

FREEPORT MCMORAN COPPER & GOLD INC  
Form 10-K  
February 28, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

**(Mark One)**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2006**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 1-9916**

**Freeport-McMoRan Copper & Gold Inc.**  
(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**74-2480931**  
(IRS Employer Identification No.)

**1615 Poydras Street**  
**New Orleans, Louisiana**  
(Address of principal executive offices)

**70112**  
(Zip Code)

**(504) 582-4000**  
(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

| <b>Title of each class</b>                             | <b>Name of each exchange on which registered</b> |
|--------------------------------------------------------|--------------------------------------------------|
| Class B Common Stock, par value \$0.10 per share       | New York Stock Exchange                          |
| 10 % Senior Notes due 2010 of the registrant           | New York Stock Exchange                          |
| 7% Convertible Senior Notes due 2011 of the registrant | New York Stock Exchange                          |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act  
R Yes 0 No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
0 Yes R No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. R Yes 0 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 0

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Act. (Check one):

R Large accelerated filer 0 Accelerated filer 0 Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). 0 Yes R No

The aggregate market value of common stock held by non-affiliates of the registrant was approximately \$9.4 billion on February 12, 2007, and approximately \$9.3 billion on June 30, 2006.

On February 12, 2007, there were issued and outstanding 197,157,825 shares of Class B Common Stock and on June 30, 2006, there were issued and outstanding 187,159,910 shares.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of our Proxy Statement for our 2007 Annual Meeting are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) of this report.

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FREEPORT-McMoRan COPPER & GOLD INC.

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**PART I**

**Items 1. and 2. Business and Properties.**

*All of our periodic report filings with the Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available, free of charge, through our web site, [www.fcx.com](http://www.fcx.com), including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports. These reports and amendments are available through our web site as soon as reasonably practicable after we electronically file or furnish such material to the SEC. References to “Notes” are Notes in our “Notes to Consolidated Financial Statements” included in our 2006 Annual Report incorporated herein by reference (see “Item 8. Financial Statements and Supplementary Data”).*

On November 19, 2006, FCX and Phelps Dodge Corporation announced that they had signed a definitive merger agreement whereby we will acquire Phelps Dodge for approximately \$25.9 billion in cash and stock, based on FCX’s closing stock price on November 17, 2006, creating one of the largest publicly traded copper companies. The combined company will be a new industry leader with large, long-lived, geographically diverse assets and significant proven and probable reserves of copper, gold and molybdenum. Completion of the transaction is subject to a number of conditions, including receipt of FCX and Phelps Dodge stockholder approval. On February 2, 2007, FCX and Phelps Dodge announced that each company will hold a special meeting of its stockholders on March 14, 2007, to vote on the proposed acquisition of Phelps Dodge by FCX. The transaction is expected to close in March 2007. The information contained in this Form 10-K does not reflect the impact of us acquiring Phelps Dodge.

**General**

Through our majority-owned subsidiary, PT Freeport Indonesia, we have one of the world’s largest copper and gold mining and production operations in terms of reserves and production. Our principal asset is the Grasberg minerals district. We discovered the largest ore body in the district, Grasberg, in 1988. Based on available year-end 2005 data provided by third-party industry consultants, the Grasberg minerals district contains the largest single copper reserve and the largest single gold reserve of any mine in the world.

Our principal operating subsidiary is PT Freeport Indonesia, a limited liability company organized under the laws of the Republic of Indonesia and incorporated in Delaware. We own approximately 90.64 percent of PT Freeport Indonesia, and the Government of Indonesia owns the remaining approximate 9.36 percent. PT Freeport Indonesia mines, processes and explores for ore containing copper, gold and silver. It operates in the remote highlands of the Sudirman Mountain Range in the province of Papua, Indonesia, which is on the western half of the island of New Guinea. PT Freeport Indonesia markets its concentrates containing copper, gold and silver worldwide.

PT Freeport Indonesia conducts its operations pursuant to an agreement, called a Contract of Work, with the Government of Indonesia (see “Contracts of Work”). The Contract of Work allows us to conduct extensive mining, production and exploration activities in a 24,700-acre area that we call Block A, which contains the Grasberg minerals district, and governs our rights and obligations relating to taxes, exchange controls, royalties, repatriation and other matters. The Contract of Work also allows us to explore for minerals in an approximately 500,000-acre area that we call Block B. Exploration activities in Block B have been suspended in recent years, but we expect to resume those activities in 2007. The primary term of our Contract of Work expires in 2021 and we can extend it for two 10-year periods subject to Indonesian government approval, which cannot be withheld or delayed unreasonably.

Another of our operating subsidiaries, PT Irja Eastern Minerals, which we refer to as Eastern Minerals, holds an additional Contract of Work in Papua covering approximately 1.2 million acres. Eastern Minerals conducts exploration activities, which had been suspended in recent years, under this Contract of Work (see “Contracts of

Work”). In December 2006, Eastern Minerals received approval from the Government of Indonesia to resume exploration activities in 2007. We have a 100 percent ownership interest in Eastern Minerals.

In 1996, we established joint ventures with Rio Tinto plc, which is an international mining company with headquarters in London, England. Rio Tinto conducts mining operations in North America, South America, Asia, Australia, Europe and southern Africa. One of our joint ventures with Rio Tinto covers PT Freeport Indonesia’s mining operations in Block A. This joint venture gives Rio Tinto, through 2021, a 40 percent interest in certain assets and in production above specified levels from operations in Block A and, after 2021, a 40 percent interest in all production in Block A. Under our joint venture arrangements, Rio Tinto also has a 40 percent interest in PT Freeport Indonesia’s Contract of Work and Eastern Minerals’ Contract of Work. In addition, Rio Tinto has the

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option to participate in 40 percent of any of our other future exploration projects in Papua. To date, Rio Tinto has elected to participate in all exploration projects, including PT Nabire Bakti Mining.

Under a joint venture agreement through PT Nabire Bakti Mining, we conduct exploration activities, which have been suspended in recent years (see “Contracts of Work”), in an area covering approximately 500,000 acres in five parcels contiguous to PT Freeport Indonesia’s Block B and one of Eastern Minerals’ blocks. We expect to resume exploration activities in PT Nabire Bakti Mining’s exploration area in 2007.

At December 31, 2006, PT Freeport Indonesia’s share of proven and probable recoverable reserves totaled 38.8 billion pounds of copper and 41.1 million ounces of gold, all of which are located in Block A. Our approximate 90.64 percent equity share of these proven and probable recoverable reserves totaled 35.2 billion pounds of copper and 37.2 million ounces of gold (see “Ore Reserves”). In this annual report, we refer to (1) aggregate reserves, which means all reserves for the operations we manage, (2) PT Freeport Indonesia’s share of reserves, which means the reserves net of Rio Tinto’s interest under our joint venture arrangements and which are the reserves reported as those of our operations in our consolidated financial statements and (3) our equity share of reserves, which is net of the 9.36 percent of PT Freeport Indonesia owned by the Government of Indonesia.

In July 2003, we acquired the 85.7 percent ownership interest in PT Puncakjaya Power owned by affiliates of Duke Energy Corporation. Puncakjaya Power is the owner of assets supplying power to PT Freeport Indonesia’s operations, including the 3x65 megawatt coal-fired power facilities (see “Infrastructure”).

We also smelt and refine copper concentrates in Spain and market the refined copper products through our wholly owned subsidiary, Atlantic Copper, S.A. In addition, PT Freeport Indonesia has a 25 percent interest in PT Smelting, an Indonesian company that operates a copper smelter and refinery in Gresik, Indonesia. These smelters play an important role in our concentrate marketing strategy, as approximately one-half of PT Freeport Indonesia’s concentrate production has been sold to Atlantic Copper and PT Smelting over the last several years (see “Investment in Smelters”).

The diagram below shows our corporate structure.

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(a) FM Services Company, a Delaware corporation, provides us and two other publicly-traded companies with executive, administrative, financial, accounting, legal, tax and similar services.

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The following four maps indicate:

- the distance from the Grasberg minerals district in Papua to Bali (approximately 1,500 miles) and to Jakarta (approximately 2,000 miles);
- the location of the Papua province in which we operate;
- the location of our Contracts of Work areas within the Papua province; and
- the infrastructure of our Contract of Work project area.



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**Contracts of Work**

Through Contracts of Work with the Government of Indonesia, PT Freeport Indonesia and Eastern Minerals conduct their current exploration operations and PT Freeport Indonesia conducts its mining operations in Indonesia. Both Contracts of Work govern our rights and obligations relating to taxes, exchange controls, royalties, repatriation and other matters. Both Contracts of Work were concluded pursuant to the 1967 Foreign Capital Investment Law, which expresses Indonesia's foreign investment policy and provides basic guarantees of remittance rights and protection against nationalization, a framework for economic incentives and basic rules regarding other rights and obligations of foreign investors. Specifically, the Contracts of Work provide that the Government of Indonesia will not nationalize or expropriate PT Freeport Indonesia's or Eastern Minerals' mining operations. Any disputes regarding the provisions of the Contracts of Work are subject to international arbitration. We have experienced no disputes requiring arbitration during the 39 years we have operated in Indonesia.

PT Freeport Indonesia's Contract of Work covers both Block A, which was first included in a 1967 Contract of Work that was replaced by a new Contract of Work in 1991, and Block B, to which we gained rights in 1991. The initial term of our Contract of Work expires in December 2021, but we can extend it for two 10-year periods subject to Indonesian government approval, which cannot be withheld or delayed unreasonably. We originally had the rights to explore 6.5 million acres in Block B, but pursuant to the Contract of Work we have only retained the rights to approximately 500,000 acres, following significant geological assessment.

Eastern Minerals signed its Contract of Work in August 1994. The Contract of Work originally covered approximately 2.5 million acres. Eastern Minerals' Contract of Work provides for a four-to-seven year exploratory term and a 30-year term for mining operations. Subject to Indonesian government approval, which cannot be withheld or delayed unreasonably, we can extend this period for two 10-year periods. Eastern Minerals' Contract of Work requires us to relinquish our rights to 25 percent of the original 2.5-million-acre Contract of Work area at the end of each of three specified periods. As of December 31, 2006, we had relinquished approximately 1.3 million acres and must relinquish an additional 0.6 million acres at the end of the three-year exploration period, which can be extended by the Government of Indonesia for as many as two additional years. The exploration activities under Eastern Minerals' Contract of Work also had been suspended in recent years; however, in December 2006, Eastern Minerals received approval from the Government of Indonesia to resume exploration activities in 2007.

We suspended our exploration activities outside of Block A in recent years because of safety and security issues and regulatory uncertainty relating to a possible conflict between our mining and exploration rights in certain forest areas and an Indonesian Forestry law enacted in 1999 prohibiting open-pit mining in forest preservation areas. In 2001, we requested and received from the Government of Indonesia formal temporary suspensions of our obligations under the Contracts of Work in all areas outside Block A. The current suspensions were granted for one-year periods ending February 26, 2007, for Block B and March 30, 2007, for PT Nabire Bakti Mining. Recent Indonesian legislation permits open-pit mining in PT Freeport Indonesia's Block B area, subject to certain requirements. Following an assessment of these requirements and a review of security issues, we plan to resume exploration activities in certain prospective Contract of Work areas outside of Block A in 2007.

PT Freeport Indonesia pays a copper royalty under its Contract of Work that varies from 1.5 percent of copper net revenue at a copper price of \$0.90 or less per pound to 3.5 percent at a copper price of \$1.10 or more per pound. The Contract of Work royalty rate for gold and silver sales is 1.0 percent.

A large part of the mineral royalties under Government of Indonesia regulations are designated to the provinces from which the minerals are extracted. In connection with our "fourth concentrator mill expansion," PT Freeport Indonesia agreed to pay the Government of Indonesia additional royalties (royalties not required by our Contract of Work) to provide further support to the local governments and the people of Papua. PT Freeport Indonesia pays the additional

royalties on production exceeding specified annual amounts of copper, gold and silver expected to be generated when its milling facilities operate above 200,000 metric tons of ore per day. The additional royalty for copper equals the Contract of Work royalty rate and for gold and silver equals twice the Contract of Work royalty rates. Therefore, our royalty rate on copper net revenues from production above the agreed levels is double the Contract of Work royalty rate, and our royalty rates on gold and silver sales from production above the agreed levels are triple the Contract of Work royalty rates.

PT Freeport Indonesia's share of the combined royalties, including the additional royalties which became effective January 1, 1999, totaled \$126.0 million in 2006, \$103.7 million in 2005 and \$43.5 million in 2004.

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**Republic of Indonesia**

*General.* The Republic of Indonesia consists of more than 17,000 islands stretching 3,000 miles along the equator from Malaysia to Australia and is the fourth most populous nation in the world with over 245 million people. Following many years of Dutch colonial rule, Indonesia gained independence in 1945 and now has a presidential republic system of government.

Our mining complex was Indonesia's first copper mining project and was the first major foreign investment in Indonesia following the economic development program instituted by the Indonesian government in 1967. We work closely with the central, provincial and local governments in development efforts in the area surrounding our operations. We have had positive relations with the Indonesian government since we commenced business activities in Indonesia in 1967, and we intend to continue to maintain positive working relationships with the central, provincial and local branches of the Indonesian government.

*Political Developments.* In May 1998, President Suharto, Indonesia's political leader for more than 30 years, resigned in the wake of an economic crisis in Indonesia and other parts of Southeast Asia and in the face of growing social unrest. Vice President B.J. Habibie succeeded Suharto. In June 1999, Indonesia held a new parliamentary election on a generally peaceful basis as the first step in the process of electing a new president. In October 1999, in accordance with the Indonesian constitution, the country's highest political institution (the People's Consultative Assembly), composed of the newly elected national parliament along with additional provincial and other representatives, elected Abdurrahman Wahid as president and Megawati Sukarnoputri as vice president.

In July 2001, the People's Consultative Assembly voted to remove President Wahid, and elected Vice President Megawati Sukarnoputri as president. In October 2004, Susilo Bambang Yudhoyono was elected as president in the nation's first direct presidential election.

*Other Developments.* In February 2006, a group of illegal gold panners engaged in conflict with Indonesian police and PT Freeport Indonesia security personnel when they were requested to leave an area near our milling facilities. Following the incident, the illegal panners blocked the road leading to the Grasberg mine and mill in protest and we temporarily suspended mining and milling operations as a precautionary measure. The panners also vandalized some of our light vehicles and offices near this area, causing approximately \$2 million in damages. Our port facilities continued to operate during the disruption and concentrate shipments were not affected. The panners, mostly Papuans from outside our area of operations, presented a list of aspirations, primarily relating to their desire to share in the benefits of our existing initiatives and programs provided for the Papuans who are the traditional residents of our operations area. Mining and milling operations resumed after an approximate four-day outage. During the incident at our mine and mill, protestors in Jakarta vandalized the entrance floor of the office building housing our Indonesian headquarters and staged a three-day rally outside the building. The Indonesian police handled this matter, which did not disrupt our administrative functions or damage any of our facilities.

On August 31, 2002, three people were killed and 11 others were wounded in an ambush by a group of assailants. The assailants shot at several vehicles transporting international contract teachers from PT Freeport Indonesia's school in Tembagapura, their family members, and other contractors to PT Freeport Indonesia on the road near Tembagapura, the mining town where the majority of PT Freeport Indonesia's personnel reside. Indonesian authorities and the United States Federal Bureau of Investigation (FBI) investigated the incident, which resulted in the U.S. indictment of an alleged operational commander in the Free Papua Movement/National Freedom Force. In January 2006, Indonesian Police arrested this individual and 11 other Papuans. In November 2006, verdicts and sentencing were announced for seven of the accused in the August 2002 shooting, including a life sentence for the confessed leader of the attack.

On October 12, 2002, a bombing killed 202 people in the Indonesian province of Bali, which is 1,500 miles west of our mining and milling operations. Indonesian authorities arrested 35 people in connection with this bombing and 29 of those arrested have been tried and convicted. On August 5, 2003, 12 people were killed and over 100 others were injured by a car bomb detonated outside of the JW Marriott Hotel in Jakarta, Indonesia. On September 9, 2004, 11 people were killed and over 200 others injured by a car bomb detonated in front of the Australian embassy. On October 1, 2005, three suicide bombers killed 19 people and wounded over 100 others in Bali. International terrorist organizations are suspected in each of these incidents. In November 2005, Indonesian Police raided a house in East Java that resulted in the death of other accused terrorists linked to these bombings. Our mining and milling operations were not interrupted by these incidents, but our corporate offices in Jakarta sustained damages and relocated for several months as a result of the September 2004 bombing.

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The Government of Indonesia, which provides security for PT Freeport Indonesia's personnel and operations (see "Security Matters"), has expressed a strong commitment to protect natural resources businesses operating in Indonesia, including PT Freeport Indonesia, with heightened security following the incidents discussed above.

*Economic and Social Conditions.* The Indonesian economy grew by an estimated 6 percent in 2006 and 2005. The Indonesian currency, the rupiah, averaged approximately 9,150 rupiah to one United States (U.S.) dollar during 2006 and closed at 8,989 rupiah to one U.S. dollar on December 29, 2006, compared with 9,825 rupiah to one U.S. dollar on December 30, 2005.

Despite gradual improvements on the economic front, Indonesia's recovery remains vulnerable to ongoing political and social tensions. Pro-independence movements have been prominent in certain areas, especially in the province of Aceh, and to a lesser extent in Papua. In 2005, the Government of Indonesia and the Free Aceh Movement reached a peace agreement, which included the withdrawal of 24,000 military troops from Aceh. Subsequently, the U.S. restored full relations with the Indonesian military after a 14-year moratorium, partly because of the successes by the Government of Indonesia in fighting terrorism and in reaching a peaceful agreement in Aceh.

The area surrounding our mining development is sparsely populated by indigenous people and former residents of other areas of Indonesia, some of whom have resettled in Papua under the Government of Indonesia's transmigration program. A segment of the local population is opposing Indonesian rule over Papua, and several separatist groups have sought political independence for the province. In addition to the August 31, 2002, shooting incident, there have been sporadic attacks on civilians by separatists and sporadic but highly publicized conflicts between separatists and the Indonesian military in Papua.

In 2001, new autonomy laws became effective in Indonesia. The laws were intended to shift a greater share of revenues and greater control of economic, regulatory and social affairs to Indonesia's 31 provinces and over 300 regencies. The central government and the provinces continue to consider the implementation and administration of these new responsibilities.

*Our Contracts of Work and the Government of Indonesia.* The Indonesian government has assured investors that existing contracts would be honored. In our 39 years of operating in Indonesia, the Indonesian government has always honored its commitments to us. Our belief that our Contracts of Work will continue to be honored is further supported by U.S. laws, which prohibit U.S. aid to countries that nationalize property owned by, or take steps to nullify a contract with, a U.S. citizen or company at least 50 percent owned by U.S. citizens if the foreign country does not within a reasonable time take appropriate steps to provide full value compensation or other relief under international law.

In July 2004, we received a request from the Indonesian Department of Energy and Mineral Resources that we offer to sell shares in PT Indocopper Investama to Indonesian nationals at fair market value. PT Indocopper Investama, which we wholly own, has an approximate 9.36 percent ownership interest in PT Freeport Indonesia. In response to this request and in view of the potential benefits of having additional Indonesian ownership in our operations, we have agreed to consider a potential sale of an interest in PT Indocopper Investama at fair market value. Neither our Contract of Work nor Indonesian law requires us to divest any portion of our ownership interest in PT Freeport Indonesia or PT Indocopper Investama.

*Our Investment in Indonesia and Papua.* We have a board-approved policy on social, employment and human rights, and have comprehensive and extensive social, cultural and community development programs, to which we have committed significant financial and managerial resources. See "Social Development, Employment and Human Rights." These policies and programs are designed to address the impact of our operations on the local villages and people and to provide assistance for the development of the local people. While we believe these efforts serve to avoid damage to



and disruptions of our operations, our operations could be adversely affected by social, economic and political forces beyond our control.

PT Freeport Indonesia contributes to the economies of Papua and the Republic of Indonesia through the payment of taxes, dividends and royalties; economic development programs; infrastructure development; employment and the purchase of local and national goods. PT Freeport Indonesia has frequently been one of the largest taxpayers in the Republic of Indonesia. In addition, it pays royalties on all minerals removed from the ground. Royalty payments are based on the volumes and prices of minerals sold in accordance with the terms of PT Freeport Indonesia's Contract of Work, as discussed above.

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Since it began development activities more than 35 years ago, PT Freeport Indonesia has made significant investments in infrastructure both for its use and for use by the Papuan public. These infrastructure improvements include medical facilities, roads, an airport and heliports, schools, housing, community buildings and places of worship.

PT Freeport Indonesia is also one of the largest private employers in Indonesia and by far the largest in Papua. As of December 31, 2006, PT Freeport Indonesia directly employed 8,957 people, and 6,141 contract workers provided services to PT Freeport Indonesia. In addition, 4,579 persons worked for privatized companies providing services within PT Freeport Indonesia's operations area.

