FREEPORT MCMORAN COPPER & GOLD INC
Form 424B3
March 01, 2007

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The information in this prospectus supplement is not complete and may be changed. This prospectus supplement is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(3).
Registration Statement File No. 333-140997

Subject to completion, dated March 1, 2007

Prospectus supplement
(To Prospectus dated March 1, 2007)

Freeport-McMoRan Copper & Gold Inc.
$6,000,000,000
$ % Senior Notes due 2015
$ % Senior Notes due 2017

Interest payable and

Issue price: % and %, respectively

The % Senior Notes due 2015 (the 2015 notes) will mature on , 2015, and the % Senior Notes due 2017 (the 2017 notes) will mature on , 2017. Interest will accrue from , 2007, and the first interest payment date will be , 2007.

We may redeem some or all of the 2015 notes at any time prior to , 2011, at a price equal to 100% of the principal amount of the 2015 notes plus a make-whole premium. In addition, we may redeem some or all of the 2015 notes at any time on or after , 2011, at the redemption prices set forth in this prospectus supplement. We may redeem some or all of the 2017 notes at any time prior to , 2012 at a price equal to 100% of the principal amount of the 2017 notes plus a make-whole premium. In addition, we may redeem some or all of the 2017 notes at any time on or after , 2012, at the redemption prices set forth in this prospectus supplement. Prior to , 2010, we may also redeem up to 35% of each series of the notes using the proceeds of certain equity offerings at the redemption prices set forth in this prospectus supplement. If we sell certain of our assets or experience specific kinds of changes in control, we must offer to purchase the notes of each series.

The notes will be unsecured, will rank equally with all our existing and future unsecured senior debt and rank senior to all our future subordinated debt. The notes will be effectively subordinated to all of our existing and future secured debt to the extent of the collateral securing that debt, including our new senior credit facilities and certain of our outstanding debt securities. The notes will be effectively subordinated to all indebtedness and other obligations, including trade payables, of our subsidiaries. The notes will not be guaranteed by any of our subsidiaries.

See Risk factors beginning on page S-22 for a discussion of certain risks that you should consider in connection with an investment in the notes.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the notes or determined that this prospectus supplement or the accompanying prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

	Per 2015 note	Total	Per 2017 note	Total
Public offering price[(1)]	%	$	%	$
Underwriting discounts and commissions	%	$	%	$
Proceeds to us before expenses	%	$	%	$

(1) Plus accrued interest from , 2007, if settlement occurs after that date.

The notes will not be listed on any securities exchange. Currently, there is no public market for the notes.

We expect that delivery of the notes will be made to investors in book-entry form through The Depository Trust Company, Euroclear or Clearstream on or about , 2007.

Joint book-running managers

JPMorgan **Merrill Lynch & Co.**

Co-managers

HSBC **Scotia Capital** **UBS Investment Bank**

, 2007

In making your investment decision, you should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We and the underwriters have not authorized anyone to provide you with any other information. If you receive any other information, you should not rely on it. You should not assume that the information contained or incorporated by reference in this prospectus supplement is accurate as of any date other than the date on the front cover of this prospectus supplement or that the information contained or incorporated by reference in the accompanying prospectus is accurate as of any date other than the date on the front cover of the accompanying prospectus. We and the underwriters are offering to sell the notes only in places where offers and sales are permitted.

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Prospectus supplement

Prospectus

Except as otherwise described herein or the context otherwise requires, all references to (i) the combined company, we, us, our and ours in this prospectus supplement mean Freeport-McMoRan Copper & Gold Inc. and all entities owned or controlled by Freeport-McMoRan Copper & Gold Inc. (including Phelps Dodge Corporation and its subsidiaries on a pro forma basis after giving effect to the acquisition of Phelps Dodge by Freeport-McMoRan and the other transactions described herein), (ii) Freeport-McMoRan refer to Freeport-McMoRan Copper & Gold Inc. and its subsidiaries prior to the acquisition and (iii) Phelps Dodge refer to Phelps Dodge Corporation and its subsidiaries.

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Cautionary statement regarding forward-looking statements

This prospectus supplement and the accompanying prospectus, including the documents incorporated by reference herein and therein, contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Such forward-looking information about Freeport-McMoRan, Phelps Dodge and the combined company after completion of the transactions is intended to be covered by the safe harbor to forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. These statements may be made directly in this prospectus supplement or the accompanying prospectus or may be incorporated in this prospectus supplement or the accompanying prospectus by reference to other documents and may include statements for the period following the completion of this transaction. Representatives of Freeport-McMoRan and Phelps Dodge may also make forward-looking statements. When used in this document, the words anticipates, may, can, plans, feels, believe estimates, expects, projects, intends, likely, will, should, to be and any similar expressions and any othe that are not historical facts, in each case as they relate to Freeport-McMoRan or Phelps Dodge, the management of either such company or the transactions are intended to identify those assertions as forward-looking statements. In making any of those statements, the person making them believes that its expectations are based on reasonable assumptions. However, any such statement may be influenced by factors that could cause actual outcomes and results to be materially different from those projected or anticipated. These forward-looking statements are subject to numerous risks and uncertainties, including the risks described in this prospectus supplement under Risk factors, that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements.

Some other risks and uncertainties include, but are not limited to:

- risks related to our substantial indebtedness and ability to service the notes;
- our holding company structure and its potential effect on your ability to receive dividends or payments on the notes;
- macroeconomic conditions and general industry conditions, such as the competitive environment of the mining industry;
- unanticipated mining, milling and other processing problems;
- accidents that lead to personal injury or property damage;
- persistent commodity price reductions;
- changes in political, social or economic circumstances in areas where Freeport-McMoRan and Phelps Dodge operate or plan to operate;
- expropriation;
- variances in ore grades;
- labor relations;
- adverse weather conditions and natural disasters, such as earthquakes;

- the speculative nature of mineral exploration;
- increases in energy and production costs;
- fluctuations in interest rates or foreign currency exchange rates and other adverse financial market conditions;
- regulatory and litigation matters and risks;
- changes in tax and other laws;
- the risk that a regulatory approval that may be required for the transactions is not obtained or is obtained subject to conditions that are not anticipated; and
- other risks to consummation of the transactions.

The actual results or performance by Freeport-McMoRan or Phelps Dodge, and issues relating to the transactions, could differ materially from those expressed in, or implied by, any forward-looking statements relating to those matters. Accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what impact they will have on the results of operations or financial condition of Freeport-McMoRan or Phelps Dodge, the combined company or the transactions. Except as required by law, we are under no obligation, and expressly disclaim any obligation, to update, alter or otherwise revise any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

Industry and other information

Unless we indicate otherwise, we base the information concerning the mining industry contained or incorporated by reference in this prospectus supplement and the accompanying prospectus on our general knowledge of and expectations concerning the industry. Our market positions and market shares are based on our estimates using data from various industry sources and assumptions that we believe to be reasonable based on our knowledge of the mining industry. We have not independently verified data from industry sources and cannot guarantee its accuracy or completeness. In addition, we believe that data regarding the mining industry and our market positions and market shares within such industry provide general guidance but are inherently imprecise. Further, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the Risk factors section of this prospectus supplement. The information regarding Freeport-McMoRan s reserves as of December 31, 2006, that is contained in this prospectus supplement or the accompanying prospectus, including the documents incorporated by reference herein or therein, has been verified by Independent Mining Consultants, Inc. as experts in mining, geology and reserve determination.

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Prospectus supplement summary

This summary highlights certain information contained elsewhere or incorporated by reference in this prospectus supplement. Because this is only a summary, it does not contain all the information that may be important to you. For a more complete understanding of our business and this offering, you should read the entire prospectus supplement and the accompanying prospectus and the documents incorporated herein and therein by reference, including the annual financial statements included elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. You should also carefully consider the matters discussed under Risk factors.

On November 18, 2006, Freeport-McMoRan Copper & Gold Inc. executed a definitive merger agreement pursuant to which, subject to the terms and conditions set forth therein, it expects to acquire all outstanding shares of Phelps Dodge Corporation (the acquisition). In this prospectus supplement, we refer to the issuance of the notes offered hereby and the borrowings under the new senior credit facilities as the financing and the acquisition and the related transactions, including the financing, as the transactions. The transactions are more fully described below under The transactions.

Overview

Freeport-McMoRan Copper & Gold Inc. is one of the world s largest producers of copper and gold. Freeport-McMoRan s Grasberg minerals district in Papua, Indonesia contains the world s single largest copper reserve and the world s single largest gold reserve. Phelps Dodge Corporation is one of the world s leading producers of copper and molybdenum. Phelps Dodge has mines in operation or under development in North and South America, and Africa, including the Tenke Fungurume development project in the Democratic Republic of Congo.

On November 19, 2006, Freeport-McMoRan and Phelps Dodge announced that they had signed a merger agreement pursuant to which Freeport-McMoRan will acquire Phelps Dodge for approximately $25.9 billion in cash and stock, based on Freeport-McMoRan s closing stock price on November 17, 2006, creating one of the world s largest publicly-traded copper companies and one of North America s largest mining companies. Freeport-McMoRan will use the proceeds from this offering to fund a portion of the cash consideration of the acquisition and to pay all transaction costs. This offering is conditioned upon the consummation of the acquisition.

Acquisition rationale

The combination of Freeport-McMoRan and Phelps Dodge will dramatically expand Freeport-McMoRan s operations, reserves and project pipeline, while diversifying both its geographic and commodity portfolio. The significant benefits of the acquisition include:

- our increased scale of operations, management depth and strengthened cash flows will provide an improved platform from which to capitalize on growth opportunities in the global market;
- we will be well-positioned to benefit from the positive copper market at a time when there is a scarcity of large-scale copper development projects combined with strong global demand for copper;

we will have long-lived, geographically diverse ore reserves totaling 77.2 billion pounds of copper, 38.3 million ounces of gold and 1.8 billion pounds of molybdenum, net of minority interests of all joint venture partners and minority owners;

we expect to generate strong cash flows, which will enable significant debt reduction;

our future growth will be supported by a project pipeline with the potential to add nearly one billion pounds of copper production capacity on a consolidated basis by the end of 2009; and

we will have exploration rights with significant potential in copper regions around the world, including Freeport-McMoRan s prospective acreage in Papua, Indonesia, and Phelps Dodge s opportunities at its Tenke Fungurume concessions in the Democratic Republic of Congo.

Our business

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. For the year ended December 31, 2006, on a pro forma basis giving effect to the transactions, the combined company s revenues and Adjusted EBITDA (as defined under Summary unaudited pro forma condensed combined financial information) totaled $17.7 billion and $7.8 billion, respectively.

The combined company will have significant, geographically diverse ore reserves. At December 31, 2006, on a pro forma basis after giving effect to the transactions, the combined company s ore reserves on a consolidated basis totaled 93.6 billion pounds of copper, 42.4 million ounces of gold and 2.0 billion pounds of molybdenum, and the combined company s equity share of those ore reserves, net of the interests of all joint venture partners and minority owners, totaled 77.2 billion pounds of copper, 38.3 million ounces of gold and 1.8 billion pounds of molybdenum. The combined company s mines will have lives ranging from 6 years to 37 years based on current ore reserves and mine plans. The combined company s consolidated implied reserve lives, calculated by dividing ore reserves by estimated production rates, will be 21 years for copper, 22 years for gold and 25 years for molybdenum. The charts below illustrate the composition and diversity of the combined company s portfolio by geography and commodity:

Freeport-McMoRan conducts its operations primarily through its principal operating subsidiaries, PT Freeport Indonesia and Atlantic Copper, S.A., which operates a copper smelter and refinery in Huelva, Spain. In addition, Freeport-McMoRan holds exploration rights covering approximately 2.2 million acres in Papua, Indonesia. PT Freeport Indonesia s operations in Papua, Indonesia, involve mineral exploration and development, mining and milling of ore containing copper,

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gold and silver and the worldwide marketing of concentrates containing those metals. PT Freeport Indonesia s principal asset is the world-class Grasberg mine discovered in 1988. The Grasberg minerals district contains the world s largest single copper reserve and world s largest single gold reserve. PT Freeport Indonesia is also a 25 percent owner of PT Smelting, which operates a copper smelter and refinery in Gresik, Indonesia.

Phelps Dodge conducts its operations primarily through its two divisions, Phelps Dodge Mining Company (PDMC) and Phelps Dodge Industries (PDI). PDMC is a fully integrated producer of copper and molybdenum, with mines and processing facilities in North America, South America and Europe and processing capabilities for other minerals as by-products, such as gold, silver and rhenium. PDI consists of Phelps Dodge Wire and Cable, which manufactures engineered products principally for the global energy sector.

Competitive strengths

Geographically diverse asset base. The combined company will have a geographically diverse portfolio of assets across four continents, which produce copper, gold and molybdenum for global sale and consumption. The combined company will have 15 mines in operation located in Chile, Indonesia, Peru and the United States and scheduled development projects in North and South America, Asia and Africa. On a pro forma basis after giving effect to the transactions, 38 percent of total 2006 mining revenues of $12.9 billion were generated from Indonesia, 35 percent from North America, 22 percent from Chile and 5 percent from Peru. While the combined company will derive the majority of its revenues from copper (78 percent of 2006 mining revenues on a pro forma basis after giving effect to the transactions), gold and molybdenum each represent important pieces of the production profile, representing 10 percent and 12 percent of 2006 mining revenues, respectively, on a pro forma basis after giving effect to the transactions. We believe the scope of operations and diversification should enable the combined company to perform well throughout periods of volatile commodity prices and demand fluctuations.

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Strong production and long-lived ore reserves. We believe that the combined company s geographically diverse asset base is characterized by large scale production, long reserve lives and strong future growth opportunities. The table below reflects our consolidated and net reserves and production.

	Consolidated	Net interest[(a)]
Production for year ended December 31, 2006:		
Copper (billion pounds)	3.6	3.1
Gold (million ounces)	1.8	1.7
Molybdenum (million pounds)	68.2	68.2
Ore reserves as of December 31, 2006:		
Copper (billion pounds)	93.6	77.2
Gold (million ounces)	42.4	38.3
Molybdenum (billion pounds)	2.0	1.8
Copper reserves as of December 31, 2006 by geographical region (billion pounds):		
Indonesia	38.8	35.2
United States	24.8	24.8
Chile	10.0	6.4
Peru	15.5	8.3
Democratic Republic of Congo	4.5	2.6
Implied ore reserve life (years)[(b)]:		
Copper	21	21
Gold	22	22
Molybdenum	25	25

(a) Reflects the combined company s equity share, net of the interests of all joint venture partners and minority owners.

(b) Calculated by dividing ore reserves by estimated production rates.

Attractive project pipeline. We believe that the combined company will have significant potential for growth through the development of its existing asset base, including replacing production at existing mines that would otherwise be depleted. The combined company has a number of projects that we believe will add nearly one billion pounds of copper production capacity on a consolidated basis by the end of 2009.

The Tenke Fungurume development project is considered to be one of the largest, highest grade, undeveloped copper/cobalt concessions in the world today, which we expect will commence production by early 2009. Initial production rates are expected to be approximately 250 million pounds of copper and 18 million pounds of cobalt on a consolidated basis. The Safford, Arizona project is currently under construction and is expected to be in production during the first half of 2008 and to initially produce approximately 240 million pounds of copper per year on a consolidated basis.

In South America, the combined company will have two mines with significant development potential: Cerro Verde and El Abra. Cerro Verde, in Peru, has recently been expanded and has the capacity to initially produce approximately 430 million pounds of additional copper per year on a consolidated basis. El Abra, in Chile, has completed a feasibility study for developing its sulfide ore reserves to produce approximately 325 million pounds of copper per year on a consolidated basis for approximately 10 years beginning as early as 2010.

Significant exploration potential. The combined company will have exploration rights with significant potential in copper regions around the world. Two of the key exploration areas are Freeport-McMoRan s 2.2 million acres in Papua, Indonesia, and Phelps Dodge s opportunities at its Tenke Fungurume development project in the Democratic Republic of Congo. The Papua acreage is located in highly prospective areas that we believe have the potential for major mine developments in the future. In recent years, exploration in Papua was suspended, but Freeport-McMoRan plans to resume exploration activities in certain prospective areas during 2007. See Risk factors Risks related to Freeport-McMoRan s business Any suspension of required activities under Freeport-McMoRan s Contracts of Work requires the consent of the Indonesian government. The Tenke Fungurume copper/cobalt deposits are located within four concessions totaling approximately 394,000 acres of mining claims. Substantial portions of these concessions have had only limited historical exploration and a major target definition and drilling program is now under way in this high potential copper/cobalt region.

Experienced management team. The combined company will have a highly experienced management team with a successful track record for finding and developing reserves and effectively managing large-scale operations. The team will include a combination of Freeport-McMoRan and Phelps Dodge management and will be complemented by a strong operating team with extensive mining experience.

Strategy

Continue to maximize free cash flows. Freeport-McMoRan and Phelps Dodge have proven track records for generating significant cash flows. We will continue to maintain active programs to improve efficiencies throughout the combined company s mining operations in order to optimize production.

Strengthen our financial profile. Strong cash flows have historically allowed both Freeport-McMoRan and Phelps Dodge to significantly reduce indebtedness. We plan to continue to use available cash flows to reduce indebtedness of the combined company. In addition, we will consider opportunities to reduce debt of the combined company shortly following the closing of the transactions through issuances of equity and equity-linked securities and possibly through asset sales. While copper, gold and molybdenum prices will play a significant role in determining the extent of the combined company s free cash flows, we will continue to strengthen our financial profile as well as maximize the cash flows from our ore bodies through production and aggressive cost management.

Actively pursue project pipeline and exploration. We manage our business to maximize the long-term value of our mineral deposits. We have been disciplined in managing and evaluating potentially attractive capital investments. The combined company will have significant potential for growth through the development of its existing asset base and exploration, which we plan to actively develop to grow our production and ore reserves.

Industry overview

Copper

Copper is an internationally traded commodity, and its price is effectively determined by the major metals exchanges the New York Commodity Exchange (COMEX), the London Metal Exchange (LME) and the Shanghai Futures Exchange (SHFE). Prices on these exchanges generally reflect the worldwide balance of copper supply and demand, but also are influenced significantly, from time to time, by speculative actions and by currency exchange rates.

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Copper s physical attributes include superior electrical conductivity, corrosion resistance, structural capability, efficient heat transfer and aesthetics. Other materials that compete with copper include aluminum, plastics, stainless steel and fiber optics. Despite recent higher prices, substitution of competing materials has been modest because it is difficult to duplicate copper s unique characteristics.

Copper is a critical component of the world s infrastructure. The demand for copper ultimately reflects the rate of underlying world economic growth, particularly in industrial production and construction. Copper s end-use markets reflect its fundamental role in the world economy. Copper s end-use markets (and their estimated shares of total consumption based on Brook Hunt s estimate of 2006 Western world copper consumption) are (a) construction (38 percent), (b) electrical applications (28 percent), (c) industrial machinery (13 percent), (d) transportation (11 percent) and (e) consumer products (10 percent). Since 1990, refined copper consumption grew by an estimated compound annual growth rate of 3.1 percent to 17.6 million tons in 2006, according to published 1990 data by the World Bureau of Metals Statistics (WBMS) and our estimates for 2006. This rate of increase was slightly higher than the growth rate of 2.9 percent for world industrial production over the same period. Asian copper consumption, led by China, has been particularly strong, increasing by a compound annual rate of approximately 6 percent from 1990. Asia now represents approximately half of the world s refined copper consumption, compared with approximately 22 percent for Western Europe and approximately 20 percent for the Americas.

From 1990 through 2006, refined copper production has grown at an average annual rate of approximately 3 percent, based on published 1990 data by the WBMS and our estimates for 2006. Absent major new discoveries of copper reserves, which have been rare in the last decade, the industry is expected to face the challenge of depleting reserves going forward. While a number of expansion projects are currently being pursued, development of major new mines requires long lead times as a result of, among other things, technical challenges, limited availability of equipment and experienced operators and political and regulatory issues.

Copper consumption is closely associated with industrial production and, therefore, tends to follow economic cycles. During an expansion, demand for copper tends to increase thereby driving up the price. As a result, copper prices are volatile and cyclical. During the past 15 years, the LME price of copper averaged $1.13 per pound and ranged from a high annual average price of $3.05 per pound in 2006 to a low annual average price of $0.71 per pound in 2002. In addition, during the past 15 years, the COMEX price of copper averaged $1.14 per pound, and has ranged from a high annual average price of $3.09 per pound in 2006 to a low annual average price of $0.72 per pound in 2002. The closing 3-month LME and active-month COMEX copper prices on February 27, 2007 were $2.83 per pound and $2.81 per pound, respectively.

Gold

Gold continues to represent a significant portion of the international reserve assets for most national central banks. Due to its value as a currency and historical monetary role, investment demand has played a significantly larger role in determining the gold price than market fundamentals.

During 2006, the relative weakness in the U.S. dollar, a low global interest rate environment, global political instability and the establishment of exchange-traded funds all contributed to increased investment demand for gold. Jewelry is the largest single component of gold usage, comprising approximately 67 percent of 2006 demand in dollar terms, according to the World Gold Council. In 2006 demand for jewelry reached a new record in dollar terms, while demand for gold in electronics and dental applications rose to a new volume record. Despite an approximate 10 percent decline in total volume demand in 2006, total dollar demand for gold reached a new record, increasing by approximately 22 percent over 2005.

Gold supply is comprised of mine production, gold scrap and central bank sales. According to World Gold Council data, global mine production, net of producer hedging, accounted for approximately 60 percent of total gold supply. Gold scrap is the second-largest source of gold, providing approximately 30 percent of 2006 supply. The remainder of gold supply comes from central bank sales. The total gold supply in terms of volume declined by 13 percent in 2006 according to the World Gold Council. A decrease in central banks sales accounted for a majority of the supply decrease. Mine supply fell approximately 2 percent in 2006, and has remained flat over the past three years due to a lack of new large-scale gold mining projects.

Investment demand and record gold jewelry and industrial demand, combined with constrained supply, created a favorable gold price environment in 2006. The average gold price of $604 per ounce in the 2006 London spot market represents a 36 percent increase over the 2005 average price of $444 per ounce. Gold hit a 26-year high of $726 per ounce in mid-May 2006. The closing London PM Fix gold spot price on February 27, 2007 was $676 per ounce.

Molybdenum

Molybdic oxide, derived from molybdenum, is used primarily in the steel industry for corrosion resistance, strengthening and heat resistance. Molybdenum chemicals are used in a number of diverse applications such as lubricants, additives for water treatment, feedstock for the production of pure molybdenum metal and catalysts used for petroleum refining. Pure molybdenum metal powder products are used in a number of diverse applications, such as lighting, electronics, and specialty steel alloys.

Molybdenum demand is heavily dependent on the worldwide steel industry, which comprises approximately 80 percent of molybdenum demand. The balance is used in specialty chemical applications. There are no terminal exchanges or forward markets for molybdenum products.

The metallurgical market for molybdenum is characterized by cyclical and volatile prices, little product differentiation and strong competition. The chemical market is more diverse and contains more specialty products and segments. In both markets, prices are influenced by, among other things, production costs of domestic and foreign competitors, worldwide economic conditions, world and regional supply/demand balances, inventory levels, governmental regulatory actions and currency exchange rates. Molybdenum prices also are affected by the demand for end-use products in, for example, the construction, transportation and durable goods markets. A substantial portion of world molybdenum is produced as a by-product of copper mining, which is relatively insensitive to molybdenum price levels. Materials that compete with molybdenum include other metals and alloys, graphite and plastics, depending upon the application. Despite recent high prices, substitution of competing materials has been modest for the metallurgical segment. Certain chemical segments have experienced some substitution, however, it has not significantly impacted overall chemical demand.

During 2006, primary mine production increased in both North America and China, although production in China remains difficult to estimate. By-product molybdenum production decreased from 2005 levels primarily due to lower production in South America. Tight supplies of Western, high-quality materials continued throughout the first half of 2006, but eased in the second half as demand slowed in the metallurgical segment. Western roaster capacity constraints were reduced in 2006 as increased capacity was realized and by-product supply decreased. Overall, market fundamentals shifted from a supply deficit in the first half of 2006 to a slight surplus late in the year, with the overall year being relatively balanced.

During the past 15 years, *Metals Week* molybdenum Dealer Oxide prices have ranged from a high of $40.00 per pound to a low of $1.82 per pound. In 2006, the *Metals Week* molybdenum Dealer Oxide mean price decreased 22 percent from the 2005 mean price of $31.73 per pound to $24.75 per pound. Although price levels were lower than those experienced in 2005, 2006 molybdenum prices remained at historically high levels. Strong demand, which has outpaced supply over the past several years, has continued and inventory levels throughout the industry remain low. The *Metals Week* molybdenum Dealer Oxide price on February 26, 2007 was $26.00 per pound.

The transactions

The boards of directors of Freeport-McMoRan and Phelps Dodge have approved a merger agreement pursuant to which Freeport-McMoRan will acquire Phelps Dodge. The acquisition is subject to certain closing conditions, including:

- approval of the merger agreement by the affirmative vote of the holders of at least two-thirds of the outstanding shares of Phelps Dodge common stock entitled to vote on the matter at a special meeting of shareholders scheduled to be held on March 14, 2007;
- approval of the issuance of Freeport-McMoRan common stock to be issued in the acquisition by the affirmative vote of the holders of a majority of shares of its common stock cast on the matter at a special meeting of shareholders scheduled to be held on March 14, 2007;
- the receipt of all governmental and regulatory approvals; and
- the absence of events or developments since the date of the merger agreement that would reasonably be expected to have a material adverse effect with respect to Freeport-McMoRan or Phelps Dodge.

The acquisition is expected to close shortly after the special meetings of shareholders.

At the effective time of the acquisition, each issued and outstanding Phelps Dodge common share will be converted into the right to receive a combination of 0.67 of a share of Freeport-McMoRan common stock and $88.00 in cash, without interest. Upon completion of the acquisition, we expect that Freeport-McMoRan shareholders will own approximately 59 percent of the combined company (62 percent on a fully diluted basis) and former Phelps Dodge shareholders will own approximately 41 percent of the combined company (38 percent on a fully diluted basis). Following the acquisition, Phelps Dodge will continue as a surviving corporation and become a wholly owned subsidiary of Freeport-McMoRan; accordingly, Phelps Dodge shares will no longer be publicly traded.

Freeport-McMoRan will have cash requirements of approximately $18,500 million in connection with the acquisition, including the cash consideration of the acquisition and transaction costs. In

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order to finance a portion of these cash requirements, the following financing transactions will occur in connection with the closing of the acquisition:

borrowings under a new $11,500 million senior credit facility, consisting of a $1,500 million revolving credit facility (which refers to our new $1,000 million revolving credit facility and our amended and restated $500 million revolving credit facility), a $2,500 million five-year Tranche A term loan facility and a $7,500 million seven-year Tranche B term loan facility; and

the issuance of the notes offered hereby.

The remainder of the cash requirements will be met from cash available at Freeport-McMoRan and Phelps Dodge. The offering of the notes will occur concurrently with, and is conditioned upon, the closing of the acquisition and the other transactions.

Sources and uses

The table below sets forth the estimated sources and uses for the transactions based on balances as of December 31, 2006:

(Dollars in millions)

Sources of funds		**Amount**	**Uses of funds**		**Amount**
Cash	$	2,500.0	Equity purchased[c]	$	25,791.0
New revolving credit facility[a]			Estimated fees and expenses[d]		500.0
New Tranche A term loan facility		2,500.0			
New Tranche B term loan facility		7,500.0			
Senior notes offered hereby		6,000.0			
Additional common equity[b]		7,791.0			
Total sources	$	26,291.0	Total uses	$	26,291.0

(a) Based on expected cash balances at closing, we do not expect to make any drawings under our new revolving credit facility. Availability under the new revolving credit facility will be reduced by outstanding letters of credit. Our availability under our revolving credit facility is anticipated to be approximately $1,400.0 million at closing after giving effect to outstanding letters of credit. Following the closing, we may be required to issue additional letters of credit in connection with financial assurances with respect to our reclamation obligations. See Risk factors Risks related to Phelps Dodge s business Mine closure regulations may impose substantial costs.

(b) Reflects the fair value of Freeport-McMoRan common stock to be issued to Phelps Dodge shareholders as a result of the acquisition calculated by using the weighted average market price of Freeport-McMoRan common stock from November 16, 2006 to November 21, 2006 multiplied by the estimated shares of Freeport-McMoRan stock to be issued to Phelps Dodge shareholders.

(c) Based on the weighted average market price of Freeport-McMoRan common stock from November 16, 2006 to November 21, 2006, the cash consideration to be paid in the acquisition, and the estimated Phelps Dodge common shares outstanding and issuable at December 31, 2006.

(d) Reflects our estimate of fees and expenses associated with the transactions, including financing fees, estimated change of control costs and related employee benefits and other transaction costs and professional fees.

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Corporate structure

Under the terms of the proposed transactions, a wholly owned subsidiary of Freeport-McMoRan will merge into Phelps Dodge. As a result, Phelps Dodge will continue as a surviving corporation and will become a wholly owned subsidiary of Freeport-McMoRan. The diagram below shows a summary of the corporate structure of the combined company.

