PHELPS DODGE CORP
Form 10-Q
July 28, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarter ended June 30, 2005
Commission file number 1-82
PHELPS DODGE CORPORATION

(a New York corporation)
13-1808503
(I.R.S. Employer Identification No.)
One North Central Avenue, Phoenix, AZ 85004
Registrant s telephone number: (602) 366-8100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o.
Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 in the Exchange Act). Yes þ No o.
Number of Common Shares outstanding at July 26, 2005: 96,951,907 shares.

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PHELPS DODGE CORPORATION
Quarterly Report on Form 10-Q
For the Quarter Ended June 30, 2005
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PHELPS DODGE CORPORATION AND SUBSIDIARIES

Part I. Financial Information

Item 1. Financial Statements

PHELPS DODGE CORPORATION

CONSOLIDATED STATEMENT OF INCOME

(Unaudited; in millions except per share data)

	Second Quarter		Six Months Ended June 30,	
	2005	2004	2005	2004
Sales and other operating revenues	$2,151.6	1,650.9	4,218.1	3,247.9
Operating costs and expenses				
Cost of products sold (exclusive of items shown separately below)	1,346.5	1,133.6	2,669.4	2,232.0
Depreciation, depletion and amortization	127.0	124.4	256.4	249.3
Selling and general administrative expense	40.5	34.2	87.8	72.7
Exploration and research expense	26.7	15.5	45.5	29.1
Special items and provisions, net (see Note 3)	437.2	(11.5)	436.3	(4.7)
	1,977.9	1,296.2	3,495.4	2,578.4
Operating income	173.7	354.7	722.7	669.5
Interest expense	(23.4)	(32.3)	(47.1)	(71.3)
Capitalized interest	2.1	0.2	2.9	0.3
Early debt extinguishment costs		(15.2)		(37.6)
Gain on sale of cost-basis investment (see Note 3)	438.4		438.4	
Change in interest gain from Cerro Verde stock issuance (see Note 3)	159.5		159.5	
Miscellaneous income and expense, net	44.4	1.3	62.5	3.5
Income before taxes, minority interests in consolidated subsidiaries and equity in net earnings (losses) of affiliated companies	794.7	308.7	1,338.9	564.4
Provision for taxes on income (see Note 8)	(74.6)	(40.7)	(205.8)	(46.9)
Minority interests in consolidated subsidiaries	(38.5)	(42.0)	(65.5)	(105.6)
Equity in net earnings (losses) of affiliated companies	0.7	0.6	1.4	0.4
Net income	682.3	226.6	1,069.0	412.3
Preferred stock dividends	(3.4)	(3.4)	(6.8)	(6.8)
Net income applicable to common shares	$ 678.9	223.2	1,062.2	405.5

Weighted average number of common shares outstanding basic	96.2	92.9	96.0	92.3
Basic earnings per common share	$ 7.06	2.40	11.07	4.39
Weighted average number of common shares outstanding diluted	101.1	98.4	101.0	98.2
Diluted earnings per common share	$ 6.75	2.30	10.59	4.20

See Notes to Consolidated Financial Information.

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PHELPS DODGE CORPORATION
CONSOLIDATED BALANCE SHEET
(Unaudited; in millions except per share prices)

	June 30, 2005	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 2,595.6	1,200.1
Restricted cash	168.3	
Accounts receivable, less allowance for doubtful accounts (2005 $16.9; 2004 $17.4)	982.8	761.5
Mill and leach stockpiles	28.1	26.2
Inventories	430.8	392.1
Supplies	206.2	192.7
Prepaid expenses and other current assets	73.8	46.0
Deferred income taxes	54.2	43.1
Current assets	4,539.8	2,661.7
Investments and long-term receivables	124.6	120.7
Property, plant and equipment, net	4,903.8	5,318.9
Long-term mill and leach stockpiles	132.3	131.0
Deferred income taxes	46.4	61.8
Goodwill	110.3	103.5
Intangible assets, net	5.2	5.3
Other assets and deferred charges	196.5	191.2
	$ 10,058.9	8,594.1
Liabilities		
Current liabilities:		
Short-term debt	$ 30.3	78.8
Current portion of long-term debt	43.6	45.9
Accounts payable and accrued expenses	1,255.8	972.1
Dividends payable	39.7	3.4
Accrued income taxes	128.8	67.8
Current liabilities	1,498.2	1,168.0
Long-term debt	970.3	972.2
Deferred income taxes	388.9	448.4
Other liabilities and deferred credits	956.7	1,107.3
	3,814.1	3,695.9

Commitments and contingencies (see Notes 5, 6 and 8)		
Minority interests in consolidated subsidiaries	844.9	555.1
Shareholders equity		
Common shares, par value $6.25; 300.0 shares authorized; 96.9 outstanding (2004 95.9) after deducting 8.9 shares (2004 9.9) held in treasury, at cost	605.5	599.5
Cumulative preferred shares, par value $1.00; 6.0 shares authorized; 2.0 outstanding in 2005 and 2004	2.0	2.0
Capital in excess of par value	1,981.2	1,906.4
Retained earnings	3,217.5	2,239.9
Accumulated other comprehensive loss	(372.0)	(384.2)
Other	(34.3)	(20.5)
	5,399.9	4,343.1
	$10,058.9	8,594.1

See Notes to Consolidated Financial Information.

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PHELPS DODGE CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited; in millions)

	Six Months Ended June 30,	
	2005	2004
Operating activities		
Net income	$1,069.0	412.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	256.4	249.3
Deferred income tax provision (benefit)	(54.0)	(21.1)
Equity in net earnings (losses) of affiliated companies, net of dividends received	0.5	1.9
Gain on sale of cost-basis investment	(438.4)	
Change in interest gain from Cerro Verde stock issuance	(159.5)	
Special items and provisions	436.3	6.2
Early debt extinguishment costs		37.6
Minority interests in consolidated subsidiaries	65.5	105.6
Changes in current assets and liabilities:		
Accounts receivable	(144.0)	(161.1)
Repayment of securitized accounts receivable	(85.0)	
Mill and leach stockpiles	(1.8)	5.5
Inventories	(41.7)	(31.2)
Supplies	(20.3)	(6.7)
Prepaid expenses and other current assets	(27.3)	(20.7)
Interest payable	1.2	(4.0)
Other accounts payable	23.0	115.9
Accrued income taxes	73.8	(6.6)
Other accrued expenses	23.9	14.2
Other operating, net	(32.9)	(18.0)
Net cash provided by operating activities	944.7	679.1
Investing activities		
Capital outlays	(179.5)	(96.4)
Capitalized interest	(2.9)	(0.3)
Investments in subsidiaries and other, net of cash received and acquired	(0.1)	(0.2)
Proceeds from asset dispositions	4.6	1.7
Proceeds from sale of cost-basis investment	451.6	
Restricted cash	(168.3)	
Other investing, net	(1.6)	2.8
Net cash provided by (used in) investing activities	103.8	(92.4)

Financing activities		
Proceeds from issuance of debt		149.8
Payment of debt	(51.3)	(714.1)
Common dividends	(48.3)	
Preferred dividends	(6.8)	(6.8)
Issuance of shares, net	33.2	167.1
Debt issue costs	(0.7)	(7.2)
Proceeds from issuance of Cerro Verde stock	441.8	
Other financing, net	(28.2)	(57.3)
Net cash provided in (used in) financing activities	339.7	(468.5)
Effect of exchange rate impact on cash and cash equivalents	7.3	0.5
Increase in cash and cash equivalents	1,395.5	118.7
Increase at beginning of 2004 from consolidating El Abra and Candelaria		28.3
Cash and cash equivalents at beginning of period	1,200.1	683.8
Cash and cash equivalents at end of period	$2,595.6	830.8

See Notes to Consolidated Financial Information.

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PHELPS DODGE CORPORATION
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
(Unaudited; in millions)

	Common Shares Number of Shares	Common Shares At Par Value	Preferred Shares Number of Shares	Preferred Shares At Par Value	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)*	Other	Shareholders Equity
Balance at December 31, 2004	95.9	$599.5	2.0	$2.0	$1,906.4	$2,239.9	$ (384.2)	$(20.5)	$4,343.1
Stock options exercised	0.8	4.9			58.3				63.2
Restricted shares issued/cancelled, net	0.2	1.3			18.5			(13.8)	6.0
Common shares purchased		(0.2)			(2.0)				(2.2)
Dividends on preferred shares						(6.8)			(6.8)
Dividends on common shares						(84.6)			(84.6)
Comprehensive income (loss):									
Net income						1,069.0			1,069.0
Other comprehensive income (loss), net of tax:									
Translation adjustment							(1.6)		(1.6)
Net loss on derivative instruments							(0.7)		(0.7)
Other investment adjustments							0.5		0.5
Unrealized gains on securities							2.2		2.2
Minimum pension liability							11.8		11.8
Other comprehensive income							12.2		12.2
Comprehensive income									1,081.2
Balance at June 30, 2005	96.9	$605.5	2.0	$2.0	$1,981.2	$3,217.5	$ (372.0)	$(34.3)	$5,399.9

* As of June 30, 2005, this balance comprised $(217.8) million of cumulative minimum pension liability adjustments,

$(173.4) million of cumulative translation adjustments and $(0.2) million of cumulative other investment adjustments; partially offset by $19.0 million of cumulative unrealized gains on securities and $0.4 million of cumulative unrealized gains on derivative instruments.

See Notes to Consolidated Financial Information.

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FINANCIAL DATA BY BUSINESS SEGMENT
(Unaudited; $ in millions)

	U.S. Mines						South American Mines			
	Morenci	Bagdad	Sierrita	Miami/ Bisbee	Chino/ Cobre	Tyrone	Candelaria/ Ojos del Salado	Cerro Verde	El Abra	Primary Molybdenum
Second Quarter 2005										
Sales and other operating revenues:										
Unaffiliated customers	$		4.9		5.8		100.5	16.8	88.2	526.1
Intersegment	263.3	190.2	204.0	10.6	78.8	32.7	63.6	64.5	72.4	
Depreciation, depletion and amortization	16.1	7.9	3.8	1.3	5.1	3.0	9.3	7.3	28.1	13.0
Operating income (loss) before special items and provisions	114.5	116.5	135.6	2.1	12.9	3.2	64.6	39.6	63.8	98.9
Special items and provisions, net	(0.3)				(63.9)	(211.5)				
Operating income (loss)	114.2	116.5	135.6	2.1	(51.0)	(208.3)	64.6	39.6	63.8	98.9
Interest income					0.4		1.4	1.5	0.4	0.1
Interest expense									(2.3)	
Gain on sale of cost-basis investment										87.2
Change in interest gain from Cerro Verde stock issuance								159.5		
Benefit (provision) for taxes on income							(10.8)	11.0	(23.8)	
Minority interests in consolidated subsidiaries							(9.8)	(9.3)	(18.4)	
				(0.1)						

Equity in net earnings (losses) of affiliated companies										
Equity basis investments at June 30			0.2	0.8			0.3			
Assets at June 30	914.9	440.6	322.1	99.0	421.6	51.1	964.2	884.1	1,059.1	904.8
Expenditures for segment assets	10.8	6.2	3.7	0.1	4.2	1.3	4.0	41.7	7.4	5.3
Second Quarter 2004*										
Sales and other operating revenues:										
Unaffiliated customers	$				0.1		95.3	28.0	97.1	225.1
Intersegment	219.6	72.4	129.1	2.6	45.9	25.5	46.5	33.5	66.0	
Depreciation, depletion and amortization	19.2	5.4	2.6	1.2	2.8	3.0	12.3	8.1	30.9	7.9
Operating income (loss) before special items and provisions	86.9	21.3	70.1	(3.1)	10.4	8.4	49.3	25.1	64.6	29.5
Special items and provisions, net	(0.4)				(0.4)	(1.8)				0.3
Operating income (loss)	86.5	21.3	70.1	(3.1)	10.0	6.6	49.3	25.1	64.6	29.8
Interest income					0.2		0.3	0.1	0.2	0.1
Interest expense							(2.6)	(0.4)	(4.3)	
Benefit (provision) for taxes on income							(3.5)	(9.3)	0.8	
Minority interests in consolidated subsidiaries							(7.3)	(3.0)	(30.1)	
Equity in net earnings (losses) of affiliated companies										
Equity basis investments at June 30			0.2	1.0			0.3			
Assets at June 30	967.0	439.5	303.8	108.4	425.8	174.2	728.4	491.4	1,080.5	814.9

Expenditures for segment assets	3.4	3.0	4.4	0.2	5.2	1.9	5.3	0.9	1.2	3.8

	Manufac-turing	Sales	PDMC Segments	Other	PDMC Elimi-nations	PDMC Subtotal	Specialty Chemicals	Wire & Cable	PDI Subtotal	Corporate, Other & Eliminations	Totals
Second Quarter 2005											
Sales and other operating revenues:											
Unaffiliated customers	$ 747.4	188.4	1,678.1	6.3		1,684.4	185.6	281.6	467.2		2,151.6
Intersegment	47.9	64.8	1,092.8	20.9	(1,047.1)	66.6		0.2	0.2	(66.8)	
Depreciation, depletion and amortization	6.9		101.8	1.5		103.3	14.4	7.6	22.0	1.7	127.0
Operating income (loss) before special items and provisions	6.8	3.3	661.8	(42.1)		619.7	8.9	7.2	16.1	(24.9)	610.9
Special items and provisions, net	(148.7)		(424.4)	9.4		(415.0)		(1.9)	(1.9)	(20.3)	(437.2)
Operating income (loss)	(141.9)	3.3	237.4	(32.7)		204.7	8.9	5.3	14.2	(45.2)	173.7
Interest income			3.8	1.1	(0.8)	4.1	4.1	0.5	4.6	7.3	16.0
Interest expense	(0.7)	(0.2)	(3.2)	(0.1)	0.8	(2.5)	(3.6)	(1.9)	(5.5)	(15.4)	(23.4)
Gain on sale of cost-basis investment			87.2	351.2		438.4					438.4
Change in interest gain from Cerro Verde stock issuance			159.5			159.5					159.5
Benefit (provision) for taxes on income			(23.6)			(23.6)				(51.0)	(74.6)
Minority interests in consolidated subsidiaries			(37.5)			(37.5)	(0.2)	(0.8)	(1.0)		(38.5)
Equity in net earnings (losses) of affiliated companies			(0.1)	0.1				0.1	0.1	0.6	0.7

