28.2 million, and restructuring costs of $36.6 million. 1998 includes a non-recurring, pre-tax charge of $5.5 million for costs associated with curtailments and indefinite closures. 1997 includes a non-recurring, pre-tax charge of $40.5 million for an early retirement program and environmental provisions. (See Note 3 to the Consolidated Financial Statements.) Operating income has been presented in compliance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (with 1997 restated).*

PD Mining — Operating Income

(Dollars in millions)	1999	1998	1997
Operating income before non-recurring items	$ 84.2	115.8	499.7
Pre-tax, non-recurring items	(385.2)	(5.5)	(40.5)
Operating income (loss) after non-recurring items	$(301.0)	110.3	459.2

Our PD Mining segment reported operating income of $84.2 million in 1999, before $385.2 million of non-recurring, pre-tax charges. The pre-tax, non-recurring items are as follows: $320.4 million of asset impairments included the write-down of the Hidalgo smelter in New Mexico ($201.5 million), the Metcalf concentrator at the Morenci operations in Arizona ($88.0 million), a real estate development project in Arizona ($12.2 million), a mine development project at the Tyrone operations in New Mexico ($11.9 million), and mine development at the Copper Basin operation in Arizona ($6.8 million); $28.2 million for environmental provisions; and $36.6 million for the restructuring plan announced in the 1999 second quarter.

The 1999 decrease in operating income before non-recurring items reflected lower average copper prices ($53 million), partially offset by lower copper production costs (approximately $30 million).

Operating income in 1998 was $115.8 million before $5.5 million of non-recurring, pre-tax charges associated with a production curtailment at Chino Mines Company (Chino) in New Mexico and the indefinite closures of operations at our Ojos del Salado operation in Chile and Cobre Mining Company (Cobre) in New Mexico.

Operating income in 1997 was $499.7 million before $40.5 million of non-recurring, pre-tax charges which reflected an early retirement program and estimated future costs associated with environmental matters. The decrease in 1998 operating income compared with 1997 reflected lower average copper prices (approximately $470 million), partially offset by higher volumes of copper sold from mine production (approximately $8 million) and lower exploration costs (approximately $33 million).

Copper unit production costs generally have been stable for the three-year period ended December 31, 1999, primarily as a result of ongoing cost-containment programs and high levels of production of low-cost cathode copper at our solution extraction/electrowinning (SX/EW) plants in Arizona, New Mexico, Peru and Chile. In 1999, we produced a total of 511,500 tons of cathode copper at our SX/EW facilities, compared with 430,800 tons in 1998 and 418,000 tons in 1997. The SX/EW method is a cost-effective process of extracting copper from certain types of ores.

In 1999, operations outside the United States provided 14 percent of PD Mining's sales, compared with 11 percent in 1998 and 9 percent in 1997. During the year, operations outside the United States contributed 67 percent of the segment's operating income, compared with reductions of 9 percent in 1998 and contributions of 9 percent in 1997.

PD Mining — Operations Update. On October 16, 1999, Phelps Dodge acquired Cyprus Amax Minerals Company. This included (i) the Bagdad mine in northwestern Arizona, consisting of an open-pit mine, an approximate 85,000 ton-per-day sulfide ore concentrator producing copper and molybdenum concentrates, and an oxide leaching system with an SX/EW plant producing copper cathode; (ii) the Sierrita mine in south central Arizona, consisting of an open-pit mine, an approximate 115,000 ton-per-day sulfide ore concentrator, a molybdenum recovery plant, two molybdenum roasters, and an oxide and low-grade sulfide ore dump leaching system with an SX/EW plant producing copper cathodes; (iii) the Miami mine near Miami, Arizona, consisting of an open-pit mine producing acid soluble copper ore for heap leaching operations, an SX/EW plant producing copper cathode, a smelter, an electrolytic refinery, and a copper rod plant; (iv) a copper rod plant in Chicago, Illinois; (v) an 82 percent interest in the Cerro Verde mine in Peru, consisting of two open pits, a heap leach operation and an SX/EW plant; (vi) a 51 percent interest in the El Abra mine in northern Chile, consisting of an open-pit mine, crushing facility, on/off leach pad and an SX/EW plant producing copper cathodes; (vii) the Henderson mine near Empire, Colorado, consisting of an underground block caving mine, a conveying system and a concentrator that produces molybdenum disulfide concentrates; (viii) the Climax mine in Colorado, consisting of an underground and open-pit mine and concentrator which are on standby; (ix) conversion facilities in the United States and Europe that use molybdenum roasters and chemical conversion plants to convert molybdenum concentrates into such products and technical grade molybdic oxide, ferromolybdenum, pure molybdic oxide, ammonium molybdates, and molysulfide powder; and (x) other mining-related facilities.

On June 30, 1999, Phelps Dodge announced a plan to reduce costs and improve operating performance by curtailing higher cost copper production by temporarily closing our Hidalgo smelter in New Mexico and the smaller of two concentrators at our Morenci mining operations in Arizona, as well as curtailing production by 50 percent at our copper refinery in El Paso, Texas. In the fourth quarter of 1999, as a result of the successful acquisition of Cyprus Amax and the planned conversion of Morenci to a mine-for-leach operation, the Hidalgo smelter was written down by $201.5 million and the Metcalf concentrator at Morenci by $88.0 million. The Hidalgo smelter is expected to be reconfigured to allow it to continue to be a reliable source of sulfuric acid.

The Henderson molybdenum mine completed a major project in early October 1999 to replace a 20-year-old underground and surface rail transportation system with a modern conveyor and underground primary crusher. In addition, it began development of a new production level using more efficient high-lift caving methods. As a result, PD Mining's 1999 operating results included the impact of the start-up costs at Henderson. The new crushing and conveying system is expected to be operating at full capacity by March 31, 2000.

On October 21, 1998, we announced that we would curtail production at Chino. The production curtailment occurred in phases between October 31, 1998, and the first quarter of 1999. The curtailment reduced copper production by 35,000 tons annually. In addition, we announced the immediate, indefinite suspension of operations at our Ojos del Salado mine. This shutdown reduced copper production by more than 20,000 tons annually. Ojos del Salado remained on care and maintenance status at year end.

On February 3, 1998, we acquired Cobre. The primary assets of Cobre include the Continental Mine, which comprises an open-pit copper mine, two underground copper mines, two mills, and the surrounding 11,000 acres of land, including mineral rights, located in southwestern New Mexico adjacent to our Chino operations. On October 21, 1998, we indefinitely suspended underground mining at Cobre due to low copper prices. On March 17, 1999, the remaining operations were suspended, reducing copper production by 35,000 tons per year. All Cobre operations remained on care and maintenance status at year end.

We have additional sources of copper that could be placed in production should market circumstances warrant. However, permitting and significant capital expenditures would be required to develop such additional production capacity.

The 1999 exploration program continued to place emphasis on the search for and delineation of large-scale copper, gold and other base metal deposits. Phelps Dodge expended $41.0 million on worldwide exploration during 1999, compared with $42.0 million in 1998 and $74.1 million in 1997. Approximately 25 percent of the 1999 expenditures occurred in the United States with 19 percent being spent at our mine sites. This compares with 26 percent in 1998 (19 percent at mine sites) and 33 percent in 1997 (23 percent at mine sites). The balance of exploration expenditures was spent principally in Australasia, Brazil, Chile, Mexico, Canada and Peru.

During 1999, exploration efforts continued at our existing copper operations. In New Mexico, additional mine-for-leach mineralized material was delineated at the Tyrone mine in the Niagara area, and exploration drilling at Chino indicated extensions to known open-pit copper mineralized material.

The mineralized material at Niagara amounted to 500 million tons of leach material at an estimated grade of 0.29 percent copper. In Arizona, additional mine-for-leach mineralized material also was delineated in the Western Copper area of the Morenci mine.

Environmental permitting is in progress to advance development of the Dos Pobres and San Juan mineral deposits in the Safford District of eastern Arizona. The two deposits contain a total of 630 million tons of leach material at an estimated grade of 0.32 percent copper. Additionally, the Dos Pobres deposit contains 330 million tons of milling material at an estimated grade of 0.65 percent copper.

Internationally, Mineração Serra do Sossego S.A., a 50/50 joint venture with Companhia Vale do Rio Doce (CVRD) located in Brazil, continued to evaluate the Sossego deposit. The deposit contains an estimated 240 million tons of mineralized material at an estimated grade of 1.14 percent copper and 0.34 grams per ton gold. A prefeasibility study, which will further define the mineralized material and determine the viability of the project, is expected to be completed in the second quarter of 2000.

Work continues on our 70 percent-owned Piedras Verdes property in Sonora, Mexico. The final prefeasibility study was accepted by the minority partner and a feasibility study is expected to commence in 2000. The results of the prefeasibility study indicate leachable mineralized material of 290 million tons at an estimated grade of 0.33 percent copper.

In 1999, economic evaluation and environmental remediation continued on our Ambatovy nickel/cobalt deposit in central Madagascar. Mineralized material of 210 million tons at an estimated grade of 1.1 percent nickel and 0.1 percent cobalt was previously identified in a feasibility study.

Two copper exploration properties, Kansanshi located in Zambia, and Frieda River located in Papua New Guinea, were added with the acquisition of Cyprus Amax. Work continued in 1999 at Kansanshi, and a prefeasibility study is scheduled to be completed in June 2000. The Frieda River project was terminated and the property was returned to the owners.

PD Mining — Other Matters. In December 1996, the United States District Court of the Eastern District of New York ruled that our 1986 sale of property in Maspeth, New York, to the United States Postal Service was to be rescinded. The Court ordered us to return the $14.8 million originally paid by the Postal Service for the property and to pay interest on the sales price for a portion of the time since that sale. In August 1997, we returned $14.8 million to the Postal Service for the Maspeth property and paid $6.6 million of interest to the Postal Service.

In 1997, issues of dispute arose between Phelps Dodge and the San Carlos Apache Tribe regarding our use and occupancy of the Black River Pump Station which delivers water to the Morenci operation. On May 12, 1997, the Tribe filed suit against us in San Carlos Apache Court, seeking our eviction from the Tribe's Reservation and claiming substantial compensatory and punitive damages, among other relief. In May 1997, we reached an agreement with the Tribe, and subsequently federal legislation (Pub. L. No. 105-18, 5003, 111 stat. 158, 181-87) was adopted which mandated dismissal of the tribal court suit. The legislation prescribes arrangements intended to ensure a future supply of water for the Morenci mining complex in exchange for certain payments by us. The legislation does not address any potential claims by the Tribe relating to our historical occupancy and operation of our facilities on the Tribe's Reservation, but does require that any such claims be brought, if at all, exclusively in federal district court. By order dated October 13, 1997, the tribal court dismissed the lawsuit with prejudice, as contemplated by the legislation.

The 1997 legislation required that the Company and the Tribe enter a lease for the delivery of Central Arizona Project water through the Black River Pump Station to Morenci on or before December 31, 1998. In the event a lease was not signed, the legislation expressly provided that the legislation would become the lease. The legislation included the principal terms for that eventuality. To date, we have not entered into a lease with the Tribe, but are relying on our rights under the legislation and are prepared to enforce those rights if necessary. We are cooperating with the United States, which operates the pump station, to reach an agreement with the Tribe on the lease issue.

Results of Phelps Dodge Industries

PD Industries, 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, our wire and cable segment and, until they were sold in 1998, our wheel and rim operations (Accuride Corporation). 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.

(Dollars in millions)	1999	1998	1997
Sales and other operating revenues – unaffiliated customers:			
Specialty chemicals	$ 543.0	454.6	429.5
Wire and cable	784.8	931.1	978.5
Other*	–	–	333.0
	$1,327.8	1,385.7	1,741.0
Operating income (loss):**			
Specialty chemicals***	$ 92.5	87.6	74.9
Wire and cable****	(42.8)	67.3	83.1
Other*	–	198.7	49.8
	$ 49.7	353.6	207.8

* *Other includes Accuride which was sold in 1998. Ninety percent of Accuride was sold to an affiliate of KKR and the existing management of Accuride effective January 1, 1998, and the remaining 10 percent interest was sold to RSTW Partners III, L.P., on September 30, 1998, resulting in a total pre-tax gain of $198.7 million. (See Note 3 to the Consolidated Financial Statements for a further discussion of this sale.)*

** *Operating income has been presented in compliance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (with 1997 restated).*

*** *Includes a pre-tax charge of $17.7 million in 1999 as a result of the suspension of operations at Columbian's carbon black plant in the Philippines.*

**** *Includes a pre-tax charge of $11.9 million in 1999 for impairment of value of the Wire and Cable Group's majority-owned telecommunications assets and $40.4 million related to the company's June 30, 1999, restructuring plan. 1998 includes a pre-tax charge of $2.3 million for an early retirement program.*

PD Industries reported sales of $1,327.8 million in 1999, compared with $1,385.7 million in 1998. The decrease principally reflected lower sales in the wire and cable segment ($146 million), primarily in South America. That decrease was partially offset by higher sales volumes in the carbon black segment ($88 million), which included sales from facilities acquired in Brazil and Korea in the 1998 fourth quarter and 1999 first quarter, respectively.

PD Industries — Operating Income

(Dollars in millions)	1999	1998	1997
Operating income before non-recurring items	$119.7	157.2	207.8
Pre-tax, non-recurring items	(70.0)	196.4	–
Operating income after non-recurring items	$ 49.7	353.6	207.8

Our PD Industries segment reported operating income of $119.7 million in 1999 before non-recurring, pre-tax charges of $70.0 million. The non-recurring charges in operating income are as follows: $11.9 million of asset impairments to write down the value of our wire and cable segment's telecommunications assets and $58.1 million for the June 30, 1999, restructuring plan at both the wire and cable and specialty chemicals segments of PD Industries. In addition to the non-recurring items in operating expense, asset impairment charges of $6.7 million and $3.1 million were recorded in non-operating expense for the impairment of an equity basis investment in China as well as the telecommunications assets of an equity basis investment in the Philippines, respectively ($1.9 million was recorded as non-operating expense related to the June 30, 1999, restructuring plan). (See Note 3 to the Consolidated Financial Statements for further discussion of these non-recurring items.)

PD Industries reported operating income of $157.2 million in 1998, before the effect of a $198.7 million pre-tax gain from the sale of Accuride and $2.3 million of non-recurring, pre-tax charges, primarily for an early retirement program at PD Magnet Wire. This compares with 1997 operating income of $158.0 million before Accuride's $49.8 million contribution. 1998 earnings approximated the corresponding prior year period, excluding Accuride, despite continuing Asian economic difficulties. This reflected strong performances by our U.S. and European carbon black businesses and the addition of the wire and cable operation in Brazil that was acquired in December 1997.

In 1999, operations outside the United States provided 55 percent of PD Industries' sales, compared with 53 percent in 1998 and 49 percent in 1997. During the year, operations outside the United States contributed 59 percent of PD Industries' operating income, compared with 54 percent in 1998 and 43 percent in 1997.

Specialty Chemicals — Operating Income

(Dollars in millions)	1999	1998	1997
Operating income before non-recurring items	$110.2	87.6	74.9
Pre-tax, non-recurring items	(17.7)	–	–
Operating income after non-recurring items	$ 92.5	87.6	74.9

On June 30, 1999, we announced the planned closure of our manufacturing facility in Bataan, Philippines. Production was discontinued at the facility in November 1999, and the suspension resulted in a pre-tax, non-recurring charge to operating income of $17.7 million. The Philippine plant, which had a relatively small production capacity of 18,000 metric tons, did not have economies of scale necessary to compete profitably with imports from larger regional producers. Columbian Chemicals has opened a distribution company, Philippine Carbon Black Distribution Company, Inc., that will market and distribute carbon blacks, principally from Columbian Chemicals Korea, in the Philippines.

Columbian's 1999 operating income before non-recurring items was more than in 1998, principally as a result of increased carbon black sales volumes ($35 million, primarily as a result of the October 1998 acquisition of Copebras S.A., a Brazilian carbon black manufacturing business, and the January 1999 acquisition of an 85 percent interest in the Korean carbon black business of Korea Kumho Petrochemical Co. Ltd.). Columbian's 1998 operating income was higher than in 1997 as a result of increased carbon black sales volumes (12 percent higher) and lower feedstock costs, partially offset by lower carbon black sales pricing. European demand was driven by strong vehicle production and North American growth was driven by an increase in our production capacity that allowed us to gain a greater market share.

In January 1999, we acquired an 85 percent interest in the Korean carbon black manufacturing business of Korea Kumho Petrochemical Co., Ltd., for $76.1 million. Columbian manages and operates the business, including the 110,000 metric-ton-per-year manufacturing plant located in Yosu, South Korea.

In October 1998, we acquired Copebras S.A., a subsidiary of Minorco, for $220 million. This manufacturing facility has an annual production capacity of 170,000 metric tons of carbon black. Columbian manages and operates the company.

Wire and Cable — Operating Income

(Dollars in millions)	1999	1998	1997
Operating income before non-recurring items	$ 9.5	69.6	83.1
Pre-tax, non-recurring items	(52.3)	(2.3)	–
Operating income (loss) after non-recurring items	$(42.8)	67.3	83.1

Our wire and cable segment reported operating income of $9.5 million in 1999 before non-recurring, pre-tax charges. The pre-tax, non-recurring items were as follows: $11.9 million of asset impairments to write down our international telecommunications assets and $40.4 million for the June 30, 1999 restructuring plan. In addition to the non-recurring items in operating income, the wire and cable segment incurred the following charges in non-operating expense: asset impairment charges of $6.7 million and $3.1 million for the impairment of an equity basis investment in China as well as the telecommunications assets of an equity basis investment in the Philippines, respectively, and $1.9 million related to the June 30, 1999, restructuring plan. Please see Note 3 to the Consolidated Financial Statements for further discussion of these non-recurring items.

The wire and cable segment's 1999 operating income was less than that in 1998 by $60.1 million, before the effect of non-recurring items, primarily as a result of economic difficulties that plagued most of Latin America and Asia. The downturn in Latin America began with the Brazilian currency crisis in early 1999. This factor, along with political and economic instability in the Andean region, significantly impacted results at our Latin American operations where operating income decreased by $46 million. In Asia, economic problems continued to hamper the performance of our wire and cable operations where operating income decreased by $3 million from already depressed levels. Efforts continue to be made to increase exports outside the region, although progress has been slower than expected.

Operating income in 1998 was $69.6 million before $2.3 million of non-recurring, pre-tax charges for an early retirement program.

Lower operating income in 1998 compared to 1997 in the wire and cable segment resulted from lower selling prices, continuing Asian economic difficulties that began in 1997, the effect of political uncertainty in Venezuela and continued depressed demand in the U.S. aerospace and electronic components industries served by our specialty conductors business. These negative factors were partially offset by our acquisition of PD Alcoa in Brazil, which contributed $12.8 million in 1998. Operating income decreased in Asia by $16 million, and by $20 million in the United States as a result of the depressed demand in the U.S. aerospace and electronic components industries.

In the 1998 fourth quarter, we restructured our magnet wire facilities in Hopkinsville, Kentucky, and Fort Wayne, Indiana, reducing jobs to cut costs and improve our competitive position. This resulted in a non-recurring charge of $2.3 million, principally reflecting provisions for early retirements.

On July 15, 1998, we purchased Eldra Elektrodaht-Erzeugung GmbH's 49 percent interest in Phelps Dodge Eldra GmbH, resulting in the operation becoming our wholly owned subsidiary under the name of Phelps Dodge Magnet Wire (Austria) GmbH. The production capacity of the facility has been expanded twice since 1992, nearly doubling the annual capacity to 11,000 metric tons of magnet wire.

In June 1998, our wire and cable segment and Sumitomo Electric Industries, Ltd., dissolved joint-venture partnerships at five wire and cable manufacturing and support companies. The dissolution was achieved through the exchange of cash and ownership shares in the companies. The transaction resulted in a pre-tax gain of $10.3 million.

In March 1998, we began commercial production at Phelps Dodge Magnet Wire de Mexico, S.A. de C.V., a $42 million magnet wire manufacturing plant in Monterrey, Mexico. The new facility uses state-of-the-art technology and currently has installed capacity of 20,400 metric tons out of a planned capacity of 38,000 metric tons of magnet wire.

In December 1997, we acquired for $72 million a 60 percent interest in the copper and aluminum wire and cable manufacturing business of Alcoa Aluminio, S.A., of Brazil. Its product line is focused on energy transmission and distribution, with dominance in aluminum conductors and solid participation in the copper wire and cable business. During the first quarter of 1998, we began managing and operating this joint venture.

PD Industries — Other Operations. Accuride was sold in 1998. Ninety percent was sold to an affiliate of KKR and the existing management of Accuride effective January 1, 1998, and the remaining 10 percent interest was sold to RSTW Partners III, L.P., on September 30, 1998, resulting in a pre-tax gain of $198.7 million and an after-tax gain of $131.1 million. (See Note 3 to the Consolidated Financial Statements.)