Recent developments

On November 22, December 12 and December 14, 2006, putative class actions were filed on behalf of Phelps Dodge shareholders in Arizona state court, New York state court and Arizona state court, respectively. The class actions allege breaches of fiduciary duties by the Phelps Dodge board of directors in connection with the acquisition. The complaints allege, among other things, that the named defendants engaged in self-dealing, obtained for themselves personal benefits not shared equally by Phelps Dodge shareholders and failed to disclose all material information concerning the acquisition to Phelps Dodge shareholders. One of these complaints names Freeport-McMoRan as a defendant and alleges that Freeport-McMoRan aided and abetted such alleged violations of fiduciary duties. The plaintiffs seek, among other things, injunctive relief barring consummation of the acquisition and directing the defendants to obtain a transaction that is in the best interests of Phelps Dodge shareholders.

Phelps Dodge, Freeport-McMoRan and the other named defendants believe the allegations are without merit and intend to vigorously defend the actions.

Freeport-McMoRan Copper & Gold Inc. is a Delaware corporation. Our principal executive offices are located at 1615 Poydras Street, New Orleans, Louisiana 70112, and our telephone number at that address is (504) 582-4000. Our website is located at www.fcx.com. The information on our website is not part of this prospectus supplement or the accompanying prospectus.

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The offering

The following summary contains basic information about the notes and is not intended to be complete. It may not contain all of the information that may be important to you. For a more complete description of the notes, see Description of the notes. In this summary of the offering, the words company, we, us and our refer only to Freeport-McMoRan Copper & Gold Inc. and not to any of its subsidiaries. Unless otherwise required by the context, we use the term notes in this prospectus supplement to refer collectively to the % senior notes due 2015 and the % senior notes due 2017.

Issuer	Freeport-McMoRan Copper & Gold Inc., a Delaware corporation
Securities	$ million in aggregate principal amount of % senior notes due 2015.
	$ million in aggregate principal amount of % senior notes due 2017.
Maturity	The % senior notes will mature on , 2015.
	The % senior notes will mature on , 2017.
Interest	The senior notes due 2015 will accrue interest from , 2007 at a rate of % per annum, payable and of each year, beginning on , 2007.
	The senior notes due 2017 will accrue interest from , 2007 at a rate of % per annum, payable and of each year, beginning on , 2007.
Ranking	Each series of notes will be general unsecured obligations of the company and will:

rank equally in right of payment with the notes of the other series and with all existing and future senior indebtedness of the company;

be senior in right of payment to any future subordinated obligations of the company;

be effectively subordinated to all secured indebtedness of the company, including secured indebtedness and the other obligations under the new senior credit facilities and certain of the company s existing debt securities, to the extent of the value of the assets securing such indebtedness; and

be effectively subordinated to all liabilities (including trade payables) and preferred stock of each subsidiary of the company, including Phelps Dodge s existing debt securities.

As of December 31, 2006, on a pro forma basis after giving effect to the transactions, the company would have had approximately $17,251.0 million aggregate principal amount of indebtedness (excluding intercompany debt), all of which would have been senior

	indebtedness, including $10,612.9 million of secured indebtedness ($10,000.0 million of which consists of indebtedness and guarantees under the company s new senior credit facilities and $612.9 million of which consists of secured indebtedness of certain of the company s existing debt securities), $631.0 million of guarantees of existing debt securities of the company s subsidiaries, $6,000.0 million of the notes offered hereby and $7.1 million of other senior indebtedness. As of December 31, 2006, on a pro forma basis after giving effect to the transactions, our subsidiaries would have had approximately $23,495.3 million of total liabilities (including trade payables). See Description of the notes Ranking.
Optional redemption	Beginning on , 2011, we may redeem the 2015 notes, in whole or in part, at the redemption prices listed under Description of the notes Optional redemption plus accrued and unpaid interest on the 2015 notes to the redemption date. Prior to , 2011, we may redeem the 2015 notes, in whole or in part, pursuant to a make-whole call, plus accrued and unpaid interest on the 2015 notes to the redemption date. Beginning on , 2012, we may redeem the 2017 notes, in whole or in part, at the redemption prices listed under Description of the notes Optional redemption plus accrued and unpaid interest on the 2017 notes to the redemption date. Prior to , 2012, we may redeem the 2017 notes, in whole or in part, pursuant to a make-whole call, plus accrued and unpaid interest on the 2017 notes to the redemption date. In addition, prior to , 2010, on one or more occasions, we may redeem up to 35% of the aggregate principal amount of each series of notes with the proceeds of one or more equity offerings at a redemption price equal to %, in the case of the 2015 notes, and %, in the case of the 2017 notes, of the principal amount thereof, in each case plus accrued and unpaid interest to the redemption date (as described under Description of the notes Optional redemption).
Change of control	Upon the occurrence of certain kinds of changes of control, you will have the right, as holders of the notes, to require us to repurchase some or all of your notes at 101% of their principal amount, plus accrued and unpaid interest to the repurchase date. See Description of the notes Change of control.
Basic covenants	The indenture governing the notes contains covenants that will impose significant restrictions on our business. The restrictions that these covenants will place on us and our restricted subsidiaries

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	include limitations on our ability and the ability of our restricted subsidiaries to: incur additional indebtedness; pay dividends or make distributions in respect of our capital stock or make certain other restricted payments or investments; sell assets, including the capital stock of our restricted subsidiaries; consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; incur liens; enter into sale/leaseback transactions; and designate our subsidiaries as unrestricted subsidiaries. Certain of these covenants will be suspended with respect to the notes of a series if one of the two specified rating agencies assigns such series of notes an investment grade credit rating in the future and no default or event of default exists under the indenture. Such covenants will be reinstated with respect to such series of notes to the extent a default or event of default with respect to such series of notes has occurred and is continuing or both of the specified ratings agencies assign such series of notes non-investment grade credit ratings. These covenants are also subject to other important exceptions and qualifications, which are described under Description of the notes Certain covenants.
No prior market	Both series of notes are new securities and there is currently no established trading market for the notes. Although the underwriters have informed us that they intend to make a market in the notes, they are not obligated to do so and they may discontinue market making activities at any time without notice. Accordingly, we cannot assure you that a liquid market for the notes will develop or be maintained.
Use of proceeds	We will use the net proceeds from the offering to fund a portion of the acquisition consideration and pay related fees and expenses. See Use of proceeds.
Conditions to the offering	Closing of this offering will occur concurrently with, and is conditioned upon, the closing of the transactions.
Risk factors	Investing in the notes involves substantial risks. You should carefully consider all the information in this prospectus supplement prior to investing in the notes. In particular, we urge you to carefully consider the factors set forth under Risk factors.

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Summary consolidated historical financial and operating data of Freeport-McMoRan

The following summary consolidated historical financial data as of and for the years ended December 31, 2004, 2005 and 2006, have been derived from the audited consolidated financial statements of Freeport-McMoRan incorporated by reference herein. The historical results presented below are not necessarily indicative of results that you can expect for any future period. You should read the table in conjunction with the sections entitled Use of proceeds, Capitalization, Unaudited pro forma condensed combined financial statements, Selected consolidated historical financial and operating data of Freeport-McMoRan, Management s discussion and analysis of financial condition and results of operations of Freeport-McMoRan and the consolidated financial statements of Freeport-McMoRan and the related notes incorporated by reference herein. See Where you can find more information.

	Years ended December 31,		
(Dollars in millions)	**2004**	**2005**	**2006**
Statement of income data:			
Revenues	$ 2,371.9	$ 4,179.1	$ 5,790.5
Costs and expenses	1,668.3	2,001.8	2,921.8
Operating income	703.6	2,177.3	2,868.7
Interest expense, net	148.1	131.6	75.6
Net income applicable to common stock	156.8	934.6	1,396.0
Balance sheet data at end of period:			
Cash and cash equivalents	$ 552.0	$ 763.6	$ 907.5
Working capital[(a)]	762.4	673.8	1,178.6
Total assets	5,087.0	5,550.2	5,389.8
Total debt[(b)]	1,951.9	1,255.9	680.1
Stockholders equity	1,163.6	1,843.0	2,445.1
Other financial data:			
EBITDA[(c)]	$ 842.0	$ 2,232.8	$ 2,900.4
Adjusted EBITDA[(c)]	823.0	2,428.7	3,096.4
Capital expenditures and investments in subsidiaries	142.9	143.0	257.1[(d)]
Depreciation and amortization	206.4	251.5	227.6
Cash flow from operating activities[(e)]	341.4	1,552.5	1,866.4
Cash flow used in investing activities	64.0	134.3	223.5
Cash flow used in financing activities	189.6	1,206.1	1,499.1

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	Years ended December 31, 2004	2005	2006
Operating data:			
PT Freeport Indonesia operating data, net of Rio Tinto s interest[f]:			
Copper (recoverable)			
Production (000s of pounds)	996,500	1,455,900	1,201,200
Sales (000s of pounds)	991,600	1,456,500	1,201,400
Average realized price per pound	$ 1.37	$ 1.85	$ 3.13
Net cash production cost per pound[g]	$ 0.40	$ 0.07	$ 0.60
Gold (recoverable ounces)			
Production	1,456,200	2,789,400	1,731,800
Sales	1,443,000	2,790,200	1,736,000
Average realized price per ounce	$ 412.32	$ 456.27	$ 566.51(h)
PT Freeport Indonesia, 100% operating data:			
Copper (recoverable) (000s of pounds)			
Production	1,098,600	1,688,900	1,299,500
Sales	1,092,700	1,689,400	1,300,000
Gold (recoverable ounces)			
Production	1,536,600	3,439,600	1,824,100
Ore milled (metric tons per day)	185,100	216,200	229,400
Average ore grade			
Copper (percent)	0.87	1.13	0.85
Gold (grams per metric ton)	0.88	1.65	0.85
Gold (ounce per metric ton)	0.028	0.053	0.027
Recovery rates (percent)			
Copper	88.6	89.2	86.1
Gold	81.8	83.1	80.9

(a) Working capital represents current assets less current liabilities.

(b) Includes current portion of debt and short term borrowings.

(c) EBITDA and Adjusted EBITDA are non-GAAP financial measures. EBITDA represents net income applicable to common stock plus (i) interest expense, net, (ii) provision for income taxes and (iii) depreciation and amortization. Adjusted EBITDA represents EBITDA further adjusted to reflect the impact of (i) preferred dividends, (ii) minority interests in net income of consolidated subsidiaries, (iii) losses on early extinguishment and conversion of debt, (iv) gains on sales of assets, (v) gain on insurance settlement, (vi) other income, net and (vii) equity in PT Smelting earnings.

EBITDA and Adjusted EBITDA are frequently used by securities analysts, investors, lenders and others to evaluate companies performance, including, among other things, profitability before the effect of financing and similar decisions. Because securities analysts, investors, lenders and others use EBITDA and Adjusted

EBITDA, our management believes that our presentation of EBITDA and Adjusted EBITDA affords them greater transparency in assessing our financial performance. EBITDA and Adjusted EBITDA should not be considered as a substitute for measures of financial performance prepared in accordance with GAAP. EBITDA and Adjusted EBITDA may not necessarily be comparable to similarly titled measures reported by other companies, as different companies calculate them differently.

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The following table reconciles net income applicable to common stock to EBITDA and to Adjusted EBITDA for each period presented:

(Dollars in millions)	Years ended December 31, 2004	2005	2006
Net income applicable to common stock	$ 156.8	$ 934.6	$ 1,396.0
Interest expense, net	148.1	131.6	75.6
Provision for income taxes	330.7	915.1	1,201.2
Depreciation and amortization	206.4	251.5	227.6
EBITDA	$ 842.0	$ 2,232.8	$ 2,900.4
Preferred dividends	45.5	60.5	60.5
Minority interests in net income of consolidated subsidiaries	41.4	126.7	168.2
Losses on early extinguishment and conversion of debt(1)	14.0	52.2	32.0
Gains on sales of assets(2)	(28.8)	(6.6)	(30.6)
Gain on insurance settlement(3)	(87.0)		
Other income, net(4)	(2.1)	(27.6)	(27.6)
Equity in PT Smelting earnings	(2.0)	(9.3)	(6.5)
Adjusted EBITDA	$ 823.0	$ 2,428.7	$ 3,096.4

(1) Amounts for 2004 primarily relate to induced conversions of 81/4% Convertible Notes due 2006; and amounts for 2005 and 2006 primarily relate to induced conversions of 7% Convertible Senior Notes due 2011 and purchases of 101/8% Senior Notes due 2010.

(2) Amounts for 2004 include a $20.4 million gain from the sale of a parcel of land in Arizona held by a joint venture, and a $7.5 million gain from Atlantic Copper s sale of its wire rod and wire assets; amounts for 2005 include a $4.9 million gain from the sale of a parcel of land in Arizona held by a joint venture; and amounts for 2006 include gains of $29.7 million at Atlantic Copper from the disposition of land and certain royalty rights.

(3) Gain on insurance settlement related to the fourth quarter 2003 slippage and debris flow events at the Grasberg open pit.

(4) Primarily relates to interest income and the impact of translating into U.S. dollars Atlantic Copper s euro-denominated net liabilities.

(d) Includes $4.6 million of Phelps Dodge acquisition costs.

(e) Cash flow from operating activities represents net income before non-cash charges including depreciation and amortization, losses on early extinguishment and conversion of debt, deferred income taxes, minority interests share of net income, equity (earnings) losses in PT Smelting and other non-cash costs. Changes in working capital also impact cash flow from operating activities.

(f) For a description of Rio Tinto s interests, see Business of Freeport-McMoRan General.

(g) For a reconciliation of unit net cash costs to production and delivery costs applicable to sales reported in Freeport-McMoRan s consolidated financial statements, refer to Product revenues and production costs included in Management s discussion and analysis of financial condition and results of operations of Freeport-McMoRan elsewhere in this prospectus supplement.

(h) Amount was $606.36 before a loss resulting from redemption of Freeport-McMoRan s Gold-Denominated Preferred Stock, Series II.

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Summary consolidated historical financial and operating data of Phelps Dodge

The following summary consolidated historical financial data as of and for the years ended December 31, 2004, 2005 and 2006, have been derived from the audited consolidated financial statements of Phelps Dodge incorporated by reference herein. The historical results presented below are not necessarily indicative of results that you can expect for any future period. You should read the table below in conjunction with the sections entitled Use of proceeds, Capitalization, Unaudited pro forma condensed combined financial statements, Selected consolidated historical financial and operating data of Phelps Dodge, Management s discussion and analysis of financial condition and results of operations of Phelps Dodge and the consolidated financial statements of Phelps Dodge and the related notes incorporated by reference herein. See Where you can find more information.

	Years ended December 31,		
(Dollars in millions)	**2004[a]**	**2005[b]**	**2006[c]**
Statement of income data:			
Sales and other operating revenues	$ 6,415.2	$ 8,287.1	$ 11,910.4
Operating costs and expenses	4,940.3	6,522.2	7,683.5
Operating income	1,474.9	1,764.9	4,226.9
Interest expense, net of capitalized interest	122.9	62.3	19.0
Net income applicable to common shares	1,032.8	1,549.6	3,017.8
Balance sheet data at end of period:			
Cash and cash equivalents	$ 1,200.1	$ 1,916.7	$ 4,947.4
Working capital[d]	1,493.7	2,461.4	4,338.0
Total assets	8,594.1	10,358.0	14,632.3
Total debt	1,096.9	694.5	891.9
Shareholders equity	4,343.1	5,601.6	7,690.4
Other financial data:			
EBITDA[e]	$ 1,808.3	$ 2,647.1	$ 4,501.2
Adjusted EBITDA[e]	2,037.4	2,719.7	4,769.2
Capital expenditures and investments, net	317.3	698.2	1,187.8
Depreciation, depletion and amortization	455.5	441.8	448.7
Net cash provided by operating activities	1,700.1	1,769.7	5,079.2
Net cash used in investing activities	291.0	368.0	844.2
Net cash used in financing activities	947.2	685.8	1,213.2

	Years ended December 31,		
	2004	**2005**	**2006**
Operating data:			
Copper production (million pounds consolidated basis)[f]	2,521.2	2,456.0	2,437.4
Copper production (million pounds pro rata basis)[g]	2,163.4	2,084.6	2,012.6
Copper sales from Phelps Dodge s mines (million pounds consolidated basis)[f]	2,537.8	2,476.8	2,429.0

Copper sales from Phelps Dodge s mines (million pounds pro rata basis)[g]		2,178.2		2,103.2		2,006.2
COMEX copper price per pound[h]	$	1.29	$	1.68	$	3.09
LME copper price per pound[i]	$	1.30	$	1.67	$	3.05
Molybdenum production (million pounds)		57.5		62.3		68.2
Molybdenum sales from Phelps Dodge s mines (million pounds)		63.1		59.9		68.8
Purchased molybdenum (million pounds)		12.9		12.9		8.3
Total molybdenum sales (million pounds)		76.0		72.8		77.1
Metals Week molybdenum Dealer Oxide mean price per pound[j]	$	16.41	$	31.73	$	24.75

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(a) Reported amounts for 2004 included after-tax, net special charges of $50.4 million, including $44.7 million for environmental provisions; $30.9 million (net of minority interests) for early debt extinguishment costs; $9.9 million for the write-down of two cost-basis investments; $9.6 million for taxes on anticipated foreign dividends; $9.0 million for a deferred tax asset valuation allowance at Phelps Dodge s Brazilian wire and cable operation; $7.6 million for Phelps Dodge Magnet Wire restructuring activities; $5.9 million for asset impairment charges (included $4.5 million for discontinued operations); and $0.7 million for interest on a Texas franchise tax matter; partially offset by after-tax net special gains of $30.0 million for the reversal of a U.S. deferred tax asset valuation allowance; $15.7 million (net of minority interest) for the reversal of an El Abra deferred tax asset valuation allowance; $10.1 million for the gain on the sale of uranium royalty rights; $7.4 million for environmental insurance recoveries; and $4.7 million for the settlement of historical legal matters.

(b) Reported amounts for 2005 included after-tax, net special charges of $54.1 million, including $331.8 million for asset impairment charges; tax expense of $88.1 million for foreign dividend taxes; $86.4 million for environmental provisions; $42.6 million associated with discontinued operations in connection with the sale of Columbian Chemicals Company, which is referred to in this document as Columbian, previously disclosed as PDI s Specialty Chemicals Segment; $41.3 million for early debt extinguishment costs; $34.5 million (net of minority interest) for tax on unremitted foreign earnings; $23.6 million for a tax charge associated with minimum pension liability reversal; $10.1 million for cumulative effect of accounting change; $5.9 million for transaction and employee-related costs associated with the sale of substantially all of Phelps Dodge s North American magnet wire assets; partially offset by after-tax, net special gains of $388.0 million for the sale of a cost-basis investment; $181.7 million for change in interest gains at Cerro Verde and Ojos del Salado; $15.6 million for legal matters; $11.9 million for the reversal of Phelps Dodge Brazil s deferred tax asset valuation allowance; $8.5 million for the sale of non-core real estate; $4.0 million for the reversal of U.S. deferred tax asset valuation allowance; $0.4 million for environmental insurance recoveries; and $0.1 million for Phelps Dodge Magnet Wire restructuring activities. The after-tax, net special charges of $42.6 million associated with discontinued operations consisted of $67.0 million (net of minority interests) for a goodwill impairment charge; taxes of $7.6 million associated with the sale and dividends paid in 2005; and $5.0 million for a loss on disposal of Columbian associated with transactions and employee-related costs, partially offset by a deferred income tax effect of $37.0 million.

(c) Reported amounts for 2006 included after-tax, net special gains of $344.2 million, including $330.7 million for the Inco termination fee; $127.5 million for the reversal of U.S. deferred tax asset valuation allowance; $2.0 million for legal matters; $0.4 million for sale of non-core real estate; and $0.2 million for the reversal of Minera PD Peru deferred tax asset valuation allowance; partially offset by after-tax, net special charges of $54.5 million for environmental provisions; $30.9 million for charges associated with discontinued operations in connection with the sale of Columbian; $9.6 million for asset impairment charges; $7.6 million (net of minority interest) for tax on unremitted foreign earnings; $5.1 million for transaction and employee-related charges and loss on disposal in connection with the sale of North American magnet wire assets; $4.7 million for transaction and employee-related charges and loss on the disposal in connection with the sale of HPC; $3.0 million for a lease termination settlement; and $1.2 million associated with the dissolution of an international wire and cable entity.

(d) Working capital represents current assets less current liabilities.

(e) EBITDA and Adjusted EBITDA are non-GAAP financial measures. EBITDA represents net income applicable to common shares plus (i) interest expense, net of capitalized interest, (ii) provision for taxes on income, (iii) depreciation, depletion and amortization and (iv) amounts included in discontinued operations. Adjusted EBITDA represents EBITDA further adjusted to reflect the impact of (i) preferred stock dividends, (ii) minority interests in consolidated subsidiaries, (iii) equity in net earnings of affiliated companies, (iv) special items and provisions, net, (v) early debt extinguishment costs, (vi) Inco termination fee, net of expenses, (vii) gain on sale of cost-basis investments, net of expenses, (viii) change in interest gains, net of expenses, (ix) miscellaneous income and expense, net and (x) other amounts included in discontinued operations.

EBITDA and Adjusted EBITDA are frequently used by securities analysts, investors, lenders and others to evaluate companies performance, including, among other things, profitability before the effect of financing and similar decisions. Because securities analysts, investors, lenders and others use EBITDA and Adjusted EBITDA, our management believes that our presentation of EBITDA and Adjusted EBITDA affords them greater transparency in assessing our financial performance. EBITDA and Adjusted EBITDA should not be considered as a substitute for measures of financial performance prepared in accordance with GAAP. EBITDA and Adjusted EBITDA may not necessarily be comparable to similarly titled measures reported by other companies, as different companies calculate them differently.

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The following table reconciles net income applicable to common shares to EBITDA and Adjusted EBITDA for each period presented:

(Dollars in millions)	Years ended December 31, 2004	2005	2006
Net income applicable to common shares	$ 1,032.8	$ 1,549.6	$ 3,017.8
Interest expense, net of capitalized interest	122.9	62.3	19.0
Provision for taxes on income	131.3	577.0	1,010.2
Depreciation, depletion and amortization	455.5	441.8	448.7
Amounts included in discontinued operations(1)	65.8	16.4	5.5
EBITDA	$ 1,808.3	$ 2,647.1	$ 4,501.2
Preferred stock dividends	13.5	6.8	
Minority interests in consolidated subsidiaries	201.1	190.4	792.4
Equity in net earnings of affiliated companies	(1.9)	(2.7)	(4.6)
Special items and provisions, net(2)	61.6	523.1	93.6
Early debt extinguishment costs	43.2	54.0	
Inco termination fee, net of expenses(3)			(435.1)
Gain on sale of cost-basis investment, net of expenses(4)		(438.4)	
Change in interest gains, net of expenses(5)		(168.3)	
Miscellaneous income and expense, net(6)	(45.3)	(93.3)	(190.9)
Other amounts included in discontinued operations(7)	(43.1)	1.0	12.6
Adjusted EBITDA	$ 2,037.4	$ 2,719.7	$ 4,769.2

(1) Reflects interest expense, net of capitalized interest, provision for taxes on income, depreciation, depletion and amortization, in each case, included within discontinued operations in the amounts of $3.2 million, $11.0 million and $51.6 million in 2004, respectively, $4.2 million, ($37.0) million and $49.2 million in 2005, respectively, and $0.4 million, $4.8 million and $0.3 million in 2006, respectively.

(2) Primarily reflects charges for asset impairments and environmental provisions for closed facilities or closed portions of operating facilities, including net charges of approximately $58.9 million for environmental provisions in 2004, approximately $419.1 million for asset impairments at the Tyrone and Cobre mines, Chino smelter and Miami refinery in 2005 and approximately $71.7 million for environmental provisions in 2006.

(3) Reflects the gain from the termination fee received, net of expenses, resulting from the termination of a Combination Agreement with Inco, Ltd.

(4) Reflects the gain, net of expenses, resulting from the 2005 sale of Phelps Dodge s investment in Southern Peru Copper Corporation.

(5) Reflects gains, net of expenses, resulting from reductions in ownership interests in Cerro Verde and Ojos del Salado during 2005.

(6) Primarily reflects interest income and dividends received from Southern Peru Copper Corporation prior to its sale in 2005.

(7) Reflects (income) loss included within discontinued operations.

(f) Consolidated basis excludes 15 percent undivided interest in the Morenci, Arizona copper mining complex held by Sumitomo Metal Mining Arizona, Inc.

(g) Pro rata basis reflects Phelps Dodge s ownership interests in El Abra (51%), Candelaria (80%), and Morenci (85%) for all periods, Cerro Verde (82.5% through May 2005 and 53.56% thereafter) and Ojos del Salado (100% through December 2005 and 80% thereafter).

(h) New York Commodity Exchange average spot price per pound cathodes.

(i) London Metal Exchange average spot price per pound cathodes.

(j) Annual *Metals Week* molybdenum Dealer Oxide mean price per pound as quoted in Platts *Metals Week*.

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Summary unaudited pro forma condensed combined financial information

The following table sets forth summary unaudited pro forma condensed combined financial information of Freeport-McMoRan. The pro forma information has been derived from, and should be read in conjunction with, the Unaudited pro forma condensed combined financial statements and related notes, which are included in this prospectus supplement and give pro forma effect to the transactions.

The pro forma condensed combined balance sheet information gives effect to the transactions as if they occurred on December 31, 2006. The pro forma condensed combined statements of income information gives effect to the transactions as if they occurred on January 1, 2006. The summary unaudited pro forma condensed combined financial information is provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations or the consolidated financial position of Freeport-McMoRan would have been had the transactions occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or consolidated financial position.

(Dollars in millions, except ratios)	**Pro forma year ended December 31, 2006**
Statement of income data:	
Revenues[(a)]	$ 17,700.9
Costs and expenses	11,167.3
Operating income	6,533.6
Interest expense, net[(b)]	1,393.7
Income from continuing operations applicable to common stock[(a)]	2,868.7
Balance sheet data at end of year:	
Cash and cash equivalents[(c)]	$ 3,383.4
Working capital[(d)]	5,749.6
Total assets	40,657.5
Total debt[(e)]	17,607.4
Stockholders equity	10,235.9
Other financial data:	
EBITDA[(f)]	$ 7,444.1
Adjusted EBITDA[(f)]	7,801.8
Capital expenditures and investments in subsidiaries	1,499.3
Depreciation, depletion and amortization	1,268.2
Ratio of total debt to Adjusted EBITDA	2.3x
Ratio of Adjusted EBITDA to interest expense, net	5.6x

(a) Amounts include charges for mark-to-market losses on Phelps Dodge s copper price protection program totaling $1,008.9 million in revenues and $766.8 million in income from continuing operations applicable to common stock for the year ended December 31, 2006.

(b) The pro forma information presented herein assumes a weighted average annual interest rate of 7.8% on the notes, the Tranche A term loan facility and the Tranche B term loan facility. A 0.125% variance in the interest rate on the Tranche A term loan portion of the new senior credit facilities would cause an increase or decrease of $3.1 million in interest expense. A 0.125% variance in the interest rate on the Tranche B term loan portion of the new senior credit facilities would cause an increase or decrease of $9.4 million in interest expense. A 0.125% variance on the weighted average interest rate on the notes would cause an increase or decrease of $7.5 million in interest expense.

(c) At December 31, 2006, Freeport-McMoRan and Phelps Dodge had $5,854.9 million of combined unrestricted cash on hand.

(d) Working capital represents current assets less current liabilities.

(e) Based on fair value of Phelps Dodge s debt and includes current portion of debt and short-term borrowings. Pro forma total debt based on book values as of December 31, 2006 was $17,572.0 million.

(f) EBITDA and Adjusted EBITDA are non-GAAP financial measures. For purposes of this presentation, pro forma EBITDA represents income from continuing operations applicable to common stock plus (i) interest expense, net, (ii) provision for income taxes and (iii) depreciation, depletion and amortization. Pro forma Adjusted EBITDA represents pro forma EBITDA further adjusted to reflect the impact of (i) preferred dividends, (ii) minority interest in net income of consolidated subsidiaries,

(iii) losses on early extinguishment and conversion of debt, (iv) gains on sales of assets, (v) Inco termination fee, net of expenses, (vi) other income, net and (vii) equity in PT Smelting and affiliated companies earnings. EBITDA and Adjusted EBITDA are frequently used by securities analysts, investors, lenders and others to evaluate companies performance, including, among other things, profitability before the effect of financing and similar decisions. Because securities analysts, investors, lenders and others use EBITDA and Adjusted EBITDA, our management believes that our presentation of EBITDA and Adjusted EBITDA affords them greater transparency in assessing our financial performance. EBITDA and Adjusted EBITDA should not be considered as a substitute for measures of financial performance prepared in accordance with GAAP. EBITDA and Adjusted EBITDA may not necessarily be comparable to similarly titled measures reported by other companies, as different companies calculate them differently.