Equity basis investments at June 30			1.3	0.2		1.5		5.9	5.9	24.1	31.5
Assets at June 30	314.8	31.4	6,407.7	1,341.7	(1,449.5)	6,299.9	815.3	649.9	1,465.2	2,293.8	10,058.9
Expenditures for segment assets	4.5		89.2	34.0	(26.5)	96.7	5.7	4.4	10.1	4.5	111.3
Second Quarter 2004*											
Sales and other operating revenues:											
Unaffiliated customers	$ 603.7	199.7	1,249.0	5.5		1,254.5	165.2	231.2	396.4		1,650.9
Intersegment	60.4	50.5	752.0	17.3	(714.6)	54.7		0.1	0.1	(54.8)	
Depreciation, depletion and amortization	5.6		99.0	1.1		100.1	11.8	9.1	20.9	3.4	124.4
Operating income (loss) before special items and provisions	7.4	1.5	371.4	(32.2)		339.2	15.9	8.8	24.7	(20.7)	343.2
Special items and provisions, net			(2.3)	(0.2)		(2.5)		(2.5)	(2.5)	16.5	11.5
Operating income (loss)	7.4	1.5	369.1	(32.4)		336.7	15.9	6.3	22.2	(4.2)	354.7
Interest income			0.9	1.3	(1.1)	1.1	2.1	0.1	2.2	0.5	3.8
Interest expense	(1.1)	(0.2)	(8.6)		1.1	(7.5)	(3.9)	(1.4)	(5.3)	(19.5)	(32.3)
Benefit (provision) for taxes on income			(12.0)			(12.0)				(28.7)	(40.7)
Minority interests in consolidated subsidiaries			(40.4)	(0.2)		(40.6)	(0.4)	(1.0)	(1.4)		(42.0)
Equity in net earnings (losses) of affiliated companies								0.1	0.1	0.5	0.6
Equity basis investments at June 30			1.5			1.5		5.6	5.6	24.1	31.2
	475.7	(3.6)	6,006.0	1,277.1	(1,384.2)	5,898.9	753.9	582.4	1,336.3	826.1	8,061.3

Assets at June 30										
Expenditures for segment assets	3.1	32.4	6.5	(0.4)	38.5	3.5	7.3	10.8	0.6	49.9

* In the 2004 fourth quarter, the Company reassessed its reportable segments. The reassessment considered the significant increase in copper and molybdenum prices. Based on our assessment, we are separately disclosing Bagdad, Sierrita, Manufacturing and Sales as individual reportable segments, whereas, in 2004 Bagdad and Sierrita, and Manufacturing and Sales were aggregated. Segment information for 2004 has been revised to conform with the 2005 presentation.

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FINANCIAL DATA BY BUSINESS SEGMENT
(Unaudited; $ in millions)

	U.S. Mines						South American Mines			
	Morenci	Bagdad	Sierrita	Miami/ Bisbee	Chino/ Cobre	Tyrone	Candelaria/ Ojos del Salado	Cerro Verde	El Abra	Primary Molybdenum
Six Months Ended June 30, 2005										
Sales and other operating revenues:										
Unaffiliated customers	$		5.3		5.8		222.4	33.3	160.4	1,002.9
Intersegment	490.3	346.7	411.9	20.1	164.5	62.8	95.6	116.1	153.0	
Depreciation, depletion and amortization	31.2	15.7	7.7	2.2	10.4	7.0	19.2	13.2	61.5	21.9
Operating income (loss) before special items and provisions	200.7	200.9	270.1	3.2	30.6	4.5	140.0	75.6	108.3	185.5
Special items and provisions, net	(0.6)				(64.5)	(215.7)				
Operating income (loss)	200.1	200.9	270.1	3.2	(33.9)	(211.2)	140.0	75.6	108.3	185.5
Interest income					1.0		2.2	2.3	0.4	0.2
Interest expense									(4.6)	
Gain on sale of cost-basis investment										87.2
Change in interest gain from Cerro Verde stock issuance								159.5		
Benefit (provision) for taxes on income							(29.1)	4.2	(38.4)	
							(16.4)	(15.0)	(31.7)	

Minority interests in consolidated subsidiaries										
Equity in net earnings (losses) of affiliated companies				(0.2)						
Equity basis investments at June 30			0.2	0.8			0.3			
Assets at June 30	914.9	440.6	322.1	99.0	421.6	51.1	964.2	884.1	1,059.1	904.8
Expenditures for segment assets	6.9	11.3	6.6		9.0	1.8	7.9	71.4	9.4	7.0
Six Months Ended June 30, 2004*										
Sales and other operating revenues:										
Unaffiliated customers	$				0.2		181.6	44.6	196.3	375.1
Intersegment	430.5	152.7	219.6	11.4	82.6	53.0	118.9	85.1	140.3	
Depreciation, depletion and amortization	37.3	11.3	5.9	2.4	5.3	6.0	25.4	16.3	62.5	15.2
Operating income (loss) before special items and provisions	164.8	46.2	100.1	(3.8)	25.4	10.8	118.1	62.9	139.2	45.1
Special items and provisions, net	(0.4)				(0.4)	(1.8)				0.3
Operating income (loss)	164.4	46.2	100.1	(3.8)	25.0	9.0	118.1	62.9	139.2	45.4
Interest income					0.5		0.7	0.2	0.2	0.1
Interest expense							(6.3)	(1.8)	(8.8)	
Benefit (provision) for taxes on income							(23.0)	(22.6)	31.7	
Minority interests in consolidated subsidiaries							(16.2)	(7.9)	(79.6)	
Equity in net earnings (losses) of			(0.1)							

affiliated companies										
Equity basis investments at June 30			0.2	1.0			0.3			
Assets at June 30	967.0	439.5	303.8	108.4	425.8	174.2	728.4	491.4	1,080.5	814.9
Expenditures for segment assets	7.0	4.7	7.2	0.2	6.1	2.2	10.3	1.8	2.6	6.1

	Manufac-turing	Sales	PDMC Segments	Other	PDMC Elimi-nations	PDMC Subtotal	Specialty Chemicals	Wire & Cable	PDI Subtotal	Corporate, Other & Eliminations	Totals
Six Months Ended June 30, 2005											
Sales and other operating revenues:											
Unaffiliated customers	$1,422.4	438.3	3,290.8	11.7		3,302.5	365.6	550.0	915.6		4,218.1
Intersegment	105.8	118.6	2,085.4	40.0	(2,003.6)	121.8		0.4	0.4	(122.2)	
Depreciation, depletion and amortization	12.5		202.5	2.8		205.3	32.0	15.7	47.7	3.4	256.4
Operating income (loss) before special items and provisions	11.0	(0.5)	1,229.9	(53.9)		1,176.0	22.1	18.8	40.9	(57.9)	1,159.0
Special items and provisions, net	(148.7)		(429.5)	8.6		(420.9)		(1.5)	(1.5)	(13.9)	(436.3)
Operating income (loss)	(137.7)	(0.5)	800.4	(45.3)		755.1	22.1	17.3	39.4	(71.8)	722.7
Interest income			6.1	2.0	(1.6)	6.5	7.6	0.7	8.3	10.7	25.5
Interest expense	(1.5)	(0.5)	(6.6)	(0.1)	1.6	(5.1)	(7.2)	(3.9)	(11.1)	(30.9)	(47.1)
Gain on sale of cost-basis investment			87.2	351.2		438.4					438.4
Change in interest gain from Cerro Verde stock issuance			159.5			159.5					159.5
Benefit (provision) for taxes on income			(63.3)			(63.3)				(142.5)	(205.8)

Minority interests in consolidated subsidiaries			(63.1)			(63.1)	(0.6)	(1.8)	(2.4)		(65.5)
Equity in net earnings (losses) of affiliated companies			(0.2)	(0.3)		(0.5)		0.8	0.8	1.1	1.4
Equity basis investments at June 30			1.3	0.2		1.5		5.9	5.9	24.1	31.5
Assets at June 30	314.8	31.4	6,407.7	1,341.7	(1,449.5)	6,299.9	815.3	649.9	1,465.2	2,293.8	10,058.9
Expenditures for segment assets	9.4		140.7	42.9	(26.6)	157.0	10.3	7.3	17.6	5.0	179.6
Six Months Ended June 30, 2004*											
Sales and other operating revenues:											
Unaffiliated customers	$1,205.8	454.8	2,458.4	10.6		2,469.0	329.1	449.8	778.9		3,247.9
Intersegment	116.3	102.1	1,512.5	33.4	(1,435.8)	110.1		0.1	0.1	(110.2)	
Depreciation, depletion and amortization	10.8		198.4	2.2		200.6	24.9	18.1	43.0	5.7	249.3
Operating income (loss) before special items and provisions	11.5	1.2	721.5	(52.1)		669.4	27.1	12.9	40.0	(44.6)	664.8
Special items and provisions, net			(2.3)	(0.2)		(2.5)		(4.3)	(4.3)	11.5	4.7
Operating income (loss)	11.5	1.2	719.2	(52.3)		666.9	27.1	8.6	35.7	(33.1)	669.5
Interest income			1.7	2.6	(2.1)	2.2	4.2	0.4	4.6	1.2	8.0
Interest expense	(2.1)	(0.3)	(19.3)		2.1	(17.2)	(7.8)	(2.4)	(10.2)	(43.9)	(71.3)
Benefit (provision) for taxes on income			(13.9)			(13.9)				(33.0)	(46.9)
Minority interests in consolidated			(103.7)			(103.7)	(0.5)	(1.4)	(1.9)		(105.6)

subsidiaries											
Equity in net earnings (losses) of affiliated companies			(0.1)	(0.9)		(1.0)		0.3	0.3	1.1	0.4
Equity basis investments at June 30			1.5			1.5		5.6	5.6	24.1	31.2
Assets at June 30	475.7	(3.6)	6,006.0	1,277.1	(1,384.2)	5,898.9	753.9	582.4	1,336.3	826.1	8,061.3
Expenditures for segment assets	6.2		54.4	13.0	(0.9)	66.5	5.8	13.9	19.7	10.4	96.6

* In the 2004 fourth quarter, the Company reassessed its reportable segments. The reassessment considered the significant increase in copper and molybdenum prices. Based on our assessment, we are separately disclosing Bagdad, Sierrita, Manufacturing and Sales as individual reportable segments, whereas, in 2004 Bagdad and Sierrita, and Manufacturing and Sales were aggregated. Segment information for 2004 has been revised to conform with

the 2005
presentation.

NOTES TO CONSOLIDATED FINANCIAL INFORMATION

(Unaudited)

1. General Information

The unaudited consolidated financial information of Phelps Dodge Corporation (the Company, which may be referred to as Phelps Dodge, PD, we, us or ours) presented herein has been prepared in accordance with the instructions to Form 10-Q and does not include all of the information and note disclosures required by U.S. generally accepted accounting principles (GAAP). Therefore, this information should be read in conjunction with the consolidated financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2004. This information reflects all adjustments that are, in the opinion of management, necessary to a fair statement of the results for the interim periods reported.

In accordance with FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, (FIN 46) and the revised Interpretation (FIN 46-R), beginning January 1, 2004, we fully consolidated the results of operations for the El Abra and Candelaria mines in Chile, in which we hold 51 percent and 80 percent partnership interests, respectively, with the interest held by our minority shareholders reported as minority interests in consolidated subsidiaries in our Consolidated Balance Sheet and Consolidated Statement of Income. Other investments in undivided interests and unincorporated mining joint ventures that are limited to the extraction of minerals are accounted for using the proportional consolidation method. These investments include the Morenci mine, located in Arizona, in which we hold an 85 percent undivided interest. Interest 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.

For comparative purposes, certain amounts for the quarter and six months ended June 30, 2004, have been reclassified to conform with current period presentation.

Our business consists of two divisions, Phelps Dodge Mining Company (PDMC) and Phelps Dodge Industries (PDI). The results of operations for the quarter and six-month periods ended June 30, 2005, are not necessarily indicative of the results to be expected for the full year.

2. Stock Compensation

We account for our stock option plans by measuring compensation cost using the intrinsic-value-based method presented by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No compensation cost has been reflected in consolidated net income, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of the grant. The following tables present the effect on net income and earnings per common share as if we had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, to compensation cost.

(Unaudited; $ in millions except per share data)

	Second Quarter	
	2005	2004
Net income as reported	$ 682.3	226.6
Deduct:		
Total compensation cost determined under fair value based method for all awards, net of tax	(1.0)	(1.7)
Pro forma net income	$ 681.3	224.9

Earnings per common share		
Basic as reported	$ 7.06	2.40
Basic *pro forma*	$ 7.05	2.38
Earnings per common share		
Diluted as reported	$ 6.75	2.30
Diluted *pro forma*	$ 6.75	2.28

(Unaudited; $ in millions except per share data)

	Six Months Ended June 30,	
	2005	2004
Net income as reported	$ 1,069.0	412.3
Deduct:		
Total compensation cost determined under fair value based method for all awards, net of tax	(1.9)	(3.4)
Pro forma net income	$ 1,067.1	408.9
Earnings per common share		
Basic as reported	$ 11.07	4.39
Basic *pro forma*	$ 11.05	4.36
Earnings per common share		
Diluted as reported	$ 10.59	4.20
Diluted *pro forma*	$ 10.57	4.17

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3. Special Items and Provisions

Special items and provisions are unpredictable and atypical of the Company s operations in a given period. This supplemental information is not a substitute for any U.S. GAAP measure and should be evaluated within the context of our U.S. GAAP results. The tax impacts of the special items were determined at the marginal effective tax rate of the appropriate taxing jurisdiction, including provision for a valuation allowance, if warranted. (All references to per share earnings or losses are based on diluted earnings or losses per share.)