Other Matters Relating to the Statement of Consolidated Operations

Depreciation, Depletion and Amortization Expense. Depreciation, depletion and amortization expense was $329.1 million in 1999, compared with $293.3 million in 1998 and $283.7 million in 1997. The 1999 increase primarily resulted from the acquisition of Cyprus Amax ($52 million), partially offset by a decrease in Phelps Dodge's U.S. and international mine production. The 3 percent increase in 1998 over 1997 resulted from increased U.S. and international mine production and an increase in U.S. depreciation rates partially offset by the effect of the sale of Accuride. (Please refer to Note 1 to the Consolidated Financial Statements for a discussion of depreciation methods.)

Selling and General Administrative Expense. Selling and general administrative expense was $141.6 million in 1999, compared with $122.9 million in 1998 and $141.8 million in 1997. The 1999 increase primarily resulted from the acquisition of Cyprus Amax which had $14.6 million in selling and general administrative expenses from October 16 through December 31, and an increase in corporate expense for incentive plans and other general administrative expenses. The 13 percent decrease in 1998 from 1997 reflected the absence of Accuride ($13 million) and a decrease in corporate expense for legal and professional fees, incentive plans and other general administrative expenses.

Exploration and Research and Development Expense. Exploration and research and development expense was $52.2 million in 1999, compared with $55.0 million in 1998 and $87.8 million in 1997. The 1999 decrease resulted from continuing cutbacks in exploration programs in view of current market conditions, partially offset by the addition of Cyprus Amax's exploration spending of $4.9 million from October 16 through December 31. The 37 percent decrease in 1998 compared with 1997 primarily resulted from the closure of PD Mining's U.S. exploration offices during the 1997 fourth quarter, but also reflected generally lower exploration expenditures worldwide.

Interest Expense. Net interest expense was $120.2 million in 1999, compared with $94.5 million in 1998 and $62.5 million in 1997. The 27 percent increase in 1999 was primarily due to the assumption of Cyprus Amax's debt. The 51 percent increase in 1998 over 1997 principally resulted from interest associated with corporate debt issued in the 1997 fourth quarter and decreases in capitalized interest resulting from the completion of the Candelaria expansion in October 1997.

Miscellaneous Income and Expense, Net. Miscellaneous income, net of miscellaneous expense, was $9.1 million in 1999, compared with $8.8 million in 1998 and $33.4 million in 1997. The 1999 increase primarily resulted from a $30.0 million payment received from ASARCO Incorporated (Asarco) for terminating its merger agreement with Phelps Dodge, partially offset by $16.0 million in expenses related to the Asarco transaction and $11.9 million in equity basis investment asset impairments in the wire and cable segment. The 1998 decrease compared with 1997 primarily resulted from a $27.0 million pre-tax loss on the sale of our 44.6 percent interest in the Black Mountain mine in South Africa, partially offset by a pre-tax gain of $10.3 million from the dissolution of joint-venture partnerships between Phelps Dodge and Sumitomo Electric Industries, Ltd., at five wire and cable manufacturing and support companies. In addition, 1998 dividend income from our 13.9 percent interest in Southern Peru Copper Corporation (SPCC) was $8.4 million lower than in 1997.

Provision for Taxes on Income. The effective tax rate changed from 40 percent in 1998 to a 39 percent benefit in 1999. The effective tax rate increased from 31 percent in 1997 to 40 percent in 1998. This increase was due to a decrease in the U.S. tax benefit for percentage depletion resulting from lower copper prices, as well as increased taxes on foreign earnings resulting from a change in the mix of those earnings.

In December of 1999, we received and accepted Notices of Tax Due from the Internal Revenue Service (IRS) for the years 1992 and 1993. The IRS audit of the year 1994 resulted in a refund. Issues settled in the years 1992 through 1994 also impacted the years 1990 and 1991 and enabled us to enter a closing agreement with the IRS for the years 1990 and 1991. We are currently awaiting receipt of an executed copy of the closing agreement from the IRS. As a result of these settlements, we have recorded a $30 million reduction in our tax liabilities.

Phelps Dodge Corporation's federal income tax returns for the years 1995 through 1997 are currently under examination by the IRS. The Cyprus Amax federal income tax returns for the years 1994 through 1996 also are currently under examination by the IRS. The IRS has raised a number of issues in the current examinations that may result in proposed additional assessments of income tax at the conclusion of the current examinations. Our management believes that it has made adequate provision so that final resolution of the issues involved, including application of those determinations to subsequent open years, will not have an adverse effect on our consolidated financial condition or results of operations.

Discount Rate — Pensions and Other Postretirement Benefits. Under current financial accounting standards, any significant year-to-year movement in the rate of interest on long-term, high-quality corporate bonds necessitates a change in the discount rate used to calculate the actuarial present value of our accumulated pension and other postretirement benefit obligations. The discount rate increased to 7.75 percent at December 31, 1999, compared with 6.75 percent at December 31, 1998. (For a further discussion of these issues, see Notes 16 and 17 to the Consolidated Financial Statements.)

Year 2000. Phelps Dodge and Cyprus Amax both had identified and prepared for Year 2000 (Y2K) issues as discussed separately in their respective September 30, 1999, Form 10-Qs. Both companies had created and staffed a Y2K program management office to oversee and coordinate the Y2K conversion. Event management command centers were manned continually from December 27, 1999, through January 3, 2000, with all sites being monitored and events reported through this facility. There were no significant Y2K events reported. The program management offices were shut down in mid-January and any problems that may occur in the future will be handled as a normal event within the established processes. The costs incurred to prepare for Y2K were not material to our financial position.

Changes in Financial Condition — Capitalization

Cash and Cash Equivalents. Cash and cash equivalents at the end of 1999 were $234.2 million, compared with $221.7 million at the beginning of the year. Operating activities provided $204.5 million of cash during the year, which was used along with the issuance of Phelps Dodge stock to purchase Cyprus Amax, and to fund investing activities and dividend payments on common stock.

(Dollars in millions)	1999	1998	1997
Cash provided by (used in):			
Operating activities	$ 204.5	378.4	764.6
Investing activities:			
Cyprus Amax acquisition	35.7	–	–
Capital expenditures and investments	(276.1)	(668.3)	(789.2)
Accuride divestiture	–	449.5	–
Proceeds from Kinross sale	233.3	–	–
Other investing activities	13.1	34.8	(4.6)
Financing activities	(198.0)	(130.6)	(283.0)
Net increase (decrease) in cash and cash equivalents	$ 12.5	63.8	(312.2)

Working Capital. During 1999, net working capital (excluding cash and cash equivalents, debt and adjustments for foreign currency exchange rate changes) increased by $127.3 million. This net increase resulted principally from:

- a $144.5 million increase in accounts receivable primarily due to the effect of higher copper prices, eliminations of receivable factoring at Cyprus Amax after the acquisition and an increase in receivables resulting from increased business at Columbian Chemicals' Brazilian and Korean plants that were acquired in late 1998 and early 1999, respectively; and
- a $32.9 million decrease in inventories and supplies primarily due to reduced copper inventories and lower wire and cable business in Asia and Latin America.

Investing Activities. The total purchase price for Cyprus Amax was $1,855 million including $1,125 million for the issuance of 20.6 million shares of Phelps Dodge common stock, $10 million for the conversion of Cyprus Amax stock options, cash of $693 million and acquisition costs of $27 million (financial advisory, legal, accounting and printing costs). In addition, certain acquisition-related stock compensation and the resulting tax obligations of Cyprus Amax of $29 million were recorded in purchase accounting and paid by Phelps Dodge. Capital expenditures and investments were $120.5 million in 1999 for PD Mining and $149.5 million for PD Industries (including $76.1 million for the acquisition of an 85 percent interest in the Korean carbon black manufacturing business of Korea Kumho Petrochemical Co., Ltd.).

Investing activities in 1998 included PD Mining capital expenditures of $201.3 million and an investment of $108.7 million in Cobre Mining Company. They also included PD Industries' $111.8 million of capital expenditures and an investment of $219.9 million in the Brazilian carbon black business. The Accuride divestiture and the sale of Black Mountain generated cash proceeds of $449.5 million and $18.5 million, respectively.

Capital expenditures and investments for 2000 are expected to be approximately $330 million for PD Mining and approximately $100 million for PD Industries. These capital expenditures and investments are expected to be funded primarily from cash reserves and operating cash flow.

Financing Activities and Liquidity. The Company's total debt at December 31, 1999, was $2,755.0 million, compared with $1,021.0 million at year-end 1998. Debt increased primarily as a result of the acquisition of Cyprus Amax and financing for the first quarter 1999 purchase of a carbon black business in Korea. The debt acquired with the purchase of Cyprus Amax totaled $1,595.6 million. The Company's ratio of debt to total capitalization was 45.0 percent at December 31, 1999, compared with 27.6 percent at December 31, 1998.

An existing revolving credit agreement between us and several lenders was amended on June 25, 1997. The agreement, as amended and restated, allows us to borrow up to $1 billion from time to time until its scheduled maturity on June 25, 2002. The agreement allows for two, one-year renewals beyond the scheduled maturity date if we request and receive approval from those lenders representing at least two-thirds of the commitments provided by the facility. In the event of such approval, total commitments under the facility would depend upon the willingness of other lenders to assume the commitments of those lenders electing not to participate in the renewal. Interest is payable at a fluctuating rate based on the agent bank's prime rate, or a fixed rate, based on the LIBOR, or at fixed rates offered independently by the several lenders, for maturities of between seven and 360 days. This agreement provides for a facility fee of six and one-half basis points (0.065 percent) on total commitments. The agreement requires us to maintain a minimum consolidated tangible net worth of $1.1 billion and limits indebtedness to 50 percent of total consolidated capitalization. There were no borrowings under this agreement at either December 31, 1999, or December 31, 1998.

We established a commercial paper program on August 15, 1997, under a private placement agency agreement with 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 one 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. Borrowings under this commercial paper program were $349.4 million at December 31, 1999. There were no borrowings under the commercial paper program at December 31, 1998.

Short-term borrowings, excluding borrowings under our corporate commercial paper program, were $101.8 million, all by our international operations, at December 31, 1999, compared with $116.1 million at December 31, 1998. The decrease was primarily due to repayments of outstanding debt by our wholly owned subsidiary, Columbian Chemicals Brasil, partially offset by acquired short-term debt of $7.5 million.

The current portion of our long-term debt, scheduled for payment in 2000, is $131.3 million, including $7.1 million for our international manufacturing operations, $94.7 million, primarily for our international mining operations and $29.5 million for corporate debt repayments.

Dividend payments on our common shares increased from $117.3 million in 1998 to $124.3 million in 1999, reflecting the increased number of common shares outstanding due to our fourth quarter 1999 issuance of 20.6 million shares as part of the Cyprus Amax acquisition. The dividend was $2.00 per common share in 1999 and 1998.

In connection with the acquisition of Cyprus Amax, Cyprus Amax called for redemption of all 4,664,302 of its Series A Convertible Preferred shares. Prior to the redemption date, a total of 3,968,801 shares were redeemed for cash and the remainder was converted to Cyprus Amax common shares, which were subsequently exchanged for 0.5 million shares of Phelps Dodge common stock as part of the acquisition. The cash required for the redemption totaled $208.3 million including accumulated dividends.

A share purchase program announced on May 7, 1997, provided for the purchase of up to an additional 6 million of our common shares, approximately 10 percent of our then outstanding shares. We purchased 6,554,000 of our common shares in 1997 at a total cost of $511.5 million, including 3,606,000 shares at a cost of $292.9 million, under the 1997 share authorization. During 1998, we purchased 731,500 of our common shares at a total cost of $35.4 million under the 1997 program. There were no shares purchased during 1999. There were 78.7 million common shares outstanding on December 31, 1999. We may continue to make purchases in the open market as circumstances warrant, and may also consider purchasing shares in privately negotiated transactions.

Environmental Matters. Phelps Dodge or its subsidiaries have been advised by the U.S. Environmental Protection Agency (EPA), United States Forest Service and several state agencies that they may be liable under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), commonly referred to as Superfund, or similar state laws and regulations for costs of responding to environmental conditions at a number of sites that have been or are being investigated by the EPA, the Forest Service, or states, to establish whether releases of hazardous substances have occurred and, if so, to develop and implement remedial actions. Phelps Dodge has been named a “potentially responsible party” (PRP) or has received requests for information for several sites. Of the sites in which Phelps Dodge or its subsidiaries have been named a PRP, 19 are on the “National Priorities List” (NPL) and two have been proposed for listing. For all such sites, Phelps Dodge had an aggregate reserve of $208.7 million as of December 31, 1999, including reserves for Pinal Creek in Arizona, and Langeloth in Pennsylvania, for its share of the estimated liability.

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 PRP, and the ability of other PRPs to pay their allocated portions. The cost range for reasonably expected outcomes for all sites excluding Pinal Creek and Langeloth is estimated to be from $28 million to $110 million, and work on these sites is expected to be substantially completed in the next several years, subject to inherent delays involved in the process.

The sites for which Phelps Dodge has received a notice of potential liability or an information request that are currently considered to be the most significant are the Pinal Creek site, which has a cost range for reasonably expected outcomes estimated to be from $143 million to $250 million, and the former American Zinc and Chemical site in Langeloth, which has a cost range for reasonably expected outcomes estimated to be from $10 million to $67 million. Phelps Dodge has reserved $143 million for the Pinal Creek site.

Cyprus Amax received an information request from the Pennsylvania Department of Environmental Protection regarding the former American Zinc and Chemical site. The site is currently being investigated by the state of Pennsylvania. Phelps Dodge has reserved $20 million for this site.

Phelps Dodge believes certain insurance policies partially cover the foregoing environmental liabilities; however, some of the insurance carriers have denied coverage. We are presently litigating these disputes. Further, Phelps Dodge believes that it has other potential claims for recovery from other third parties, including the U.S. Government and other PRPs, as well as liability offsets through lower cost remedial solutions. Neither insurance recoveries nor other claims or offsets have been recognized in the financial statements unless such offsets are considered probable of realization.

As of December 31, 1998, we had a reserve balance of $106.0 million for estimated future costs associated with environmental matters at shutdown operations or closed facilities within active operations. During 1999, net spending against that reserve totaled $20.0 million including $2.8 million for the acquired Cyprus Amax properties between October 16 and December 31. During the second quarter of 1999, we recorded an additional $8.3 million provision for estimated future costs associated with environmental matters directly related to our restructuring plan announced on June 30, 1999. Additionally, we recorded a $28.2 million provision in the fourth quarter of 1999 for estimated future costs associated with environmental matters. The acquisition of Cyprus Amax increased our reserve by $213.6 million. As of December 31, 1999, the reserve balance was $336.1 million.

The 1990 Amendments to the federal Clean Air Act require the EPA to develop and implement many new requirements, and they allow states to establish new programs to implement some of the new requirements, such as the requirements for operating permits under Title V of the 1990 Amendments and hazardous air pollutants under Title III of the 1990 Amendments. Because the EPA has not yet adopted or implemented all of the changes required by Congress, the air quality laws will continue to expand and change in coming years as the EPA develops new requirements and then implements them or allows the states to implement them. In response to these new laws, several of our subsidiaries have submitted applications for Title V operating permits. These programs will likely increase our regulatory obligations and compliance costs. These costs could include implementation of maximum achievable control technology for any of our facilities if they are determined to be a major source of federal hazardous air pollutants (HAPs). For example, it is probable that some of our carbon black plants and possibly one of our smelters will be regulated as a major source of HAPs. Until more of the implementing regulations are adopted, and more experience with the new programs is gained, it is not possible to determine the full impact of the new requirements.

We record liabilities for environmental expenditures when it is probable that obligations have been incurred and the costs can be reasonably estimated. Our estimates of these costs are based upon available facts, existing technology, and current laws and regulations, and are recorded on an undiscounted basis. Where the available information is sufficient to estimate the amount of liability, that estimate has been used. Where the information is only sufficient to establish a range of probable liability and no point within the range is more likely than any other, the lower end of the range has been used. Based upon the information available to us, the range of obligations, both individually and in the aggregate, from known environmental liabilities are not expected to result in material additional costs beyond those already identified.

We have other potential environmental liabilities that cannot be reasonably estimated. This is due to factors such as the unknown extent of the remedial actions that may be required. In addition, in the case of certain sites not owned by us, the extent of our liability in proportion to the liability of other parties is difficult to estimate. While we cannot currently estimate the total additional loss we may incur for these environmental liabilities, we will make appropriate additional accruals if information comes to our attention in the future that would allow us to reasonably estimate our probable losses. Furthermore, we will make additional accruals if there are future changes in laws, regulations and/or regulatory interpretations, and such changes result in additional liabilities, these potential liabilities could be material.

The possibility of recovery of some of the environmental remediation costs from insurance companies or other parties exists. However, we do not recognize these recoveries in our financial statements until they become probable.

Our operations are subject to many environmental laws and regulations in jurisdictions both in the United States and in other countries in which we do business. For further discussion of these laws and regulations, please see "PD Mining – Environmental and Other Regulatory Matters and PD Industries – Environmental Matters." The estimates given in those discussions of the capital expenditures to comply with environmental laws and regulations in 2000 and 2001, and the expenditures in 1999, are separate from the reserves and estimates described above.

In the United States, the Emergency Planning and Community Right-to-know Act was expanded in 1997 to cover mining operations. This law, which has applied to other Phelps Dodge businesses for more than a decade, requires companies to report to the EPA the amount of certain materials managed in or released from their operations each year. During June 1999, we reported the volume of naturally occurring metals and other substances that we managed during 1998 once the usable copper was extracted. These materials are very high in volume and how they are managed is covered by existing regulations and permit requirements.

On December 23, 1994, Chino, located near Silver City, New Mexico, entered into an Administrative Order on Consent (AOC) with the New Mexico Environment Department. This AOC requires Chino to study the environmental impacts and potential health risks associated with portions of the Chino property affected by historical mining operations. We acquired Chino at the end of 1986. The studies began in 1995 and, while we currently are unaware of any additional liabilities that need to be accrued, until the studies are completed, it is not possible to determine the nature, extent, cost and timing of remedial work that could be required under the AOC. Remedial work is expected to be required under the AOC.

In 1993 and 1994, the New Mexico and Arizona legislatures, respectively, passed laws requiring the reclamation of mined lands in those states. The New Mexico Mining Commission adopted rules for the New Mexico program during 1994, and our operations began submitting the required permit applications in December 1994. The Arizona State Mine Inspector adopted rules for the Arizona program in January 1997, and our operations began submitting the required reclamation plans in 1997. Colorado also has a similar program. Reclamation is an ongoing activity and we recognize estimated reclamation costs using a units of production basis calculation. These laws and regulations will likely increase our regulatory obligations and compliance costs with respect to mine closure and reclamation.

Other Matters. In 1995, legislation was introduced in both the U.S. House of Representatives and the U.S. Senate to amend the Mining Law of 1872. None of the bills was enacted into law. Also, mining law amendments were added to the 1996 budget reconciliation bill, which was vetoed by the President. Among other things, the amendments contained in the 1996 bill would have imposed a 5 percent net proceeds royalty on minerals extracted from federal lands, required payment of fair market value for patenting federal lands, and required that patented lands used for non-mining purposes revert to the federal government. Several of these same concepts likely will continue to be pursued legislatively in the future. The Secretary of the Interior also ordered the Bureau of Land Management (BLM) to form a task force to review BLM's hardrock mining surface management regulations and propose revisions to expand environmental and reclamation requirements, among other things. While the effect of such changes on our current operations and other currently owned mineral resources on private lands would be minimal, passage of mining law amendments or revisions to the hardrock mining surface management regulations could result in additional expenses in the development and operation of new mines on federal lands.

In February 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." This statement became effective for fiscal years beginning after December 15, 1997. We adopted this statement in 1998.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires recognition of all derivatives as either assets or liabilities on the balance sheet and measurement of those instruments at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income (loss). Proper accounting for changes in the fair value of derivatives held is dependent on whether the derivative transaction qualifies as an accounting hedge and on the classification of the hedge transaction. The statement was originally required to be adopted in the first quarter of 2000. Citing concerns about companies' ability to modify their information systems and educate their managers in time to apply SFAS 133, FASB has delayed its effective date for one year. We will adopt SFAS 133 in the first quarter of 2001. We are evaluating the effect this statement will have on our financial reporting and disclosures as well as on our derivative and hedging activities.

In the 1999 first quarter, we adopted SOP 98-5, "Reporting on the Costs of Start-Up Activities." The implementation resulted in a $3.5 million after-tax charge, or 6 cents per common share, representing the write off of previously unamortized start-up costs at our Candelaria mining operation in Chile and our magnet wire operation in Monterrey, Mexico.

