

Audit Committee of the Board of Directors

CHARTER

This charter ("Charter") sets forth the purpose, composition, responsibilities, duties and powers of the audit committee (the "Audit Committee") of the board of directors (the "Board") of Phelps Dodge Corporation (the "Corporation").

I. Purpose

The purposes of the Audit Committee are to:

(A) assist Board oversight of: (i) the quality and integrity of the Corporation's financial statements; (ii) the Corporation's compliance with legal and regulatory requirements; (iii) the independence and qualifications of the Corporation's independent accountants and (iv) the performance of the Corporation's internal audit function and the independent accountants;

(B) prepare the report of the Audit Committee required to be included in the Corporation's Annual Proxy Statement under the rules of the Securities and Exchange Commission (the "SEC"); and

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

II. Composition

(A) The Audit Committee shall consist of three or more directors, each of whom shall be appointed by the Board on the recommendation of the Committee on Directors and Corporate Governance, and shall serve at the pleasure of the Board and for such term or terms as the Board may determine.

(B) Each member of the Audit Committee shall be "independent" under: (i) the rules of the New York Stock Exchange, Inc. (the "NYSE") as such requirements are interpreted by the Board in its business judgment; and (ii) section 10A(m) of the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act") and any related rules and exemptions. No director may serve as a member of the Audit Committee if such director serves on the audit committees of more than two other public companies unless the Board determines that such simultaneous service would not impair the ability of such director to serve effectively on the Audit Committee. Any such Board determination shall be disclosed in the Corporation's Annual Proxy Statement.

(C) Each member of the Audit Committee shall be financially literate, as such qualification is interpreted by the Board in its business judgment, or must become financially literate within a reasonable period of time after appointment to the Audit Committee. The Audit Committee chairperson shall have accounting or related financial management expertise, as such qualification is interpreted by the Board in its business judgment. At least one member of the Audit Committee shall qualify as an audit committee financial expert as such term is defined under the rules and regulations of the SEC adopted pursuant to Section 407 of the Sarbanes-Oxley Act of 2002. The Corporation shall disclose in its Annual Proxy Report whether one member of the Audit Committee is an audit committee financial expert and, if so, the name of the audit committee financial expert and whether such person is independent.

(D) No member of the Audit Committee may (except pursuant to an SEC exemption or an exception under the rules of the NYSE), other than in his or her capacity as a member of the Audit Committee, the Board, or any other committee of the Board: (i) accept directly or indirectly any consulting, advisory or other compensatory fee from the Corporation or any of its subsidiaries; or (ii) be an affiliated person of the Corporation or any of the Corporation's subsidiaries for purposes of section 10A of the Securities Exchange Act.

III. Structure and Operations

(A) One of the members of the Audit Committee will be designated by the Board to serve as the Audit Committee chairperson. The affirmative vote of a majority of the members of the Audit Committee is necessary for the adoption of any resolution.

(B) The Audit Committee shall meet once every fiscal quarter, or more frequently if circumstances dictate, to discuss with management the annual audited financial statements and quarterly financial statements, as applicable. The Audit Committee may request any officer or employee of the Corporation or the Corporation's outside counsel or independent accountants to attend any meeting (or portions thereof) of the Audit Committee or to meet with any members of, or consultants to the Audit Committee and to provide pertinent information as necessary.

(C) Members of the Audit Committee may participate in a meeting of the Audit Committee by means of conference call or similar communications equipment by means of which all persons participating in the meeting can hear each other.

IV. Responsibilities and Duties

To fulfill its responsibilities and duties, the Audit Committee shall:

Independent Accountants

(A) Be directly responsible for the selection, retention, compensation and oversight of the Corporation's independent accountants, the evaluation of their performance and the termination and replacement of the independent accountants and the resolution of disagreements between management and the independent accountants regarding financial reporting. The independent accountants shall report directly to the Audit Committee.