Besides the estimated \$5.1 billion in direct benefits from taxes, royalties, dividends and fees paid to the Indonesian government under the Contract of Work from 1992 through 2006, PT Freeport Indonesia's operations have provided an additional estimated \$11.1 billion during this period in indirect benefits to Papua and the Republic of Indonesia in the form of wages and benefits paid to workers, purchases of goods and services, charitable contributions and reinvestments in operations. For 2006, direct benefits paid to the Indonesian government totaled approximately \$1.6 billion and indirect benefits totaled approximately \$1.1 billion. In addition, approximately \$0.2 billion of direct benefits attributable to 2006 operations is being paid during the first quarter of 2007 in accordance with the terms of the Contract of Work.

**Ore Reserves**

During 2006, PT Freeport Indonesia added 41.8 million metric tons of ore averaging 0.66 percent copper and 0.70 grams per metric ton (g/t) of gold associated with positive drilling results at the Mill Level Zone and Deep Mill Level Zone deposits, a 387-million-metric-ton complex with average grades of 1.02 percent copper and 0.81 g/t of gold. PT Freeport Indonesia's reserve estimates also reflect revisions resulting from changes to its long-range mine plans.

During the fourth quarter of 2006, PT Freeport Indonesia completed an analysis of its longer-range mine plans to assess the optimal design of the Grasberg open pit and the timing of development of the Grasberg underground block cave ore body. The analysis incorporated the latest geological and geotechnical studies, costs and other economic factors in developing the optimal timing for transitioning from the open pit to underground. The revised long-range plan includes changes to the expected final Grasberg open-pit design which will result in a section of high-grade ore previously expected to be mined in the open pit to be mined in the Grasberg underground block cave mine.

Approximately 100 million metric tons of high-grade ore in the southwest corner (located in the "8 South" pushback) of the open pit, with aggregate recoverable metal approximating 4 billion pounds of copper and 5 million ounces of gold, is expected to be mined through PT Freeport Indonesia's large scale block caving operations rather than from open-pit mining. The revised mine plan reflects a transition from the Grasberg open pit to the Grasberg underground block cave ore body currently estimated to occur in mid-2015.

The mine plan revisions alter the timing of metal production in the period of 2015 and beyond but do not have a significant effect on ultimate recoverable reserves. The success of PT Freeport Indonesia's underground operations and the significant progress to establish underground infrastructure provides confidence in developing the high-grade, large-scale underground ore bodies in the Grasberg minerals district. PT Freeport Indonesia will continue to assess opportunities to optimize the long-range mine plans and net present values of the Grasberg minerals district.

Year-end aggregate proven and probable recoverable reserves, net of 2006 production, were 2.8 billion metric tons of ore averaging 1.04 percent copper, 0.90 g/t of gold and 4.16 g/t of silver representing 54.8 billion pounds of copper, 54.3 million ounces of gold and 184.5 million ounces of silver. Our aggregate exploration budget for 2007, including Rio Tinto's share, is expected to total approximately \$31 million (\$25 million for our share). PT Freeport Indonesia's exploration efforts in 2007 within Block A will continue to test extensions of the Deep Grasberg and Kucing Liar mine complex. Engineering studies are under way to incorporate positive drilling results from 2006 activities at Deep

Grasberg and Kucing Liar. PT Freeport Indonesia also expects to test the open-pit potential of the Wanagon gold prospect and the Ertsberg open-pit resource, and will begin testing for extensions of the Deep Mill Level Zone deposit and other targets in the space between the Ertsberg and Grasberg mineral systems from the new Common Infrastructure tunnels (see “Mining Operations - Mines in Development”) located at the 2,500 meter level.

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Pursuant to joint venture arrangements between PT Freeport Indonesia and Rio Tinto, Rio Tinto has a 40 percent interest in production from reserves above those reported at December 31, 1994. Net of Rio Tinto's share, PT Freeport Indonesia's share of proven and probable recoverable reserves as of December 31, 2006, was 38.8 billion pounds of copper, 41.1 million ounces of gold and 128.0 million ounces of silver. FCX's equity interest in proven and probable recoverable reserves as of December 31, 2006, was 35.2 billion pounds of copper, 37.2 million ounces of gold and 116.0 million ounces of silver. We estimated recoverable reserves using a copper price of \$1.00 per pound and a gold price of \$400 per ounce. If metal prices were adjusted to the approximate average London spot prices for the past three years, i.e., copper prices adjusted from \$1.00 per pound to \$2.01 per pound and gold prices adjusted from \$400 per ounce to \$486 per ounce, the resulting additional proven and probable reserves would not be material to our reported reserves.

All of our proven and probable recoverable reserves lie within Block A. Aggregate Grasberg open pit and underground proven and probable recoverable ore reserves as of December 31, 2006, are shown below along with those of our other deposits. Reserve calculations were prepared by our employees under the supervision of George D. MacDonald, our Vice President of Exploration, and were reviewed and verified by Independent Mining Consultants, Inc., experts in mining, geology and reserve determination. See "Risk Factors." We developed our current mine plan based on completing the mining of all of our currently designated recoverable reserves before the end of 2041, which would be the expiration of our Contract of Work including the two 10-year extensions discussed above. Prior to the expiration of the initial term of our Contract of Work in December 2021, under our current mine plan we expect to mine approximately 39 percent of aggregate proven and probable ore, representing approximately 45 percent of PT Freeport Indonesia's share of recoverable copper reserves and approximately 59 percent of PT Freeport Indonesia's share of recoverable gold reserves.

|                            | Metric Tons of<br>Ore (000s) <sup>a</sup> | Proven<br>Average Ore Grade |               |                 | Metric<br>Tons of<br>Ore (000s) <sup>a</sup> | Probable<br>Average Ore Grade |               |                 | Total<br>Metric Tons<br>of Ore<br>(000s) <sup>a</sup> |
|----------------------------|-------------------------------------------|-----------------------------|---------------|-----------------|----------------------------------------------|-------------------------------|---------------|-----------------|-------------------------------------------------------|
|                            |                                           | Copper<br>(%)               | Gold<br>(g/t) | Silver<br>(g/t) |                                              | Copper<br>(%)                 | Gold<br>(g/t) | Silver<br>(g/t) |                                                       |
| Developed and producing:   |                                           |                             |               |                 |                                              |                               |               |                 |                                                       |
| Grasberg open pit          | 158,828                                   | 0.93                        | 1.20          | 2.22            | 313,696                                      | 0.85                          | 0.90          | 2.13            | 472,524                                               |
| Deep Ore Zone              | 68,803                                    | 0.86                        | 0.59          | 4.66            | 79,588                                       | 0.82                          | 0.54          | 4.67            | 148,391                                               |
| Undeveloped:               |                                           |                             |               |                 |                                              |                               |               |                 |                                                       |
| Grasberg block cave        | 289,455                                   | 1.14                        | 1.10          | 3.58            | 695,837                                      | 1.01                          | 0.77          | 3.12            | 985,292                                               |
| Kucing Liar                | 161,755                                   | 1.24                        | 1.11          | 6.45            | 415,956                                      | 1.18                          | 1.04          | 5.57            | 577,711                                               |
| Deep Mill Level<br>Zone    | 26,866                                    | 1.18                        | 0.91          | 6.09            | 252,046                                      | 1.07                          | 0.85          | 5.35            | 278,912                                               |
| Ertzberg Stockwork<br>Zone | 44,811                                    | 0.51                        | 0.84          | 1.76            | 98,815                                       | 0.49                          | 0.82          | 1.66            | 143,626                                               |
| Mill Level Zone            | 36,699                                    | 1.05                        | 0.79          | 4.52            | 71,527                                       | 0.76                          | 0.69          | 3.35            | 108,226                                               |
| Big Gossan                 | 9,040                                     | 2.48                        | 1.14          | 13.40           | 43,696                                       | 2.28                          | 1.09          | 15.03           | 52,736                                                |
| Dom open pit               | 5,753                                     | 2.07                        | 0.43          | 12.78           | 17,897                                       | 2.01                          | 0.43          | 11.93           | 23,650                                                |
| Dom block cave             | 7,201                                     | 1.43                        | 0.36          | 9.31            | 14,820                                       | 1.34                          | 0.36          | 8.58            | 22,021                                                |
| Total                      | 809,211                                   | 1.08                        | 1.03          | 4.23            | 2,003,878                                    | 1.02                          | 0.85          | 4.13            | 2,813,089                                             |

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|                               | Mill Recoveries (%) |      |        | Proven and Probable Recoverable Reserves <sup>b</sup> |                               |                                 |
|-------------------------------|---------------------|------|--------|-------------------------------------------------------|-------------------------------|---------------------------------|
|                               | Copper              | Gold | Silver | Copper<br>(Billions<br>of Lbs.)                       | Gold<br>(Millions<br>of Ozs.) | Silver<br>(Millions<br>of Ozs.) |
| Developed and producing:      |                     |      |        |                                                       |                               |                                 |
| Grasberg open pit             | 88.2                | 85.7 | 57.1   | 7.8                                                   | 12.6                          | 14.4                            |
| Deep Ore Zone                 | 86.1                | 76.8 | 65.5   | 2.3                                                   | 2.0                           | 11.2                            |
| Undeveloped:                  |                     |      |        |                                                       |                               |                                 |
| Grasberg block cave           | 88.4                | 69.4 | 68.2   | 19.4                                                  | 18.4                          | 54.0                            |
| Kucing Liar                   | 89.1                | 48.7 | 49.0   | 13.1                                                  | 9.3                           | 40.7                            |
| Deep Mill Level Zone          | 85.2                | 76.1 | 78.7   | 5.5                                                   | 5.6                           | 29.4                            |
| Ertzberg Stockwork Zone       | 88.5                | 78.8 | 85.3   | 1.4                                                   | 2.9                           | 5.1                             |
| Mill Level Zone               | 89.2                | 78.1 | 83.7   | 1.8                                                   | 1.9                           | 8.4                             |
| Big Gossan                    | 93.1                | 68.7 | 81.6   | 2.4                                                   | 1.2                           | 15.7                            |
| Dom open pit                  | 62.5                | 64.0 | 47.0   | 0.6                                                   | 0.2                           | 3.4                             |
| Dom block cave                | 82.9                | 61.6 | 44.6   | 0.5                                                   | 0.2                           | 2.2                             |
| Total                         | 87.8                | 68.9 | 63.8   | 54.8                                                  | 54.3                          | 184.5                           |
| PT Freeport Indonesia's share |                     |      |        | 38.8                                                  | 41.1                          | 128.0                           |
| FCX's equity share            |                     |      |        | 35.2                                                  | 37.2                          | 116.0                           |

a. Ore reserve tonnage estimates are after application of applicable mining recovery factors.

b. Proven and probable recoverable reserves represent estimated metal quantities from which we expect to be paid after application of estimated mill recovery rates and smelter recovery rates of 96.5 percent for copper, 97.0 percent for gold and 76.9 percent for silver. The term "recoverable reserve" means that part of a mineral deposit which we estimate can be economically and legally extracted or produced at the time of the reserve determination.

In defining its open-pit reserves, PT Freeport Indonesia applies an "economic cutoff grade" strategy. The objective of this strategy is to maximize the net present value of its operations. PT Freeport Indonesia uses a break-even cutoff grade to define the insitu reserves for its underground ore bodies. The break-even cutoff grade is defined for a metric ton of ore as that equivalent copper grade, once produced and sold, that generates sufficient revenue to cover all operating and administrative costs associated with its production.

Our reserve estimates are based on the latest available geological and geotechnical studies. We conduct ongoing studies of our ore bodies to optimize economic values and to manage risk. We revise our mine plans and estimates of proven and probable mineral reserves as required in accordance with the latest available studies.

PT Freeport Indonesia's ores contain three commercially recoverable metals: copper, gold and silver. We value all three metals in terms of a copper equivalent percentage to determine a single break-even cutoff grade. Copper equivalent percentage is used to express the relative value of multi-metal ores in terms of one metal. The calculation expresses the relative value of the ore using estimates of contained metal quantities, metals prices as used for reserve determination, recovery rates, treatment charges and royalties. The table below shows the break-even cutoff grade, expressed as a copper equivalent percentage, for each of our existing ore bodies as of December 31, 2006.

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| Ore Body                   | Copper<br>Equivalent<br>Cutoff Grade |
|----------------------------|--------------------------------------|
| Grasberg open pit          | 0.65%                                |
| Deep Ore Zone              | 0.71%                                |
| Grasberg block cave        | 0.71%                                |
| Kucing Liar                | 0.90%                                |
| Mill Level Zone            | 0.76%                                |
| Deep Mill Level Zone       | 0.79%                                |
| Ertsberg Stockwork<br>Zone | 0.77%                                |
| Dom block cave             | 0.80%                                |
| Big Gossan                 | 1.49%                                |
| Dom open pit               | 1.01%                                |
| <b>Average</b>             | <b>0.77%</b>                         |

The following table sets forth the average drill hole spacing for each of our ore bodies. Drill hole spacing data are used by mining professionals, such as mining engineers, in determining the suitability of data coverage (on a relative basis) in a given deposit type and mining method scenario so as to achieve a given level of confidence in the resource estimate. Drill hole spacing is only one of several criteria necessary to establish resource classification. Drilling programs are typically designed to achieve an optimum sample spacing to support the level of confidence in results that apply to a particular stage of development of a mineral deposit. We calculate the average drill hole spacing within each ore body using the distance from the center of each block in the resource model to the nearest drill hole composite. We then calculate the averages of these values within the volume of each ore body and reported them under the column entitled “Average Distance: To Nearest Sample.” This value represents at least one-half of the average drill hole spacing within each deposit. We calculate the value under the column entitled “Average Distance: Between Drill Holes” by multiplying the average minimum distance value by two, and this value represents the maximum average drill hole spacing.

| Deposit                    | Mining Unit | Spacing<br>(in meters)       |                                          | Drilling<br>Method | Average Distance<br>(in meters) |                                       |
|----------------------------|-------------|------------------------------|------------------------------------------|--------------------|---------------------------------|---------------------------------------|
|                            |             | Surface<br>Drilling<br>Grids | Underground<br>(& Surface)<br>Drill Fans |                    | To Nearest<br>Sample            | Between<br>Drill Holes<br>(less than) |
| Grasberg                   | Open Pit    | 83                           | 73                                       | Core               | 38                              | 76                                    |
| Deep Ore Zone              | Block Cave  | -                            | 50                                       | Core               | 18                              | 35                                    |
| Grasberg                   | Block Cave  | -                            | 94                                       | Core               | 39                              | 79                                    |
| Kucing Liar                | Block Cave  | -                            | 81                                       | Core               | 39                              | 78                                    |
| Mill Level Zone            | Block Cave  | -                            | 50                                       | Core               | 24                              | 47                                    |
| Deep Mill Level Zone       | Block Cave  | -                            | 91                                       | Core               | 45                              | 89                                    |
| Ertsberg Stockwork<br>Zone | Block Cave  | 100                          | 55                                       | Core               | 21                              | 41                                    |
| Dom                        | Block Cave  | -                            | 50                                       | Core               | 35                              | 71                                    |
| Big Gossan                 | Open Stope  | 100                          | 62                                       | Core               | 20                              | 39                                    |
| Dom                        | Open Pit    | -                            | 50                                       | Core               | 43                              | 86                                    |

**Mining Operations - Mines in Production**

We and our predecessors have conducted exploration and mining operations in Block A since 1967 and have been the only operator of these operations. We currently have two mines in operation: the Grasberg open pit and the Deep Ore Zone block cave.

*Grasberg Open Pit.* We began open-pit mining of the Grasberg ore body in 1990. Open-pit operations are expected to continue until mid-2015 at which time the Grasberg underground mining operations are scheduled to begin. Production is currently at the 3,340- to 4,285-meter elevation level and totaled 63.7 million metric tons of ore in

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2006 and 60.3 million metric tons of ore in 2005, which provided 80 percent of our 2006 mill feed and 81 percent of our 2005 mill feed. Our open-pit mining rate, including ore and overburden, totaled 677,200 metric tons per day in 2006 and 691,600 metric tons per day in 2005. Approximate annual production rates are expected to range between 650,000 metric tons per day and 750,000 metric tons per day through 2010 and then decline through 2015. We are studying potential capital outlays for additional haul trucks, which would be above the expected maintenance capital costs that will be incurred during the pit's remaining life.

The current Grasberg equipment fleet consists of over 675 units. As of December 31, 2006, the larger mining equipment directly associated with production includes 168 haul trucks with payloads ranging from approximately 70 metric tons to 330 metric tons, 18 shovels with bucket sizes ranging from 29 cubic meters to 42 cubic meters and 65 bulldozers and graders. Besides the potential purchases of haul trucks discussed above, we believe our current equipment level is adequate to meet our projected production levels over the remaining life of the pit.

Grasberg crushing and conveying systems are integral to the mine and provide the capacity to transport up to 225,000 metric tons per day of Grasberg ore to the mill and 135,000 metric tons per day of overburden to the overburden stockpiles.

Mining costs are charged to operations as incurred. However, because of the configuration and location of the Grasberg open-pit ore body and the location and extent of the related surrounding overburden, the ratio of overburden to ore is much higher in the initial mining of the open pit than in later years. In 2005 and years prior, surface mining costs associated with overburden removal at PT Freeport Indonesia's Grasberg open-pit mine that were estimated to relate to future production were initially deferred when the ratio of actual overburden removed to ore mined exceeded the estimated average ratio of overburden removed to ore mined over the life of the Grasberg open-pit mine, as projected in our most recent mine plan. Those deferred costs were to be charged subsequently to operating costs when the ratio of actual overburden removed to ore mined fell below the estimated average ratio of overburden to ore over the life of the Grasberg open-pit mine. The reserve quantities used to develop the life of mine ratio are the proven and probable ore quantities for the Grasberg open pit shown above.

In the mining industry, the costs of removing overburden and waste material to access mineral deposits are referred to as "stripping costs." Through December 31, 2005, we applied the deferred mining cost method in accounting for our post-production stripping costs. The deferred mining cost method was used by some companies in the metals mining industry; however, industry practice varied. The deferred mining cost method matches the cost of production with the sale of the related metal from the open pit by assigning each metric ton of ore removed an equivalent amount of overburden tonnage, thereby averaging overburden removal costs over the life of the mine. The mining cost capitalized in inventory and the amounts charged to cost of goods sold do not represent the actual costs incurred to mine the ore in any given period. The application of the deferred mining cost method resulted in an asset on FCX's balance sheet ("Deferred Mining Costs") totaling \$285.4 million at December 31, 2005 (see Note 1).

On January 1, 2006, we adopted Emerging Issues Task Force Issue No. 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry" (EITF 04-6), which requires that stripping costs incurred during production be considered costs of the extracted minerals and included as a component of inventory to be recognized in cost of sales in the same period as the revenue from the sale of that inventory (see Note 1). Upon adoption of EITF 04-6, we recorded our deferred mining costs asset (\$285.4 million) at December 31, 2005, net of taxes, minority interest share and inventory effects (\$135.9 million), as a cumulative effect adjustment to reduce our retained earnings on January 1, 2006. In addition, stripping costs incurred in 2006 and later periods are now charged to cost of sales as prescribed by EITF 04-6. As a result of adopting EITF 04-6 on January 1, 2006, our income before income taxes and minority interests for the year ended December 31, 2006, was \$35.4 million lower and net income was \$18.8 million (\$0.10 per basic share and \$0.08 per diluted share) lower than if we had not adopted EITF 04-6 and continued to defer stripping costs. Stripping costs are now charged to cost of sales as prescribed by EITF 04-6. Adoption of the new guidance has



no impact on our cash flows. The pro forma impact of applying EITF 04-6 would be to reduce net income by \$35.3 million or \$0.16 per diluted share for the year ended December 31, 2005, and \$39.4 million or \$0.21 per diluted share for the year ended December 31, 2004.

*Deep Ore Zone.* The Deep Ore Zone ore body lies vertically below the now depleted Intermediate Ore Zone ore body. We began production from the Deep Ore Zone ore body in 1989 using open stope mining methods, but we suspended production in 1991 in favor of production from the Grasberg deposit. Production resumed in September 2000 using the block-cave method. Production is at the 3,110-meter elevation level and totaled 16.5 million metric tons of ore in 2006 and 15.3 million metric tons of ore in 2005. The Deep Ore Zone continues to perform above

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design capacity of 35,000 metric tons of ore per day. Production from the Deep Ore Zone averaged 45,200 metric tons of ore per day in 2006 and 42,000 metric tons of ore per day in 2005.