Capital Outlays

Capital outlays in the following table exclude capitalized interest and the minority joint-venture interest portions of the expenditures at Morenci, Chino, El Abra and Candelaria.

(Dollars in millions)	1999	1998	1997
Phelps Dodge Mining Company:			
Candelaria	$ 7.2	8.0	161.7
Other	114.2	193.3	293.6
	121.4	201.3	455.3
Phelps Dodge Industries:			
Specialty chemicals	45.0	41.7	75.7
Wire and cable	28.4	70.1	102.5
Other *(Accuride was sold in 1998)*	–	–	24.0
	73.4	111.8	202.2
Corporate and other	6.1	5.0	4.1
	$200.9	318.1	661.6

Inflation

The principal impact of general inflation upon our financial results has been on unit production costs, especially supply costs, at our mining and industrial operations. It is important to note, however, that the selling price of our principal product, copper, does not necessarily parallel the rate of inflation or deflation.

Dividends and Market Price Ranges

The principal market for our common stock is the New York Stock Exchange. At March 6, 2000, there were 27,671 holders of record of our common shares. In the 1996 second quarter, the quarterly dividend was increased to 50 cents from 45 cents on each common share and continued at that rate throughout 1997, 1998 and 1999. Additional information required for this item is provided in the Quarterly Financial Data table.

Quarterly Financial Data

(*Dollars in millions, except per common share amounts*)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1999				
Sales and other operating revenues	$663.1	691.1	742.7	1,017.5
Operating income (loss)	27.6	(54.8)	51.5	(339.9)
Income (loss) before cumulative effect of accounting change	0.5	(57.5)	15.4	(212.7)
Net income (loss)	(3.0)	(57.5)	15.4	(212.7)
Net income (loss) per common share – basic	(0.05)	(0.99)	0.27	(2.91)
Net income (loss) per common share – diluted	(0.05)	(0.99)	0.27	(2.91)
Stock prices*				
High	61.31	70.63	66.94	67.31
Low	41.88	48.88	54.00	50.56
Close	49.25	61.94	55.06	67.31
1998				
Sales and other operating revenues	$ 798.3	794.4	764.0	706.7
Operating income	273.9	73.8	65.3	9.7
Net income (loss)	163.7	40.4	28.6	(41.8)
Net income (loss) per common share – basic	2.80	0.69	0.49	(0.72)
Net income (loss) per common share – diluted	2.79	0.69	0.49	(0.72)
Stock prices*				
High	69.25	71.75	62.56	61.75
Low	58.06	56.13	43.88	49.56
Close	64.56	57.19	52.19	50.88

* *As reported in* The Wall Street Journal*.*

Reports

Report of Management

Our management is responsible for the preparation, integrity and objectivity of the consolidated financial statements presented in this annual report. The statements have been prepared in accordance with accounting principles generally accepted in the United States and include amounts that are based on management's best estimates and judgments. Management also accepts responsibility for the preparation of other financial information included in this document.

Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with management's authorization. The system includes formal policies and procedures that are communicated to employees with significant roles in the financial reporting process and updated as necessary. The system also includes the careful selection and training of qualified personnel, an organization that provides a segregation of responsibilities and a program of internal audits that independently evaluates the effectiveness of internal controls and recommends possible improvements.

The Audit Committee, currently consisting of five non-employee directors, meets at least three times a year to review, among other matters, internal control conditions and internal and external audit plans and results. It meets periodically with senior officers, internal auditors and independent accountants to review the adequacy and reliability of our accounting, financial reporting and internal controls.

Our independent accountants, PricewaterhouseCoopers LLP, have audited the annual financial statements in accordance with auditing standards generally accepted in the United States. The independent accountants' report expresses an informed judgment as to the fair presentation of our reported operating results, financial position and cash flows. This judgment is based on the results of auditing procedures performed and such other tests that they deemed necessary, including consideration of our internal control structure.

Our management also recognizes its responsibility for fostering a strong ethical climate so that our affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in our code of business ethics and policies, which is distributed throughout the Company. The code of conduct addresses:

- the necessity of ensuring open communication within the Company;
- potential conflicts of interest;
- compliance with all applicable laws (including financial disclosure); and
- the confidentiality of proprietary information.

We maintain a systematic program to assess compliance with these policies.

Report of Independent Accountants

To the Board of Directors and Shareholders of Phelps Dodge Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of cash flows and of common shareholders' equity present fairly, in all material respects, the financial position of Phelps Dodge Corporation and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of Phelps Dodge's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As described in Note 1 to the Consolidated Financial Statements, Phelps Dodge changed its method of accounting for start-up costs effective January 1, 1999.

PricewaterhouseCoopers LLP
Phoenix, Arizona
January 26, 2000

Statement of Consolidated Operations

	For the years ended December 31,		
(Dollars in millions, except per share data)	1999	1998	1997
Sales and other operating revenues	$3,114.4	3,063.4	3,914.3
Operating costs and expenses			
Cost of products sold	2,451.7	2,360.4	2,744.1
Depreciation, depletion and amortization	329.1	293.3	283.7
Selling and general administrative expense	141.6	122.9	141.8
Exploration and research expense	52.2	55.0	87.8
Non-recurring charges and provisions	455.4	(190.9)	45.9
	3,430.0	2,640.7	3,303.3
Operating income (loss)	(315.6)	422.7	611.0
Interest expense	(120.4)	(96.4)	(74.2)
Capitalized interest	0.2	1.9	11.7
Miscellaneous income and expense, net	9.1	8.8	33.4
Income (loss) before taxes, minority interests and equity in net earnings (losses) of affiliated companies and cumulative effect of accounting change	(426.7)	337.0	581.9
Provision for taxes on income	165.2	(134.0)	(180.4)
Minority interests in consolidated subsidiaries	2.1	(7.9)	(4.7)
Equity in net earnings (losses) of affiliated companies	5.1	(4.2)	11.7
Income (loss) before cumulative effect of accounting change	(254.3)	190.9	408.5
Cumulative effect of accounting change (SOP 98-5 — Start-up Activities)	(3.5)	–	–
Net income (loss)	$ (257.8)	190.9	408.5
Average number of shares outstanding – basic	61.6	58.2	61.1
Basic earnings (loss) per share before cumulative effect of accounting change	$ (4.13)	3.28	6.68
Cumulative effect of accounting change (SOP 98-5 — Start-up Activities)	(0.06)	–	–
Basic earnings (loss) per share	$ (4.19)	3.28	6.68
Average number of shares outstanding – diluted	61.6	58.5	61.6
Diluted earnings (loss) per share before cumulative effect of accounting change	$ (4.13)	3.26	6.63
Cumulative effect of accounting change (SOP 98-5 — Start-up Activities)	(0.06)	–	–
Diluted earnings (loss) per share	$ (4.19)	3.26	6.63

See Notes to Consolidated Financial Statements

Consolidated Balance Sheet

(Dollars in millions, except per share values)	December 31, 1999	December 31, 1998
Assets		
Current assets:		
Cash and cash equivalents	$ 234.2	221.7
Accounts receivable, less allowance for doubtful accounts (1999 – $17.5; 1998 – $14.9)	541.5	321.1
Inventories	498.3	266.0
Supplies	149.0	110.9
Other current assets and prepaid expenses	172.4	16.5
Deferred income taxes	98.0	43.8
Current assets	1,693.4	980.0
Investments and long-term accounts receivable	136.1	85.6
Property, plant and equipment, net	6,037.7	3,587.2
Deferred income taxes	16.9	0.7
Other assets and deferred charges	344.9	383.0
	$8,229.0	5,036.5
Liabilities		
Current liabilities:		
Short-term debt	$ 451.2	116.1
Current portion of long-term debt	131.3	68.5
Accounts payable and accrued expenses	786.5	451.3
Income taxes	49.3	15.2
Current liabilities	1,418.3	651.1
Long-term debt	2,172.5	836.4
Deferred income taxes	385.7	508.6
Other liabilities and deferred credits	879.4	359.7
	4,855.9	2,355.8
Commitments and contingencies *(see Notes 7, 18 and 19)*		
Minority interests in consolidated subsidiaries	96.3	93.3
Common shareholders' equity		
Common shares, par value $6.25; 200.0 shares authorized; 78.7 outstanding (1998 – 57.9) after deducting 17.1 shares (1998 – 17.3) held in treasury	491.6	362.1
Capital in excess of par value	1,016.4	1.8
Retained earnings	1,959.8	2,345.0
Accumulated other comprehensive income (loss)	(180.3)	(113.9)
Other	(10.7)	(7.6)
	3,276.8	2,587.4
	$8,229.0	5,036.5

See Notes to Consolidated Financial Statements

Consolidated Statement of Cash Flows

(Dollars in millions)	1999	1998	1997
	For the years ended December 31,		
Operating activities			
Net income (loss)	$(257.8)	190.9	408.5
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, depletion and amortization	329.1	293.3	283.7
Deferred income taxes	(191.7)	43.9	40.7
Equity earnings (losses) net of dividends received	(4.4)	5.8	(6.5)
Changes in current assets and liabilities:			
(Increase) decrease in accounts receivable	(144.5)	53.3	36.5
(Increase) decrease in inventories	31.2	6.4	(6.2)
(Increase) decrease in supplies	1.7	2.5	(0.1)
(Increase) decrease in prepaid expenses	9.8	(9.4)	(2.3)
(Increase) decrease in deferred income taxes	(5.3)	8.3	(5.8)
Increase (decrease) in interest payable	2.2	2.2	(1.0)
Increase (decrease) in other accounts payable	(2.2)	(42.1)	21.1
Increase (decrease) in accrued income taxes	7.2	13.8	(13.4)
Increase (decrease) in other accrued expenses	(27.4)	(23.6)	(12.0)
Non-recurring charges and provisions	471.9	(171.7)	45.9
Other adjustments, net	(15.3)	4.8	(24.5)
Net cash provided by operating activities	204.5	378.4	764.6
Investing activities			
Capital outlays	(200.9)	(318.1)	(661.6)
Capitalized interest	(0.2)	(1.9)	(11.7)
Investment in subsidiaries	(39.5)	(350.2)	(127.6)
Proceeds from asset dispositions and other	246.6	486.2	7.1
Net cash provided by (used in) investing activities	6.0	(184.0)	(793.8)
Financing activities			
Increase in debt	348.8	108.0	418.4
Payment of debt	(209.1)	(85.6)	(66.9)
Common dividends	(124.3)	(117.3)	(122.7)
Purchase of common shares	–	(35.4)	(511.5)
Other, net	(213.4)	(0.3)	(0.3)
Net cash used in financing activities	(198.0)	(130.6)	(283.0)
Increase (decrease) in cash and cash equivalents	12.5	63.8	(312.2)
Cash and cash equivalents at beginning of year	221.7	157.9	470.1
Cash and cash equivalents at end of year	$ 234.2	221.7	157.9

Supplemental schedule of noncash investing and financing activities:

In 1999, as partial consideration for the acquisition of Cyprus Amax, the Company issued 20.6 million common shares valued at $1,125 million. (See Note 2.)

See Notes to Consolidated Financial Statements

Consolidated Statement of Common Shareholders' Equity

(Dollars in millions)	Common Shares Number of Shares	Common Shares At Par Value	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Other	Common Shareholders' Equity
Balance at December 31, 1996	64.7	$ 404.4	$ –	$ 2,465.0	$ (102.0)	$ (11.5)	$ 2,755.9
Stock options exercised	0.5	2.9		11.4			14.3
Tax benefit from stock options				8.4			8.4
Common shares purchased	(6.6)	(40.9)		(470.6)			(511.5)
Restricted shares issued, net	–	0.1		1.0		1.3	2.4
Dividends on common shares				(122.7)			(122.7)
Comprehensive income							
Net income				408.5			408.5
Other comprehensive income (loss), net of tax							
Translation adjustment					(45.2)		(45.2)
Additional pension liability					1.0		1.0
Unrealized gains (losses) on securities					(0.7)		(0.7)
Other comprehensive income (loss)					(44.9)		(44.9)
Comprehensive income							363.6
Balance at December 31, 1997	58.6	$ 366.5	$ –	$ 2,301.0	$ (146.9)	$ (10.2)	$ 2,510.4
Stock options exercised	–	0.3		1.9			2.2
Tax benefit from stock options				0.3			0.3
Common shares purchased	(0.7)	(4.6)		(30.8)			(35.4)
Restricted shares issued, net	–	(0.1)		(1.0)		2.6	1.5
Other investment adjustments			1.8				1.8
Dividends on common shares				(117.3)			(117.3)
Comprehensive income							
Net income				190.9			190.9
Other comprehensive income (loss), net of tax							
Reclassification adjustment*					37.7		37.7
Translation adjustment					(1.7)		(1.7)
Translation, net of reclass adjustments					36.0		36.0
Additional pension liability					(3.0)		(3.0)
Other comprehensive income					33.0		33.0
Comprehensive income							223.9
Balance at December 31, 1998	57.9	$ 362.1	$ 1.8	$ 2,345.0	$ (113.9)	$ (7.6)	$ 2,587.4
Stock options exercised	0.1	0.4	2.4	–			2.8
Tax benefit from stock options				0.4			0.4
Restricted shares issued, net	0.1	0.6	4.6	–		(3.1)	2.1
Other investment adjustments			1.0				1.0
Dividends on common shares				(127.8)			(127.8)
Cyprus Amax acquisition	20.6	128.5	1,006.6	–			1,135.1
Comprehensive income							
Net income (loss)				(257.8)			(257.8)
Other comprehensive income (loss), net of tax							
Reclassification adjustment**					11.8		11.8
Translation adjustment					(81.0)		(81.0)
Translation, net of reclass adjustments					(69.2)		(69.2)
Unrealized gains (losses) on securities					(0.2)		(0.2)
Additional pension liability					3.0		3.0
Other comprehensive income (loss)					(66.4)		(66.4)
Comprehensive income (loss)							(324.2)
Balance at December 31, 1999	78.7	$491.6	$1,016.4	$1,959.8	$(180.3)	$(10.7)	$3,276.8

Disclosure of reclassification amount:

* *The 1998 reclassification adjustment resulted from the sale of Black Mountain.*

** *The 1999 reclassification adjustment represents the write off of cumulative translation adjustments as a result of the sale of PD Mining Ltd.*

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

(Dollar amounts in tables stated in millions except as noted)

1. Summary of Significant Accounting Policies

Basis of Consolidation. The consolidated financial statements include the accounts of Phelps Dodge Corporation (the Company, which may be referred to as Phelps Dodge, PD, we, us or ours), and its majority-owned subsidiaries. Interests in mining joint ventures in which we own more than 50 percent are reported using the proportional consolidation method. Interests in other majority-owned subsidiaries are reported using the full consolidation method; the consolidated financial statements include 100 percent of the assets and liabilities of these subsidiaries and the ownership interests of minority participants are recorded as "Minority interests in consolidated subsidiaries." All material intercompany balances and transactions are eliminated.

Investments in unconsolidated companies owned 20 percent or more are recorded on an equity basis. Investments in companies less than 20 percent owned, and for which we do not exercise significant control, are carried at cost.

Management's Estimates and Assumptions. The preparation of financial statements in conformity with generally accepted accounting principles requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation. Except as noted below, the assets and liabilities of foreign subsidiaries are translated at current exchange rates, while revenues and expenses are translated at average rates in effect for the period. The related translation gains and losses are included in accumulated other comprehensive income (loss) within common shareholders' equity. For the translation of the financial statements of certain foreign subsidiaries dealing predominantly in U.S. dollars and for those affiliates operating in highly inflationary economies, assets and liabilities receivable or payable in cash are translated at current exchange rates, and inventories and other non-monetary assets and liabilities are translated at historical rates. Gains and losses resulting from translation of such financial statements are included in operating results, as are gains and losses incurred on foreign currency transactions.

Statement of Cash Flows. For the purpose of preparing the Consolidated Statement of Cash Flows, we consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventories and Supplies. Inventories and supplies are stated at the lower of cost or market. Cost for metal inventories is determined by the last-in, first-out method (LIFO), and cost for substantially all other inventories is determined by the first-in, first-out method (FIFO) or a moving-average method. Cost for substantially all supplies is determined by a moving average method.

Property, Plant and Equipment. Property, plant and equipment are carried at cost. Cost of significant assets includes capitalized interest incurred during the construction and development period. Expenditures for replacements and betterments are capitalized; maintenance and repair expenditures are charged to operations as incurred.

The principal depreciation method used for mining, smelting and refining operations is the units of production method applied on a group basis. Buildings, machinery and equipment for other operations are depreciated using the straight-line method over estimated lives of five to 40 years, or the estimated life of the operation if shorter. Upon disposal of assets depreciated on a group basis, cost less salvage is charged to accumulated depreciation.

Values for mining properties represent mainly acquisition costs or pre-1932 engineering valuations. Depletion of mines is computed on the basis of an overall unit rate applied to the pounds of principal products sold from mine production.

Mine exploration costs and development costs to maintain production of operating mines are charged to operations as incurred. Mine development expenditures at new mines and major development expenditures at operating mines that are expected to benefit future production are capitalized and amortized on the units of production method over the estimated commercially recoverable minerals.

Environmental Expenditures. Environmental expenditures are expensed or capitalized depending upon their future economic benefits. Liabilities for such expenditures are recorded when it is probable that obligations have been incurred and the costs reasonably can be estimated. 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 on the specific facts and circumstances. Our estimates of these costs are based upon available facts, existing technology and current laws and regulations, and are recorded on an undiscounted basis. Where the available information is sufficient to estimate the amount of liability, that estimate has been used. Where the information is only sufficient to establish a range of probable liability and no point within the range is more likely than any other, the lower end of the range has been used. The possibility of recovery of some of these costs from insurance companies or other parties exists; however, we do not recognize these recoveries in our financial statements until they become probable.

Mine Closure Costs. Reclamation is an ongoing activity and we recognize estimated reclamation costs on a units of production basis.

Goodwill. Included in "Other assets and deferred charges" are costs in excess of the net assets of businesses acquired. These amounts are amortized on a straight-line basis over periods of 15 to 30 years.

Impairments. We evaluate our long-term assets to be held and used, our identifiable intangible assets, and goodwill for impairment when events or changes in economic circumstances indicate the carrying amount of such assets may not be recoverable. We use an estimate of the future undiscounted net cash flows of the related asset or asset grouping over the remaining life to measure whether the assets are recoverable and measure any impairment by reference to fair value. Fair value is generally estimated using the Company's expectation of discounted net cash flows. Long-term assets to be disposed of are carried at the lower of cost or fair value less the costs of disposal.

Revenue Recognition. Revenue is recorded when title passes to the customer. The passing of title is based on terms of the contract which is generally upon shipment. Copper revenue is recognized based on the monthly average of prevailing commodity prices according to the terms of the contracts. Price estimates used for provisionally priced concentrate shipments are based on management's judgment of expected price levels and are adjusted to actual prices at settlement. We use futures contracts and other financial instruments as hedges for our sales and cash management program. Gains and losses on such transactions related to sales are matched to specific sales contracts and charged or credited to sales revenue.

Hedging Programs. We do not purchase, hold or sell derivative financial contracts unless we have an existing asset, obligation or anticipate a future activity that is likely to occur that will result in exposing us to market risk. Derivative financial instruments are used to manage well-defined commodity price, foreign exchange and interest rate risks from our primary business activities. For a discussion on why we use derivative financial contracts, our year-end derivative position and related financial results, please refer to Note 20.

Commodity futures contracts – We recognize gains and losses on commodity futures contracts in income when the underlying customer sale is recognized. We also recognize gains and losses whenever a previous customer contract is no longer expected to occur.

Copper option contracts – We initially record net premiums paid on copper option contracts as prepaid assets and then amortize the premium on a straight-line basis over the hedge protection period. We recognize hedging gains and losses in income at the maturity of the option contract. We record any premiums received on the sale of option contracts as accrued expenses until the maturity of the option contract when the premium received is recorded as income.

Foreign exchange contracts – We initially record premiums paid on currency option contracts and unrecognized gains and losses on forward exchange contracts as prepaid assets. Hedge premiums on forward exchange contracts are amortized on a straight-line basis over the hedge protection period. Gains and losses on forward exchange contracts are credited or charged to miscellaneous income or expense. Changes in market value of forward exchange contracts protecting actual transactions are recognized in the period incurred. For currency option contracts, we recognize unamortized premium and hedging gains and losses in income when the underlying hedged transaction is recognized or when a previously hedged transaction is no longer expected to occur.

Currency swap contracts – For certain of our currency swap contracts, which are in substance forward exchange contracts, we amortize hedge premiums on a straight-line basis over the hedge protection period while gains and losses are recognized in income in the period incurred. For other types of currency swap contracts, we recognize costs associated with such agreements to interest expense over the term of the agreement.