(B) Pre-approve all audit engagement fees and terms, as well as all non-audit engagements with the independent accountants, and ensure that all pre-approvals of non-audit services by the Audit Committee are disclosed in the Corporation's periodic reports required by section 13(a) of the Securities Exchange Act. The Audit Committee may delegate to one or more members of the Audit Committee the authority to grant such pre-approvals, which pre-approvals shall be presented to the full Audit Committee at each of its scheduled meetings. The Audit Committee shall not pre-approve the engagement of the independent accountants to perform any of the following non-audit services: (i) bookkeeping or other services related to the accounting records or financial statements of the Corporation; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, fairness opinions or contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser, or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other services that the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

(C) Ensure that the independent accountants prepare and deliver to the Audit Committee annually a formal written report describing, to the extent permitted under applicable auditing standards: (i) the independent accountants' internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review or peer review of the independent accountants, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent accountants, and any steps taken to deal with any such issues; and (iii) all relationships between the independent accountants and the Corporation (to assess the independent accountants' independence), including each non-audit service provided to the Corporation and the matters set forth in Independent Standards Board Standard No. 1, as it may be modified or supplemented (it being understood that the independent accountants are responsible for the accuracy and completeness of the report). The Audit Committee shall also discuss with the independent accountants any relationships or services disclosed in the report that may have an impact on the quality of audit services or the objectivity and independence of the Corporation's independent accountants.

(D) Review and evaluate the qualifications, performance and independence of the independent accountants and the lead partner of the independent accountants and the internal control procedures of the independent accountants. In its review and evaluation, the Audit Committee shall take into account the opinions of management and the Corporation's internal audit personnel.

(E) Consider whether there should be a regular rotation of the lead audit partner or of the audit firm itself and ensure, in any event, that the lead (or coordinating) audit partner (having primary responsibility for the audit), or the audit partner responsible for reviewing the audit, rotate every five years.

(F) Receive from the independent accountant, in connection with its audit of the Corporation, a timely report describing: (i) all critical accounting policies to be used; (ii) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management of the Corporation, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent accountants; and (iii) other material written communications between the independent accountant and management, such as any management letter or schedule of unadjusted differences.

(G) Regularly review with the independent accountants any audit problems or difficulties and management's response, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to required information, and any significant disagreements with management. Such review may also include, as the Audit Committee deems appropriate: (i) any accounting adjustments that were noted or proposed by the independent accountants but were "passed" (as immaterial or otherwise); (ii) any communication between the audit team and the independent accounting firm's national office; (iii) any "management" or "internal control" letter issued or proposed to be issued by the independent accountants and the Corporation's response, if any, to such letter; (iv) any changes required in the planned scope of the internal audit; and (v) the internal audit department's functions, budget and staffing.

(H) Periodically discuss with the independent accountants, if deemed appropriate, out of the presence of the management, the Corporation's internal controls, including their recommendations, if any, for improvements of the Corporation's internal controls and the implementation of such recommendations, the fullness and accuracy of the Corporation's financial statements and certain other matters required to be discussed by Statement on Auditing Standards 61, as it may be modified or supplemented.

(I) Set clear hiring policies for employees or former employees of the independent accountants and ensure that no person who, during the one-year period preceding the date of the initiation of the most recent audit, was employed by the independent accountant and, during such employment, participated in any capacity in the audit of the Corporation, is employed as the Corporation's chief executive officer, controller, chief financial officer and chief accounting officer.

Financial Reporting

(J) Review and discuss the Corporation's annual audited and quarterly financial statements with management and the independent accountants, including the Corporation's disclosures under the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in the Corporation's SEC filings and the results of the independent accountants' reviews of the quarterly financial statements.

(K) Review and discuss earnings press releases and financial information (including the type and presentation of information to be included therein) and earnings guidance provided to analysts and rating agencies.

(L) Review major issues regarding accounting and auditing principles and practices as well as the adequacy of internal controls that could significantly affect the Corporation's financial statements, as well as any special audit steps adopted in light of material control deficiencies.

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(M) Review significant changes to the Corporation's auditing and accounting principles and practices as suggested by the independent accountants, internal audit personnel or management.

(N) Review analyses prepared by management and/or the independent accountants of significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative generally accepted accounting principles ("GAAP") methods on the financial statements.

(O) Review the significant reports to management prepared by the internal auditing department and management's responses.