Note: Supplemental Data

The following schedules summarize the special items and provisions for the quarter and six months ended June 30, 2005:

(Unaudited; $ in millions except per share amounts)

Consolidated Statement of Income Line Item	2005 Second Quarter Pre-tax	After-tax	$/Share After-tax
Special items and provisions, net:			
PDMC			
Asset impairment charges	$ (419.1)	(320.9)	(3.18)
Environmental provisions, net	(10.4)	(7.9)	(0.08)
Environmental insurance recoveries, net	(0.5)	(0.4)	
Historical legal matters	15.0	11.4	0.11
	(415.0)	(317.8)	(3.15)
PDI			
Wire and Cable restructuring programs/closures	(1.5)	(1.1)	(0.01)
Asset impairment charges	(0.4)	(0.3)	
	(1.9)	(1.4)	(0.01)
Corporate and Other Environmental provisions, net	(20.7)	(15.7)	(0.15)
Environmental insurance recoveries, net	0.5	0.4	
Historical legal matters	(0.1)	(0.1)	
	(20.3)	(15.4)	(0.15)
	(437.2)	(334.6)	(3.31)
Gain on sale of cost-basis investment	438.4	388.0	3.84
Change in interest gain from Cerro Verde stock issuance	159.5	172.9	1.71

Provision for taxes on income:			
Foreign dividend tax		(0.5)	(0.01)
	$ 160.7	225.8	2.23

(Unaudited; $ in millions except per share amounts)

Consolidated Statement of Income Line Item	Six Months Ended June 30, 2005 Pre-tax	After-tax	$/Share After-tax
Special items and provisions, net:			
PDMC			
Asset impairment charges	$ (419.1)	(320.9)	(3.18)
Environmental provisions, net	(15.7)	(11.9)	(0.12)
Environmental insurance recoveries, net	(1.1)	(0.9)	(0.01)
Historical legal matters	15.0	11.4	0.12
	(420.9)	(322.3)	(3.19)
PDI			
Wire and Cable restructuring programs/closures	(1.1)	(0.3)	
Asset impairment charges	(0.4)	(0.3)	
	(1.5)	(0.6)	
Corporate and Other			
Environmental provisions, net	(19.7)	(15.0)	(0.15)
Environmental insurance recoveries, net	1.1	0.9	0.01
Historical legal matters	4.7	4.4	0.04
	(13.9)	(9.7)	(0.10)
	(436.3)	(332.6)	(3.29)
Gain on sale of cost-basis investment	438.4	388.0	3.84
Change in interest gain from Cerro Verde stock issuance	159.5	172.9	1.71
Provision for taxes on income:			
Foreign dividend tax		(2.4)	(0.02)
	$ 161.6	225.9	2.24

On June 1, 2005, the Company s board of directors approved expenditures of $210 million to construct a concentrate-leach, direct-electrowinning facility at the Morenci copper mine, and to restart its concentrator, which has been idle since 2001. The new facility will employ proprietary technology that has been developed and is under demonstration at the Bagdad copper mine, and is expected to begin operations in 2007. Concentrate leaching technology, in conjunction with a conventional milling and flotation concentrator, allows copper sulfide ores to be transformed into copper cathode through a pressure leaching and electrowinning process instead of smelting and refining. Historically, sulfide ores have been processed into copper anodes through a smelter. This decision had consequences for several of our other southwest copper operations, resulting in the impairment of certain assets.

In the 2005 second quarter, PDMC recorded special, pre-tax charges for asset impairments of $419.1 million ($320.9 million after-tax) at the Tyrone and Cobre mines, Chino smelter and Miami refinery. With future Morenci copper concentrate production being fed into the concentrate leach facility, the operating smelter in Miami, Arizona, will be sufficient to treat virtually all remaining concentrate expected to be produced by Phelps Dodge at our operations in the southwestern United States. Accordingly, the Chino smelter located near Silver City, New Mexico, which has been on care-and-maintenance status since 2002, will be closed. With the closing of the Chino smelter, we will have unnecessary refining capacity in the region. Because of its superior capacity and operating flexibility, our refinery in El Paso, Texas, will continue to operate. The El Paso refinery is over twice the size of our refinery in Miami, Arizona, and has sufficient capacity to refine all anodes expected to be produced from our operations in the southwestern United States given the changes brought about by the Morenci project. Accordingly, the Miami refinery, which has been on care-and-maintenance status since 2002, also will be closed. As a result of the decision to close the Chino smelter and the Miami refinery, we recorded pre-tax asset impairment charges during the 2005 second quarter of $89.6 million ($68.6 million after-tax) and $59.1 million ($45.2 million after-tax), respectively, to reduce the related carrying values of these properties to their respective salvage values.

The steps being taken at Morenci also will impact our Tyrone and Cobre mines in New Mexico. The Tyrone mine has been partially curtailed since 2003, while activities at the Cobre mine were suspended in 1999, with the exception of limited activities. Future economics of these mines likely will be affected by significantly higher acid costs resulting from their inability to obtain low-cost acid from the Chino smelter. These factors caused Phelps Dodge to reassess the recoverability of the long-lived assets at both the Tyrone and Cobre mines. This reassessment, which was based on an analysis of cash flows associated with the related assets, indicated that the assets were not recoverable and that asset impairment charges were required.

Tyrone s pre-tax impairment of $210.5 million ($161.2 million after-tax) primarily resulted from fundamental changes to its life-of-mine cash flows. In addition to higher expected acid costs, we decided to accelerate reclamation of portions of stockpiles around the mine perimeter. As a result of this accelerated plan, the estimated cost associated with reclaiming the perimeter stockpiles increased. These factors increased costs and also decreased Tyrone s copper ore reserves by approximately 155 million pounds, or 14 percent.

Cobre s pre-tax impairment of $59.9 million ($45.9 million after-tax) primarily resulted from projected higher acid, external smelting and freight costs as a result of the Chino smelter being permanently closed. It also reflected estimated higher restart and operating costs of running the Cobre mill reflecting our recent experience with restarting the Chino mill. Additionally, the cost for building a tailing pipeline from Cobre to the Chino mine has increased based upon a recent detailed engineering evaluation recommending (i) extending the pipeline an additional nine miles, (ii) adding a new thickener and booster pump station, and (iii) requiring larger pipe size.

For the six months ended June 30, 2005, a net charge for environmental provisions of $35.4 million ($26.9 million after-tax) was recognized for closed facilities and closed portions of operating facilities. (Refer to Note 5, Environmental, and Reclamation and Closure Matters, for further discussion of environmental matters.)

For the six months ended June 30, 2005, a net charge of $1.1 million ($0.3 million after-tax) was recognized for Phelps Dodge Magnet Wire s restructuring programs and facility closures. (Refer to the Company s Form 10-K for the year ended December 31, 2004, for additional discussion.)

For the six months ended June 30, 2005, a gain of $19.7 million ($15.8 million after-tax) was recognized for legal matters. This included $14.9 million ($11.3 million after-tax) of net settlements on historical legal matters, a $3.6 million (before and after taxes) adjustment related to an historical Cyprus Amax Minerals Company lawsuit and a net settlement of $1.2 million ($0.9 million after-tax) reached with one of our insurance carriers associated with potential future legal matters.

On June 9, 2005, the Company entered into an Underwriting Agreement with Citigroup Global Markets, Inc., UBS Securities LLC, Southern Peru Copper Corporation (SPCC), Cerro Trading Company, Inc. and SPC Investors, LLC. On June 15, 2005, pursuant to the Underwriting Agreement, the Company sold all of its SPCC common shares to the underwriters for a net purchase price of $40.635 per share (based on a market purchase price of $42.00 per share less underwriting fees). This transaction resulted in a special, pre-tax gain of $438.4 million ($388.0 million after-tax). The after-tax gain increased by approximately $18 million from the amount disclosed in our June 9, 2005, Form 8-K filing primarily due to the recognition of additional capital loss carryforwards resulting from subsequent developments in the tax audits of years 2000 through 2002.

In the 2005 second quarter, we recognized a gain of $159.5 million ($172.9 million after-tax) associated with the change of ownership interest in our Cerro Verde copper mine in Peru. This action resulted from the inflow of new capital for our Cerro Verde copper mine, which resulted in our ownership interest decreasing from 82.5 percent to 53.6 percent. The $13.4 million tax benefit related to this transaction included a reduction in deferred tax liabilities

($16.1 million) resulting from the recognition of certain book adjustments to reflect the dilution of our ownership interest; partially offset by taxes charged ($2.7 million) on the transfer of stock subscription rights to Compañia de Minas Buenaventura S.A.A. and Sumitomo Metal Co. Ltd. and Sumitomo Corp., known collectively as Sumitomo. This inflow of new capital will be used as partial financing of the $850 million expansion to mine a primary sulfide ore body beneath the leachable ore body currently in production.

For the six months ended June 30, 2005, an additional tax charge of $2.4 million was recognized for U.S. taxes incurred with respect to dividends received from Cerro Verde in 2005.

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Note: Supplemental Data

The following schedules summarize the special items and provisions for the quarter and six months ended June 30, 2004:

(Unaudited; $ in millions except per share amounts)

	2004 Second Quarter		
Consolidated Statement of Income Line Item	Pre-tax	After-tax	$/Share After-tax
Special items and provisions, net:			
PDMC			
Environmental provisions, net	$ (2.3)	(1.8)	(0.02)
Environmental insurance recoveries, net	(0.2)	(0.1)	
	(2.5)	(1.9)	(0.02)
PDI			
Wire and Cable restructuring programs/closures	(1.9)	(1.4)	(0.01)
Asset impairment charges	(0.6)	(0.5)	(0.01)
	(2.5)	(1.9)	(0.02)
Corporate and Other			
Environmental provisions, net	0.5	0.4	
Environmental insurance recoveries, net	0.1	0.1	
Historical legal matters	15.9	12.8	0.13
	16.5	13.3	0.13
	11.5	9.5	0.09
Early debt extinguishment costs	(15.2)	(12.6)	(0.13)
Miscellaneous income and expense, net:			
Cost-basis investment write-down	(6.4)	(6.4)	(0.06)
Provision for taxes on income:			
PD Brazil deferred tax asset valuation allowance		(9.0)	(0.09)
Minority interests in consolidated subsidiaries:			
Candelaria early debt extinguishment costs		2.5	0.03
	$ (10.1)	(16.0)	(0.16)

(Unaudited; $ in millions except per share amounts)

Consolidated Statement of Income Line Item	Six Months Ended June 30, 2004 Pre-tax	After-tax	$/Share After-tax
Special items and provisions, net:			
PDMC			
Environmental provisions, net	$ (2.3)	(1.8)	(0.02)
Environmental insurance recoveries, net	(0.2)	(0.1)	
	(2.5)	(1.9)	(0.02)
PDI			
Wire and Cable restructuring programs/closures	(3.6)	(2.5)	(0.02)
Environmental provisions, net	(0.1)	(0.1)	
Asset impairment charges	(0.6)	(0.5)	(0.01)
	(4.3)	(3.1)	(0.03)
Corporate and Other			
Environmental provisions, net	(4.1)	(3.1)	(0.03)
Environmental insurance recoveries, net	0.1	0.1	
Historical legal matters	15.5	12.4	0.13
	11.5	9.4	0.10
	4.7	4.4	0.05
Interest expense:			
Texas franchise tax matter	(0.9)	(0.7)	(0.01)
Early debt extinguishment costs	(37.6)	(30.2)	(0.31)
Miscellaneous income and expense, net:			
Cost-basis investment write-downs	(10.0)	(9.1)	(0.09)
Provision for taxes on income:			
Reversal of El Abra deferred tax asset valuation allowance		30.8	0.31
PD Brazil deferred tax asset valuation allowance		(9.0)	(0.09)
		21.8	0.22
Minority interests in consolidated subsidiaries:			
Reversal of El Abra deferred tax asset valuation allowance		(15.1)	(0.15)
Candelaria early debt extinguishment costs		2.5	0.02

		(12.6)	(0.13)
	$ (43.8)	(26.4)	(0.27)

4. New Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 requires retrospective application to prior periods financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This Statement applies to all voluntary changes in accounting principle as well as to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 further requires a change in depreciation, amortization or depletion method for long-lived, non-financial assets to be accounted for as a change in accounting estimate effected by a change in accounting principle. Corrections of errors in the application of accounting principles will continue to be reported by retroactively restating the affected financial statements. The provisions of this Statement are effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The adoption of this Statement is not expected to have a material impact on our reporting and disclosures.

In March 2005, FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143 (FIN 47). FIN 47 clarifies the term conditional asset retirement obligation as used in SFAS No. 143, Accounting for Asset Retirement Obligations, and requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. Any uncertainty about the amount and/or timing of future settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective for fiscal years ending after December 15, 2005. The Company is currently determining the impact of FIN 47 on its financial reporting and disclosures.

In March 2005, FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on Issue No. 04-6, Accounting for Stripping Costs Incurred during Production in the Mining Industry. The consensus reached provides that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the cost of inventory produced during the period. The consensus reached on EITF Issue No. 04-6 is effective for the first reporting period in fiscal years beginning after December 15, 2005. The Company is currently determining the impact of this Issue on its financial reporting and disclosures.