Interest rate swaps – The costs associated with interest rate swap agreements are amortized to interest expense over the term of the agreement.

Stock Compensation. In accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," we apply Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations to account for our stock option plans. Note 15 to the Consolidated Financial Statements contains a summary of the pro forma effects on reported net income and earnings per share for 1999, 1998 and 1997 if we had elected to recognize compensation cost based on the fair value of the options granted as prescribed by SFAS No. 123.

Income Taxes. In addition to charging income for taxes actually paid or payable, the provision for taxes reflects deferred income taxes resulting from changes in temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. The effect on deferred income taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Pension Plans. We have trusteed, non-contributory pension plans covering substantially all of our U.S. employees and some employees of international subsidiaries. The benefits are based on, in the case of certain plans, final average salary and years of service and, in the case of other plans, a fixed amount for each year of service. Our funding policy provides that payments to the pension trusts shall be at least equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974 for U.S. plans or, in the case of international subsidiaries, the minimum legal requirements in that particular country. Additional payments may also be provided from time to time.

Postretirement Benefits Other Than Pensions. We have several postretirement health care and life insurance benefit plans covering most of our U.S. employees and, in some cases, employees of international subsidiaries. Postretirement benefits vary among plans and many plans require contributions from employees. We account for these benefits on an accrual basis. Our funding policy provides that payments shall be at least equal to our cash basis obligation, plus additional amounts that may be approved by us from time to time.

Postemployment Benefits. We have certain postemployment benefit plans covering most of our U.S. employees and, in some cases, employees of international subsidiaries. The benefit plans may provide severance, disability, supplemental health care, life insurance or other welfare benefits. We account for these benefits on an accrual basis. Our funding policy provides that payments shall be at least equal to our cash basis obligation. Additional amounts may also be provided from time to time.

Earnings Per Share. In 1997, we adopted SFAS No. 128, "Earnings Per Share." Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share is similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

	1999	1998	1997
Basic Earnings (Loss) Per Share Computation			
Numerator:			
Net income (loss)	$(257.8)	190.9	408.5
Denominator:			
Average common shares outstanding	61.6	58.2	61.1
Basic earnings (loss) per share	$ (4.19)	3.28	6.68
Diluted Earnings Per Share Computation			
Numerator:			
Net income (loss)	$(257.8)	190.9	408.5
Denominator:			
Average common shares outstanding	61.6	58.2	61.1
Average employee stock options	–	0.1	0.3
Average restricted stock issued to employees	–	0.2	0.2
Total average common shares outstanding	61.6	58.5	61.6
Diluted earnings (loss) per share	$ (4.19)	3.26	6.63

Stock options excluded from the computation of diluted earnings per share because option prices exceeded fair market value were as follows:

	1999	1998	1997
Outstanding options	3.1	2.6	0.1
Option price	$65.88	58.84	76.45

New Accounting Standards. In the 1999 first quarter, we adopted SOP 98-5, "Reporting on the Costs of Start-Up Activities." The implementation resulted in a $3.5 million after-tax charge, or 6 cents per common share, representing the write off of previously unamortized start-up costs at our Candelaria mining operation in Chile and our magnet wire operation in Monterrey, Mexico.

We adopted SFAS No. 130, "Reporting Comprehensive Income," in the 1998 first quarter. The required information has been presented in the Consolidated Financial Statement of Common Shareholders' Equity. We also adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," in 1998. The required information has been presented in Note 21 — Business Segment Data. In

February 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." We adopted this statement in 1998. They have no effect on our results of operations, financial position, capital resources or liquidity. Prior year disclosures have been restated for comparative purposes.

In June 1998, FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires recognition of all derivatives as either assets or liabilities on the balance sheet and measurement of those instruments at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income (loss). Proper accounting for changes in fair value of derivatives held is dependent on whether the derivative transaction qualifies as an accounting hedge and on the classification of the hedge transaction. The statement was originally required to be adopted in the first quarter of 2000. Citing concerns about companies' ability to modify their information systems and educate their managers in time to apply SFAS 133, FASB has delayed its effective date for one year. We will adopt SFAS 133 in the first quarter of 2001. We are evaluating the effect this statement will have on our financial reporting and disclosures as well as on our derivative and hedging activities.

Reclassification. For comparative purposes, certain prior year amounts have been reclassified to conform with the current year presentation.

2. Acquisitions

Cyprus Amax Acquisition. In the 1999 fourth quarter, Phelps Dodge acquired all the issued and outstanding shares of Cyprus Amax Minerals Company (Cyprus Amax). Prior to the acquisition, Cyprus Amax was a worldwide producer of copper and molybdenum. The acquisition of Cyprus Amax was accounted for using the purchase method and accordingly, the results of the Cyprus Amax operations have been included in the accompanying consolidated financial statements from the date of the acquisition, October 16, 1999.

The total purchase price for Cyprus Amax was $1,855 million including $1,125 million for the issuance of 20.6 million shares of Phelps Dodge common stock, $10 million for the conversion of Cyprus Amax stock options, cash of $693 million and acquisition costs of $27 million (financial advisory, legal, accounting and printing costs). In addition, certain acquisition-related stock compensation and the resulting tax obligations of Cyprus Amax of $29 million were recorded in purchase accounting and paid by Phelps Dodge.

In connection with the acquisition of Cyprus Amax, Cyprus Amax called for redemption of all 4,664,302 of its Series A Convertible Preferred shares. Prior to the redemption date, a total of 3,968,801 shares were redeemed for cash and the remainder converted to Cyprus Amax common shares, which were subsequently exchanged for 0.5 million shares of Phelps Dodge common stock as part of the acquisition. The cash required for the redemption totaled $208.3 million, including accumulated dividends.

Allocation of the purchase price was based on an estimate of the fair value for the assets acquired and liabilities assumed at October 16, 1999, and is subject to final adjustment based on the completion of final valuation and other procedures. Assets acquired were $4.2 billion, including cash of $785 million. Liabilities assumed totaled $2.4 billion including debt of $1,595.6 million, which was reduced by $15.2 million to reflect the fair value of the obligations at the acquisition date. Liabilities recorded at acquisition included costs of $22 million associated with merging Cyprus Amax's operations into the Company's operations such as lease and other contract cancellation costs, and employee termination costs, primarily for duplicate administrative and management functions. Costs for these liabilities incurred in connection with the integration plan are expected to be substantially paid out by the end of 2000.

Phelps Dodge has decided to sell the Australian coal assets acquired in the merger. These assets consist of a 50 percent interest in the Springvale underground mine located in New South Wales, Australia, and a 48 percent interest in Oakbridge Limited which has three operating mines also located in New South Wales. These assets have been classified on the balance sheet as other current assets and prepaid expenses and were assigned an estimated net realizable value of $140 million based on an estimated pre-tax value of $150 million less $10 million for transaction costs and other provisions.

The unaudited pro forma information set forth below is presented to show the estimated effect of the merger on the consolidated operations of Phelps Dodge had it been consummated at the beginning of each period, after giving effect to certain adjustments, including additional depreciation and amortization of assets acquired. The pro forma financial information gives effect to Cyprus Amax's disposition of its coal (1999) and lithium (1998) segments. Accordingly, the operating results and resulting gain (loss) of these segments have been excluded from income (loss) from continuing operations and included in net income (loss).

Pro Forma	Year ended December 31, (Unaudited) 1999	1998
Revenue	$4,018	4,661
Income (loss) from continuing operations	$ (419)	11
Net income (loss)	$ (449)	207
Earnings (loss) per share		
Income (loss) from continuing operations	$ (5.32)	0.14
Net income (loss)	$ (5.71)	2.63

The unaudited pro forma financial information is provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations of Phelps Dodge would have been had the acquisition of Cyprus Amax occurred on the dates presented, nor is it necessarily indicative of future consolidated operating results. The pro forma adjustments do not include operating efficiencies and cost savings that Phelps Dodge expects to achieve.

KKPC Acquisition. In January 1999, we acquired an 85 percent interest in the Korean carbon black manufacturing business of Korea Kumho Petrochemical Co., Ltd., for $76.1 million. Our Columbian Chemicals subsidiary manages and operates the business, including the 110,000 metric-ton-per-year manufacturing plant located in Yosu, South Korea.

Copebras Acquisition. In October 1998, we acquired the Brazilian carbon black manufacturing business of Copebras S.A., a subsidiary of Minorco, for $220.0 million. This manufacturing facility has an annual production capacity of 170,000 metric tons of carbon black.

Cobre Acquisition. On February 3, 1998, we acquired the stock of Cobre Mining Company Inc. (Cobre) for $108.7 million including acquisition costs. The acquisition was at a price of $3.85 per common share for Cobre's 27 million common shares, including shares issuable upon the exercise of outstanding warrants and options. The primary assets of Cobre include the Continental Mine, which comprises an open-pit copper mine, two underground copper mines, two mills, and the surrounding land, including mineral rights, located in southwestern New Mexico adjacent to the Company's Chino Mines Company (Chino) operations. On October 21, 1998, we indefinitely suspended underground mining at Cobre due to low copper prices. On March 17, 1999, the remaining operations were suspended. Cobre remains on care and maintenance status.

3. Non-Recurring Charges and Provisions

1999 Asset Impairments and Provisions. During the 1999 fourth quarter, we recorded non-recurring, pre-tax charges for asset impairments of $320.4 million at Phelps Dodge Mining Company (PD Mining) and $21.7 million at Phelps Dodge Industries (PD Industries). The PD Mining impairments included the write-down of the Hidalgo smelter in New Mexico ($201.5 million) and the Metcalf concentrator at the Morenci operations in Arizona ($88.0 million). As a result of the successful acquisition of Cyprus Amax and the planned conversion of Morenci to a mine-for-leach operation, the Hidalgo smelter is expected to be reconfigured to allow it to continue to be a reliable source of acid. Management also determined that the Metcalf concentrator, which was on standby, would thereafter be permanently closed and the Morenci concentrator, which will be required through the mine-for-leach start-up, subsequently will be maintained on standby to provide alternative processing capability. In addition, as the Company began integrating the acquired Cyprus Amax mining properties, a review of copper resources was performed and a determination of the viability of each resource reviewed was made. Based on that review, PD Mining wrote off a mine development project at the Tyrone operation in New Mexico ($11.9 million) and wrote off a mine development project at the Copper Basin operation in Arizona ($6.8 million). Management further decided to write down a real estate development project in Arizona ($12.2 million). The PD Industries' impairment charge comprised $6.7 million for the write off of an equity investment in China (charged to non-operating expense) and $15.0 million for the impairment of value of the wire and cable segment's telecommunications assets ($3.1 million of which was charged to non-operating expense). The minority interest add-back against the impairment of value of the telecommunications assets totaled $1.5 million.

During the 1999 fourth quarter, the Company also recognized a non-recurring, pre-tax charge of $28.2 million for estimated future costs associated with environmental matters applicable to PD Mining. See Note 19 to the Consolidated Financial Statements for further discussion of environmental matters.

1999 Restructuring Charges. On June 30, 1999, we announced a plan to reduce costs and improve operating performance at all three of our business segments by (i) curtailing higher cost copper production by temporarily closing our Hidalgo smelter in New Mexico and the 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 Company's carbon black plant in the Philippines. These actions resulted in a total non-recurring, pre-tax charge of $84.7 million (or $58.7 million, $1.01 per share, after taxes and minority interests) in the 1999 second quarter, a pre-tax charge of $1.1 million (or $0.7 million, $0.01 per share, after taxes) in the 1999 third quarter and a pre-tax charge of $10.9 million (or $6.3 million, $0.09 per share, after taxes and minority interests) in the 1999 fourth quarter. Total 1999 non-recurring charges for the June 30, 1999, restructuring plan were $96.7 million (or $65.7 million, $1.07 per share, after taxes and minority interests).

PD Mining's $36.6 million in non-recurring, pre-tax charges from the June 30, 1999, restructuring plan included $7.0 million from a loss on the sale of our fluorspar mining operation in South Africa. Also included in the restructuring plan were charges associated with employee severance ($6.9 million), pension and other postretirement obligations ($9.0 million), environmental cleanup ($7.3 million) and mothballing and take or pay contracts ($6.4 million). Approximately 900 positions, including temporary and contract employees, have been or are in the process of being eliminated as part of the plan. The current liability components of the restructuring plan related to employee severance, mothballing and take or pay contracts during 1999 were as follows:

	Employee Severance	Mothballing/ Take or Pay Contracts	Total
June 30, 1999 balance	$ 8.2	6.4	14.6
Reclassification of the restructure*	(1.3)	–	(1.3)
Payments made	(5.5)	(2.9)	(8.4)
December 31, 1999	$ 1.4	3.5	4.9

* *Reclassified to pension and postretirement benefit obligations.*

Our specialty chemicals segment had non-recurring, pre-tax charges of $19.9 million in the 1999 second quarter from the June 30, 1999, restructuring plan. Included in that amount were costs associated with asset and investment write-offs ($14.9 million), environmental and disposal and dismantling ($3.0 million), and employee severance ($2.0 million). That non-recurring charge was decreased by $2.2 million in the 1999 fourth quarter to $17.7 million, primarily due to a reassessment of expected obligations. Approximately 80 positions have been or are in the process of being eliminated as part of the plan. The current liability components of the restructuring plan related to employee severance and disposal and dismantling costs during 1999 were as follows:

	Employee Severance	Disposal and Dismantling	Total
June 30, 1999 balance	$ 2.0	2.0	4.0
Adjustment to the restructure*	(0.4)	–	(0.4)
Payments made	(0.6)	(0.1)	(0.7)
December 31, 1999	$ 1.0	1.9	2.9

* *Revised assessment of severance expenses.*

Our wire and cable segment had non-recurring, pre-tax charges of $42.2 million in 1999 from the June 30, 1999, restructuring plan. Included in the 1999 restructuring plan charges were fixed and other asset write-offs ($23.8 million), lease payments ($1.7 million), employee severance and relocation ($6.4 million), equipment disposal, dismantling and relocation ($4.6 million), pension and postretirement obligations ($3.8 million) and the write off of an equity basis investment ($1.9 million). Nearly 200 full-time, permanent positions have been or are in the process of being eliminated as part of the plan. The current liability components of the restructuring plan related to employee severance and relocation and equipment disposal and dismantling and relocation during 1999 were as follows:

	Employee Severance and Relocation	Equipment Disposal, Dismantling and Relocation	Total
June 30, 1999 balance	$ 5.0	1.0	6.0
Relocation expenses*	1.1	3.7	4.8
Additional severance	1.6	–	1.6
Reclassification of the restructure**	(1.4)	–	(1.4)
Payments made	(3.1)	(3.7)	(6.8)
December 31, 1999	$ 3.2	1.0	4.2

* *Relocation costs are charged to expense as incurred.*

** *Reclassification of severance to pension and postretirement benefit obligations.*

Sale of Accuride. Effective January 1, 1998, we sold a 90 percent interest in our wheel and rim manufacturing business, Accuride Corporation and related subsidiaries (Accuride), to an affiliate of Kohlberg Kravis Roberts and Co. (KKR) and the existing management of Accuride. That sale resulted in a pre-tax gain of $186.1 million, ($122.8 million after taxes, or $2.10 per common share). The remaining 10 percent interest in Accuride was sold to RSTW Partners III, L.P., on September 30, 1998, resulting in a pre-tax gain of $12.6 million ($8.3 million after taxes, or $0.14 per common share). Under the terms of the sales agreements, we received total proceeds of $465.9 million from the two transactions, less $16.4 million in working capital adjustments and transaction costs.

Sale of Black Mountain. Effective October 1, 1998, we sold our 44.6 percent interest in Black Mountain Mineral Development Company to Amcoal Colliery and Industrial Operations Limited, a public company incorporated in South Africa. The sale resulted in a pre-tax loss of $27.0 million ($26.4 million after taxes, or $0.45 per common share) including the write off of cumulative translation adjustments. Under the terms of the sales agreement, we received total proceeds of $18.5 million from the transaction.

1998 Charges. During 1998, we recorded non-recurring, pre-tax charges of $5.5 million at PD Mining for costs associated with indefinite closures and curtailments of certain mining operations and $2.3 million at the wire and cable segment for an early retirement program. These charges reduced net income by $5.6 million, or 10 cents per common share, after taxes.

1997 Charges. During 1997, we recorded non-recurring, pre-tax charges of $42.1 million, primarily at PD Mining. These charges reflect additional provisions of $23.0 million for estimated future costs associated with environmental matters and $19.1 million for a voluntary early retirement program. These charges reduced net income in 1997 by $29.0 million, or 47 cents per common share, after taxes.

4. Investments and Long-Term Receivables

Investments and long-term receivables were as follows:

	1999	1998
Equity basis:		
International wire and cable manufacturers	$ 10.8	22.3
SIMSA 26.67% *(Peruvian zinc mining company)*	14.0	13.8
Port Cartaret (50%)	16.2	–
Other	13.0	5.0
Cost basis and notes receivable:		
Southern Peru Copper Corporation (13.9%)	13.2	13.2
General Foods Corporation	18.7	–
Other	50.2	31.3
	$136.1	85.6

Equity earnings (losses) were as follows:

	1999	1998	1997
International wire and cable manufacturers	$4.2	(5.9)	3.9
Black Mountain *(see Note 3)*	–	1.6	3.7
Other	0.9	0.1	4.1
	$5.1	(4.2)	11.7

Dividends from equity basis investments were received as follows:

	1999	1998	1997
International wire and cable manufacturers	$ –	0.1	0.3
Black Mountain *(see Note 3)*	–	1.1	3.4
SIMSA	–	0.4	0.8
Other	0.7	–	0.6
	$0.7	1.6	5.1

Our retained earnings include undistributed earnings of equity basis investments of: 1999 – $67.9; 1998 – $63.5; 1997 – $69.3.

Condensed financial information for our equity basis investments as of December 31, 1999, was as follows:

	1999	1998	1997
Sales	$162.8	161.9	395.6
Net income (loss)	1.1	(12.5)	32.4
Net current assets	$ 49.7	7.3	49.3
Fixed assets, net	152.2	101.2	151.7
Long-term debt	(37.9)	(2.7)	(19.2)
Other assets and liabilities, net	(4.3)	(8.9)	(2.9)
Net assets	$159.7	96.9	178.9

5. Interest Expense, Net of Amount Capitalized

We reported net interest expense in 1999 of $120.2 million, compared with $94.5 million in 1998 and $62.5 million in 1997. Net interest expense increased in 1999, primarily due to the inclusion of $24.5 million of interest expense on Cyprus Amax acquired debt. The debt acquired with the purchase of Cyprus Amax totaled $1,595.6 million, which was reduced by $15.2 million to reflect the fair value of the obligations at the acquisition date. Net interest expense increased in 1998, primarily due to the full year inclusion of $250.0 million of notes payable issued in the fourth quarter of 1997, and the completion in 1997 of the Candelaria expansion project resulting in a decrease of capitalized interest costs.

6. Miscellaneous Income and Expense, Net

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

	1999	1998	1997
Interest income	$ 17.9	23.5	22.2
Wire and cable segment asset impairments*	(11.6)	–	–
Asarco merger termination (net of related expenses)	14.0	–	–
Loss on sale of Black Mountain	–	(27.0)	–
Dissolution of Sumitomo joint venture**	–	10.3	–
Greek cost basis investment share exchange***	–	–	6.0
Southern Peru Copper Corporation dividend (13.9% minority interest)	1.7	5.7	14.1
Foreign currency exchange loss	(13.0)	(5.7)	(9.6)
Other	0.1	2.0	0.7
	$ 9.1	8.8	33.4

* *Asset impairment of equity basis investments in Cobre Colada ($1.8), PD Philippines ($3.1) and PD Yantai ($6.7).*

** *Dissolution of joint ventures between Phelps Dodge and Sumitomo Electric Industries, Ltd., at five wire and cable manufacturing and support companies.*

*** *The exchange of shares of a cost-basis investment in a wire and cable business located in Greece.*

7. Income Taxes

We use the asset and liability approach for accounting and reporting income taxes. Changes in tax rates and laws are reflected in income from operations in the period such changes are enacted. Balance sheet classification of deferred income taxes is determined by the balance sheet classification of the related asset or liability.