The following table reconciles net income applicable to common stock to EBITDA and to Adjusted EBITDA for the year ended December 31, 2006:

(Dollars in millions)		**Pro forma Year Ended December 31, 2006**
Income from continuing operations applicable to common stock	$	2,868.7
Interest expense, net		1,393.7
Provision for income taxes		1,913.5
Depreciation, depletion and amortization		1,268.2
EBITDA	$	7,444.1
Preferred dividends		60.5
Minority interests in net income of consolidated subsidiaries		960.6
Losses on early extinguishment and conversion of debt		32.0
Gains on sales of assets(1)		(30.6)
Inco termination fee, net of expenses(2)		(435.1)
Other income, net(3)		(218.6)
Equity in PT Smelting and affiliated companies earnings		(11.1)
Adjusted EBITDA	$	7,801.8

(1) Includes gains of $29.7 million at Atlantic Copper from the disposition of land and certain royalty rights.
(2) Reflects gain from a termination fee received, net of expenses, resulting from termination of a Combination Agreement with Inco, Ltd.
(3) Primarily relates to interest income.

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Risk factors

In addition to the other information included or incorporated by reference in this prospectus supplement, including the matters addressed in Cautionary statement regarding forward-looking statements, you should carefully consider the following risk factors set forth below before making an investment decision with respect to the notes. In addition, you should read and consider the risk factors associated with each of the businesses of Freeport-McMoRan and Phelps Dodge because these risk factors may also affect the operations and financial results reported by the combined company. See Where you can find more information.

Risks related to the notes

Our substantial indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under our outstanding indebtedness and the notes.

The combined company will have incurred significant debt to fund a portion of the cash consideration payable to the Phelps Dodge shareholders in the acquisition. As of December 31, 2006, on a pro forma basis giving effect to the transactions, the outstanding principal amount of our indebtedness would have been approximately $17.6 billion (excluding unused availability under our revolving credit facility of approximately $1.4 billion after giving effect to outstanding letters of credit). Our level of indebtedness could have important consequences for you as a note holder. For example, it could:

- make it difficult for us to satisfy our obligations with respect to the notes;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations and proceeds of any equity issuances to payments on our indebtedness, thereby reducing the availability of cash flow to fund working capital, capital expenditures, acquisitions and investments and other general corporate purposes;
- make it difficult for us to optimally capitalize and manage the cash flow for our businesses;
- limit our flexibility in planning for, or reacting to, changes in our businesses and the markets in which we operate;
- place us at a competitive disadvantage to our competitors that have less debt;
- limit our ability to borrow money or sell stock to fund our working capital, capital expenditures, acquisitions and debt service requirements and other financing needs; and
- increase our interest expense if interest rates in general increase because a substantial portion of our indebtedness bears interest at floating rates.

In addition, we may need to incur additional indebtedness in the future in the ordinary course of business. The terms of our new senior credit facilities and other agreements governing our indebtedness allow us to incur additional debt subject to certain limitations. If new debt is added to current debt levels, the risks described above could intensify. Furthermore, if future debt financing is not available to us when required or is not available on acceptable terms, we may be unable to grow our business, take advantage of business opportunities, respond to competitive pressures or refinance maturing debt, any of which could have a material adverse effect on our operating results and financial condition. Moreover, the combined company s

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ability to satisfy financial tests or utilize third-party guarantees for financial assurance with respect to reclamation obligations may be adversely impacted if its credit ratings were downgraded below investment grade.

We need significant amounts of cash to service our indebtedness. If we are unable to generate a sufficient amount of cash to service our indebtedness, our financial condition and results of operations could be negatively impacted.

We need significant amounts of cash in order to service and repay our indebtedness. Our ability to generate cash in the future will be, to a certain extent, subject to general economic, financial, competitive and other factors that may be beyond our control. In addition, our ability to borrow funds in the future to service our debt will depend on covenants in our new senior credit facilities, existing indentures and other debt agreements we may have in the future. Future borrowings may not be available to us under our new senior credit facilities or from the capital markets in amounts sufficient to enable us to pay our obligations as they mature or to fund other liquidity needs. If we are not able to obtain such borrowings or generate cash flow from operations in an amount sufficient to enable us to service and repay our indebtedness, we will need to refinance our indebtedness or be in default under the agreements governing our indebtedness. Such refinancing may not be available on favorable terms or at all. The inability to service, repay and/or refinance our indebtedness could negatively impact our financial condition and results of operations.

The notes are unsecured and effectively subordinated to our existing and future secured indebtedness.

Our obligations under each series of notes will not be secured by any of our assets, while our obligations under our new senior credit facilities and under certain outstanding debt securities issued by Freeport-McMoRan and certain outstanding debt securities issued or assumed by Phelps Dodge will be secured by certain stock pledges. The new senior credit facilities and certain of the existing Freeport-McMoRan debt securities will be secured by pledges of all or a portion of the outstanding shares of capital stock of certain of Freeport-McMoRan s subsidiaries. Certain of the existing Phelps Dodge debt securities will be secured by pledges of all or a portion of the outstanding shares of capital stock of certain of Phelps Dodge s subsidiaries. In addition, our new senior credit facilities will be secured by pledges of the indebtedness owed to Freeport-McMoRan by its subsidiaries and the amended and restated portion of our new revolving credit facility will continue to be secured by PT Freeport Indonesia s assets, including its Contract of Work. Therefore, the lenders under our new senior credit facilities, the holders of certain outstanding Freeport-McMoRan and Phelps Dodge debt securities and holders of any other secured debt that we or our subsidiaries may incur in the future, will have claims with respect to these assets that have priority over the claims of holders of the 2015 notes and 2017 notes.

In the event that we are declared bankrupt, become insolvent or are liquidated or reorganized, holders of secured obligations will be entitled to be paid to the extent of the assets securing such debt. Thereafter, holders of the notes will participate ratably with all holders of our other senior unsecured indebtedness, based upon the respective amounts owed to each holder or creditor, in our remaining assets. In any of the foregoing events, we cannot assure you that there will be sufficient assets to pay amounts due on the notes. As a result, holders of notes may receive less, ratably, than holders of our secured indebtedness.

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As of December 31, 2006, on a pro forma basis giving effect to the transactions, we had $10,612.9 million of secured indebtedness ($10,000.0 million of which consisted of outstanding borrowings and related guarantees under our new senior credit facilities and $612.9 million of which consisted of indebtedness under certain existing Freeport-McMoRan debt securities). We had approximately $1.4 billion of secured debt available for additional borrowing under our new revolving credit facility as of December 31, 2006 on a pro forma basis after giving effect to the transactions and outstanding letters of credit. For further information related to this risk factor, see Description of certain indebtedness.

The notes will not be guaranteed by any of our subsidiaries, including Phelps Dodge, and will be structurally subordinated to the debt and other liabilities of our subsidiaries, which means that creditors of our subsidiaries will be paid from the assets of those entities before holders of the notes would have any claims to those assets.

The notes will not be guaranteed by any of our subsidiaries, including Phelps Dodge. Accordingly, the notes will be effectively subordinated to all debt and other liabilities, including trade debt and preferred share claims, of our subsidiaries. As of December 31, 2006, after giving pro forma effect to the transactions, our subsidiaries would have had $23,495.3 million of total liabilities (including trade payables). In the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries, holders of its indebtedness and its creditors (including preferred stockholders) will generally be entitled to payment from the assets and earnings of such subsidiary before any assets of such subsidiary are available for distribution to us and our creditors, including holders of the notes. In any of the foregoing events, we cannot assure you that there will be sufficient assets to pay amounts due on the notes. In addition, certain of our subsidiaries will guarantee our obligations under our new senior credit facilities and the existing Freeport-McMoRan debt securities to the extent the guarantee would not constitute a fraudulent conveyance, result in adverse tax consequences to us or violate applicable local law. For further information related to this risk factor, see Description of the notes Ranking.

The notes lack certain covenants typically found in other comparably rated public debt securities.

Although the notes are rated below investment grade by both Standard & Poor s and Moody s Investors Service, they lack the protection of certain financial and other restrictive covenants typically associated with comparably rated public debt securities, including covenants related to transactions with affiliates and dividend and other payment restrictions affecting subsidiaries.

The agreements governing our indebtedness contain various covenants that limit our discretion in the operation of our business and also require us to meet financial maintenance tests and other covenants. The failure to comply with such tests and covenants could have a material adverse effect on us.

The agreements governing our indebtedness contain various covenants, including those that restrict our ability to:

incur additional indebtedness;

engage in transactions with affiliates;

create liens on our assets;

- make payments in respect of, or redeem or acquire, debt or equity issued by us or our subsidiaries, including the payment of dividends on our common stock;
- make acquisitions of new subsidiaries;
- make investments in or loans to entities that we do not control, including joint ventures;
- use assets as security in other transactions;
- sell assets, subject to certain exceptions;
- merge with or into other companies;
- enter into sale and leaseback transactions;
- enter into unrelated businesses;
- enter into agreements or arrangements that restrict the ability of certain of our subsidiaries to pay dividends or other distributions;
- prepay indebtedness; and
- enter into certain new hedging transactions other than in the ordinary course.

In addition, our new senior credit facilities require that we meet certain financial tests at any time that borrowings are outstanding under our new revolving credit facility, including a leverage ratio test and a secured leverage ratio test. During periods in which copper, gold or molybdenum prices or production volumes, or other conditions reflect the adverse impact of cyclical market trends or other factors, we may not be able to comply with the applicable financial covenants.

Any failure to comply with the restrictions of our new senior credit facilities or any agreement governing our other indebtedness may result in an event of default under those agreements. Such default may allow the creditors to accelerate the related debt, which acceleration may trigger cross-acceleration or cross-default provisions in other debt. Our assets and cash flow may not be sufficient to fully repay borrowings under our outstanding debt instruments, either upon maturity or, if accelerated, upon an event of default.

If, when required, we are unable to repay, refinance or restructure our indebtedness under, or amend the covenants contained in, our new senior credit agreements, or if a default otherwise occurs, the lenders under our new senior credit facilities could elect to terminate their commitments thereunder, cease making further loans, declare all borrowings outstanding, together with accrued interest and other fees, to be immediately due and payable, institute foreclosure proceedings against those assets that secure the borrowings under our new senior credit facilities and prevent us from making payments on the notes. Any such actions could force us into bankruptcy or liquidation, and we cannot provide any assurance that we could repay our obligations under the notes in such an event.

Our holding company structure may impact your ability to receive payment on the notes.

We are a holding company with no material assets other than the capital stock of our subsidiaries. As a result, our ability to repay our indebtedness, including the notes, is dependent on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend, debt repayment or otherwise. Our subsidiaries do not have any obligation to pay amounts due on the notes or to make funds available for that purpose. In addition, our subsidiaries may not be able to, or be permitted to, make distributions to enable us to make payments in respect of our indebtedness, including each series of notes. Each of our subsidiaries is a distinct legal entity and, under certain circumstances, legal and contractual restrictions, as well as the financial condition and operating requirements of our subsidiaries, may limit our ability to obtain cash from our subsidiaries. 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 creators, including any trade creditors and preferred shareholders.

A financial failure by any entity in which we have an interest may hinder the payment of the notes.

A financial failure by any entity in which we have an interest could affect payment of the notes if a bankruptcy court were to substantively consolidate that entity with our subsidiaries and/or with us. If a bankruptcy court substantively consolidated an entity in which we have an interest with our subsidiaries and/or with us, the assets of each entity so consolidated would be subject to the claims of creditors of all entities so consolidated. This could expose our creditors, including holders of the notes, to potential dilution of the amount ultimately recoverable because of the larger creditor base. Furthermore, forced restructuring of the notes could occur through the cram-down provisions of the U.S. bankruptcy code. Under this provision, the notes could be restructured over the note holders objections as to their general terms, primarily interest rate and maturity.

We may not have the ability to finance the change of control repurchase offer required by the indenture governing the notes.

Upon certain change of control events, as that term is defined in the indenture, including a change of control caused by an unsolicited third party, we will be required to make an offer in cash to repurchase all or any part of each holder s notes at a price equal to 101 percent of the principal amount thereof, plus accrued interest. The source of funds for any such repurchase would be our available cash or cash generated from operations or other sources, including borrowings, sales of equity or funds provided by a new controlling person or entity. We cannot assure you that sufficient funds will be available at the time of any change of control event to repurchase all tendered notes pursuant to this requirement. Our failure to offer to repurchase notes, or to repurchase notes tendered, following a change of control will result in a default under the indenture, which could lead to a cross-default under our new senior credit facilities and under the terms of our other indebtedness. In addition, our new senior credit facilities may prohibit us from making any such required repurchases. Prior to repurchasing the notes upon a change of control event, as required under the indenture, we must either repay outstanding indebtedness under our new senior credit facilities or obtain the consent of the lenders under those facilities. If we do not obtain the required consents or repay our outstanding indebtedness under our new senior credit facilities, we would remain prohibited from offering to repurchase the notes. Our new senior credit facilities also provide that a change of control, as defined therein, will be a default that permits the lenders to accelerate the maturity of borrowings thereunder and, if such debt is not repaid, to enforce the security interests in the collateral securing such debt. For further information, see Description of the notes.

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One of the events which would trigger a change of control is a sale of all or substantially all of our assets. The phrase all or substantially all as used in the definition of change of control has not been interpreted under New York law (which is the governing law of the indenture) to represent a specific quantitative test. As a consequence, investors may not be able to determine when a change of control has occurred, giving rise to the repurchase obligations under the indenture. It is possible, therefore, that there could be a disagreement between us and some or all of the holders of the 2015 notes and/or 2017 notes over whether a specific asset sale or sales is a change of control triggering event and that holders of the notes might not receive a change of control offer in respect of that transaction. In addition, in the event the holders of the notes elected to exercise their rights under the indenture and we elected to contest such election, there could be no assurance as to how a court interpreting New York law would interpret the phrase all or substantially all. In addition, certain important corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a change of control under the indenture related to the notes.

There is no public market for the notes, and we cannot assure you that a market for the notes will develop.

The underwriters have advised us that they currently intend to make a market in the notes. However, the underwriters are not obligated to do so and any underwriter may discontinue its market-making activities at any time without notice. We do not intend to apply for a listing of the notes on any securities exchange or automated interdealer quotation system.

The notes will be a new class of securities for which there is no established public trading market, and no assurance can be given as to:

- the liquidity of any such market that may develop;
- the ability of holders of the notes to sell their notes; or
- the price at which the holders of the notes would be able to sell their notes.

If such a market were to exist, the notes could trade at prices that may be higher or lower than their principal amount or purchase price, depending on many factors, including:

- prevailing interest rates and the markets for similar securities;
- the interest of securities dealers in making a market;
- the market price of our common stock;
- general economic conditions; and
- our financial condition, historic financial performance and future prospects.

Risks related to the combined company

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.

World copper prices have historically fluctuated widely. During the two years ended December 31, 2006, the daily closing prices on the London spot market ranged from $1.39 to $3.99 per pound for copper. World copper prices 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, 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 have historically fluctuated widely. During the two years ended December 31, 2006, the daily closing prices on the London spot market ranged from $411 to $726 per ounce for gold. World gold prices 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.

Molybdenum prices also fluctuate widely, even more so than copper. Molybdenum demand depends heavily on the global steel industry, which uses the metal as a hardening and corrosion inhibiting agent. Approximately 80 percent of molybdenum production is used in this application. The remainder is used in specialty chemical applications such as catalysts, water treatment agents and lubricants. Approximately 65 percent of global molybdenum production is a by-product of copper mining, which is relatively insensitive to molybdenum prices. During the past 15 years, Platts *Metals Week* molybdenum Dealer Oxide prices per pound have ranged from a high of $40.00 to a low of $1.82. During the two years ended December 31, 2006, Platts *Metals*

Week molybdenum Dealer Oxide price ranged from $20.50 to $40.00 per pound. Molybdenum prices are affected by numerous factors beyond our control, including:

- the worldwide balance of molybdenum demand and supply;
- rates of global economic growth, especially construction and infrastructure activity that requires significant amounts of steel;
- the volume of molybdenum produced as a by-product of copper production;
- inventory levels;
- currency exchange fluctuations, including the relative strength of the U.S. dollar; and
- production costs of U.S. and foreign competitors.

Increased energy and other production costs could reduce the combined company s profitability and cash flow.

Each of Freeport-McMoRan and Phelps Dodge has experienced increases in production costs in recent years primarily as a result of higher energy costs and costs of other consumables, higher mining costs and higher labor costs (including pension and health-care costs).

Energy represents a significant portion of the production costs for the combined company s operations. The principal sources of energy for the combined company s operations are electricity, purchased petroleum products, natural gas and coal. The combined company will pay more for its energy needs during times of progressively higher energy prices. As energy is a significant portion of its production costs, if the combined company is unable to procure sufficient energy at reasonable prices in the future, it could adversely affect its profits and cash flow.

In addition to energy, the combined company s production costs will be affected by the prices of commodities it consumes or uses in its operations, such as sulfuric acid, grinding media, steel, reagents, liners, explosives and diluents. The prices of such commodities are influenced by supply and demand trends affecting the copper industry in general and other factors, many of which are outside the combined company s control, and are at times subject to volatile price movements. Increases in the cost of these commodities could make production at certain of the combined company s operations less profitable, even in an environment of relatively high copper prices. Increases in the costs of commodities that the combined company consumes or uses may also significantly affect the capital costs of new projects.

The volume and grade of the ore reserves that the combined company recovers and its rate of production may be more or less than anticipated.

The combined company s ore 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. Ore bodies may not conform to standard geological expectations, and estimates may change as new data becomes available. Because ore bodies do not contain uniform grades of minerals, the combined company s metal recovery rates will vary from time to time. There are also uncertainties inherent in estimating quantities of ore reserves and copper recovered from stockpiles. The quantity of copper contained in mill and leach stockpiles is based upon surveyed volumes of mined material and daily production records. The volume and grade of ore reserves recovered, rates of

production and recovered copper from stockpiles may be less than anticipated. Additionally, as the determination of ore reserves is based, in part, on historical selling prices, a prospective decrease in such prices may result in a reduction in reported and economically recoverable ore reserves. These factors may result in variations in the volumes of minerals that the combined company can sell from period to period.

Some ore reserves may become unprofitable to develop if there are unfavorable long-term market price fluctuations in copper, gold or molybdenum, or if there are significant increases in operating or capital costs. In addition, ore reserves are depleted as mined.

Our ability to replenish our ore reserves is important to our long-term viability. The combined company s exploration programs may not result in the discovery of additional mineral deposits that can be mined profitably.

The combined company s business is subject to operational risks.

Mines by their nature are subject to many operational risks and factors that are generally outside of the combined company s 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;
- 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;
- the failure of equipment or processes to operate in accordance with specifications or expectations; and
- the results of financing efforts and financial market conditions.

The combined company will operate on a broader geographical scope than either Freeport-McMoRan 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.

Freeport-McMoRan s primary operating assets are located in Indonesia. Accordingly, the business of the combined company 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. Because Phelps Dodge does not have any significant operations in Indonesia, these risks are different from and in addition to those to which the business of Phelps Dodge

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has historically been exposed. See Risk factors Risks related to Freeport-McMoRan s business below.

Phelps Dodge conducts mining operations in the United States, Chile and Peru and has a significant development project in the Democratic Republic of Congo (which is expected to begin production by early 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 Freeport-McMoRan has no significant operations in any of these countries, these risks are different from and in addition to those to which the business of Freeport-McMoRan has historically been exposed. See Risk factors Risks related to Phelps Dodge s business below.

Movements in foreign currency exchange rates or interest rates could negatively affect the combined company s operating results.

Substantially 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.

Freeport-McMoRan and Phelps Dodge may experience difficulties in integrating their businesses, which could cause the combined company to fail to realize many of the anticipated potential benefits of the transactions.

Achieving the anticipated benefits of the transactions 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 Freeport-McMoRan has 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 acquisition, 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.

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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 acquisition will depend in part upon the ability of Freeport-McMoRan and Phelps Dodge 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 Freeport-McMoRan or Phelps Dodge 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.

Risks related to Freeport-McMoRan s business

Because Freeport-McMoRan s primary operating assets are located in the Republic of Indonesia, Freeport-McMoRan s 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 Freeport-McMoRan s mining operations are located, and have sought political independence for the province. In response, Indonesia enacted regional autonomy laws, which became effective January 1, 2001. 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. In Papua, there have been sporadic attacks on civilians by 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 Freeport-McMoRan because all of Freeport-McMoRan s mining operations are located in Indonesia and are conducted pursuant to a Contract of Work with the Indonesian government. Accordingly, Freeport-McMoRan is also subject to the 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, Freeport-McMoRan is subject to the risk of expropriation. Freeport-McMoRan s 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 Freeport-McMoRan s milling facilities. Following the incident, the illegal panners blocked the road leading to the Grasberg mine and mill in protest and Freeport-McMoRan temporarily suspended mining and milling operations as a precautionary measure. The panners also vandalized some of Freeport-McMoRan s light vehicles and offices near this area, causing

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approximately $2 million in damages. Freeport-McMoRan s port facilities continued to operate during the disruption and concentrate shipments were not affected. The panners, mostly Papuans from outside Freeport-McMoRan s area of operations, presented a list of aspirations, primarily relating to their desire to share in the benefits of Freeport-McMoRan s existing initiatives and programs provided for the Papuans who are the traditional residents of Freeport-McMoRan s operations area. Mining and milling operations resumed after an approximate four-day outage. During the incident at Freeport-McMoRan s mine and mill, protestors in Jakarta vandalized the entrance floor of the office building housing Freeport-McMoRan s Indonesian headquarters and staged a three-day rally outside the building. The Indonesian police handled this matter, which did not disrupt Freeport-McMoRan s administrative functions or damage any of Freeport-McMoRan s facilities.

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

In addition to the usual risks encountered in the mining industry, Freeport-McMoRan faces additional risks because Freeport-McMoRan s operations are located on difficult terrain in a very remote area.

Freeport-McMoRan s mining operations are located in steeply mountainous terrain in a very remote area in Indonesia. Because of these conditions, Freeport-McMoRan has 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, Freeport-McMoRan is 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. Freeport-McMoRan s 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 Freeport-McMoRan to alter its short-term mine sequencing plans, which adversely affected Freeport-McMoRan s 2003 and 2004 production. While Freeport-McMoRan 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, Freeport-McMoRan 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) 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.

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 Freeport-McMoRan s business.

On August 31, 2002, three people were killed and 11 others were wounded in an ambush by a group of unidentified assailants. The assailants shot at several vehicles transporting international contract teachers from Freeport-McMoRan 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. Freeport-McMoRan, 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 Freeport-McMoRan s 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 Freeport-McMoRan s 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. Freeport-McMoRan s mining and milling operations were not interrupted by these incidents but their 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 Freeport-McMoRan s 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

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our. The attacks and the resulting economic and political uncertainties, including the potential for further terrorist acts, have negatively impacted insurance markets. Moreover, while Freeport-McMoRan s 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 Freeport-McMoRan s business and profitability in ways that we cannot predict at this time.

Freeport-McMoRan s Contracts of Work are subject to termination if Freeport-McMoRan does not comply with its contractual obligations, and if a dispute arises, Freeport-McMoRan 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 Freeport-McMoRan has an interest were entered into under Indonesia s 1967 Foreign Capital Investment Law, which provides guarantees of remittance rights and protection against nationalization. Freeport-McMoRan s Contracts of Work can be terminated by the Government of Indonesia if Freeport-McMoRan does 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. Freeport-McMoRan 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 Freeport-McMoRan s 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, Freeport-McMoRan faces the risk of having to submit to the jurisdiction of a foreign court or arbitration panel, and if Freeport-McMoRan prevails in such a dispute, Freeport-McMoRan will face the additional risk of having to enforce the judgment of a foreign court or arbitration panel against Indonesia within its own territory.

Indonesian government officials have periodically undertaken reviews regarding Freeport-McMoRan s 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. Freeport-McMoRan has conducted numerous working meetings with these groups. The joint team has indicated that it will issue its report shortly. While Freeport-McMoRan believes that it complies with the Contract of Work in all material respects, Freeport-McMoRan cannot assure you that the report will conclude that it is 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 Freeport-McMoRan s operations and held a number of hearings in Jakarta. Freeport-McMoRan will continue to work with these groups to respond to their questions about Freeport-McMoRan s operations and its compliance with PT Freeport Indonesia s Contract of Work.

Any suspension of required activities under Freeport-McMoRan s Contracts of Work requires the consent of the Indonesian government.

Freeport-McMoRan s Contracts of Work permit Freeport-McMoRan 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 Freeport-McMoRan does not request a suspension or is denied a suspension, then Freeport-McMoRan is required to continue its 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.

Freeport-McMoRan suspended its field exploration activities outside of Block A in recent years due to safety and security issues and regulatory uncertainty relating to a possible conflict between its 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, Freeport-McMoRan requested and received from the Government of Indonesia, formal temporary suspensions of its 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, in 2007 Freeport-McMoRan plans to resume exploration activities in certain prospective Contract of Work areas outside of Block A.

Freeport-McMoRan s mining operations create difficult and costly environmental challenges, and future changes in environmental laws, or unanticipated environmental impacts from Freeport-McMoRan s operations, could require it to incur increased costs.

Mining operations on the scale of Freeport-McMoRan s operations in Papua involve significant environmental risks and challenges. Freeport-McMoRan s primary challenge is to dispose of the large amount of crushed and ground rock material, called tailings, that results from the process by which Freeport-McMoRan physically separates the copper-, gold- and silver-bearing materials from the ore that it mines. Freeport-McMoRan s tailings management plan uses the river system near its 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 regenerated. 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 Freeport-McMoRan s tailings and overburden management plans, including a suggestion that Freeport-McMoRan implement a pipeline system rather than its river deposition system for tailings disposal. Because Freeport-McMoRan s 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

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adverse environmental issues. An external panel of qualified experts, as directed in Freeport-McMoRan s 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 predictions, and that the current system of riverine tailings management was appropriate considering all site-specific factors. For these reasons, Freeport-McMoRan does 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. Freeport-McMoRan is working with the Ministry of Environment to address the issues raised as it completes the audit process.

Freeport-McMoRan anticipates that it will continue to spend significant financial and managerial resources on environmental compliance. In addition, changes in Indonesian environmental laws or unanticipated environmental impacts from Freeport-McMoRan s operations could require Freeport-McMoRan to incur significant unanticipated costs.

Freeport-McMoRan does not expect to mine all of its ore reserves before the initial term of its Contract of Work expires.

All of Freeport-McMoRan s current proven and probable ore reserves, including the Grasberg deposit, are located in Block A. The initial term of Freeport-McMoRan s Contract of Work covering these ore reserves expires at the end of 2021. Freeport-McMoRan can extend this term for two successive 10-year periods, subject to the approval of the Indonesian government, which under Freeport-McMoRan s Contract of Work cannot be withheld or delayed unreasonably. Freeport-McMoRan s ore 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 its current mine plan has been developed, and its operations are based on the assumption that Freeport-McMoRan will receive the two 10-year extensions. As a result, Freeport-McMoRan will not mine all of its ore reserves during the current term of its Contract of Work, and there can be no assurance that the Indonesian government will approve the extensions. Prior to the end of 2021, Freeport-McMoRan expects 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.

Risks related to Phelps Dodge s business

Phelps Dodge s copper price protection programs may cause significant volatility in its financial performance.

Phelps Dodge s copper price protection programs have and may continue to cause significant volatility in its financial performance. At December 31, 2006, Phelps Dodge had in place zero-premium copper collars (consisting of both put and call options) for approximately 486 million pounds of its expected 2007 copper sales. For 2007, the annual average London Metals Exchange (LME) call strike price (ceiling) for its zero-premium copper collars is $2.002 per pound. At December 31, 2006, Phelps Dodge also had in place copper put options for approximately 730 million pounds of its expected 2007 copper sales, with an annual average LME put strike

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price (floor) of $0.95 per pound for 2007. In accordance with generally accepted accounting principles in the United States, transactions under these copper price protection programs do not qualify for hedge accounting treatment and are adjusted to fair market value based on the forward-curve price and implied volatility as of the last day of the reporting period, with the gain or loss recorded in revenues. These adjustments represent non-cash events as the contracts are settled in cash only after the end of the relevant year based on the annual average LME copper price. For the year ended December 31, 2006, the pre-tax charges arising from Phelps Dodge s 2006 and 2007 copper price protection programs reduced operating income by approximately $1,009 million.

Phelps Dodge s business is subject to complex and evolving laws and regulations and environmental and regulatory compliance may impose substantial costs.

Phelps Dodge s global operations are subject to various federal, state and local environmental laws and regulations relating to improving or maintaining environmental quality. Environmental laws often require parties to pay for remedial action or to pay damages regardless of fault and may also often impose liability with respect to divested or terminated operations, even if the operations were terminated or divested many years ago. The federal Clean Air Act has had a significant impact, particularly on Phelps Dodge s smelter and power plants. Phelps Dodge also has potential liability for certain sites it currently operates or formerly operated and for certain third-party sites under the federal Superfund law and similar state laws. Phelps Dodge is also subject to claims for natural resource damages where the release of hazardous substances is alleged to have injured natural resources.

Phelps Dodge s mining operations and exploration activities, both inside and outside the United States, are subject to extensive laws and regulations governing prospecting, development, production, exports, taxes, labor standards, occupational health, waste disposal, protection and remediation of the environment, protection of endangered and protected species, mine safety, toxic substances and other matters. Mining also is subject to risks and liabilities associated with pollution of the environment and disposal of waste products occurring as a result of mineral exploration and production. Compliance with these laws and regulations imposes substantial costs and subjects Phelps Dodge to significant potential liabilities.