In December 2004, FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123-R), which amends SFAS No. 123, to require companies to recognize, in their financial statements, the cost of employee services received in exchange for equity instruments issued, and liabilities incurred, to employees in share-based payment transactions, such as employee stock options and similar awards. On April 14, 2005, the Securities and Exchange Commission delayed the effective date to annual periods, rather than interim periods beginning after June 15, 2005. We have evaluated SFAS No. 123-R and determined that adoption of this Statement will not have a material impact on our financial reporting and disclosures. Upon adoption of this Statement, the modified prospective application will be utilized to account for share-based payment transactions.

In December 2004, FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions. SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29 and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This Statement is effective for fiscal years beginning after June 15, 2005. The adoption of SFAS No. 153 is not expected to have a material impact on our financial reporting and disclosures.

In December 2004, FASB issued FASB Staff Position (FSP) No. FAS 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004, and FSP No. FAS 109-2, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004, to address the accounting implications associated with the American Jobs Creation Act of 2004 (the Act), enacted in October 2004. FSP No. FAS 109-1 clarifies how to apply SFAS No. 109 to the new law s tax deduction for income attributable to qualified domestic production activities. The staff proposal would require that the deduction be accounted for as a special deduction in the period earned, not as a tax-rate reduction. FSP No. FAS 109-2 provides guidance with respect to recording the potential impact of the repatriation provisions of the Act on a company s income tax expense and deferred tax liabilities. FSP No. FAS 109-2 states that an enterprise is permitted time beyond the financial reporting period of enactment to evaluate the effect of the Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. (Refer to Note 8, Provision for Taxes on Income, for further discussion of the impact of the Act.)

In November 2004, FASB issued SFAS No. 151, Inventory Costs, an Amendment of ARB No. 43, Chapter 4. SFAS No. 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overhead to inventory based on the normal capacity of the production facilities. The guidance in this Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of this Statement is not expected to have a material impact on our financial reporting and disclosures.

5. Environmental, and Reclamation and Closure Matters

As of December 31, 2004, environmental reserves totaled $303.6 million for estimated future costs associated with environmental matters at closed facilities and closed portions of certain operating facilities. The following table summarizes our environmental reserve activities for the quarter and six months ended June 30, 2005:

(Unaudited; $ in millions)

	2005 Second Quarter	Six Months Ended June 30, 2005
Balance, beginning of period	$ 297.8	303.6
Additions to reserves	31.1	37.0
Reductions in reserve estimates		(1.6)
Spending against reserves	(9.4)	(19.5)
Balance, end of period	$ 319.5	319.5

The site currently considered to be most significant is the Pinal Creek site near Miami, Arizona, where $108.5 million remained in the environmental reserve at June 30, 2005. Phelps Dodge Miami, Inc. and the other members of the Pinal Creek Group (PCG) settled their contribution claims against one defendant in April 2005, which will result in cancellation of the Phase I trial. While the terms of the settlement are confidential, the proceeds of the settlement will be used to address remediation at the Pinal Creek site. The Phase II trial, which will allocate liability, has not been scheduled.

At June 30, 2005, the cost range for reasonably possible outcomes for all reservable remediation sites (including Pinal Creek s estimate of $105 million to $211 million) was estimated to be from $287 million to $571 million (of which $320 million has been reserved).

Phelps Dodge has a number of sites that are not the subject of an environmental reserve because it is not probable that a successful claim will be made against the Company for those sites, but for which there is a reasonably possible likelihood of an environmental remediation liability. As of June 30, 2005, the cost range for reasonably possible outcomes for all such sites was estimated to be from $3 million to $17 million. The liabilities arising from potential environmental obligations that have not been reserved at this time may be material to the operating results of any single quarter or year in the future. Management, however, believes the liability arising from potential environmental obligations is not likely to have a material adverse effect on the Company s liquidity or financial position as such obligations could be satisfied over a period of years.

We recognize asset retirement obligations (AROs) as liabilities when incurred, with initial measurement at fair value. These liabilities are accreted to full value over time through charges to income. In addition, asset retirement costs (ARCs) are capitalized as part of the related asset s carrying value and are depreciated primarily on a units-of-production basis over the asset s useful life. Reclamation costs for future disturbances are recognized as an ARO and as a related ARC in the period incurred. The Company s cost estimates are reflected on a third-party cost basis and comply with the Company s legal obligation to retire long-lived assets as defined by SFAS No. 143. These cost estimates may differ from financial assurance cost estimates due to a variety of factors, including obtaining updated cost estimates for reclamation activities, the timing of reclamation activities, changes in the scope of reclamation activities and the exclusion of certain costs not accounted for under SFAS No. 143.

The following tables summarize our asset retirement obligations and asset retirement cost activities for the quarter and six months ended June 30, 2005:

Asset Retirement Obligations
(Unaudited; $ in millions)

	2005 Second Quarter	Six Months Ended June 30, 2005
Balance, beginning of period	$ 292.6	275.2
New liabilities during the period	0.7	1.6
Accretion expense	5.5	10.9
Payments	(8.6)	(15.2)
Revisions in estimated cash flows	38.9	56.8
Foreign currency translation adjustments	(0.2)	(0.4)
Balance, end of period	$ 328.9	328.9

Asset Retirement Costs
(Unaudited; $ in millions)

	2005 Second Quarter	Six Months Ended June 30, 2005
Gross balance, beginning of period	$ 214.9	196.3

New assets during the period	0.7	1.6
Revisions in estimated cash flows	38.9	56.8
Impairment of assets	(129.7)	(129.7)
Foreign currency translation adjustments	(0.1)	(0.3)
Gross balance, end of period	124.7	124.7
Less accumulated depreciation, depletion and amortization	80.0	80.0
Balance, end of period	$ 44.7	44.7

In the 2005 first quarter, we revised our estimated cash flows for the Tyrone mine, resulting in an increase of $16.9 million (discounted). The revision recognized adjusted timing of reclamation activities for an inactive portion of the tailing operations as a result of receiving a permit modification from the Mining and Minerals Division (MMD) of the New Mexico Energy, Minerals and Natural Resources Department in March 2005, coupled with obtaining new cost estimates to perform the closure activities. We also revised our estimated cash flows for the Cobre mine, resulting in an increase of $1.0 million (discounted), for timing and cost estimate changes resulting from MMD issuing a permit revision approving the closeout plan in March 2005.

In the 2005 second quarter, we revised estimated cash flows for the Tyrone mine, resulting in an increase of $35.8 million (discounted). The revision recognized management s decision to move up the timing of reclamation activities for stockpile work and tailings work. We also revised estimated cash flows for the Climax mine, resulting in an increase of $3.1 million (discounted), for timing and cost estimate changes resulting from Climax receiving permit modifications from the Colorado Division of Minerals and Geology.

Additionally, in the 2005 second quarter, Tyrone and Cobre mines recorded impairments of asset retirement costs of $124.5 million and $5.2 million, respectively. (Refer to Note 3, Special Items and Provisions, for additional discussion.)

We have estimated our share of the total cost of our AROs, including anticipated future disturbances, at approximately $1.3 billion (unescalated, undiscounted and on a third-party cost basis), leaving approximately $1.0 billion remaining to be accreted over time. These aggregate costs may increase or decrease materially in the future as a result of changes in regulations, technology, mine plans or other factors, and as actual reclamation spending occurs. ARO activities and expenditures generally are made over an extended period of time commencing near the end of a mine s life; however, certain reclamation activities could be accelerated if they are determined to be economically beneficial.

6. Contingencies

Significant New Mexico Closure and Reclamation Programs

Background

The Company s New Mexico operations, Chino, Tyrone, Cobre and Hidalgo, each are subject to regulation under the New Mexico Water Quality Act and the Water Quality Control Commission (WQCC) regulations adopted under that Act. The New Mexico Environment Department (NMED) has required each of these operations to submit closure plans for approval. The closure plans must describe the measures to be taken to prevent groundwater quality standards from being exceeded following closure of the discharging facilities and to abate any groundwater or surface water contamination.

Chino, Tyrone and Cobre also are subject to regulation under the New Mexico Mining Act (the Mining Act), which was enacted in 1993, and the Mining Act Rules, which are administered by MMD. Under the Mining Act, Chino, Tyrone and Cobre are required to submit and obtain approval of closeout plans describing the reclamation to be performed following closure of the mines or portions of the mines.

Financial assurance is required to ensure that funding will be available to perform both the closure and the closeout plans if the operator is not able to perform the work required by the plans. The amount of the financial assurance is based upon the estimated cost for a third party to complete the work specified in the plans, including any long-term operation and maintenance, such as operation of water treatment systems. NMED and MMD calculate the required amount of financial assurance using a net present value (NPV) method, based upon approved discount and escalation rates, when the closure plan and/or closeout plan require performance over a long period of time.

In April 2005, the governor of New Mexico signed Senate Bill 986, effective June 17, 2005, that removes the requirement to provide financial assurance for the gross receipts tax levied on closure work. Eliminating this requirement is expected to reduce our New Mexico financial assurance by approximately $27 million (NPV basis).

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

Chino Mines Company

NMED issued Chino s closure permit on February 24, 2003. The closure permit was appealed by a third party. WQCC dismissed the appeal, and that dismissal was appealed to the New Mexico Court of Appeals. On June 15, 2005, the Court of Appeals issued a decision that overturns the WQCC s dismissal of the third party appeal of Chino s closure permit. Chino is evaluating its options to respond to this decision. Under the decision, Chino s closure permit would be remanded to the WQCC for a hearing.

MMD issued a permit revision approving Chino s closeout plan, subject to conditions, on December 18, 2003. MMD s permit revision was not appealed. The third-party cost estimate is approximately $395 million (undiscounted and unescalated) over the 100-year period of the closure and closeout plans. Chino has provided financial assurance to NMED and MMD for approximately $192 million (NPV basis), including a trust fund initially containing approximately $64 million and a third-party performance guarantee for approximately $128 million provided by Phelps Dodge. The guarantee is subject to a financial test that, in part, requires Phelps Dodge to maintain an investment-grade rating on its senior unsecured debt. Phelps Dodge s senior unsecured debt currently carries an investment-grade rating.

The terms of the NMED and MMD permits require Chino to conduct supplemental studies concerning closure and closeout, including a feasibility study. The terms of the NMED permit also require Chino to prepare and submit an abatement plan. Chino is complying with those requirements. The studies and abatement plan are due to be submitted to NMED before an application for renewal of the closure permit is due in August 2007. Changes to the closure permit, which could increase or decrease the estimated cost of closure and closeout, will be considered when the permit is renewed. The permits also contain requirements and a schedule for Chino to commence closure and reclamation of inactive portions of the operations, subject to Chino s ability to seek standby status for portions of the operations anticipated to resume operation in the future.

The Company estimates its cost, on an internal cost basis, to perform the requirements of the approved Chino closure and closeout permits to be approximately $293 million (undiscounted and unescalated) over the 100-year period of the closure and closeout plans. That estimate is lower than the estimated cost used as the basis for the financial assurance amount due to the factors discussed above, and reflects our internal cost estimate. Our cost estimate, on a third-party cost basis, used to determine the fair value of our closure and closeout accrual for SFAS No. 143 was approximately $393 million (undiscounted and unescalated). This cost estimate excludes approximately $2 million of net environmental costs from the financial assurance cost estimate that are primarily not within the scope of SFAS No. 143. At June 30, 2005, and December 31, 2004, we had accrued approximately $53 million and $52 million, respectively, for closure and closeout at Chino.

In December 1994, Chino entered into an Administrative Order on Consent (AOC) with NMED. The AOC requires Chino to perform a Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) quality investigation of environmental impacts and potential risks to human health and the environment associated with portions of the Chino property affected by historical mining operations. The remedial investigations began in 1995 and are still under way, although substantial portions of the remedial investigations are near completion. The Company expects that some remediation will be required, although no feasibility studies have yet been completed. NMED has not yet issued a record of decision regarding any remediation that may be required under the AOC. The Company s estimated cost for all aspects of the AOC, as of June 30, 2005, is $21.7 million. In addition to work under the AOC, Chino is continuing ongoing projects to control blowing dust from tailing impoundments at an estimated cost of $4.8 million. Chino initiated work on excavating and removing copper-bearing material from an area known as Lake One for copper recovery in existing leach stockpiles at the mine. The Company s estimated cost, as of June 30, 2005, for the remaining work at Lake One is $4.4 million. The Company s aggregate environmental reserve for liability under the Chino AOC, the interim work on the tailing impoundments and Lake One, as described above, is $30.9 million at June 30, 2005.

Phelps Dodge Tyrone, Inc.

NMED issued Tyrone s closure permit on April 8, 2003. Tyrone appealed to the WQCC, which upheld NMED s permit conditions. Tyrone has appealed the WQCC s decision to the New Mexico Court of Appeals.

MMD issued a permit revision approving Tyrone s closeout plan, subject to conditions, on April 12, 2004. MMD s permit revision was not appealed. The third-party cost estimate is approximately $439 million (undiscounted and unescalated) over the 100-year period of the closure and closeout plans. Tyrone has provided financial assurance to NMED and MMD for approximately $271 million (NPV basis). The financial assurance includes a trust fund initially funded in the amount of approximately $17 million, to increase to approximately $27 million over five years, a letter of credit for approximately $6 million, a surety bond for approximately $58 million, and a third-party performance guarantee for approximately $190 million provided by Phelps Dodge. Tyrone expects to replace the surety bond over the next several months with a reduction in financial assurance for closure work already completed, adjustments for recently passed legislation, collateral approved by MMD and NMED and an additional letter of credit. The guarantee is subject to a financial test that, in part, requires Phelps Dodge to maintain an investment-grade rating on its senior unsecured debt. Phelps Dodge s senior unsecured debt currently carries an investment-grade rating.