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

	1999	1998	1997
United States	$(408.4)	344.2	468.6
Foreign	(18.3)	(7.2)	113.3
	$(426.7)	337.0	581.9

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

	1999	1998	1997
Current:			
Federal	$ 1.3	54.4	89.9
State	0.2	9.1	15.0
Foreign	23.8	26.6	34.8
	25.3	90.1	139.7
Deferred:			
Federal	(187.3)	37.8	22.4
State	(8.0)	5.3	6.0
Foreign	3.6	0.8	12.3
	(191.7)	43.9	40.7
Deferred taxes on start-up costs	1.2	–	–
	$(165.2)	134.0	180.4

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

	1999	1998	1997
Statutory tax rate	(35.0)%	35.0	35.0
Depletion	(1.4)	(2.5)	(7.5)
State and local income taxes	(1.8)	2.9	2.3
Effective international tax rate	5.4	7.7	1.0
Adjustments to prior years	(6.8)	–	–
Other items, net	0.6	(3.1)	0.2
Effective tax rate	(39.0)%	40.0	31.0

We paid federal, state, local and foreign income taxes of approximately $31 million in 1999, compared with approximately $77 million in 1998 and $173 million in 1997.

At December 31, 1999, we had alternative minimum tax credits of approximately $236 million available for carryforward for 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 alternative minimum foreign tax credit carryforwards for federal income tax purposes of approximately $31 million, of which approximately $5 million will expire in 2000 if not used.

The Company has U.S. net operating loss carryforwards for regular tax purposes of $384 million expiring from 2000 to 2014, and Chilean net operating loss carryforwards of $488 million that do not expire. The U.S. losses include $148 million of Cyprus Amax Separate Return Limitation Year net operating losses and $236 million of Cyprus Amax U.S. net operating loss carryforwards that are subject to annual limitations after the acquisition because of the U.S. Internal Revenue Code Section 382 change in ownership rules. The annual limitation on the use of these losses is approximately $98 million. The Company also has alternative minimum tax net operating loss carryforwards of approximately $206 million which expire in 2019.

A valuation allowance of $138 million has been recorded against all of these benefits.

In December 1999, we received and accepted Notices of Tax Due for the years 1992 and 1993 from the Internal Revenue Service (IRS). The IRS audit of the year 1994 resulted in a refund. Issues settled for the years 1992 through 1994 also impacted the years 1990 and 1991 and enabled us to enter a closing agreement with the IRS for the years 1990 and 1991. We are currently awaiting receipt of an executed copy of the closing agreement from the IRS. As a result of these settlements, we recorded a $30 million reduction in our tax liabilities.

The Phelps Dodge federal income tax returns for the years 1995 through 1997 are currently under examination by the IRS. The Cyprus Amax federal income tax returns for the years 1994 through 1996 are also currently under examination by the IRS. The IRS has raised a number of issues in the current examinations that may result in proposed additional assessments of income tax at the conclusion of the current examinations. Our management believes that it has made adequate provision so that final resolution of the issues involved, including application of those determinations to subsequent open years, will not have an adverse effect on our consolidated financial condition or results of operations.

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

	1999	1998
Minimum tax credits	$ 235.8	65.0
Postretirement and postemployment benefits	120.3	60.2
Reserves	281.6	70.2
Mining costs	114.2	47.4
Inventories	13.2	3.8
Exploration and mine development costs	27.5	2.0
Assets held for sale	60.6	–
NOL carryovers	206.4	–
Other	12.9	1.9
Deferred tax assets	1,072.5	250.5
Valuation allowance	(137.7)	–
Net deferred tax assets	934.8	250.5
Depreciation	(972.5)	(637.7)
Mining properties	(212.0)	(53.0)
Pensions	(21.1)	(23.9)
Deferred tax liabilities	(1,205.6)	(714.6)
	$ (270.8)	(464.1)

Income taxes have not been provided on our share ($571 million) of undistributed earnings of international manufacturing and mining interests abroad 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 lent to any of our U.S. entities, or if we sell our stock in the subsidiaries. It is estimated that repatriation of these foreign earnings would generate additional foreign tax withholdings and U.S. tax, net of foreign tax credits, in the amounts of $83 million and $61 million, respectively.

8. Inventories and Supplies

Inventories at December 31 were as follows:

	1999	1998
Metals and other raw materials	$413.8	183.0
Work in process	15.2	16.0
Finished manufactured goods	66.6	63.9
Other	2.7	3.1
	$498.3	266.0

Inventories valued by the last-in, first-out method would have been greater if valued at current costs by approximately $82 million and $110 million at December 31, 1999 and 1998, respectively.

Supplies in the amount of $149.0 million and $110.9 million at December 31, 1999 and 1998, respectively, are stated net of a reserve for obsolescence of $8.4 million and $6.7 million, respectively.

9. Property, Plant and Equipment

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

	1999	1998
Buildings, machinery and equipment	$6,343.8	5,366.1
Mining properties	1,660.9	299.7
Capitalized mine development	312.0	311.5
Land and water rights	377.8	103.9
	8,694.5	6,081.2
Less accumulated depreciation, depletion and amortization	2,656.8	2,494.0
	$6,037.7	3,587.2

10. Other Assets and Deferred Charges

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

	1999	1998
Goodwill, less accumulated amortization (1999 – $30.6; 1998 – $23.2)	$171.6	226.2
Employee benefit plans	129.3	119.3
Debt issue costs	22.7	27.5
Interest rate swaps	6.2	–
Other	15.1	10.0
	$344.9	383.0

11. Accounts Payable and Accrued Expenses

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

	1999	1998
Accounts payable	$296.6	227.9
Salaries, wages and other compensation	59.2	34.7
Employee benefit plans	45.0	27.5
Insurance reserves	19.3	14.7
Environmental reserves*	81.7	21.6
Smelting, refining and freight	61.0	22.6
Other accrued taxes	33.3	16.4
Other shutdown reserves	26.3	16.8
Restructure reserve**	16.4	–
Accrued utilities	15.3	4.3
Interest***	49.1	18.5
Returnable containers	4.6	3.9
Other	78.7	42.4
	$786.5	451.3

* *Short-term portion of these reserves. Please refer to Note 12, Other Liabilities and Deferred Credits, for further discussion.*

** *Please refer to Note 3, Non-Recurring Charges and Provisions, for further discussion of this reserve.*

*** *Interest paid by the Company in 1999 was $121.0 million, compared with $94.9 million in 1998 and $72.6 million in 1997.*

12. Other Liabilities and Deferred Credits

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

	1999	1998
Postretirement and postemployment benefit plans*	$306.9	166.0
Other employee benefit plans*	141.8	69.8
Environmental reserves**	254.4	84.4
Insurance reserves	20.0	25.6
Closure and restructuring***	118.9	3.6
Lease purchase obligation	18.7	–
Other	18.7	10.3
	$879.4	359.7

* *Please refer to Note 17, Postretirement and Other Employee Benefits Other Than Pensions, for further discussion.*

** *Environmental reserves increased $170.0 million, primarily due to the acquired Cyprus Amax reserves of $213.6 million, partially offset by the reclassification of $27.7 million to current liability.*

*** *Closure and restructuring includes $112.8 million in closure reserves from the Cyprus Amax acquisition.*

13. Long-Term Debt and Other Financing

Long-term debt at December 31 is summarized below:

	1999	1998
10.125% Notes due 2002	$ 158.0	–
9.875% Notes due 2001	94.5	–
8.375% Debentures due 2023	151.2	–
7.96% Notes due 2000	15.0	35.0
7.75% Notes due 2002	100.0	100.0
7.375% Notes due 2007	236.8	–
7.125% Debentures due 2027	150.0	150.0
6.625% Notes due 2005	234.4	–
6.375% Notes due 2004	100.0	100.0
Air Quality Control Obligations:		
5.45% Notes due 2009	81.1	81.1
6.50% Installment sale obligations due 2013	90.0	90.0
Candelaria Project Financing	269.8	304.8
Columbian Tiszai Carbon Ltd. (Hungary)	2.0	6.0
Columbian Carbon Spain, S.A.	3.5	6.0
Columbian Chemicals Canada	6.8	6.5
Phelps Dodge Wire & Cable Group	16.6	21.8
Phelps Dodge Dublin	5.0	–
Capital Lease Obligation interest rates range from 7.2% to 8.2% due from 2000 through 2005	25.9	–
El Abra Project Financing	402.6	–
Cerro Verde Project Financing	90.0	–
Various Pollution Control and Industrial Development Revenue Bonds	46.5	–
Cerro Verde Bank Loan, 10.5% for 1999, due 2004	23.0	–
Other	1.1	3.7
Long-term debt and capital lease obligations, including current portion	2,303.8	904.9
Less current portion	(131.3)	(68.5)
Long-term debt, excluding current portion	$2,172.5	836.4

Annual maturities of debt outstanding at December 31, 1999, are as follows: 2000 – $131.3; 2001 – $205.2; 2002 – $365.4; 2003 – $138.4; 2004 – $234.4.

An existing revolving credit agreement between the Company and several lenders was amended on June 25, 1997. The agreement, as amended and restated, permits borrowings of up to $1 billion from time to time until its scheduled maturity on June 25, 2002. The agreement allows for two, one-year renewals beyond the scheduled maturity date if we request and receive approval from those lenders representing at least two-thirds of the commitments provided by the facility. In the event of such approval, total commitments under the facility would depend upon the willingness of other lenders to assume the commitments of those lenders electing not to participate in the renewal. Interest is payable at a fluctuating rate based on the agent bank's prime rate or at a fixed rate, based on the London Interbank Offered Rate (LIBOR) or at fixed rates offered independently by the several lenders, for maturities of between seven and 360 days. This agreement provides for a facility fee of six and one-half basis points (0.065 percent) on total commitments. The agreement requires us to maintain a minimum consolidated tangible net worth of $1.1 billion and limits indebtedness to 50 percent of total consolidated capitalization. There were no borrowings under this agreement at either December 31, 1999, or December 31, 1998.

We established a commercial paper program on August 15, 1997, under a private placement agency agreement between us 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 one time. Commercial paper may bear interest or be sold at a discount, as mutually agreed by us and the placement agents 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. Borrowings under this commercial paper program were $349.4 million at December 31, 1999. There were no borrowings under the commercial paper program at December 31, 1998.

Short-term borrowings, excluding borrowings under our corporate commercial paper program, were $101.8 million, all by our international operations, at December 31, 1999, compared with $116.1 million at December 31, 1998. The decrease was primarily due to repayments of outstanding borrowings by our wholly owned subsidiary in Brazil.

The weighted average interest rate on total short-term borrowings at December 31, 1999, and December 31, 1998, was 7.8 percent and 24.4 percent, respectively.

In order to fund the cash portion of the Cyprus Amax acquisition price, we borrowed $650 million from a U.S. bank on October 21, 1999, under a one-month bridge financing facility. Interest and costs of $3.2 million (or 6.0075 percent annualized) were paid in November with cash acquired through the merger.

As of December 31, 1999, our 80 percent-owned joint-venture Candelaria mining operation in Chile, had outstanding project financing of $269.8 million. The debt comprises $237.0 million of floating-rate, dollar-denominated debt and $32.8 million of fixed-rate, dollar-denominated debt. 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 1999. All floating-rate debt is tied to six-month LIBOR, but has been converted to 7.84 percent, fixed-rate debt with the use of interest rate swap agreements. 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.

In October 1999, as part of the acquisition of Cyprus Amax, the Company assumed long-term debt with a stated value of $1,595.6 million, which was reduced by $15.2 million to reflect the fair market value of these obligations at the acquisition date. The net discount will be amortized over the term of the notes, debentures and bonds and recorded as interest expense. Following is a brief description of the debt assumed in the merger:

Immediately after the acquisition, a $100 million term loan facility scheduled to mature in 2001 was retired with available cash.

The 10.125 percent Notes, due in 2002, bear interest payable semi-annually on April 1 and October 1. In the event of both a Designated Event and a Rating Decline (as defined in the agreement), 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.

The 9.875 percent Notes, due June 13, 2001, are not redeemable prior to maturity and are secured by certain principal property of the Company. The interest is paid semi-annually on June 13 and December 13.

The 8.375 percent Debentures, due in 2023, bear interest payable semi-annually on February 1 and August 1. The debentures are not redeemable prior to February 1, 2003. On or after 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 thereafter. The debentures are general unsecured obligations of the Company and rank senior in right of payment to all subordinated securities.

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

The 6.5625 percent Notes, due October 15, 2005, bear interest payable semi-annually on October 15 and April 15. The notes are not redeemable by the Company prior to maturity.

On December 31, 1999, our 51 percent-owned El Abra mining joint venture had outstanding financing composed of senior debt consisting of $850 million in project financing provided by a syndicate of banks and $150 million of original financing provided by a German financial institution. The Company currently has guarantees outstanding of $157.9 million of the original $850 million tranche.

Cyprus Amax's proportional share of the original $1 billion borrowings was $510 million, of which $402.6 million remains outstanding at year-end 1999. The debt has a 9.5 year term, due May 15, 2007, and requires semi-annual principal payments that began on May 15, 1998. The weighted average interest rate on this debt at December 31, 1999, was 6.6 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.

On December 31, 1999, our 82 percent-owned Cerro Verde mine had project financing composed of two tranches, an $80 million facility that requires semi-annual installments of varying amounts through April 1, 2005, and a $30 million revolving bullet loan currently due in the year 2003. There was $90.0 million outstanding under these facilities at year-end 1999. The bullet facility may be extended for one year on each anniversary. The weighted average interest rate on this debt at December 31, 1999, was 9.6 percent. Both financings are secured by proceeds from sales collections, plus a pledge of $45 million in assets on the bullet loan.

The various pollution control and industrial development revenue bonds are due from 2001 through 2009. The interest on the bonds is paid either quarterly or semi-annually at various times of the year. The weighted average interest rates on these bonds at December 31, 1999, ranged from 3.9 percent to 13.9 percent.

In September 1999, Cyprus Amax obtained a $34 million bank loan for the Cerro Verde copper mine in Peru, of which $23 million was outstanding at December 31, 1999. The loan is payable on September 30, 2004. The weighted average interest rate at December 31, 1999, was 10.5 percent.

14. Shareholders' Equity

During the 1999 fourth quarter, we issued 20.6 million common shares along with a cash payment to acquire Cyprus Amax. On May 7, 1997, we announced that our board of directors had authorized the purchase of up to 6 million of our common shares, approximately 10 percent of our then outstanding shares. As of December 31, 1999, there were 78,656,000 shares outstanding and 1.7 million shares authorized for purchase under the 1997 authorization. During 1998, we purchased 731,500 common shares under the 1997 authorization at a total cost of $35.4 million.

We have 6,000,000 authorized preferred shares with a par value of $1.00 each; no shares were outstanding at either December 31, 1999, or December 31, 1998.

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 board of directors' ability to represent the stockholders' interests fully.

15. Stock Option Plans — Restricted Stock

Executives and other key employees have been granted options to purchase common shares under stock option plans adopted in 1987, 1993 and 1998. 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.

If an optionee exercises an option under the 1987, 1993 or 1998 plan with already owned shares of the Company, the optionee receives a "reload" option that restores the option opportunity on a number of common shares equal to the number of shares used to exercise the original option. A reload option has the same terms as the original option except that it has an exercise price per share equal to the fair market value of a common share on the date the reload option is granted and is exercisable six months after the date of grant.

The 1998 plan provides (and the 1993 and 1987 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 281,850 shares of Restricted Stock outstanding at December 31, 1999, and 1,040,258 shares available for grant.

Under the 1989 Directors Stock Option Plan (the 1989 plan), options to purchase common shares have been granted to directors who have not been employees of the Company or its subsidiaries for one year or are not eligible to participate in any plan of the Company or its subsidiaries entitling participants to acquire stock, stock options or stock appreciation rights. In 1996, we suspended the plan, thereby eliminating the annual grant of options to directors. The 1989 plan was replaced with the 1997 Directors Stock Unit Plan, which provides to each non-employee director an annual grant of stock units having a value equivalent to our common shares.

At December 31, 1999, 3,147,968 shares were available for option grants (including 1,040,258 shares as Restricted Stock awards) under the 1998 plan. These amounts are subject to future adjustment as described in the plan agreement. No further options may be granted under the 1993, 1989 or 1987 plans.

During 1999, the Company awarded 97,400 shares of Restricted Stock under the 1998 plan, with a weighted-average fair value at the date of grant of $57.29 per share. Compensation expense related to this award was $5.6 million for 1999.

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

Changes during 1997, 1998 and 1999 in options outstanding for the combined plans were as follows:

	Shares	Average option price per share
Outstanding at December 31, 1996	3,199,194	$60.76
Granted	1,110,431	69.33
Exercised	(827,243)	52.30
Expired or terminated	(47,891)	69.63
Outstanding at December 31, 1997	3,434,491	65.44
Granted	1,075,784	55.45
Exercised	(64,332)	50.25
Expired or terminated	(174,423)	66.85
Outstanding at December 31, 1998	4,271,520	63.10
Granted	1,208,176	52.93
Cyprus Amax options converted	1,870,804	68.30
Exercised	(80,517)	48.53
Expired or terminated	(65,190)	64.24
Outstanding at December 31, 1999*	7,204,793	62.89

* *Exercise prices for options outstanding at December 31, 1999, range from a minimum of approximately $27 per share to a maximum of approximately $102 per share. The average remaining maximum term of options outstanding is approximately seven years. The following table summarizes information concerning options outstanding based on a range of exercise prices.*

Range of Exercise Prices	*Options Outstanding at 12/31/99*	*Average Remaining Term*	*Average Outstanding Option Price*
$ 20-40	*274,224*	*9 years*	*$ 32.66*
40-60	*2,880,034*	*9 years*	*53.34*
60-80	*3,611,567*	*6 years*	*69.63*
80-100	*311,608*	*4 years*	*83.58*
100-120	*127,360*	*4 years*	*102.14*
	7,204,793		*$ 62.89*

Range of Exercise Prices	*Options Exercisable at 12/31/99*	*Average Exercisable Option Price*
$ 20-40	*274,224*	*$ 32.66*
40-60	*1,053,948*	*53.18*
60-80	*3,353,943*	*69.94*
80-100	*308,940*	*83.59*
100-120	*127,360*	*102.14*
	5,118,415	*$ 66.12*

Exercisable options at December 31, 1999:

	Shares	Average option price per share
PD Plans		
1998 Plan	387,176	$55.38
1993 Plan	2,742,652	67.10
1989 Plan	49,364	50.10
1987 Plan	89,231	44.24
Cyprus Amax Plans	1,849,992	68.39

Changes during 1997, 1998 and 1999 in Restricted Stock were as follows:

	Shares
Outstanding at December 31, 1996	227,700
Granted	15,250
Terminated	(800)
Outstanding at December 31, 1997	242,150
Granted	10,500
Terminated	(9,750)
Released	(46,750)
Outstanding at December 31, 1998	196,150
Granted	97,400
Terminated	(4,100)
Released	(7,600)
Outstanding at December 31, 1999	281,850

In accordance with the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," we apply APB Opinion 25 and related interpretations in accounting for our stock option plans and, accordingly, do not recognize compensation cost. If we had elected to recognize compensation cost based on the fair value of the options granted at grant date as prescribed by SFAS No. 123, net income and earnings per share would have been reduced to the pro forma amounts indicated in the table below:

	1999	1998	1997
Net income (loss) – as reported	$(257.8)	190.9	408.5
Net income (loss) – pro forma	(265.5)	184.7	402.4
Earnings (losses) per share – as reported (basic)	(4.19)	3.28	6.68
Earnings (losses) per share – pro forma (basic)	(4.31)	3.17	6.56
Earnings (losses) per share – as reported (diluted)	(4.19)	3.26	6.63
Earnings (losses) per share – pro forma (diluted)	(4.31)	3.16	6.54

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:

	1999	1998	1997
Expected dividend yield	3.10%	2.98	3.02
Expected stock price volatility	32.0%	29.0	23.0
Risk-free interest rate	6.0%	4.4	5.8
Expected life of options	3 years	3 years	3 years

The weighted-average fair value of options granted during 1999 was $12.18 per share, compared with $10.84 in 1998 and $10.62 in 1997.

16. Pension Plans

Our pension plans cover substantially all of our U.S. employees and certain employees of our international subsidiaries. Benefits are based on years of service and depending on the plan either final average salary or a fixed amount for each year of service. Participants generally vest in their benefits after five years of service. In a number of these plans, the plan assets exceed the accumulated benefit obligations (overfunded plans) and in the remainder of the plans, the accumulated benefit obligations exceed the plan assets (underfunded plans). For the underfunded plans, the aggregate benefit obligation is $52 million and the aggregate fair value of plan assets is $4 million.

