

Phelps Dodge Corporation

Phelps Dodge Corporation Overview

Phelps Dodge Corporation is the world's second largest producer of copper, the world's largest producer of molybdenum and continuous-cast copper rod, and among the leading producers of magnet wire and carbon black. The company consists of two divisions, Phelps Dodge Mining Company and Phelps Dodge Industries, and employs approximately 15,500 people in 27 countries.

Results in Brief

(Dollars in thousands, except per share amounts and copper prices)	2000 (a)	1999 (b)	1998 (c)
Sales and other operating revenues	\$4,525,100	3,114,400	3,063,400
Operating income (loss)	\$ 237,000	(315,600)	422,700
Net income (loss)	\$ 29,000	(257,800)	190,900
Earnings (loss) per common share – diluted	\$ 0.37	(4.19)	3.26
Return on average shareholders' equity	0.9%	(9.9)%	7.3%
Net cash provided by operating activities	\$ 511,200	204,500	378,400
Capital expenditures and investments	\$ 422,300	240,400	668,300
Depreciation, depletion and amortization	\$ 464,200	329,100	293,300
Average number of shares outstanding – diluted (Thousands)	78,800	61,600	58,500
At Year End			
Total assets	\$7,830,800	8,229,000	5,036,500
Total debt	\$2,687,700	2,755,000	1,021,000
Long-term debt	\$1,963,000	2,172,500	836,400
Shareholders' equity	\$3,105,000	3,276,800	2,587,400
Shares outstanding (Thousands)	78,700	78,700	57,900
Number of employees	15,500	16,400	13,900
Division Results			
Phelps Dodge Mining Company operating income (loss) (d)	\$ 243,300	(301,000)	110,300
Phelps Dodge Industries operating income (e)	\$ 70,300	49,700	353,600
Copper production (Own production – tons)	1,200,300	890,100	874,000
Copper deliveries (Own production – tons)	1,200,600	884,200	876,300
Copper Price			
COMEX annual average spot price per pound – cathodes	\$ 0.84	0.72	0.75

(a) 2000 operating income was \$294.4 million before non-recurring provisions of \$51.8 million for 1999 and 2000 restructuring plans and \$5.6 million for working capital write-downs. 2000 after-tax income was \$72.3 million, or 92 cents per share, before non-recurring provisions that totaled \$43.3 million, or 55 cents per common share, on an after-tax basis. Return on average shareholders' equity was 2.3 percent before non-recurring provisions.

(b) 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 non-recurring provisions that 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 non-recurring provisions.

(c) 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.

(d) 2000 operating income for Phelps Dodge Mining Company was \$249.1 million before pre-tax, non-recurring charges of \$5.8 million for the 2000 restructuring plans. 1999 operating income 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 1999 restructuring plans. 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.

(e) 2000 operating income for Phelps Dodge Industries was \$121.9 million before pre-tax, non-recurring charges of \$51.6 million for wire and cable restructuring activities. 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 1999 restructuring plans in the wire and cable segment and \$17.7 million at the specialty chemicals segment. 1998 operating income for Phelps Dodge Industries included 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.

Forward-Looking Statements. Except for historical information, the matters discussed in this Annual Report and Form 10-K are forward-looking statements regarding future events or the future financial performance of Phelps Dodge Corporation. Actual results may differ materially from those projected. These forward-looking statements represent the company's judgment as of March 6, 2001. Further explanation of these statements and a review of the factors which may affect them are included in Management's Discussion and Analysis within Form 10-K on page 32.

Dear Fellow Shareholders ----

The year 2000 presented significant opportunities and challenges for Phelps Dodge Corporation. We succeeded on a number of critically important fronts:

- *Twenty-four of our worldwide operations completed the year with zero recordable safety incidents — clear evidence that exceptional safety performances can be attained and sustained in an industrial work environment. 2000 was among the safest years in the history of our company. The deaths last year of two contractors' employees, however, are tragic reminders no one can waiver if everyone is to return home safely each day.*
- *We tripled our year 2000 earnings and doubled our operating cash flow as compared with our 1999 financial performance.*
- *We successfully completed the integration of our \$3.4 billion acquisition of Cyprus Amax Minerals Company, capturing the \$135 million annual run-rate in synergy savings in a 14-month period — one full year ahead of the schedule originally outlined to shareholders.*
- *PD Wire & Cable's operating earnings (before non-recurring charges) tripled over 1999 despite continued regional economic weaknesses.*
- *We decided to shift the focus of our capital and management resources to the growth of our company in the mining and metals industry.*
- *We began the search for new, strategic ownership alternatives for our specialty chemicals and wire and cable manufacturing businesses.*

Simultaneously, we battled low commodity prices; skyrocketing costs of market electric power, diesel fuel and natural gas; power supply interruptions; and extraordinary fourth quarter rainfall that reduced copper production at Morenci by 20 million pounds.