The terms of the NMED and MMD permits require Tyrone to conduct supplemental studies concerning closure and closeout plans, including a feasibility study. The terms of the NMED permit also require Tyrone to prepare and submit an abatement plan. Tyrone is complying with those requirements. The studies and abatement plan are due to be submitted to NMED before an application for renewal of the closure permit is due in October 2007. Changes to the closure permit, which could increase or decrease the estimated cost of closure and closeout, will be considered when the permit is renewed. The permits also contain requirements and a schedule for Tyrone to commence closure and reclamation of inactive portions of the operations, subject to Tyrone s ability to seek standby status for portions of the operations anticipated to resume operation in the future.

During 2004, Tyrone commenced certain closure activities with the mining of its 1C Stockpile and placement of re-mined material on existing leach stockpiles for recovery of residual copper. Through June 30, 2005, approximately $19 million has been spent on the 1C Stockpile removal action. Once removal activities are completed in 2005, the remaining material will be graded and capped to meet stipulated closure requirements. As a result of management s decision, Tyrone is also accelerating reclamation of tailing and stockpile facilities. Tyrone also initiated planning for accelerated reclamation of tailing impoundments located within the Mangas Valley, with initial earthwork commencing in November 2004. The project is expected to be completed in 2008. Additionally, as of June 30, 2005, Tyrone substantially completed reclamation of the Burro Mountain tailing area at an approximate cost of $1 million. Tyrone plans to seek reductions in the required amount of financial assurance based upon the closure and reclamation work that has been and is being performed.

The Company estimates its costs, on an internal cost basis, to perform the requirements of Tyrone s closure and closeout permits to be approximately $337 million (undiscounted and unescalated) over the 100-year period of the closure and closeout plans. That estimate does not yet reflect reductions for work performed in 2004 through June 30, 2005, and is lower than the estimated cost used as the basis for the financial assurance amount due to the factors discussed above. Our cost estimate, on a third-party cost basis, used to determine the fair value of our closure and closeout accrual for SFAS No. 143 was approximately $458 million (undiscounted and unescalated). This cost estimate includes approximately $19 million of net costs in addition to the financial assurance cost estimate that primarily relate to an increased scope of work for the tailings, stockpiles and other projects, and updated estimates for actual closure expenditures. At June 30, 2005 and December 31, 2004, we had accrued approximately $148 million and $99 million, respectively, for closure and closeout at Tyrone.

Cobre Mining Company

NMED issued Cobre s closure permit on December 10, 2004. On March 3, 2005, MMD issued a permit revision approving Cobre s closeout plan, subject to conditions. The third-party cost estimate is approximately $45 million (undiscounted and unescalated) over the 100-year period of the closure and closeout plans. Cobre has provided financial assurance to NMED and MMD for approximately $29 million (NPV basis). The financial assurance includes a trust initially funded in the amount of at least $1 million, to increase to $3 million over five years, real estate collateral for approximately $8 million, and a third-party performance guarantee for approximately $20 million provided by Phelps Dodge.

The terms of the NMED and MMD permits require Cobre to conduct supplemental studies concerning closure and closeout, including a feasibility study. Cobre is complying with those requirements. The terms of the NMED permit also require Cobre to prepare and submit an abatement plan. The studies and abatement plan are due to be submitted to NMED before an application to renew the closure permit is due in 2009. Changes to the closure permit, which could increase or decrease the estimated cost of closure and closeout, will be considered when the permit is renewed. The permits also contain requirements and a schedule for Cobre to commence closure and reclamation of inactive portions of the operations, subject to Cobre s ability to seek standby status for portions of the operations anticipated to resume operation in the future.

The Company estimates its costs, on an internal cost basis, to perform the requirements of Cobre s closure and closeout permits to be approximately $39 million (undiscounted and unescalated) over the 100-year period of the closure and closeout plans. That estimate is lower than the estimated cost used as the basis for the financial assurance amount due to the factors discussed above. Our cost estimate, on a third-party cost basis, used to determine the fair value of our closure and closeout accrual for SFAS No. 143 was approximately $46 million (undiscounted and unescalated). This cost estimate includes approximately $1 million of costs in addition to the financial assurance cost estimate that primarily relates to construction of test plots for stockpile studies. At June 30, 2005 and December 31, 2004, we had accrued approximately $8 million and $7 million, respectively, for closure and closeout at Cobre.

Phelps Dodge Hidalgo, Inc.

Hidalgo obtained approval of a closure plan under a discharge permit issued by NMED in 2000. In accordance with the permit, Hidalgo provided financial assurance to NMED in the form of surety bonds for approximately $11 million. Since obtaining approval of the closure plan, Hidalgo has completed the closure of a former wastewater evaporation pond by construction of a soil cap approved by NMED. The discharge permit under which the closure plan was approved also requires corrective action for contaminated groundwater near the smelter s closed former wastewater evaporation pond. Impacted groundwater is pumped from a series of wells, treated in a neutralization facility, and discharged to a series of lined impoundments or to an irrigation system. The discharge permit requires comprehensive studies to characterize soil and groundwater at this site. NMED could require soil remediation and future enhancement of the existing groundwater containment system based upon the results of the ongoing studies. A discharge permit renewal application was submitted in February 2005. As part of this permit process, Hidalgo and NMED will update the closure plan and address remedial requirements, if warranted. Hidalgo is not subject to the Mining Act and, consequently, does not require a closeout plan. Our cost estimate used to determine the fair value of our reclamation obligation was approximately $7 million (undiscounted and unescalated). At both June 30, 2005, and December 31, 2004, we had accrued approximately $4 million for closure at Hidalgo.

7. Earnings Per Share

Basic earnings per share are computed by dividing net income available to common shares by the weighted average number of common shares outstanding for the period. Diluted earnings per share are computed similarly 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 potentially dilutive common shares had been issued, and the numerator is based on total net income. Restricted stock is unvested; accordingly, these shares are included only in the computation of diluted earnings per share as they are contingent only upon vesting.

Common shares relating to stock options where the exercise prices exceeded the average market price of the Company s common shares during the period were also excluded from the diluted earnings per share calculation as the related impact was anti-dilutive.

(Unaudited; $ in millions except per share data)

	Second Quarter	
	2005	2004
Basic Earnings Per Share Computation		
Numerator:		
Net income	$ 682.3	226.6
Preferred stock dividends	(3.4)	(3.4)
Net income applicable to common shares	$ 678.9	223.2
Denominator:		
Weighted average common shares outstanding	96.2	92.9
Basic earnings per common share	$ 7.06	2.40
Diluted Earnings Per Share Computation		
Numerator:		
Net income	$ 682.3	226.6

Denominator:		
Weighted average common shares outstanding	96.2	92.9
Weighted average employee stock options	0.3	1.0
Weighted average restricted stock issued to employees	0.4	0.3
Weighted average mandatory convertible preferred shares	4.2	4.2
Total weighted average common shares outstanding	101.1	98.4
Diluted earnings per common share	$ 6.75	2.30

(Unaudited; $ in millions except per share data)

	Six Months Ended June 30, 2005	2004
Basic Earnings Per Share Computation		
Numerator:		
Net income	$1,069.0	412.3
Preferred stock dividends	(6.8)	(6.8)
Net income applicable to common shares	$1,062.2	405.5
Denominator:		
Weighted average common shares outstanding	96.0	92.3
Basic earnings per common share	$ 11.07	4.39
Diluted Earnings Per Share Computation		
Numerator:		
Net income	$1,069.0	412.3
Denominator:		
Weighted average common shares outstanding	96.0	92.3
Weighted average employee stock options	0.4	1.4
Weighted average restricted stock issued to employees	0.4	0.3
Weighted average mandatory convertible preferred shares	4.2	4.2
Weighted average common shares outstanding	101.0	98.2
Diluted earnings per common share	$ 10.59	4.20

8. Provision for Taxes on Income

The Company s income tax provision for the 2005 second quarter resulted from taxes on earnings at international operations ($35.4 million) including recognition of valuation allowances ($1.1 million), and taxes on earnings at U.S. operations ($39.2 million) including benefits from the release of valuation allowances ($10.6 million).

The Company s income tax provision for the six months ended June 30, 2005, resulted from taxes on earnings at international operations ($83.7 million) including recognition of valuation allowances ($1.5 million), and taxes on earnings at U.S. operations ($122.1 million) including benefits from the release of valuation allowances ($31.9 million).

The release in our domestic valuation allowances for the quarter and six months ended June 30, 2005, was attributable to a portion of our U.S. federal minimum tax credits, as well as our state net operating loss (NOL) carryforwards.

The Company s income tax provision for the 2004 second quarter resulted from (i) taxes on earnings at international operations ($18.9 million) including benefits from the release of valuation allowances ($21.3 million), (ii) taxes on earnings at U.S. operations ($12.8 million) including benefits from the release of valuation allowances ($41.9 million) and (iii) the recognition of a valuation allowance for deferred tax assets at our Brazilian wire and cable operation ($9.0 million).

The Company s income tax provision for the six months ended June 30, 2004, resulted from (i) taxes on earnings at international operations ($55.8 million) including benefits from the release of valuation allowances ($45.8 million), (ii) taxes on earnings at U.S. operations ($12.9 million) including benefits from the release of valuation allowances ($66.2 million) and (iii) the recognition of a valuation allowance for deferred tax assets at our Brazilian wire and cable operation ($9.0 million); partially offset by the reversal of the valuation allowance associated with deferred tax assets that were expected to be realized after 2004 at our 51 percent-owned El Abra copper mine ($30.8 million). The release of both the domestic and international valuation allowances reflects NOLs and other tax credits that were expected to be utilized.

The Company s effective income tax rate for the six months ended June 30, 2005, was 15.4 percent, compared with 8.3 percent for the corresponding 2004 period. The difference between our effective income tax rate for the six months ended June 30, 2005, and the U.S. federal statutory tax rate (35 percent) primarily was due to (i) deferred income taxes not being provided on the change in interest gain from the Cerro Verde stock issuance (refer to Note 3, Special Items and Provisions, to our unaudited June 30, 2005, Consolidated Financial Information, for further discussion of the tax benefit), as we expect to permanently reinvest our portion of the proceeds in that entity, (ii) a portion of the gain on the sale of our investment in SPCC, being offset by previously unrecognized capital loss carryovers, and (iii) percentage depletion deductions for regular tax purposes in the United States. The difference between the effective income tax rate for the six months ended June 30, 2004, and the U.S. federal statutory tax rate primarily was due to percentage depletion deductions for regular tax purposes in the U.S. and the release of valuation allowances related to certain of our deferred tax assets.

The recent enactment of the American Jobs Creation Act of 2004 (the Act) has caused us to begin the process of re-evaluating our current policy with respect to the repatriation of foreign earnings. The Act provides an effective U.S. federal tax rate of 5.25 percent on certain foreign earnings repatriated during a one-year period (2005 for Phelps Dodge), but also results in the loss of any foreign tax credits associated with these earnings. The maximum amount of the Company s foreign earnings that qualify for this one-time deduction is approximately $638 million. At the present time, other than the amount provided for dividends received in 2005 from Cerro Verde, we do not have enough information to determine whether and to what extent we might repatriate foreign earnings or the related income tax effect of such repatriation. We expect to finalize our assessment by the end of the 2005 third quarter, at which time any tax impact would be recognized.

9. Accounting for Derivative Instruments and Hedging Activities

The Company does not purchase, hold or sell derivative financial contracts unless we have an existing asset or obligation or we anticipate a future activity that is likely to occur and will result in exposing us to market risk. We do not enter into any contracts for speculative purposes. We 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, energy, foreign exchange and interest rate risks from our primary business activities. The fair values of our derivative instruments are based on valuations provided by third parties or widely published market closing prices at period end. Refer to Management s Discussion and Analysis of Financial Condition and Results of Operation and Note 21, Derivative Financial Instruments and Fair Value of Financial Instruments, to the Consolidated Financial Statements included in the Company s Form 10-K for the year ended December 31, 2004, for a discussion of our derivative instruments.

During the 2005 first quarter, Phelps Dodge entered into a program to protect a portion of Phelps Dodge s share of expected 2006 global production by purchasing zero-premium copper collars (approximately 564 million pounds) and copper put options (approximately 564 million pounds). The copper collars have an average LME put strike price (floor) of 95.4 cents per pound (settled against the monthly average LME price) and an average LME call strike price (ceiling) of $1.632 per pound (settled against an annual average LME price). The copper put options establish a floor price of 95.0 cents per pound (settled against the monthly average LME price). The put options were purchased for a 2 cents per pound premium. Phelps Dodge entered into the program as insurance to provide cash flows to help ameliorate the effects of unanticipated copper price decreases.

During the second half of 2004, Phelps Dodge entered into programs to purchase zero-premium copper collars on approximately 97 percent of El Abra s expected 2005 total production (approximately 452 million pounds) and 10 percent of PDMC s expected remaining 2005 consolidated production (approximately 198 million pounds). The copper collars at El Abra have an average LME put strike price (floor) of $1.00 per pound (settled against the monthly average LME price) and an average LME call strike price (ceiling) of $1.376 per

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pound (settled against an annual average LME price). The copper collars on PDMC s expected remaining consolidated production have an average LME put strike price (floor) of 94.3 cents per pound (settled against the monthly average LME price) and an average LME call strike price (ceiling) of $1.40 per pound (settled against an annual average LME price).

Transactions under these copper price protection programs do not qualify as hedges for SFAS No. 133 hedge accounting treatment and will be adjusted to fair market value each reporting period with the offset recorded in earnings. For the six months ended June 30, 2005, as a result of market prices ($1.504 per pound) exceeding the ceiling of our 2005 zero-premium collars ($1.376 per pound for El Abra and $1.40 per pound for PDMC), we recorded unrealized pre-tax losses for our zero-premium collar programs of approximately $57 million for El Abra (approximately $29 million for PD s share) and $21 million for a small portion of PDMC s remaining production. El Abra entered into its program in order to ensure a copper price sufficient to provide the necessary cash to repay its short-term borrowings arising from the 2004 fourth quarter prepayment of its senior debt obligations, repay sponsor support and to ensure financial flexibility. The other program covers a small portion of PDMC s remaining production ensuring a minimum copper price for the restarted Chino facility to operate comfortably throughout 2005.