(P) Review with management and the independent accountants the effect of regulatory and accounting initiatives, as well as off-balance sheet structures on the financial statements of the Corporation.

(Q) Review periodically with the management the Corporation's major financial risk exposures, the Corporation's policies and guidelines in addressing such exposures, and the steps management has taken to monitor and control such exposures.

(R) Review management's internal control report prepared as required by and in accordance with rules promulgated by the SEC under Section 404 of the Sarbanes-Oxley Act of 2002.

(S) Meet with the independent accountants prior to the audit to review the scope, planning and staffing of the audit.

(T) Obtain from the independent accountants assurance that no illegal acts as defined in Section 10A of the Securities Exchange Act were discovered in the course of their audit of the annual financial statements or, if such acts were discovered, that the procedures in that section followed.

(U) Review the appointment and replacement of the internal senior audit personnel.

(V) Meet separately, at least once every fiscal quarter, with management, with personnel responsible for the internal audit function and with the Corporation's independent accountants to discuss any matters that the Audit Committee or each of these groups or persons believes should be discussed privately.

(W) Review and discuss with the CEO and CFO the procedures undertaken in connection with the CEO and CFO certifications for Form 10-Ks and 10-Qs, including their evaluation of the Corporation's disclosure controls and procedures and internal controls.

Ethical and Legal Compliance

(X) Review with management, the internal senior audit personnel and the independent accountants the conformity of the Corporation's subsidiary/foreign affiliated entities with applicable legal requirements and the Corporation's Code of Business Ethics and Policies, including disclosures of insider and affiliated party transactions.

(Y) Review with management and the independent accountants any correspondence with regulators or governmental agencies and any employee complaints or published reports which raise material issues regarding the Corporation's financial statements or accounting policies.

(Z) Prepare the report of the Audit Committee required to be included in the Corporation's Annual Proxy Statement under the rules of the SEC.

(AA) State in the Audit Committee's Report in the Corporation's Annual Proxy Statement whether, based on the review and discussions referred to in items (C), (I) and (L) above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Corporation's Annual Report on Form 10-K for the last fiscal year.

(BB) Report regularly to the Board and review with the Board any issues with respect to the quality or integrity of the Corporation's financial statements, the Corporation's compliance with

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legal or regulatory requirements, the independence of the Corporation's independent accountants and the performance of the internal audit personnel and the independent accountants.

(CC) Review the Corporation's Code of Business Ethics and Policies, and, if appropriate, recommend updates to the Code and advise the Board with respect to the Corporation's policies and procedures regarding compliance with applicable laws and regulations and with the Corporation's Code of Business Ethics and Policies.

(DD) Establish and maintain procedures for: (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

(EE) Review with the Corporation's counsel any legal matters that may have a material impact on the financial statements, the Corporation's compliance policies and any material reports or inquiries received from regulators or governmental agencies.

Other

(FF) As appropriate obtain advice and assistance from outside legal, accounting or other advisors.

(GG) Perform any other activities consistent with this Charter, the Corporation's By-laws and applicable law, as the Committee or the Board deems necessary or appropriate.

(HH) Prepare and review with the Board an annual performance evaluation of the Audit Committee, which evaluation must compare the performance of the Audit Committee with the requirements of this charter. The performance evaluation by the Audit Committee shall be conducted in such manner as the Audit Committee deems appropriate. The report to the Board may take the form of an oral report by the chairperson of the Audit Committee or any other member of the Audit Committee designated by the Audit Committee to make this report. The Committee shall also review and, if appropriate, recommend updates of this Charter in connection with the preparation of its annual performance evaluation.

V. Resources and Authority of the Audit Committee

The Audit Committee shall have the resources and authority appropriate to discharge its duties and responsibilities, including: (i) the authority, without seeking approval from the Board, to retain outside accountants for special audits, reviews and other procedures and to retain special counsel and other experts and consultants as the Audit Committee determines to be necessary or advisable; and (ii) appropriate funding, as determined by the Audit Committee, for payment of compensation to (a) any advisors employed by the Audit Committee and (b) the independent accountant employed by the Corporation for the purpose of rendering or issuing an audit report.