The laws and regulations that apply to Phelps Dodge are complex and are continuously evolving in the jurisdictions in which Phelps Dodge conducts business. Costs associated with environmental and regulatory compliance have increased over time, and Phelps Dodge expects these costs to continue to increase in the future. In addition, the laws and regulations that apply to Phelps Dodge may change in ways that could otherwise have an adverse effect on its operations or financial results. The costs of environmental obligations may exceed the reserves that Phelps Dodge has established for such liabilities.

Mine closure regulations may impose substantial costs.

Phelps Dodge s operations in the United States are subject to various federal and state mine closure and mined-land reclamation laws. The requirements of these laws vary depending upon the jurisdiction. Over the last several years, there have been substantial changes in these laws and regulations in the states in which Phelps Dodge s mines are located, as well as changes in the regulations promulgated by the federal Bureau of Land Management (BLM) for mining operations located on unpatented mining claims located on federal public lands. The amended BLM regulations governing mined-land reclamation for mining on federal lands will likely increase Phelps Dodge s regulatory obligations and compliance costs over time with respect to mine closure reclamation. As estimated costs increase, Phelps Dodge s mines are required to post increasing amounts of financial assurance to ensure the availability of funds to perform future closure and reclamation.

The amount of financial assurance that has been provided for our Chino, Tyrone and Cobre mines, pursuant to an agreement Phelps Dodge reached with two New Mexico state agencies, totaled approximately $495 million at December 31, 2006. Up to 70 percent of such financial assurance is in the form of third-party guarantees issued by Phelps Dodge on behalf of its operating subsidiaries and the balance, or approximately 30 percent, is provided in the form of trust funds, real property collateral and letters of credit. The actual amount required for financial assurance is subject to the completion of additional permitting procedures, final agency determinations and the results of administrative appeals, all of which could result in some changes to the closure and reclamation plans and further increases in the cost estimates and its related financial assurance obligations. In addition, Phelps Dodge s Arizona mining operations have obtained approval of reclamation plans for its mined land and approval of financial assurance totaling approximately $174 million, but applications for approval of closure plans for groundwater quality protection are pending for some portions of its mines. Phelps Dodge also has approved mined-land reclamation plans and financial assurance in place for its two Colorado mines totaling approximately $81 million.

Most of the financial assurance provided for Phelps Dodge s southwestern U.S. mines requires a demonstration that it meets financial tests showing Phelps Dodge s capability to perform the required closure and reclamation. Demonstrations of financial capability have been made for all of the financial assurance for Phelps Dodge s Arizona mines. The financial tests required for continued use of the financial capability demonstrations and third-party guarantees include maintaining an investment-grade rating on its senior debt securities. If, in the future, Phelps Dodge s or the combined company s credit rating for senior unsecured debt falls below investment grade, a portion of Phelps Dodge s financial assurance requirements might be required to be supplied in another form, such as letters of credit, real property collateral or cash.

Phelps Dodge has reduced its use of surety bonds in support of financial assurance obligations in recent years due to significantly increasing costs and because many surety companies require a significant level of collateral supporting the bonds. If remaining surety bonds are unavailable at commercially reasonable terms, the combined company could be required to post other collateral or cash or cash equivalents directly in support of financial assurance obligations.

In addition, Phelps Dodge s international mines are subject to various mine closure and mined-land reclamation laws. There have recently been significant changes in closure and reclamation programs in Peru and Chile.

Phelps Dodge s operations outside the United States are subject to the risks of doing business in foreign countries.

In 2006, Phelps Dodge s international operations provided approximately 39 percent of its consolidated sales (including sales through PDMC s U.S. based sales company) and Phelps Dodge s international operations (including international exploration) contributed approximately 54 percent of its consolidated operating income. Due to the current development of the Tenke Fungurume project in the Democratic Republic of Congo and expansion projects at Cerro Verde and El Abra, Phelps Dodge expects international operations to increase as a percentage of sales and operating income in future years. Phelps Dodge fully consolidates the results of certain of its domestic and international mining operations in which it owns less than a 100 percent interest (and reports the minority interest). During 2006, Phelps Dodge s minority partners in its South American mines were entitled to approximately 212,400 tons, or 38 percent, of Phelps Dodge s international copper production.

Phelps Dodge s international activities are conducted in Canada, Latin America, Europe, Asia and Africa, and are subject to certain political and economic risks, including but not limited to:

- political instability and civil strife;
- changes in foreign laws and regulations, including those relating to the environment, labor, tax, royalties on mining activities and dividends or repatriation of cash and other property to the United States;
- foreign currency fluctuations;
- expropriation or nationalization of property;
- exchange controls; and
- import, export and trade regulations.

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Use of proceeds

We estimate that the net proceeds from the sale of the notes offered hereby, after deducting estimated fees and expenses and the underwriters discounts, will be approximately $5,875.0 million.

The table below sets forth the estimated sources and uses for the transactions based on balances as of December 31, 2006:

(Dollars in millions)

Sources of funds		**Amount**	**Uses of funds**		**Amount**
Cash	$	2,500.0	Equity purchased[c]	$	25,791.0
New revolving credit facility[a]			Estimated fees and expenses[d]		500.0
New Tranche A term loan facility		2,500.0			
New Tranche B term loan facility		7,500.0			
Senior notes offered hereby		6,000.0			
Additional common equity[b]		7,791.0			
Total sources	$	26,291.0	Total uses	$	26,291.0

(a) Based on expected cash balances at closing, we do not expect to make any drawings under our new revolving credit facility. Availability under the new revolving credit facility will be reduced by outstanding letters of credit. Our availability under our revolving credit facility is anticipated to be approximately $1,400.0 million at closing after giving effect to outstanding letters of credit. Following the closing, we may be required to issue additional letters of credit in connection with financial assurances with respect to our reclamation obligations. See Risk factors Risks related to Phelps Dodge s business Mine closure regulations may impose substantial costs.

(b) Reflects the fair value of Freeport-McMoRan common stock to be issued to Phelps Dodge shareholders as a result of the acquisition calculated by using the weighted average market price of Freeport-McMoRan common stock from November 16, 2006 to November 21, 2006 multiplied by the estimated shares of Freeport-McMoRan common stock to be issued to Phelps Dodge shareholders.

(c) Based on the weighted average market price of Freeport-McMoRan common stock from November 16, 2006 to November 21, 2006, the cash consideration to be paid in the acquisition, and the estimated Phelps Dodge common shares outstanding and issuable at December 31, 2006.

(d) Reflects our estimate of fees and expenses associated with the transactions, including financing fees, estimated change of control costs and related employee benefits and other transaction costs and professional fees.

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Capitalization

The following table shows Freeport-McMoRan s cash and cash equivalents and capitalization as of December 31, 2006, on an as reported basis, and cash and cash equivalents and capitalization on a pro forma basis to reflect the transactions. This table is unaudited and should be read in conjunction with Use of proceeds, Unaudited pro forma condensed combined financial statements, Selected consolidated historical financial and operating data of Freeport-McMoRan, Selected consolidated historical financial and operating data of Phelps Dodge, Management s discussion and analysis of financial condition and results of operations of Freeport-McMoRan, Management s discussion and analysis of financial condition and results of operations of Phelps Dodge and the financial statements and related notes of Freeport-McMoRan and Phelps Dodge, which are included elsewhere or incorporated by reference in this prospectus supplement.

	As of December 31, 2006	
(Dollars in millions)	**Actual**	**Pro forma**
Cash and cash equivalents[a]	$ 907.5	$ 3,383.4
Debt:		
Existing indebtedness of Freeport-McMoRan		
101/8% senior notes due 2010	$ 272.4	$ 272.4
7% convertible notes due 2011	7.1	7.1
67/8% notes due 2014	340.3	340.3
Existing indebtedness of Phelps Dodge[b]		
7.375% notes due 2007	$	$ 60.6
8.75% notes due 2011		108.8
7.125% debentures due 2027		115.0
9.50% notes due 2031		196.8
6.125% notes due 2034		149.8
New senior credit facilities		
Revolving credit facility[a]	$	$
Tranche A term loan facility		2,500.0
Tranche B term loan facility		7,500.0
Notes offered hereby		6,000.0
Other debt[c]	60.3	321.2
Total debt[b]	$ 680.1	$ 17,572.0
Total stockholders equity	2,445.1	10,235.9
Total capitalization	$ 3,125.2	$ 27,807.9

(a)

Based on expected cash balances at closing, we do not expect to make any drawings under our new revolving credit facility. Availability under the new revolving credit facility will be reduced by outstanding letters of credit. Our availability under our revolving credit facility is anticipated to be approximately $1,400.0 million at closing after giving effect to outstanding letters of credit. Following the closing, we may be required to issue additional letters of credit in connection with financial assurances with respect to our reclamation obligations. See Risk factors Risks related to Phelps Dodge s business Mine closure regulations may impose substantial costs.

(b) Pro forma total debt as of December 31, 2006 shown above is based on Phelps Dodge s book values. Total debt as reflected in the pro forma financial statements is based on the December 31, 2006 fair value of Phelps Dodge s debt.

(c) Actual amounts include equipment capital leases and other ($54.5 million), Atlantic Copper debt ($5.6 million) and other Freeport-McMoRan debt ($0.2 million). Pro forma amounts include, in addition, certain project financing and subsidiary debt financing ($202.2 million), various pollution control and industrial development revenue bonds ($25.0 million) and short-term debt ($33.7 million) of Phelps Dodge.

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Unaudited pro forma condensed combined financial statements

The unaudited pro forma condensed combined financial statements presented herein, which have been prepared by the management of Freeport-McMoRan, are derived from the historical consolidated financial statements of Freeport-McMoRan and Phelps Dodge. The unaudited pro forma condensed combined financial statements are prepared using the purchase method of accounting, with the acquisition of Phelps Dodge by Freeport-McMoRan assumed to have occurred on January 1, 2006, for statement of income purposes and on December 31, 2006, for balance sheet purposes using accounting principles generally accepted in the United States, referred to as U.S. GAAP. The pro forma adjustments to reflect fair value of Phelps Dodge s net reported assets and other purchase accounting adjustments are based on available data as of December 31, 2006. Upon completion of the combination with Phelps Dodge, the pre-combination shareholders of Freeport-McMoRan will own approximately 59 percent (62 percent on a fully diluted basis) of the combined company and the pre-combination shareholders of Phelps Dodge will own approximately 41 percent (38 percent on a fully diluted basis). In addition to considering these relative shareholdings, Freeport-McMoRan also considered the proposed composition and terms of the board of directors, the proposed structure and members of the executive management team of Freeport-McMoRan and the premium paid by Freeport-McMoRan to acquire Phelps Dodge, in determining the accounting acquirer. Based on the weight of these factors, Freeport-McMoRan management concluded that Freeport-McMoRan was the accounting acquirer.

The pro forma amounts have been developed from (i) the audited consolidated financial statements of Freeport-McMoRan contained in its annual report on Form 10-K for the year ended December 31, 2006 and (ii) the audited consolidated financial statements of Phelps Dodge contained in its annual report on Form 10-K for the year ended December 31, 2006, each of which were prepared in accordance with U.S. GAAP and are incorporated by reference herein.

The unaudited pro forma condensed combined financial statements are provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of Freeport-McMoRan would have been had the combination occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or consolidated financial position. In this regard, the reader should note that the unaudited pro forma condensed combined financial statements do not give effect to (i) any integration costs that may be incurred as a result of the acquisition, (ii) synergies, operating efficiencies and cost savings that are expected to result from the acquisition, (iii) benefits expected to be derived from the combined company s growth projects or brownfield expansions or (iv) changes in commodities prices subsequent to the dates of such unaudited pro forma condensed combined financial statements.

Freeport-McMoRan has not yet developed formal plans for combining the two companies operations. Accordingly, additional liabilities may be incurred in connection with the business combination and any ultimate restructuring. These additional liabilities and costs have not been contemplated in the unaudited pro forma condensed combined financial statements because information necessary to reasonably estimate such costs and to formulate detailed restructuring plans is not available to Freeport-McMoRan. The allocation of the purchase price to acquired assets and liabilities in the unaudited pro forma condensed combined financial statements are based on management s preliminary internal valuation estimates. Such allocations will be finalized based on valuation and other studies to be performed by management with the services of outside valuation specialists after the closing of the business combination. Accordingly, the purchase price allocation adjustments and related impacts on the unaudited pro forma condensed combined financial statements are preliminary and are subject to revision, which may be material, after the closing of the business combination.

The unaudited pro forma condensed combined financial statements should be read in conjunction with the separate historical consolidated financial statements and accompanying notes of Freeport-McMoRan and Phelps Dodge incorporated by reference into this prospectus supplement. See Where you can find more information.

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Unaudited pro forma condensed combined statement of income

For the year ended December 31, 2006

(Dollars in millions, except per share data)	Historical Freeport-McMoRan	Historical Phelps Dodge	Pro forma adjustments (Note 3)	Pro forma combined
Revenues	$ 5,790.5	$ 11,910.4(Note 4)	$	$ 17,700.9(Note 4)
Cost of sales:				
Production and delivery	2,524.9	6,807.2	74.4(A) (19.0)(M)	9,387.5
Depreciation, depletion and amortization	227.6	448.7	581.0(J) 10.9(A)	1,268.2
Total cost of sales	2,752.5	7,255.9	647.3	10,655.7
Selling, general and administrative expenses	157.1	207.0	8.3(A)	372.4
Exploration and research expenses	12.2	127.0		139.2
Special items and provisions, net		93.6	(93.6)(A)	
Total costs and expenses	2,921.8	7,683.5	562.0	11,167.3
Operating income	2,868.7	4,226.9	(562.0)	6,533.6
Interest expense, net	(75.6)	(73.0)	54.0(A) (1,299.1)(N)	(1,393.7)
Capitalized interest		54.0	(54.0)(A)	
Equity in PT Smelting and affiliated companies earnings	6.5		4.6(A)	11.1
Losses on early extinguishment and conversion of debt	(32.0)			(32.0)
Gains on sales of assets	30.6			30.6
Inco termination fee, net of expenses		435.1		435.1
Other income, net	27.7	190.9		218.6
Income from continuing operations before taxes and minority interests in consolidated subsidiaries	2,825.9	4,833.9	(1,856.5)	5,803.3
Provision for income taxes	(1,201.2)	(1,010.2)	297.9(F)	(1,913.5)
Minority interests in net income of consolidated subsidiaries	(168.2)	(792.4)		(960.6)
Equity in net earnings of affiliated companies		4.6	(4.6)(A)	

Income from continuing operations	1,456.5	3,035.9(Note 4)	(1,563.2)	2,929.2(Note 4)
Preferred dividends	(60.5)			(60.5)
Income from continuing operations applicable to common stock	$ 1,396.0	$ 3,035.9	$ (1,563.2)	$ 2,868.7
Income per share from continuing operations applicable to common stock:				
Basic	$ 7.32	$ 15.00		$ 8.75
Diluted	$ 6.63	$ 14.92		$ 8.29
Weighted average shares outstanding:				
Basic	190.7			327.8(L)
Diluted	221.5			358.5(L)

See accompanying notes to these pro forma condensed combined financial statements.

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Unaudited pro forma condensed combined balance sheet

As of December 31, 2006

(Dollars in millions)	Historical Freeport-McMoRan	Historical Phelps Dodge	Pro forma adjustments (Note 3)	Pro forma combined
Assets:				
Current assets:				
Cash and cash equivalents	$ 907.5	$ 4,947.4	$ 16,000.0(K) (330.0)(C) (100.0)(C) 25.0(H) (66.5)(E) (18,000.0)(B)	$ 3,383.4
Restricted cash		25.4		25.4
Accounts receivable, less allowance	485.7	1,264.8		1,750.5
Mill and leach stockpiles		90.8	1,412.0(D)	1,502.8
Product inventories	384.2	356.0	1,293.0(D)	2,033.2
Materials and supplies	340.1	247.9		588.0
Prepaid expenses and other current assets	33.5	116.3		149.8
Deferred income taxes		552.3		552.3
Total current assets	2,151.0	7,600.9	233.5	9,985.4
Investments and long-term receivables		193.1		193.1
Property, plant, equipment and development costs, net	3,098.5	5,873.5	11,620.4(D)	20,592.4
Long-term mill and leach stockpiles		181.8	723.6(D)	905.4
Goodwill		12.5	7,754.9(D)	7,767.4
Trust assets		588.3		588.3
Other assets and deferred charges	140.3	182.2	330.0(C) (27.0)(D)	625.5
Total assets	$ 5,389.8	$ 14,632.3	$ 20,635.4	$ 40,657.5

Liabilities and stockholders equity:

Current liabilities:								
Accounts payable and accrued liabilities	$	789.0	$	2,705.8	$		$	3,494.8
Current portion of long-term debt and short-term borrowings		19.1		121.8		0.4(D)		141.3
Accrued income taxes		164.4		435.3				599.7
Total current liabilities		972.5		3,262.9		0.4		4,235.8
Long-term debt, less current portion		661.0		770.1		35.0(D) 16,000.0(K)		17,466.1
Deferred income taxes		800.3		768.6		4,499.6(F)		6,068.5
Accrued postretirement benefits and other liabilities		297.9		890.7				1,188.6
Minority interests		213.0		1,249.6				1,462.6
Stockholders equity:								
Convertible perpetual preferred stock		1,100.0						1,100.0
Common stock		31.0		1,275.1		13.7(G) (1,275.1)(I)		44.7
Capital in excess of par value of common stock		2,668.1		1,372.7		7,777.1(G) (1,372.7)(I)		10,445.2
Retained earnings		1,414.8		5,221.4		(5,221.4)(I)		1,414.8
Accumulated other comprehensive income (loss)		(19.9)		(178.8)		178.8(I)		(19.9)
Common stock held in treasury		(2,748.9)						(2,748.9)
Total stockholders equity		2,445.1		7,690.4		100.4		10,235.9
Total liabilities and stockholders equity	$	5,389.8	$	14,632.3	$	20,635.4	$	40,657.5

See accompanying notes to these pro forma condensed combined financial statements.

Notes to the unaudited pro forma condensed combined financial statements

1. Basis of presentation

The unaudited pro forma condensed combined financial statements, which have been prepared by Freeport-McMoRan management, have been derived from historical consolidated financial statements of Freeport-McMoRan and Phelps Dodge incorporated by reference into this prospectus supplement.

Upon completion of the combination with Phelps Dodge the pre-combination shareholders of Freeport-McMoRan will own approximately 59 percent of the combined company (62 percent on a fully diluted basis) and the pre-combination shareholders of Phelps Dodge, will own approximately 41 percent of the combined company (38 percent on a fully diluted basis). In addition to considering these relative shareholdings, Freeport-McMoRan management also considered the proposed composition and terms of the board of directors, the proposed structure and members of the executive management team of Freeport-McMoRan, and the premium paid by Freeport-McMoRan to acquire Phelps Dodge in determining the accounting acquirer. Based on the weight of these factors, Freeport-McMoRan management concluded that Freeport-McMoRan was the accounting acquirer.

2. The acquisition

Freeport-McMoRan proposes to acquire all the issued and outstanding common shares of Phelps Dodge for $88.00 in cash and 0.67 of a share of Freeport-McMoRan common stock for each Phelps Dodge common share. Based on Freeport-McMoRan s closing stock price of $57.40 per share on November 17, 2006, the implied value of the merger consideration is $126.46, composed of $88.00 in cash and stock worth $38.46 per share.

The transaction will be accounted for under the purchase method of accounting. The pro forma adjustments reflect Freeport-McMoRan s acquisition of 100 percent of Phelps Dodge s net reported assets at their fair values at December 31, 2006 for the pro forma condensed combined balance sheet, and at January 1, 2006, for the pro forma condensed combined statement of income, and the subsequent accounting for Phelps Dodge as a wholly owned subsidiary.

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The purchase price consideration for the business combination is estimated to include $18.0 billion in cash, $7.8 billion in Freeport-McMoRan common stock and $167 million for costs and fees of the acquisition as shown below:

(In millions, except per share amount)

Freeport-McMoRan s acquisition of Phelps Dodge:		
Common shares outstanding and issuable		204.540
Exchange offer ratio of Freeport-McMoRan common stock for each Phelps Dodge common share		0.67
Shares of Freeport-McMoRan common stock to be issued		137.042
Weighted average market price of each share of Freeport-McMoRan common stock from November 16-21, 2006	$	56.85
Cash consideration for each Phelps Dodge common share	$	88.00
Fair value of Freeport-McMoRan common stock issued, comprising par value of $13.7 ($0.10 per share) and capital in excess of par of $7,777.1	$	7,791
Cash consideration of $88.00 for each Phelps Dodge common share		18,000
Estimated change of control costs and related employee benefits		67
Estimated transaction costs		100
Purchase price	$	25,958

3. Pro forma assumptions and adjustments

The following assumptions and related pro forma adjustments give effect to the proposed business combination of Freeport-McMoRan and Phelps Dodge as if such combination occurred on January 1, 2006, in the unaudited pro forma condensed combined statement of income for the year ended December 31, 2006, and on December 31, 2006, for the unaudited pro forma condensed combined balance sheet.

The unaudited pro forma condensed combined financial statements are provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of Freeport-McMoRan would have been had the business combination with Phelps Dodge occurred on the respective dates assumed, nor are they necessarily indicative of future consolidated operating results or financial position.

The unaudited pro forma condensed combined financial statements do not reflect and do not give effect to (i) any integration costs that may be incurred as a result of the acquisition, (ii) synergies, operating efficiencies and cost savings that are expected to result from acquisition, (iii) benefits expected to be derived from the combined company s growth projects or brownfield expansions or (iv) changes in commodities prices subsequent to the dates of such unaudited pro forma condensed combined financial statements.

Additionally, Freeport-McMoRan believes that cost savings will be realized upon the consolidation and integration of the companies. Freeport-McMoRan has not developed formal plans for combining the operations. Accordingly, additional liabilities may be incurred in connection with the business combination and ultimate restructuring. These additional liabilities and costs have not been contemplated in the unaudited pro forma condensed combined financial statements because information necessary to reasonably estimate such costs and to formulate detailed restructuring plans is not yet available to Freeport-McMoRan. Accordingly, the allocation of the

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purchase price cannot be estimated with a reasonable degree of accuracy and may differ materially from the amounts assumed in the unaudited pro forma condensed combined financial statements.

As shown in adjustment D below, Freeport-McMoRan expects the accounting for the acquisition of Phelps Dodge to result in a significant amount of goodwill. Goodwill is the excess cost of the acquired company over the sum of the amounts assigned to assets acquired less liabilities assumed. U.S. GAAP requires that goodwill not be amortized, but instead allocated to a level within the reporting entity referred to as the reporting unit and tested for impairment, at least annually. There is currently diversity in the mining industry associated with certain aspects of the accounting for business combinations and related goodwill. This diversity includes how companies define Value Beyond Proven and Probable reserves (referred to in this document as VBPP) (see further discussion in adjustment J below), what an appropriate reporting unit is and how goodwill is allocated among reporting units. The methods of allocating goodwill have included allocations primarily to a single exploration reporting unit and allocations among individual mine reporting units depending on the relevant circumstances. We understand the industry is also evaluating other methodologies for allocating goodwill. The method of allocating goodwill will likely have an impact on the amount and timing of any future goodwill impairment, if any. Freeport-McMoRan has not completed its determination of the combined company s reporting units nor its method of allocating goodwill to those reporting units. Our ultimate accounting for VBPP and goodwill may not be comparable to other companies within the mining industry.

The unaudited pro forma condensed combined financial statements include the following pro forma assumptions and adjustments:

(A) Reclassifications have been made to the Phelps Dodge historical consolidated financial information to conform to Freeport-McMoRan s presentation. This included reclassifying amounts described by Phelps Dodge on a single line item as Special items and provisions, net into production and delivery costs, into depreciation, depletion and amortization and into selling, general and administrative expenses based on Freeport-McMoRan s reporting for these items. The reclassifications also reflect the reporting of Phelps Dodge s Capitalized interest as a component of Interest expense, net and Phelps Dodge s Equity in net earnings of affiliated companies as a component of Equity in PT Smelting and affiliated companies earnings to conform to Freeport-McMoRan s reporting.

(B) This pro forma adjustment represents payment of the cash component of the purchase price for Phelps Dodge common shares.

(C) Freeport-McMoRan estimates it will incur approximately $430 million of transaction costs, consisting primarily of financing costs, financial advisory fees, legal and accounting fees, financial printing and other charges related to the purchase of Phelps Dodge. Approximately $330 million of these transaction costs will be recorded as deferred charges on the combined company s balance sheet and the remaining approximately $100 million will be recorded as part of the cost to purchase Phelps Dodge. These estimates are preliminary and, therefore, are subject to change.

(D) The pro forma adjustments to reflect fair value of Phelps Dodge s net reported assets and other purchase accounting adjustments were based on available data as of December 31,

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2006. On this basis, the pro forma adjustments to reflect the fair value of Phelps Dodge s net reported assets and other purchase accounting adjustments are estimated as follows:

(Dollars in millions)

Phelps Dodge net assets on December 31, 2006	$ 7,690
Adjustment to fair value mill and leach stockpiles inventory current	1,412
Adjustment to fair value mill and leach stockpiles inventory long-term	724
Adjustment to fair value product inventory	1,293
Adjustment to fair value property, plant, equipment and development costs	11,620
Adjustment to fair value debt issuance costs	(27)
Adjustment to fair value debt	(35)
Adjustment to deferred taxes to reflect fair value adjustments (see F)	(4,500)
Cash proceeds from assumed exercise of stock options (see H)	25
Net tangible assets and liabilities acquired	$ 18,203*
Allocation to goodwill	7,755**
Total purchase price	$ 25,958

* Represents the sum of tangible assets and liabilities acquired before rounding.

** The allocation to goodwill was reduced by $776 million from the amount reflected in the amended joint proxy statement/prospectus filed on February 12, 2007, because of changes in the fair value of Phelps Dodge s net assets from September 30, 2006 to December 31, 2006, primarily because of changes in metal price assumptions and a change in accounting for defined benefit pension and other postretirement plans resulting from the adoption of a new accounting standard on December 31, 2006.

The allocation of the purchase price is based upon management s preliminary estimates and certain assumptions with respect to the fair value increment associated with the assets to be acquired and the liabilities to be assumed. The actual fair values of the assets and liabilities will be determined as of the date of acquisition and may differ materially from the amounts disclosed above in the assumed pro forma purchase price allocation because of changes in fair values of the assets and liabilities between December 31, 2006 and the date of the acquisition, and as further analysis (including of identifiable intangible assets, for which no amounts have been estimated and included in the preliminary amounts shown above) is completed. Consequently, the actual allocation of the purchase price may result in different adjustments in the unaudited pro forma condensed combined statement of income. Following completion of the transactions, the earnings of the combined company will reflect the impact of purchase accounting adjustments, including the effect of changes in the cost bases of both tangible and identifiable intangible assets and liabilities on production costs and depreciation, depletion and amortization expense. The unaudited pro forma condensed combined statement of income reflects Phelps Dodge s metal inventories on its historical accounting method of last-in, first-out. Inventories are subject to a lower of cost or market assessment and a decline in metal prices could result in a write down of metal inventory values and a corresponding charge to future earnings of the combined company.

(E) This pro forma adjustment recognizes certain estimated change of control obligations arising from the combination of Phelps Dodge and Freeport-McMoRan.

(F) The estimated income tax effect of the pro forma adjustments has been recorded based upon statutory tax rates in effect in the various tax jurisdictions in which Phelps Dodge operates, resulting in an estimated tax rate of approximately 10 percent for interest costs and 30 percent for all other items. The statutory tax rates range from 20 percent to

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35 percent. The estimated tax rates are a weighted calculation of the various statutory tax rates and consider tax credits, exempt income and non-deductible expenses. The estimated tax rate for interest costs of 10 percent has been derived from a preliminary analysis of the applicable rules for interest cost allocation required by U.S. tax regulations and considers their associated limitation on the utilization of foreign tax credits. These rates will vary depending on the mix of income derived in the respective countries of operation and the allocation of interest and other expenses. The actual tax rates will also be affected by any tax planning opportunities that may result from the combination of the companies after the transaction. The business combination is expected to be non-taxable to the respective companies, with Phelps Dodge s historical tax bases surviving for income tax reporting purposes. Additional deferred income taxes have been recognized based on the pro forma fair value adjustments to assets and liabilities.

Provisions for pro forma income tax expense have been recorded as pro forma adjustments to the unaudited pro forma condensed combined statement of income.

(G) These pro forma adjustments reflect the issuance of 137.0 million shares of Freeport-McMoRan common stock in connection with the offer for all the outstanding common shares of Phelps Dodge. The common stock of Freeport-McMoRan totals $13.7 million at $0.10 per share par value and capital in excess of par of $7,777.1 million. These shares include the shares issuable in connection with the stock options and restricted stock of Phelps Dodge outstanding at December 31, 2006.

(H) This pro forma adjustment gives effect to $25 million of proceeds to be received from the assumed exercise of Phelps Dodge s in-the-money stock options. Freeport-McMoRan has assumed that all eligible Phelps Dodge stock options are exercised and all eligible restricted stock is vested prior to the purchase transaction.

(I) These pro forma adjustments eliminate the historical shareholders equity accounts of Phelps Dodge.