The actual impact of our 2005 zero-premium collar program will not be fully determinable until the maturity of the collars at year-end. The unrealized losses for our 2005 zero-premium collars were based on a projected full-year average LME futures price (including actual monthly average LME prices for the first six months of 2005) at June 30, 2005, compared with the average LME call protection price per pound of $1.376 for El Abra and $1.40 for a small portion of PDMC s remaining production. The average LME price differences per pound were multiplied by the annual contract amounts of approximately 650 million pounds combined.

During the quarter and six months ended June 30, 2005, we reclassified approximately $1.4 million and $1.6 million, respectively, of other comprehensive gains to the Consolidated Statement of Income, primarily as a result of our South American metal swap contracts.

During the quarter and six months ended June 30, 2004, we reclassified approximately $10.7 million and $12.3 million, respectively, of other comprehensive losses to the Consolidated Statement of Income, principally as a result of the unwinding of our floating-to-fixed interest rate swaps.

10. Pension and Postretirement Benefits

The following tables present the components of net periodic benefit cost for pension benefits and postretirement benefits for the quarters and six months ended June 30, 2005 and 2004:

Pension Benefits
(Unaudited; $ in millions)

	Second Quarter	
	2005	2004
Service cost	$ 7.0	5.9
Interest cost	18.6	18.1
Expected return on plan assets	(21.5)	(21.2)
Amortization of prior service cost	0.8	0.9
Amortization of actuarial loss	3.5	0.8
Curtailment and special retirement benefits		0.1
Net periodic benefit cost	$ 8.4	4.6

	Six Months Ended June 30,	
	2005	2004
Service cost	$ 14.0	11.8

Interest cost	37.3	36.0
Expected return on plan assets	(43.1)	(42.1)
Amortization of prior service cost	1.6	1.8
Amortization of actuarial loss	7.1	1.6
Curtailment and special retirement benefits		0.6
Net periodic benefit cost	$ 16.9	9.7

Postretirement Benefits
(Unaudited; $ in millions)

	Second Quarter	
	2005	2004
Service cost	$ 1.1	1.3
Interest cost	4.8	5.8
Expected return on plan assets	(0.1)	
Amortization of prior service cost	0.1	0.3
Amortization of actuarial loss		0.3
Other		(1.1)
Net periodic benefit cost	$ 5.9	6.6

	Six Months Ended June 30,	
	2005	2004
Service cost	$ 2.2	2.7
Interest cost	9.6	11.6
Expected return on plan assets	(0.1)	(0.1)
Amortization of prior service cost	0.1	0.6
Amortization of actuarial loss		0.2
Other		(1.1)
Net periodic benefit cost	$ 11.8	13.9

Our pension expense in the 2005 second quarter was $8.4 million, compared with $4.6 million in the 2004 second quarter. The increase of $3.8 million was primarily due to an increase in service costs ($1.1 million) resulting from the effect of a 50-basis point reduction in the discount rate and amortization of actuarial loss ($2.7 million) resulting from an increase in benefit liability, the reduction in the deferred asset losses and actuarial losses.

Our pension expense for the first six months of 2005 was $16.9 million, compared with $9.7 million in the corresponding 2004 period. The increase of $7.2 million was primarily due to an increase in service costs ($2.2 million) resulting from the effect of a 50-basis point reduction in the discount rate, interest costs ($1.3 million) resulting from the effect of a 50-basis point reduction in the discount rate and actuarial losses, and amortization of actuarial loss ($5.5 million) resulting from an increase in benefit liability, the reduction in the deferred asset losses and actuarial losses; partially offset by an increase in expected return on plan assets ($1.0 million) and the absence of special retirement benefits ($0.6 million).

On July 13, 2005, we made a cash contribution of $250 million to the master trust that funds our U.S. qualified defined benefit pension plans. This action has funded virtually the entire projected benefit obligation for those plans as reported at December 31, 2004.

Our postretirement expense in the 2005 second quarter was $5.9 million, compared with $6.6 million in the 2004 second quarter. The decrease of $0.7 million was primarily due to a decrease in interest costs ($1.0 million) resulting from a decrease in benefit liability due to the plan amendment associated with employee life insurance, the federal subsidy associated with The Medicare Prescription Drug, Improvement and Modernization Act of 2003, and actuarial gains.

Our postretirement expense for the first six months of 2005 was $11.8 million, compared with $13.9 million in the corresponding 2004 period. The decrease of $2.1 million was primarily due to a decrease in interest costs ($2.0 million) resulting from a decrease in benefit liability due to the plan amendment associated with employee life insurance, the federal subsidy associated with The Medicare Prescription Drug, Improvement and Modernization Act of 2003, and actuarial gains.

11. Debt and Other Financing

The Company filed a $1 billion shelf registration statement on Form S-3 with the Securities and Exchange Commission, which was declared effective May 10, 2005, to combine the $400 million shelf registration filed April 15, 2005, and $600 million outstanding under a shelf registration statement that was declared effective on July 15, 2003. The shelf registration provides flexibility to efficiently access capital markets should financial circumstances warrant.

On April 1, 2005, the Company amended the agreement for its $1.1 billion revolving credit facility, extending its maturity to April 20, 2010, and slightly modifying its fee structure. The facility is to be used for general corporate purposes. The agreement permits borrowings of up to $1.1 billion, with a $300 million sub-limit for letters of credit. This agreement provides for a facility fee (currently 12.5 basis points) ranging from 8 basis points to 20 basis points (depending on the Company s public debt rating) on total commitments. Under the agreement, interest is payable at a variable rate based on the agent bank s prime rate or at a fixed rate based on LIBOR or fixed rates offered independently by the several lenders, for maturities of up to 360 days. In addition, if utilization exceeds one-third of total commitments there is a utilization fee ranging from 10 basis points to 25 basis points (depending on the Company s public debt rating). Fees for letters of credit (currently 50 basis points) range from 27 basis points to 80 basis points (depending on the Company s public debt rating) on letters of credit issued, plus a 12.5 basis point issuance fee. The agreement requires the Company to maintain a minimum EBITDA (as defined in the agreement) to interest ratio of 2.25 on a rolling four-quarter basis, and limits consolidated indebtedness to 55 percent of total consolidated capitalization (as defined in the agreement).

At June 30, 2005, there was approximately $74 million of letters of credit issued under the new revolver. Total availability under the revolving credit facility at June 30, 2005, amounted to approximately $1,026 million, of which approximately $226 million could be used for additional letters of credit.

On July 19, 2005, the Company purchased approximately $280 million (book value) of long-term debt resulting from the completion of tender offers for our 8.75 percent notes due in 2011 (representing approximately 72 percent of the outstanding notes). The cash payment including expenses was approximately $332 million, and will result in an estimated pre-tax charge of approximately $54 million in the 2005 third quarter. This action further enhances the Company s near- and mid-term financial flexibility.

12. Shareholders Equity

Series A Mandatory Convertible Preferred Stock

Each share of Series A Mandatory Convertible Preferred Stock (Series A Stock) is convertible into 2.083 shares of Common Stock, subject to certain adjustments, at any time prior to August 15, 2005, and is entitled to an annual dividend of $6.75, paid quarterly. On August 15, 2005, each share of Series A Stock will automatically convert, subject to certain adjustments, into between 2.083 and 2.5 shares of Common Stock depending on the then-current market price of our Common Stock based on the average closing price of the 20-day period preceding the conversion date. Each share of Series A Stock is non-voting and entitled to a liquidation preference of $100 plus any accrued but unpaid dividends. At June 30, 2005, there were 2.0 million preferred shares of designated Series A Stock outstanding; 6.0 million preferred shares are authorized under our Restated Certificate of Incorporation with a par value of $1.00 each.

Stock Options Exercised

During the 2005 second quarter, 0.1 million stock options were exercised for Phelps Dodge common shares, for which Phelps Dodge received approximately $3.0 million.

During the six months ended June 30, 2005, 0.8 million stock options were exercised for Phelps Dodge common shares, for which Phelps Dodge received approximately $35.4 million.

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REVIEW BY INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial information as of June 30, 2005, and for the three-month and six-month periods ended June 30, 2005 and 2004, included in Part I pursuant to Rule 10-01 of Regulation S-X has been reviewed by PricewaterhouseCoopers LLP (PricewaterhouseCoopers), the Company s independent registered public accounting firm, in accordance with the standards of the Public Company Accounting Oversight Board (United States). PricewaterhouseCoopers report is included below.

PricewaterhouseCoopers does not carry out any significant or additional procedures beyond those that would have been necessary if its report had not been included in this quarterly report. Accordingly, such report is not a report or part of a registration statement within the meaning of Sections 7 and 11 of the Securities Act of 1933 and the liability provisions of Section 11 of such Act do not apply.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Phelps Dodge Corporation:

We have reviewed the accompanying consolidated balance sheet of Phelps Dodge Corporation and its subsidiaries as of June 30, 2005, and the related consolidated statement of income for each of the three-month and six-month periods ended June 30, 2005 and 2004, the consolidated statement of cash flows for the six-month periods ended June 30, 2005 and 2004, and the consolidated statement of shareholders equity for the six-month period ended June 30, 2005. This interim financial information is the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2004, and the related consolidated statement of income, of cash flows, and of shareholders equity for the year then ended, management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2004 and the effectiveness of the Company s internal control over financial reporting as of December 31, 2004; and in our report dated March 7, 2005, we expressed unqualified opinions thereon. The consolidated financial statements and management s assessment of the effectiveness of internal control over financial reporting referred to above are not presented herein. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2004, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP
Phoenix, Arizona
July 27, 2005

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The U.S. securities laws provide a safe harbor for certain forward-looking statements. This quarterly report contains forward-looking statements that express expectations of future events or results. All statements based on future expectations rather than historical facts are forward-looking statements that involve a number of risks and uncertainties, and Phelps Dodge Corporation (the Company, which may be referred to as Phelps Dodge, PD, we, us or ours) cannot give assurance that such statements will prove to be correct. Refer to Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s report on Form 10-K for the year ended December 31, 2004, for a further discussion of such risks and uncertainties, our operations, and our critical accounting policies. Refer to Note 1, General Information, to our unaudited June 30, 2005, Consolidated Financial Information, for a discussion of our consolidation policy.

RESULTS OF OPERATIONS

Consolidated Financial Results

(Unaudited; $ in millions)

	Second Quarter	
	2005	2004
Sales and other operating revenues	$ 2,151.6	1,650.9
Operating income	$ 173.7	354.7
Minority interests in consolidated subsidiaries	$ (38.5)	(42.0)
Net income	$ 682.3	226.6
Basic earnings per common share	$ 7.06	2.40
Diluted earnings per common share	$ 6.75	2.30

The Company had consolidated net income for the 2005 second quarter of $682.3 million, or $6.75 per common share, including special, net gains of $225.8 million, or $2.23 per common share, after taxes. (All references to per share earnings or losses are based on diluted earnings or losses per share.) In the 2004 second quarter, consolidated net income was $226.6 million, or $2.30 per common share, including special, net charges of $16.0 million, or 16 cents per common share, after taxes.

Consolidated net income increased $455.7 million in the 2005 second quarter compared with the 2004 second quarter. The increase primarily included the effects of (i) the gain recognized on the sale of a cost-basis investment ($438.4 million), (ii) the change in interest gain from Cerro Verde stock issuance ($159.5 million), (iii) higher copper prices (approximately $180 million) including premiums and copper pricing adjustments, (iv) higher molybdenum earnings including earnings from primary molybdenum mines (approximately $69 million) and by-product molybdenum contribution (approximately $163 million), and (v) lower interest expense including the absence of early debt extinguishment costs (approximately $24 million). These were partially offset by (i) asset impairment charges recorded at PDMC in the 2005 second quarter ($419.1 million), (ii) higher copper production costs (approximately $130 million), which exclude by-product molybdenum revenues, and (iii) a higher tax provision (approximately $34 million) due to higher earnings.

(Unaudited; $ in millions)

	Six Months Ended June 30,	
	2005	2004
Sales and other operating revenues	$ 4,218.1	3,247.9
Operating income	$ 722.7	669.5
Minority interests in consolidated subsidiaries	$ (65.5)	(105.6)
Net income	$ 1,069.0	412.3
Basic earnings per common share	$ 11.07	4.39

Diluted earnings per common share	$ 10.59	4.20

The Company had consolidated net income for the six months ended June 30, 2005, of $1,069.0 million, or $10.59 per common share, including special, net gains of $225.9 million, or $2.24 per common share, after taxes. For the six months ended June 30, 2004, consolidated net income was $412.3 million, or $4.20 per common share, including special, net charges of $26.4 million, or 27 cents per common share, after taxes.

Consolidated net income increased $656.7 million for the six months ended June 30, 2005, compared with the corresponding 2004 period. The increase primarily included the effects of (i) the gain recognized on the sale of a cost-basis investment ($438.4 million), (ii) the change in interest gain associated with the Cerro Verde stock issuance ($159.5 million), (iii) higher copper prices (approximately $276 million) including premiums and copper pricing adjustments, (iv) higher molybdenum earnings including earnings from primary molybdenum mines (approximately $140 million) and by-product molybdenum contribution (approximately $323 million), (v) lower interest expense including the absence of early debt extinguishment costs (approximately $62 million), (vi) lower minority interests in consolidated subsidiaries (approximately $40 million), (vii) higher dividend income (approximately $31 million) primarily from Southern Peru Copper Corporation, and (viii) higher interest income (approximately $18 million). These were partially offset by (i) asset impairment charges recorded at PDMC in the 2005 second quarter ($419.1 million), (ii) higher copper production costs (approximately $260 million), which exclude by-product molybdenum revenues and (iii) a higher tax provision (approximately $159 million) due to higher earnings.