In this letter to you a year ago, we talked about aggressive, internal stretch goals we set for ourselves in 2000. In the last 12 months, the convergence of these outside forces caused us to do more than just stretch beyond our comfort zones. The Phelps Dodge team stepped up and delivered a very solid operating performance. In my 25 years at Phelps Dodge, I have never been more proud of our employees or our ability to successfully handle adversity. Nor have I been more confident in our ability to create and sustain long-term value for our shareholders.

Financial Performance

■ 2000 ■ 1999

Earnings before non-recurring items (in millions)
■ 2000 \$72.3
■ 1999 \$21.7

Earnings per share before non-recurring items
■ 2000 \$0.92
■ 1999 \$0.35

Operating cash flow (in millions)
■ 2000 \$511.2
■ 1999 \$204.5

Operating cash flow per share
■ 2000 \$6.49
■ 1999 \$3.32

Stock Price

■ 2000 ■ 1999

High
■ 2000 \$73.00
■ 1999 \$70.63

Low
■ 2000 \$36.06
■ 1999 \$41.88

Year-end close
■ 2000 \$55.81
■ 1999 \$67.31

Many of the year's significant positive developments were masked by a series of paradoxical events that ultimately affected our financial performance:

- *Solid copper market fundamentals were present throughout the year. Combined physical inventories on the London Metal Exchange (LME) and New York Commodity Exchange (COMEX) decreased more than 52 percent, or 457,000 metric tonnes, but concern about a slowing U.S. economy resulted in a copper price that did not reflect the commodity exchange inventories and the global demand outlook.*
- *While the 2000 annual average COMEX copper price increased approximately 12 cents from 1999 to 84 cents per pound, other external factors — primarily escalating energy-related costs — increased our total copper unit production costs, limiting gains from the copper price improvement.*
- *Although our share of 2000 copper production reached a record 2.4 billion pounds, our production was negatively impacted by power interruptions in Arizona and New Mexico, ore delineation and delivery challenges at El Abra, and extraordinary rainfall at Morenci.*
- *We reduced planned molybdenum production by 4 million pounds at Henderson and lowered associated mine development costs, and shifted the emphasis of our molybdenum production from metallurgical-grade to chemical-grade product. Unfortunately, molybdenum prices tumbled in the last half of the year reflecting reduced demand for metallurgical-grade product by the U.S. steel industry and supply increases from by-product producers and Chinese exporters.*
- *The operating earnings (before non-recurring charges) of Columbian Chemicals Company fell 20 percent as high energy-related feedstock costs negatively impacted margins.*
- *Our reduced margins were insufficient to generate the excess cash flow required to significantly reduce our acquisition-related debt.*

As we entered 2001, our battle continued with high energy-related costs and the economic ripple effect of the California power crisis on the western United States. While we can and will do a number of things to mitigate the power and energy situation, long-term energy solutions on a regional and national level must be aggressively sought.

Internally, we have multiple initiatives under way that will extract from our cost structure amounts necessary to help offset increased energy costs. In early 2001, for example, we began construction of a 50-megawatt, self-generation power plant in New Mexico. Energy costs and other market factors also caused us to consider other actions. In January 2001, we announced the potential production curtailment and layoff of 2,350 employees at our Chino, Tyrone and Sierrita operations.



J. Steven Whisler ----
Chairman, President and CEO

Despite these challenges, we remain committed to growing aggressively, and we took important positioning steps in 2000 to narrow our strategic focus and to ready ourselves for future action.

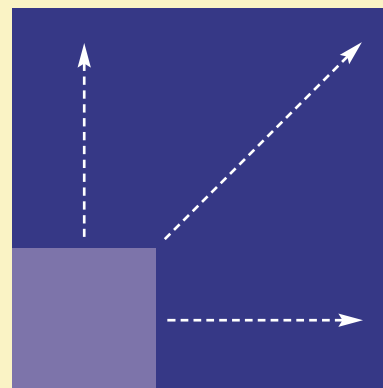
A major step was taken in December when we decided to focus our strategic capital and management resources on the mining and metals sector where we are positioned to succeed based on our leadership and technical competencies. Growth and further success in the mining and metals industry will require us to strengthen our balance sheet by reducing debt, and to generate additional sources of cash that will enable us to seize quickly the best opportunities.

Phelps Dodge remains committed to growing aggressively.

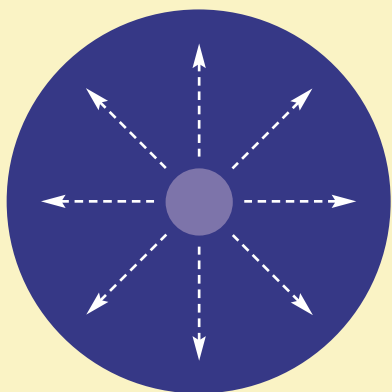
In 2000, we took important positioning steps to ready our company for future action.

