

PHELPS DODGE CORPORATION
CORPORATE GOVERNANCE GUIDELINES

Offices of Chairman and CEO.

The By-Laws currently provide that the Chairman is the CEO. In the past, the By-Laws have been amended by the Board to accommodate the governance structure deemed appropriate at the time.

Director to Preside at Executive Sessions.

The Board has adopted a policy providing that regularly scheduled executive sessions of the independent Directors shall be presided at by the Chair of the Committee on Directors and Corporate Governance, who is an independent Director. The Chair of the Committee on Directors and Corporate Governance may, if he or she so desires, delegate such responsibility to another independent Director, including the Chair of the Committee having jurisdiction over the bulk of the issues to be discussed at an executive session.

Number of Committees.

There are currently five Board committees other than the Executive Committee: Audit; Directors and Corporate Governance; Compensation and Management Development, Environmental, Health and Safety; and Finance. The Board may form new committees or disband existing committees as appropriate.

Assignment and Rotation of Committee Members.

Committee assignments are made by the Board based upon recommendations of the Committee on Directors and Corporate Governance. The committee generally will consider rotating a committee chairperson or member periodically as the Committee on Directors and Corporate Governance deems appropriate.

Frequency and Length of Committee Meetings.

Each committee chairperson determines the frequency and length of committee meetings in consultation with other committee members.

Committee Agenda.

The chairperson of each committee determines the committee's agenda prior to the meeting giving consideration to management recommendations.

Selection of Agenda Items for Board Meeting.

The CEO establishes the agenda for each Board meeting. Individual Board members may suggest agenda items.

Board Materials Distributed in Advance.

Materials pertaining to Board and committee meetings are distributed in advance of those meetings. A Director is expected to review all distributed materials prior to any Board or committee meeting that such Director attends.

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Attendance of Directors at Board Meetings.

Directors are expected to regularly attend meetings of the Board or its committees of which they are members.

Regular Attendance of Non-Directors at Board Meetings.

Non-director executive officers regularly attend Board meetings. At least once a year, the independent Directors meet with the CEO without the other executive officers being present.

Executive Sessions of Independent Directors.

The independent Directors will meet at regularly scheduled executive sessions without management.

Board Access to Management.

Directors have complete access to management, however, independent Directors are expected to keep the CEO informed of such contacts. The Board encourages the attendance of officers other than executive officers at Board meetings when matters within their areas of responsibility are discussed.

Board Access to Independent Advisors.

Directors have complete access, as necessary and appropriate, to the Corporation's outside advisors.

Board Compensation Review.

Management provides the Committee on Directors and Corporate Governance annually with comparative information concerning director compensation. Changes in Board compensation are made by the full Board, based upon recommendations by the Committee on Directors and Corporate Governance.

Size of the Board.

The By-Laws provide that the Board shall be comprised of between 9 and 12 Directors.

Mix of Inside and Independent Directors.

A majority of the Board must consist of "independent" Directors.

Definition of Independent.

A Director is independent if the Board has made an affirmative determination that such Director has no material relationship with the Corporation (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Corporation). In addition:

- A Director who is an employee, or whose immediate family member is an executive officer, of the Corporation is not independent until three years after the end of such employment relationship.

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- A Director who receives, or whose immediate family member receives, more than \$100,000 per year in direct compensation from the Corporation, other than Director's and Committee fees and a pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent until three years after he or she ceases to receive more than \$100,000 per year in such compensation.

- A Director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the company is not independent until three years after the end of the affiliation or the auditing relationship.

- A Director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Corporation's present executives serve on that company's compensation committee is not independent until three years after the end of such service or the employment relationship.

- A Director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, the Corporation for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million or 2% of such other company's consolidated revenues, in each case is not independent until three years after falling below such threshold.

Former Officer's Board Membership.

Any Director serving as an officer of the Corporation or any subsidiary shall resign from the Board at the time such person ceases to be an officer.

Board Membership Criteria.

See attachment.

Selection of New Director Candidates.

The Board selects new Directors based on candidates recommended by the Committee on Directors and Corporate Governance.

Extending the Invitation to a New Potential Director to Join the Board.