(J) This pro forma adjustment represents the estimated increase to depreciation, depletion and amortization expense associated with the preliminary fair value adjustment of approximately $11,620 million allocated to plant, property, equipment and development costs as further discussed in adjustment D. Freeport-McMoRan has not completed an assessment of the fair values of assets and liabilities of Phelps Dodge and the related business integration plans and synergies. The ultimate purchase price allocation will include possible adjustments to the fair values of depreciable tangible assets, proven and probable reserves, reserves related to current development projects, VBPP and intangible assets after a full review has been completed. The concept of VBPP is described in Financial Accounting Standards Board Emerging Issue Task Force Issue No. 04-3 (EITF 04-3) and has been interpreted differently by mining companies. Our preliminary adjustment to property, plant, equipment and development costs, as discussed below, includes VBPP attributable to mineralized material that Freeport-McMoRan believes could be brought into production should market conditions warrant. Mineralized material is a mineralized body that has been delineated by appropriately spaced drilling and/or underground sampling to support reported tonnage and average grade of metal(s). Such a deposit may not qualify as proven and probable reserves until legal and economic feasibility are concluded based upon a comprehensive evaluation of unit costs, grade, recoveries and other material factors. Our preliminary adjustments to property, plant, equipment and development costs do not include adjustments attributable to inferred mineral resources or exploration potential referred to in the EITF 04-3 Working

Group Report No. 1. We intend to allocate a portion of the purchase price to all VBPP, including inferred mineral resources and exploration potential, in accordance with EITF 04-3 after performing a more thorough analysis to determine the fair value of these assets.

The preliminary allocation of $11,620 million to property, plant, equipment and development costs is primarily based on a fair value assessment of estimated cash flows from Phelps Dodge s pro rata share of estimated proven and probable reserves, an estimated market value of Phelps Dodge s estimated VBPP attributable to mineralized material and valuation multiples applied to certain tangible assets. Freeport-McMoRan has not completed an assessment of the fair values of assets and liabilities of Phelps Dodge and the related business integration plans and synergies. The ultimate purchase price allocation will include possible adjustments to fair values of depreciable tangible assets, proven and probable reserves, reserves related to current development projects, mill and leach stockpiles, product inventories, VBPP and intangible assets after a full review has been completed.

For the purpose of preparing the unaudited pro forma condensed combined statements of income, Freeport-McMoRan assumed an average estimated remaining useful life of 20 years, which was based on an analysis of Phelps Dodge s estimated mine lives and on the estimated useful lives of other property, plant and equipment disclosed in Phelps Dodge s public filings and life-of-mine plans provided to Freeport-McMoRan. A one-year change in the estimated useful life would have a 5 percent impact on the pro forma depreciation, depletion and amortization expense. Additionally, for each $1 billion that the final fair value of property, plant, equipment and development costs differs from the pro forma fair value, related depreciation, depletion and amortization expense would increase or decrease approximately $50 million annually, assuming a weighted average 20-year life.

(K) This pro forma adjustment relates to borrowings under new $10.0 billion term loan facilities and $6.0 billion of the notes offered hereby. The proceeds from borrowings under these facilities, in conjunction with available cash, would be used for: (i) the $88.00 per share cash payment to Phelps Dodge shareholders and (ii) payments for other transaction fees and expenses.

(L) Pro forma weighted average common stock and common stock equivalents outstanding are estimated as follows:

	Year ended December 31, 2006	
(In millions)	**Basic**	**Diluted**
Average number of shares of historical Freeport-McMoRan common stock outstanding	190.7	221.5
Shares of Freeport-McMoRan common stock to be issued in connection with the business combination (Note 2)	137.0	137.0
Total	327.8*	358.5

* Represents the sum of the numbers before rounding.

The average number of common shares outstanding gives effect to outstanding Phelps Dodge stock options and restricted stock, all eligible shares of which are assumed to be exercised or vested. Based upon public information reported and the current exchange offer ratio, Freeport-McMoRan estimates that the incremental number of shares of Freeport-McMoRan stock issuable upon the exercise and vesting of Phelps Dodge stock options and restricted stock would be approximately 1.4 million.

(M) This pro forma adjustment eliminates amortization expense for past service costs and net actuarial losses relating to postretirement benefits recorded by Phelps Dodge.

(N) This pro forma adjustment recognizes imputed interest expense for the year ended December 31, 2006, resulting from the fair value adjustment of Phelps Dodge s long-term debt and acquisition-related debt discussed in Note (K) above at an assumed weighted average annual interest rate of approximately 7.8 percent. A 0.125% variance in the interest rate on the Tranche A term loan portion of the new senior credit facilities would cause an increase or decrease of $3.1 million in interest expense. A 0.125% variance in the interest rate on the Tranche B term loan portion of the new senior credit facilities would cause an increase or decrease of $9.4 million in interest expense. A 0.125% variance in the weighted average effective interest rate on the notes would cause an increase or decrease of $7.5 million in interest expense.

4. Other

Amounts include charges for mark-to-market losses on Phelps Dodge s 2006 and 2007 copper price protection programs totaling $1,008.9 million in revenues and $766.8 million in income from continuing operations for the year ended December 31, 2006.

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Selected consolidated historical financial and operating data of Freeport-McMoRan

The following selected historical consolidated financial data, as of and for the years ended December 31, 2002, 2003, 2004, 2005 and 2006, have been derived from the audited consolidated financial statements of Freeport-McMoRan for those periods. The historical results presented below are not necessarily indicative of results that you can expect for any future period. You should read the table in conjunction with the sections entitled Use of proceeds, Capitalization, Unaudited pro forma condensed combined financial statements, Summary historical financial and operating data of Freeport-McMoRan, Management s discussion and analysis of financial condition and results of operations of Freeport-McMoRan and the consolidated financial statements of Freeport-McMoRan and the related notes incorporated by reference herein. See Where you can find more information.

n dollars, except average shares, and in millions, xcept per share amounts)	Years ended December 31, 2002	2003	2004	2005	2006
tatement of operations data:					
evenues	$ 1,910.5	$ 2,212.2	$ 2,371.9	$ 4,179.1	$ 5,790.5
perating income	640.1	823.3	703.6(d)	2,177.3	2,868.7(g)
et income before cumulative effect of changes in ccounting principles	130.1	169.8(b)	156.8(d)(e)	934.6(f)	1,396.0(g)(h
umulative effect of changes in accounting principles, et	(3.0)[a]	(15.6)[c]			
et income applicable to common stock	127.1	154.2(b)	156.8(d)(e)	934.6(f)	1,396.0(g)(h
asic net income per common share	0.88	0.99	0.86	5.18	7.32
iluted net income per common share	0.87	0.97(b)(c)	0.85(d)(e)	4.67(f)	6.63(g)(h
ividends paid per common share		0.27	1.10	2.50	4.75
asic average shares outstanding	144.6	155.8	182.3	180.3	190.7
iluted average shares outstanding	146.4	159.1	184.9	220.5	221.5
alance sheet data at end of year:					
ash and cash equivalents[i]	$ 115.8	$ 498.6	$ 552.0	$ 763.6	$ 907.5
otal assets	4,192.2	4,718.4	5,087.0	5,550.2(g)	5,389.8(g)
otal debt[j]	2,038.4	2,228.3(c)	1,951.9	1,255.9	680.1
edeemable preferred stock	450.0	(c)			
tockholders equity	266.8	776.0	1,163.6	1,843.0	2,445.1(g)

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	Years ended December 31, 2002	2003	2004	2005	2006
Operating data:					
PT Freeport Indonesia operating data, net of Rio Tinto s interest:					
Copper (recoverable)					
Production (000s of pounds)	1,524,200	1,291,600	996,500	1,455,900	1,201,200
Production (metric tons)	691,400	585,900	452,000	660,400	544,900
Sales (000s of pounds)	1,522,300	1,295,600	991,600	1,456,500	1,201,400
Sales (metric tons)	690,500	587,700	449,800	660,700	544,900
Average realized price per pound	$ 0.71	$ 0.82	$ 1.37	$ 1.85	$ 3.13
Gold (recoverable ounces)					
Production	2,296,800	2,463,300	1,456,200	2,789,400	1,731,800
Sales	2,293,200	2,469,800	1,443,000	2,790,200	1,736,000
Average realized price per ounce	$ 311.97	$ 366.60(k)	$ 412.32	$ 456.27	$ 566.51(l)
Atlantic Copper operating data:					
Concentrate and scrap treated (metric tons)	1,016,700	964,400	768,100	975,400	953,700
Anodes					
Production (000s of pounds)	657,000	640,000	494,400	626,600	581,300
Production (metric tons)	298,000	290,300	224,300	284,200	263,700
Sales (000s of pounds)	101,200	97,000	36,700	85,100	59,800
Sales (metric tons)	45,900	44,000	16,600	38,600	27,100
Cathodes					
Production (000s of pounds)	552,200	544,700	454,700	545,300	518,900
Production (metric tons)	250,500	247,100	206,200	247,300	235,400
Sales (including wire rod and wire)					
(000s of pounds)	556,500	546,800	479,200	548,600	529,200
(metric tons)	252,400	248,000	217,400	248,800	240,000
Gold sales in anodes and slimes (ounces)	813,900	929,700	316,700	542,800	666,500

(a) Effective January 1, 2002, Freeport-McMoRan changed the methodology used in the determination of depreciation associated with PT Freeport Indonesia s mining and milling life-of-mine assets.

(b) Includes losses on early extinguishment and conversion of debt totaling $31.9 million ($0.20 per share), net of related reduction of interest expense.

(c) Effective January 1, 2003, Freeport-McMoRan adopted Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations, and recorded a $9.1 million ($0.06 per share) cumulative effect gain. Effective July 1, 2003, Freeport-McMoRan adopted SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, and recorded a $24.7 million ($0.16 per share) cumulative effect charge. Freeport-McMoRan s mandatorily redeemable preferred stock was classified as debt effective July 1, 2003. SFAS No. 150 does not allow restatement of prior periods.

(d) Includes a $95.0 million ($48.8 million to net income or $0.26 per share) gain on insurance settlement related to the fourth-quarter 2003 slippage and debris flow events at the Grasberg open pit and a $12.0 million ($12.0 million to net income or $0.06 per share) charge related to Atlantic Copper s workforce reduction plan.

(e) Includes a $20.4 million ($0.11 per share) gain from the sale of a parcel of land in Arizona held by a Freeport-McMoRan joint venture, a $7.5 million ($0.04 per share) gain from Atlantic Copper s sale of its wire rod and wire assets, and $7.4 million ($0.04 per share) of losses on early extinguishment and conversion of debt, net of related reduction of interest expense.

(f) Includes $40.2 million ($0.18 per share) of losses on early extinguishment and conversion of debt, net of related reduction of interest expense, and a $4.9 million ($0.02 per share) gain from the sale of a parcel of land in Arizona held by a Freeport-McMoRan joint venture.

(g) Effective January 1, 2006, Freeport-McMoRan adopted Emerging Issues Task Force Issue No. 04-6, Accounting for Stripping Costs Incurred during Production in the Mining Industry (EITF 04-6) and recorded its 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 retained earnings on January 1, 2006. As a result of adopting EITF 04-6, income before income taxes and minority interests for 2006 was $35.4 million lower and net income was $18.8 million ($0.08 per share) lower than if Freeport-McMoRan had not adopted EITF 04-6. Effective January 1, 2006, Freeport-McMoRan adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment or SFAS No. 123R. As a result of adopting SFAS No. 123R, income before income taxes and minority interests for 2006 was $27.8 million lower and net income was $16.1 million ($0.07 per share) lower than if Freeport-McMoRan had not adopted SFAS No. 123R. Results for prior years have not been restated.

(h) Includes $30.3 million ($0.14 per share) of losses on early extinguishment and conversion of debt, net of related reduction of interest expense, and gains of $29.7 million ($0.13 per share) at Atlantic Copper from the disposition of land and certain royalty rights.

(i) For 2002 and 2003, values include $107.9 million and $35.0 million, respectively, of restricted cash and investments.

(j) Includes current portion and short-term borrowings.

(k) Amount was $357.61 before a gain resulting from redemption of Freeport-McMoRan s Gold-Denominated Preferred Stock.

(l) Amount was $606.36 before a loss resulting from redemption of Freeport-McMoRan s Gold-Denominated Preferred Stock, Series II.

Selected consolidated historical financial and operating data of Phelps Dodge

The following selected historical consolidated financial data, as of and for the years ended December 31, 2002, 2003, 2004, 2005 and 2006, have been derived from the audited consolidated financial statements of Phelps Dodge for those periods. The historical results presented below are not necessarily indicative of results that you can expect for any future period. You should read the table below in conjunction with the sections entitled Use of proceeds, Capitalization, Unaudited pro forma condensed combined financial statements, Summary historical financial and operating data of Phelps Dodge, Management s discussion and analysis of financial condition and results of operations of Phelps Dodge and the consolidated financial statements of Phelps Dodge and the related notes contained in Phelps Dodge s annual report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission and incorporated by reference herein. See Where you can find more information.

	Years ended December 31,[f]				
(Dollars in millions, except per share amounts)	**2002[a]**	**2003[b]**	**2004[c]**	**2005[d]**	**2006[e]**
Statement of operations data:					
Sales and other operating revenues	$ 3,173.2	$ 3,498.5	$ 6,415.2	$ 8,287.1	$ 11,910.4
Operating income (loss)	(257.4)	142.8	1,474.9	1,764.9	4,226.9
Income (loss) from continuing operations before extraordinary item and cumulative effect of accounting changes	(356.5)	(21.1)	1,023.6	1,583.9	3,035.9
Income (loss) from discontinued operations, net of taxes[g]	41.3	39.2	22.7	(17.4)	(18.1)
Income (loss) before extraordinary item and cumulative effect of accounting changes	(315.2)	18.1	1,046.3	1,566.5	3,017.8
Net income (loss)	(338.1)	94.8	1,046.3	1,556.4	3,017.8
Basic earnings (loss) per common share from continuing operations[h]	(2.17)	(0.19)	5.41	8.06	15.00
Diluted earnings (loss) per common share from continuing operations[h]	(2.17)	(0.19)	5.18	7.82	14.92
Basic earnings (loss) per common share from discontinued operations, extraordinary item and cumulative effect of accounting changes[h]	0.11	0.65	0.12	(0.14)	(0.09)
Diluted earnings (loss) per common share from discontinued operations, extraordinary item and cumulative effect of accounting changes[h]	0.11	0.65	0.11	(0.13)	(0.09)
Basic earnings (loss) per common share[h]	(2.06)	0.46	5.53	7.92	14.91
Diluted earnings (loss) per common share[h]	(2.06)	0.46	5.29	7.69	14.83
Cash dividends declared per common share[i]			0.25	3.125	4.788
Balance sheet data at end of period:					
Cash and cash equivalents	$ 349.8	$ 683.8	$ 1,200.1	$ 1,916.7	$ 4,947.4
Restricted cash				20.8	25.4
Current assets (including cash)	1,428.2	1,790.0	2,661.7	4,070.7	7,600.9

Total assets	7,029.0	7,272.9	8,594.1	10,358.0	14,632.3
Total debt	2,110.6	1,959.0	1,096.9	694.5	891.9
Long-term debt	1,948.4	1,703.9	972.2	677.7	770.1
Shareholders equity	2,813.6	3,063.8	4,343.1	5,601.6	7,690.4

(Dollars in millions, except per share amounts)		Years ended December 31,[f] 2002[a]		2003[b]		2004[c]		2005[d]		2006[e]
Operating data:										
Copper production (thousand short tons)[j]		1,012.1		1,042.5		1,260.6		1,228.0		1,218.7
Copper sales from own mines (thousand short tons)[j]		1,034.5		1,052.6		1,268.9		1,238.4		1,214.5
COMEX copper price (per pound)[k]	$	0.72	$	0.81	$	1.29	$	1.68	$	3.09
LME copper price (per pound)[l]	$	0.71	$	0.81	$	1.30	$	1.67	$	3.05

(a) Reported amounts for 2002 included after-tax, net special charges of $153.5 million, or 91 cents per common share, for PDMC asset impairment charges and closure provisions; $53.0 million, or 31 cents per common share, for historical lawsuit settlements; $45.0 million, or 27 cents per common share, for a historical arbitration award; $26.6 million, or 16 cents per common share, for early debt extinguishment costs; $23.0 million, or 14 cents per common share, for restructuring activities; $22.9 million, or 13 cents per common share, for the cumulative effect of an accounting change; $14.0 million, or 8 cents per common share, for environmental provisions (included a gain of $0.6 million for discontinued operations); $1.2 million, or 1 cent per common share, for the write-off of two cost-basis investments; and $1.0 million, or 1 cent per common share, for the settlement of legal matters; partially offset by after-tax, net special gains of $66.6 million, or 40 cents per common share, for the tax benefit relating to the net operating loss carryback prior to 2002 resulting from a change in U.S. tax legislation; $29.1 million, or 17 cents per common share, for environmental insurance recoveries; $22.6 million, or 13 cents per common share, for the gain on the sale of a non-core parcel of real estate; and $13.0 million, or 8 cents per common share, for the release of deferred taxes previously provided with regard to Plateau Mining Corporation.

(b) Reported amounts for 2003 included after-tax, net special gains of $68.3 million, or 38 cents per common share, for an extraordinary gain associated with the acquisition of Phelps Dodge s partner s one-third interest in Chino Mines Company; $8.4 million, or 5 cents per common share, for the cumulative effect of an accounting change; $6.4 million, or 4 cents per common share, for the sale of a cost-basis investment; $2.4 million, or 1 cent per common share, for the termination of a foreign postretirement benefit plan associated with discontinued operations; $1.0 million, or 1 cent per common share, for the tax benefit relating to additional 2001 net operating loss carryback; $0.5 million for environmental insurance recoveries; and $0.2 million for the reassessment of prior restructuring programs; partially offset by after-tax, net special charges of $27.0 million, or 16 cents per common share, for environmental provisions (included a gain of $0.5 million for discontinued operations); $8.0 million or 4 cents per common share, for a potential Texas franchise tax matter; $2.9 million, or 2 cents per common share, for the settlement of historical legal matters; and $2.6 million, or 1 cent per common share, for asset and goodwill impairments.

(c) Reported amounts for 2004 included after-tax, net special charges of $44.7 million, or 23 cents per common share, for environmental provisions; $30.9 million (net of minority interests), or 15 cents per common share, for early debt extinguishment costs; $9.9 million, or 5 cents per common share, for the write-down of two cost-basis investments; $9.6 million, or 5 cents per common share, for taxes on anticipated foreign dividends; $9.0 million, or 5 cents per common share, for a deferred tax asset valuation allowance at Phelps Dodge s Brazilian wire and cable operation; $7.6 million, or 4 cents per common share, for Phelps Dodge Magnet Wire restructuring activities; $5.9 million, or 3 cents per common share, for asset impairments (included $4.5 million, or 2 cents per common share, for discontinued operations); and $0.7 million for interest on a Texas franchise tax matter; partially offset by after-tax, net special gains of $30.0 million, or 15 cents per common share, for the reversal of a U.S. deferred tax asset valuation allowance; $15.7 million (net of minority interest), or 8 cents per common share, for the reversal of an El Abra deferred tax asset valuation allowance; $10.1 million, or 5 cents per common share, for the gain on the sale of uranium royalty rights; $7.4 million, or 4 cents per common share, for environmental insurance recoveries; and $4.7 million, or 3 cents per common share, for the settlement of historical legal matters.

(d) Reported amounts for 2005 included after-tax, net special charges of $331.8 million, or $1.64 per common share, for asset impairments; tax expense of $88.1 million, or 44 cents per common share, for foreign dividend taxes; $86.4 million, or 42 cents per common share, for environmental provisions; $42.6 million, or 21 cents per common share, associated with discontinued operations in connection with the sale of Columbian; $41.3 million, or 20 cents per common share, for early debt extinguishment costs; $34.5 million (net of minority interest), or 17 cents per common share, for tax on unremitted foreign earnings; $23.6 million, or 12 cents per common share, for a tax charge associated with minimum pension liability reversal; $10.1 million, or 5 cents per common share, for cumulative effect of accounting change; $5.9 million, or 3 cents per common share, for transaction and employee-related costs associated with the sale of substantially all of Phelps Dodge s North American magnet wire assets; partially offset by after-tax, net special gains of $388.0 million, or $1.92 per common share, for the

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sale of a cost-basis investment; $181.7 million, or 89 cents per common share, for change in interest gains at Cerro Verde and Ojos del Salado; $15.6 million, or 8 cents per common share, for legal matters; $11.9 million, or 6 cents per common share, for the reversal of Phelps Dodge Brazil s deferred tax asset valuation allowance; $8.5 million, or 4 cents per common share, for the sale of non-core real estate; $4.0 million, or 2 cents per common share, for the reversal of U.S. deferred tax asset valuation allowance; $0.4 million for environmental insurance recoveries; and $0.1 million for Phelps Dodge Magnet Wire restructuring activities. The after-tax, net special charges of $42.6 million associated with discontinued operations consisted of $67.0 million (net of minority interests), or 33 cents per common share, for a goodwill impairment charge; taxes of $7.6 million, or 4 cents per common share, associated with the sale and dividends paid in 2005; and $5.0 million, or 2 cents per common share, for a loss on disposal of Columbian associated with transaction and employee-related costs; partially offset by a deferred income tax effect of $37.0 million, or 18 cents per common share.

(e) Reported amounts for 2006 included after-tax, net special gains of $330.7 million, or $1.62 per common share, for the Inco termination fee; $127.5 million, or 63 cents per common share, for the reversal of U.S. deferred tax asset valuation allowance; $2.0 million, or 1 cent per common share, for legal matters; $0.4 million for sale of non-core real estate; and $0.2 million for the reversal of Minera PD Peru deferred tax asset valuation allowance; partially offset by after-tax, net special charges of $54.5 million, or 27 cents per common share, for environmental provisions; $30.9 million, or 15 cents per common share, for charges associated with discontinued operations in connection with the sale of Columbian; $9.6 million, or 5 cents per common share, for asset impairment charges; $7.6 million (net of minority interest), or 4 cents per common share, for tax on unremitted foreign earnings; $5.1 million, or 3 cents per common share, for transaction and employee-related charges and loss on disposal in connection with the sale of substantially all of Phelps Dodge s North American magnet wire assets; $4.7 million, or 2 cents per common share, for transaction and employee-related charges and loss on the disposal in connection with the sale of Phelps Dodge s HPC; $3.0 million, or 1 cent per common share, for a lease termination settlement; and $1.2 million associated with dissolution of an international wire and cable entity.

(f) 2004, 2005 and 2006 reflected full consolidation of El Abra and Candelaria; 2002 and 2003 reflected El Abra and Candelaria on a pro rata basis (51 percent and 80 percent, respectively).

(g) As a result of Phelps Dodge s sale of Columbian, the operating results for Columbian have been reported separately from continuing operations and shown as discontinued operations for all periods presented in the consolidated statement of income data.

(h) Basic and diluted earnings per common share have been adjusted to reflect the March 10, 2006, two-for-one stock split for all periods presented.

(i) All periods presented reflect dividends per common share on a post-March 10, 2006, two-for-one stock split basis.

(j) 2004, 2005 and 2006 reflected copper production and copper sales on a consolidated basis; 2002 and 2003 reflected that information on a pro rata basis.

(k) New York Commodity Exchange average spot price per pound cathodes.

(l) London Metal Exchange average spot price per pound cathodes.

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Ratio of earnings to fixed charges

Freeport-McMoRan s ratio of earnings to fixed charges was as follows for the years presented:

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

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.

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**Overview of financial condition,
liquidity and capital resources of the combined company**

As more fully discussed in Management s discussion and analysis of financial condition and results of operations of Freeport-McMoRan, our financial policy has been to reduce debt and return cash to shareholders through dividends and share purchases. Our proposed acquisition of Phelps Dodge will require that we incur significant debt. As of December 31, 2006, on a pro forma basis after giving effect to the transactions, the combined company had approximately $17.6 billion in total debt, including $10.0 billion of debt under its new senior credit facilities, and $6.0 billion in aggregate principal amount of the new senior notes offered hereby. In addition, approximately $1.6 billion of existing debt of Freeport-McMoRan and Phelps Dodge will remain outstanding following the transactions. The combined company will also have a new $1.5 billion senior secured revolving credit facility. Our availability under our revolving credit facility is anticipated to be approximately $1,400.0 million at closing after giving effect to outstanding letters of credit. Following the closing, we may be required to issue additional letters of credit in connection with financial assurances with respect to our reclamation obligations. See Risk factors Risks related to Phelps Dodge s business Mine closure regulations may impose substantial costs. The combined company s cash and cash equivalents, on a pro forma basis, after giving effect to the transactions, totaled approximately $3.4 billion at December 31, 2006. The combined company expects to have capital expenditures of approximately $1.9 billion in 2007.

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 any equity issuances to the repayment of its debt and the interest on its debt, making it more difficult for the combined company to obtain additional financing on favorable terms, limiting the combined company s ability to capitalize on significant business opportunities 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. See Risk factors Risks related to the notes Our substantial indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under our outstanding indebtedness and the notes.

Following the transactions, the combined company will be required to comply with various covenants contained in the agreements governing its indebtedness. These covenants will limit our discretion in the operation of our business. See Risk factors Risks related to the notes for further discussion of these factors.

Upon completion of the transactions, our business strategy will be focused on continuing to maximize free cash flow and strengthen our financial profile through continued pursuit of active programs to maximize production volumes, aggressively manage costs and use available cash flow to reduce debt. At the same time, we will continue to focus on maximizing the long-term value of our mineral deposits through development programs to grow our production and ore reserves. In addition, we will consider opportunities to reduce debt of the combined company shortly following the closing of the transaction through issuances of equity and equity-linked securities and possibly through asset sales.

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Combined company debt maturities. Below is a summary of long-term debt maturities, on a pro forma basis after giving effect to the consummation of the transactions, for the combined company based on loan balances as of December 31, 2006.

(Dollars in millions)	2007	2008	2009	2010	2011	2012	Thereafter
Existing debt of Freeport-McMoRan:							
Equipment loans and other	$ 13.5	$ 13.5	$ 13.5	$ 10.2	$ 3.8	$	$
Atlantic Copper debt	5.6						
101/8% senior notes due 2010				272.4			
7% convertible senior notes due 2011					7.1		
67/8% senior notes due 2014							340.3
7.20% senior notes due 2026							0.2
Total Freeport-McMoRan	$ 19.1	$ 13.5	$ 13.5	$ 282.6	$ 10.9	$	$ 340.5
Existing debt of Phelps Dodge:							
7.375% notes due 2007	$ 60.6	$	$	$	$	$	$
8.75% notes due 2011	0.1	0.3	0.2	0.2	108.0		
9.50% notes due 2031		0.1	0.1	0.1			196.5
6.125% notes due 2034							149.8
7.125% debentures due 2027							115.0
Cerro Verde project financing and subsidiary debt financing	25.4	25.3	25.2	25.2	25.2	25.3	50.6
Various pollution control and industrial development revenue bonds due through 2009	2.0		23.0				
Short-term debt	33.7						
Total Phelps Dodge	$ 121.8	$ 25.7	$ 48.5	$ 25.5	$ 133.2	$ 25.3	$ 511.9
New debt:							
Revolving credit facility	$	$	$	$	$	$	$
Tranche A term loan facility	125.0	250.0	250.0	250.0	250.0	1,375.0	
Tranche B term loan facility	56.3	75.0	75.0	75.0	75.0	75.0	7,068.7
Senior notes offered hereby							6,000.0
Total new debt	$ 181.3	$ 325.0	$ 325.0	$ 325.0	$ 325.0	$ 1,450.0	$ 13,068.7
Total debt	$ 322.2	$ 364.2	$ 387.0	$ 633.1	$ 469.1	$ 1,475.3	$ 13,921.1

Combined company other contractual obligations. In addition to the debt maturities shown above, the combined company will have other contractual obligations and commitments, which it expects to fund with projected operating cash flows, available credit facilities or future financing transactions, if necessary. These obligations and commitments for each company are more fully described in Management s discussion and analysis of financial condition and results of operations of Freeport-McMoRan and Management s discussion and analysis of financial condition and results of operations of Phelps Dodge included elsewhere in this prospectus supplement which are subject to the disclosures included therein and should be referred to for additional information. The following table summarizes these obligations and commitments as of December 31, 2006:

(Dollars in millions, except concentrates)	Total	1 Year or Less	Years 2-3	Years 4-5	More than 5 Years
Freeport-McMoRan obligations:					
PT Freeport Indonesia mine closure and reclamation fund	$ 20.1	$ 0.8	$ 1.4	$ 1.4	$ 16.5
Atlantic Copper contractual obligation to insurance company	$ 94.9	$ 9.5	$ 19.0	$ 19.0	$ 47.4
Atlantic Copper contracts to purchase concentrates at market prices (in thousand metric tons)	1,425	505	700	220	
Aggregate operating leases, including Rio Tinto s share	$ 29.9	$ 8.9	$ 14.3	$ 6.4	$ 0.3
Open purchase orders at December 31, 2006	$ 216.5	$ 216.5			
Phelps Dodge obligations & commitments:					
Scheduled interest payment obligations	$ 979.5	$ 61.2	$ 112.9	$ 99.9	$ 705.5
Asset retirement obligations	$ 106.0	$ 58.2	$ 45.2	$ 2.3	$ 0.3
Take-or-pay contracts	$ 1,502.3	$ 1,295.5	$ 126.2	$ 49.4	$ 31.2
Operating lease obligations	$ 73.6	$ 16.6	$ 28.8	$ 21.4	$ 6.8
Mineral royalty obligations	$ 18.1	$ 1.9	$ 3.8	$ 3.0	$ 9.4
Standby letters of credit	$ 186.3	$ 56.0	$ 9.0	$ 3.0	$ 118.3
Corporate guarantees	$ 412.4	$ 0.8	$ 0.4		$ 411.2
Sales performance guarantees	$ 74.5	$ 49.5	$ 24.5	$ 0.2	$ 0.3
Surety bonds	$ 97.4	$ 2.1	$ 2.0		$ 93.3
Asset pledges	$ 74.2	$ 0.1			$ 74.2

Management s discussion and analysis of financial condition and results of operations of Freeport-McMoRan

The information contained in the following section does not reflect Freeport-McMoRan s acquisition of Phelps Dodge and is substantially reproduced from Freeport-McMoRan s Annual Report on Form 10-K for the year ended December 31, 2006, which is incorporated by reference in this prospectus supplement. This Management s discussion and analysis of financial condition and results of operations of Freeport-McMoRan should be read in conjunction with the financial statements and related notes of Freeport-McMoRan, which are included elsewhere or incorporated by reference in this prospectus supplement. For further information about the combined company, see Prospectus supplement summary Our business.