We announced at year end that we would evaluate new, strategic ownership alternatives for PD Wire & Cable and Columbian Chemicals Company. Since the mid-1980s, these businesses were expected to generate earnings and cash flow that would smooth the cycles inherent in our copper mining business. The ability of these companies to now fulfill their original strategic objectives has been diminished as a result of Phelps Dodge Mining Company's acquisition-related growth. Although our significant capital investments in PD Wire & Cable and Columbian Chemicals have created mature businesses with strong franchises, they each must now generate proportionately greater earnings. We believe the capital required to grow these companies will create greater value to our shareholders if applied to mining and metals opportunities. This led to our decision to pursue strategic ownership alternatives. In seeking new ownership for these businesses, we are committed to negotiating only those transactions that represent good value for our shareholders.

Our growth in the mining and metals sector already is occurring. We have several greenfield copper projects moving through the development pipeline that will increase our worldwide production and reserves. We remain optimistic about our Safford, Arizona, copper leaching project. The land exchange and environmental permitting processes, which previously had been slowed, now have an opportunity for more expeditious regulatory review and a favorable outcome. The Sossego project, located in the Carajás region of Brazil, is a potentially significant copper-gold mineral resource. A feasibility study to evaluate a potential mine and concentrator facility is nearly complete. The results of this study will determine the economic viability of the project and will lead to a decision on development. Further success in mineral exploration will remain key to growth and adding shareholder value for our company.



Grow our Reserves

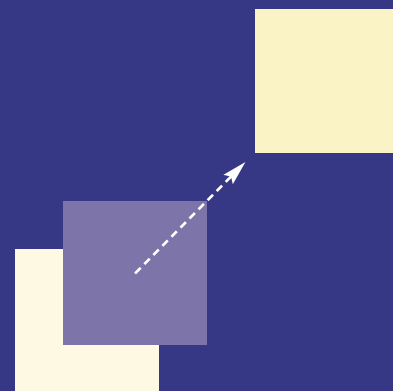


Broaden our Portfolio

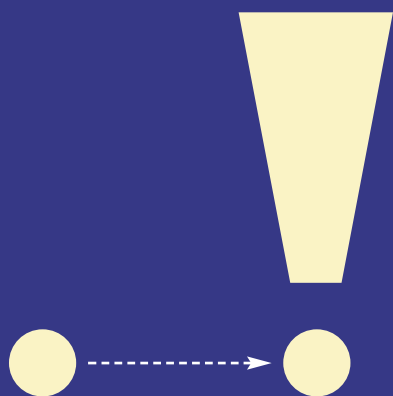
Size, coupled with quality, remains critical in the mining and metals industry. Currently, Phelps Dodge is the world's second largest producer of copper and the world's largest producer of molybdenum. Our success in executing the 1999 acquisition of Cyprus Amax, and our ability to quickly realize the \$135 million in annual run-rate synergy savings and to integrate the companies, have grown our confidence and organizational capability to succeed in future acquisitions. Our leadership and technical competencies in extraction and hydrometallurgical technologies, project development and management, safety, and environmental stewardship ideally position us to replicate our operating success. Some of the most exciting growth opportunities for Phelps Dodge will emerge as we broaden our mining and metals portfolio.

Within our current reserve base, we continue to combine sophisticated technologies with innovation. One example is the recent conversion of our Morenci operation to 100 percent solution extraction/electrowinning (SX/EW) production. The \$220 million project, which was completed in early 2001, further positions Phelps Dodge as the largest SX/EW producer in the world.

Our company also continues its development and adoption of best practices that served us well during the Cyprus integration. We have blended the Cyprus Quest 21 process, the Phelps Dodge *Zero and Beyond* safety value, and other strategic initiatives into one system. Called *Quest for Zero*, it is designed to produce specific, measurable and replicable results: zero safety and environmental incidents, zero variability in production process and costs, zero waste, and zero product defects. This is an ambitious undertaking, but already in safety we have evidence that *Zero* is possible.



Succeed through Strategic Sameness



Venture Out for Future Value

Finally, we expect to create new, out-of-the-box ventures with the potential to flourish over time. Our involvement in the creation of Quadrem is one example. This new Internet-based procurement marketplace is open, neutral and independent and will enable all mining, metals and minerals companies worldwide to purchase goods and services from suppliers in more than 100 countries. The benefits to both buyers and suppliers include access to common electronic cataloguing, administrative and cost efficiencies, and the streamlining of the transaction process.

Currently, we have myriad other ventures in progress. Some are related to the development of proprietary process technologies, while others capitalize on our unique knowledge base that can be applied to products that support consumer safety and energy efficiency. While growth in mining and metals will remain our core focus, we will not overlook the potential to break into strategically significant adjacencies that may generate future streams of value for Phelps Dodge shareholders.