During 2006 at the Deep Ore Zone mine, we completed over 12,000 meters of development drifting in support of the block-cave mining method and the ongoing expansion to 50,000 metric tons of ore per day. The expansion to a sustained rate of 50,000 metric tons of ore per day is expected to be completed in mid-2007. The cumulative aggregate development costs for the Deep Ore Zone expansion through December 31, 2006, totaled approximately \$56 million (approximately \$34 million for PT Freeport Indonesia's share) and the aggregate development costs for 2007 are expected to total approximately \$4 million (approximately \$2 million for PT Freeport Indonesia's share). We anticipate a further expansion of the Deep Ore Zone operation to 80,000 metric tons of ore per day, with budgeted capital of approximately \$18 million (approximately \$11 million for PT Freeport Indonesia's share) in 2007. The success of the development of the Deep Ore Zone mine, one of the world's largest underground mines, provides confidence in the future development of PT Freeport Indonesia's large-scale undeveloped ore bodies.

The Deep Ore Zone mine fleet consists of over 160 pieces of mobile heavy equipment. The primary mining equipment directly associated with production and development includes 45 load-haul-dump (LHD) units and 16 haul trucks. Our production LHD units typically carry approximately 11 metric tons of ore. Using ore passes and chutes, the LHD units transfer ore into 55-ton capacity haul trucks. The trucks dump into a gyratory crusher and ore is then conveyed to the surface stockpiles.

Our development costs include costs incurred resulting from mine pre-production activities undertaken to gain access to proven and probable reserves including adits, drifts, ramps, permanent excavations, infrastructure and removal of overburden. Depreciation for mining and milling life-of-mine assets is determined using the unit-of-production method based on estimated recoverable proven and probable copper reserves. Development costs that relate to a specific ore body are depreciated using the unit-of-production method based on estimated recoverable proven and probable copper reserves for the ore body benefited. PT Freeport Indonesia's total development costs at December 31, 2006, for the Deep Ore Zone mine, currently our only operating underground mine, totaled approximately \$224 million, which are being depreciated on a unit-of-production basis over the life of the Deep Ore Zone proven and probable reserves (see Note 1).

The majority of maintenance activities are performed on site by a combination of PT Freeport Indonesia employees and contract workers. As of December 31, 2006, we had approximately 7,000 employees and contract workers directly involved in Grasberg open-pit and Deep Ore Zone underground mining, milling and ore flow operations.

Our principal source of power for all our operations is a coal-fired power plant that we built in conjunction with our fourth concentrator mill expansion (see "Infrastructure"). Diesel generators supply peaking and backup electrical power generating capacity. A combination of naturally occurring mountain streams and water derived from our underground operations provides water for our operations. The average annual rainfall in the project area is 185 inches.

### **Mining Operations - Mines in Development**

Seven other ore bodies (the underground Grasberg, Kucing Liar, Mill Level Zone, Deep Mill Level Zone, Ertsberg Stockwork Zone, Big Gossan and the Dom) are located in Block A. These ore bodies are at various stages of development, and are included in our proven and probable recoverable reserves. We continually review our operation's development opportunities to maximize the value of the reserves. We incurred \$61.4 million for mine development, expansion and infrastructure capital expenditures related to these ore bodies and \$49.5 million for common underground infrastructure development during the three years ended December 31, 2006. See "Risk Factors."

The underground Grasberg reserves will be mined using the block-cave method at the end of open-pit mining, which is expected to continue until approximately mid-2015. The Kucing Liar ore body lies on the southern flank of and underneath the southern portion of the Grasberg open pit at the 2,605- to 3,115-meter elevation level. We expect to mine the Kucing Liar ore body using the block-cave method.

The Mill Level Zone ore body lies directly below the Deep Ore Zone mine at the 2,890-meter elevation. The Deep Mill Level Zone ore body lies beneath the Mill Level Zone ore body at the 2,590-meter elevation. This ore represents the downward continuation of mineralization in the Ertsberg East Skarn system and neighboring Ertsberg porphyry. Drilling efforts continue to determine the extent of these ore bodies. We expect to mine the Mill Level

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Zone ore body using a block-cave method near completion of mining at the Deep Ore Zone ore body. Near the end of mining the Mill Level Zone ore body, we expect to mine the Deep Mill Level Zone ore body also using a block-cave method.

The Ertsberg Stockwork Zone ore body extends off the southwest side of the Deep Ore Zone ore body at the 3,126- to 3,626-meter elevation level. Drilling efforts continue to determine the extent of this ore body, which we expect to mine using a block-cave method starting in about 2008.

The Big Gossan ore body is located approximately 1,000 meters southwest of the original Ertsberg open-pit deposit. We began the initial underground development of the ore body in 1993 when we drove tunnels from the mill area into the ore zone at the 3,000-meter elevation level. A stope and fill mining method will be used on the Big Gossan deposit. In 2005, we completed a feasibility study and an update to the site-wide development plan to determine the timing of initial production, currently projected to be 2008.

The Dom ore body lies approximately 1,500 meters southeast of the depleted Ertsberg open-pit deposit. Production at the open-pit and underground portions of the ore body will begin after completion of open-pit mining at Grasberg.

In 2004, PT Freeport Indonesia commenced its "Common Infrastructure" project, which will provide access to its large undeveloped underground ore bodies located in the Grasberg minerals district through a tunnel system located approximately 400 meters deeper than its existing underground tunnel system. In addition to providing access to our underground ore bodies, the tunnel system will enable PT Freeport Indonesia to conduct future exploration in prospective areas associated with currently identified ore bodies. The tunnel system has reached the Big Gossan terminal and PT Freeport Indonesia is proceeding with development of the lower Big Gossan infrastructure. PT Freeport Indonesia has also advanced development of the Grasberg spur and as of December 31, 2006, has completed 67 percent of the tunneling required to reach the Grasberg underground ore body. PT Freeport Indonesia expects the Grasberg spur to reach the Grasberg underground ore body and to initiate multi-year mine development activities in the second half of 2007.

The projected aggregate capital expenditures required to reach full production capacity for each of our undeveloped ore bodies based on our latest mine plans and our proven and probable recoverable reserves as of December 31, 2006, are shown below in millions of U.S. dollars. Actual costs could differ materially from these estimates as we will not incur most of the expenditures for several years and we will incur them over a period of several years. In addition to the mine development costs below, our current mine development plans include approximately \$1 billion of capital expenditures at our processing facilities to optimize the handling of underground ore types once Grasberg open-pit operations cease. We continue to review our processing plans to maximize the value of our reserves. Based on our current estimates, we expect aggregate expenditures will range between approximately \$100 million and \$320 million annually, during the next 15 years. In addition, these costs will be shared with Rio Tinto in accordance with our joint venture agreement.

|                         |          |
|-------------------------|----------|
| Grasberg block cave     | \$ 1,170 |
| Kucing Liar             | 740      |
| Deep Mill Level Zone    | 320      |
| Mill Level Zone         | 260      |
| Big Gossan              | 185      |
| Ertsberg Stockwork Zone | 170      |
| Dom block cave          | 130      |
| Dom open pit            | 80       |
| Total                   | \$ 3,055 |



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*Description of Ore Bodies.* Our ore bodies are located within and around two main igneous intrusions, the Grasberg monzodiorite and the Ertsberg diorite. The host rocks of these ore bodies include both carbonate and clastic rocks that form the ridge crests and upper flanks of the Sudirman Range, and the igneous rocks of monzonitic to dioritic composition that intrude them. The igneous-hosted ore bodies (the Grasberg open pit and block cave, and the Ertsberg Stockwork Zone block cave) occur as vein stockworks and disseminations of copper sulphides, dominated by chalcopyrite and, to a much lesser extent, bornite. The sedimentary-rock hosted ore bodies occur as “magnetite-rich, calcium/magnesian skarn” replacements, whose location and orientation are strongly influenced by major faults and by the chemistry of the carbonate rocks along the margins of the intrusions.

The copper mineralization in these skarn deposits is also dominated by chalcopyrite, but higher bornite concentrations are common. Moreover, gold occurs in significant concentrations in all of the district’s ore bodies, though rarely visible to the naked eye. These gold concentrations usually occur as inclusions within the copper sulphide minerals, though, in some deposits, these concentrations can also be strongly associated with pyrite.

The following diagram indicates the relative elevations (in meters) of our reported reserve ore bodies.

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The following map, which encompasses an area of approximately 42 square kilometers (approximately 16 square miles), indicates the relative positions and sizes of our reported reserve ore bodies and their locations.

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The following chart illustrates our current plans for sequencing and producing each of our ore bodies and the years in which we currently expect that production of each ore body will begin and end. Production volumes are typically lower in the first few years of each ore body as development activities are ongoing and as the mine ramps up to full production. Currently, the Grasberg open pit and Deep Ore Zone are our only producing mines. The ultimate timing of the start of production from our undeveloped mines is dependent upon a number of factors, including the results of our exploration and development efforts, and may vary from the dates shown below. In addition, we develop our mine plans for the Grasberg open pit and underground mines based on maximizing the net present value from the ore bodies.

During 2006, we mined an average of 722,400 metric tons of material per day, including ore and overburden. We do not require any additional approvals for higher mining rates. During 2005, we mined an average of 733,600 metric tons of material per day. The following chart illustrates our current aggregate mill capacity; our aggregate permitted mill capacity and our projected milling rates. Mill capacity will vary with the ore type being processed. The decline in milling rates in 2015 reflects the expected completion date of open-pit mining at the Grasberg ore body. We are continuing to develop mine plans to optimize production levels.

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The ore from our mines moves by a conveyor system to a series of shafts through which it drops to our milling and concentrating complex located approximately 2,900 meters above sea level. At the mill, the ore is crushed and ground and mixed in tanks with water and small amounts of flotation reagents where it is continuously agitated with air. During this physical separation process, copper-, gold- and silver-bearing particles rise to the top of the tanks and are collected and thickened into a concentrate. The concentrate leaves the mill complex as a slurry, consisting of approximately 65 percent solids by weight, and is pumped through three parallel 115-kilometer pipelines to our coastal port site facility at Amamapare where it is filtered, dried and stored for shipping. Ships are loaded at dock facilities at the port until they draw their maximum dock-side water, and they then move to deeper water, where loading is completed from shuttling barges.

Our production results for the last three years are as follows:

|                                                              | Years Ended December 31, |           |           | Percentage Change |                 |
|--------------------------------------------------------------|--------------------------|-----------|-----------|-------------------|-----------------|
|                                                              | 2006                     | 2005      | 2004      | 2005 to<br>2006   | 2004 to<br>2005 |
| Mill throughput (metric tons of ore per day)                 | 229,400                  | 216,200   | 185,100   | 6%                | 17%             |
| Copper production, net to PT Freeport Indonesia (000 pounds) | 1,201,200                | 1,455,900 | 996,500   | (17)%             | 46%             |
| Gold production, net to PT Freeport Indonesia (ounces)       | 1,731,800                | 2,789,400 | 1,456,200 | (38)%             | 92%             |
| Average unit net cash costs per pound of copper <sup>a</sup> | \$0.60                   | \$0.07    | \$0.40    | 757%              | (83)%           |

a. Includes site production and delivery costs, smelting and refining costs, and royalties, less credits for gold and silver sales. See our 2006 Annual Report incorporated herein by reference for a reconciliation of average unit net cash costs per pound to production and delivery costs applicable to sales reported in our consolidated financial statements.

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Although average mill throughput increased by six percent to 229,400 metric tons of ore per day from 216,200 metric tons per day in 2005, we mined lower grade ore and reported lower production in 2006, compared with 2005. Copper production for 2006 totaled 1.2 billion pounds, 254.7 million pounds lower than 2005 production. Gold production for 2006 totaled 1.7 million ounces, 1.1 million ounces lower than 2005 production. Average unit net cash costs for 2006 increased to \$0.60 per pound from \$0.07 per pound for 2005, as a result of higher unit production costs (resulting from lower volumes, higher input costs and the impact of changes in accounting for stripping costs) and higher treatment charges and royalties attributable to increased copper prices.

Mill throughput and production improved significantly in 2005 compared to 2004, which was negatively affected by PT Freeport Indonesia's efforts to accelerate removal of overburden material and restore safe access to higher-grade areas in the pit (see below). Mill throughput averaged 216,200 metric tons of ore per day in 2005, a 17 percent increase from the 185,100 metric tons average in 2004. Copper and gold production was higher in 2005 compared with 2004 reflecting the higher mill throughput and higher average ore grades. Copper production for 2005 totaled 1.46 billion pounds, 459.4 million pounds higher than 2004 production. Gold production for 2005 totaled 2.79 million ounces, 1.3 million ounces higher than 2004 production. The higher sales volumes and the primarily fixed nature of a large portion of PT Freeport Indonesia's cost structure resulted in average unit net cash costs for 2005 decreasing to \$0.07 per pound compared with \$0.40 per pound for 2004.

In October 2003, a slippage of material occurred in a section of the Grasberg open pit and in December 2003, a smaller debris flow occurred in the same section. The area affected by the slippage events included two active mining areas which were scheduled to be mined in the fourth quarter of 2003 (see "Grasberg Open-Pit Slippage"). Mill throughput and production in 2004 was negatively affected by PT Freeport Indonesia's efforts to accelerate removal of overburden material and restore safe access to higher-grade areas in the pit.

Because of the fixed nature of a large portion of our costs, unit costs vary significantly from period to period depending on volumes of copper and gold sold during the period. In addition, we have experienced significant increases in our production costs in recent years primarily as a result of higher energy costs and costs of other consumables, higher mining costs and milling rates, labor costs and other factors. Once we complete our open-pit mining operations at the Grasberg mine in approximately mid-2015 and transition to underground, we expect our share of annual copper and gold production to be lower than current levels, and all other factors being equal, our average unit net cash costs to increase. For more information regarding our operating and financial results, see our 2006 Annual Report incorporated herein by reference.

We estimate our share of sales for 2007 to approximate 1.1 billion pounds of copper and 1.8 million ounces of gold. Average annual sales volumes over the five-year period from 2007 through 2011 are expected to approximate 1.24 billion pounds of copper and 1.8 million ounces of gold. The achievement of PT Freeport Indonesia's sales estimates will be dependent, among other factors, on the achievement of targeted mining rates, the successful operation of PT Freeport Indonesia production facilities, the impact of weather conditions at the end of fiscal periods on concentrate loading activities and other factors. See "Risk Factors."

### **Geotechnical Programs**

Our geotechnical programs support several phases of the operations, including our open-pit mine (pit slope and overburden stockpile stability), our underground mine, our infrastructure and our tailings management program. For information regarding our tailings management program, see "Environmental Matters."

A group of our senior level employees has the responsibility, authority and oversight for our overall geotechnical programs. Our multi-disciplinary approach combines in-house personnel with backgrounds in civil, geotechnical, mining engineering, geology and hydrology to form a technical services group that reports to our senior managers.

Our technical services group develops information that our mine engineering group uses to develop mine and stockpile designs, production schedules and related plans. Our technical services group also monitors slope stability and other geotechnical and hydrological developments.

Our technical services group is composed of expatriates and Indonesian nationals, who are university educated. International consulting experts in each of the applicable technical fields also provide additional support to this group. In-house training provided by consultants as well as off-site seminars and industry conferences supports the training of our staff. Our joint venture partner has also provided geotechnical and engineering support to our operations. Consultants and our joint venture partner provide input into program development and assess performance of these critical roles.

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Our technical services group uses information from geological drilling for the development and updating of our geological, geotechnical and hydrologic models. We develop computer-based geologic models for mine design and dewatering programs. We provide continuous ground and slope monitoring in our mines and on overburden stockpiles using various computerized and automated systems. We also daily inspect all open-pit working areas, with any items of concern being reported to our senior managers. Our hydrology function measures and tracks water flow patterns to determine the effectiveness and need for de-watering and depressurization programs. We drain all surface flows away from the open pit and pump any in-pit surface water to dedicated drain holes connected to our underground de-watering drift system. We also continuously monitor rainfall at our operations so that we may adjust for operational impacts and safety considerations.

### **Grasberg Open-Pit Slippage**

On October 9, 2003, a slippage of material occurred in a section of the Grasberg open pit. Eight workers perished and five workers were injured in the incident. The area affected by the slippage, comprising approximately five percent of the surface area of the massive Grasberg pit, included two active mining areas that were scheduled to be mined in 2003 and 2004. On December 12, 2003, a debris flow involving a relatively small amount of loose material occurred in the same area of the Grasberg open pit resulting in only minor property damage. Following these two events, PT Freeport Indonesia redirected its open-pit operations to accelerate removal of waste material from the south wall to restore safe access to the higher-grade ore areas in the pit. These activities resulted in reduced production levels. In April 2004, PT Freeport Indonesia established safe access and initiated mining in higher-grade ore areas while continuing waste removal activities. PT Freeport Indonesia resumed normal milling rates in June 2004.

PT Freeport Indonesia maintains property damage and business interruption insurance related to its operations. In December 2004, we entered into an insurance settlement agreement and settled all claims that arose from the fourth-quarter 2003 slippage and debris flow events in the Grasberg open-pit mine. PT Freeport Indonesia's insurers agreed to pay an aggregate of \$125.0 million in connection with its claims. After considering our joint venture partner's interest in the proceeds, PT Freeport Indonesia's share of proceeds totaled \$95.0 million.

### **Exploration**

As a result of our joint venture arrangements, Rio Tinto generally pays for 40 percent of our joint venture exploration and exploratory drilling costs in Papua. The joint ventures incurred total exploration costs of \$16.7 million in 2006 and \$13.3 million in 2005. The joint ventures' exploration budget for 2007, including Rio Tinto's share, is expected to total approximately \$31 million (\$25 million for our share). PT Freeport Indonesia's exploration efforts in 2007 within Block A will continue to test extensions of the Deep Grasberg and Kucing Liar mine complex. Engineering studies are under way to incorporate positive drilling results from 2006 activities at Deep Grasberg and Kucing Liar. PT Freeport Indonesia also expects to test the open-pit potential of the Wanagon gold prospect and the Ertsberg open-pit resource, and will begin testing for extensions of the Deep Mill Level Zone deposit and other targets in the space between the Ertsberg and Grasberg mineral systems from the new Common Infrastructure tunnels located at the 2,500 meter level. During 2007, we plan to resume exploration activities, which had been suspended in recent years, in certain prospective areas outside Block A.

In June 1998, we entered into a joint venture agreement to conduct exploration activities in PT Nabire Bakti Mining's Contract of Work area, which currently covers approximately 500,000 acres in several blocks contiguous to PT Freeport Indonesia's Block B and one of Eastern Minerals' blocks in Papua. Rio Tinto shares in 40 percent of our interest and costs in this exploration joint venture. We and Rio Tinto can earn up to a 62 percent interest in the PT Nabire Bakti Mining Contract of Work by spending up to \$21 million on exploration and other activities in the joint venture areas. We have spent \$18.0 million through December 31, 2006.

With the subsequent approval of the Indonesian government, in 2000 we suspended our field exploration activities in Block B, which includes the Wabu Ridge gold prospect, as well as in the other Contract of Work areas of Eastern Minerals and PT Nabire Bakti Mining. The suspensions were because of safety and security issues and regulatory uncertainty relating to a possible conflict between our mining and exploration rights in certain forest areas and an Indonesian Forestry law enacted in 1999 prohibiting open-pit mining in forest preservation areas. Recent Indonesian legislation permits open-pit mining in PT Freeport Indonesia's Block B area, subject to certain requirements. Following an assessment of these requirements and a review of security issues, we plan to resume exploration activities in certain prospective Contract of Work areas outside of Block A in 2007.

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**Infrastructure**

The location of our mining operations in a remote area requires that our operations be virtually self-sufficient. In addition to the mining facilities described above, in the course of the development of our project we have constructed ourselves or participated with others in the construction of an airport, a port, a 119 kilometer road, an aerial tramway, two hospitals and related medical facilities, and two town sites with housing, schools and other facilities sufficient to support more than 17,000 persons.

In 1996, we completed a significant infrastructure program, which includes various residential, community and commercial facilities. We designed the program to provide the infrastructure needed for our operations, to enhance the living conditions of our employees, and to develop and promote the growth of local and other third party activities and enterprises in Papua. We have developed the facilities through joint ventures or direct ownership involving local Indonesian interests and other investors.

In July 2003, we acquired the 85.7 percent ownership interest in Puncakjaya Power owned by affiliates of Duke Energy Corporation for \$68.1 million cash, net of \$9.9 million of cash acquired. Puncakjaya Power is the owner of assets supplying power to PT Freeport Indonesia's operations, including the 3x65 megawatt coal-fired power facilities. PT Freeport Indonesia purchases power from Puncakjaya Power under infrastructure asset financing arrangements. In March 2005, we prepaid \$187.0 million of bank debt associated with Puncakjaya Power's operations. At December 31, 2006, we had a \$105.2 million loan outstanding to Puncakjaya Power, PT Freeport Indonesia had infrastructure asset financing obligations payable to Puncakjaya Power totaling \$192.4 million and Puncakjaya Power had a receivable from PT Freeport Indonesia for \$247.3 million, including Rio Tinto's share. We consolidate PT Freeport Indonesia and Puncakjaya Power and our consolidated balance sheet only reflects a \$54.6 million receivable (\$8.6 million in other accounts receivable and \$46.0 million in long-term assets) for Rio Tinto's share of Puncakjaya Power's receivable as provided for in our joint venture agreement with Rio Tinto.