Overview

Through its majority-owned subsidiary, PT Freeport Indonesia, Freeport-McMoRan has one of the world s largest copper and gold mining and production operations in terms of reserves and production. Freeport-McMoRan s principal asset is the Grasberg minerals district, which based on available year-end 2005 reserve data provided by third-party industry consultants, contains the largest single copper reserve and the largest single gold reserve of any mine in the world.

PT Freeport Indonesia, Freeport-McMoRan s principal operating subsidiary, operates under an agreement, called a Contract of Work, with the Government of Indonesia. The Contract of Work allows PT Freeport Indonesia to conduct exploration, mining and production activities in a 24,700-acre area called Block A located in Papua, Indonesia. Under the Contract of Work, PT Freeport Indonesia also conducts exploration activities (which had been suspended, but expects to resume in 2007) in an approximate 500,000-acre area called Block B in Papua. All of Freeport-McMoRan s proven and probable mineral reserves and current mining operations are located in Block A.

Freeport-McMoRan owns 90.64 percent of PT Freeport Indonesia, including 9.36 percent owned through its wholly owned subsidiary, PT Indocopper Investama. The Government of Indonesia owns the remaining 9.36 percent of PT Freeport Indonesia. In July 2004, Freeport-McMoRan received a request from the Indonesian Department of Energy and Mineral Resources that it offer to sell shares in PT Indocopper Investama to Indonesian nationals at fair market value. In response to this request and in view of the potential benefits of having additional Indonesian ownership in its operations, Freeport-McMoRan has agreed to consider a potential sale of an interest in PT Indocopper Investama at fair market value. Neither its Contract of Work nor Indonesian law requires Freeport-McMoRan to divest any portion of its ownership interest in PT Freeport Indonesia or PT Indocopper Investama.

Freeport-McMoRan also conducts mineral exploration activities (which had been suspended in recent years) in Papua, Indonesia through one of its wholly owned subsidiaries, PT Irja Eastern Minerals (Eastern Minerals). Eastern Minerals holds an additional Contract of Work originally covering a 2.5-million-acre area. Under the terms of Eastern Minerals Contract of Work, we have already relinquished 1.3 million acres and must relinquish an additional 0.6 million acres at the end of a three-year exploration period, which can be extended by the Government of Indonesia for as many as two additional years. In December 2006, Eastern Minerals received approval from the Government of Indonesia to resume exploration activities in 2007.

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In addition to the PT Freeport Indonesia and Eastern Minerals exploration acreage, Freeport-McMoRan has the right to conduct other mineral exploration activities in Papua pursuant to a joint venture through PT Nabire Bakti Mining. Field exploration activities outside of its current mining operations in Block A had been suspended in recent years because of safety and security issues and regulatory uncertainty relating to a possible conflict between its 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, Freeport-McMoRan plans to resume exploration activities in certain prospective areas outside of Block A in 2007.

Freeport-McMoRan also operates through a majority-owned subsidiary, PT Puncakjaya Power (Puncakjaya Power), and through Atlantic Copper, S.A. (Atlantic Copper), a wholly owned subsidiary. Freeport-McMoRan acquired an 85.7 percent ownership in Puncakjaya Power in 2003. Puncakjaya Power s sole business is to supply power to PT Freeport Indonesia s operations. Atlantic Copper s operations are in Spain and involve the smelting and refining of copper concentrates and the marketing of refined copper and precious metals in slimes. PT Freeport Indonesia owns a 25 percent interest in PT Smelting, an Indonesian company which operates a copper smelter and refinery in Gresik, Indonesia.

Joint ventures with Rio Tinto plc (Rio Tinto)

In 1996, Freeport-McMoRan established joint ventures with Rio Tinto, an international mining company with headquarters in London, England. One joint venture covers PT Freeport Indonesia s mining operations in Block A and gives Rio Tinto, through 2021, a 40 percent interest in certain assets and future production exceeding specified annual amounts of copper, gold and silver in Block A and, after 2021, a 40 percent interest in all production from Block A.

Operating, nonexpansion capital and administrative costs are shared proportionately between PT Freeport Indonesia and Rio Tinto based on the ratio of (a) the incremental revenues from production from expansion completed in 1998 to (b) total revenues from production from Block A, including production from PT Freeport Indonesia s previously existing reserves. PT Freeport Indonesia receives 100 percent of the cash flow from specified annual amounts of copper, gold and silver through 2021, calculated by reference to its proven and probable reserves as of December 31, 1994, and 60 percent of all remaining cash flow.

The joint venture agreement provides for adjustments to the specified annual metal sharing amounts upon the occurrence of certain events that cause an extended interruption in production to occur, including events such as the fourth-quarter 2003 Grasberg open-pit slippage and debris flow. As a result of the Grasberg slippage and debris flow events, the 2004 specified amounts attributable 100 percent to PT Freeport Indonesia were reduced by 172 million recoverable pounds for copper and 272,000 recoverable ounces for gold. Pursuant to agreements in 2005 and early 2006 with Rio Tinto, these reductions were offset by increases in the specified amounts attributable 100 percent to PT Freeport Indonesia totaling 62 million recoverable pounds for copper and 170,000 recoverable ounces for gold in 2005, and 110 million recoverable pounds for copper and 102,000 recoverable ounces for gold in 2021.

Under the joint venture arrangements, Rio Tinto has a 40 percent interest in PT Freeport Indonesia s Contract of Work and in Eastern Minerals Contract of Work. Rio Tinto also has the option to participate in 40 percent of any of Freeport-McMoRan s other future exploration projects in Papua. Rio Tinto has elected to participate in 40 percent of Freeport-McMoRan s interest and cost in the PT Nabire Bakti Mining exploration joint venture covering approximately 0.5 million acres contiguous to Block B and one of Eastern Minerals blocks.

Outlook

Annual sales totaled 1.2 billion pounds of copper and 1.7 million ounces of gold in 2006, compared with 1.5 billion pounds of copper and 2.8 million ounces of gold in 2005. At the Grasberg open-pit mine, the sequencing in mining areas with varying ore grades causes fluctuations in the timing of ore production, resulting in varying quarterly and annual sales of copper and gold. The 2006 sales volumes were impacted by lower ore grades compared to the higher-grade material mined in 2005.

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.

Based on its current mine plan, PT Freeport Indonesia estimates its share of sales for 2007 will 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.

Sales volumes may vary from these estimates depending on the areas being mined within the Grasberg open pit. Quarterly sales volumes are expected to vary significantly. Based on current estimates of average annual sales volumes over the next five years and copper prices of approximately $2.50 per pound and gold prices of approximately $600 per ounce, the impact on our annual cash flow for each $0.10 per pound change in copper prices would approximate

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$62 million, including the effects of price changes on related royalty costs, and for each $25 per ounce change in gold prices would approximate $23 million.

Copper and gold markets

As shown in the graphs below, world metal prices for copper have fluctuated during the period from 1992 through January 2007 with the London Metal Exchange (LME) spot copper price varying from a low of approximately $0.60 per pound in 2001 to a record high of approximately $4.00 per pound on May 12, 2006. World gold prices have fluctuated during the period from 1998 through January 2007 from a low of approximately $250 per ounce in 1999 to a high of approximately $725 per ounce on May 12, 2006. Current copper and gold prices reflect significantly higher levels of direct investment by commodity investors. This can be expected to result in higher levels of volatility in copper and gold prices and in the share prices of Freeport-McMoRan and other commodity producers. Copper and gold prices are affected by numerous factors beyond our control. See Risk factors Risks related to the combined company 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.

Historical LME spot copper price
through January 31, 2007

* Excludes Shanghai stocks, producer, consumer and merchant stocks.

The graph above presents LME spot copper prices and reported stocks of copper at the LME and New York Commodity Exchange (COMEX) through January 31, 2007. Since 2003 and through 2005, global demand exceeded supply, evidenced by the decline in exchange warehouse inventories. LME and COMEX inventories have risen from the 2005 lows in recent months and combined stocks of approximately 214,000 metric tons at December 29, 2006, represent less than one week of global consumption. Prices ranged from $2.06 per pound to a record high of approximately $4.00 per pound in 2006. Disruptions associated with strikes, unrest and other operational issues resulted in low levels of inventory throughout 2006. However, in December 2006 and early 2007, prices declined on concerns about reduced demand, especially in the United States, and rising inventories. The LME spot price closed at $2.56 per pound on January 31, 2007. Future copper prices are expected to continue to be influenced by demand

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from China, economic performance in the U.S. and other industrialized countries, the timing of the development of new supplies of copper, production levels of mines and copper smelters and the level of direct participation by investors. Freeport-McMoRan considers the current underlying supply and demand conditions in the global copper markets to be positive.

London gold prices
Through January 31, 2007

After reaching new 25-year highs above $700 per ounce in the second quarter of 2006, prices declined in the second half of 2006. Gold prices averaged $604 per ounce in 2006, with prices ranging from $521 per ounce to approximately $725 per ounce. Gold prices continued to be supported by increased investment demand for gold, ongoing geopolitical tensions, a weak U.S. dollar, inflationary pressures, falling production from older mines, limited development of new mines and actions by gold producers to reduce hedge positions. The London gold price closed at approximately $651 per ounce on January 31, 2007.

Critical accounting estimates

Management s discussion and analysis of Freeport-McMoRan s financial condition and results of operations are based on its consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States. The preparation of these statements requires that Freeport-McMoRan make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Freeport-McMoRan bases these estimates on historical experience and on assumptions that it considers reasonable under the circumstances; however, reported results could differ from those based on the current estimates under different assumptions or conditions. Management has reviewed the following discussion of its development and selection of critical accounting estimates with the Audit Committee of the Board of Directors.

Mineral reserves and depreciation and amortization. Freeport-McMoRan depreciates its life-of-mine mining and milling assets using the unit-of-production method based on estimates of proven and probable recoverable copper reserves. Freeport-McMoRan has other assets that it depreciates on a straight-line basis over their estimated useful lives. Freeport-McMoRan s estimates of proven and probable recoverable copper reserves and of the useful lives of its straight-line assets impact Freeport-McMoRan s depreciation and amortization expense. These estimates affect the operating results of both its mining and exploration and smelting and refining segments.

The accounting estimates related to depreciation and amortization are critical accounting estimates because (1) the determination of copper reserves involves uncertainties with respect to the ultimate geology of reserves and the assumptions used in determining the economic feasibility of mining those reserves, including estimated copper and gold prices and costs of conducting future mining activities, and (2) changes in estimated proven and probable recoverable copper reserves and useful asset lives can have a material impact on net income. Freeport-McMoRan performs annual assessments of its existing assets, including a review of asset costs and depreciable lives, in connection with the review of mine operating and development plans. When Freeport-McMoRan determines that assigned asset lives do not reflect the expected remaining period of benefit, it makes prospective changes to those depreciable lives.

There are a number of uncertainties inherent in estimating quantities of reserves, including many factors beyond Freeport-McMoRan s control. Ore reserves estimates are based upon engineering evaluations of samplings of drill holes, tunnels and other underground workings. Freeport-McMoRan s estimates of proven and probable recoverable reserves are prepared by its employees and reviewed and verified by independent experts in mining, geology and reserve determination. As of December 31, 2006, aggregate proven and probable recoverable copper reserves totaled 54.8 billion pounds and PT Freeport Indonesia s estimated share totaled 38.8 billion pounds. These estimates involve assumptions regarding future copper and gold prices, the geology of Freeport-McMoRan s mines, the mining methods Freeport-McMoRan uses, and the related costs it incurs to develop and mine its reserves. Changes in these assumptions could result in material adjustments to Freeport-McMoRan reserve estimates, which could result in changes to depreciation and amortization expense in future periods, with corresponding adjustments to net income. If aggregate estimated copper reserves were 10 percent higher or lower at December 31, 2006, and based on current sales projections for 2007, Freeport-McMoRan estimates that its annual depreciation expense for 2007 would change by approximately $12 million, changing net income by approximately $6 million.

Freeport-McMoRan reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Changes to estimates of proven and probable recoverable copper and gold reserves could have an impact on Freeport-McMoRan s assessment of asset impairment. However, Freeport-McMoRan believes it is unlikely that revisions to estimates of proven and probable recoverable copper and gold reserves would give rise to an impairment of its assets because of the significant size of reserves in relation to asset carrying values.

Reclamation and closure costs. Freeport-McMoRan s mining operations involve activities that have a significant effect on the surrounding area. Freeport-McMoRan s reclamation and closure costs primarily involve reclamation and revegetation of a large area in the lowlands of Papua where mill tailings are deposited, reclamation of overburden stockpiles and decommissioning of operating assets.

Effective January 1, 2003, Freeport-McMoRan adopted Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires that

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Freeport-McMoRan record the fair value of its estimated asset retirement obligations in the period incurred. Freeport-McMoRan measures fair value as the present value of multiple cash flow scenarios that reflect a range of possible outcomes after considering inflation and then applying a market risk premium. The accounting estimates related to reclamation and closure costs are critical accounting estimates because (1) Freeport-McMoRan will not incur most of these costs for a number of years, requiring it to make estimates over a long period; (2) reclamation and closure laws and regulations could change in the future or circumstances affecting its operations could change, either of which could result in significant changes to current plans; (3) calculating the fair value of asset retirement obligations in accordance with SFAS No. 143 requires management to assign probabilities to projected cash flows, to make long-term assumptions about inflation rates, to determine our credit-adjusted, risk-free interest rates and to determine market risk premiums that are appropriate for its operations; and (4) given the magnitude of estimated reclamation and closure costs, changes in any or all of these estimates could have a material impact on net income.

In 2002, Freeport-McMoRan engaged an independent environmental consulting and auditing firm to assist in estimating PT Freeport Indonesia s aggregate asset retirement obligations, and worked with other consultants in estimating Atlantic Copper s asset retirement obligations. Freeport-McMoRan estimated these obligations using an expected cash flow approach, in which multiple cash flow scenarios were used to reflect a range of possible outcomes. To calculate the fair value of these obligations, Freeport-McMoRan applied an estimated long-term inflation rate of 2.5 percent, except for Indonesian rupiah-denominated labor costs with respect to PT Freeport Indonesia s obligations, for which an estimated inflation rate of 9.0 percent was applied. The projected cash flows were discounted at Freeport-McMoRan s estimated credit-adjusted, risk-free interest rates, which ranged from 9.4 percent to 12.6 percent for the corresponding time periods over which these costs would be incurred. The inflation rates and discount rates Freeport-McMoRan used to calculate the fair value of PT Freeport Indonesia s asset retirement obligation are critical factors in the calculation of future value and discounted present value costs. An increase of one percent in the inflation rates used results in an approximate 17 percent increase in the discounted present value costs. A decrease of one percent in the discount rates used has a similar effect resulting in an approximate 16 percent increase in the discounted present value costs. After discounting the projected cash flows, a market risk premium of 10 percent was applied to the total to reflect what a third party might require to assume these asset retirement obligations. The market risk premium was based on market-based estimates of rates that a third party would have to pay to insure its exposure to possible future increases in the value of these obligations.

At least annually, PT Freeport Indonesia reviews its estimates for (1) changes in the projected timing of certain reclamation costs, (2) changes in cost estimates, and (3) additional asset retirement obligations incurred during the period. Freeport-McMoRan estimated PT Freeport Indonesia s aggregate asset retirement obligations to be approximately $157 million at

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December 31, 2006, and $156 million at December 31, 2005. An analysis of PT Freeport Indonesia s asset retirement obligation calculated under SFAS No. 143 follows:

(Dollars in millions)		2006		2005		2004
Asset retirement obligation at beginning of year	$	26.5	$	22.0	$	25.7
Accretion expense		3.1		2.7		2.8
Revisions for changes in estimates						(6.5)
Liabilities incurred		0.4		1.8		
Asset retirement obligation at end of year	$	30.0	$	26.5	$	22.0

Consolidated results of operations

Consolidated revenues include PT Freeport Indonesia s sale of copper concentrates, which also contain significant quantities of gold and silver, and the sale by Atlantic Copper of copper anodes, copper cathodes and gold in anodes and slimes. Consolidated revenues and net income vary significantly with fluctuations in the market prices of copper and gold, sales volumes and other factors. Consolidated revenues of $5.8 billion for 2006 were higher than consolidated revenues of $4.2 billion for 2005, reflecting substantially higher copper and gold prices in 2006, partly offset by lower PT Freeport Indonesia sales volumes. PT Freeport Indonesia mined lower grade ore and reported lower production and sales in 2006, compared with 2005. Consolidated revenues in 2005 were significantly higher compared with 2004 revenues of $2.4 billion, reflecting substantially higher copper and gold sales volumes and prices in 2005. The 2004 results were adversely affected by lower ore grades and reduced mill throughput as PT Freeport Indonesia completed efforts to restore safe access to the higher-grade ore areas in its Grasberg open-pit mine following the fourth-quarter 2003 slippage and debris flow events (see Mining and exploration operations PT Freeport Indonesia operating results). In addition, Atlantic Copper s scheduled major maintenance turnaround adversely affected its 2004 revenues (see Smelting and refining operations Atlantic Copper operating results).

Consolidated production and delivery costs were higher in 2006 at $2.5 billion compared with $1.6 billion for 2005 and $1.5 billion for 2004. The increases in 2006 and 2005 were primarily because of higher costs of concentrate purchases at Atlantic Copper caused by rising metals prices and partly because of higher production costs at PT Freeport Indonesia primarily resulting from higher energy and other input costs. The adoption of Emerging Issues Task Force Issue No. 04-6, Accounting for Stripping Costs Incurred during Production in the Mining Industry (EITF 04-6) also impacted 2006 costs. See New accounting standards. Consolidated depreciation and amortization expense was $227.6 million in 2006, $251.5 million in 2005 and $206.4 million in 2004. Depreciation and amortization expense decreased in 2006 compared with 2005, primarily because of lower copper sales volumes at PT Freeport Indonesia during 2006. Depreciation and amortization expense was higher in 2005 than in 2004, primarily because of higher copper sales volumes at PT Freeport Indonesia during 2005. Certain of PT Freeport Indonesia s assets are depreciated using the unit-of-production method and depreciation and amortization expense varies with the level of copper sales volumes.

Exploration expenses increased to $12.3 million in 2006 compared with $8.8 million in 2005 and $8.7 million in 2004. Freeport-McMoRan s exploration program for 2006 focused on testing extensions of the Deep Grasberg and

Kucing Liar mine complex and other targets in Block A (see Mining and exploration operations exploration and reserves). All approved exploration costs in the joint venture areas with Rio Tinto are shared 60 percent by Freeport-McMoRan

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and 40 percent by Rio Tinto. The FCX/Rio Tinto joint ventures 2007 exploration budgets total approximately $31 million (approximately $25 million for Freeport-McMoRan s share).

Consolidated general and administrative expenses increased to $157.1 million in 2006 from $103.9 million in 2005, primarily reflecting higher incentive compensation costs associated with stronger financial performance and pursuant to established plans and legal fees. Incentive compensation costs were higher primarily because of programs based on financial results and stock-based compensation following adoption of SFAS No. 123 (revised 2004), Share-Based Payment or SFAS No. 123R on January 1, 2006 (see New accounting standards.) Freeport-McMoRan s parent company charges PT Freeport Indonesia for the in-the-money value of exercised employee stock options. These charges are eliminated in consolidation; however, PT Freeport Indonesia shares a portion of these charges with Rio Tinto and Rio Tinto s reimbursements reduce its consolidated general and administrative expenses. General and administrative expenses are net of Rio Tinto s share of the cost of employee stock option exercises, which decreased general and administrative expenses by $6.5 million in 2006 and $9.2 million in 2005. In accordance with the joint venture agreement, Rio Tinto s percentage share of PT Freeport Indonesia s general and administrative expenses varies with metal sales volumes and prices and totaled 7 percent in 2006 compared with approximately 16 percent in 2005. Estimated general and administrative expenses for 2007 are expected to be slightly lower than the 2006 level.

General and administrative expenses increased to $103.9 million in 2005 from $89.9 million in 2004, primarily reflecting higher incentive compensation costs associated with stronger financial performance and pursuant to established plans under which certain compensation plans are based on annual operating cash flow results, which were significantly higher in 2005 compared with 2004. General and administrative expenses in 2005 also include $3.4 million in administrative costs incurred following Hurricane Katrina and for contributions to hurricane-relief efforts. As a percentage of revenues, general and administrative expenses were 2.7 percent in 2006, 2.5 percent in 2005 and 3.8 percent in 2004.

PT Freeport Indonesia maintains property damage and business interruption insurance related to its operations. In December 2004, PT Freeport Indonesia 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 the joint venture partner s interest in the proceeds, PT Freeport Indonesia s share of proceeds totaled $95.0 million. As a result of the settlement, Freeport-McMoRan recorded in its consolidated statements of income an $87.0 million gain on insurance settlement for the business interruption recovery and an $8.0 million gain to production costs for the property loss recovery for a net gain of $48.8 million ($0.26 per share), after taxes and minority interest sharing, in 2004.

Total consolidated interest cost (before capitalization) was $86.4 million in 2006, $135.8 million in 2005 and $151.0 million in 2004. Interest costs decreased from 2004 through 2006 primarily because Freeport-McMoRan reduced average debt levels during the three-year period with significant reductions in 2005 and 2006. Over the past three years, Freeport-McMoRan completed a number of transactions that resulted in total debt reductions, including redemptions of mandatorily redeemable preferred stock, of $1.5 billion. Capitalized interest totaled $10.8 million in 2006, $4.1 million in 2005 and $2.9 million in 2004. The higher capitalized interest level in 2006 reflects ongoing development projects at the Deep Ore Zone (DOZ) underground mine and the Common Infrastructure project (see Mining and exploration operations).

Net losses on early extinguishment and conversion of debt totaled $32.0 million ($30.3 million to net income or $0.14 per share) in 2006, $52.2 million ($40.2 million to net income or $0.18 per share in 2005) and $14.0 million ($7.4 million to net income or $0.04 per share) in 2004. See Capital resources and liquidity Financing activities for further discussion.

Atlantic Copper recorded gains on sales of assets totaling $29.7 million ($29.7 million to net income or $0.13 per share) in 2006 for the disposition of land and certain royalty rights. Other gains on sales of assets in 2006 totaled $0.9 million. Gains on sales of assets totaled $6.6 million ($4.9 million to net income or $0.02 per share) in 2005 from the sale of land in Arizona held by a joint venture in which Freeport-McMoRan owns a 50 percent interest. The joint venture previously was engaged in a copper mining research project. Gains on sales of assets totaled $28.8 million in 2004 as a result of two transactions. The first transaction was the sale to a real estate developer of a parcel of land in Arizona owned by the joint venture mentioned above resulting in a gain of $21.3 million ($20.4 million to net income or $0.11 per share). In the second transaction, Atlantic Copper completed a sale of its wire rod and wire assets for $18.3 million cash and recorded a gain of $7.5 million ($7.5 million to net income or $0.04 per share).

Other income includes interest income of $30.6 million in 2006, $16.8 million in 2005 and $5.9 million in 2004. Interest income has risen because of higher cash balances and higher interest rates. Other income also includes the impact of translating into U.S. dollars Atlantic Copper s net euro-denominated liabilities, primarily its retiree pension obligations. Changes in the U.S. dollar/euro exchange rate require Freeport-McMoRan to adjust the dollar value of its net euro-denominated liabilities and record the adjustment in earnings. Exchange rate effects on net income from euro-denominated liabilities were gains (losses) of $(2.3) million in 2006, $5.8 million in 2005 and $(1.6) million in 2004. The gains reflect a stronger U.S. dollar in relation to the euro and the losses reflect a stronger euro in relation to the U.S. dollar in the respective periods (see Disclosures about market risks).

PT Freeport Indonesia s Contract of Work provides for a 35 percent corporate income tax rate. PT Indocopper Investama pays a 30 percent corporate income tax on dividends it receives from its 9.36 percent ownership in PT Freeport Indonesia. In addition, the tax treaty between Indonesia and the U.S. provides for a withholding tax rate of 10 percent on dividends and interest that PT Freeport Indonesia and PT Indocopper Investama pay to their parent company. Prior to 2005, Freeport-McMoRan also incurred a U.S. alternative minimum tax at an effective rate of two percent based primarily on consolidated income, net of smelting and refining results. As a result of the enactment of the American Jobs Creation Act of 2004, the 90 percent limitation on the use of foreign tax credits to offset the U.S. federal alternative minimum tax liability was repealed effective January 1, 2005. The removal of this limitation significantly reduced U.S. federal taxes beginning in 2005. The U.S. federal alternative minimum tax liability totaled $8.2 million in 2004. Freeport-McMoRan currently records no income taxes at Atlantic Copper, which is subject to taxation in Spain, because it is not expected to generate taxable income in the foreseeable future and has substantial tax loss carryforwards for which Freeport-McMoRan has provided no net financial statement benefit. Freeport-McMoRan receives no consolidated tax benefit from these losses because they cannot be used to offset PT Freeport Indonesia s profits in Indonesia, but can be utilized to offset Atlantic Copper s future profits.

Parent company costs consist primarily of interest, depreciation and amortization, and general and administrative expenses. Freeport-McMoRan receives minimal, if any, tax benefit from these costs, including interest expense, primarily because the parent company normally generates no taxable income from U.S. sources. As a result, the provision for income taxes as a percentage of consolidated income before income taxes and minority interests will vary as PT Freeport Indonesia s income changes, absent changes in Atlantic Copper and parent company costs. The provision for income taxes as a percentage of consolidated income before income taxes and minority interests totaled 43 percent for 2006, 45 percent for 2005 and 58 percent for 2004. Summaries of the approximate significant components of the calculation of consolidated provision for income taxes are shown below.

	Years ended December 31,		
(Dollars in thousands, except percentages)	**2006**	**2005**	**2004**
Mining and exploration segment operating income[(a)]	$ 2,797,963	$ 2,312,771	$ 832,112
Mining and exploration segment interest expense, net	(19,833)	(22,386)	(22,209)
Intercompany operating profit recognized (deferred)	32,426	(144,986)	(24,683)
Income before taxes	2,810,556	2,145,399	785,220
Indonesian corporate income tax rate (35%) plus U.S. alternative minimum tax rate (2%) for 2004	35%	35%	37%
Corporate income taxes	983,695	750,890	290,531
Approximate PT Freeport Indonesia net income	1,826,861	1,394,509	494,689
Withholding tax on Freeport-McMoRan s equity share	9.064%	9.064%	9.064%
Withholding taxes	165,587	126,398	44,839
PT Indocopper Investama corporate income tax	47,797	36,544	3,005
Other, net	4,096	1,236	(7,695)
Freeport-McMoRan consolidated provision for income taxes	$ 1,201,175	$ 915,068	$ 330,680
Freeport-McMoRan consolidated effective tax rate	43%	45%	58%

(a) Excludes charges for the in-the-money value of Freeport-McMoRan stock option exercises, which are eliminated in consolidation, totaling $88.3 million in 2006, $64.5 million in 2005 and $87.3 million in 2004.

Freeport-McMoRan has two operating segments: mining and exploration and smelting and refining. The mining and exploration segment consists of Indonesian activities including PT Freeport Indonesia s copper and gold mining operations, Puncakjaya Power s power generating operations (after eliminations with PT Freeport Indonesia) and Indonesian exploration activities, including those of Eastern Minerals. The smelting and refining segment includes Atlantic Copper s operations in Spain and PT Freeport Indonesia s equity investment in PT Smelting. Summary comparative operating income (loss) data by segment follow:

(Dollars in millions)	**Years ended December 31, 2006**	**2005**	**2004**
Mining and exploration[(a)]	$ 2,709.7	$ 2,248.3	$ 744.8
Smelting and refining	74.5	34.8	(83.5)
Intercompany eliminations and other[(a)(b)]	84.5	(105.8)	42.3
Freeport-McMoRan s operating income	$ 2,868.7	$ 2,177.3	$ 703.6

(a) Includes charges to the mining and exploration segment for the in-the-money value of stock option exercises, which are eliminated in consolidation, totaling $88.3 million in 2006, $64.5 million in 2005 and $87.3 million in 2004.