The achievements of our people in 2000 were significant. We fought the concurrent challenges of low commodity prices and high energy costs. We expedited the integration of Cyprus Amax one year earlier than projected, and as a result have created a larger and leaner Phelps Dodge prepared for the next phase of growth. We currently are engaged in completing the steps that will enable us to reduce our debt and focus our growth on the mining and metals sector.

The signs of our growth will become apparent as we:

- *Gain critical size in the mining and metals industry,*
- *Enhance and further institutionalize best practices through Quest for Zero,*
- *Broaden our portfolio by applying our operating strengths, and*
- *Venture out into business adjacencies that will grow over time.*

Phelps Dodge is a *great* company with enormous opportunities ahead. Time and again, the Phelps Dodge team has combined its talent, resilience and innovation to achieve impressive results. In the upcoming years, you can expect to see us step out to be bigger, better, bolder and broader.

Sincerely,



J. Steven Whisler ----
Chairman, President and CEO

April 1, 2001

Phelps Dodge Mining Company

Phelps Dodge Mining Company (PDMC) is an industry leader in the safe, efficient and environmentally responsible production of high-quality metals and minerals. PDMC is a fully integrated producer of copper and molybdenum, with mines and processing facilities in North and South America and Europe. PDMC ranks as the world's second largest producer of copper and the leading producer of continuous-cast copper rod and molybdenum. As by-products, PDMC also produces other minerals, such as gold, silver and rhenium. Phelps Dodge Exploration Corporation and the Process Technology Center ensure the continued discovery and development of economically viable mineral reserves, and the refinement and creation of production and process technologies.

Copper



Primary products

- Copper concentrate
- Copper cathode
- Copper rod

Operations (active)

Mines:

- Arizona – Bagdad, Miami, Morenci, Sierrita
- New Mexico – Chino, Tyrone
- Chile – Candelaria, El Abra
- Peru – Cerro Verde

Smelters:

- Arizona – Miami
- New Mexico – Chino

Refineries:

- Arizona – Miami
- Texas – El Paso

Rod mills:

- Arizona – Miami
- Connecticut – Norwich
- Illinois – Chicago
- Texas – El Paso

2000 production

- 2.4 billion pounds

Employees

- 9,300

Molybdenum



Primary products

- Molybdenum concentrate
- Molybdenum oxides
- Chemical-grade molybdenum

Operations (active)

Underground mine:

- Colorado – Henderson

By-product, open-pit mines:

- Arizona – Bagdad, Sierrita

Processing plants:

- Arizona – Sierrita
- Iowa – Fort Madison
- Netherlands – Rotterdam
- United Kingdom – Stowmarket

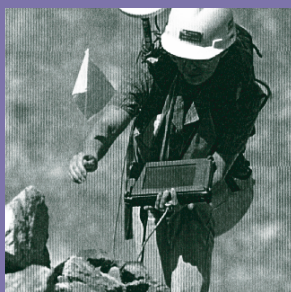
2000 production

- Primary molybdenum: 19.9 million pounds
- By-product molybdenum: 31.6 million pounds

Employees

- 560

Exploration and Process Technology Development



Objectives

- Discovery/delineation of new ore bodies
- Replacement of reserves through near-mine exploration
- Primary targets: copper, gold, nickel and zinc
- Project evaluation, engineering and design
- Development of new process technology

Active exploration

- Australia, Bolivia, Brazil, Bulgaria, Canada, Chile, China, India, Indonesia, Madagascar, Mexico, Panama, Peru, Philippines, Portugal, Sweden, United States, Zambia

2000 highlights

- Completed positive pre-feasibility study of Sossego copper-gold project in Brazil; final feasibility study to be completed in 2001
- Continued permitting process for copper mine-for-leach project in Safford, Arizona
- Developed process technology for "Run-of-Mine" project at El Abra

- Implemented improved ore-fragmentation technology
- Initiated development plan for alternative sulfuric acid production method
- Proceeded with development of several leading-edge, proprietary processes for enhanced copper extraction

Employees

- 170

Phelps Dodge Industries

Phelps Dodge Industries (PDI) comprises two global companies — PD Wire & Cable and Columbian Chemicals Company — that manufacture engineered products for the energy, telecommunications, transportation and specialty chemicals sectors both in established and emerging markets worldwide. PD Wire & Cable products deliver energy and transmit voice and data communications in the electricity-based economy. Columbian Chemicals Company is among the world's largest producers of carbon black. Its primary products, rubber and industrial blacks, add strength, durability and improved performance to tires, mechanical rubber goods, inks, paint, plastics, electrical cable and other products.