Special Items and Provisions

Throughout Management s Discussion and Analysis of Financial Condition and Results of Operations there is disclosure and discussion of what management believes to be special items and provisions. We view special items as unpredictable and atypical of our operations in the period. We believe consistent identification, disclosure and discussion of such items, both favorable and unfavorable, provide additional information to assess the quality of our performance and our earnings or losses. In addition, management measures the performance of its reportable segments excluding special items. This supplemental information is not a substitute for any U.S. generally accepted accounting principles (GAAP) measure and should be evaluated within the context of our U.S. GAAP results. The tax impacts of the special items were

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determined at the marginal effective tax rate of the appropriate taxing jurisdiction, including provision for valuation allowance, if warranted. Any supplemental information references to earnings, losses or results excluding special items or before special items is a non-GAAP measure that may not be comparable to similarly titled measures reported by other companies.

Note: Supplemental Data

The following table summarizes consolidated net income, special items and provisions, and the resultant earnings excluding these special items and provisions for the quarter and six-month periods ended June 30, 2005 and 2004:

(Unaudited; $ in millions)

	Second Quarter	
	2005	2004
Net Income	$682.3	226.6
Special items and provisions, net of taxes	225.8	(16.0)
Earnings excluding special items and provisions (after taxes)	$456.5	242.6

(Unaudited; $ in millions)

	Six Months Ended June 30,	
	2005	2004
Net Income	$1,069.0	412.3
Special items and provisions, net of taxes	225.9	(26.4)
Earnings excluding special items and provisions (after taxes)	$ 843.1	438.7

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Note: Supplemental Data

The following schedules summarize the special items and provisions for the quarter and six-month periods ended June 30, 2005 and 2004 (refer to Note 3, Special Items and Provisions, to our unaudited June 30, 2005, Consolidated Financial Information, for additional discussion):

(Unaudited; $ in millions except per share data)

	2005 Second Quarter			2004 Second Quarter		
Consolidated Statement of Income Line Item	Pre-tax	After-tax	$/Share After-tax	Pre-tax	After-tax	$/Share After-tax
Special items and provisions, net:						
PDMC (see Business Segment disclosure)	$(415.0)	(317.8)	(3.15)	(2.5)	(1.9)	(0.02)
PDI (see Business Segment disclosure)	(1.9)	(1.4)	(0.01)	(2.5)	(1.9)	(0.02)
Corporate and Other -						
Environmental provisions, net	(20.7)	(15.7)	(0.15)	0.5	0.4	
Environmental insurance recoveries, net	0.5	0.4		0.1	0.1	
Historical legal matters	(0.1)	(0.1)		15.9	12.8	0.13
	(20.3)	(15.4)	(0.15)	16.5	13.3	0.13
	(437.2)	(334.6)	(3.31)	11.5	9.5	0.09
Early debt extinguishment costs				(15.2)	(12.6)	(0.13)
Gain on sale of cost-basis investment	438.4	388.0	3.84			
Change in interest gain from Cerro Verde stock issuance	159.5	172.9	1.71			
Miscellaneous income and expense, net:						
Cost-basis investment write-down				(6.4)	(6.4)	(0.06)
Provision for taxes on income:						
Foreign dividend tax		(0.5)	(0.01)			
PD Brazil deferred tax asset valuation allowance					(9.0)	(0.09)
		(0.5)	(0.01)		(9.0)	(0.09)
Minority interests in consolidated subsidiaries:						

Candelaria early debt extinguishment costs					2.5	0.03
	$ 160.7	225.8	2.23	(10.1)	(16.0)	(0.16)

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(Unaudited; $ in millions except per share data)

	Six Months Ended June 30, 2005			Six Months Ended June 30, 2004		
Consolidated Statement of Income Line Item	Pre-tax	After-tax	$/Share After-tax	Pre-tax	After-tax	$/Share After-tax
Special items and provisions, net:						
PDMC (see Business Segment disclosure)	$(420.9)	(322.3)	(3.19)	(2.5)	(1.9)	(0.02)
PDI (see Business Segment disclosure)	(1.5)	(0.6)		(4.3)	(3.1)	(0.03)
Corporate and Other						
Environmental provisions, net	(19.7)	(15.0)	(0.15)	(4.1)	(3.1)	(0.03)
Environmental insurance recoveries, net	1.1	0.9	0.01	0.1	0.1	
Historical legal matters	4.7	4.4	0.04	15.5	12.4	0.13
	(13.9)	(9.7)	(0.10)	11.5	9.4	0.10
	(436.3)	(332.6)	(3.29)	4.7	4.4	0.05
Interest expense:						
Texas franchise tax matter				(0.9)	(0.7)	(0.01)
Early debt extinguishment costs				(37.6)	(30.2)	(0.31)
Gain on sale of cost-basis investment	438.4	388.0	3.84			
Change in interest gain from Cerro Verde stock issuance	159.5	172.9	1.71			
Miscellaneous income and expense, net:						
Cost-basis investment write-downs				(10.0)	(9.1)	(0.09)
Provision for taxes on income:						
Foreign dividend tax		(2.4)	(0.02)			
Reversal of El Abra deferred tax asset valuation allowance					30.8	0.31
PD Brazil deferred tax asset valuation allowance					(9.0)	(0.09)
		(2.4)	(0.02)		21.8	0.22

Minority interests in consolidated subsidiaries:						
Reversal of El Abra deferred tax asset valuation allowance					(15.1)	(0.15)
Candelaria early debt extinguishment costs					2.5	0.02
					(12.6)	(0.13)
	$ 161.6	225.9	2.24	(43.8)	(26.4)	(0.27)

Business Divisions

Results for 2005 and 2004 can be meaningfully compared by separate reference to our reporting divisions, Phelps Dodge Mining Company (PDMC) and Phelps Dodge Industries (PDI). PDMC is a business division 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, technology and development programs. PDI, our manufacturing division, produces engineered products principally for the global energy, transportation and specialty chemicals sectors. PDI includes our Specialty Chemicals segment and our Wire and Cable segment. Significant events and transactions have occurred within each segment that, 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.

The Company is continuing to explore strategic alternatives for PDI that may include potential subsidiary sales, selective asset sales, restructurings, joint ventures and mergers, or, alternatively, retention and selective growth. We are currently in discussions with certain interested parties whose primary interest is the potential purchase of Specialty Chemicals. No decision has yet been made to proceed with a sale and no assurance can be given that a transaction will be concluded. The book value of Specialty Chemicals was approximately $600 million at June 30, 2005. Whether any such transaction would result in the recognition of a gain or loss depends on the final purchase price and other terms and cannot yet be determined. Pending final approval of the Phelps Dodge board of directors, Specialty Chemicals plans to build a new carbon black manufacturing facility in Bahia, Brazil, at a greenfield location in the Camacari petrochemical complex in the northeastern area of Brazil.

RESULTS OF PHELPS DODGE MINING COMPANY

PDMC includes 12 reportable segments and other mining activities. In the 2004 fourth quarter, the Company reassessed its reportable segments. The reassessment considered the significant increase in copper and molybdenum prices. Based upon our assessment, we are separately disclosing Bagdad, Sierrita, Manufacturing and Sales as individual reportable segments, whereas

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in 2004 Bagdad and Sierrita, and Manufacturing and Sales were aggregated. In accordance with Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, segment information for 2004 has been revised to conform with the 2005 presentation.

PDMC has six reportable copper production segments in the United States (Morenci, Bagdad, Sierrita, Miami/Bisbee, Chino/Cobre and Tyrone) and three reportable copper production segments in South America (Candelaria/Ojos del Salado, Cerro Verde and El Abra). These segments include open-pit mining, underground mining, sulfide ore concentrating, leaching, solution extraction and electrowinning. In addition, the Candelaria/Ojos del Salado, Bagdad, Sierrita and Chino/Cobre segments produce gold and silver. The Bagdad, Sierrita and Chino mines produce molybdenum and rhenium as by-products.

The Manufacturing segment consists of conversion facilities including our smelters, refineries and rod mills. The Manufacturing segment processes copper produced at our mining operations and copper purchased from others into copper anode, cathode and rod. In addition, at times it smelts and refines copper and produces copper rod for customers on a toll basis. Toll arrangements require the tolling customer to deliver appropriate copper-bearing material to our facilities, which we then process into a product that is returned to the customer. The customer pays PDMC for processing its material into the specified products.

The Sales segment functions as an agent to sell copper from our copper production and manufacturing segments. It also purchases and sells any copper not sold by our South American mines to third parties. Copper is sold to others primarily as rod, cathode or concentrate, and as rod to PDI s Wire and Cable segment.

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

Major operating and financial results of PDMC for the quarter and six-month periods ended June 30, 2005 and 2004, are summarized in the following tables:

(Unaudited; $ in millions except per pound amounts)

	Second Quarter	
	2005	2004
Sales and other operating revenues to unaffiliated customers	$1,684.4	1,254.5
Operating income	$ 204.7	336.7
Operating income before special items and provisions	$ 619.7	339.2
Minority interests in consolidated subsidiaries	$ (37.5)	(40.6)
Copper production (thousand short tons):		
Total copper production	321.7	321.4
Less undivided interest (A)	15.5	15.7
Copper production on a consolidated basis	306.2	305.7
Less minority participants shares (B)	42.5	44.6
Copper production on a pro rata basis	263.7	261.1
Copper sales (thousand short tons):		

Total copper sales from own mines	328.0	321.8
Less undivided interest (A)	15.5	15.7
Copper sales from own mines on a consolidated basis	312.5	306.1
Less minority participants shares (B)	44.0	47.4
Copper sales from own mines on a pro rata basis	268.5	258.7
Purchased copper (thousand short tons)	78.6	116.7
Total copper sales on a consolidated basis	391.1	422.8
LME average spot copper price per pound cathodes	$ 1.537	1.265
COMEX average spot copper price per pound cathodes	$ 1.532	1.234
Molybdenum production (million pounds)	16.7	14.8
Molybdenum sales (million pounds):		
Net Phelps Dodge share from own mines	15.5	16.0
Purchased molybdenum	3.2	3.1
Total molybdenum sales	18.7	19.1
Metals Week:		
Molybdenum Dealer Oxide mean price per pound	$ 35.27	14.57

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(Unaudited; $ in millions except per pound amounts)

	Six Months Ended June 30,	
	2005	2004
Sales and other operating revenues to unaffiliated customers	$3,302.5	2,469.0
Operating income	$ 755.1	666.9
Operating income before special items and provisions	$1,176.0	669.4
Minority interests in consolidated subsidiaries	$ (63.1)	(103.7)
Copper production (thousand short tons):		
Total copper production	646.7	639.0
Less undivided interest (A)	29.3	31.1
Copper production on a consolidated basis	617.4	607.9
Less minority participants shares (B)	86.0	90.9
Copper production on a pro rata basis	531.4	517.0
Copper sales (thousand short tons):		
Total copper sales from own mines	653.0	645.1
Less undivided interest (A)	29.3	31.1
Copper sales from own mines on a consolidated basis	623.7	614.0
Less minority participants shares (B)	87.8	93.7
Copper sales from own mines on a pro rata basis	535.9	520.3
Purchased copper (thousand short tons)	171.2	231.8
Total copper sales on a consolidated basis	794.9	845.8
LME average spot copper price per pound cathodes	$ 1.510	1.252
COMEX average spot copper price per pound cathodes	$ 1.500	1.233
Molybdenum production (million pounds)	31.4	28.3
Molybdenum sales (million pounds):		
Net Phelps Dodge share from own mines	30.4	31.2
Purchased molybdenum	6.9	6.5
Total molybdenum sales	37.3	37.7

Metals Week:

Molybdenum Dealer Oxide mean price per pound	$ 33.29	11.42

(A) Represents a 15 percent undivided interest in Morenci, Arizona, copper mining complex held by Sumitomo Metal Mining Arizona, Inc.

(B) Minority participant interests include (i) a 20 percent partnership interest in Candelaria in Chile held by SMMA Candelaria, Inc., a jointly owned indirect subsidiary of Sumitomo Metal Mining Co., Ltd., and Sumitomo Corporation, (ii) a 49 percent partnership interest in the El Abra copper mining operation in Chile held by Corporación Nacional del Cobre de Chile (CODELCO), and (iii) a 17.5 percent partnership interest through May 31, 2005, and a 46.4 percent partnership interest in the Cerro Verde copper mining operation in Peru held primarily by Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation, and Compañia de Minas Buenaventura S.A.A.

(thousand short tons)

	Second Quarter	
	2005	2004
Minority participants share of copper production:		
Candelaria	8.6	10.3
Cerro Verde	7.1	4.3
El Abra	26.8	30.0
	42.5	44.6

	Six Months Ended June 30,	
	2005	2004
Minority participants share of copper production:		
Candelaria	18.9	21.4
Cerro Verde	11.3	8.7
El Abra	55.8	60.8
	86.0	90.9

Total PDMC Division Sales

PDMC s sales and other operating revenues to unaffiliated customers increased $429.9 million, or 34 percent, in the 2005 second quarter compared with the 2004 second quarter. The increase reflected higher average molybdenum realizations (approximately $297 million) and higher average copper realizations (approximately $220 million); partially offset by lower copper sales volumes, including purchased copper (approximately $77 million).

PDMC s sales and other operating revenues to unaffiliated customers increased $833.5 million, or 34 percent, in the first six months of 2005 compared with the corresponding 2004 period. The increase reflected higher average molybdenum realizations (approximately $617 million) and higher average copper realizations (approximately $351 million); partially offset by lower copper sales volumes, including purchased copper (approximately $116 million).