(b) Freeport-McMoRan defers recognizing profits on PT Freeport Indonesia s sales to Atlantic Copper and on 25 percent of PT Freeport Indonesia s sales to PT Smelting until their sales of final products to third parties. Changes in the amount of these deferred profits increased (decreased) operating income by $32.4 million in 2006, $(145.0) million in 2005 and $(24.7) million in 2004. Consolidated earnings can fluctuate materially depending on the timing and prices of these sales. At December 31, 2006, deferred profits to be recognized in future periods operating income totaled $190.1 million, $100.8 million to net income, after taxes and minority interest sharing.

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Mining and exploration operations

A summary of changes in PT Freeport Indonesia revenues follows:

(Dollars in millions)	2006	2005
PT Freeport Indonesia revenues prior year	$ 3,568.0	$ 1,746.6
Price realizations:		
Copper	1,530.6	706.4
Gold	191.4	122.6
Sales volumes:		
Copper	(473.0)	636.4
Gold	(481.0)	555.5
Adjustments, primarily for copper pricing on prior year open sales	194.7	(1.4)
Treatment charges, royalties and other	(135.9)	(198.1)
PT Freeport Indonesia revenues current year	$ 4,394.8	$ 3,568.0

PT Freeport Indonesia operating results 2006 compared with 2005

Realized copper prices in 2006 improved by 69 percent to an average of $3.13 per pound from $1.85 per pound in 2005. Realized gold prices in 2006 averaged $566.51 per ounce, including a reduction of $39.85 per ounce for revenue adjustments associated with the first-quarter 2006 redemption of the Gold-Denominated Preferred Stock, Series II, compared to $456.27 in 2005. Copper and gold sales totaled 1.2 billion pounds of copper and 1.7 million ounces of gold in 2006, compared with sales of 1.5 billion pounds of copper and 2.8 million ounces of gold in 2005.

Mill throughput, which varies depending on ore types being processed, averaged 229,400 metric tons of ore per day in 2006, compared with 216,200 metric tons of ore per day in 2005. Operations were temporarily suspended for an approximate four-day period in February 2006 when illegal miners (gold panners) blocked a road leading to PT Freeport Indonesia s mill. While this situation was resolved peacefully by Indonesian government authorities, PT Freeport Indonesia continues to work with the government to resolve the legal and security concerns presented by the increased presence of gold panners in its area of operations. Mill rates will vary during 2007 depending on ore types mined and are expected to average in excess of 210,000 metric tons of ore per day for the year. Approximate average daily throughput processed at the mill facilities from each of PT Freeport Indonesia s producing mines follows:

	Years ended December 31,	
(Metric tons of ore per day)	2006	2005
Grasberg open pit	184,200	174,200
DOZ underground mine	45,200	42,000

Total	229,400	216,200

In 2006, copper ore grades averaged 0.85 percent and recovery rates averaged 86.1 percent, compared with 1.13 percent and 89.2 percent in 2005. Gold ore grades averaged 0.85 grams per metric ton (g/t) and recovery rates averaged 80.9 percent in 2006, compared with 1.65 g/t and 83.1 percent in 2005. The 2006 ore grades and recoveries for copper and gold reflect the mining of lower grade material compared with the extraordinarily high grades mined in 2005. Average annual copper and gold ore grades for 2007 are projected to approximate the 2006 ore grades, with higher grades projected in the first half of 2007 than in the second half because of mine sequencing. Approximately 63 percent of copper sales and approximately 81 percent of gold sales in 2007 are projected to occur in the first half of the year.

Production from the DOZ underground mine averaged 45,200 metric tons of ore per day in 2006, representing 20 percent of mill throughput. DOZ continues to perform above design capacity of 35,000 metric tons of ore per day. PT Freeport Indonesia is expanding the capacity of the DOZ underground operation to a sustained rate of 50,000 metric tons of ore per day with the installation of a second crusher and additional ventilation, expected to be completed in mid-2007. PT Freeport Indonesia s 60 percent share of capital expenditures for the DOZ expansion totaled approximately $17 million in 2006 (cumulative $34 million through December 31, 2006) and is expected to approximate $2 million in 2007. PT Freeport Indonesia anticipates a further expansion of the DOZ mine to 80,000 metric tons of ore per day, with budgeted capital of approximately $11 million in 2007 for its 60 percent share. The success of the development of the DOZ 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.

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 these 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 s share of capital expenditures for its Common Infrastructure project totaled approximately $9 million in 2006 and projected 2007 capital expenditures approximate $8 million. The Common Infrastructure project is progressing according to plan. 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. Work on the Grasberg underground ore body continues with PT Freeport Indonesia s share of capital expenditures totaling approximately $23 million in 2006 and projected 2007 capital expenditures approximate $70 million.

The Big Gossan underground mine is a high-grade deposit located near the existing milling complex. Remaining capital expenditures for the $260 million Big Gossan project to be incurred over the next few years total approximately $185 million ($175 million net to PT Freeport Indonesia, with approximately $90 million in 2007). PT Freeport Indonesia s share of capital expenditures for Big Gossan totaled approximately $56 million in 2006. Production is expected to ramp up to full production of 7,000 metric tons per day by 2010 (average annual aggregate incremental production of 135 million pounds of copper and 65,000 ounces of gold, with PT Freeport Indonesia receiving 60 percent of these amounts). The Big Gossan mine is being developed as an open-stope mine with backfill consisting of mill tailings and cement, an established mining methodology expected to be higher-cost than the block-cave method used at the DOZ mine.

Treatment charges vary with the volume of metals sold and the price of copper, and royalties vary with the volume of metals sold and the prices of copper and gold. Market rates for treatment and refining charges began to increase significantly in late 2004. A large part of the increase relates to the price participation and price sharing components of concentrate sales

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agreements. Royalties totaled $126.0 million in 2006 compared with $103.7 million in 2005, reflecting higher metal prices partly offset by lower sales volumes.

PT Freeport Indonesia receives market prices for the copper, gold and silver contained in its concentrate. Under the long-established structure of concentrate sales agreements prevalent in the industry, copper is provisionally priced at the time of shipment and is subject to final pricing in a specified future period (generally one to three months from shipment) based on quoted LME prices. The sales subject to final pricing are generally settled in the subsequent quarter. Therefore, at the end of any quarterly period, there will be sales that remain subject to final pricing. Accounting rules require these sales be recorded based on the LME future prices at the end of the reporting period. To the extent final settlements are higher or lower than what was recorded on a provisional basis, an increase or decrease to revenues would be recorded when the pricing is finally settled. PT Freeport Indonesia s 2006 revenues include net additions of $257.0 million for adjustments to provisional copper prices in concentrate sales contracts, compared with $238.3 million in 2005.

Gross profit per pound of copper/per ounce of gold and silver

	Year ended December 31, 2006			
Pounds of copper sold (000s)	1,201,400	1,201,400		
Ounces of gold sold			1,736,000	
Ounces of silver sold				3,806,200

	By-product method	Copper	Co-product method Gold	Silver
Revenues, after adjustments shown below	$ 3.13	$ 3.13	$ 566.51(a)	$ 8.59(b)
Site production and delivery, before net noncash and nonrecurring costs shown below	1.03	0.79	156.24	3.11
Gold and silver credits	(0.93)			
Treatment charges	0.40(c)	0.31(d)	60.41(d)	1.20(d)
Royalty on metals	0.10	0.08	15.94	0.32
Unit net cash costs[e]	0.60	1.18	232.59	4.63
Depreciation and amortization	0.15	0.12	23.25	0.46
Noncash and nonrecurring costs, net	0.04	0.03	5.60	0.11
Total unit costs	0.79	1.33	261.44	5.20
Revenue adjustments, primarily for pricing on prior period open sales	0.10(f)	0.17	11.53	0.22
PT Smelting intercompany profit elimination			(0.37)	(0.01)
Gross profit per pound/ounce	$ 2.44	$ 1.97	$ 316.23	$ 3.60

(a) Amount was $606.36 before a loss resulting from redemption of the Gold-Denominated Preferred Stock, Series II.

(b) Amount was $11.92 before a loss resulting from redemption of the Silver-Denominated Preferred Stock.

(c) Includes $12.4 million or $0.01 per pound for adjustments to 2005 concentrate sales subject to final pricing to reflect the impact on treatment charges resulting from the increase in copper prices since December 31, 2005.

(d) Includes $9.6 million or $0.01 per pound for copper, $2.7 million or $1.57 per ounce for gold and $0.1 million or $0.03 per ounce for silver for adjustments to 2005 concentrate sales subject to final pricing to reflect the impact on treatment charges resulting from the increase in copper prices since December 31, 2005.

(e) For a reconciliation of unit net cash costs to production and delivery costs applicable to sales reported in Freeport-McMoRan s consolidated financial statements refer to Product revenues and production costs.

(f) Includes a $69.0 million or $0.06 per pound loss on the redemption of the Gold-Denominated Preferred Stock, Series II and a $13.3 million or $0.01 per pound loss on the redemption of the Silver-Denominated Preferred Stock.

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Gross profit per pound of copper/per ounce of gold and silver

	Year ended December 31, 2005			
Pounds of copper sold (000s)	1,456,500	1,456,500		
Ounces of gold sold			2,790,200	
Ounces of silver sold				4,734,600
	By-product method	**Co-product method Copper**	**Gold**	**Silver**
Revenues, after adjustments shown below	$ 1.85	$ 1.85	$ 456.27	$ 6.36(a)
Site production and delivery, before net noncash and nonrecurring costs shown below	0.65(b)	0.44(c)	107.71(c)	1.76(c)
Gold and silver credits	(0.89)			
Treatment charges	0.24	0.16	39.75	0.65
Royalty on metals	0.07	0.05	11.77	0.19
Unit net cash costs(d)	0.07	0.65	159.23	2.60
Depreciation and amortization	0.14	0.10	23.79	0.39
Noncash and nonrecurring costs, net			0.52	0.01
Total unit costs	0.21	0.75	183.54	3.00
Revenue adjustments, primarily for pricing on prior period open sales	0.01(e)	0.02	(1.14)	0.02
PT Smelting intercompany profit elimination	(0.01)	(0.01)	(2.67)	(0.04)
Gross profit per pound/ounce	$ 1.64	$ 1.11	$ 268.92	$ 3.34

(a) Amount was $7.38 before a loss resulting from redemption of the Silver-Denominated Preferred Stock.

(b) Net of deferred mining costs totaling $64.9 million or $0.05 per pound. Following adoption of EITF 04-6 on January 1, 2006 (see New accounting standards), stripping costs are no longer deferred.

(c) Net of deferred mining costs totaling $43.8 million or $0.03 per pound for copper, $20.6 million or $7.37 per ounce for gold and $0.6 million or $0.12 per ounce for silver (see Note (b) above).

(d) See Note (e) in previous table above.

(e) Includes a $5.0 million or less than $0.01 per pound loss on the redemption of the Silver-Denominated Preferred Stock.

Freeport-McMoRan presents gross profit per pound of copper using both a by-product method and a co-product method. Freeport-McMoRan uses the by-product method in the presentation of gross profit per pound of copper because (1) the majority of revenues are copper revenues, (2) PT Freeport Indonesia produces and sells one product, concentrates, which contains copper, gold and silver, (3) it is not possible to specifically assign costs to revenues from the copper, gold and silver produced in concentrates, (4) it is the method used to compare mining operations in certain industry publications and (5) it is the method used by Freeport-McMoRan s management and Board of Directors to monitor operations. In the co-product method presentation, costs are allocated to the different products based on their relative revenue values, which will vary to the extent metals sales volumes and realized prices change.

Because of the fixed nature of a large portion of PT Freeport Indonesia s costs, unit costs vary significantly from period to period depending on volumes of copper and gold sold during the period. Higher unit site production and delivery costs in 2006, compared with 2005, primarily reflected lower sales volumes resulting from mine sequencing in the Grasberg open pit, higher input costs (including energy) and the impact of adopting EITF 04-6 (see Note (b) above and New accounting standards). While lower volumes constitute the largest component of variance on a unit basis, PT Freeport Indonesia has experienced significant increases in production costs in recent years primarily as a result of higher energy costs and costs of other

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consumables, higher mining costs and milling rates, labor costs and other factors. Aggregate energy costs, which approximated 22 percent of PT Freeport Indonesia s 2006 production costs, primarily include purchases of approximately 100 million gallons of diesel per year and approximately 650,000 metric tons of coal per year. Diesel prices have nearly tripled since the beginning of 2003 and coal costs are approximately 40 percent higher. The costs of other consumables, including steel and reagents, also have increased. Costs also have been affected by the stronger Australian dollar against the U.S. dollar (approximate 40 percent increase since the beginning of 2003), which comprised approximately 15 percent of PT Freeport Indonesia s 2006 production costs. PT Freeport Indonesia is pursuing cost reduction initiatives to mitigate the impacts of these increases.

Unit treatment charges vary with the price of copper, and unit royalty costs vary with prices of copper and gold. In addition, market rates for treatment charges have increased significantly since 2004 and will vary based on PT Freeport Indonesia s customer mix. The copper royalty rate payable by PT Freeport Indonesia under its Contract of Work 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.

In connection with the fourth concentrator mill expansion completed in 1998, PT Freeport Indonesia agreed to pay the Government of Indonesia additional royalties (royalties not required by the Contract of Work) to provide further support to the local governments and the people of the Indonesian province of Papua. The additional royalties are paid on production exceeding specified annual amounts of copper, gold and silver expected to be generated when PT Freeport Indonesia s milling facilities operate above 200,000 metric tons of ore per day. PT Freeport Indonesia s royalty rate on copper net revenues from production above the agreed levels is double the Contract of Work royalty rate, and the royalty rates on gold and silver sales from production above the agreed levels are triple the Contract of Work royalty rates.

Royalty costs totaled $126.0 million in 2006, compared with $103.7 million in 2005. Additional royalties, discussed above, totaled $0.1 million in 2006 and $18.1 million in 2005. If copper prices average $2.50 per pound and gold prices average $600 per ounce during 2007, Freeport-McMoRan would expect royalty costs to total approximately $93 million ($0.09 per pound of copper) in 2007. These estimates assume 2007 sales volumes of 1.1 billion pounds of copper and 1.8 million ounces of gold.

As a result of the lower copper production and sales volumes in 2006, PT Freeport Indonesia s unit depreciation rate increased compared with 2005. Because certain assets are depreciated on a straight-line basis, the unit rate will vary with the level of copper production and sales. In addition, the changes to the long-range mine plan discussed above that impact Grasberg open-pit reserves will impact unit rates. As a result, for 2007, PT Freeport Indonesia expects its depreciation rate to average $0.18 per pound compared with $0.15 per pound for 2006.

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.

Unit net cash costs: By-product method. Unit net cash costs per pound of copper calculated using a by-product method is a measure intended to provide investors with information about the cash generating capacity of mining operations expressed on a basis relating to PT Freeport Indonesia s primary metal product, copper. PT Freeport Indonesia uses this measure for the same purpose and for monitoring operating performance by its mining operations. This information differs from measures of performance determined in accordance with generally accepted accounting principles and should not be considered in isolation or as a substitute for measures of performance determined in accordance with generally accepted accounting principles. This measure is presented by other copper and gold mining companies, although PT Freeport Indonesia s measures may not be comparable to similarly titled measures reported by other companies.

Unit site production and delivery costs averaged $1.03 per pound of copper in 2006, $0.38 per pound higher than the $0.65 reported in 2005. Unit site production and delivery costs in 2006 were adversely affected by lower volumes, higher input costs (including energy) and adoption of EITF 04-6 (see New accounting standards). For 2005, unit costs benefited from the deferral of stripping costs totaling $0.05 per pound.

Gold and silver credits averaged $0.93 per pound in 2006, compared with $0.89 per pound in 2005. The increase for 2006 primarily reflects lower copper sales volumes and higher average realized gold prices, compared with 2005. Treatment charges increased to $0.40 per pound in 2006 from $0.24 per pound in 2005 primarily because of higher market rates and higher copper prices, including the effects of price participation under concentrate sales agreements. Royalties of $0.10 per pound in 2006 were higher than the $0.07 per pound in 2005 because of higher copper and gold prices.

Assuming 2007 average copper prices of $2.50 per pound and average gold prices of $600 per ounce and achievement of current 2007 sales estimates, PT Freeport Indonesia estimates that its annual 2007 unit net cash costs, including gold and silver credits, would approximate $0.63 per pound. Estimated unit net cash costs for 2007 are projected to be slightly higher than the 2006 average, primarily because of lower 2007 copper sales volumes partially offset by lower treatment charges and higher gold credits. Because the majority of PT Freeport Indonesia s costs are fixed, unit costs vary with the volumes sold.

Unit net cash costs: Co-product method. Using the co-product method, unit site production and delivery costs in 2006 averaged $0.79 per pound of copper, compared with $0.44 in 2005. For gold, unit site production and delivery costs in 2006 averaged $156 per ounce, compared with $108 in 2005. As discussed above, unit site production and delivery costs in 2006 were primarily impacted by lower volumes, higher input costs (including energy) and the adoption of EITF 04-6. Treatment charges per pound and per ounce were higher in 2006 primarily because of higher market rates and copper prices. Royalties per pound and per ounce were also higher in 2006 because of higher copper and gold prices compared with 2005.

PT Freeport Indonesia operating results 2005 compared with 2004

PT Freeport Indonesia achieved significantly higher production and sales in 2005, reflecting higher ore grades and milling rates than in 2004. Copper sales volumes totaled 1.5 billion pounds in 2005, approximately 50 percent higher than the 1.0 billion pounds reported in 2004. Copper price realizations of $1.85 per pound in 2005 were $0.48 per pound higher than the 2004 realizations of $1.37 per pound. Gold sales volumes totaled a record 2.8 million ounces in 2005, 93 percent higher than the 1.4 million ounces reported in 2004. Gold price realizations of $456.27 per ounce in 2005 were nearly $44 an ounce higher than 2004 realizations of $412.32 per ounce.

Market rates for treatment and refining charges began to increase significantly in late 2004, and PT Freeport Indonesia s average 2005 rate exceeded its average 2004 rate. Royalties totaled

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$103.7 million in 2005 and $43.5 million in 2004, reflecting higher sales volumes and metal prices.

Mill throughput averaged 216,200 metric tons of ore in 2005, compared with 185,100 metric tons of ore in 2004. Following the fourth-quarter 2003 Grasberg open-pit slippage and debris flow events, PT Freeport Indonesia accelerated the removal of overburden and mined low-grade ore prior to restoring safe access to higher-grade ore areas in the second quarter of 2004 and resuming normal milling rates in June 2004. As a result, mill throughput was lower in 2004. Approximate average daily throughput processed at the mill facilities from each of PT Freeport Indonesia s producing mines follows:

	Years ended December 31,	
(Metric tons of ore per day)	**2005**	**2004**
Grasberg open pit	174,200	141,500
Deep Ore Zone	42,000	43,600
Total	216,200	185,100

Production from the DOZ underground mine averaged 42,000 metric tons of ore per day in 2005, representing 19 percent of mill throughput. Copper ore grades averaged 1.13 percent in 2005, compared with 0.87 percent in 2004, and copper recovery rates were 89.2 percent, compared with 88.6 percent for 2004. In 2005, gold ore grades averaged 1.65 g/t, compared with 0.88 g/t in 2004, and gold recovery rates averaged 83.1 percent in 2005, compared with 81.8 percent in 2004. The 2005 grades reflect the return to normal mining operations at Grasberg, including accessing higher-grade material in accordance with PT Freeport Indonesia s mine plan.

Gross profit per pound of copper/per ounce of gold and silver

Year ended December 31, 2004

Pounds of copper sold (000s)	991,600	991,600		
Ounces of gold sold			1,443,000	
Ounces of silver sold				3,257,800

	By-product method	**Copper**	**Co-product method Gold**	**Silver**
Revenues, after adjustments shown below	$ 1.37	$ 1.37	$ 412.32	$ 6.10(a)
Site production and delivery, before net noncash and nonrecurring credits shown below	0.77(b)	0.53(c)	159.17(c)	2.56(c)
Gold and silver credits	(0.62)			
Treatment charges	0.20	0.14	42.12	0.68
Royalty on metals	0.05	0.03	9.06	0.15
Unit net cash costs(d)	0.40	0.70	210.35	3.39
Depreciation and amortization	0.17	0.12	35.03	0.56
Noncash and nonrecurring credits, net			(0.85)	(0.01)
Total unit costs	0.57	0.82	244.53	3.94
Revenue adjustments, primarily for pricing on prior period open sales	0.02(e)	0.02	0.15	0.10
PT Smelting intercompany profit elimination	(0.01)	(0.01)	(2.87)	(0.05)
Gross profit per pound/ounce	$ 0.81	$ 0.56	$ 165.07	$ 2.21

(a) Amount was $6.54 before a loss resulting from redemption of the Silver-Denominated Preferred Stock.

(b) Net of deferred mining costs totaling $77.8 million or $0.08 per pound.

(c) Net of deferred mining costs totaling $53.6 million or $0.05 per pound for copper, $23.4 million or $16.20 per ounce for gold and $0.8 million or $0.26 per ounce for silver.

(d)

For a reconciliation of unit net cash costs to production and delivery costs applicable to sales reported in Freeport-McMoRan s consolidated financial statements refer to Product revenues and production costs.

(e) Includes a $1.4 million or less than $0.01 per pound loss on the redemption of the Silver-Denominated Preferred Stock.

Unit net cash costs: By-product method. Unit site production and delivery costs in 2005 averaged $0.65 per pound of copper, $0.12 per pound lower than the $0.77 reported in 2004. Unit site production and delivery costs in 2005 benefited from higher copper sales volumes resulting from higher ore grades, but were adversely affected by higher energy costs and costs of other consumables, higher mining costs and milling rates, labor costs and other factors.

Gold and silver credits increased to $0.89 per pound in 2005, compared with $0.62 per pound in 2004, reflecting higher gold sales volumes and average realized prices in 2005. Treatment charges increased to $0.24 per pound in 2005 from $0.20 per pound in 2004 primarily because of higher copper prices and higher treatment rates. Royalties of $0.07 per pound in 2005 were higher than the royalties of $0.05 per pound in 2004 primarily because of higher copper and gold prices and sales volumes.

Unit net cash costs: Co-product method. Using the co-product method, unit site production and delivery costs in 2005 averaged $0.44 per pound of copper, compared with $0.53 in 2004. For gold, unit site production and delivery costs in 2005 averaged $108 per ounce, compared with $159 in 2004. As discussed above, unit site production and delivery costs in 2005 benefited from higher sales volumes resulting from higher ore grades, but were adversely affected by higher energy costs and costs of other consumables, higher mining costs and milling rates, labor costs and other factors. Treatment charges per pound of copper were higher in 2005 primarily because of higher rates and copper prices, while treatment charges per ounce of gold were slightly lower in 2005 primarily because of the method of allocating these costs. Royalties per pound and per ounce were higher in 2005 because of higher sales volumes and realized prices compared with 2004.

PT Freeport Indonesia sales outlook

PT Freeport Indonesia sells its copper concentrates primarily under long-term sales agreements denominated in U.S. dollars, mostly to companies in Asia and Europe and to international trading companies. PT Freeport Indonesia expects its share of sales to approximate 1.1 billion pounds of copper and 1.8 million ounces of gold for 2007 and to average 1.24 billion pounds of copper and 1.8 million ounces of gold annually over the next five years (2007 2011). At the Grasberg mine, the sequencing in mining areas with varying ore grades causes fluctuations in the timing of ore production, resulting in varying quarterly and annual copper and gold sales.

PT Freeport Indonesia has long-term contracts to provide approximately 60 percent of Atlantic Copper s copper concentrate requirements at market prices and nearly all of PT Smelting s copper concentrate requirements. Under the PT Smelting contract, for the first 15 years of PT Smelting s operations beginning December 1998, the treatment and refining charges on the majority of the concentrate PT Freeport Indonesia provides 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 2004, when it declined to a minimum of $0.21 per pound. PT Smelting s rates for 2007 are expected to exceed the minimum $0.21 per pound (see Smelting and refining). Current rates are higher than the minimum rate.

Exploration and reserves

During 2006, PT Freeport Indonesia added 41.8 million metric tons of ore averaging 0.66 percent copper and 0.70 g/t 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 gold. PT Freeport Indonesia s reserve estimates also reflect revisions resulting from changes to its long-range mine plans.

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. Freeport-McMoRan 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. Estimated recoverable reserves were assessed using a copper price of $1.00 per pound and a gold price of $400 per ounce. If Freeport-McMoRan adjusted metal prices used in its reserve estimates to the approximate average London spot prices for the past three years ($2.01 per pound of copper and $486 per ounce of gold), the additions to proven and probable reserves would not be material to reported reserves.

Freeport-McMoRan s aggregate exploration budget for 2007, including Rio Tinto s share, is expected to total approximately $31 million (approximately $25 million for Freeport-McMoRan s share). PT Freeport Indonesia s exploration efforts in 2007 within Block A of its Contract of Work 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

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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, Freeport-McMoRan plans to resume exploration activities, which had been suspended in recent years, in certain prospective areas outside Block A. The Indonesian government previously approved suspensions of field exploration activities outside of PT Freeport Indonesia s current mining operations area, which have been in suspension in recent years because of safety and security issues and regulatory uncertainty relating to a possible conflict between mining and exploration rights in certain forest areas and an Indonesian Forestry law enacted in 1999 prohibiting open-pit mining in forest preservation areas. 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, Freeport-McMoRan plans to resume exploration activities in certain prospective Contract of Work areas outside of Block A in 2007.

Smelting and refining operations

Freeport-McMoRan s investment in smelters serves an important role in its concentrate marketing strategy. PT Freeport Indonesia generally sells under long-term contracts 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, Freeport-McMoRan is assured placement of a significant portion of its 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 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, market rates have declined. Higher treatment and refining charges benefit smelter operations and adversely affect 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 Freeport-McMoRan s consolidated operating results.

Atlantic Copper operating results

(Dollars in millions, except unit cost per pound)	Years ended December 31, 2006	2005	2004
Gross profit (loss)	$ 90.0	$ 45.6	$ (69.4)
Add depreciation and amortization expense	33.3	29.0	28.6
Other	(0.1)	3.7	16.4(a)
Cash margin (deficit)	$ 123.2	$ 78.3	$ (24.4)(b)
Operating income (loss) (in millions)	$ 74.5	$ 34.8	$ (83.5)
Concentrate and scrap treated (metric tons)	953,700	975,400	768,100
Anodes production (000s of pounds)	581,300	626,600	494,400
Treatment rates per pound	$ 0.33	$ 0.23	$ 0.16
Cathodes sales (000s of pounds)	529,200	548,600	479,200(c)
Cathode cash unit cost per pound(d)	$ 0.20	$ 0.17	$ 0.25
Gold sales in anodes and slimes (ounces)	666,500	542,800	316,700

(a) Includes a $9.8 million charge for Atlantic Copper s workforce reduction plan.

(b) Includes costs related to Atlantic Copper s 51-day major maintenance turnaround totaling $27.5 million.

(c) Includes sales of wire rod and wire. In December 2004, Atlantic Copper completed a sale of its wire rod and wire assets.

(d) For a reconciliation of cathode cash unit cost per pound to production costs applicable to sales reported in FreeportMcMoRan s consolidated financial statements refer to Product revenues and production costs below.

Atlantic Copper operating results 2006 compared with 2005

Atlantic Copper s operating cash margin was $123.2 million in 2006, compared with $78.3 million in 2005. Atlantic Copper reported operating income of $74.5 million in 2006, compared with $34.8 million in 2005. The positive results in 2006 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 treated 953,700 metric tons of concentrate and scrap in 2006, compared with 975,400 metric tons in 2005. Cathode production totaled 518.9 million pounds and sales totaled 529.2 million pounds during 2006, compared with cathode production of 545.3 million pounds and sales of 548.6 million pounds during 2005. Cathode production and sales volumes were lower in 2006 primarily because of lower refinery output.

Atlantic Copper s treatment charges (including price participation), which reflect charges paid by PT Freeport Indonesia and third parties to Atlantic Copper to smelt and refine concentrates, averaged $0.33 per pound in 2006 and $0.23 per pound in 2005. The increase in treatment charges in 2006 reflects higher market rates and price participation under the terms of Atlantic Copper s concentrate purchase and sales agreements. Treatment charge rates have increased significantly since late 2004 with increased mine production and higher copper prices. However, more recently, treatment charge rates have declined. Assuming copper prices of $2.50 per pound for 2007, Atlantic Copper expects these rates to average approximately $0.26 per pound in 2007. Atlantic Copper s cathode cash unit cost per pound of copper averaged $0.20 in 2006 and $0.17 in 2005. Higher unit costs in 2006 primarily reflect the impact of lower volumes and higher operating costs.

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Freeport-McMoRan defers recognizing profits on PT Freeport Indonesia s sales to Atlantic Copper and on 25 percent of PT Freeport Indonesia s sales to PT Smelting until the final sales to third parties occur. Changes in these net deferrals resulted in an addition to our operating income totaling $32.4 million ($17.1 million to net income or $0.08 per share) in 2006, compared with a reduction of $145.0 million ($77.8 million to net income or $0.35 per share) in 2005. At December 31, 2006, Freeport-McMoRan s net deferred profits on PT Freeport Indonesia concentrate inventories at Atlantic Copper and PT Smelting to be recognized in future periods net income after taxes and minority interest sharing totaled $100.8 million. Based on copper prices of $2.50 per pound and gold prices of $600 per ounce for 2007 and current shipping schedules, Freeport-McMoRan estimates that the net change in deferred profits on intercompany sales will result in a decrease to net income of approximately $60 million in the first quarter of 2007. The actual change in deferred intercompany profits may differ substantially from this estimate because of changes in the timing of shipments to affiliated smelters and metal prices.