**Marketing**

PT Freeport Indonesia sells its copper concentrates, which contain significant quantities of gold and silver, under U.S. dollar-denominated sales agreements, mostly to companies in Asia and Europe and to international trading companies. We sell substantially all of our budgeted production of copper concentrates under long-term contracts with selling prices based on world metals prices (generally the London Metal Exchange settlement prices for Grade A copper). Under these contracts, initial billing occurs at the time of shipment and final settlement on the copper portion is generally based on average prices for a specified future period. Gold generally is sold at the average London Bullion Market Association price for a specified month near the month of shipment.

Revenues from concentrate sales are recorded net of royalties (see "Contracts of Work"), treatment and refining charges (including price participation charges, if applicable, based on the market prices of metals), and the impact of derivative financial instruments, if any, used to hedge against risks from metals price fluctuations. Moreover, because a portion of the metals contained in copper concentrates is unrecoverable as a result of the smelting process, our revenues from concentrate sales are also recorded net of allowances based on the quantity and value of these unrecoverable metals. These allowances are a negotiated term of our contracts and vary by customer. Treatment and refining charges represent payments to smelters and refiners and are either fixed or in certain cases vary with the price of copper. We sell a small amount of copper concentrates in the spot market. See "Risk Factors."

We have commitments, including commitments from Atlantic Copper and PT Smelting, for essentially all of PT Freeport Indonesia's estimated 2007 production. PT Freeport Indonesia has a long-term contract through December 2007 to provide Atlantic Copper with a quantity of copper concentrates at market prices which currently approximates 60 percent of Atlantic Copper's annual copper concentrate requirements. PT Freeport Indonesia's agreement with PT

Smelting provides, for the life of PT Freeport Indonesia's mines, for the supply of 100 percent of the copper concentrate requirements necessary to produce 205,000 metric tons of copper (essentially the Gresik smelter's original design capacity) on a priority basis. In 2004, PT Smelting increased its stated production capacity to 250,000 metric tons of copper per year. During 2006, PT Smelting completed an expansion of its production capacity from 250,000 metric tons of copper per year to 275,000 metric tons. For the first 15 years of PT Smelting's commercial operations beginning December 1998, PT Freeport Indonesia agreed that the treatment and refining charges on specified quantities of the concentrate PT Freeport Indonesia supplies will not fall below specified minimum rates, subject to renegotiation in 2008. The rate was \$0.23 per pound, during the period from the commencement of PT Smelting's operations in 1998 until April 3, 2004 when it declined to a minimum of \$0.21 per



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pound. PT Smelting's rates for 2007 are expected to exceed the minimum \$0.21 per pound. Current rates are higher than the minimum rate. We anticipate that PT Freeport Indonesia will sell approximately 50 to 60 percent of its annual concentrate production to Atlantic Copper and PT Smelting. A summary of PT Freeport Indonesia's aggregate percentage concentrate sales to its affiliates and to other parties for the last three years follows:

|                 | 2006 | 2005 | 2004 |
|-----------------|------|------|------|
| PT Smelting     | 27%  | 29%  | 40%  |
| Atlantic Copper | 23%  | 25%  | 19%  |
| Other parties   | 50%  | 46%  | 41%  |
|                 | 100% | 100% | 100% |

**Investment in Smelters**

Our investment in smelters (Atlantic Copper and PT Smelting) serves an important role in our concentrate marketing strategy. As discussed above, PT Freeport Indonesia generally sells approximately one-half of its concentrate production to its affiliated smelters, Atlantic Copper and PT Smelting, and the remainder to other customers. Treatment charges for smelting and refining copper concentrates represent a cost to PT Freeport Indonesia and income to Atlantic Copper and PT Smelting. Through downstream integration, we are assured placement of a significant portion of our concentrate production. Low smelter treatment and refining charges prior to 2005 adversely affected the operating results of Atlantic Copper and benefited the operating results of PT Freeport Indonesia's mining operations. Smelting and refining charges consist of a base rate and in certain contracts, price participation and price sharing based on copper prices. Market rates for treatment and refining charges have increased significantly since late 2004 as worldwide smelter availability was insufficient to accommodate increased mine production and because of higher copper prices. However, more recently, we have begun to see these market rates decline. Higher treatment and refining charges benefit our smelter operations and adversely affect our mining operations. Taking into account taxes and minority ownership interests, an equivalent change in PT Freeport Indonesia's and Atlantic Copper's smelting and refining charge rates essentially offsets in our consolidated operating results.

*Atlantic Copper, S.A.* We own 100 percent of Atlantic Copper. Atlantic Copper completed the last expansion of its production capacity in 1997 and the design capacity of its smelter and its refinery are 290,000 metric tons of copper per year and its refinery currently has a nominal capacity of 260,000 metric tons of copper per year, respectively. We have no present plans to expand Atlantic Copper's production capacity. During 2006, Atlantic Copper treated 953,700 metric tons of concentrate and scrap and produced 263,700 metric tons of new copper anodes. During 2005, Atlantic Copper treated 975,400 metric tons of concentrate and scrap and produced 284,200 metric tons of new copper anodes. Atlantic Copper's positive financial results in 2006 compared with 2005 primarily reflect higher treatment charges, partially offset by higher unit costs. The next maintenance activity at Atlantic Copper is a 23-day maintenance turnaround currently scheduled for the second quarter of 2007, which is expected to adversely affect costs and volumes resulting in an approximate \$25 million impact on 2007 operating results. Major maintenance turnarounds typically occur approximately every nine years for Atlantic Copper, with significantly shorter term maintenance turnarounds occurring in the interim. Atlantic Copper purchased approximately 42 percent of its 2006 concentrate requirements from PT Freeport Indonesia at market prices. Atlantic Copper has experienced no material operating problems, and we are not aware of any potential material environmental liabilities at Atlantic Copper.

We made no capital contributions to Atlantic Copper in 2005 and 2006; however, we contributed \$202.0 million to Atlantic Copper in 2004. In addition, we loaned \$189.5 million to Atlantic Copper in 2004. The funds were used to improve Atlantic Copper's financial structure during its major maintenance turnaround and during a period of extremely low treatment and refining charge rates, which negatively affected Atlantic Copper's results. Our net investment in Atlantic Copper through December 31, 2006, was approximately \$170 million.

*PT Smelting.* PT Freeport Indonesia's Contract of Work required us to construct or cause to be constructed a smelter in Indonesia if we and the Indonesian government determined that such a project would be economically viable. In 1995, following the completion of a feasibility study, we entered into agreements relating to the formation of PT Smelting and the construction of the copper smelter in Gresik, Indonesia.

PT Smelting is a joint venture among PT Freeport Indonesia, Mitsubishi Materials Corporation, Mitsubishi Corporation and Nippon Mining & Metals Co., Ltd., which own 25 percent, 60.5 percent, 9.5 percent and 5 percent, respectively, of the outstanding PT Smelting common stock. In accordance with the joint venture agreements, PT

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Freeport Indonesia provides the majority of PT Smelting's copper concentrate requirements. In December 2003, PT Smelting's shareholder agreement was amended to eliminate PT Freeport Indonesia's assignment of its earnings in PT Smelting to support a 13 percent cumulative annual return to the other owners for the first 20 years of operations. No amounts were paid under this assignment. PT Freeport Indonesia's total investment in PT Smelting through December 31, 2006, was \$100.6 million.

During 2006, PT Smelting treated 737,500 metric tons of concentrate and produced 201,200 metric tons of new copper anodes. During 2005, PT Smelting treated 908,900 metric tons of concentrate and produced 275,000 metric tons of new copper anodes. The lower volumes in 2006 primarily reflect a 22-day maintenance turnaround in the second quarter and PT Smelting's temporary suspension of operations beginning in October 2006 and ending in mid-December 2006 following an equipment failure at the oxygen plant supplying the smelter. Major maintenance turnarounds typically occur approximately every four years for PT Smelting, with significantly shorter term maintenance turnarounds in the interim. The next major maintenance turnaround is scheduled for 2008. In 2004, PT Smelting completed a refinery expansion during its maintenance turnaround, increasing its production capacity to approximately 250,000 metric tons of copper per year. During 2006, PT Smelting completed an expansion of its production capacity from 250,000 metric tons of copper per year to 275,000 metric tons. We are not aware of any potential material environmental liabilities at PT Smelting.

### **Competition**

We compete with other mining companies in the sale of our mineral concentrates and the recruitment and retention of qualified personnel. Some competing companies possess financial resources greater than ours and possess multiple mining assets less geographically concentrated in a single area than ours. We believe, however, that we are one of the lowest cost copper producers in the world, after taking into account credits for related gold and silver production, which gives us a significant competitive advantage.

### **Social Development, Employment and Human Rights**

We have a social, employment and human rights policy designed to result in our operating in compliance with the laws in the areas of our operations, and in a manner that respects basic human rights and the culture of the people who are indigenous to the area. We continue to make significant expenditures on social and cultural activities, primarily in Papua. These activities include:

- comprehensive job training programs;
  - basic education programs;
- several public health programs, including extensive malaria control;
  - agricultural assistance programs;
- a business incubator program to encourage the local people to establish their own small scale businesses;
  - cultural preservation programs; and
  - charitable donations.

In 1996, PT Freeport Indonesia agreed to commit at least one percent of its revenues to the Freeport Partnership Fund for Community Development (formerly the Freeport Fund for Irian Jaya Development) to support village-based health, education, economic and social development programs in its area of operations. This commitment replaced our community development programs in which we spent a similar amount of money each year. Our share of contributions to the Freeport Partnership Fund for Community Development totaled \$43.9 million in 2006, \$35.7 million in 2005 and \$17.5 million in 2004. Our joint venture partner, Rio Tinto, also contributes to this fund and including their share the contributions totaled \$47.6 million in 2006, \$42.3 million in 2005 and \$19.0 million in 2004.

Lembaga Pembangunan Masyarakat Amungme Kamoro (LPMAM) oversees disbursement of the amounts we contribute to the fund. LPMAM's board of commissioners is made up of a leader of the Amungme people, a leader of the Kamoro people, leaders of the three local churches, a representative of the local government and a representative of PT Freeport Indonesia. The Amungme and Kamoro people are original inhabitants of the land in our area of operations.

We believe that our social and economic development programs are responsive to the issues raised by the local villages and people and should help us to avoid disruptions of mining operations. Nevertheless, social and political instability in the area may adversely impact our mining operations. See "Risk Factors."

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In December 2000, we endorsed the joint U.S. State Department-British Foreign Office Voluntary Principles on Human Rights and Security. Several major natural resources companies and international human rights organizations participated in developing the Voluntary Principles and have endorsed them. We participated in developing these principles and incorporated them into our social and human rights policy.

**Security Matters**

Consistent with our Contract of Work and the requirement to protect our employees and property, we have taken appropriate steps to provide a safe and secure working environment. As part of its security program, PT Freeport Indonesia maintains its own internal security department, which performs functions such as protecting company facilities, monitoring the shipment of company goods through the airport and terminal, assisting in traffic control and aiding rescue operations. PT Freeport Indonesia's civilian security employees (numbering about 675) are unarmed and perform duties consistent with their internal security role. PT Freeport Indonesia's share of costs for its internal civilian security department totaled \$14.2 million for 2006, \$11.3 million for 2005 and \$12.3 million for 2004. The security department has received human rights training and each member is required to certify his or her compliance with our human rights policy.

PT Freeport Indonesia, and all businesses and residents of Indonesia, relies on the Government of Indonesia for the provision of public order, upholding the rule of law and the protection of personnel and property. The Grasberg mine has been designated by the Government of Indonesia as one of Indonesia's vital national assets. This designation results in the military's playing a significant role in protecting the area of our operations. The Government of Indonesia is responsible for employing police and military personnel and directing their operations.

From the outset of PT Freeport Indonesia's operations, the government has looked to PT Freeport Indonesia to provide logistical and infrastructure support and assistance for these necessary services because of the limited resources of the Indonesian government and the remote location of and lack of development in Papua. PT Freeport Indonesia's financial support for the Indonesian government security institutions assigned to the operations area represents a prudent response to its requirements to protect its workforce and property, better ensuring that personnel are properly fed and lodged, and have the logistical resources to patrol PT Freeport Indonesia's roads and secure its operating area. In addition, provision of such support and oversight is consistent with PT Freeport Indonesia's obligations under the Contract of Work, reflects our philosophy of responsible corporate citizenship, and is in keeping with our commitment to pursue practices that will promote human rights, which include our endorsement of the joint U.S. State Department-British Foreign Office Voluntary Principles on Human Rights and Security.

PT Freeport Indonesia's share of support costs for the government-provided security, involving over 2,625 Indonesian government security personnel currently located in the general area of our operations, was \$8.5 million for 2006, \$6.2 million for 2005 and \$6.9 million for 2004. This supplemental support consists of various infrastructure and other costs, such as food, housing, fuel, travel, vehicle repairs, allowances to cover incidental and administrative costs, and community assistance programs conducted by the military/police. PT Freeport Indonesia's capital costs for associated infrastructure was \$0.1 million for 2006, \$0.1 million for 2005 and \$0.2 million for 2004.

As reported in January 2006, we are responding to requests from governmental authorities in United States and Indonesia for information about PT Freeport Indonesia primarily relating to PT Freeport Indonesia's support of Indonesian security institutions. As discussed above, we provide support to assist security institutions deployed and directed by the Government of Indonesia with infrastructure, logistics and the hardship elements of posting in Papua and our practices adhere to the joint U.S. State Department-British Foreign Office Voluntary Principles on Security and Human Rights. We are cooperating with these requests.

**Environmental Matters**

We have a board-approved environmental policy that commits us not only to compliance with applicable federal, state and local environmental statutes and regulations, but also to continuous improvement of our environmental performance at every operational site. We believe that we conduct our Indonesian operations pursuant to all necessary permits and are in compliance in all material respects with applicable Indonesian environmental laws, rules and regulations. Additionally, the environmental management systems for our PT Freeport Indonesia mining and milling operations and our Atlantic Copper smelting operations are ISO (International Standardization Organization) 14001 certified.

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Mining operations on the scale of our operations in Papua involve significant environmental challenges, primarily related to the disposition of tailings, which are the crushed and ground rock material resulting from the physical separation of commercially valuable minerals from the ore. We have comprehensive, ongoing environmental management and monitoring plans for the disposal of tailings resulting from our milling operations, which the Government of Indonesia has approved. Pursuant to these plans, we manage and monitor the impact of our tailings disposal on the surrounding area of the Ajkwa River and adjoining water bodies and the surrounding coastal areas. In 1997, we completed an engineered levee system to minimize the impact of the tailings through a controlled deposition area located on a portion of the flood plain on the Ajkwa River.

In furtherance of our commitments to the Indonesian government pursuant to our tailings management plan, we monitor the acid-neutralizing capacity of tailings on a daily basis to ensure the discharge of non-acid generating tailings into our tailings deposition area. The net acid-neutralizing capacity of our tailings discharge is maintained through a managed program of blending underground ore with ore from the open pit, the addition of supplemental limestone (or lime) to the ore blend, and the addition of lime for control of the pH levels in the flotation system. Daily samples are collected and tested and this data is communicated to our mill operations so that appropriate adjustments in ore blending and lime/limestone addition can be made.

With respect to overburden, control and treatment of acid rock drainage is our primary environmental issue. Our approaches to this issue include the prevention of acid rock drainage generation, the control of acid rock drainage migration, and the capture and treatment of acid rock drainage emanating from the overburden stockpile. In addition, tests have shown the feasibility of revegetating the overburden stockpile and, as a result, we have engaged in stockpile reclamation as an additional means of mitigating acid rock drainage.

We have made significant capital expenditures with respect to the capture and treatment of acid rock drainage. We continue to evaluate various technologies for the treatment of captured acid rock drainage. Currently, acid rock drainage collected by boreholes at the base of the overburden stockpile is treated using conventional lime neutralization.

We have also committed to the Indonesian government to have independent external environmental audits of our Papuan operations performed by qualified experts every three years, with results available for public review. We have had four independent environmental audits conducted by internationally recognized consulting and auditing firms. Audits were completed in 1996 by Dames & Moore; in 1999 by Montgomery Watson; in 2002 by SGS International Certification Services Indonesia, a member of the Société Générale de Surveillance group; and in 2005 by Montgomery Watson Harza. Montgomery Watson Harza concluded that PT Freeport Indonesia's mining operations "are among the largest and most environmentally challenging and complex in the world" and that the company's "environmental management practices continue to be based on (and in some cases represent) best management practices for the international copper and gold mining industry." The audit also concluded, as have previous independent audits, that PT Freeport Indonesia's tailings management program "remains the tailings management option best suited to the unique topographical and climatological conditions of the site, with a far lower level of environmental impact and risk" than those posed by alternatives. The Montgomery Watson Harza auditors also made a number of specific recommendations for improvements in PT Freeport Indonesia's environmental management practices and these are being implemented. We also conduct annual internal audits to ensure that our environmental management and monitoring programs remain sound and our operations will continue to comply in all material respects with applicable regulations.

In addition to these audits, PT Freeport Indonesia agreed to participate in the Government of Indonesia's PROPER program in 2005. In March 2006, the Indonesian Ministry of Environment announced the preliminary results of its PROPER environmental management audit, acknowledging the effectiveness of PT Freeport Indonesia's environmental management practices in some areas while making several suggestions for improvement in others. We

are working with the Ministry of Environment to address the issues raised as we complete the audit process.

In connection with obtaining our environmental approvals from the Indonesian government, we committed to performing a one-time environmental risk assessment on the impacts of our tailings management plan. We completed this extensive environmental risk assessment with more than 90 scientific studies conducted over four years and submitted it to the Indonesian government in December 2002. We developed the risk assessment exercise with input from an independent review panel, which included representatives from the Indonesian government, academia, and non-governmental organizations. The risks that we identified during this process were in line with our impact projections of the tailings management program contained in our environmental approval documents.



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We have environmental approvals from the Government of Indonesia to expand our milling rate up to a maximum of 300,000 metric tons of ore per day. In 2006, we averaged 229,400 metric tons of ore per day and in 2005 we averaged 216,200 metric tons of ore per day.

The cost of complying with environmental laws is a fundamental cost of our business. We incurred aggregate environmental capital expenditures and other environmental costs totaling \$62.7 million in 2006, \$44.0 million in 2005 and \$65.1 million in 2004, including tailings management levee maintenance and mine reclamation. In 2007, we expect to incur approximately \$43 million of aggregate environmental capital expenditures and \$55 million of other environmental costs.

We are currently revegetating portions of the tailings deposition area. Upon the completion of our mining operations, we will fulfill the commitments included in our approved environmental management plans. Our plans for revegetation of affected areas of the deposition area include natural revegetation, forage crops and grasses, fruits, grains and vegetables, and other traditional food and medicinal crops. Decisions on these plans are made in consultation with local and regional government, local residents and other stakeholders. In addition to the revegetation and reclamation of the deposition area, we will continue to operate treatment systems as long as necessary. We also monitor and test the water discharged from our mine and the pH, sulfate and electrical conductivity levels of ground water in the deposition area. The stability of our levees will be ensured through comprehensive visual inspection, maintenance and improvement programs directed by an experienced engineering group dedicated to levee management and revegetation of the levee embankments. Moreover, we will submit an annual written report to the Indonesian government regarding our reclamation activities.

Our ultimate reclamation and closure activities will be determined after consultation with the Indonesian government, local residents and other parties. Our estimate as of December 31, 2006 of PT Freeport Indonesia's total aggregate reclamation and closure obligations total approximately \$157 million. Estimates of reclamation and closure costs involve complex issues requiring integrated assessments over a period of many years, and we may revise them as we perform more complete studies. Some reclamation costs will be incurred during mining activities, while most closure costs and the remaining reclamation costs will be incurred at the end of mining activities, which are currently estimated to continue for more than 34 years.

Moreover, we cannot predict with any certainty the ultimate future uses of the tailings deposition area once our mining operations are completed. In addition to forage crop and grass planting and food and medicinal crop production, possible future uses of the tailings deposition area include rainforest regrowth, production of timber, fuel woods, fruits and nuts and other economic forestry, and the cultivation of fish, shellfish and other aquaculture. The ultimate future uses will be determined in consultation with local and regional government, local residents and other stakeholders.