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

	1999	1998
Assumptions:		
Discount rate	7.75%	6.75
Rate of increase in salary levels	4.0%	4.0
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 793	699
Service cost – benefits earned during the period	20	17
Interest cost on benefit obligation	54	49
Employee contributions	–	1
Plan amendments	1	1
Actuarial loss (gain)	(119)	102
Benefits paid	(51)	(49)
Curtailments and settlements	(4)	6
Special termination benefits	13	2
Acquisitions	262	–
Divestitures	–	(30)
Currency translation adjustments	(2)	(5)
Benefit obligation at end of year	$ 967	793
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 792	778
Actual return on plan assets	115	90
Acquisitions	217	–
Divestitures	–	(30)
Employer contributions	2	2
Employee contributions	–	1
Currency translation adjustments	1	–
Benefits paid	(51)	(49)
Fair value of plan assets at end of year	$1,076	792
Funded status	$ 109	(1)
Unrecognized initial net liability (asset)	–	(1)
Unrecognized actuarial loss (gain)	(157)	9
Unrecognized prior service cost	35	42
Net amount recognized	$ (13)	49
Amounts recognized in the balance sheet consist of:		
Prepaid benefit cost	$ 69	72
Accrued benefit liability	(89)	(36)
Intangible asset	2	4
Deferred tax benefit	2	3
Accumulated other comprehensive income	3	6
Net amount recognized	$ (13)	49

Our pension plans were valued between December 1, 1997, and January 1, 1998, and between December 1, 1998, and January 1, 1999. The obligations were projected to and the assets were valued as of the end of 1998 and 1999. Effective October 16, 1999, nine qualified and two non-qualified pension plans were obtained in conjunction with the acquisition of Cyprus Amax Minerals Company. 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 corporate investment funds.

The assumptions used and the annual cost related to these plans consist of the following:

	1999	1998	1997
Assumptions:			
Discount rate	6.75%	7.25	7.25
Expected long-term rate of return	9.5%	9.5	9.5
Rate of increase in salary levels	4.0%	4.0	4.0
Components of net periodic benefit cost:			
Service cost – benefits earned during the period	$ 19.6	16.6	17.5
Interest cost on benefit obligation	54.3	48.4	46.8
Expected return on plan assets	(70.5)	(62.9)	(61.0)
Amortization of transition obligation (asset)	(1.3)	(1.8)	(1.8)
Amortization of prior service cost	4.4	4.2	4.3
Recognized actuarial loss	0.8	0.5	0.5
Net periodic benefit cost	$ 7.3	5.0	6.3

We recognize a minimum liability in our financial statements for our underfunded pension plans. The accrued pension benefit cost for the underfunded plans is $44 million while the minimum liability is $51 million. "Other Liabilities and Deferred Credits" at December 31, 1999, included $7 million relating to this minimum liability, compared with $13 million at December 31, 1998. This amount was offset by a $2 million intangible asset, a $3 million reduction in "Common Shareholders' Equity" and a $2 million deferred tax benefit at December 31, 1999, compared with a $4 million intangible asset, a $6 million reduction in "Common Shareholders' Equity" and a $3 million deferred tax benefit at December 31, 1998.

17. 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 the 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 insurance benefits for many employees retiring from active service. The coverage is provided on a noncontributory basis for certain groups of employees and on a contributory basis for other groups. The majority of these benefits are paid by the Company. We also provide life insurance benefits to our U.S. employees who retire from active service on or after normal retirement age of 65 and to some of our international employees. Life insurance benefits also are available under certain early retirement programs or pursuant to the terms of certain collective bargaining agreements. The majority of the costs of such benefits were paid out of a previously established fund maintained by an insurance company.

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

	1999	1998
Assumptions:		
Expected long-term rate of return on plan assets	8.0%	6.5
Weighted average discount rate	7.75%	6.75
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 175	162
Service cost – benefits earned during the year	5	4
Interest cost on benefit obligation	12	11
Actuarial loss (gain)	(25)	12
Benefits paid	(9)	(6)
Restructuring	2	–
Acquisitions	147	–
Divestitures	–	(8)
Benefit obligation at end of year	$ 307	175
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 10	10
Actual return on plan assets	1	1
Employer contribution	–	–
Benefits paid	(1)	(1)
Fair value of plan assets at end of year	$ 10	10
Funded status	$(297)	(165)
Unrecognized actuarial loss (gain)	(15)	9
Unrecognized prior service cost	(1)	(1)
Net amount recognized (accrued) benefit (liability)	$(313)	(157)

The components of net periodic postretirement benefit cost were as follows:

	1999	1998	1997
Assumptions:			
Expected long-term rate of return on plan assets	8.0%	6.5	8.0
Discount rate	6.75%	7.25	7.25
Components of net periodic benefit cost:			
Service cost – benefits earned during the year	$ 5	4	4
Interest cost	13	11	11
Expected return on plan assets	(1)	(1)	(1)
Net periodic benefit cost	$ 17	14	14

For 1999 measurement purposes, the annual rate of increase in the cost of covered health care benefits was assumed to average 11.0 percent for 2000 and is projected to decrease to 5.5 percent by 2008 and remain at that level. For 1998 measurement purposes, the annual rate of increase in the cost of covered health care benefits was assumed to average 6.9 percent for 1999 and was projected to decrease to 5.0 percent by 2008 and remain at that level.

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

	1 Percentage-point	
	Increase	Decrease
Effect on total of service and interest cost components	$ 1.1	(1.0)
Effect on postretirement benefit obligation	18.6	(16.7)

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. We match a percentage of the employee contributions up to certain limits. Our contributions amounted to $5.3 million in 1999, $5.0 million in 1998, and $5.4 million in 1997.

18. 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 as of December 31, 1999, are future minimum rentals and royalties under non-cancelable leases:

	Operating Leases	Mineral Royalties	Capital Leases
2000	$17.1	1.8	11.7
2001	12.5	1.4	4.0
2002	8.4	1.4	4.0
2003	7.2	1.4	4.0
2004	7.0	1.4	4.2
After 2004	37.7	2.8	3.9
Total payments	$89.9	10.2	31.8
Present value of lease payments			25.9
Less current portion			(9.5)
Long-term capital lease obligations			$16.4

Summarized below as of December 31, 1999, is future sub-lease income:

	Sub-lease Income
2000	$ 1.0
2001	2.2
2002	2.2
2003	2.2
2004	2.2
After 2004	8.2
Total	$18.0

Rent and royalty charged to expense were:

	1999	1998	1997
Rental expense	$17.5	13.7	18.6
Mineral royalty	0.1	–	–
Total charges	$17.6	13.7	18.6

19. Contingencies

Phelps Dodge or its subsidiaries have been advised by the EPA, United States 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 conditions at a number of sites that have been or are being investigated by the EPA, the Forest Service or states to establish whether releases of hazardous substances have occurred and, if so, to develop and implement remedial actions. Phelps Dodge has been named a "potentially responsible party" (PRP) or has received requests for information for several sites. Of the sites in which Phelps Dodge or its subsidiaries have been named a PRP, 19 are on the "National Priorities List" (NPL) and two have been proposed for listing. For all such sites, Phelps Dodge had an aggregate reserve of $208.7 million as of December 31, 1999, including reserves for Pinal Creek in Arizona, and Langeloth in Pennsylvania, for its share of the estimated liability.

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 PRP, and the ability of other PRPs to pay their allocated portions. The cost range for reasonably expected outcomes for all sites excluding Pinal Creek and Langeloth is estimated to be from $28 million to $110 million, and work on these sites is expected to be substantially completed in the next several years, subject to inherent delays involved in the process.

The sites for which Phelps Dodge has received a notice of potential liability or an information request that are currently considered to be the most significant are the Pinal Creek site, which has a cost range for reasonably expected outcomes estimated to be from $143 million to $250 million, and the former American Zinc and Chemical site in Langeloth, which has a cost range for reasonably expected outcomes estimated to be from $10 million to $67 million. Phelps Dodge has reserved $143 million for the Pinal Creek site.

Cyprus Amax received an information request from the Pennsylvania Department of Environmental Protection regarding the former American Zinc and Chemical site. The site is currently being investigated by the state of Pennsylvania. Phelps Dodge has reserved $20 million for this site.

Phelps Dodge believes certain insurance policies partially cover the foregoing environmental liabilities; however, some of the insurance carriers have denied coverage. We are presently litigating these disputes. Further, Phelps Dodge believes that it has other potential claims for recovery from other third parties, including the U.S. Government and other PRPs, as well as liability offsets through lower cost remedial solutions. Neither insurance recoveries nor other claims or offsets have been recognized in the financial statements unless such offsets are considered probable of realization.

As of December 31, 1998, we had a reserve balance of $106.0 million for estimated future costs associated with environmental matters at shutdown operations or closed facilities within active operations. During 1999, net spending against that reserve totaled $20.0 million including $2.8 million at Cyprus Amax between October 16 and December 31. During the second quarter of 1999, we recorded an additional $8.3 million provision for estimated future costs associated with environmental matters directly related to our restructuring plan announced on June 30, 1999. Additionally, we recorded a $28.2 million provision in the fourth quarter of 1999 for estimated future costs associated with environmental matters. The acquisition of Cyprus Amax increased our reserve by $213.6 million. As of December 31, 1999, the reserve balance was $336.1 million.

In 1993 and 1994, the New Mexico and Arizona legislatures, respectively, passed laws requiring the reclamation of mined lands in those states. The New Mexico Mining Commission adopted rules for the New Mexico program during 1994, and our operations began submitting the required permit applications in December 1994. The Arizona State Mine Inspector adopted rules for the Arizona program in January 1997, and our operations began submitting the required reclamation plans in 1997. Colorado also has a similar program. Reclamation is an ongoing activity and we recognize estimated reclamation costs using a units of production basis calculation. These laws and regulations will likely increase our regulatory obligations and compliance costs with respect to mine closure and reclamation.

In 1997, issues of dispute arose between Phelps Dodge and the San Carlos Apache Tribe regarding our use and occupancy of the Black River Pump Station which delivers water to the Morenci operation. On May 12, 1997, the Tribe filed suit against us in San Carlos Apache Court, seeking our eviction from the Tribe's Reservation and claiming substantial compensatory and punitive damages, among other relief. In May 1997, we reached an agreement with the Tribe, and subsequently federal legislation (Pub. L. No. 105-18, 5003, 111 stat. 158, 181-87) was adopted which mandated dismissal of the tribal court suit. The legislation prescribes arrangements intended to ensure a future supply of water for the Morenci mining complex in exchange for certain payments by us. The legislation does not address any potential claims by the Tribe relating to our historical occupancy and operation of our facilities on the Tribe's Reservation, but does require that any such claims be brought, if at all, exclusively in federal district court. By order dated October 13, 1997, the tribal court dismissed the lawsuit with prejudice, as contemplated by the legislation.

The 1997 legislation required that the Company and the Tribe enter a lease for the delivery of Central Arizona Project water through the Black River Pump Station to Morenci on or before December 31, 1998. In the event a lease was not signed, the legislation expressly provided that the legislation would become the lease. The legislation included the principal terms for that eventuality. To date, we have not entered into a lease with the Tribe, but are relying on our rights under the legislation and are prepared to enforce those rights if necessary. We are cooperating with the United States, which operates the pump station, to reach an agreement with the Tribe on the lease issue.

20. Derivative Financial Instruments Held for Purposes Other Than Trading and Fair Value of Financial Instruments

We do not purchase, hold or sell derivative contracts unless we have an existing asset, obligation or anticipate a future activity that is likely to occur and will result in exposing us to market risk. 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 instruments are used to manage well-defined commodity price, foreign exchange and interest rate risks from our primary business activities. The fair values of our derivative instruments, as summarized later in this note, 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 listed as follows:

Copper Hedging. Copper is an internationally traded commodity, and its prices are effectively determined by the two major metals exchanges — the New York Commodity Exchange (COMEX) and the London Metal Exchange (LME). The prices on these exchanges generally reflect the worldwide balance of copper supply and demand, but also are influenced significantly from time to time by speculative actions and by currency exchange rates.

Some of our wire, cathode and rod customers request a fixed sales price instead of the COMEX or LME 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 the sales in a manner that will allow us to receive the COMEX or LME 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 or LME average price.

Because of the nature of the hedge settlement process, the net hedge value, rather than the sum of the face values of our outstanding futures contracts is a more accurate measure of our market risk from the use of such hedge contracts. The contracts that may result in market risk to us are those related to the customer sales transactions under which copper products have not yet been shipped.

At December 31, 1999, we had futures and swap contracts for approximately 111 million pounds of copper with a net hedge value of $87 million and a total face value of approximately $125 million. At that date, we had $7 million in gains on these contracts not yet recorded in our financial statements because the copper products under the related customer transactions had not yet been shipped or received. These futures contracts had maturities of 30 months or less. At year-end 1998, we had futures and swap contracts in place for approximately 86 million pounds of copper at a net hedge value of $65 million and a total face value of approximately $138 million. We had $7 million in deferred, unrealized losses at that time.

From time to time, we may purchase or sell copper price protection contracts for a portion of our expected future mine production. We do this to limit the effects of potential decreases in copper selling prices. For first quarter 2000 production, we have protection contracts in place that will give us a minimum monthly average LME price of 71 cents per pound for approximately 200 million pounds of copper cathode. For overall 2000 production, we have a combination of minimum (approximately 72 cents) and maximum (approximately 95 cents) annual average LME prices per pound for approximately 110 million pounds of copper cathode.

Aluminum Hedging. During 1999, our Venezuelan wire and cable operation entered into aluminum futures contracts with a financial institution to lock in the cost of aluminum ingot needed in manufacturing aluminum cable contracted by customers. At December 31, 1999, we had futures contracts for approximately 1 million pounds of aluminum with a net hedge and total face value of approximately $1 million. At the end of the year, these contracts did not have any significant gains or losses that were not recorded in our financial statements. The maturities on these aluminum futures contracts were less than one year. At December 31, 1998, we had futures contracts for approximately 6 million pounds of aluminum with a net hedge and total face value of approximately $4 million. Prior to 1998, we had not entered into aluminum futures contracts.

Foreign Currency Hedging. We are a global company and we transact business in many countries and in many currencies. Foreign currency transactions increase our risks because exchange rates can change between the time agreements are made and the time foreign currencies are actually exchanged. One of the ways we manage these exposures is by entering into forward exchange and currency option 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 transactions for which we have a firm legal obligation or when anticipated transactions are likely to occur. We do not enter into foreign exchange contracts for speculative purposes. In the process of protecting our transactions, we may use a number of offsetting currency contracts. Because of the nature of the hedge settlement process, the net hedge value rather than the sum of the face value of our outstanding contracts is a more accurate measure of our market risk from the use of such contracts.

At December 31, 1999, we had a net hedge and total face value of approximately $34 million in forward exchange contracts to hedge intercompany loans between our international subsidiaries or foreign currency exposures with our trading partners. The forward exchange contracts on December 31, 1999, had maturities of less than one year. At year-end 1998, we had foreign currency protection in place for $44 million to hedge intercompany loans. At year-end 1997, we had $158 million in both the net hedged amount and the total face value of the forward contracts. We did not have any significant gains or losses at year end that had not been recorded in our financial statements for each of the three years in the period ended December 31, 1999.

At year-end 1999, our foreign currency protection contracts included the British pound, euro, German mark and Thai baht.

Interest Rate Hedging. In some situations, we may enter into structured transactions using currency swaps that result in lower overall interest rates on borrowings. We do not enter into currency swap contracts for speculative purposes. At year-end 1999, we had currency swap contracts in place with an approximate net hedged value and total face value of $21 million. These currency swaps involved swapping fixed-rate U.S. dollar loans into floating-rate Brazilian real loans. The currency swap contracts on this date had maturities of less than a year.

In addition, we are vulnerable to increasing costs from interest rates associated with floating-rate debt. We may enter into interest rate swap contracts to manage or limit such interest expense costs. We do not enter into interest rate swap contracts for speculative purposes. At year-end 1999, we had interest rate swap contracts in place with an approximate net hedged and total face value of $485 million. The interest rate swap on this date had maturities of nine years or less. At year-end 1998, our Candelaria copper mine had interest rate swaps to convert $264.9 million of floating-rate, dollar-denominated debt into fixed-rate debt for the life of the debt (through the year 2008). Under the terms of the floating-rate debt agreement, the Candelaria borrowings are scheduled to vary from period to period during the life of the debt. In order to match the projected changes in debt balances, the face value of the interest rate swaps approximate the amounts of the underlying debt.

Credit Risk. We are exposed to credit loss in cases when the financial institutions in 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 have dealt with will default on their obligations.

The methods and assumptions we used to estimate the fair value of each group of financial instrument 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 those 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.

Derivative hedge instruments — the fair values of some derivative instruments are estimated based on quoted market prices and on calculations using market closing prices for those or similar instruments.

Financial guarantees and standby letters of credit — the fair value of guarantees and letters of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle our obligations with the holders of the guarantees or letters of credit at year-end 1999. As a whole, we have various guarantees and letters of credit totaling $248 million. There is no market for our guarantees or standby letters of credit. Therefore, it is not practicable to establish their fair value.

The estimated fair values of our financial instruments as of December 31, 1999, were as follows:

	Carrying Amount	Fair Value
Cash and short-term investments	$ 234.2	234.2
Currency swap agreements — assets (liabilities)	–	(1.0)
Investments and long-term receivables *(including amounts due within one year)* for which it is practicable to estimate fair value*	82.1	261.5
Long-term debt *(including amounts due within one year)*	2,303.8	2,277.5
Interest rate swap agreements — assets (liabilities)	–	5.8
Foreign currency exchange contracts — assets (liabilities)	(0.5)	(0.6)

** Our largest cost basis investment is our minority interest in Southern Peru Copper Corporation (SPCC), which is carried at a book value of $13.2 million. Based on the New York Stock Exchange closing market price of SPCC shares as of December 31, 1999, the estimated fair value of our investment in SPCC is approximately $173 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.*

21. Business Segment Data

Our business consists of two divisions, Phelps Dodge Mining Company and Phelps Dodge Industries. 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.

Phelps Dodge Mining Company (PD Mining) is our international business segment that comprises a group of companies involved in vertically integrated copper operations including mining, concentrating, electrowinning, smelting, refining, rod production, marketing and sales, and related activities. PD Mining sells copper to others primarily as rod, cathode or concentrate, and as rod to our wire and cable segment. In addition, PD Mining at times smelts and refines copper and produces copper rod for customers on a toll basis. It is also an integrated producer of molybdenum, with mining, roasting and processing facilities producing molybdenum concentrate as well as metallurgical and chemical products. In addition, it produces gold, silver, molybdenum and copper chemicals as by-products, and sulfuric acid from its air quality control facilities. This business segment also includes worldwide mineral exploration programs.

Phelps Dodge Industries is our manufacturing division comprising two business segments that produce engineered products principally for the global energy, telecommunications, transportation and specialty chemicals sectors. The two business segments are specialty chemicals which comprises Columbian Chemicals Company and its subsidiaries, and wire and cable which comprises three worldwide product line businesses and a shared support services operation. The three product line businesses in the wire and cable segment are magnet wire, energy and telecommunication cables and specialty conductors. Phelps Dodge Industries also included Accuride Corporation and its subsidiaries, our wheel and rim operations, until Accuride was sold effective January 1, 1998.

Intersegment sales reflect the transfer of copper from Phelps Dodge Mining Company to Phelps Dodge Industries at the same prices charged to outside customers.

The following tables give a summary of financial data by geographic area and business segment for the years 1997 through 1999. Major unusual items during the three-year period included (i) the fourth quarter 1999 acquisition of Cyprus Amax; pre-tax asset impairments of $320.4 million at Phelps Dodge Mining Company and $21.7 million at Phelps Dodge Industries; a pre-tax charge of $28.2 million for environmental provisions at Phelps Dodge Mining Company; a pre-tax charge of $36.6 million at Phelps Dodge Mining Company and $59.9 million at Phelps Dodge Industries for a restructuring plan announced on June 30, 1999; (ii) a 1998 pre-tax provision of $5.5 million at Phelps Dodge Mining Company for costs associated with indefinite mine shutdowns and curtailments; a $2.3 million pre-tax provision in our wire and cable segment, primarily for an early retirement program; and a $198.7 million pre-tax gain in other segments from the disposition of Accuride; and (iii) a 1997 pre-tax provision of $40.5 million included at Phelps Dodge Mining Company for costs associated with a voluntary early retirement program, environmental matters and other; and a 1997 pre-tax provision of $5.4 million included in Corporate Unallocated and Reconciling Eliminations operating income for costs associated with environmental matters and a voluntary early retirement program. (See Notes 2 and 3 to the Consolidated Financial Statements for a further discussion of these issues.)