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, Costa Rica, Honduras, Mexico, Thailand (2), United States (7), Venezuela (2), Zambia

Equity operations:

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

Sales and distribution centers:

- Belgium, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Japan, Mexico, Panama, Puerto Rico, United States

Technology center:

- Fort Wayne, Indiana
- Headquarters:
- Coral Gables, Florida

Employees

- 3,700

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

Headquarters:

- Marietta, Georgia

2000 production

- 2.1 billion pounds

Employees

- 1,500

Health and Safety: A Core Value

The Phelps Dodge *Chairman's Health & Safety Award* recognizes outstanding health and safety performance across the global business units of our company. Eligibility is based on completion of the calendar year with zero recordable occupational injuries or illnesses. A total of 24 Phelps Dodge operations were eligible for the award in 2000. The three winners are:

U.S. Operation: Columbian Chemicals Company, Ulysses, Kansas

International Operation: PD Alcoa, Poços de Caldas, Brazil

Support and Transition Operation: Mt. Emmons Mining Company, Colorado

The *James Douglas Health & Safety Award* recognizes an individual or team from each Phelps Dodge division that makes a significant and/or sustained contribution to the health, safety and welfare of employees and their families, on or off the job. Douglas was a pioneer in mining and metallurgy and was among the early industry champions of employee health and safety. He established the first Phelps Dodge safety department in 1913. The winners from each division are:

Phelps Dodge Mining Company: Russel P. Rios, General Supervisor, Surface Department, Phelps Dodge Morenci (Arizona)

Phelps Dodge Industries: Leadership Team, PD Alcoa (Brazil)

Copper

Copper market fundamentals improved substantially in 2000 from the previous year. Globally, growth in consumption of refined copper exceeded 5 percent as demand in the United States, Europe, Canada and Asia proved to be stronger than expected. Refined production grew a modest 2 percent. As a result, copper inventories for western metals exchanges dropped steadily throughout 2000.

While the New York Commodity Exchange (COMEX) copper price averaged 84 cents per pound of cathode in 2000, compared to the 1999 average of 72 cents per pound, the price did not fully reflect the strong market fundamentals.

In the short term, the outlook for copper likely will remain demand driven, especially as signs of an economic slowdown in the United States, which could carry over to other regional economies, became apparent in late 2000. Analysts expect copper inventories to further dwindle in the coming years and have forecast deficits tied to lower levels of growth in copper production. The copper market is expected to be roughly in balance in 2001, followed by a modest deficit in 2002.

Market Review

Molybdenum

During the past decade, western world consumption of molybdenum grew at an average annual rate of 3 percent while production increases outpaced market demand. The market remains strong for new high-growth applications of molybdenum, including super-alloys, desulfurization catalysts, lubricants, chemicals and electronics. However, the U.S. steel and cast iron sectors which comprise the larger market segment have slowed, and a high volume of molybdenum exports from China continue to move into the marketplace. These dynamics have created a substantial inventory surplus, reducing the molybdenum oxide price in 2000 by 5 percent from 1999, and by a total of 41 percent over the past four years.

Wire and Cable

Market conditions for wire and cable products improved gradually in 2000 driven by increased activity in the aerospace and geophysical markets, positive economic activity in Africa, and reactivation of energy infrastructure projects in Brazil, Central America and Southeast Asia. Improved metals prices also favorably impacted revenues in the wire and cable industry. However, lower sales to the automotive and appliance segments in the fourth quarter partially offset these market improvements.

Demand growth is projected in the emerging wire and cable markets of Southeast Asia, South America and the Middle East, while U.S. consumption of wire and cable products is expected to remain relatively flat.

Carbon Black

The demand for carbon black is driven primarily by tire production, and is divided into approximately equal shares among Europe, Asia and North America. Worldwide tire sales have shown consistent growth from 1998 to 2000 and are projected to continue to grow from 2001 to 2004. The manufacture of low-technology, standard passenger tires is shifting to low-cost-production countries. More sophisticated tires, such as high-performance passenger tires and large truck tires, will continue to be produced in the major industrialized markets.

Recent macroeconomic conditions, including growth in global gross domestic product, led to higher vehicle sales and strong original equipment tire sales in 2000. Records for these sectors were set in North America and western Europe in 1999 and then again in 2000. However, slower growth in carbon black demand in the United States is anticipated over the next four years as automobile manufacturing and tire production slow. Truck tire demand in the emerging markets is expected to increase as truck transport is essential to the continuing growth of commerce in these regions.