In 1996, we began contributing to a cash fund (\$8.5 million balance at December 31, 2006) designed to accumulate at least \$100 million by the end of our Indonesian mining activities. We plan to use this fund, including accrued interest, to pay for mine closure and reclamation costs. Any incremental costs in excess of this \$100 million fund are expected to be incurred throughout the life of the mine and would be funded by operational cash flow or other sources. Future environmental considerations and future changes in regulations could require us to incur additional costs that would be charged against future operations. Estimates involving environmental matters are by their nature imprecise and changes in government regulations, operations, technology and inflation can be expected to require us to revise them over time.

We believe that Atlantic Copper's facilities and operations are in compliance in all material respects with all currently applicable Spanish environmental laws, rules and regulations. In July 2002, the Integrated Pollution Prevention and Control guidelines were adopted under Spanish law with a phase in for compliance by 2009. Atlantic Copper, working with local environmental authorities, is continually assessing the impact of these new guidelines on its operations, and

has budgeted approximately \$27 million as its estimate of the remaining required capital expenditures from 2007 through 2010 to comply. In April 2006, the Environmental Management Systems at Atlantic Copper's operations in Huelva were audited by the Spanish Association for Standardization and Certification (AENOR), in accordance with the ISO 14001:96 international certification standards and the European Union Environmental, Eco-Management and Eco-Auditing (EMAS) Regulation No. 761/2001. AENOR is a Spanish not-for-profit entity that has been accredited by the Spanish government to inspect, audit and certify environmental management systems. Atlantic Copper received positive results from the audits, which are required annually to retain the ISO 14001 certification that Atlantic Copper achieved in prior years.

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The Indonesian and Spanish governments may periodically revise their environmental laws and regulations or adopt new ones, and we cannot predict the effects on our operations of new or revised regulations. We have expended significant resources, both financial and managerial, to comply with environmental regulations and permitting and approval requirements, and we anticipate that we will continue to do so in the future. There can be no assurance that we will not incur additional significant costs and liabilities to comply with such current and future regulations or that such regulations will not materially affect our operations (see “Risk Factors”).

**Employees and Relationship with FM Services Company**

As of December 31, 2006, PT Freeport Indonesia had 8,957 employees (approximately 98 percent Indonesian) and 6,141 contract workers, the vast majority of whom were Indonesian. Approximately 74 percent of PT Freeport Indonesia’s employees are represented by the All Indonesia Workers’ Union, which operates under Government of Indonesia supervision. PT Freeport Indonesia has a labor agreement covering its hourly paid Indonesian employees, the key provisions of which are renegotiated biannually. In June 2005, PT Freeport Indonesia and its workers agreed to terms for a new labor agreement that expires in September 2007. PT Freeport Indonesia’s relations with the workers’ union have generally been satisfactory. In addition, 4,579 persons worked for privatized companies providing services within PT Freeport Indonesia’s operations area.

As of December 31, 2006, Atlantic Copper had 550 employees, of which approximately 74 percent are represented by union contracts. Atlantic Copper’s labor contract covering its smelter/refinery workforce in Huelva, Spain expired on December 31, 2005, and was renewed for a three-year period with no material changes in terms. Atlantic Copper experienced a four-day labor strike in October 2004 at its smelter facility in Huelva because of a workforce reduction plan. The union’s issues with the workforce reduction plan were resolved and the plan was approved by Spanish authorities and implemented in December 2004.

FM Services Company (FM Services) furnishes executive, administrative, financial, accounting, legal, tax and similar services to us. FM Services became our wholly owned subsidiary in October 2002, when we purchased the remaining 50 percent ownership in FM Services from McMoRan Exploration Co. (McMoRan) for \$1.3 million. As of December 31, 2006, FCX had 9 employees and FM Services had 145 employees. FM Services employees continue to also provide services to McMoRan, a publicly traded company engaged in the exploration, development and production of oil and gas, and Stratus Properties Inc., a publicly traded company engaged in the development of real estate.

**Item 1A. Risk Factors**

*This report contains “forward-looking statements” within the meaning of the federal securities laws. Forward-looking statements are all statements other than statements of historical facts, such as statements regarding anticipated production volumes, unit net cash costs, sales volumes, ore grades, commodity prices, development and capital expenditures, mine production and development plans, environmental reclamation and closure cost and plans, reserve estimates, political, economic and social conditions in our areas of operations, exploration efforts and results, and the proposed acquisition of Phelps Dodge. Except for our ongoing obligations under the federal securities laws, we do not intend, and we undertake no obligation, to update or revise any forward-looking statements. Readers are cautioned that forward-looking statements are not guarantees of future performance and actual results may differ materially from those projected, anticipated or assumed in the forward-looking statements. Important factors that could cause our actual results to differ materially from those anticipated in the forward-looking statements include the following:*

**Because our primary operating assets are located in the Republic of Indonesia, our business may be adversely affected by Indonesian political, economic and social uncertainties, in addition to the usual risks associated with conducting business in a foreign country.**

Indonesia has faced political, economic and social uncertainties, including separatist movements and civil and religious strife in a number of provinces. In particular, several separatist groups are opposing Indonesian rule over the province of Papua, where our mining operations are located, and have sought political independence for the province. In response to demands for political independence, new Indonesian regional autonomy laws became effective January 1, 2001. However, the manner in which the new laws are being implemented and the degree of political and economic autonomy that they may bring to individual provinces, including Papua, are uncertain and are ongoing issues in Indonesian politics. Moreover, in Papua there have been sporadic attacks on civilians by

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separatists and sporadic but highly publicized conflicts between separatists and the Indonesian military. Social, economic and political instability in Papua could materially and adversely affect us if this instability results in damage to our property or interruption of our activities.

Maintaining a good working relationship with the Indonesian government is important to us because all of our mining operations are located in Indonesia and are conducted pursuant to Contracts of Work with the Indonesian government. Accordingly, we are also subject to the usual risks associated with conducting business in and with a foreign country, including the risk of forced modification of existing contracts, changes in the country's laws and policies, including those relating to taxation, royalties, divestment, imports, exports and currency, and the risk of having to submit to the jurisdiction of a foreign court or arbitration panel or having to enforce the judgment of a foreign court or arbitration panel against a sovereign nation within its own territory. In addition, we are subject to the risk of expropriation, and our insurance does not cover losses caused by expropriation.

In February 2006, a group of illegal gold panners engaged in conflict with Indonesian police and PT Freeport Indonesia security personnel when they were requested to leave an area near our milling facilities. Following the incident, the illegal panners blocked the road leading to the Grasberg mine and mill in protest and we temporarily suspended mining and milling operations as a precautionary measure. The panners also vandalized some of our light vehicles and offices near this area, causing approximately \$2 million in damages. Our port facilities continued to operate during the disruption and concentrate shipments were not affected. The panners, mostly Papuans from outside our area of operations, presented a list of aspirations, primarily relating to their desire to share in the benefits of our existing initiatives and programs provided for the Papuans who are the traditional residents of our operations area. Mining and milling operations resumed after an approximate four-day outage. During the incident at our mine and mill, protestors in Jakarta vandalized the entrance floor of the office building housing our Indonesian headquarters and staged a three-day rally outside the building. The Indonesian police handled this matter, which did not disrupt our administrative functions or damage any of our facilities.

We cannot predict if there will be additional incidents similar to the February 2006 protests or other incidents that could disrupt our operations. If there were additional protests at our mine and mill facilities, it could materially and adversely affect our business and profitability in ways that we cannot predict at this time.

**In addition to the usual risks encountered in the mining industry, we face additional risks because our operations are located on difficult terrain in a very remote area.**

Our mining operations are located in steeply mountainous terrain in a very remote area in Indonesia. Because of these conditions, we have had to overcome special engineering difficulties and develop extensive infrastructure facilities. In addition, the area receives considerable rainfall, which has led to periodic floods and mudslides. The mine site is also in an active seismic area and has experienced earth tremors from time to time. In addition to these special risks, we are also subject to the usual risks associated with the mining industry, such as the risk of encountering unexpected geological conditions that may result in cave-ins and flooding of mine areas. Our insurance may not sufficiently cover an unexpected natural or operating disaster.

On October 9, 2003, a slippage of material occurred in a section of the Grasberg open pit, resulting in eight fatalities. On December 12, 2003, a debris flow involving a relatively small amount of loose material occurred in the same section of the open pit resulting in only minor property damage. All material involved in the affected mining areas was removed. The events caused us to alter our short-term mine sequencing plans, which adversely affected our 2003 and 2004 production. While we resumed normal production activities in the second quarter of 2004, no assurance can be given that similar events will not occur in the future.

On March 23, 2006, a mud/topsoil slide involving approximately 75,000 metric tons of material occurred from a mountain ridge above service facilities supporting PT Freeport Indonesia's mining facilities. Regrettably, three contract workers were fatally injured in the event. The material damaged a mess hall and an adjacent area. As a result of investigations by PT Freeport Indonesia and the Indonesian Department of Energy and Mineral Resources, we conducted geotechnical studies to identify any potential hazards to facilities from slides. The existing early warning system for potential slides, based upon rainfall and other factors, has also been expanded. PT Freeport Indonesia recorded a charge of \$1.9 million (\$1.0 million to net income or less than \$0.01 per diluted share) in the first quarter of 2006 for damages related to this event. The event did not directly involve operations within the Grasberg open-pit mine or PT Freeport Indonesia's milling operations.

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**The terrorist attacks in the United States on September 11, 2001, subsequent attacks in Indonesia and the potential for additional future terrorist acts and other recent events have created economic and political uncertainties that could materially and adversely affect our business and the prices of our securities.**

On August 31, 2002, three people were killed and 11 others were wounded in an ambush by a group of assailants. The assailants shot at several vehicles transporting international contract teachers from our school in Tembagapura, their family members, and other contractors to PT Freeport Indonesia on the road near Tembagapura, the mining town where the majority of PT Freeport Indonesia's personnel reside. We, along with the U.S. government, the central Indonesian government, the Papuan provincial and local governments, and leaders of the local people residing in the area of our operations condemned the attack. Indonesian authorities and the U.S. FBI investigated the incident, which resulted in the U.S. indictment of an alleged operational commander of the Free Papua Movement/National Freedom Force. In January 2006, Indonesian Police, accompanied by FBI agents, arrested the alleged operational commander in the Free Papua Movement/National Freedom Force and 11 other Papuans. In November 2006, verdicts and sentencing were announced for seven of the accused in the August 2002 shooting, including a life sentence for the confessed leader of the attack.

On October 12, 2002, a bombing killed 202 people in the Indonesian province of Bali, which is 1,500 miles west of our mining and milling operations. Indonesian authorities arrested 35 people in connection with this bombing and 29 of those arrested have been tried and convicted. On August 5, 2003, 12 people were killed and over 100 others were injured by a car bomb detonated outside of the JW Marriott Hotel in Jakarta, Indonesia. On September 9, 2004, 11 people were killed and over 200 others injured by a car bomb detonated in front of the Australian embassy in Jakarta. On October 1, 2005, three suicide bombers killed 19 people and wounded over 100 others in Bali. The same international terrorist organizations are suspected in each of these incidents. In November 2005, Indonesian Police raided a house in East Java that resulted in the death of other accused terrorists linked to the bombings discussed above. Our mining and milling operations were not interrupted by these incidents but our corporate office in Jakarta had to relocate for several months following the bombing in front of the Australian embassy.

We cannot predict whether there will be additional incidents similar to the recent shooting or bombings. If there were to be additional separatist, terrorist or other violence in Indonesia, it could materially and adversely affect our business and profitability in ways that we cannot predict at this time.

Terrorist attacks and other events have caused uncertainty in the world's financial and insurance markets and may significantly increase global political, economic and social instability, including in Indonesia. In addition to the Bali, JW Marriott Hotel and Australian embassy bombings, there have been anti-American demonstrations in certain sections of Indonesia reportedly led by radical Islamic activists. Radical activists have also threatened to attack foreign interests and have called for the expulsion of U.S. and British citizens and companies from Indonesia.

It is possible that further acts of terrorism may be directed against the U.S. domestically or abroad, and such acts could be directed against properties and personnel of companies such as ours. The attacks and the resulting economic and political uncertainties, including the potential for further terrorist acts, have negatively impacted insurance markets. Moreover, while our property and business interruption insurance covers damages to insured property directly caused by terrorism, this insurance does not cover damages and losses caused by war. Terrorism and war developments may materially and adversely affect our business and profitability and the prices of our securities in ways that we cannot predict at this time.

**Our profitability can vary significantly with fluctuations in the market prices of copper and gold.**

Our revenues are derived primarily from the sale of copper concentrates, which also contain significant quantities of gold and silver, and from the sale of copper cathodes and anodes. Although we sell most of our copper concentrates

under long-term contracts, the selling price is based on world metal prices at or near the time of shipment and delivery.

During 2006, the daily closing prices on the London spot market ranged from \$2.06 to \$3.99 per pound for copper and \$521 to \$726 per ounce for gold. During 2005, the daily closing prices on the London spot market ranged from \$1.39 to \$2.11 per pound for copper and \$411 to \$538 per ounce for gold.

World copper prices have historically fluctuated widely and are affected by numerous factors beyond our control, including:

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- the strength of the U.S. economy and the economies of other industrialized and developing nations, including China, which has become the largest consumer of refined copper in the world;
  - available supplies of copper from mine production and inventories;
    - sales by holders and producers of copper;
    - demand for industrial products containing copper;
  - investment activity, including speculation, in copper as a commodity;
    - the availability and cost of substitute materials; and
- currency exchange fluctuations, including the relative strength of the U.S. dollar.

World gold prices also have historically fluctuated widely and are affected by numerous factors beyond our control, including:

- the strength of the U.S. economy and the economies of other industrialized and developing nations, including China;
  - global or regional political or economic crises;
  - the relative strength of the U.S. dollar and other currencies;
  - expectations with respect to the rate of inflation;
    - interest rates;
  - purchases and sales of gold by central banks and other holders;
    - demand for jewelry containing gold; and
- investment activity, including speculation, in gold as a commodity.

Any material decrease in market prices of copper or gold would materially and adversely affect our results of operations and financial condition. See our 2006 Annual Report incorporated herein by reference for an analysis of the effect on our revenues and net income of changes in copper and gold prices.

**Our Contracts of Work are subject to termination if we do not comply with our contractual obligations, and if a dispute arises, we may have to submit to the jurisdiction of a foreign court or arbitration panel.**

PT Freeport Indonesia's Contracts of Work and other Contracts of Work in which we have an interest were entered into under Indonesia's 1967 Foreign Capital Investment Law, which provides guarantees of remittance rights and protection against nationalization. Our Contracts of Work can be terminated by the Government of Indonesia if we do not satisfy our contractual obligations, which include the payment of royalties and taxes to the government and the satisfaction of certain mining, environmental, safety and health requirements.

At times, certain government officials and others in Indonesia have questioned the validity of contracts entered into by the Government of Indonesia prior to May 1998 (i.e., during the Suharto regime which lasted over 30 years),

including PT Freeport Indonesia's Contract of Work, which was signed in December 1991. We cannot assure you that the validity of, or their compliance with, the Contracts of Work will not be challenged for political or other reasons. PT Freeport Indonesia's Contract of Work and our other Contracts of Work require that disputes with the Indonesian government be submitted to international arbitration. Notwithstanding that provision, if a dispute arises under the Contracts of Work, we face the risk of having to submit to the jurisdiction of a foreign court or arbitration panel, and if we prevail in such a dispute, we will face the additional risk of having to enforce the judgment of a foreign court or arbitration panel against Indonesia within its own territory.

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Indonesian government officials have periodically undertaken reviews regarding our compliance with Indonesian environmental laws and regulations and the terms of the Contracts of Work. In 2006, the Government of Indonesia created a joint team for “Periodic Evaluation on Implementation of the PT-FI Contract of Work (COW)” to conduct a periodic evaluation every five years. The team consists of five working groups, whose members are from relevant ministries or agencies, covering production, state revenues, community development, environmental issues and security issues. We have conducted numerous working meetings with these groups. While we believe that we comply with the Contract of Work in all material respects, we cannot assure you that the report will conclude that we are complying with all of the provisions of PT Freeport Indonesia’s Contract of Work. Separately, the Indonesian House of Representatives created a working committee on PT Freeport Indonesia. Members of this group have also visited our operations and held a number of hearings in Jakarta. We will continue to work with these groups to respond to their questions about our operations and our compliance with PT Freeport Indonesia’s Contract of Work.

**Any suspension of required activities under our Contracts of Work requires the consent of the Indonesian government.**

Our Contracts of Work permit us to suspend certain contractually required activities, including exploration, for a period of one year by making a written request to the Indonesian government. These requests are subject to the approval of the Indonesian government and are renewable annually. If we do not request a suspension or are denied a suspension, then we are required to continue our activities under the Contract of Work or potentially be declared in default. Moreover, if a suspension continues for more than one year for reasons other than force majeure and the Indonesian government has not approved such continuation, then the government would be entitled to declare a default under the Contract of Work.

We suspended our field exploration activities outside of Block A in recent years because of safety and security issues and regulatory uncertainty relating to a possible conflict between our mining and exploration rights in certain forest areas and an Indonesian Forestry law enacted in 1999 prohibiting open-pit mining in forest preservation areas. In 2001, we requested and received from the Government of Indonesia, formal temporary suspensions of our obligations under the Contracts of Work in all areas outside of Block A. Recent Indonesian legislation permits open-pit mining in PT Freeport Indonesia’s Block B area, subject to certain requirements. Following an assessment of these requirements and a review of security issues, we plan to resume exploration activities in certain prospective Contract of Work areas outside of Block A in 2007.

**Our mining operations create difficult and costly environmental challenges, and future changes in environmental laws, or unanticipated environmental impacts from our operations, could require us to incur increased costs.**

Mining operations on the scale of our operations in Papua involve significant environmental risks and challenges. Our primary challenge is to dispose of the large amount of crushed and ground rock material, called tailings, that results from the process by which we physically separate the copper-, gold- and silver-bearing materials from the ore that we mine. Our tailings management plan uses the river system near our mine to transport the tailings to the lowlands where the tailings and natural sediments are deposited in a controlled area contained within a levee system that will be revegetated. We incurred aggregate costs relating to tailings management of \$12.8 million in 2006, \$8.7 million in 2005 and \$11.8 million in 2004.

Another major environmental challenge is managing overburden, which is the rock that must be moved aside in the mining process in order to reach the ore. In the presence of air, water and naturally occurring bacteria, some overburden can cause acid rock drainage, or acidic water containing dissolved metals which, if not properly managed, can have a negative impact on the environment.

Certain Indonesian governmental officials have from time to time raised issues with respect to our tailings and overburden management plans, including a suggestion that we implement a pipeline system rather than our river deposition system for tailings disposal. Because our mining operations are remotely located in steep mountainous terrain and in an active seismic area, a pipeline system would be costly, difficult to construct and maintain, more prone to catastrophic failure and involve significant potentially adverse environmental issues. An external panel of qualified experts, as directed in our 300K ANDAL (the Environmental Impact Assessment document submitted to the Indonesian government and approved in 1997), conducted detailed reviews and analyses of a number of technical studies. They concluded that all significant impacts identified were in line with the 300K ANDAL

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predictions, and that the current system of riverine tailings management was appropriate considering all site-specific factors. For these reasons, we do not believe that a pipeline system is necessary or practical.

In March 2006, the Indonesian Ministry of Environment announced the preliminary results of its PROPER environmental management audit, acknowledging the effectiveness of PT Freeport Indonesia's environmental management practices in some areas while making several suggestions for improvement in others. We are working with the Ministry of Environment to address the issues raised as it completes the audit process.

We anticipate that we will continue to spend significant financial and managerial resources on environmental compliance. In addition, changes in Indonesian environmental laws or unanticipated environmental impacts from our operations could require us to incur significant unanticipated costs.

**The volume and grade of the reserves we recover and our rates of production may be more or less than we anticipate.**

Our reserve amounts are determined in accordance with established mining industry practices and standards, but are estimates of the mineral deposits that can be recovered economically and legally based on currently available data. Our ore bodies may not conform to standard geological expectations, and estimates may change as new data become available. Because ore bodies do not contain uniform grades of minerals, our metal recovery rates will vary from time to time, which will result in variations in the volumes of minerals that we can sell from period to period. Some of our reserves may become unprofitable to develop if there are unfavorable long-term market price fluctuations in copper and gold, or if there are significant increases in our operating or capital costs. In addition, our exploration programs may not result in the discovery of additional mineral deposits that we can mine profitably.

**We do not expect to mine all of our reserves before the initial term of our Contract of Work expires.**

All of our current proven and probable reserves, including the Grasberg deposit, are located in Block A. The initial term of our Contract of Work covering these reserves expires at the end of 2021. We can extend this term for two successive 10-year periods, subject to the approval of the Indonesian government, which under our Contract of Work cannot be withheld or delayed unreasonably. Our reserves reflect estimates of minerals that can be recovered through the end of 2041 (*i.e.*, through the expiration of the two 10-year extensions) and our current mine plan has been developed, and our operations are based on the assumption that we will receive the two 10-year extensions. As a result, we will not mine all of our reserves during the current term of our Contract of Work, and there can be no assurance that the Indonesian government will approve the extensions. Prior to the end of 2021, we expect to mine approximately 39 percent of aggregate proven and probable recoverable ore at December 31, 2006, representing approximately 45 percent of PT Freeport Indonesia's share of recoverable copper reserves and approximately 59 percent of its share of recoverable gold reserves.