Financial Data by Geographic Area

	1999	1998	1997
Sales and other operating revenues:			
Unaffiliated customers			
United States	$2,093.8	2,141.0	2,870.9
Latin America	660.2	579.9	464.8
Other	360.4	342.5	578.6
	$3,114.4	3,063.4	3,914.3
Long-lived assets at December 31:			
United States	$4,200.3	2,687.9	2,631.8
Latin America*	2,093.3	1,109.8	948.0
Other	242.8	239.6	318.0
	$6,536.4	4,037.3	3,897.8
**Long-lived assets in Chile.*	*$ 1,261.5*	*645.1*	*689.5*

Financial Data by Business Segment

(Dollars in millions)	Phelps Dodge Mining Company	Phelps Dodge Industries: Specialty Chemicals	Phelps Dodge Industries: Wire & Cable	Phelps Dodge Industries: Other Segments*	Phelps Dodge Industries: Total	Segment Subtotal	Corp. Unallocated and Reconciling Eliminations**	Totals
1999								
Sales and other operating revenues:								
Unaffiliated customers	$1,786.6	543.0	784.8	–	1,327.8	3,114.4	–	3,114.4
Intersegment	224.4	–	0.9	–	0.9	225.3	(225.3)	–
Depr., depl. and amort.	222.6	45.2	58.5	–	103.7	326.3	2.8	329.1
Non-recurring charges and provisions	(385.2)	(17.7)	(52.3)	–	(70.0)	(455.2)	(0.2)	(455.4)
Operating income (loss)	(301.0)	92.5	(42.8)	–	49.7	(251.3)	(64.3)	(315.6)
Interest income	6.9	4.4	2.4	–	6.8	13.7	4.2	17.9
Interest expense	36.1	40.5	16.0	–	56.5	92.6	27.8	120.4
Equity earnings (losses)	(0.9)	0.1	4.2	–	4.3	3.4	1.7	5.1
Income tax expense (benefit)	(126.9)	9.4	(13.5)	–	(4.1)	(131.0)	(34.2)	(165.2)
Equity basis investments	26.8	0.3	10.8	–	11.1	37.9	16.1	54.0
Assets at December 31	6,345.1	772.6	748.3	–	1,520.9	7,866.0	363.0	8,229.0
Expenditures for segment assets	148.7	121.1	28.5	–	149.6	298.3	(57.9)	240.4
1998								
Sales and other operating revenues:								
Unaffiliated customers	$1,677.7	454.6	931.1	–	1,385.7	3,063.4	–	3,063.4
Intersegment	248.7	–	1.6	–	1.6	250.3	(250.3)	–
Depr., depl. and amort.	191.5	43.3	56.5	–	99.8	291.3	2.0	293.3
Gain (loss) on asset disposition and other non-recurring charges	(5.5)	–	(2.3)	198.7	196.4	190.9	–	190.9
Operating income (loss)	110.3	87.6	67.3	198.7	353.6	463.9	(41.2)	422.7
Interest income	7.3	1.5	4.3	–	5.8	13.1	10.4	23.5
Interest expense	27.0	8.5	21.0	–	29.5	56.5	39.9	96.4
Equity earnings (losses)	1.7	–	(5.9)	–	(5.9)	(4.2)	–	(4.2)
Income tax expense (benefit)	38.8	26.5	26.7	67.6	120.8	159.6	(25.6)	134.0
Equity basis investments	18.7	0.1	22.3	–	22.4	41.1	–	41.1
Assets at December 31	3,218.2	729.5	879.2	–	1,608.7	4,826.9	209.6	5,036.5
Expenditures for segment assets	309.3	261.6	97.4	–	359.0	668.3	–	668.3
1997								
Sales and other operating revenues:								
Unaffiliated customers	$2,173.3	429.5	978.5	333.0	1,741.0	3,914.3	–	3,914.3
Intersegment	288.4	–	2.6	–	2.6	291.0	(291.0)	–
Depr., depl. and amort.	172.4	37.2	51.4	20.7	109.3	281.7	2.0	283.7
(Provision) for environmental and other non-recurring charges	(40.5)	–	–	–	–	(40.5)	(5.4)	(45.9)
Operating income (loss)	459.2	74.9	83.1	49.8	207.8	667.0	(56.0)	611.0
Interest income	10.9	1.0	3.0	0.5	4.5	15.4	6.8	22.2
Interest expense	25.2	3.7	14.3	0.2	18.2	43.4	30.8	74.2
Equity earnings (losses)	4.5	(0.1)	4.6	2.7	7.2	11.7	–	11.7
Income tax expense (benefit)	132.2	27.1	30.0	18.7	75.8	208.0	(27.6)	180.4
Equity basis investments	27.7	0.2	28.3	24.8	53.3	81.0	–	81.0
Assets at December 31	3,026.8	490.3	889.4	356.5	1,736.2	4,763.0	202.2	4,965.2
Expenditures for segment assets	470.3	75.7	176.5	47.3	299.5	769.8	19.4	789.2

** Other segments include Accuride Corporation which was sold effective January 1, 1998. (See Note 3 to the Consolidated Financial Statements for a further discussion of this sale.)*

*** Represents corporate, unallocated and reconciling elimination activities and assets.*

Eleven-Year Financial Summary 1999-1989

(Dollars in millions, except per share amounts)	1999 (a)	1998 (b)	1997 (c)	1996 (d)
Sales and other operating revenues to unaffiliated customers				
Phelps Dodge Mining Company	$1,786.6	1,677.7	2,173.3	2,091.1
Phelps Dodge Industries	1,327.8	1,385.7	1,741.0	1,695.5
	3,114.4	3,063.4	3,914.3	3,786.6
Operating expenses				
Cost of products sold (h)	2,451.7	2,360.4	2,744.1	2,604.4
Depreciation, depletion and amortization	329.1	293.3	283.7	249.5
Selling and general administrative expense	141.6	122.9	141.8	125.9
Exploration and research expense	52.2	55.0	87.8	83.9
Provision for reclamation costs, environmental costs, asset dispositions and other	455.4	(190.9)	45.9	10.0
	3,430.0	2,640.7	3,303.3	3,073.7
Operating income (loss)	(315.6)	422.7	611.0	712.9
Interest expense	(120.4)	(96.4)	(74.2)	(68.0)
Capitalized interest	0.2	1.9	11.7	1.9
Miscellaneous income and expense, net	9.1	8.8	33.4	40.7
Income (loss) before taxes, minority interests, equity in net earnings (losses) of affiliated companies, and cumulative effect of accounting changes	(426.7)	337.0	581.9	687.5
Provision for taxes	165.2	(134.0)	(180.4)	(220.0)
Minority interests in consolidated subsidiaries (h)	2.1	(7.9)	(4.7)	(16.2)
Equity in net earnings (losses) of affiliated companies	5.1	(4.2)	11.7	10.5
Income (loss) before cumulative effect of accounting changes	(254.3)	190.9	408.5	461.8
Cumulative effect of accounting changes	(3.5)	–	–	–
Net income (loss)	$ (257.8)	190.9	408.5	461.8
Earnings (loss) per common share – diluted (i, j)				
Income (loss) before cumulative effect of accounting changes	$ (4.13)	3.26	6.63	6.98
Cumulative effect of accounting changes	(0.06)	–	–	–
Net income (loss)	$ (4.19)	3.26	6.63	6.98
Average number of common shares outstanding				
In millions (i)	61.6	58.5	61.6	66.2

(a) Reported amounts include after-tax, non-recurring provisions of $222.5 million or $3.61 per common share for asset impairments, $17.8 million or 29 cents per common share reflecting provisions for environmental costs, $65.7 million or $1.07 per common share for costs associated with a restructuring plan announced on June 30, 1999, and $3.5 million or 6 cents per common share for the cumulative effect of an accounting change, partially offset by a non-recurring gain of $30.0 million or 49 cents per common share for an adjustment of prior year's taxes. Phelps Dodge acquired Cyprus Amax Minerals Company on October 16, 1999.

(b) Reported amounts include an after-tax gain of $131.1 million, or $2.24 per common share from the disposition of Accuride Corporation, an after-tax loss of $26.4 million or 45 cents per common share from the sale of our 44.6 percent interest in a South African mining company and a non-recurring, after-tax provision of $5.6 million, or 10 cents per common share for curtailments and indefinite closures primarily at Phelps Dodge Mining Company.

(c) Reported amounts include non-recurring 1997 charges reflecting provisions for environmental costs, an early retirement program and asset dispositions of $31.6 million after taxes, or 51 cents per common share.

(d) Reported amounts include interest charges of $5.9 million and reclamation reserves of $10 million for the Court-ordered rescission of a 1986 sale of property in Maspeth, New York, by Phelps Dodge to the United States Postal Service. The after-tax effect was $10.7 million, or 16 cents per common share.

1995	1994 (e)	1993	1992	1991	1990	1989 (f, g)
2,488.7	1,820.7	1,320.3	1,397.7	1,325.3	1,447.8	1,518.3
1,696.7	1,468.5	1,275.6	1,181.6	1,109.0	1,187.9	1,181.3
4,185.4	3,289.2	2,595.9	2,579.3	2,434.3	2,635.7	2,699.6
2,691.4	2,375.7	1,921.8	1,841.1	1,722.2	1,653.6	1,689.2
223.5	195.3	187.1	162.3	138.9	133.0	133.4
123.6	107.1	103.7	105.4	98.7	93.7	84.3
73.2	53.0	56.8	49.9	50.6	47.4	29.1
(26.8)	157.7	–	–	–	–	374.6
3,084.9	2,888.8	2,269.4	2,158.7	2,010.4	1,927.7	2,310.6
1,100.5	400.4	326.5	420.6	423.9	708.0	389.0
(65.1)	(57.3)	(54.5)	(47.4)	(47.4)	(51.2)	(55.0)
3.1	20.7	17.5	7.9	8.3	1.3	1.5
37.2	11.3	16.4	47.1	28.4	18.1	22.5
1,075.7	375.1	305.9	428.2	413.2	676.2	358.0
(322.7)	(104.7)	(105.9)	(114.4)	(131.4)	(224.0)	(102.5)
(12.9)	(8.0)	(12.1)	(12.8)	(12.0)	(9.6)	(7.9)
6.5	8.6	–	0.6	3.1	12.3	19.4
746.6	271.0	187.9	301.6	272.9	454.9	267.0
–	–	–	(79.9)	–	–	–
746.6	271.0	187.9	221.7	272.9	454.9	267.0
10.66	3.82	2.66	4.28	3.93	6.56	3.73
–	–	–	(1.13)	–	–	–
10.66	3.82	2.66	3.15	3.93	6.56	3.73
70.0	71.0	70.6	70.4	69.5	69.3	71.6

(e) Reported amounts include non-recurring 1994 fourth quarter provisions for environmental costs and asset dispositions of $91.7 million after taxes, or $1.29 per common share.

(f) Phelps Dodge acquired Hudson International Conductors in 1989.

(g) Reported amounts include non-recurring 1989 write downs for certain non-producing assets of $237 million after taxes, or $3.31 per common share. In addition, majority-owned foreign subsidiaries that were previously accounted for on an equity basis were consolidated in 1989.

(h) Prior to 1994, minority interests in the income of consolidated subsidiaries were included in cost of products sold. For comparative purposes, prior period amounts have been reclassified to conform with the current year presentation.

(i) In 1992, Phelps Dodge's stock split two-for-one. All per share amounts and the average number of shares outstanding have been retroactively revised for all periods presented.

(j) Based on average number of shares outstanding (diluted).

Eleven-Year Financial Summary 1999-1989 *(Continued)*

(Dollars in millions, except per share amounts and copper prices)	1999 (a)	1998 (b)	1997 (c)	1996 (d)
Business segments (h)				
Operating income (loss):				
Phelps Dodge Mining Company	$ (301.0)	110.3	459.2	528.7
Phelps Dodge Industries	49.7	353.6	207.8	227.9
Corporate and other	(64.3)	(41.2)	(56.0)	(43.7)
	$ (315.6)	422.7	611.0	712.9
Net assets:				
Phelps Dodge Mining Company	$6,345.1	3,218.2	3,026.8	2,879.8
Phelps Dodge Industries	1,520.9	1,608.7	1,736.2	1,544.7
Corporate and other	363.0	209.6	202.2	391.9
	$8,229.0	5,036.5	4,965.2	4,816.4
Dividends declared				
Common shares	$ 124.3	117.3	122.7	128.6
Preferred shares	–	–	–	–
	$ 124.3	117.3	122.7	128.6
Dividends per common share (i)				
Regular	$ 2.00	2.00	2.00	1.95
Extraordinary	–	–	–	–
Purchase of own shares (i)				
Common shares *(Thousands)*	–	732	6,554	4,297
Cost of shares purchased	$ –	35.4	511.5	273.2
Net cash provided by operating activities	$ 204.5	378.4	764.6	837.5
Capital expenditures and investments	$ 240.4	668.3	789.2	560.4
At December 31				
Net current assets	$ 275.1	328.9	350.0	735.6
Total assets	$8,229.0	5,036.5	4,965.2	4,816.4
Long-term debt	$2,172.5	836.4	857.1	554.6
Shareholders' equity	$3,276.8	2,587.4	2,510.4	2,755.9
Book value per common share (i, j)	$ 41.66	44.66	42.81	42.59
Common shares outstanding *(Thousands)* (i)	78,656	57,934	58,634	64,711
Number of employees	16,400	13,924	15,869	16,033
Stock prices (Common shares)				
High (i)	$ 70.63	71.75	89.63	77.63
Low (i)	$ 41.88	43.88	59.88	54.63
Close (i)	$ 67.31	50.88	62.25	67.50
Copper				
Copper production *(Own production – thousand tons)*	890.1	874.0	812.1	770.4
Copper sales *(Own production – thousand tons)*	884.2	876.3	812.8	771.6
COMEX copper price (k)	$ 0.72	0.75	1.04	1.06
Commercially recoverable copper reserves *(Million tons)*	24.4	14.5	13.7	12.1

(a) Reported amounts include after-tax, non-recurring provisions of $222.5 million or $3.61 per common share for asset impairments, $17.8 million or 29 cents per common share reflecting provisions for environmental costs, $65.7 million or $1.07 per common share for costs associated with a restructuring plan announced on June 30, 1999, and $3.5 million or 6 cents per common share for the cumulative effect of an accounting change, partially offset by a non-recurring gain of $30.0 million or 49 cents per common share for an adjustment of prior year's taxes. Phelps Dodge acquired Cyprus Amax Minerals Company on October 16, 1999.

(b) Reported amounts include an after-tax gain of $131.1 million, or $2.24 per common share from the disposition of Accuride Corporation, an after-tax loss of $26.4 million or 45 cents per common share from the sale of our 44.6 percent interest in a South African mining company and a non-recurring, after-tax provision of $5.6 million, or 10 cents per common share for curtailments and indefinite closures primarily at Phelps Dodge Mining Company.

(c) Reported amounts include non-recurring 1997 charges reflecting provisions for environmental costs, an early retirement program and asset dispositions of $31.6 million after taxes, or 51 cents per common share.

(d) Reported amounts include interest charges of $5.9 million and reclamation reserves of $10 million for the Court-ordered rescission of a 1986 sale of property in Maspeth, New York, by Phelps Dodge to the United States Postal Service. The after-tax effect was $10.7 million, or 16 cents per common share.

1995	1994 (e)	1993	1992	1991	1990	1989 (f, g)
898.7	335.1	234.2	374.1	376.2	598.5	289.9
246.2	113.6	135.0	93.0	91.7	156.1	143.0
(44.4)	(48.3)	(42.7)	(46.5)	(44.0)	(46.6)	(43.9)
1,100.5	400.4	326.5	420.6	423.9	708.0	389.0
2,776.4	2,411.9	2,074.5	1,874.3	1,675.7	1,522.9	1,425.9
1,336.4	1,407.7	1,323.0	1,265.0	1,153.6	1,157.8	1,085.0
533.1	314.2	323.4	301.9	221.9	146.7	(6.3)
4,645.9	4,133.8	3,720.9	3,441.2	3,051.2	2,827.4	2,504.6
125.6	119.2	116.1	113.0	104.0	103.7	454.3
–	–	–	–	–	–	0.5
125.6	119.2	116.1	113.0	104.0	103.7	454.8
1.80	1.69	1.65	1.61	1.50	1.50	1.43
–	–	–	–	–	–	5.00
2,761	76	130	–	60	760	4,726
162.7	3.9	5.6	–	1.9	21.8	141.2
959.0	542.6	385.0	430.7	481.0	641.9	744.2
405.2	432.3	391.0	329.4	366.2	294.8	286.2
950.2	558.2	447.4	449.1	341.7	349.2	212.2
4,645.9	4,133.8	3,720.9	3,441.2	3,051.2	2,827.4	2,504.6
613.1	622.3	547.3	373.8	382.0	403.5	431.5
2,677.7	2,187.6	2,022.1	1,972.4	1,859.3	1,682.9	1,350.1
39.04	30.95	28.67	28.03	26.71	24.43	19.50
68,593	70,672	70,531	70,374	69,622	68,882	69,237
15,343	15,498	14,799	14,567	13,931	14,066	13,841
70.50	65.00	55.63	53.00	39.63	35.81	39.31
51.88	47.63	39.13	32.00	26.19	23.06	25.69
62.25	61.88	48.75	48.50	33.50	28.31	29.56
712.7	572.8	547.7	537.0	538.1	560.7	512.2
696.6	560.6	543.9	537.7	553.9	556.7	515.0
1.35	1.07	0.85	1.03	1.05	1.19	1.25
12.3	10.6	10.1	10.5	10.8	11.8	8.3

(e) Reported amounts include non-recurring 1994 fourth quarter provisions for environmental costs and asset dispositions of $91.7 million after taxes, or $1.29 per common share.

(f) Phelps Dodge acquired Hudson International Conductors in 1989.

(g) Reported amounts include non-recurring 1989 write downs for certain non-producing assets of $237 million after taxes, or $3.31 per common share. In addition, majority-owned foreign subsidiaries that were previously accounted for on an equity basis were consolidated in 1989.

(h) All years have been restated to conform with SFAS No. 131. Prior to 1994, minority interests in the income of consolidated subsidiaries were included in cost of products sold. For comparative purposes, prior period amounts have been reclassified to conform with the current year presentation.

(i) In 1992, Phelps Dodge's stock split two-for-one. All per share amounts and the average number of shares outstanding have been retroactively revised for all periods presented.

(j) Based on average number of shares outstanding (diluted).

(k) New York Commodity Exchange annual average spot price per pound – cathodes.

Phelps Dodge Copper Production Data, by Source (a)

(Thousand tons)	1999	1998	1997	1996	1995
Material mined (b)					
Morenci	297,872	288,200	291,698	297,688	261,264
Candelaria	126,903	131,155	90,045	83,962	72,068
Tyrone	113,422	108,359	107,896	102,936	83,935
Chino	44,562	117,432	121,639	122,939	115,821
Bagdad	16,233	–	–	–	–
Sierrita	15,875	–	–	–	–
Miami	13,787	–	–	–	–
Cerro Verde	11,459	–	–	–	–
El Abra	10,029	–	–	–	–
Cobre	4,558	15,763	–	–	–
Ojos del Salado	–	1,336	1,713	1,628	1,855
Total material mined	654,700	662,245	612,991	609,153	534,943
Less minority participants' shares (c)	89,830	108,605	102,305	102,421	92,211
Net Phelps Dodge share	564,870	553,640	510,686	506,732	442,732
Ore mined (b)					
Morenci	40,447	49,392	50,951	47,136	44,284
Candelaria	20,451	24,433	13,055	11,603	11,439
Tyrone	55,693	55,086	50,528	53,687	55,986
Chino	16,362	17,306	18,413	20,061	17,026
Bagdad	6,126	–	–	–	–
Sierrita	7,918	–	–	–	–
Miami	2,501	–	–	–	–
Cerro Verde	2,642	–	–	–	–
El Abra	8,706	–	–	–	–
Cobre	870	4,898	–	–	–
Ojos del Salado	–	1,179	1,551	1,506	1,596
Total ore mined	161,716	152,294	134,498	133,993	130,331
Less minority participants' shares (c)	19,877	18,064	16,391	16,078	14,606
Net Phelps Dodge share	141,839	134,230	118,107	117,915	115,725
Grade of ore mined – percent copper					
Morenci	0.68	0.68	0.72	0.70	0.64
Candelaria	1.21	1.07	1.45	1.40	1.88
Tyrone	0.28	0.26	0.29	0.30	0.34
Chino	0.59	0.68	0.69	0.63	0.71
Bagdad	0.42	–	–	–	–
Sierrita	0.24	–	–	–	–
Miami	0.57	–	–	–	–
Cerro Verde	0.78	–	–	–	–
El Abra	0.78	–	–	–	–
Cobre	1.00	0.93	–	–	–
Ojos del Salado	–	1.61	1.54	1.57	1.40

(Thousand tons)	1999	1998	1997	1996	1995
Recoverable copper (d)					
Morenci:					
Concentrate	195.2	247.2	269.9	247.1	211.6
Electrowon	284.7	275.8	272.3	262.5	225.7
Candelaria:					
Concentrate	250.1	236.9	171.7	150.8	165.7
Tyrone:					
Precipitate	–	–	2.6	3.7	4.3
Electrowon	80.1	82.6	76.6	76.0	70.4
Chino:					
Concentrate and precipitate	74.3	85.5	99.9	99.0	100.6
Electrowon	55.8	72.4	69.1	69.5	68.1
Bagdad:					
Concentrate	22.3	–	–	–	–
Electrowon	2.9	–	–	–	–
Sierrita:					
Concentrate	19.7	–	–	–	–
Electrowon	5.8	–	–	–	–
Miami:					
Electrowon	13.2	–	–	–	–
Cerro Verde:					
Electrowon	16.2	–	–	–	–
El Abra:					
Electrowon	52.8	–	–	–	–
Cobre:					
Concentrate	6.6	34.2	–	–	–
Ojos del Salado:					
Concentrate	–	17.9	21.1	21.3	19.6
Bisbee precipitate and miscellaneous	1.6	0.2	0.9	3.4	1.6
Total recoverable copper	1,081.3	1,052.7	984.1	933.3	867.6
Less minority participants' shares (c)	191.2	178.7	172.0	162.9	154.9
Net Phelps Dodge share	890.1	874.0	812.1	770.4	712.7

(a) Includes Cyprus Amax production and sales from the time it was acquired on October 16, 1999.