The Chair of the Committee on Directors and Corporate Governance extends invitations to new potential Directors on behalf of the Board.

Assessing the Board's Performance.

The Board conducts an annual self-evaluation in order to determine whether it and its committees are functioning effectively. The Committee on Directors and Corporate Governance oversees the Board's annual self-evaluation.

Directors Who Change Their Present Job Responsibility.

A Director who experiences a significant change in job responsibilities or assignment is required to submit a resignation to the Board. The remaining Directors, upon recommendation of the Committee on Directors, then determine the appropriateness of continued Board membership.

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Membership of Non-Employee Directors on Boards of Publicly Traded Companies.

A non-employee Director is limited to membership on the Boards of four publicly traded companies in addition to his/her membership on the Phelps Dodge Board.

Term Limits.

There are no established term limits for service on the Board.

Mandatory Retirement Age.

Board policy requires that a Director retire at the shareholders' meeting first following attainment of age 72.

Formal Evaluation of the Chief Executive Officer.

The performance of the CEO is reviewed annually by the Compensation and Management Development Committee based in part on preset goals. The results of this review are reported to and discussed with the Board and separately reported to the CEO by the chairperson of the committee.

Succession Planning.

Every year the CEO formally reports to the Board on succession planning. The report includes a broad review of management as well as a recommendation regarding a successor to the CEO.

Management Development.

The CEO reports periodically to the Board on the training and development program for management and reviews with the Board the executives who have change of control agreements with the Corporation.

Director Orientation and Continuing Education.

The Board has instituted an orientation and continuing education program for Directors.

Board Interaction with Institutional Investors, the Press, Customers, etc.

The CEO and, as appropriate, designated members of senior management speak for the Corporation.

NYSE Ruling.

Interested parties who wish to make their concerns known by communicating directly with the non-management directors as a group, confidentially or otherwise, may do so in writing addressed to the attention of the Corporation's General Counsel.

**MEMBERSHIP CRITERIA FOR NON-EMPLOYEE
DIRECTORS OF PHELPS DODGE CORPORATION**

It is the company's desire to select individuals for nomination to the Board of Directors, who, if elected, will best serve the interests of the company and its shareholders. To accomplish this goal, each candidate nominee should:

- Possess fundamental qualities of intelligence, honesty, perceptiveness, good judgment, maturity, high ethics and standards, integrity, fairness and responsibility.
- Have a genuine interest in the company and a recognition that as a member of the Board one is accountable to the shareholders of the company, not to any particular interest group.
- Have a background that demonstrates an understanding of business and financial affairs and the complexities of a large, multifaceted, global business, governmental or educational organization.
- Be or have been a senior officer of a highly complex organization such as a corporation, university or major unit of government.
- Have no conflict of interest or legal impediment which would interfere in a fundamental way with the duty of loyalty owed to the company and its shareholders.
- Have the ability and be willing to spend the time required to function effectively as a Director.
- Be compatible and able to work well with other Directors and executives in a team effort with a view to a long-term relationship with the company as a Director.
- Have independent opinions and be willing to state them in a constructive manner.
- Be a shareholder in the company (upon election to the Board or shortly thereafter).

Directors will be selected on the basis of talent and experience without regard to race, religion, sex or national origin. The company seeks a Board with diversity of background among its members. The majority of the Board should consist of individuals who are not members of the operating management of the company.

In certain circumstances it may be appropriate not to renominate current Board members prior to their mandatory retirement age (72 for non-employee Directors) if they no longer meet the criteria for membership described above. If a Director discontinues or changes the employment affiliation held at the time of election as a Director of Phelps Dodge, becomes involved in a potential, fundamental conflict of interest, becomes unable to spend the required time, or becomes disabled, that Director shall submit a resignation to the Board. The Committee on Directors shall review the information presented and evaluate the appropriateness of continued membership. No member of the Committee on Directors whose Board membership is being reviewed shall participate in the review process or vote on the matter.

The Board of Directors (with the exception of the Director whose Board membership is being reviewed) shall determine the appropriateness of continued Board membership, giving consideration to the recommendation made by the Committee on Directors.