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 and Chief Executive Officer of its subsidiary, America West Airlines, Inc.; and 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

Retired Executive Vice President and Chief Financial Officer, Atlantic Richfield Company (ARCO), a diversified energy company

Robert D. Krebs

Chairman, Burlington Northern Santa Fe Pacific Corporation, a holding company engaged in transportation

Southwood J. Morcott

Retired 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

Chairman, President and Chief Executive Officer, Phelps Dodge Corporation

Committees of the Board of Directors

Audit Committee

Knowles (Chair), Dunham, Franke, Krebs, Parker

Committee on Directors

Burt (Chair), Dunham, Hazen, Krebs, Morcott

Compensation and Management Development Committee

Hazen (Chair), Burt, Dunham, Knowles, Morcott

Finance Committee

Krebs (Chair), Franke, Hazen, Morcott, Parker

Environmental, Health and Safety Committee

Parker (Chair), Burt, Franke, Knowles

Executive Committee*

Whisler (Chair), Franke, Krebs

*All other directors appointed alternate members of the Executive Committee

Corporate Officers

J. Steven Whisler

Chairman, President and Chief Executive Officer

Manuel J. Iraola

Senior Vice President and President, Phelps Dodge Industries

Timothy R. Snider

Senior Vice President and President, Phelps Dodge Mining Company

Ramiro G. Peru

Senior Vice President and Chief Financial Officer

Arthur R. Miele

Senior Vice President, Marketing, and President, Phelps Dodge Sales Company

Kalidas V. Madhavpeddi

Senior Vice President, Business Development

S. David Colton

Senior Vice President and General Counsel

David L. Pulatje

Senior Vice President, Human Resources

Linda D. Findlay

Vice President, Government Relations

A. Daniel Luechtefeld

Vice President, Taxes

Stuart L. Marcus

Vice President, Human Resources

Stanton K. Rideout

Vice President and Controller

Gregory W. Stevens

Vice President and Treasurer

Susan M. Sover

Vice President, Organization Effectiveness and Communications

Robert C. Swan

Vice President and Secretary

Phelps Dodge

Leadership Changes

We welcomed two executives to our Senior Management Team: Arthur R. Miele, senior vice president, marketing, and president of Phelps Dodge Sales Company; and Kalidas V. Madhavpeddi, senior vice president, business development. Both Art and Kalidas have been with our company for many years and bring with them a deep understanding of our business and our customers.

In Memorial

Sadly, our dear friend and respected colleague, A. L. "John" Lawrence, who served as President of Phelps Dodge Exploration Corporation, lost his battle against cancer in December. John made many significant contributions during his 28-year career with our company. His passion for geology, the discovery process, and the people in our company will be long remembered.

Eleven-Year Financial Summary 2000-1990

(Dollars in millions, except per share amounts)

	2000(a)	1999(b)	1998(c)	1997(d)
Sales and other operating revenues to unaffiliated customers				
Phelps Dodge Mining Company	\$3,073.7	1,786.6	1,677.7	2,173.3
Phelps Dodge Industries	<u>1,451.4</u>	<u>1,327.8</u>	<u>1,385.7</u>	<u>1,741.0</u>
	<u>4,525.1</u>	<u>3,114.4</u>	<u>3,063.4</u>	<u>3,914.3</u>
Operating expenses				
Cost of products sold (g)	3,580.2	2,477.8	2,381.3	2,744.1
Depreciation, depletion and amortization	464.2	329.1	293.3	283.7
Selling and general administrative expense	135.1	115.5	102.0	141.8
Exploration and research expense	56.8	52.2	55.0	87.8
Provision for reclamation costs, environmental costs, asset dispositions and other	<u>51.8</u>	<u>455.4</u>	<u>(190.9)</u>	<u>45.9</u>
	<u>4,288.1</u>	<u>3,430.0</u>	<u>2,640.7</u>	<u>3,303.3</u>
Operating income (loss)	<u>237.0</u>	<u>(315.6)</u>	<u>422.7</u>	<u>611.0</u>
Interest expense	(217.8)	(120.4)	(96.4)	(74.2)
Capitalized interest	4.5	0.2	1.9	11.7
Miscellaneous income and expense, net	<u>30.0</u>	<u>9.1</u>	<u>8.8</u>	<u>33.4</u>
Income (loss) before taxes, minority interests, equity in net earnings (losses) of affiliated companies, and cumulative effect of accounting changes				
	53.7	(426.7)	337.0	581.9
Provision for taxes	(19.2)	165.2	(134.0)	(180.4)
Minority interests in consolidated subsidiaries (g)	(7.0)	2.1	(7.9)	(4.7)
Equity in net earnings (losses) of affiliated companies	<u>1.5</u>	<u>5.1</u>	<u>(4.2)</u>	<u>11.7</u>
Income (loss) before cumulative effect of accounting changes	<u>29.0</u>	<u>(254.3)</u>	<u>190.9</u>	<u>408.5</u>
Cumulative effect of accounting changes	—	(3.5)	—	—
Net income (loss)	<u>\$ 29.0</u>	<u>(257.8)</u>	<u>190.9</u>	<u>408.5</u>
Earnings (loss) per common share — diluted (h, i)				
Income (loss) before cumulative effect of accounting changes	\$ 0.37	(4.13)	3.26	6.63
Cumulative effect of accounting changes	—	(0.06)	—	—
Net income (loss)	<u>\$ 0.37</u>	<u>(4.19)</u>	<u>3.26</u>	<u>6.63</u>
Average number of common shares outstanding				
<i>In millions (h)</i>	78.8	61.6	58.5	61.6

- (a) Reported amounts include after-tax, non-recurring provisions of \$56.4 million or 72 cents per common share for the 1999 and 2000 restructuring plans, offset by an income tax refund and related interest of \$10.1 million or 13 cents per common share and an insurance settlement refund of \$3.0 million or 4 cents per common share relating to a former Cyprus Amax coal property.
- (b) 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.
- (c) 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.
- (d) 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.

