Notes To Consolidated Financial Statements

	2004	2003	2002
Net income	$202,267	$181,660	$164,654
Other comprehensive income (loss):			
Change in unrealized derivatives' fair value, net of taxes of $1.0 million for 2004 and $3.1 million for 2002	1,226	5,195	13,615
Reclass to earnings, net of taxes of $4.7 million for 2002	1,448	(7,490)	(1,468)
Total comprehensive income	$204,941	$179,365	$176,801

Effective January 1996, Atlantic Copper changed its functional currency from the peseta (the Spanish currency at the time) to the U.S. dollar. This change resulted from significant changes in Atlantic Copper's operations related to a large expansion of its smelting and refining operations financed with U.S. dollar borrowings and the sale of its mining operations that incurred significant peseta operating costs. Accumulated Other Comprehensive Income reported in the Consolidated Statements of Stockholders' Equity before 2001 totaled $10.2 million and consisted solely of the cumulative foreign currency translation adjustment at Atlantic Copper prior to changing its functional currency, for which there is no tax effect. In accordance with SFAS No. 52, "Foreign Currency Translation," the currency translation adjustment recorded up through the date of the change in functional currency will only be adjusted in the event of a full or partial disposition of FCX's investment in Atlantic Copper.

Stock-Based Compensation. As of December 31, 2004, FCX has four stock-based employee compensation plans and two stock-based director compensation plans, which are more fully described in Note 7. FCX accounts for options granted under all of its plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, which require compensation cost for stock-based employee compensation plans to be recognized based on the difference on the date of grant, if any, between the quoted market price of the stock and the amount an employee must pay to acquire the stock. Because all the plans require that the option exercise price be at least the market price on the date of grant, FCX recognizes no compensation expense on the grant or exercise of its employees' options. See "New Accounting Standards" below for a discussion of a recently issued revision to SFAS No. 123, which FCX must adopt no later than July 1, 2005. The following table illustrates the effect on net income and earnings per share if FCX had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," which requires compensation cost for all stock-based employee compensation plans to be recognized based on a fair value method (in thousands, except per share amounts):

	2004	2003	2002
Net income applicable to common stock, as reported	$156,776	$154,219	$127,050
Add: Stock-based employee compensation expense included in reported net income for stock option conversions, stock appreciation rights (SARs) and restricted stock units, net of taxes and minority interests	4,809	9,512	2,320
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of taxes and minority interests	(10,049)	(14,225)	(8,833)
Pro forma net income applicable to common stock	$151,536	$149,506	$120,537
Earnings per share:			
Basic – as reported	$ 0.86	$ 0.99	$ 0.88
Basic – pro forma	$ 0.83	$ 0.96	$ 0.83
Diluted – as reported	$ 0.85	$ 0.97	$ 0.87
Diluted – pro forma	$ 0.80	$ 0.92	$ 0.80

For the pro forma computations, the values of option grants were calculated on the dates of grant using the Black-Scholes option pricing model. No other discounts or restrictions related to vesting or the likelihood of vesting of stock options were applied. The following table summarizes the calculated average fair values and weighted-average assumptions used to determine the fair value of FCX's stock option grants under SFAS No. 123 during the periods presented.