

## Notes To Consolidated Financial Statements

	2004	2003	2002
Fair value per stock option	\$15.15	\$10.30	\$7.89
Risk-free interest rate	3.7%	3.8%	5.0%
Expected volatility rate	49%	47%	47%
Expected life of options (in years)	6	7	7
Assumed annual dividend	\$ 0.80	\$ 0.36 <sup>a</sup>	—

a. Assumed annual dividend for 2003 only applied to grants made after February 5, 2003.

**Earnings Per Share.** FCX's basic net income per share of common stock was calculated by dividing net income applicable to common stock by the weighted-average number of common shares outstanding during the year. The following is

a reconciliation of net income and weighted-average common shares outstanding for purposes of calculating diluted net income per share (in thousands, except per share amounts):

	2004	2003	2002
Net income before preferred dividends and cumulative effect of changes in accounting principles	\$ 202,267	\$ 197,253	\$ 167,703
Preferred dividends	(45,491)	(27,441)	(37,604)
Net income before cumulative effect	156,776	169,812	130,099
Cumulative effect of changes in accounting principles	—	(15,593)	(3,049)
Net income applicable to common stock	\$ 156,776	\$ 154,219	\$ 127,050
Weighted average common shares outstanding	182,272	155,805	144,649
Add: Dilutive stock options (see Note 7)	2,197	3,094	1,498
Restricted stock (see Note 7)	454	203	271
Weighted average common shares outstanding for purposes of calculating diluted net income per share	184,923	159,102	146,418
Diluted net income per share of common stock:			
Before cumulative effect	\$ 0.85	\$ 1.07	\$ 0.89
Cumulative effect	—	(0.10)	(0.02)
Net income per share of common stock	\$ 0.85	\$ 0.97	\$ 0.87

Outstanding stock options with exercise prices greater than the average market price of FCX's common stock during the year are excluded from the computation of diluted net income per share of common stock. In addition, certain convertible instruments (see Notes 5 and 7) are excluded

because including the conversion of these instruments would have increased reported diluted net income per share. A recap of the excluded amounts follows (in thousands, except exercise prices):

	2004	2003	2002
Weighted average outstanding options	—	1,718	7,878
Weighted average exercise price	—	\$ 30.37	\$ 22.73
Interest on 7% Convertible Senior Notes, net of taxes <sup>a</sup>	\$ 41,430	\$ 36,873	N/A
Weighted average shares issuable upon conversion <sup>a</sup>	18,625	16,463	N/A
Dividends on 5 1/2% Convertible Perpetual Preferred Stock <sup>b</sup>	\$ 45,491	N/A	N/A
Weighted average shares issuable upon conversion <sup>b</sup>	15,632	N/A	N/A
Interest on 8 1/4% Convertible Senior Notes, net of taxes <sup>c</sup>	\$ 3,829	\$ 39,902	\$ 50,488
Weighted average shares issuable upon conversion <sup>c</sup>	3,073	33,992	42,220
Dividends on Step-Up Convertible Preferred Stock <sup>d</sup>	N/A	\$ 20,532	\$ 24,499
Weighted average shares issuable upon conversion <sup>d</sup>	N/A	11,424	11,690

a. FCX's 7% Convertible Senior Notes were issued on February 11, 2003, and are convertible into 18.6 million shares of common stock (see Note 5).

b. On March 30, 2004, FCX sold 1.1 million shares of 5 1/2% Convertible Perpetual Preferred Stock for \$1.1 billion, with net proceeds totaling \$1.067 billion (see Note 7).

c. 51.5 percent of FCX's 8 1/4% Convertible Senior Notes converted to FCX common stock in August 2003. In January 2004, approximately 37 percent converted to FCX common stock and the remaining notes converted to FCX common stock in July 2004 (see Note 5).

d. FCX's Step-Up Convertible Preferred Stock was redeemed in December 2003 (see Note 7).