Total PDMC Operating Income

PDMC reported operating income of $204.7 million for the 2005 second quarter, including special, net pre-tax charges of $415.0 million, compared with operating income of $336.7 million for the 2004 second quarter, including special, net pre-tax charges of $2.5 million. The decrease in operating income of $132.0 million, or 39 percent, primarily was due to higher special, net pre-tax charges of $412.5 million mostly associated with asset impairment charges recorded in the 2005 second quarter ($419.1 million) and higher copper production costs (approximately $130 million); partially offset by the effects of higher copper prices (approximately $180 million) including premiums and copper pricing adjustments, and higher molybdenum earnings, including earnings from primary molybdenum mines (approximately $69 million) and by-product molybdenum contribution (approximately $163 million) primarily due to higher prices. Higher copper production costs, which exclude by-product molybdenum revenues, were primarily due to (i) higher mining and milling costs due generally to higher mining rates and repairs and maintenance (approximately $72 million), (ii) higher energy costs (approximately $31 million), and (iii) higher smelting, refining and freight costs (approximately $30 million).

PDMC reported operating income of $755.1 million for the first six months of 2005, including special, net pre-tax charges of $420.9 million, compared with operating income of $666.9 million for the first six months of 2004, including special, net pre-tax charges of $2.5 million. The increase in operating income of $88.2 million, or 13 percent, primarily included the effects of (i) higher copper prices (approximately $276 million) including premiums and copper pricing adjustments, (ii) higher molybdenum earnings, including earnings from primary molybdenum mines (approximately $140 million) and by-product molybdenum contribution (approximately $323 million) primarily due to higher prices, (iii) higher copper sales volumes (approximately $11 million), and (iv) a gain on the sale of exploration properties (approximately $11 million). These were partially offset by higher special, net pre-tax charges of $418.4 million mostly associated with asset impairment charges recorded in the 2005 second quarter ($419.1 million), and higher copper production costs (approximately $260 million). Higher copper production costs, which exclude by-product molybdenum revenues, were primarily due to (i) higher mining and milling costs due generally to higher mining rates, repairs and maintenance and the operational impacts of unusually heavy rainfall in the southwest United States (approximately $144 million), (ii) higher energy costs (approximately $52 million), and (iii) higher smelting, refining and freight costs (approximately $62 million).

For both 2005 and 2004, the higher average copper prices including premiums reflected strong copper fundamentals and a favorable economic environment.

The New York Commodity Exchange (COMEX) spot price per pound of copper cathode, upon which we primarily base our U.S. sales, averaged $1.532 and $1.234 in the second quarters of 2005 and 2004, respectively, and $1.500 and $1.233 for the first six months of 2005 and 2004, respectively. The LME spot price per pound of copper cathode, upon which we primarily base our international sales, averaged $1.537 and $1.265 in the second quarters of 2005 and 2004, respectively, and $1.510 and $1.252 for the first six months of 2005 and 2004, respectively.

Any material change in the price we receive for copper, or in PDMC s cost of copper production, has a significant effect on our results. Based on expected 2005 annual production of approximately 2.5 billion pounds of copper, each 1 cent per pound change in the average annual copper price, or in average annual cost of copper production, causes a variation in annual operating income, excluding the impact of our copper collars as discussed below and before taxes and adjustment for minority interest, of approximately $25 million.

Certain of PDMC s sales agreements provide for provisional pricing based on either COMEX or LME (as specified in the contract) when shipped. Final settlement is based on the average applicable price for a specified future period (quotational period or QP), generally from one to three months after arrival at the customer s facility. PDMC records revenues upon passage of title using the forward rate in place for the QP. For accounting purposes, these revenues are adjusted to fair value through earnings each period until the date of final copper pricing. At June 30, 2005, approximately 239 million pounds of copper sales were provisionally priced at an average of $1.542 per pound with final QP periods of July to November 2005. Candelaria accounted for approximately 67 percent of the outstanding, provisionally priced sales at June 30, 2005.

Phelps Dodge has entered into copper swap contracts to protect certain provisionally priced sales exposure in a manner that is designed to allow us to receive the average LME price for the month of shipment while our Candelaria customers receive the QP price they requested (*i.e.*, one to three months after month of arrival at the customer s facility). As of July 27, 2005, we had in place copper swap contracts for approximately 78 percent of Candelaria s provisionally priced copper sales outstanding at June 30, 2005, at an average of $1.509 per pound. This program is expected to substantially alleviate the volatility that provisionally priced copper sales could have on our revenues.

During the 2005 first quarter, Phelps Dodge entered into a program to protect a portion of Phelps Dodge s share of expected 2006 global production by purchasing zero-premium copper collars (approximately 564 million pounds) and copper put options (approximately 564 million pounds). The copper collars have an average LME put strike price (floor) of 95.4 cents per pound (settled against the monthly average LME price) and an average LME call strike price (ceiling) of $1.632 per pound (settled against an annual average LME price). The copper put options establish a floor price of 95.0 cents per pound (settled against the monthly average LME price). The put options were purchased for a 2 cents per pound premium. Phelps Dodge entered into the program as insurance to provide cash flows to help ameliorate the effects of unanticipated copper price decreases.

During the second half of 2004, Phelps Dodge entered into programs to purchase zero-premium copper collars on approximately 97 percent of El Abra s expected 2005 total production (approximately 452 million pounds) and 10 percent of PDMC s expected remaining 2005 consolidated production (approximately 198 million pounds). The copper collars at El Abra have an average LME put strike price (floor) of $1.00 per pound (settled against the monthly average LME price) and an average LME call strike price (ceiling) of $1.376 per pound (settled against an annual average LME price). The copper collars on PDMC s expected remaining consolidated production have an average

LME put strike price (floor) of 94.3 cents per pound (settled against the monthly average LME price) and an average LME call strike price (ceiling) of $1.40 per pound (settled against an annual average LME price).

Transactions under these copper price protection programs do not qualify as hedges for SFAS No. 133 hedge accounting treatment and will be adjusted to fair market value each reporting period with the offset recorded in earnings. For the six months ended June 30, 2005, as a result of market prices ($1.504 per pound) exceeding the ceiling of our 2005 zero-premium collars ($1.376 per pound for El Abra and $1.40 per pound for PDMC), we recorded unrealized pre-tax losses for our zero-premium collar programs of approximately $57 million for El Abra (approximately $29 million for PD s share) and $21 million for a small portion of PDMC s remaining production. El Abra entered into its program in order to ensure a copper price sufficient to provide the necessary cash to repay its short-term borrowings arising from the 2004 fourth quarter prepayment of its senior debt obligations, repay sponsor support and to ensure financial flexibility. The other program covers a small portion of PDMC s remaining production ensuring a minimum copper price for the restarted Chino facility to operate comfortably throughout 2005.

The actual impact of our 2005 zero-premium collar program will not be fully determinable until the maturity of the collars at year end. The unrealized losses for our 2005 zero-premium collars were based on a projected full-year average LME futures price (including actual monthly average LME prices for the first six months of 2005) at June 30, 2005, compared with the average LME call protection price per pound of $1.376 for El Abra and $1.40 for a small portion of PDMC s remaining production. The average LME price differences per pound were multiplied by the annual contract amounts of approximately 650

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million pounds combined. Each 1 cent per pound increase in the full-year 2005 monthly average LME future price above that projected as of June 30, 2005, will decrease operating income by approximately $6.5 million. Each 1 cent per pound decrease in the full-year 2005 monthly average LME future price from that projected as of June 30, 2005, will increase operating income by approximately $6.5 million, except that there would be no incremental effect for average prices between $1.00 per pound and $1.376 per pound for El Abra and between 94.3 cents per pound and $1.40 per pound for a small portion of PDMC s remaining production.

Increasing energy prices are continuing to impact our costs. Although we mitigate extreme increases in energy costs with long-term power contracts and market hedging, we nevertheless do pay more for our energy needs during these times of progressively higher energy prices. Energy accounted for 19.2 cents per pound of our production costs in the 2005 second quarter, compared with 14.2 cents per pound in the 2004 second quarter and 16.6 cents in the 2005 first quarter. In the second half of 2005, if the base price of oil were to increase by a hypothetical $20 per barrel from $60 per barrel, our unit cost of copper production would increase by approximately 3.0 to 3.5 cents per pound.

Note: Supplemental Data

The following tables summarize PDMC s special items and provisions in operating income for the quarter and six-month periods ended June 30, 2005 and 2004:

(Unaudited; $ in millions)

	2005 Second Quarter		
	U.S. Mining Operations	South American Mines	Primary Molyb-denum
Asset impairment charges	$(419.1)		
Environmental provisions, net	(10.4)		
Environmental insurance recoveries, net	(0.5)		
Historical legal matters	15.0		
	$(415.0)		

(Unaudited; $ in millions)

	Six Months Ended June 30, 2005		
	U.S. Mining Operations	South American Mines	Primary Molyb-denum
Asset impairment charges	$(419.1)		
Environmental provisions, net	(15.7)		
Environmental insurance recoveries, net	(1.1)		
Historical legal matters	15.0		
	$(420.9)		

(Unaudited; $ in millions)

	Second Quarter and Six Months Ended June 30, 2004		
	U.S.	South	Primary

	Mining Operations	American Mines	Molyb-denum
Environmental provisions, net	$ (2.6)		0.3
Environmental insurance recoveries, net	(0.2)		
	$ (2.8)		0.3

Note: Our non-GAAP measure of special items may not be comparable to similarly titled measures reported by other companies.

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PDMC RESULTS BY REPORTABLE SEGMENTS

(Unaudited)

The following tables summarize, on a segment basis, production and sales statistics, operating income (loss), special items and provisions, net, and operating income (loss) excluding special items and provisions for the second quarters 2005 and 2004:

				U.S. Mines			
	Morenci	Bagdad	Sierrita	Miami/ Bisbee	Chino/ Cobre	Tyrone	Subtotal
Second Quarter 2005							
Copper production (thousand short tons):							
Total production	103.0	27.1	19.9	3.4	24.7	10.9	189.0
Less undivided interest	15.5						15.5
Copper production on a consolidated basis	87.5	27.1	19.9	3.4	24.7	10.9	173.5
Less minority participants shares							
Copper production on a pro rata basis	87.5	27.1	19.9	3.4	24.7	10.9	173.5
Copper sales (thousand short tons):							
Total copper sales from own mines	103.0	27.2	20.1	3.5	24.7	10.9	189.4
Less undivided interest	15.5						15.5
Copper sales from own mines on a consolidated basis	87.5	27.2	20.1	3.5	24.7	10.9	173.9
Less minority participants shares							
Copper sales from own mines on a pro rata basis	87.5	27.2	20.1	3.5	24.7	10.9	173.9
Total purchased copper (thousand short tons)							
Total copper sales on a consolidated basis	87.5	27.2	20.1	3.5	24.7	10.9	173.9
($ in millions)							
Operating income (loss)	$ 114.2	116.5	135.6	2.1	(51.0)	(208.3)	109.1

Special items and provisions, net	(0.3)				(63.9)	(211.5)	(275.7)
Operating income (loss) excluding special items and provisions	$ 114.5	116.5	135.6	2.1	12.9	3.2	384.8
Second Quarter 2004							
Copper production (thousand short tons):							
Total production	105.0	26.8	18.6	2.4	18.5	10.5	181.8
Less undivided interest	15.7						15.7
Copper production on a consolidated basis	89.3	26.8	18.6	2.4	18.5	10.5	166.1
Less minority participants shares							
Copper production on a pro rata basis	89.3	26.8	18.6	2.4	18.5	10.5	166.1
Copper sales (thousand short tons):							
Total copper sales from own mines	104.7	24.4	16.4	1.0	18.5	10.5	175.5
Less undivided interest	15.7						15.7
Copper sales from own mines on a consolidated basis	89.0	24.4	16.4	1.0	18.5	10.5	159.8
Less minority participants shares							
Copper sales from own mines on a pro rata basis	89.0	24.4	16.4	1.0	18.5	10.5	159.8
Total purchased copper (thousand short tons)							
Total copper sales on a consolidated basis	89.0	24.4	16.4	1.0	18.5	10.5	159.8
($ in millions)							
Operating income (loss)	$ 86.5	21.3	70.1	(3.1)	10.0	6.6	191.4
Special items and provisions, net	(0.4)				(0.4)	(1.8)	(2.6)
	$ 86.9	21.3	70.1	(3.1)	10.4	8.4	194.0

Operating income
(loss) excluding special
items and provisions

Refer to segment discussion on pages 36 through 41.
Revenues, operating costs and expenses of PDMC s segments include allocations that may not be reflective of market conditions. Additionally, certain costs are not allocated to the reportable segments. (Refer to pages 36 and 37 for further discussion.)

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PDMC RESULTS BY REPORTABLE SEGMENTS
(Unaudited)

	South American Mines			
	Candelaria/ Ojos del Salado	Cerro Verde	El Abra	Subtotal
Second Quarter 2005				
Copper production (thousand short tons):				
Total production	50.2	26.1	54.8	131.1
Less undivided interest				
Copper production on a consolidated basis	50.2	26.1	54.8	131.1
Less minority participants shares	8.6	7.1	26.8	42.5
Copper production on a pro rata basis	41.6	19.0	28.0	88.6
Copper sales (thousand short tons):				
Total copper sales from own mines	55.9	25.8	55.3	137.0
Less undivided interest				
Copper sales from own mines on a consolidated basis	55.9	25.8	55.3	137.0
Less minority participants shares	9.7	7.2	27.1	44.0
Copper sales from own mines on a pro rata basis	46.2	18.6	28.2	93.0
Total purchased copper (thousand short tons)	3.2			3.2
Total copper sales on a consolidated basis	59.1	25.8	55.3	140.2
($ in millions)				
Operating income (loss)	$ 64.6	39.6	63.8	168.0
Special items and provisions, net				