(b) Includes material mined for leaching operations.

(c) Interests in mining joint ventures in which we own more than 50 percent are reported using the proportional consolidation method. Cerro Verde, in which we own 82 percent of its common stock, is reported using the full consolidation method.

(d) Includes smelter production from custom receipts and fluxes as well as tolling gains or losses.

Phelps Dodge Metal Production and Sales (a) (d)

	1999	1998	1997	1996	1995
Copper *(Thousand tons)*					
Total production (b)	1,081.3	1,052.7	984.1	933.3	867.6
Less minority participants' shares (c)	191.2	178.7	172.0	162.9	154.9
Net Phelps Dodge share	890.1	874.0	812.1	770.4	712.7
Sales (e)	884.2	876.3	812.8	771.6	696.6
Gold *(Thousand ounces)*					
Total production	174	185	139	129	151
Less minority participants' shares	35	36	30	26	31
Net Phelps Dodge share	139	149	109	103	120
Sales (e)	136	145	113	125	125
Silver *(Thousand ounces)*					
Total production	4,532	3,566	3,254	2,636	2,739
Less minority participants' shares	842	713	677	564	545
Net Phelps Dodge share	3,690	2,853	2,577	2,072	2,194
Sales (e)	3,375	3,095	2,637	2,359	1,985
Molybdenum *(Thousand pounds)*					
Total production	8,303	1,369	2,121	2,427	2,024
Less minority participant's share	241	355	472	501	507
Net Phelps Dodge share	8,062	1,014	1,649	1,926	1,517
Sales	11,417	1,050	1,272	2,141	1,328
Sulfuric acid *(Thousand tons)* (f)					
Total production	1,172.1	1,222.1	1,263.4	1,235.3	1,252.6
Less minority participant's share	212.5	200.9	210.5	191.8	181.3
Net Phelps Dodge share	959.6	1,021.2	1,052.9	1,043.5	1,071.3
Sales	625.5	196.1	383.5	464.0	554.3
COMEX Copper price (g)	$ 0.72	0.75	1.04	1.06	1.35
Metals Week – Molybdenum dealer oxide price (h)	$ 2.66	3.42	4.31	3.79	8.08

(a) Includes Cyprus Amax production and sales from the time it was acquired on October 16, 1999.

(b) Includes material mined for leaching operations.

(c) Interests in mining joint ventures in which we own more than 50 percent are reported using the proportional consolidation method. Cerro Verde, in which we own 82 percent of its common stock, is reported using the full consolidation method.

(d) Includes smelter production from custom receipts and fluxes as well as tolling gains or losses.

(e) Excludes sales of purchased copper, silver and gold.

(f) Sulfuric acid production results from smelter air quality control operations; sales do not include internal usage.

(g) New York Commodity Exchange annual average spot price per pound – cathodes.

(h) Annual molybdenum dealer oxide average price per pound – as quoted in Platt's Metals Week.

Phelps Dodge Smelters, Refineries and Rod Production (a)

	1999	1998	1997	1996	1995
Smelters (i)					
Total copper *(Thousand tons)*	379.2	405.8	419.1	428.8	422.5
Less minority participant's share	64.2	60.1	64.5	62.9	58.6
Net Phelps Dodge share	315.0	345.7	354.6	365.9	363.9
Refineries (j)					
Copper *(Thousand tons)*	422.6	429.3	455.3	450.1	453.0
Gold *(Thousand ounces)*	72.9	74.6	107.9	114.4	145.4
Silver *(Thousand ounces)*	3,681.5	2,523.8	2,843.0	3,142.5	3,441.5
Rod *(Thousand tons)* (k)	805.1	764.4	747.0	711.4	654.2

(i) Includes production from purchased concentrates and copper smelted for others on a toll basis.

(j) Includes production from purchased material and copper refined for others on a toll basis.

(k) Includes rod, wire and other shapes.

Ore Reserves

The estimated ore reserves include the copper, copper-molybdenum and molybdenum mining operations of the recently acquired Cyprus Amax Minerals Company. Ore reserves at each of our active operations and at Safford, Ajo, Ojos del Salado, Cobre and Climax have been estimated as follows:

	Estimated at December 31, 1999						Estimated at December 31, 1998				
	Milling Reserves			Leaching Reserves		Phelps Dodge	Milling Reserves		Leaching Reserves		Phelps Dodge
	Million Tons	Percent Copper	Percent Moly	Million Tons	Percent Copper	Interest (Percent)	Million Tons	Percent Copper	Million Tons	Percent Copper	Interest (Percent)
Morenci	416.0	0.64	–	1,863.8	0.22	85.0	475.8	0.63	2,076.9	0.22	85.0
Sierrita	1,063.1	0.27	0.03	64.1	0.18	100.0	–	–	–	–	–
Safford (a, b)	330.0	0.65	–	630.0	0.32	100.0	330.0	0.65	558.2	0.34	100.0
El Abra	–	–	–	917.0	0.46	51.0	–	–	–	–	–
Chino	332.2	0.62	–	471.4	0.30	66.7	350.3	0.62	483.0	0.30	66.7
Bagdad	775.4	0.37	0.02	16.5	0.29	100.0	–	–	–	–	–
Cerro Verde	464.0	0.61	0.02	211.7	0.61	82.0	–	–	–	–	–
Tyrone	–	–	–	498.6	0.30	100.0	–	–	466.3	0.32	100.0
Candelaria (c)	460.2	0.82	–	–	–	80.0	456.1	0.85	–	–	80.0
Cobre (d)	132.4	0.73	–	97.9	0.35	100.0	133.6	0.73	98.0	0.35	100.0
Miami	–	–	–	188.7	0.38	100.0	–	–	–	–	–
Ajo (a)	150.0	0.56	–	–	–	100.0	150.0	0.56	–	–	100.0
Ojos del Salado (c, d)	18.7	1.32	–	–	–	100.0	18.7	1.32	–	–	100.0
Henderson	187.1	–	0.21	–	–	100.0	–	–	–	–	–
Climax (d)	145.2	–	0.23	–	–	100.0	–	–	–	–	–

(a) The Safford and Ajo properties are at various stages in the permitting process.

(b) The Safford deposit includes Dos Pobres and San Juan reserves.

(c) The Candelaria and Ojos del Salado deposits also contained, respectively, 0.006 ounces and 0.008 ounces of gold per ton in 1999 and 1998.

(d) Cobre, Ojos del Salado and Climax are standby properties where no current mining is taking place pending an improvement in the price of copper and molybdenum.

Our estimated share of aggregate ore reserves at the above named properties at December 31 is as follows:

	1999	1998	1997	1996	1995
Milling reserves *(Billion tons)*	4.2	1.6	1.6	1.3	1.2
Leaching reserves *(Billion tons)*	4.1	3.2	2.5	2.2	1.8
Commercially recoverable copper *(Million tons)*	24.4	14.5	13.7	12.1	12.3
Commercially recoverable molybdenum *(Million tons)*	1.1	–	–	–	–

Ore reserves are those estimated quantities of ore that may be profitably mined and processed for extraction of their constituent values. Estimates of our reserves are based upon our engineering evaluations of assay values derived from samplings of drill holes and other openings. In our opinion, the sites for such samplings are spaced sufficiently close and the geologic characteristics of the deposits are sufficiently well defined to render the estimates reliable. Leaching reserves include copper estimated to be recoverable from leach reserves remaining to be mined at Morenci, Chino, Tyrone, Cobre, Safford, Bagdad, Sierrita, Cerro Verde, El Abra and Miami. Commercially recoverable copper includes our share of the amount of copper estimated to be recoverable from milling and leaching reserves as well as the copper that will be recovered from existing stockpiles of leach material at Morenci, Chino, Tyrone and Cobre.

Ore reserves projected as of December 31, 1999, for Southern Peru Copper Corporation (in which we hold a 13.9 percent interest) based on available information, were at 2.1 billion tons of millable reserves at a grade of 0.66 percent copper and 1.3 billion tons of leachable reserves at an average grade of 0.22 percent copper. These tonnages are the total combined minable reserves for both the Cuajone and Toquepala properties, and the tonnages include significant reserve increases at the Toquepala mine announced during 1999. Reported drilling programs have further indicated 247 million tons of mineralized material grading 0.68 percent copper.

We hold various other properties containing mineralized material that we believe could be brought into production should market conditions warrant. Permitting and significant capital expenditures would be required before operations could commence at these properties. The deposits are estimated to contain the following mineralized material as of December 31, 1999:

		Milling Material		Leaching Material			Phelps Dodge
	Location	Million Tons	Percent Copper	Million Tons	Percent Copper	Percent Nickel	Interest (Percent)
American Mountain	Arizona	–	–	140	0.25	–	85.0
Cochise	Arizona	–	–	210	0.40	–	100.0
Garfield	Arizona	–	–	1,000	0.27	–	85.0
Lone Star	Arizona	–	–	1,600	0.38	–	100.0
Niagara	New Mexico	–	–	500	0.29	–	100.0
Sanchez	Arizona	–	–	230	0.29	–	100.0
Tohono	Arizona	276	0.70	404	0.32	–	100.0
Western Copper	Arizona	530	0.55	500	0.31	–	85.0
Piedras Verdes	Mexico	–	–	290	0.33	–	70.0
Sossego*	Brazil	240	1.14	–	–	–	50.0
El Abra	Chile	650	0.55	79	0.31	–	51.0
Ambatovy**	Madagascar	–	–	210	–	1.10	100.0
Kansanshi	Zambia	190	1.48	–	–	–	100.0
Lumwana	Zambia	220	0.83	–	–	–	100.0

* *Sossego deposit also contains 0.01 ounces of gold per ton.*

** *Ambatovy deposit also contains 0.10 percent cobalt.*

Note: Mineralized material is a mineralized body that has been delineated by appropriately spaced drilling and/or underground sampling to support the reported tonnage and average grade of metal(s). Such a deposit does not qualify as a reserve, until comprehensive evaluation based upon unit cost, grade, recoveries, and other material factors conclude legal and economic feasibility.

Phelps Dodge Mining Company Directory

Timothy R. Snider
President

Arthur R. Miele
President, Phelps Dodge Sales Company, Incorporated
President, Phelps Dodge Refining Corporation
President, Phelps Dodge Copper Products Company

Dennis M. Bartlett
Senior Vice President, Development

Gary A. Loving
Senior Vice President, South American Operations

Harry M. Conger
Vice President

David H. Thornton
Vice President, New Mexico Operations

William S. Brack
Vice President, Engineering

Jerry M. McCarty
Vice President and Controller

John O. Marsden
Vice President, Technology

Lowell A. Shonk
Vice President, Financial and Operational Analysis

Michael F. Upton
Vice President, Global Sourcing

North American Mining

Phelps Dodge Morenci, Inc.
Morenci, Arizona

Harry M. Conger
President

John D. Brack
General Manager, Mining Organization

John C. Galassini
General Manager, Processing Organization

John H. Zamar
General Manager, Administration

Chino Mines Company
Hurley and Santa Rita, New Mexico

David H. Thornton
President

Byron G. Belew
General Manager, Santa Rita

Fred J. Menzer
General Manager, Hurley

Phelps Dodge Miami, Inc.
Claypool, Arizona

R. Kenneth Watkins
President

Ruben D. Griffith
General Manager

Phelps Dodge Tyrone, Inc.
Tyrone, New Mexico

Robert I. Pennington
President

Jesus V. Figueroa
General Manager

Phelps Dodge Bagdad, Inc.
Bagdad, Arizona

A. John Broderick
President

Michael J. Bunch
General Manager

Phelps Dodge Sierrita, Inc.
Green Valley, Arizona

Robert F. Wishart
President

Steven C. Holmes
General Manager

Phelps Dodge Safford, Inc.
Safford, Arizona

E. Michael Schern
General Manager

Copper Queen Branch
Bisbee, Arizona

Duane N. Sexton
Project Manager

Climax Molybdenum Company

Dennis M. Bartlett
President

John A. Fenn
Vice President

Climax Molybdenum Company
Empire, Colorado

John A. Fenn
President, Henderson Mine and Mill

William D. Rech
General Manager, Henderson Mine and Mill

Climax Molybdenum Company
Fort Madison, Iowa

James C. Handley
Vice President and General Manager

Climax Molybdenum Company
Stowmarket, England
Rotterdam, Netherlands

Stanley Greetham
General Manager

South American Mining

Gary A. Loving
Senior Vice President, South American Operations

Compañia Contractual Minera Candelaria
Copiapó, Chile

David C. Naccarati
President

Isaac R. Aránguiz
General Manager

Phelps Dodge Mining Services, Inc.
Santiago, Chile

Jorge E. Riquelme B.
Vice President

Compañia Contractual Minera El Abra
Calama, Chile

Russell D. Alley
President and General Manager

R. Hunter White
General Manager, Operations

Sociedad Minera Cerro Verde S.A.
Arequipa, Peru

Alan D. Edwards
President and General Manager

Randy C. Davenport
General Manager, Operations

Phelps Dodge Refining Corporation and Phelps Dodge Copper Products Company

Phoenix, Arizona
Arthur R. Miele
President

El Paso, Texas
John W. Holzenthaler
Vice President and General Manager

Norwich, Connecticut
William J. Spellman
General Manager

Phelps Dodge Chicago Rod, Inc.
Chicago, Illinois

Allan Tittes
Vice President and General Manager

Phelps Dodge Sales Company, Incorporated

Phoenix, Arizona

Arthur R. Miele
President

Charles S. Brown
Senior Vice President

Stephen T. Higgins
Senior Vice President

Donald B. Ratcliff
Vice President

Stephen J. Ruth
Vice President

Phelps Dodge Exploration Corporation

Timothy R. Snider
President

Sydney, Australia
Russell J. Fountain
Vice President, Exploration – Australasia

Santiago, Chile
Gregory E. McKelvey
Vice President, Exploration – South America

Phoenix, Arizona
William H. Wilkinson
Assistant to the President

Toronto, Canada
R. Michael Gray
Vice President, Exploration – Canada

Johannesburg, South Africa
Michael J. Evans
Vice President, Exploration – Africa

Hermosillo, Mexico
Gary R. Heinemeyer
Vice President, Exploration – Mexico

Vienna, Austria
William V. Smart
Manager, Exploration – Europe

Phelps Dodge Industries Directory

Manuel J. Iraola
President

Phelps Dodge Wire & Cable Group

Coral Gables, Florida

Jean A. Mauldin
President

Marty G. Dew
Senior Vice President
President, Phelps Dodge
High Performance Conductors

Joseph Karkoski
Senior Vice President,
Technology

Gabor Mezei
Senior Vice President and
Chief Financial Officer

Robert P. Rennie
Senior Vice President,
Human Resources

Miguel A. Riquelme
Senior Vice President
President, PD Andean

Salvador A. Sanlley
Senior Vice President
President, Energy & Telecom

David W. Till
Senior Vice President, Globally
Competitive Programs

Nassry G. Zamora
Senior Vice President,
Leadership and Organization
Development

Juan C. Altimiras
Vice President,
Industrial Cable Segment

J. Michael Coyner
Vice President, Treasury

Daniel E. Floryan
Vice President,
Product Technology

Danilo Gutierrez G.
Vice President, Building Wire

Charles B. Phelps
Vice President and Controller

Mathias F. Sandoval
Vice President,
Energy Segment

Randy G. Schneider
Vice President,
Telecom Business Segment

Terry L. Stimmel
Vice President,
Process Technology

Bozidar Vragovich
Vice President,
Equipment Technology

Facilities:
Austria, Brazil, Chile, China, Costa Rica, El Salvador, Honduras, Hong Kong, Mexico, Philippines, Thailand, United States, Venezuela, Zambia

Columbian Chemicals Company

Marietta, Georgia

John T. Walsh
President

James P. Berresse
Senior Vice President, Finance
and Business Development

Nicholas A. Colletti
Senior Vice President,
Global Manufacturing

Dietmar Voss
Senior Vice President,
Marketing & Sales, Worldwide

Rodney R. Canada
Vice President,
Safety, Health and
Environmental Affairs

Joseph C. Hanley
Vice President,
Sales, North America

Gary P. Juno
Vice President, Legal and
General Counsel

J. Mark Spencer
Vice President,
Human Resources

Rodney L. Taylor
Vice President, Technology

U.S. Carbon Black Facilities:
El Dorado, Arkansas
Ulysses, Kansas
Franklin, Louisiana
Moundsville, West Virginia

International Carbon Black Facilities:
Cubatao, Brazil
Hamilton, Ontario, Canada
Hannover, Germany
Tiszaújváros, Hungary
Trecate, Italy
Yosu, South Korea
Santander, Spain
Bristol, United Kingdom

Phelps Dodge Corporation Directory

Board of Directors

Robert N. Burt
Chairman and Chief Executive Officer, FMC Corporation, a producer of chemicals and machinery for industry, agriculture and government

Archie W. Dunham
Chairman, President and Chief Executive Officer, Conoco Inc., an integrated energy company

William A. Franke
Chairman, President and Chief Executive Officer, America West Holdings Corporation, an aviation and travel services company; and Chairman, President and Chief Executive Officer of its subsidiary, America West Airlines, Inc.; President, Franke & Company, Inc., an investment firm

Paul Hazen
Chairman, Wells Fargo & Company, a bank holding company

Manuel J. Iraola
Senior Vice President, Phelps Dodge Corporation; President, Phelps Dodge Industries

Marie L. Knowles
Executive Vice President and Chief Financial Officer, Atlantic Richfield Company (ARCO), a diversified energy company

Robert D. Krebs
Chairman and Chief Executive Officer, Burlington Northern Santa Fe Pacific Corporation, a holding company engaged in transportation

Southwood J. Morcott
Chairman, Dana Corporation, a worldwide manufacturer and distributor of parts for the vehicular, industrial and mobile off-highway markets

Gordon R. Parker
Retired Chairman and Chief Executive Officer, Newmont Mining Corporation, one of the world's largest gold producers

J. Steven Whisler
President and
Chief Executive Officer,
Phelps Dodge Corporation

Douglas C. Yearley
Chairman, Phelps
Dodge Corporation

Committees of the Board of Directors

Audit Committee
Messrs. Hazen (Chairman), Dunham, Franke, (Mrs.) Knowles, Krebs

Committee on Directors
Messrs. Krebs (Chairman), Franke, Morcott, Parker

Compensation and Management Development Committee
Messrs. Morcott (Chairman), Burt, Dunham, Hazen

Finance Committee
Messrs. Franke (Chairman), Hazen, Parker, Yearley

Environmental, Health and Safety Committee
Messrs. Burt (Chairman), (Mrs.) Knowles, Morcott

Executive Committee*
Messrs. Yearley (Chairman), Franke, Krebs

* *All other Directors appointed alternate members of the Executive Committee*

Corporate Officers

Douglas C. Yearley
Chairman of the Board

J. Steven Whisler
President and
Chief Executive Officer

Manuel J. Iraola
Senior Vice President
President, Phelps
Dodge Industries

Timothy R. Snider
Senior Vice President
President, Phelps Dodge
Mining Company

S. David Colton
Senior Vice President and
General Counsel

Ramiro G. Peru
Senior Vice President and
Chief Financial Officer

David L. Pulatie
Senior Vice President,
Human Resources

Linda D. Findlay
Vice President,
Government Relations

A. Stephenson Huffman
Vice President and Chief
Information Officer

A. Daniel Luechtefeld
Vice President, Taxes

Kalidas V. Madhavpeddi
Vice President,
Business Development

Stuart L. Marcus
Vice President,
Human Resources

Arthur R. Miele
Vice President, Marketing

Stanton K. Rideout
Vice President and Controller

Gregory W. Stevens
Vice President and Treasurer

Susan M. Suver
Vice President,
Organization Effectiveness
and Communications

Robert C. Swan
Vice President and Secretary