<u>1996(e)</u>	<u>1995</u>	<u>1994(f)</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>
2,091.1	2,488.7	1,820.7	1,320.3	1,397.7	1,325.3	1,447.8
<u>1,695.5</u>	<u>1,696.7</u>	<u>1,468.5</u>	<u>1,275.6</u>	<u>1,181.6</u>	<u>1,109.0</u>	<u>1,187.9</u>
<u>3,786.6</u>	<u>4,185.4</u>	<u>3,289.2</u>	<u>2,595.9</u>	<u>2,579.3</u>	<u>2,434.3</u>	<u>2,635.7</u>
2,604.4	2,691.4	2,375.7	1,921.8	1,841.1	1,722.2	1,653.6
249.5	223.5	195.3	187.1	162.3	138.9	133.0
125.9	123.6	107.1	103.7	105.4	98.7	93.7
83.9	73.2	53.0	56.8	49.9	50.6	47.4
10.0	(26.8)	157.7	—	—	—	—
<u>3,073.7</u>	<u>3,084.9</u>	<u>2,888.8</u>	<u>2,269.4</u>	<u>2,158.7</u>	<u>2,010.4</u>	<u>1,927.7</u>
712.9	1,100.5	400.4	326.5	420.6	423.9	708.0
(68.0)	(65.1)	(57.3)	(54.5)	(47.4)	(47.4)	(51.2)
1.9	3.1	20.7	17.5	7.9	8.3	1.3
<u>40.7</u>	<u>37.2</u>	<u>11.3</u>	<u>16.4</u>	<u>47.1</u>	<u>28.4</u>	<u>18.1</u>
687.5	1,075.7	375.1	305.9	428.2	413.2	676.2
(220.0)	(322.7)	(104.7)	(105.9)	(114.4)	(131.4)	(224.0)
(16.2)	(12.9)	(8.0)	(12.1)	(12.8)	(12.0)	(9.6)
10.5	6.5	8.6	—	0.6	3.1	12.3
<u>461.8</u>	<u>746.6</u>	<u>271.0</u>	<u>187.9</u>	<u>301.6</u>	<u>272.9</u>	<u>454.9</u>
—	—	—	—	(79.9)	—	—
<u>461.8</u>	<u>746.6</u>	<u>271.0</u>	<u>187.9</u>	<u>221.7</u>	<u>272.9</u>	<u>454.9</u>
6.98	10.66	3.82	2.66	4.28	3.93	6.56
—	—	—	—	(1.13)	—	—
<u>6.98</u>	<u>10.66</u>	<u>3.82</u>	<u>2.66</u>	<u>3.15</u>	<u>3.93</u>	<u>6.56</u>
66.2	70.0	71.0	70.6	70.4	69.5	69.3

- (e) 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.
- (f) 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.
- (g) 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.
- (h) 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.
- (i) Based on average number of shares outstanding (diluted).

Eleven-Year Financial Summary 2000-1990 (Continued)
(Dollars in millions, except per share amounts)

	2000(a)	1999(b)	1998(c)	1997(d)
Business segments (g)				
Operating income (loss):				
Phelps Dodge Mining Company	\$ 243.3	(301.0)	110.3	459.2
Phelps Dodge Industries	70.3	49.7	353.6	207.8
Corporate and other	(76.6)	(64.3)	(41.2)	(56.0)
	<u>\$ 237.0</u>	<u>(315.6)</u>	<u>422.7</u>	<u>611.0</u>
Net assets:				
Phelps Dodge Mining Company	\$6,036.7	6,345.1	3,218.2	3,026.8
Phelps Dodge Industries	1,452.1	1,520.9	1,608.7	1,736.2
Corporate and other	342.0	363.0	209.6	202.2
	<u>\$7,830.8</u>	<u>8,229.0</u>	<u>5,036.5</u>	<u>4,965.2</u>
Common dividends declared	\$ 157.5	124.3	117.3	122.7
Dividends per common share (h)	\$ 2.00	2.00	2.00	2.00
Purchase of own shares (h)				
Common shares (<i>Thousands</i>)	—	—	732	6,554
Cost of shares purchased	\$ —	—	35.4	511.5
Net cash provided by operating activities	\$511.2	204.5	378.4	764.6
Capital expenditures and investments	\$422.3	240.4	668.3	789.2
At December 31				
Net current assets	\$ 89.7	275.1	328.9	350.0
Total assets	\$7,830.8	8,229.0	5,036.5	4,965.2
Long-term debt	\$1,963.0	2,172.5	836.4	857.1
Shareholders' equity	\$3,105.0	3,276.8	2,587.4	2,510.4
Book value per common share (h,i)	\$ 39.45	41.66	44.66	42.81
Common shares outstanding (<i>Thousands</i>) (h)	78,709	78,656	57,934	58,634
Number of employees	15,500	16,400	13,924	15,869
Stock prices (Common shares)				
High (h)	\$ 73.00	70.63	71.75	89.63
Low (h)	\$ 36.06	41.88	43.88	59.88
Close (h)	\$ 55.81	67.31	50.88	62.25
Copper				
Copper production (<i>Own production — thousand tons</i>)	1,200.3	890.1	874.0	812.1
Copper sales (<i>Own production — thousand tons</i>)	1,200.6	884.2	876.3	812.8
COMEX copper price (j)	\$ 0.84	0.72	0.75	1.04
Commercially recoverable copper reserves (<i>Million tons</i>)	24.1	24.4	14.5	13.7