**Increased energy and other production costs could reduce our profitability and cash flow.**

We have experienced significant increases in our production costs in recent years primarily as a result of higher energy costs and costs of other consumables, higher mining costs and milling rates and higher labor costs. Aggregate energy costs, which approximated 22 percent of our 2006 production costs, primarily include purchases of diesel fuel and coal. Diesel prices have nearly tripled since 2002 and our coal costs are approximately 40 percent higher. The costs of other consumables, including steel and reagents, also have increased. Continued increases in the cost of diesel, coal and other commodities that we consume or use in our operations could adversely affect our profits and cash flow.

**Our business is subject to operational risks.**

Mines by their nature are subject to many operational risks and factors that are generally outside of our control and could impact its business, operating results and cash flows. These operational risks and factors include, but are not limited to:

- unanticipated ground and water conditions and adverse claims to water rights;
- geological problems, including earthquakes and other natural disasters;

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- metallurgical and other processing problems;
- the occurrence of unusual weather or operating conditions and other force majeure events;
  - lower than expected ore grades or recovery rates;
    - accidents;
  - delays in the receipt of or failure to receive necessary government permits;
- the results of litigation, including appeals of agency decisions;
  - uncertainty of exploration and development;
    - delays in transportation;
      - labor disputes;
  - inability to obtain satisfactory insurance coverage;
  - unavailability of materials and equipment; and
- the failure of equipment or processes to operate in accordance with specifications or expectations.

**Movements in foreign currency exchange rates or interest rates could negatively affect our operating results.**

All of our revenues and a significant portion of our costs are denominated in U.S. dollars; however, some costs, and certain asset and liability accounts are denominated in Indonesian rupiah, Australian dollars or euros. As a result, we are generally less profitable when the U.S. dollar weakens in relation to these foreign currencies.

The rupiah/U.S. dollar daily closing exchange rate ranged from 8,613 to 9,881 rupiah per U.S. dollar during 2006, and on December 29, 2006, the closing exchange rate was 8,989 rupiah per U.S. dollar compared with 9,825 rupiah per U.S. dollar on December 30, 2005. During 2006, the Australian dollar/U.S. dollar daily closing exchange rate ranged from \$0.70 to \$0.79 per Australian dollar and the euro/U.S. dollar daily closing exchange rate ranged from \$1.18 to \$1.34 per euro. On December 29, 2006, the closing exchange rates were \$0.79 per Australian dollar and \$1.32 per euro, compared with the December 30, 2005 closing exchange rates of \$0.73 per Australian dollar and \$1.18 per euro.

From time to time, we have in the past and may in the future implement currency hedges intended to reduce our exposure to changes in foreign currency exchange rates. However, our hedging strategies may not be successful, and any of our unhedged foreign exchange payment requirements will continue to be subject to market fluctuations. In addition, our bank credit facilities are based on fluctuating interest rates. Accordingly, an increase in interest rates could adversely affect our results of operations and financial condition.

**Because we are a holding company, our ability to pay our debts depends upon the ability of our subsidiaries to pay us dividends and to advance us funds. In addition, our ability to participate in any distribution of our subsidiaries' assets is generally subject to the prior claims of the subsidiaries' creditors.**

Because we conduct business primarily through PT Freeport Indonesia, our major subsidiary, and other subsidiaries, our ability to pay our debts depends upon the earnings and cash flow of PT Freeport Indonesia and our other

subsidiaries and their ability to pay us dividends and to advance us funds. Contractual and legal restrictions applicable to our subsidiaries could also limit our ability to obtain cash from them. Our rights to participate in any distribution of our subsidiaries' assets upon their liquidation, reorganization or insolvency would generally be subject to the prior claims of the subsidiaries' creditors, including any trade creditors and preferred shareholders.



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**Risk Factors Associated with the Proposed Acquisition of Phelps Dodge.**

**Shareholders cannot be sure of the market value of our shares that will be issued in the transaction.**

Upon the completion of the transaction, each Phelps Dodge common share outstanding immediately prior to the transaction will be converted into the right to receive a combination of 0.67 of a share of our common stock and \$88.00 in cash, without interest. Because the exchange ratio for the stock consideration is fixed in the merger agreement, the market value of our common stock issued in the transaction will depend upon the market price of a share of our common stock upon the completion of the transaction. This market value will fluctuate prior to the completion of the transaction and therefore may be different at the time the transaction is completed from what it was at the time the merger agreement was signed, the date of this document or at the time of the shareholder meetings. Accordingly, shareholders cannot be sure of the market value of our common stock that will be issued in the transaction or the market value of our common stock at any time after the transaction.

**We may not be able to obtain the financing needed for the transaction on favorable terms.**

We have received commitments from certain lenders to provide financing of up to \$17.5 billion in the aggregate for the transaction. However, if the proceeds of this financing are unavailable for any reason, we will be forced to obtain an alternate source of financing, which may be more expensive for us, may have an adverse impact on the combined company's capital structure or may be unavailable.

**The combined company will be highly leveraged, and its high level of debt may limit its financial and operating flexibility.**

We will be incurring significant debt to consummate the transaction and to refinance existing debt. It is expected that we will utilize much of the financing to be made available pursuant to the financing commitments discussed above to fund a portion of the cash consideration payable to the Phelps Dodge shareholders in the transaction. The combined company, on a pro forma basis, will have approximately \$10.0 billion of debt under its new senior secured term credit facilities, and either \$6.0 billion in aggregate principal amount of new unsecured senior notes or a \$6.0 billion bridge loan (or some combination of the two). In addition, approximately \$1.6 billion of existing debt of the combined companies will remain outstanding following the transaction. The combined company is also expected to have a new \$1.5 billion senior secured revolving credit facility with at least \$1.0 billion of availability.

This debt could limit the combined company's financial and operating flexibility, including by requiring the combined company to dedicate a substantial portion of its cash flows from operations and the proceeds of equity issuances to the repayment of its debt and making the combined company more vulnerable to economic downturns. Additionally, the combined company's ability to satisfy financial tests or utilize third-party guarantees for financial assurance with respect to reclamation obligations may be adversely impacted as a result of the increase in debt.

Upon consummation of the transaction, we and all of our restricted subsidiaries must comply with various covenants contained in our credit agreement. These covenants will, among other things, limit the ability of the respective restricted entities to:

- incur additional debt or liens or enter into sale/leaseback transactions;
- make payments in respect of, or redeem or acquire, debt or equity issued by us, including the payment of dividends on common stock;
- sell assets or enter into mergers or acquisitions;

- make loans or investments; or
- enter into certain hedging transactions.

In addition, the combined company will be subject to financial covenants.

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**Declines in the market prices of copper, gold and molybdenum could adversely affect the combined company's earnings and cash flows, and therefore its ability to repay its debt.**

The earnings and cash flows of the combined company will be affected significantly by the market prices of copper and, to a lesser extent, gold and molybdenum. The world market prices of these commodities have fluctuated historically and will be affected by numerous factors beyond the control of the combined company. Many financial analysts who follow the metals markets are predicting that copper prices will decline significantly from their current, historically high, levels over the next few years. A decline in the world market price of one or more of these commodities could adversely affect the combined company's earnings and cash flows and therefore could adversely affect its ability to repay its debt and depress its stock price.

**The combined company will operate on a broader geographical scope than either we or Phelps Dodge has operated individually, and will be exposed to a broader range of political, social and geographic risks than either company has been exposed to on an individual basis.**

Phelps Dodge conducts mining operations in the United States, Chile and Peru and has a significant development project in the Democratic Republic of the Congo (which is expected to begin production by 2009). Accordingly, the business of the combined company may be adversely affected by political, economic and social uncertainties in these countries, in addition to the usual risks associated with conducting business in a foreign country. Because we have no significant operations in any of these countries, these risks are different from and in addition to those to which our business has historically been exposed.

In addition, all of the combined company's revenues and a significant portion of its costs will be denominated in U.S. dollars; however, some of its costs, and certain of its asset and liability accounts, will be denominated in Indonesian rupiah, Chilean pesos, Peruvian nuevos soles and other foreign currencies. As a result, the combined company will be generally less profitable when the U.S. dollar weakens in relation to these foreign currencies. From time to time, the combined company may implement currency hedges intended to reduce its exposure to changes in foreign currency exchange rates. However, its hedging strategies may not be successful, and any of its unhedged foreign exchange payments will continue to be subject to market fluctuations.

**The impact of purchase accounting could adversely affect the combined company's earnings.**

Purchase accounting will require the combined company to allocate the price being paid in the transaction to Phelps Dodge's assets on the basis of their fair values at the time of the closing of the transaction. Those adjustments are expected to result in significant increases in the carrying values of certain acquired assets, including, based on preliminary estimates, increases of \$4.0 billion in metal inventories and stockpiles and \$11.9 billion in property, plant, equipment and development costs, as reflected in the unaudited pro forma condensed combined balance sheet contained in Amendment No. 2 to our Form S-4 filed with the Securities and Exchange Commission on February 12, 2007. The increased value of property, plant, equipment and development costs will increase the combined company's depreciation expense, which will reduce reported earnings but have no effect on cash flows.

A decline in the market price of commodities produced by the combined company could result in a write down of metal inventories and stockpiles to recoverable values and the recognition of impairment charges to property, plant, equipment and development costs. In addition, the increased value of metal inventories and stockpiles would cause the combined company's cost of goods sold to increase in the year the metal in those inventories and stockpiles are recognized as sold. If the combined company changes the historical method of accounting for Phelps Dodge's metal inventories and stockpiles from the current method of last-in, first-out, this increase in the combined company's cost of goods would occur in the near term. These factors would have the effect of reducing reported earnings, although they would have no effect on cash flows.

In addition, the preliminary estimate of goodwill associated with the transaction is approximately \$8.5 billion, as reflected in the unaudited pro forma condensed combined balance sheet contained in Amendment No. 2 to our Form S-4 filed with the Securities and Exchange Commission on February 12, 2007. The combined company will annually assess this amount for impairment. If the combined company concludes that the goodwill associated with the transaction is impaired, the amount of the impairment would reduce the combined company's reported earnings but would have no effect on cash flows.

We may experience difficulties in integrating our business with Phelps Dodge's business, which could cause the combined company to fail to realize many of the anticipated potential benefits of the transaction.

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We have entered into the merger agreement because we believe that the transaction will be beneficial to our company, Phelps Dodge and our respective shareholders. Achieving the anticipated benefits of the transaction will depend in part upon whether our two companies integrate our businesses in an efficient and effective manner. We may not be able to accomplish this integration process smoothly or successfully. The difficulties of combining the two companies' businesses potentially will include, among other things:

- the necessity of coordinating geographically separated organizations and addressing possible differences in corporate cultures and management philosophies, and the integration of certain operations following the transaction will require the dedication of significant management resources, which may temporarily distract management's attention from the day-to-day business of the combined company;
- any inability of our management to integrate successfully the operations of our two companies or to adapt to the addition of lines of business in which we have not historically engaged; and
- any inability of our management to cause best practices to be applied to the combined company's businesses.

An inability to realize the full extent of the anticipated benefits of the transaction, as well as any delays encountered in the transition process, could have an adverse effect upon the revenues, level of expenses and operating results of the combined company, which may affect the value of our common stock after the closing of the transaction.

**The combined company will depend on its senior management team and other key employees, and the loss of any of these employees could adversely affect the combined company's business.**

The success of the combined company after the transaction will depend in part upon our ability to retain senior management and other key employees of both companies. Competition for qualified personnel can be very intense. In addition, senior management and key employees may depart because of issues relating to the uncertainty or difficulty associated with the integration of the companies or a desire not to remain with the combined company. Accordingly, no assurance can be given that we will be able to retain senior management and key employees to the same extent that they have been able to do so in the past.

**Resales of shares of our common stock following the transaction and future issuances of equity or equity-linked securities by us may cause the market price of shares of our common stock to fall.**

As of February 12, 2007, we had approximately 197 million shares of common stock outstanding, approximately 23 million shares authorized for issuance upon conversion of preferred stock and convertible notes, and approximately six million shares authorized for issuance upon the exercise of outstanding options or the vesting of restricted stock units. We expect to issue approximately 137 million shares of our common stock in connection with the transaction. The issuance of these new shares and the sale of additional shares that may become eligible for sale in the public market from time to time upon the exercise of options (including options that will replace existing Phelps Dodge options) could have the effect of depressing the market price for shares of our common stock. Also, because many Phelps Dodge shareholders are also our shareholders, some may decide to sell rather than hold the additional shares of our common stock they will receive in the transaction. The sale of those shares could also have the effect of depressing the market price for shares of our common stock.

Subject to market conditions, we intend to consider opportunities to reduce debt of the combined company shortly following the closing of the transaction through issuances of equity and equity-linked securities. The issuance of those securities could also have the effect of depressing the market price for the shares of our common stock.

**The trading price of shares of our common stock following the transaction may be affected by factors different from those affecting the trading price of Phelps Dodge common shares and shares of our common stock prior to the transaction.**

Following completion of the transaction, the results of operations of the combined company, as well as the trading price of our common stock, may be affected by factors different from those currently affecting Phelps Dodge's results of operations and the trading price of Phelps Dodge common shares.

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In addition, the trading price of shares of our common stock following the transaction may be affected by factors different from those affecting the trading price of shares of our common stock prior to the transaction. Following the transaction, we will have significantly greater indebtedness and will derive a significantly smaller proportion of our revenues from gold. Current shareholders may decide to sell their shares as a result of those changes, which could have the effect of depressing the market price of shares of our common stock.

**Item 1B. Unresolved Staff Comments.**

Not applicable.

**Item 3. Legal Proceedings.**

We are involved from time to time in various legal proceedings of a character normally incident to the ordinary course of our business. We believe that potential liability in such proceedings would not have a material adverse effect on our financial condition or results of operations. We maintain liability insurance to cover some, but not all, potential liabilities normally incident to the ordinary course of our business as well as other insurance coverage customary in our business, with coverage limits that we deem prudent.

As reported in January 2006, we are responding to requests from governmental authorities in the United States and Indonesia for information about PT Freeport Indonesia, primarily relating to PT Freeport Indonesia's support of Indonesian security institutions. As described elsewhere in this Form 10-K under the heading "Security Matters," we provide support to assist security institutions deployed and directed by the Government of Indonesia with infrastructure, logistics and the hardship elements of posting in Papua and our practices adhere to the joint U.S. State Department-British Foreign Office Voluntary Principles on Security and Human Rights. We are cooperating with these requests.

The company has been named as a defendant in one of three actions brought on behalf of a purported class of all of the shareholders of Phelps Dodge Corporation. We have been named as a defendant in *Knisley v. Phelps Dodge Corp. et al.*, (No. CV2006-053422) filed in the Superior Court of the state of Arizona, county of Maricopa. In all three class actions, the plaintiffs allege breaches of fiduciary duties by the Phelps Dodge board of directors in connection with the merger transaction. The complaints allege, among other things, that the named defendants engaged in self-dealing, obtained personal benefits for themselves not shared equally by Phelps Dodge shareholders and failed to disclose all material information concerning the transaction to Phelps Dodge shareholders. In *Knisley*, the plaintiffs also allege that we aided and abetted such alleged violations of fiduciary duties. The plaintiffs seek, among other things, injunctive relief barring consummation of the transaction and directing that the defendants obtain a transaction which is in the best interests of Phelps Dodge shareholders. We, as well as Phelps Dodge and the other named defendants, believe the allegations are without merit and intend to vigorously defend the actions.

**Item 4. Submission of Matters to a Vote of Security Holders.**

Not applicable.

**Executive Officers of the Registrant.**

Certain information as of February 12, 2007, about our executive officers, including their position or office with FCX, PT Freeport Indonesia and Atlantic Copper, is set forth in the following table and accompanying text:

| Name | Age | Position or Office |
|------|-----|--------------------|
|------|-----|--------------------|

|                     |    |                                                                                                                                                                                               |
|---------------------|----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| James R. Moffett    | 68 | Chairman of the Board of FCX. President<br>Commissioner of<br>PT Freeport Indonesia.                                                                                                          |
| Richard C. Adkerson | 60 | Director, President and Chief Executive Officer of<br>FCX.<br>Director and Executive Vice President of PT<br>Freeport<br>Indonesia. Chairman of the Board of Directors of<br>Atlantic Copper. |



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| Name              | Age | Position or Office                                                                                                                          |
|-------------------|-----|---------------------------------------------------------------------------------------------------------------------------------------------|
| Michael J. Arnold | 54  | Chief Administrative Officer of FCX. Director, Executive Vice President and Chief Financial Officer of PT Freeport Indonesia.               |
| Mark J. Johnson   | 47  | Senior Vice President and Chief Operating Officer of FCX.                                                                                   |
| Armando Mahler    | 51  | President Director and General Manager of PT Freeport Indonesia.                                                                            |
| Kathleen L. Quirk | 43  | Senior Vice President, Chief Financial Officer and Treasurer of FCX. Commissioner of PT Freeport Indonesia.<br>Director of Atlantic Copper. |

*James R. Moffett* has served as Chairman of the Board of FCX since 1992. Mr. Moffett previously served as the Chief Executive Officer of FCX from July 1995 until December 2003. He is also President Commissioner of PT Freeport Indonesia and Co-Chairman of the Board of McMoRan Exploration Co. (McMoRan).

*Richard C. Adkerson* has served as FCX's President since April 1997, Chief Executive Officer since December 2003, and a director since October 2006. Mr. Adkerson previously served as FCX's Chief Financial Officer from October 2000 to December 2003. Mr. Adkerson is also a director and Executive Vice President of PT Freeport Indonesia, Chairman of the Board of Directors of Atlantic Copper, and Co-Chairman of the Board of McMoRan. From November 1998 to February 2004, he also served as President and Chief Executive Officer of McMoRan.

*Michael J. Arnold* has served as the Chief Administrative Officer of FCX since December 2003. He also served as a director and Executive Vice President of PT Freeport Indonesia since May 1998.

*Mark J. Johnson* has served as the Senior Vice President and Chief Operating Officer of FCX since December 2003 and as Vice President of PT Freeport Indonesia since February 2002. He previously served as Vice President of FCX from July 2001 to December 2003.

*Armando Mahler* has served as President Director and General Manager of PT Freeport Indonesia since June 2006. He previously served as Executive Vice President of PT Freeport Indonesia from September 2004 to June 2006 and as Vice President of PT Freeport Indonesia from February 2002 to September 2004.

*Kathleen L. Quirk* has served as FCX's Senior Vice President, Chief Financial Officer and Treasurer since December 2003. She previously served as the Vice President and Treasurer of FCX from February 2000 to December 2003, and as Vice President from February 1999 to February 2000. Ms. Quirk has also served as a Commissioner of PT Freeport Indonesia since April 2000, as the Senior Vice President and Treasurer of McMoRan since April 2002 and as Vice President and Treasurer of McMoRan from January 2000 to April 2002.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

**Unregistered Sales of Equity Securities**

None.

**Class B Common Shares**

Our Class B common shares trade on the New York Stock Exchange (NYSE) under the symbol "FCX." The FCX share price is reported daily in the financial press under "FMCG" in most listings of NYSE securities. At year-end 2006, the number of holders of record of our Class B common shares was 8,105. NYSE composite tape Class B common share price ranges during 2006 and 2005 follow:

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|                | 2006     |          | 2005     |          |
|----------------|----------|----------|----------|----------|
|                | High     | Low      | High     | Low      |
| First Quarter  | \$ 65.00 | \$ 47.11 | \$ 43.90 | \$ 35.12 |
| Second Quarter | 72.20    | 43.10    | 40.31    | 31.52    |
| Third Quarter  | 62.29    | 47.58    | 49.48    | 37.12    |
| Fourth Quarter | 63.70    | 47.60    | 56.35    | 43.41    |

As of February 12, 2007, there were approximately 8,065 holders of record of our Class B common stock.

**Common Share Dividends**

In February 2003, the Board of Directors initiated a cash dividend for FCX's common stock of \$0.09 per share quarterly beginning May 1, 2003. In October 2003, the Board authorized an increase in the cash dividend to an annual rate of \$0.80 per share and increased the dividend again in October 2004 to an annual rate of \$1.00 per share. In December 2004, the Board authorized a supplemental common stock dividend of \$0.25 per share, and during 2005, the Board authorized three supplemental dividends of \$0.50 per share. In November 2005, the Board authorized an increase in our annual common stock dividend to \$1.25 per share (from \$1.00 per share) payable quarterly (\$0.3125 per share). In 2006, the Board authorized four supplemental dividends totaling \$3.50 per share.

