

## Notes To Consolidated Financial Statements

In May 2004, FCX's shareholders approved the "2004 Director Compensation Plan" (the 2004 Plan). The 2004 Plan authorizes awards of options and restricted stock units for up to 1.0 million shares and the one-time grant of 66,882 SARs.

Awards granted under all of the plans generally expire 10 years after the date of grant and vest in 25 percent annual

increments beginning one year from the date of grant.

Awards for 0.7 million shares under the 2004 Plan, 6.7 million shares under the 2003 Plan and 0.1 million shares under the 1999 Plan were available for new grants as of December 31, 2004. A summary of stock options outstanding, including 0.3 million SARs, follows:

	2004		2003		2002	
	Number of Options	Weighted Average Option Price	Number of Options	Weighted Average Option Price	Number of Options	Weighted Average Option Price
Balance at January 1	10,327,745	\$19.38	15,944,087	\$17.82	15,711,696	\$18.55
Granted	1,472,399	34.74	1,315,172	20.09	3,706,313	14.30
Exercised	(4,581,273)	18.42	(6,625,475)	15.75	(1,051,010)	11.18
Expired/Forfeited	(352,066)	21.65	(306,039)	19.93	(2,422,912)	20.00
Balance at December 31	<u>6,866,805</u>	<u>23.20</u>	<u>10,327,745</u>	<u>19.38</u>	<u>15,944,087</u>	<u>17.82</u>

In 1998, two FCX executive officers were granted stock options under the 1995 Stock Option Plan to purchase a total of 2.6 million shares of FCX stock at \$19.03 per share. The options

were granted in return for a five-year cap on their cash incentive compensation. Summary information of stock options outstanding at December 31, 2004, excluding SARs, follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options	Weighted Average Remaining Life	Weighted Average Option Price	Number of Options	Weighted Average Option Price
\$ 9.09 to \$11.31	408,875	6.0 years	\$10.99	180,125	\$10.61
\$13.78 to \$20.27	3,472,663	5.7 years	15.65	988,943	15.59
\$26.69 to \$36.77	<u>2,683,425</u>	<u>8.8 years</u>	<u>35.34</u>	<u>1,350,425</u>	<u>34.75</u>
	<u>6,564,963</u>			<u>2,519,493</u>	

### Note 8. Income Taxes

The components of FCX's deferred taxes follow (in thousands):

December 31,	2004	2003
Deferred tax asset:		
Foreign tax credits	\$ 417,853	\$ 381,184
Atlantic Copper net operating loss carryforwards	148,338	98,896
U.S. alternative minimum tax credits	91,755	84,852
Intercompany profit elimination	27,130	17,592
Valuation allowance	<u>(657,946)</u>	<u>(564,932)</u>
Total deferred tax asset	<u>27,130</u>	<u>17,592</u>
Deferred tax liability:		
Property, plant, equipment and development costs	(702,586)	(683,245)
Undistributed earnings in PT Freeport Indonesia	(172,491)	(141,246)
Deferred mining cost	(77,145)	(49,922)
Other	<u>(7,324)</u>	<u>(10,449)</u>
Total deferred tax liability	<u>(959,546)</u>	<u>(884,862)</u>
Net deferred tax liability	<u>\$(932,416)</u>	<u>\$(867,270)</u>