- (a) Reported amounts include after-tax, non-recurring provisions of \$56.4 million or 72 cents per common share for the 1999 and 2000 restructuring plans, offset by an income tax refund and related interest of \$10.1 million or 13 cents per common share and an insurance settlement refund of \$3.0 million or 4 cents per common share relating to a former Cyprus Amax coal property.
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- (d) 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.

<u>1996(e)</u>	<u>1995</u>	<u>1994(f)</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>
528.7	898.7	335.1	234.2	374.1	376.2	598.5
227.9	246.2	113.6	135.0	93.0	91.7	156.1
<u>(43.7)</u>	<u>(44.4)</u>	<u>(48.3)</u>	<u>(42.7)</u>	<u>(46.5)</u>	<u>(44.0)</u>	<u>(46.6)</u>
<u>712.9</u>	<u>1,100.5</u>	<u>400.4</u>	<u>326.5</u>	<u>420.6</u>	<u>423.9</u>	<u>708.0</u>
2,879.8	2,776.4	2,411.9	2,074.5	1,874.3	1,675.7	1,522.9
1,544.7	1,336.4	1,407.7	1,323.0	1,265.0	1,153.6	1,157.8
<u>391.9</u>	<u>533.1</u>	<u>314.2</u>	<u>323.4</u>	<u>301.9</u>	<u>221.9</u>	<u>146.7</u>
<u>4,816.4</u>	<u>4,645.9</u>	<u>4,133.8</u>	<u>3,720.9</u>	<u>3,441.2</u>	<u>3,051.2</u>	<u>2,827.4</u>
128.6	125.6	119.2	116.1	113.0	104.0	103.7
1.95	1.80	1.69	1.65	1.61	1.50	1.50
4,297	2,761	76	130	—	60	760
273.2	162.7	3.9	5.6	—	1.9	21.8
837.5	959.0	542.6	385.0	430.7	481.0	641.9
560.4	405.2	432.3	391.0	329.4	366.2	294.8
735.6	950.2	558.2	447.4	449.1	341.7	349.2
4,816.4	4,645.9	4,133.8	3,720.9	3,441.2	3,051.2	2,827.4
554.6	613.1	622.3	547.3	373.8	382.0	403.5
2,755.9	2,677.7	2,187.6	2,022.1	1,972.4	1,859.3	1,682.9
42.59	39.04	30.95	28.67	28.03	26.71	24.43
64,711	68,593	70,672	70,531	70,374	69,622	68,882
16,033	15,343	15,498	14,799	14,567	13,931	14,066
77.63	70.50	65.00	55.63	53.00	39.63	35.81
54.63	51.88	47.63	39.13	32.00	26.19	23.06
67.50	62.25	61.88	48.75	48.50	33.50	28.31
770.4	712.7	572.8	547.7	537.0	538.1	560.7
771.6	696.6	560.6	543.9	537.7	553.9	556.7
1.06	1.35	1.07	0.85	1.03	1.05	1.19
12.1	12.3	10.6	10.1	10.5	10.8	11.8

(e) 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.

(f) 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.

(g) All years have been presented 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.

(h) In 1992, the Corporation'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.

(i) Based on number of shares outstanding.

(j) New York Commodity Exchange annual average spot price per pound — cathodes.

Shareholder Information

Transfer and Dividend Paying Agent and Registrar

Mellon Investor Services LLC
Overpeck Centre
85 Challenger Road
Ridgefield Park, New Jersey 07660

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

Independent Accountants

PricewaterhouseCoopers LLP
1850 North Central Avenue, Suite 700
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(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 2000 is filed with the Securities and Exchange Commission. Additional copies of this report 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

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