Below is a summary of the common stock cash dividends declared and paid during 2006 and 2005:

|                       | 2006             |                |                | 2005             |                |                |
|-----------------------|------------------|----------------|----------------|------------------|----------------|----------------|
|                       | Amount Per Share | Record Date    | Payment Date   | Amount Per Share | Record Date    | Payment Date   |
| First Quarter         | \$0.3125         | Jan. 17, 2006  | Feb. 1, 2006   | \$0.25           | Jan. 14, 2005  | Feb. 1, 2005   |
| Supplemental dividend | 0.50             | Mar. 15, 2006  | Mar. 31, 2006  | 0.50             | Mar. 15, 2005  | Mar. 31, 2005  |
| Second Quarter        | 0.3125           | Apr. 17, 2006  | May 1, 2006    | 0.25             | Apr. 15, 2005  | May 1, 2005    |
| Supplemental dividend | 0.75             | June 15, 2006  | June 30, 2006  | N/A              | N/A            | N/A            |
| Third Quarter         | 0.3125           | July 17, 2006  | Aug. 1, 2006   | 0.25             | July 15, 2005  | Aug. 1, 2005   |
| Supplemental dividend | 0.75             | Sept. 14, 2006 | Sept. 29, 2006 | 0.50             | Sept. 15, 2005 | Sept. 30, 2005 |
| Fourth Quarter        | 0.3125           | Oct. 16, 2006  | Nov. 1, 2006   | 0.25             | Oct. 14, 2005  | Nov. 1, 2005   |
| Supplemental dividend | 1.50             | Dec. 14, 2006  | Dec. 29, 2006  | 0.50             | Dec. 15, 2005  | Dec. 30, 2005  |

The declaration and payment of dividends is at the discretion of our Board and will depend on our financial results, cash requirements, future prospects, the outcome of our proposed acquisition of Phelps Dodge and other factors deemed relevant by the Board. In addition, payment of dividends on our common stock and purchases of common stock are subject to limitations under our 10 % Senior Notes and 6 % Senior Notes and, in certain circumstances, our credit facility.

**Issuer Purchases of Equity Securities**

In October 2003, our Board of Directors approved a new open market share purchase program for up to 20 million shares, which replaced our previous program. The program does not have an expiration date. No shares were purchased during the three-month period ended December 31, 2006, and 12.2 million shares remain available for purchase.

**Item 6. Selected Financial Data.**

The information set forth under the caption “Selected Financial and Operating Data” of our 2006 Annual Report is incorporated herein by reference.

Our ratio of earnings to fixed charges was as follows for the years presented.

|                                                                  | Years Ended December 31, |       |      |      |      |
|------------------------------------------------------------------|--------------------------|-------|------|------|------|
|                                                                  | 2006                     | 2005  | 2004 | 2003 | 2002 |
| Ratio of earnings to fixed charges                               | 32.8x                    | 15.7x | 4.7x | 3.9x | 3.4x |
| Ratio of earnings to fixed charges and preferred stock dividends | 14.2x                    | 8.1x  | 2.8x | 3.0x | 2.5x |

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For the ratio of earnings to fixed charges calculation, earnings consist of pre-tax income from continuing operations before minority interests in consolidated subsidiaries, income or loss from equity investees and fixed charges. Fixed charges include interest and that portion of rent deemed representative of interest. For the ratio of earnings to fixed charges and preferred stock dividends calculation, we assumed that our preferred stock dividend requirements were equal to the pre-tax earnings that would be required to cover those dividend requirements. We computed those pre-tax earnings using actual tax rates for each year.

**Items 7. and 7A. Management’s Discussion and Analysis of Financial Condition and Results of Operation and Quantitative and Qualitative Disclosures About Market Risk.**

The information set fourth under the caption “Management’s Discussion and Analysis” of our 2006 Annual Report is incorporated herein by reference.

**Item 8. Financial Statements and Supplementary Data.**

Our financial statements and the notes thereto, the report thereon of Ernst & Young LLP, each as set forth in our 2006 Annual Report, are incorporated herein by reference.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

Not applicable.

**Item 9A. Controls and Procedures.**

(a) Evaluation of disclosure controls and procedures. Our chief executive officer and chief financial officer, with the participation of management, have evaluated the effectiveness of our “disclosure controls and procedures” (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934) as of the end of the period covered by this annual report on Form 10-K. Based on their evaluation, they have concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to FCX (including our consolidated subsidiaries) required to be disclosed in our periodic SEC filings.

(b) Changes in internal controls. There has been no change in our internal control over financial reporting that occurred during the fourth quarter that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

(c) Management’s annual report on internal control over financial reporting and the report thereon of Ernst & Young LLP are incorporated herein by reference to our 2006 Annual Report.

**Item 9B. Other Information.**

Not applicable.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance of the Registrant.**

The information set forth under the captions “Information About Director Nominees” and “Section 16(a) Beneficial Ownership Reporting Compliance” of our definitive Proxy Statement to be filed with the SEC, relating to our 2007 Annual Meeting, is incorporated herein by reference. The information required by Item 10 regarding our executive

officers appears in a separately captioned heading after Item 4 in Part I of this report.

**Item 11. Executive Compensation.**

The information set forth under the captions “Director Compensation” and “Executive Officer Compensation” of our definitive Proxy Statement to be filed with the SEC, relating to our 2007 Annual Meeting, is incorporated herein by reference.

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**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information set forth under the captions “Stock Ownership of Directors and Executive Officers” and “Stock Ownership of Certain Beneficial Owners” of our definitive Proxy Statement to be filed with the SEC, relating to our 2007 Annual Meeting, is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The information set forth under the caption “Certain Transactions” of our definitive Proxy Statement to be filed with the SEC, relating to our 2007 Annual Meeting, is incorporated herein by reference.

**Item 14. Principal Accounting Fees and Services.**

The information set forth under the caption “Independent Auditors” of our definitive Proxy Statement to be filed with the SEC, relating to our 2007 Annual Meeting, is incorporated herein by reference.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules.**

(a)(1). Financial Statements.

Reference is made to Item 8 and the Index to Financial Statements appearing on page F-1 hereof.

(a)(2). Financial Statement Schedules.

Reference is made to the Index to Financial Statements appearing on page F-1 hereof.

(a)(3). Exhibits.

Reference is made to the Exhibit Index beginning on page E-1 hereof.

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**SIGNATURES**

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 28, 2007.

**Freeport-McMoRan Copper & Gold Inc.**

By: /s/ Richard C. Adkerson

Richard C. Adkerson  
President, Chief Executive Officer  
and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities indicated on February 28, 2007.

|                                                |                                                                                                     |
|------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| *<br>James R. Moffett                          | Chairman of the Board                                                                               |
| *<br>B. M. Rankin, Jr.                         | Vice Chairman of the Board                                                                          |
| /s/ Richard C. Adkerson<br>Richard C. Adkerson | President, Chief Executive Officer and<br>Director<br>(Principal Executive Officer)                 |
| /s/ Kathleen L. Quirk<br>Kathleen L. Quirk     | Senior Vice President, Chief Financial Officer<br>and<br>Treasurer<br>(Principal Financial Officer) |
| *<br>C. Donald Whitmire, Jr.                   | Vice President and Controller - Financial<br>Reporting<br>(Principal Accounting Officer)            |
| *<br>Robert J. Allison, Jr.                    | Director                                                                                            |
| *<br>Robert A. Day                             | Director                                                                                            |
| *<br>Gerald J. Ford                            | Director                                                                                            |
| *<br>H. Devon Graham, Jr.                      | Director                                                                                            |
| *<br>                                          | Director                                                                                            |



J. Bennett Johnston

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|                            |          |
|----------------------------|----------|
| *<br>Bobby Lee Lackey      | Director |
| *<br>Gabrielle K. McDonald | Director |
| *<br>J. Stapleton Roy      | Director |
| *<br>Stephen H. Siegele    | Director |
| *<br>J. Taylor Wharton     | Director |

By: /s/ Richard C. Adkerson  
Richard C. Adkerson  
Attorney-in-Fact

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FREEPORT-McMoRan COPPER & GOLD INC.  
INDEX TO FINANCIAL STATEMENTS

Our financial statements and the notes thereto, and the report of Ernst & Young LLP included in our 2006 Annual Report are incorporated herein by reference. The financial statements in schedule I listed below should be read in conjunction with our financial statements included in our 2006 Annual Report incorporated herein by reference.

|                                                          | Page |
|----------------------------------------------------------|------|
| Report of Independent Registered Public Accounting Firm  | F-1  |
| Schedule I-Condensed Financial Information of Registrant | F-2  |
| Schedule II-Valuation and Qualifying Accounts            | F-5  |

Schedules other than the ones listed above have been omitted since they are either not required, not applicable or the required information is included in the financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF  
FREEPORT-McMoRan COPPER & GOLD INC.

We have audited the consolidated financial statements of Freeport-McMoRan Copper & Gold Inc. (the Company) as of December 31, 2006 and 2005 and for each of the three years in the period ended December 31, 2006, and have issued our report thereon dated February 26, 2007. Our audits also included the schedules listed in the index above for this Form 10-K. The schedules listed in the index above are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the schedules referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

Ernst & Young LLP

New Orleans, Louisiana  
February 26, 2007

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FREEPORT-McMoRan COPPER & GOLD INC.  
 SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
 BALANCE SHEETS

|                                                        | December 31,        |                     |
|--------------------------------------------------------|---------------------|---------------------|
|                                                        | 2006                | 2005                |
|                                                        | (In Thousands)      |                     |
| <b>Assets:</b>                                         |                     |                     |
| Cash                                                   | \$ 390,271          | \$ 145,215          |
| Interest receivable                                    | 39                  | 1,344               |
| Due from affiliates                                    | 76,861              | 37,099              |
| Notes receivable from PT Freeport Indonesia            | -                   | 179,880             |
| Note receivable from Atlantic Copper                   | 189,500             | 189,500             |
| Note receivable from PT Puncakjaya Power               | 105,242             | 135,426             |
| Investments in PT Freeport Indonesia and PT Indocopper |                     |                     |
| Investama                                              | 2,219,084           | 2,355,273           |
| Investment in Atlantic Copper                          | 185,538             | 122,908             |
| Investment in PT Puncakjaya Power                      | 85,725              | 82,537              |
| Other assets                                           | 119,141             | 94,622              |
| <b>Total assets</b>                                    | <b>\$ 3,371,401</b> | <b>\$ 3,343,804</b> |
| <b>Liabilities and Stockholders' Equity:</b>           |                     |                     |
| Accounts payable and accrued liabilities               | \$ 40,954           | \$ 40,693           |
| Accrued interest payable                               | 21,239              | 31,112              |
| Long-term debt, including current portion              | 625,156             | 1,188,391           |
| Other long-term liabilities                            | 56,629              | 51,595              |
| Deferred income taxes                                  | 182,322             | 189,019             |
| Stockholders' equity                                   | 2,445,101           | 1,842,994           |
| <b>Total liabilities and stockholders' equity</b>      | <b>\$ 3,371,401</b> | <b>\$ 3,343,804</b> |

The footnotes to the consolidated financial statements of FCX contained in FCX's 2006 Annual Report to stockholders incorporated by reference are an integral part of these statements.

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FREEPORT-McMoRan COPPER & GOLD INC.  
 SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
 STATEMENTS OF INCOME

|                                                       | Years Ended December 31, |              |            |
|-------------------------------------------------------|--------------------------|--------------|------------|
|                                                       | 2006                     | 2005         | 2004       |
| (In Thousands)                                        |                          |              |            |
| Income from investments in PT Freeport Indonesia and  |                          |              |            |
| PT Indocopper Investama, net of tax provisions        | \$ 1,560,760             | \$ 1,270,269 | \$ 380,418 |
| Net income (loss) from investment in Atlantic Copper  | 71,899                   | 17,842       | (103,388)  |
| Income from investment in PT Puncakjaya Power         | 14,092                   | 15,642       | 15,712     |
| Intercompany charges and eliminations <sup>a</sup>    | 113,521                  | 8,368        | 88,678     |
| General and administrative expenses                   | (25,908)                 | (19,431)     | (18,059)   |
| Depreciation and amortization                         | (12,706)                 | (14,693)     | (11,324)   |
| Interest expense, net                                 | (52,086)                 | (115,641)    | (125,674)  |
| Interest income on notes receivable:                  |                          |              |            |
| Promissory notes                                      | 23,180                   | 17,570       | 5,246      |
| Gold and silver production payment loans              | 1,316 <sup>b</sup>       | 9,054        | 9,037      |
| Other income, net                                     | 9,285                    | 5,392        | 2,897      |
| Gains on sales of assets                              | 945                      | 6,631        | 21,281     |
| Losses on early extinguishment and conversion of debt | (31,138)                 | (30,778)     | (10,176)   |
| Provision for income taxes                            | (216,651)                | (175,098)    | (52,381)   |
| Net income                                            | 1,456,509                | 995,127      | 202,267    |
| Preferred dividends                                   | (60,500)                 | (60,500)     | (45,491)   |
| Net income applicable to common stock                 | \$ 1,396,009             | \$ 934,627   | \$ 156,776 |

a. Includes reimbursements from PT Freeport Indonesia and Rio Tinto, FCX's joint venture partner, totaling \$94.8 million in 2006, \$73.7 million in 2005 and \$94.3 million in 2004 for certain FCX stock option exercises.

b. Amount reflects the repayment of the gold production payment loan on February 1, 2006, and the final repayment on the silver production payment loan on August 1, 2006.

The footnotes to the consolidated financial statements of FCX contained in FCX's 2006 Annual Report to stockholders incorporated by reference are an integral part of these statements.

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FREEPORT-McMoRan COPPER & GOLD INC.  
 SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
 STATEMENTS OF CASH FLOWS

|                                                                                   | Years Ended December 31, |             |            |
|-----------------------------------------------------------------------------------|--------------------------|-------------|------------|
|                                                                                   | 2006                     | 2005        | 2004       |
|                                                                                   | (In Thousands)           |             |            |
| Cash flow from operating activities:                                              |                          |             |            |
| Net income                                                                        | \$ 1,456,509             | \$ 995,127  | \$ 202,267 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |             |            |
| Income from investments in PT Freeport Indonesia and PT Indocopper Investama      | (1,560,760)              | (1,270,269) | (380,418)  |
| Deferred income taxes                                                             | 17,448                   | 20,852      | 37,277     |
| Net (income) loss from investment in Atlantic Copper                              | (71,899)                 | (17,842)    | 103,388    |
| Income from investment in PT Puncakjaya Power                                     | (14,092)                 | (15,642)    | (15,712)   |
| (Recognition) elimination of intercompany profit                                  | (18,709)                 | 65,335      | 5,594      |
| Dividends received from PT Freeport Indonesia and PT Indocopper Investama         | 1,542,301                | 1,179,201   | 96,981     |
| Dividends received from PT Puncakjaya Power                                       | 10,971                   | 16,928      | 8,571      |
| Depreciation and amortization                                                     | 12,706                   | 14,693      | 11,324     |
| Noncash stock-based compensation                                                  | 4,780                    | 5,364       | 4,156      |
| Amortization of deferred financing costs                                          | 2,624                    | 4,528       | 4,818      |
| Gains on sales of assets                                                          | (945)                    | (6,631)     | (21,281)   |
| Losses on early extinguishment and conversion of debt                             | 31,138                   | 30,778      | 10,176     |
| (Increase) decrease in interest receivable and due from affiliates                | (4,158)                  | (1,374)     | 9,435      |
| Decrease in accounts payable and accrued liabilities                              | (6,822)                  | (10,109)    | (1,571)    |
| (Decrease) increase in accrued income taxes                                       | (10,854)                 | 16,973      | 2,467      |
| Increase in long-term compensation benefits                                       | 10,336                   | 9,212       | 9,015      |
| Other                                                                             | (555)                    | (2,263)     | 2,007      |
| Net cash provided by operating activities                                         | 1,400,019                | 1,034,861   | 88,494     |
| Cash flow from investing activities:                                              |                          |             |            |
| Sale of assets                                                                    | 3,035                    | 6,631       | 21,634     |
| Capital expenditures and other                                                    | (21,582)                 | (9,090)     | (3,446)    |
| Collections on notes receivable                                                   | 210,064                  | 12,501      | 42,501     |
| Phelps Dodge acquisition costs                                                    | (4,576)                  | -           | -          |
| Sale of restricted investments                                                    | -                        | -           | 21,804     |
| Investment in Atlantic Copper                                                     | -                        | -           | (202,000)  |
| Net cash provided by (used in) investing activities                               | 186,941                  | 10,042      | (119,507)  |
| Cash flow from financing activities:                                              |                          |             |            |
| Cash dividends paid:                                                              |                          |             |            |
| Common stock                                                                      | (915,775)                | (452,510)   | (198,782)  |
| Convertible perpetual preferred stock                                             | (60,500)                 | (60,500)    | (35,460)   |
| Step-up convertible preferred stock                                               | -                        | (1)         | (10)       |
| Net proceeds from sale of senior notes                                            | -                        | -           | 344,354    |

|                                                                 |             |            |            |
|-----------------------------------------------------------------|-------------|------------|------------|
| Net proceeds from sale of convertible perpetual preferred stock | -           | -          | 1,067,000  |
| Proceeds from other debt                                        | 39,887      | -          | -          |
| Repayment of debt                                               | (317,629)   | (409,419)  | (272,800)  |
| Redemption of step-up convertible preferred stock               | -           | (215)      | (1,172)    |
| Purchase of FCX common shares from Rio Tinto                    | -           | -          | (881,868)  |
| Purchases of other FCX common shares                            | (99,783)    | (80,227)   | (99,477)   |
| Net proceeds from exercised stock options                       | 15,280      | 5,081      | 3,196      |
| Other                                                           | (3,384)     | (22)       | (1,547)    |
| Net cash used in financing activities                           | (1,341,904) | (997,813)  | (76,566)   |
| Net increase (decrease) in cash and cash equivalents            | 245,056     | 47,090     | (107,579)  |
| Cash at beginning of year                                       | 145,215     | 98,125     | 205,704    |
| Cash at end of year                                             | \$ 390,271  | \$ 145,215 | \$ 98,125  |
| Interest paid                                                   | \$ 59,336   | \$ 126,945 | \$ 124,903 |
| Taxes paid                                                      | \$ 181,321  | \$ 117,044 | \$ 12,681  |

The footnotes to the consolidated financial statements of FCX contained in FCX's 2006 Annual Report to stockholders incorporated by reference are an integral part of these statements.

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FREEPORT-McMoRan COPPER & GOLD INC.  
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

| Col. A                                                       | Col B                                | Col. C<br>Additions                |                                 | Col. D                   | Col. E                         |
|--------------------------------------------------------------|--------------------------------------|------------------------------------|---------------------------------|--------------------------|--------------------------------|
|                                                              | Balance at<br>Beginning of<br>Period | Charged to<br>Costs and<br>Expense | Charged to<br>Other<br>Accounts | Other<br>Add<br>(Deduct) | Balance at<br>End of<br>Period |
| <b>Reserves and allowances deducted from asset accounts:</b> |                                      |                                    |                                 |                          |                                |
| <u>2006</u>                                                  |                                      |                                    |                                 |                          |                                |
| Materials and supplies allowances:                           |                                      |                                    |                                 |                          |                                |
| PT Freeport Indonesia                                        | \$ 16,578                            | \$ 6,000                           | \$ -                            | \$ (6,212) <sup>a</sup>  | \$ 16,366                      |
| <u>2005</u>                                                  |                                      |                                    |                                 |                          |                                |
| Materials and supplies allowances:                           |                                      |                                    |                                 |                          |                                |
| PT Freeport Indonesia                                        | 16,994                               | 6,000                              | -                               | (6,416) <sup>a</sup>     | 16,578                         |
| Atlantic Copper                                              | 139                                  | -                                  | -                               | (139) <sup>a</sup>       | -                              |
| <u>2004</u>                                                  |                                      |                                    |                                 |                          |                                |
| Materials and supplies allowances:                           |                                      |                                    |                                 |                          |                                |
| PT Freeport Indonesia                                        | 16,110                               | 3,525                              | -                               | (2,641) <sup>a</sup>     | 16,994                         |
| Atlantic Copper                                              | 1,498                                | 1,391                              | -                               | (2,750) <sup>a</sup>     | 139                            |
| <b>Reclamation and mine shutdown reserves:</b>               |                                      |                                    |                                 |                          |                                |
| <u>2006</u>                                                  |                                      |                                    |                                 |                          |                                |
| PT Freeport Indonesia                                        | 26,463                               | 3,135                              | 428 <sup>b</sup>                | -                        | 30,026                         |
| Atlantic Copper                                              | 153                                  | 44                                 | -                               | 20                       | 217                            |
| <u>2005</u>                                                  |                                      |                                    |                                 |                          |                                |
| PT Freeport Indonesia                                        | 22,010                               | 2,709                              | 1,744 <sup>b</sup>              | -                        | 26,463                         |
| Atlantic Copper                                              | 838                                  | 113                                | -                               | (798) <sup>c</sup>       | 153                            |
| <u>2004</u>                                                  |                                      |                                    |                                 |                          |                                |
| PT Freeport Indonesia                                        | 25,696                               | 2,848                              | -                               | (6,534) <sup>c</sup>     | 22,010                         |
| Atlantic Copper                                              | 790                                  | 212                                | -                               | (164)                    | 838                            |
| <b>Reserves for non-income taxes:</b>                        |                                      |                                    |                                 |                          |                                |
| <u>2006</u>                                                  |                                      |                                    |                                 |                          |                                |
| PT Freeport Indonesia                                        | 18,154                               | 6,668                              | -                               | (3,533) <sup>d</sup>     | 21,289                         |
| Atlantic Copper                                              | 949                                  | -                                  | -                               | 110                      | 1,059                          |
| <u>2005</u>                                                  |                                      |                                    |                                 |                          |                                |
| PT Freeport Indonesia                                        | 17,815                               | 4,500                              | -                               | (4,161) <sup>d</sup>     | 18,154                         |
| Atlantic Copper                                              | 1,095                                | -                                  | -                               | (146)                    | 949                            |
| <u>2004</u>                                                  |                                      |                                    |                                 |                          |                                |
| PT Freeport Indonesia                                        | 17,978                               | 3,856                              | -                               | (4,019) <sup>d</sup>     | 17,815                         |
| Atlantic Copper                                              | 1,022                                | -                                  | -                               | 73                       | 1,095                          |



- a. Primarily represents write-offs of obsolete materials and supplies inventories.
  - b. Represents additional liabilities incurred.
  - c. Represents impact of changes in reclamation and closure estimates.
- d. Represents amounts paid or adjustments to reserves based on revised estimates.

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EXHIBIT INDEX

| <u>Exhibit<br/>Number</u> | <u>Description</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1                       | Amended and Restated Certificate of Incorporation of Freeport-McMoRan Copper & Gold Inc. (FCX). Incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q of FCX for the quarter ended March 31, 2002 (the FCX 2002 First Quarter Form 10-Q).                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 3.2                       | Certificate of Amendment to Amended and Restated Certificate of Incorporation of FCX. Incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q of FCX for the quarter ended March 31, 2003 (the FCX 2003 First Quarter Form 10-Q).                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 3.3                       | Amended and Restated By-Laws of FCX as amended, effective January 31, 2006. Incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K of FCX dated January 31, 2006.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 4.1                       | Certificate of Designations of 5½% Convertible Perpetual Preferred Stock of FCX. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of FCX dated March 30, 2004 and filed March 31, 2004.                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 4.2                       | Amended and Restated Credit Agreement dated as of July 25, 2006, by and among FCX, PT Freeport Indonesia, JPMorgan Chase Bank, N.A. as Administrative Agent, Issuing Bank, Security Agent, JAA Security Agent and Syndication Agent, Citibank, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated and The Bank of Nova Scotia, as Co-Documentation Agents, U.S. Bank National Association, as FI Trustee, J.P. Morgan Securities Inc., as Sole Lead Arranger and Sole Bookrunner, and the several financial institutions that are parties thereto. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of FCX dated July 25, 2006 and filed July 26, 2006. |
| 4.3                       | Senior Indenture dated as of November 15, 1996, from FCX to The Chase Manhattan Bank, as Trustee. Incorporated by reference to Exhibit 4.4 to the Registration Statement on Form S-3 of FCX filed November 5, 2001 (the FCX November 5, 2001 Form S-3).                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 4.4                       | First Supplemental Indenture dated as of November 18, 1996, from FCX to The Chase Manhattan Bank, as Trustee, providing for the issuance of the Senior Notes and supplementing the Senior Indenture dated November 15, 1996, from FCX to such Trustee, providing for the issuance of the 7.50% Senior Notes due 2006 and the 7.20% Senior Notes due 2026. Incorporated by reference to Exhibit 4.5 to the FCX November 5, 2001 Form S-3.                                                                                                                                                                                                                                                 |
| 4.5                       | Indenture dated as of January 29, 2003, from FCX to The Bank of New York, as Trustee, with respect to the 10 % Senior Notes due 2010. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of FCX dated February 6, 2003.                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 4.6                       | Indenture dated as of February 11, 2003, from FCX to The Bank of New York, as Trustee, with respect to the 7% Convertible Senior Notes due 2011. Incorporated by                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

reference to Exhibit 4.1 to the Current Report on Form 8-K of FCX dated February 11, 2003 and filed February 25, 2003.

- 4.7 Indenture dated as of February 3, 2004, from FCX to The Bank of New York, as Trustee, with respect to the 6 % Senior Notes due 2014. Incorporated by reference to Exhibit 4.12 to the Annual Report on Form 10-K of FCX for the fiscal year ended December 31, 2003 (the FCX 2003 Form 10-K).
- 4.8 Rights Agreement dated as of May 3, 2000, between FCX and ChaseMellon Shareholder Services, L.L.C., as Rights Agent. Incorporated by reference to Exhibit 4.26 to the Quarterly Report on Form 10-Q of FCX for the quarter ended March 31, 2000.
- 4.9 Amendment No. 1 to Rights Agreement dated as of February 26, 2002, between FCX and Mellon Investor Services. Incorporated by reference to Exhibit 4.16 to the FCX 2002 First Quarter Form 10-Q.

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Freeport-McMoRan Copper & Gold Inc.  
EXHIBIT INDEX

| <u>Exhibit<br/>Number</u> | <u>Description</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1                      | Contract of Work dated December 30, 1991, between the Government of the Republic of Indonesia and PT Freeport Indonesia. Incorporated by reference to Exhibit 10.1 to the FCX November 5, 2001 Form S-3.                                                                                                                                                                                                                                                                                |
| 10.2                      | Contract of Work dated August 15, 1994, between the Government of the Republic of Indonesia and PT Irja Eastern Minerals Corporation. Incorporated by reference to Exhibit 10.2 to the FCX November 5, 2001 Form S-3.                                                                                                                                                                                                                                                                   |
| 10.3                      | Participation Agreement dated as of October 11, 1996, between PT Freeport Indonesia and P.T. RTZ-CRA Indonesia with respect to a certain contract of work. Incorporated by reference to Exhibit 10.4 to the FCX November 5, 2001 Form S-3.                                                                                                                                                                                                                                              |
| 10.4                      | Agreement dated as of October 11, 1996, to Amend and Restate Trust Agreement among PT Freeport Indonesia, FCX, the RTZ Corporation PLC, P.T. RTZ-CRA Indonesia, RTZ Indonesian Finance Limited and First Trust of New York, National Association, and The Chase Manhattan Bank, as Administrative Agent, JAA Security Agent and Security Agent. Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of FCX dated November 13, 1996 and filed November 15, 1996. |
| 10.5                      | Concentrate Purchase and Sales Agreement dated effective December 11, 1996, between PT Freeport Indonesia and PT Smelting. Incorporated by reference to Exhibit 10.3 to the FCX November 5, 2001 Form S-3.                                                                                                                                                                                                                                                                              |
| 10.6                      | Second Amended and Restated Joint Venture and Shareholders' Agreement dated as of December 11, 1996, among Mitsubishi Materials Corporation, Nippon Mining and Metals Company, Limited and PT Freeport Indonesia. Incorporated by reference to Exhibit 10.5 to the FCX November 5, 2001 Form S-3.                                                                                                                                                                                       |
| 10.7                      | Settlement Agreement dated December 17, 2004, between Underwriters Subscribing to Certain Policies Reinsuring the Original Policy, Freeport-McMoRan Insurance Company Limited, FM Services Company (FMS) and FCX. Incorporated by reference to Exhibit 10.7 to the Annual Report on Form 10-K of FCX for the fiscal year ended December 31, 2004 (the FCX 2004 Form 10-K).                                                                                                              |
|                           | Executive Compensation Plans and Arrangements (Exhibits 10.8 through 10.58)                                                                                                                                                                                                                                                                                                                                                                                                             |
| 10.8                      | Annual Incentive Plan of FCX as amended effective February 2, 1999. Incorporated by reference to Exhibit 10.11 to the Annual Report on Form 10-K of FCX for the fiscal year ended December 31, 1998 (the FCX 1998 Form 10-K).                                                                                                                                                                                                                                                           |
| 10.9                      | FCX Performance Incentive Awards Program as amended effective February 2, 1999. Incorporated by reference to Exhibit 10.13 to the FCX 1998 Form 10-K.                                                                                                                                                                                                                                                                                                                                   |

- 10.10 FCX President's Award Program. Incorporated by reference to Exhibit 10.7 to the FCX November 5, 2001 Form S-3.
- 10.11 FCX 1995 Stock Option Plan, as amended and restated. Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of FCX dated May 2, 2006 (the FCX May 2, 2006 Form 8-K).
- 10.12 FCX Amended and Restated 1999 Stock Incentive Plan, as amended and restated. Incorporated by reference to Exhibit 10.2 to the FCX May 2, 2006 Form 8-K.
- 10.13 Form of Notice of Grant of Nonqualified Stock Options under the 1999 Stock Incentive Plan. Incorporated by reference to Exhibit 10.14 to the FCX 2005 Second Quarter Form 10-Q.

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Freeport-McMoRan Copper & Gold Inc.  
EXHIBIT INDEX

| <u>Exhibit<br/>Number</u> | <u>Description</u>                                                                                                                                                                                                           |
|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.14                     | Form of Restricted Stock Unit Agreement under the 1999 Stock Incentive Plan. Incorporated by reference to Exhibit 10.15 to the FCX 2005 Second Quarter Form 10-Q.                                                            |
| 10.15                     | Form of Performance-Based Restricted Stock Unit Agreement under the 1999 Stock Incentive Plan. Incorporated by reference to Exhibit 10.16 to the FCX 2005 Second Quarter Form 10-Q.                                          |
| 10.16                     | FCX 1999 Long-Term Performance Incentive Plan. Incorporated by reference to Exhibit 10.19 to the Annual Report of FCX on Form 10-K for the year ended December 31, 1999 (the FCX 1999 Form 10-K).                            |
| 10.17                     | FCX Stock Appreciation Rights Plan dated May 2, 2000. Incorporated by reference to Exhibit 10.20 to the Quarterly Report on Form 10-Q of FCX for the quarter ended June 30, 2001 (the FCX 2001 Second Quarter Form 10-Q).    |
| 10.18                     | FCX 2003 Stock Incentive Plan, as amended and restated. Incorporated by reference to Exhibit 10.1 to the FCX May 2, 2006 Form 8-K.                                                                                           |
| 10.19                     | Form of Notice of Grant of Nonqualified Stock Options under the 2003 Stock Incentive Plan. Incorporated by reference to Exhibit 10.20 to the FCX 2005 Second Quarter Form 10-Q.                                              |
| 10.20                     | Form of Restricted Stock Unit Agreement under the 2003 Stock Incentive Plan. Incorporated by reference to Exhibit 10.21 to the FCX 2005 Second Quarter Form 10-Q.                                                            |
| 10.21                     | Form of Performance-Based Restricted Stock Unit Agreement under the 2003 Stock Incentive Plan. Incorporated by reference to Exhibit 10.22 to the FCX 2005 Second Quarter Form 10-Q.                                          |
| 10.22                     | FCX 1995 Stock Option Plan for Non-Employee Directors. Incorporated by reference to Exhibit 10.23 to the FCX 2005 Second Quarter Form 10-Q.                                                                                  |
| 10.23                     | FCX 2004 Director Compensation Plan. Incorporated by reference to Exhibit 10.24 to the FCX 2005 Second Quarter Form 10-Q.                                                                                                    |
| 10.24                     | Form of Amendment No. 1 to Notice of Grant of Nonqualified Stock Options and Stock Appreciation Rights under the 2004 Director Compensation Plan. Incorporated by reference to Exhibit 10.4 to the FCX May 2, 2006 Form 8-K. |
| 10.25                     | FCX 2006 Stock Incentive Plan. Incorporated by reference to Exhibit 10.6 to the FCX May 2, 2006 Form 8-K.                                                                                                                    |

- 10.26 Form of Notice of Grant of Nonqualified Stock Options under the 2006 Stock Incentive Plan. Incorporated by reference to Exhibit 10.7 to the FCX May 2, 2006 Form 8-K.
- 10.27 Form of Restricted Stock Unit Agreement under the 2006 Stock Incentive Plan. Incorporated by reference to Exhibit 10.8 to the FCX May 2, 2006 Form 8-K.
- 10.28 Form of Performance-Based Restricted Stock Unit Agreement under the 2006 Stock Incentive Plan. Incorporated by reference to Exhibit 10.9 to the FCX May 2, 2006 Form 8-K.
- 10.29 FCX Director Compensation. Incorporated by reference to Exhibit 10.25 to the FCX 2004 Form 10-K.
- 10.30 FCX Supplemental Executive Retirement Plan dated February 26, 2004. Incorporated by reference to Exhibit 10.26 to the FCX 2004 Form 10-K.

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| <u>Exhibit<br/>Number</u> | <u>Description</u>                                                                                                                                                                                                                                                                        |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.31                     | Amendment No. 1 to FCX Supplemental Executive Retirement Plan. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of FCX dated May 3, 2005.                                                                                                                      |
| 10.32                     | FCX 2005 Annual Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of FCX dated May 5, 2005.                                                                                                                                                     |
| 10.33                     | FCX Executive Services Program. Incorporated by reference to Exhibit 10.5 to the FCX May 2, 2006 Form 8-K.                                                                                                                                                                                |
| 10.34                     | FM Services Company Performance Incentive Awards Program as amended effective February 2, 1999. Incorporated by reference to Exhibit 10.19 to the FCX 1998 Form 10-K.                                                                                                                     |
| 10.35                     | Consulting Agreement dated as of December 22, 1988, with Kissinger Associates, Inc. (Kissinger Associates). Incorporated by reference to Exhibit 10.21 to the Annual Report on Form 10-K of FCX for the fiscal year ended December 31, 1997 (the FCX 1997 Form 10-K).                     |
| 10.36                     | Letter Agreement dated May 1, 1989, with Kent Associates, Inc. (Kent Associates, predecessor in interest to Kissinger Associates). Incorporated by reference to Exhibit 10.22 to the FCX 1997 Form 10-K.                                                                                  |
| 10.37                     | Letter Agreement dated January 27, 1997, among Kissinger Associates, Kent Associates, FCX, Freeport-McMoRan Inc., and FMS. Incorporated by reference to Exhibit 10.26 to the Annual Report on Form 10-K of FCX for the fiscal year ended December 31, 2001 (the FCX 2001 Form 10-K).      |
| 10.38                     | Supplemental Consulting Agreement with Kissinger Associates and Kent Associates, effective as of January 1, 2007. Incorporated by reference to Exhibit 10.38 to the Quarterly Report on Form 10-Q of FCX for the quarter ended September 30, 2006 (the FCX 2006 Third Quarter Form 10-Q). |
| 10.39                     | Agreement for Consulting Services between FTX and B. M. Rankin, Jr. effective as of January 1, 1990 (assigned to FMS as of January 1, 1996). Incorporated by reference to Exhibit 10.24 to the FCX 1997 Form 10-K.                                                                        |
| 10.40                     | Supplemental Agreement between FMS and B. M. Rankin, Jr. dated December 15, 1997. Incorporated by reference to Exhibit 10.25 to the FCX 1997 Form 10-K.                                                                                                                                   |
| <u>10.41</u>              | Supplemental Letter Agreement between FMS and B. M. Rankin, Jr., effective as of January 1, 2007.                                                                                                                                                                                         |



- 10.42 Letter Agreement effective as of January 7, 1997, between Senator J. Bennett Johnston, Jr. and FMS. Incorporated by reference to Exhibit 10.31 to the FCX 2001 Form 10-K.
- 10.43 Supplemental Letter Agreement dated July 14, 2003, between J. Bennett Johnston, Jr. and FMS. Incorporated by reference to Exhibit 10.28 to the Quarterly Report on Form 10-Q of FCX for the quarter ended June 30, 2003.
- 10.44 Supplemental Letter Agreement between FMS and J. Bennett Johnston, Jr., dated January 18, 2005. Incorporated by reference to Exhibit 10.40 to the FCX 2004 Form 10-K.
- 10.45 Supplemental Consulting Agreement between FMS and J. Bennett Johnston, Jr., effective as of January 1, 2007. Incorporated by reference to Exhibit 10.45 to the FCX 2006 Third Quarter Form 10-Q.
- 10.46 Letter Agreement dated November 1, 1999, between FMS and Gabrielle K. McDonald. Incorporated by reference to Exhibit 10.33 to the FCX 1999 Form 10-K.

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| <u>Exhibit<br/>Number</u> | <u>Description</u>                                                                                                                                                                         |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.47                     | Supplemental Letter Agreement, between FMS and Gabrielle K. McDonald, effective as of January 1, 2007. Incorporated by reference to Exhibit 10.47 to the FCX 2006 Third Quarter Form 10-Q. |
| 10.48                     | Executive Employment Agreement dated April 30, 2001, between FCX and James R. Moffett. Incorporated by reference to Exhibit 10.35 to the FCX 2001 Second Quarter Form 10-Q.                |
| 10.49                     | Executive Employment Agreement dated April 30, 2001, between FCX and Richard C. Adkerson. Incorporated by reference to Exhibit 10.36 to the FCX 2001 Second Quarter Form 10-Q.             |
| 10.50                     | Change of Control Agreement dated April 30, 2001, between FCX and James R. Moffett. Incorporated by reference to Exhibit 10.37 to the FCX 2001 Second Quarter Form 10-Q.                   |
| 10.51                     | Change of Control Agreement dated April 30, 2001, between FCX and Richard C. Adkerson. Incorporated by reference to Exhibit 10.38 to the FCX 2001 Second Quarter Form 10-Q.                |
| 10.52                     | First Amendment to Executive Employment Agreement dated December 10, 2003, between FCX and James R. Moffett. Incorporated by reference to Exhibit 10.36 to the FCX 2003 Form 10-K.         |
| 10.53                     | First Amendment to Executive Employment Agreement dated December 10, 2003, between FCX and Richard C. Adkerson. Incorporated by reference to Exhibit 10.37 to the FCX 2003 Form 10-K.      |
| 10.54                     | First Amendment to Change of Control Agreement dated December 10, 2003, between FCX and James R. Moffett. Incorporated by reference to Exhibit 10.38 to the FCX 2003 Form 10-K.            |
| 10.55                     | First Amendment to Change of Control Agreement dated December 10, 2003, between FCX and Richard C. Adkerson. Incorporated by reference to Exhibit 10.39 to the FCX 2003 Form 10-K.         |
| 10.56                     | Change of Control Agreement dated February 3, 2004, between FCX and Michael J. Arnold. Incorporated by reference to Exhibit 10.40 to the FCX 2003 Form 10-K.                               |
| 10.57                     | Change of Control Agreement dated February 3, 2004, between FCX and Mark J. Johnson. Incorporated by reference to Exhibit 10.41 to the FCX 2003 Form 10-K.                                 |
| 10.58                     |                                                                                                                                                                                            |

Change of Control Agreement dated February 3, 2004, between FCX and Kathleen L. Quirk. Incorporated by reference to Exhibit 10.42 to the FCX 2003 Form 10-K.

- 12.1 FCX Computation of Ratio of Earnings to Fixed Charges.
- 13.1 Those portions of the 2006 Annual Report to stockholders of FCX that are incorporated herein by reference.
- 14.1 Ethics and Business Conduct Policy. Incorporated by reference to Exhibit 14.1 to the FCX 2003 Form 10-K.
- 21.1 Subsidiaries of FCX.
- 23.1 Consent of Ernst & Young LLP.
- 23.2 Consent of Independent Mining Consultants, Inc.
- 24.1 Certified resolution of the Board of Directors of FCX authorizing this report to be signed on behalf of any officer or director pursuant to a Power of Attorney.

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Freeport-McMoRan Copper & Gold Inc.  
EXHIBIT INDEX

| <u>Exhibit<br/>Number</u> | <u>Description</u>                                                                                                   |
|---------------------------|----------------------------------------------------------------------------------------------------------------------|
| <u>24.2</u>               | Powers of Attorney pursuant to which this report has been signed on behalf of certain officers and directors of FCX. |
| <u>31.1</u>               | Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d - 14(a).                                 |
| <u>31.2</u>               | Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d - 14(a).                                 |
| <u>32.1</u>               | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.                                     |
| <u>32.2</u>               | Certification of Principal Financial Officer pursuant to 18 U.S.C Section 1350.                                      |

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