As of December 31, 2006, Freeport-McMoRan s net investment in Atlantic Copper totaled approximately $170 million, Freeport-McMoRan had a $189.5 million loan outstanding to Atlantic Copper and Atlantic Copper s debt to third parties under nonrecourse financing arrangements totaled $5.6 million.

Atlantic Copper operating results 2005 compared with 2004

Atlantic Copper s operating cash margin was $78.3 million in 2005, compared with a deficit of $24.4 million in 2004. The deficit in 2004 was primarily attributable to Atlantic Copper s scheduled major maintenance turnaround, which began in March 2004 and was completed in May 2004. Atlantic Copper reported operating income of $34.8 million in 2005, compared with operating losses of $83.5 million in 2004. The positive results in 2005 primarily reflect higher treatment charge rates, realized benefits from a cost reduction and operational enhancement effort and copper market pricing conditions, partially offset by higher energy costs, compared with 2004, which included the major maintenance turnaround referenced above and a $12.0 million charge for workforce reductions. The maintenance turnaround adversely affected costs and volumes resulting in impacts of approximately $40 million, including an approximate $12 million impact from lower volumes, on 2004 operating results and net income.

Atlantic Copper treated 975,400 metric tons of concentrate and scrap in 2005, compared with 768,100 metric tons in 2004. Cathode production totaled 545.3 million pounds and sales totaled 548.6 million pounds during 2005, compared with cathode production of 454.7 million pounds and sales of 479.2 million pounds during 2004. Atlantic Copper s cathode cash unit cost per pound of copper averaged $0.17 in 2005 and $0.25 in 2004. Unit costs in 2004 were adversely affected by lower production and higher costs from the maintenance turnaround. Atlantic Copper s treatment charges averaged $0.23 per pound in 2005 and $0.16 per pound in 2004. Excess smelter capacity, combined with limited copper concentrate availability, resulted in historically low long-term treatment and refining rates for several years prior to 2005.

During 2004, Atlantic Copper undertook a cost reduction and operational enhancement plan designed to reduce unit costs, including a reduction in workforce, and enhance operational and administrative efficiencies. In addition, in December 2004, Atlantic Copper completed a sale of its wire rod and wire assets for $18.3 million cash, resulting in a $7.5 million gain. The sale has enabled Atlantic Copper to simplify its business and management structure and reduce working capital requirements.

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PT Smelting operating results

(Dollars in millions)	Years ended December 31, 2006	2005	2004
PT Freeport Indonesia sales to PT Smelting	$ 1,202.2	$ 1,008.5	$ 696.0
Equity in PT Smelting earnings	6.5	9.3	2.0
PT Freeport Indonesia operating profits deferred	3.0	23.6	13.8

PT Smelting operating results 2006 compared with 2005

PT Freeport Indonesia accounts for its 25 percent interest in PT Smelting using the equity method and provides PT Smelting with substantially all of its concentrate requirements. PT Smelting treated 737,500 metric tons of concentrate in 2006 and 908,900 metric tons in 2005. 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 of copper per year. PT Smelting produced 479.7 million pounds of cathodes and sold 483.7 million pounds of cathodes in 2006, compared with production of 579.7 million pounds and sales of 580.9 million pounds in 2005. 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.

PT Smelting s cathode cash unit costs averaged $0.20 per pound in 2006, compared with $0.13 per pound in 2005, primarily reflecting the impacts of the maintenance turnaround, the temporary suspension of operations discussed above and higher energy costs in 2006 (see Product revenues and production costs).

In late 2005 and early 2006, PT Smelting entered into hedging contracts to fix a portion of its revenues through 2007. Freeport-McMoRan s share of the unrealized losses on these contracts totaled $4.4 million, after taxes and minority interest sharing, as of December 31, 2006, and is recorded in accumulated other comprehensive income in stockholders equity.

PT Smelting operating results 2005 compared with 2004

PT Smelting treated 908,900 metric tons of concentrate in 2005 and 758,100 metric tons in 2004. Higher concentrate tonnage from PT Freeport Indonesia in 2005 resulted in higher production, compared with 2004 when PT Freeport Indonesia s production was much lower. PT Smelting produced 579.7 million pounds of cathodes and sold 580.9 million pounds of cathodes in 2005, compared with production of 464.0 million pounds and sales of 462.9 million pounds in 2004. PT Smelting s cathode cash unit costs averaged $0.13 per pound in 2005 and $0.12 per pound in 2004, reflecting higher energy costs in 2005 partly offset by higher volumes (see Product revenues and production costs). The 2004 production volumes and unit costs were impacted by PT Smelting s 31-day maintenance turnaround in the second quarter of 2004.

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Capital resources and liquidity

Freeport-McMoRan s operating cash flows vary with prices realized for copper and gold sales, its production levels, production costs, cash payments for income taxes and interest, other working capital changes and other factors. Over the last two years, Freeport-McMoRan has generated cash flows significantly greater than its capital expenditures and debt maturities. Common stock dividends totaled $915.8 million in 2006, including four supplemental dividends totaling $677.7 million ($3.50 per share). Freeport-McMoRan s current regular annual common stock dividend, which is declared by the Board, is $1.25 per share, paid at a quarterly rate of $0.3125 per share.

Freeport-McMoRan purchased 2.0 million shares of its common stock for $99.8 million ($49.94 per share average) during the second quarter of 2006 and has purchased a total of 7.8 million shares for $279.5 million ($36.05 per share average) under the Board authorized 20-million share open market purchase program. As of January 31, 2007, 12.2 million shares remain available under the Board authorized 20-million share open market purchase program.

Freeport-McMoRan s financial policy has been to reduce debt and return cash to shareholders through dividends and share purchases. The proposed acquisition of Phelps Dodge will require that Freeport-McMoRan incur significant debt to consummate the transactions and to refinance existing debt. The combined company, on a pro forma basis, will have approximately $10.0 billion of debt under its new senior credit facilities and $6.0 billion in aggregate principal amount of notes offered hereby. In addition, approximately $1.6 billion of existing debt of the combined company will remain outstanding following the transactions. 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. We have considered this contingency in our financing plans for the transaction.

Upon consummation of the transactions, we must comply with various covenants contained in our new credit agreements and indentures. These covenants will, among other things, limit our ability to:

- incur additional debt, guarantees 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 other financial covenants. In the event we elect to terminate the transaction, we would be obligated to pay Phelps Dodge a termination fee of $375.0 million. Should Phelps Dodge elect to terminate the acquisition, they would be obligated to pay Freeport-McMoRan a termination fee of $750.0 million.

The information contained in the discussion of Freeport-McMoRan s capital resources and liquidity does not reflect the impact of its acquisition of Phelps Dodge.

Operating activities

Freeport-McMoRan generated operating cash flows totaling $1.9 billion, net of $113.9 million that it used for working capital, during 2006, compared with approximately $1.6 billion, including $178.8 million from working capital sources, during 2005. The increase in operating cash flows for 2006 primarily reflected higher net income resulting from higher copper and gold prices.

Freeport-McMoRan s operating cash flows totaled approximately $1.6 billion in 2005, compared with $341.4 million, including $85.9 million received as a settlement from insurance coverage related to the fourth-quarter 2003 slippage and debris flow events and $130.7 million used for working capital, in 2004. The significant improvement in 2005 compared with 2004 primarily reflects significantly higher production and sales and higher copper and gold prices and a decrease in working capital requirements. For 2004, significant uses of cash from operating activities included increases in deferred mining costs, accounts receivable and inventories.

Operating activities are expected to generate positive cash flows for the foreseeable future based on anticipated operating results and metal prices. Using estimated sales volumes for 2007 and assuming prices of $2.50 per pound of copper and $600 per ounce of gold, Freeport-McMoRan would generate operating cash flows in excess of $1.3 billion in 2007.

Investing activities

Total capital expenditures of $250.5 million in 2006 were higher than the $143.0 million in 2005, reflecting an increase in expenditures for long-term development projects. Freeport-McMoRan s capital expenditures for 2006 included approximately $56 million for Big Gossan, $17 million for the DOZ expansion, $23 million for the Grasberg underground ore body and $9 million for the Common Infrastructure project. Capital expenditures in 2005 included approximately $16 million for the DOZ expansion and $19 million for the Common Infrastructure project. The largest individual capital expenditures of the total $141.0 million for 2004 primarily related to long-term development projects, including approximately $37 million for development of the DOZ mine. Capital expenditures, including approximately $200 million for long-term projects, are estimated to total $400 million for 2007 and average $275 million per year over the next five years.

Cash flows from the sale of assets totaled $33.6 million during 2006, primarily from Atlantic Copper s disposition of land and certain royalty rights. In 2005, Freeport-McMoRan sold a parcel of land in Arizona held by a joint venture in which Freeport-McMoRan owns a 50 percent interest and its share of net cash proceeds from the sale totaled $6.6 million. In 2004, this same joint venture completed the sale to a real estate developer of a parcel of land in Arizona where the joint venture previously was engaged in a copper mining research project. Freeport-McMoRan s share of net cash proceeds from the sale totaled $21.6 million. Also in 2004, Atlantic Copper completed a sale of its wire rod and wire assets and received $18.3 million cash. Through December 31, 2006, Freeport-McMoRan had paid $4.6 million for costs related to its proposed acquisition of Phelps Dodge.

PT Freeport Indonesia s share of insurance settlement proceeds related to its 2003 open-pit slippage claim, which represented a recovery of property losses, totaled $2.0 million in 2005 and $6.3 million in 2004.

In 2001, Freeport-McMoRan sold $603.8 million of 81/4% Convertible Senior Notes due 2006. The terms of the notes required that Freeport-McMoRan use $139.8 million of the proceeds to purchase a portfolio of U.S. government securities to secure and pay for the first six semiannual interest payments. Freeport-McMoRan sold $6.7 million of these restricted investments in 2004 to pay interest. Conversions of these notes to equity allowed Freeport-McMoRan to sell $15.1 million of our restricted investments during 2004 (see below). In the first quarter of 2004, Atlantic Copper repaid its working capital revolving credit facility that was secured by certain copper concentrate inventory, resulting in the release of $11.0 million of previously restricted cash.

Financing activities

As of December 31, 2006, Freeport-McMoRan had total unrestricted cash and cash equivalents of $907.5 million and total outstanding debt of $680.1 million. Total debt was reduced by a net $575.8 million during 2006, including from the following transactions:

- $286.1 million for the completion of a tender offer to induce conversion of 7% Convertible Senior Notes due 2011 into 9.3 million shares of Freeport-McMoRan common stock;
- $167.4 million for the mandatory redemption of Gold-Denominated Preferred Stock, Series II for $236.4 million;
- $12.5 million for the final mandatory redemption of Silver-Denominated Preferred Stock for $25.8 million;
- $30.5 million for privately negotiated transactions to induce conversion of 7% Convertible Senior Notes due 2011 into 1.0 million shares of Freeport-McMoRan common stock; and
- $11.5 million for the purchase in an open market transaction of 101/8% Senior Notes due 2010 for $12.4 million.

In connection with these transactions, Freeport-McMoRan recorded charges of $114.3 million ($73.9 million to net income, net of related reduction of interest expense, or $0.33 per share) in 2006. The portion of these charges related to the mandatory redemptions of our gold- and silver-denominated preferred stock are recorded in revenues in accordance with Freeport-McMoRan s accounting policy for these instruments and totaled $82.2 million in 2006.

Following the debt repayments and redemptions during 2006, Freeport-McMoRan has $19.1 million in debt maturities for 2007 and $46.1 million for the three-year period of 2007 through 2009. Freeport-McMoRan has the option to call its 101/8% Senior Notes due 2010 (outstanding principal amount of $272.4 million) beginning February 2007.

In July 2006, Freeport-McMoRan and PT Freeport Indonesia entered into an amended credit agreement for a $465 million revolving credit facility to refinance its previous $195 million facility that was scheduled to mature in September 2006. The new facility, which can be expanded to up to $500 million with additional lender commitments, matures in 2009 and no amounts are outstanding under the facility.

During 2005, debt was reduced by $696.0 million, primarily reflecting the following transactions:

- prepayment of $187.0 million of Puncakjaya Power s bank debt;
- purchases in open market transactions of
  - $216.1 million of 101/8% Senior Notes due 2010 for $239.4 million;

$11.1 million of 7.50% Senior Notes due 2006 for $11.5 million; and

$4.4 million of 7.20% Senior Notes due 2026 for $4.1 million;

privately negotiated transactions to induce conversion of $251.3 million of 7% Convertible Senior Notes due 2011 into 8.1 million shares of common stock; and

the partial mandatory redemption of $12.5 million of Silver-Denominated Preferred Stock for $17.5 million.

Freeport-McMoRan recorded charges of $57.2 million ($42.9 million to net income, net of related reduction of interest expense, or $0.19 per share) in 2005 in connection with these transactions. The portion of these charges related to the partial mandatory redemption of the Silver-Denominated Preferred Stock totaled $5.0 million and is recorded in revenues.

In 2004, the partial mandatory redemption of the Silver-Denominated Preferred Stock totaled $13.9 million. The charge of $1.4 million ($0.7 million to net income or less than $0.01 per share) related to this redemption is recorded in revenues.

In 2003, the Board of Directors approved a new open market share purchase program for up to 20 million shares, which replaced the previous program. Through February 12, 2007, Freeport-McMoRan had acquired 2.0 million shares in 2006 for $99.8 million ($49.94 per share average), 2.4 million shares in 2005 for $80.2 million ($33.83 per share average) and 3.4 million shares in 2004 for $99.5 million ($29.39 per share average) and 12.2 million shares remain available. The timing of future purchases of common stock is dependent on many factors including the price of the common shares, cash flows and financial position, copper and gold prices and general economic and market conditions.

In February 2003, the Board of Directors authorized the initiation of an annual cash dividend on Freeport-McMoRan s common stock of $0.36 per share, increased the dividend in October 2003 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 November 2005, the Board of Directors increased the annual common stock dividend to its current amount of $1.25 per share, which is payable quarterly ($0.3125 per share).

Since December 2004, Freeport-McMoRan has paid eight supplemental dividends totaling $994.8 million ($5.25 per share). In 2006, common stock dividends totaled $915.8 million ($4.75 per share), including four supplemental dividends totaling $677.7 million ($3.50 per share). Common stock dividends totaled $452.5 million in 2005 ($2.50 per share), including $272.3 million ($1.50 per share) for three $0.50 per share supplemental dividends. In 2004, common stock dividends totaled $198.8 million ($1.10 per share), including $44.7 million for a $0.25 per share supplemental dividend.

The declaration and payment of dividends is at the discretion of the Board of Directors. The amount of the current quarterly cash dividend ($0.3125 per share) on Freeport-McMoRan s common stock and the possible payment of additional future supplemental cash dividends will depend on Freeport-McMoRan s financial results, cash requirements, future prospects, the outcome of the proposed acquisition of Phelps Dodge and other factors deemed relevant by the Board of Directors.

Cash dividends on preferred stock ($60.5 million in 2006, $60.5 million in 2005 and $35.5 million in 2004) represent dividends on the 51/2% Convertible Perpetual Preferred Stock which Freeport-McMoRan sold in March 2004 (see below). Cash dividends to minority interests represent dividends paid to the minority interest owners of PT Freeport

Indonesia and Puncakjaya Power.

Pursuant to the restricted payment covenants in the 101/8% Senior Notes and 67/8% Senior Notes, the amount available for dividend payments, purchases of common stock and other restricted payments as of December 31, 2006, was approximately $750 million.

In January 2004, Freeport-McMoRan completed a tender offer and privately negotiated transactions for a portion of the remaining 81/4% Convertible Senior Notes due 2006 resulting in the early conversion of $226.1 million of notes into 15.8 million shares of common stock. Freeport-McMoRan recorded a $10.9 million charge to losses on early extinguishment and conversion of debt in connection with these conversions. The $10.9 million charge included $6.4 million of previously accrued interest costs, resulting in an equivalent reduction in interest expense. In June 2004, Freeport-McMoRan called for redemption on July 31, 2004, all of the remaining $66.5 million of 81/4% Convertible Senior Notes. During July 2004, all remaining notes were converted into 4.7 million shares of Freeport-McMoRan common stock. As of July 31, 2004, all of the 81/4% Convertible Senior Notes, which totaled $603.8 million at issuance in 2001, had been converted into 42.2 million shares of Freeport-McMoRan common stock.

In February 2004, Freeport-McMoRan sold $350 million of 67/8% Senior Notes due 2014 for net proceeds of $344.4 million. Freeport-McMoRan used a portion of the proceeds to repay $162.4 million of Atlantic Copper borrowings and to refinance other 2004 debt maturities. Atlantic Copper recorded a $3.7 million charge to losses on early extinguishment of debt to accelerate amortization of deferred financing costs. Interest on the 2014 notes is payable semiannually on February 1 and August 1. Freeport-McMoRan may redeem some or all of the 2014 notes at its option at a make-whole redemption price prior to February 1, 2009, and afterwards at stated redemption prices. The indenture governing the existing notes contains certain restrictions, including restrictions on incurring debt, creating liens, selling assets, entering into transactions with affiliates, paying cash dividends on common stock, repurchasing or redeeming common or preferred equity, prepaying subordinated debt and making investments. During 2004, Freeport-McMoRan purchased in the open market $9.7 million of these existing notes for $8.8 million, which resulted in a net gain of $0.8 million recorded as a reduction to losses on early extinguishment and conversion of debt.

In March 2004, Freeport-McMoRan sold 1.1 million shares of 51/2% Convertible Perpetual Preferred Stock for $1.1 billion for net proceeds of $1.067 billion. Each share of preferred stock was initially convertible into 18.8019 shares of Freeport-McMoRan common stock, equivalent to a conversion price of approximately $53.19 per common share. The conversion rate is adjustable upon the occurrence of certain events, including any quarter that the Freeport-McMoRan common stock dividend exceeds $0.20 per share. As a result of the quarterly and supplemental common stock dividends paid through February 2007, each share of preferred stock is now convertible into 21.1568 shares of Freeport-McMoRan common stock, equivalent to a conversion price of approximately $47.27 per common share. Beginning March 30, 2009, Freeport-McMoRan may redeem shares of the preferred stock by paying cash, common stock or any combination thereof for $1,000 per share plus unpaid dividends, but only if the Freeport-McMoRan common stock price has exceeded 130 percent of the conversion price for at least 20 trading days within a period of 30 consecutive trading days immediately preceding the notice of redemption. Freeport-McMoRan used a portion of the proceeds from the sale to purchase 23.9 million shares of common stock owned by Rio Tinto for $881.9 million (approximately $36.85 per share) and used the remainder for general corporate purposes. Rio Tinto no longer owns any equity interest in Freeport-McMoRan; however, it is still PT Freeport Indonesia s joint venture partner.

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Debt maturities. Below is a summary of Freeport-McMoRan s total debt maturities based on loan balances as of December 31, 2006.

(Dollars in millions)	2007	2008	2009	2010	2011	Thereafter
Equipment loans and other	$ 13.5	$ 13.5	$ 13.5	$ 10.2	$ 3.8	$
Atlantic Copper debt	5.6					
101/8% Senior Notes due 2010				272.4		
7% Convertible Senior Notes due 2011					7.1	
67/8% Senior Notes due 2014						340.3
7.20% Senior Notes due 2026						0.2
Total debt maturities	$ 19.1	$ 13.5	$ 13.5	$ 282.6	$ 10.9	$ 340.5

Other contractual obligations

In addition to the debt maturities shown above, Freeport-McMoRan has other contractual obligations and commitments, which it expects to fund with projected operating cash flows, available credit facilities or future financing transactions, if necessary. These obligations and commitments include PT Freeport Indonesia s commitments to provide one percent of its annual revenue for development of the local people in its area of operations through the Freeport Partnership Fund for Community Development and to contribute amounts to a cash fund designed to accumulate at least $100 million by the end of its Indonesian mining activities to pay for mine closure and reclamation. Atlantic Copper has a mostly unfunded contractual obligation denominated in euros to supplement amounts paid to certain retired employees. In August 2002, Atlantic Copper complied with Spanish legislation by agreeing to fund 7.2 million euros annually for 15 years to an approved insurance company for an estimated 72 million euro contractual obligation to the retired employees. Atlantic Copper had $69.4 million recorded as of December 31, 2006, for this obligation. Atlantic Copper has firm contractual commitments with third parties to purchase concentrates at market prices. Freeport-McMoRan has various noncancelable operating leases and open purchase orders at December 31, 2006. A summary of these various obligations follows:

(Dollars in millions, except concentrates)	Total	1 Year or Less	Years 2 - 3	Years 4 - 5	More than 5 years
PT Freeport Indonesia mine closure and reclamation fund	$ 20.1(a)	$ 0.8	$ 1.4	$ 1.4	$ 16.5
Atlantic Copper contractual obligation to insurance company	$ 94.9	$ 9.5	$ 19.0	$ 19.0	$ 47.4
Atlantic Copper contracts to purchase concentrates at market prices (in thousand metric tons)	1,425	505	700	220	
Aggregate operating leases, including Rio Tinto s share[(b)]	$ 29.9	$ 8.9	$ 14.3	$ 6.4	$ 0.3
Open purchase orders at December 31, 2006	$ 216.5	$ 216.5			

(a) Funding plus accrued interest are projected to accumulate to $100.0 million by the end of PT Freeport Indonesia s Indonesian mining activities.

(b) Minimum payments under operating leases have not been reduced by aggregate minimum sublease rentals of $0.5 million due under noncancelable subleases.

Environmental matters

Freeport-McMoRan believes that it conducts its Indonesian operations pursuant to applicable permits and that it complies in all material respects with applicable Indonesian environmental laws, rules and regulations. Freeport-McMoRan has had four independent environmental audits conducted by internationally recognized environmental 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.

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. PT Freeport Indonesia is working with the Ministry of Environment to address the issues raised as it completes the audit process.

In connection with obtaining environmental approvals from the Indonesian government, PT Freeport Indonesia committed to performing a one-time environmental risk assessment on the impacts of its tailings management plan. PT Freeport Indonesia 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. PT Freeport Indonesia developed the risk assessment study with input from an independent review panel, which included representatives from the Indonesian government, academia and non-governmental organizations. The risks that PT Freeport Indonesia identified during this process were in line with its impact projections of the tailings management program contained in its environmental approval documents.

Freeport-McMoRan will determine its ultimate reclamation and closure activities based on applicable laws and regulations and our assessment of appropriate remedial activities in the circumstances after consultation with governmental authorities, affected local residents and other affected parties. As of December 31, 2006, Freeport-McMoRan estimated aggregate reclamation and closure obligations to be approximately $157 million for PT Freeport Indonesia and $17 million for Atlantic Copper. Estimates of the ultimate reclamation and closure costs PT Freeport Indonesia will incur in the future involve complex issues requiring integrated assessments over a period of many years and are subject to revision over time, and actual costs may vary from our estimates. 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 the Grasberg open-pit mining operations and at the end of all mining activities, which are currently estimated to continue for more than 34 years.

In 1996, PT Freeport Indonesia 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 its Indonesian mining activities. PT Freeport Indonesia plans to use this fund, including accrued interest, to pay mine closure and reclamation costs. Any costs in excess of the $100 million fund would be funded by operational cash flow or other sources. Future changes in regulations could require PT Freeport Indonesia to incur additional costs, which would be charged against future operations. Estimates involving environmental matters are by their nature imprecise and can be expected to be revised over time because of changes in government regulations, operations, technology and inflation.

The cost of complying with environmental laws is a fundamental cost of Freeport-McMoRan s 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, Freeport-McMoRan expects to incur approximately $43 million of aggregate environmental capital expenditures and $55 million of other environmental costs. These environmental expenditures are part of Freeport-McMoRan s overall 2007 operating budget.

Disclosures about market risks

Commodity price risk

Freeport-McMoRan s consolidated revenues include PT Freeport Indonesia s sale of copper concentrates, which also contain significant quantities of gold and silver, and Atlantic Copper s sale of copper anodes, cathodes, wire rod, wire and gold in anodes and slimes. Atlantic Copper sold its wire rod and wire assets in December 2004. Freeport-McMoRan s consolidated revenues and net income vary significantly with fluctuations in the market prices of copper and gold and other factors. A change of $0.10 in the average price per pound of copper sold by PT Freeport Indonesia would have an approximate $110 million impact on Freeport-McMoRan s 2007 consolidated revenues and an approximate $55 million impact on Freeport-McMoRan s 2007 consolidated net income, assuming 2007 PT Freeport Indonesia copper sales of approximately 1.1 billion pounds. A change of $25 in the average price per ounce of gold sold by PT Freeport Indonesia would have an approximate $45 million impact on Freeport-McMoRan s 2007 consolidated revenues and an approximate $23 million impact on Freeport-McMoRan s 2007 consolidated net income, assuming 2007 PT Freeport Indonesia gold sales of approximately 1.8 million ounces.

On limited past occasions, in response to market conditions, Freeport-McMoRan has entered into copper and gold price protection contracts for a portion of its expected future mine production to mitigate the risk of adverse price fluctuations. Freeport-McMoRan currently has no copper or gold price protection contracts relating to its mine production. Freeport-McMoRan had outstanding gold-denominated and silver-denominated preferred stock with dividends and redemption amounts determined by commodity prices. The Gold-Denominated Preferred Stock, Series II was redeemed in February 2006 and the final redemption of our Silver-Denominated Preferred Stock was in August 2006 (see Capital resources and liquidity Financing activities).

PT Freeport Indonesia receives market prices for the copper, gold and silver contained in its concentrate. Under the long-established structure of concentrate sales agreements prevalent in the industry, copper is provisionally priced at the time of shipment and is subject to final pricing in a specified future period (generally one to three months from shipment) based on quoted LME prices. The sales subject to final pricing are generally settled in the subsequent quarter. Therefore, at the end of any quarterly period, there will be sales that remain subject to final pricing. Accounting rules require these sales be recorded based on the LME future prices at the end of the reporting period. To the extent final settlements are higher or lower than what was recorded on a provisional basis, an increase or decrease to revenues would be recorded when the pricing is finally settled. PT Freeport Indonesia s 2006 revenues include net additions of $257.0 million for adjustments to provisional copper prices in concentrate sales contracts, compared with $238.3 million in 2005. At December 31, 2006, Freeport-McMoRan had consolidated provisionally priced copper sales totaling 346.4 million pounds recorded at an average price of $2.87 per pound, subject to final pricing. Final prices on these sales will be established over the next several months pursuant to terms of sales contracts. Freeport-McMoRan estimates that a five-cent change in the average price used for these sales would have an approximate $17 million impact on 2007 consolidated revenues and an approximate $9 million impact on 2007 consolidated net income.

In 2006, Freeport-McMoRan redeemed its Gold-Denominated Preferred Stock, Series II and made the final mandatory redemption of its Silver-Denominated Preferred Stock. These issues of redeemable preferred stock had cash dividend and redemption requirements indexed to gold and silver prices. Freeport-McMoRan accounted for these securities as a hedge of future production and reflected them as debt on its balance sheets at their original issue value less redemptions. When redemption payments occurred, differences between the carrying value and the redemption payment, which were based on commodity prices at the time of redemption, were recorded as an adjustment to revenues. In February 2006, Freeport-McMoRan redeemed the 4.3 million shares of its Gold-Denominated Preferred Stock, Series II for $236.4 million. The mandatory redemption resulted in a $167.4 million decrease in debt and a hedging loss recorded in revenues of $69.0 million, $36.6 million to net income or $0.17 per share. Partial redemptions of Silver-Denominated Preferred Stock totaled $25.8 million in 2006, $17.5 million in 2005 and $13.9 million in 2004 resulting in hedging losses recorded in revenues of $13.3 million ($7.0 million to net income or $0.03 per share) in 2006, $5.0 million ($2.6 million to net income or $0.01 per share) in 2005 and $1.4 million ($0.7 million to net income or less than $0.01 per share) in 2004.

Atlantic Copper and PT Smelting price their purchases of copper concentrate at approximately the same time as they sell the refined copper, thereby protecting them from most copper price risk. Atlantic Copper and PT Smelting enter into futures contracts to hedge their price risk whenever their physical purchases and sales pricing periods do not match.

In late 2005 and early 2006, PT Smelting entered into hedging contracts to fix a portion of its revenues through 2007. Freeport-McMoRan s share of the unrealized losses on these contracts totaled $4.4 million as of December 31, 2006, and is recorded in accumulated other comprehensive income in stockholders equity.

Foreign currency exchange risk

The functional currency for Freeport-McMoRan s operations in Indonesia and Spain is the U.S. dollar. All of Freeport-McMoRan s revenues and a significant portion of its 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. Generally, our results are positively affected when the U.S. dollar strengthens in relation to those foreign currencies and adversely affected when the U.S. dollar weakens in relation to those foreign currencies.

One U.S. dollar was equivalent to 8,989 rupiah at December 31, 2006, 9,825 rupiah at December 31, 2005, and 9,270 rupiah at December 31, 2004. PT Freeport Indonesia recorded losses to production costs totaling $0.9 million in 2006, $0.4 million in 2005 and $0.7 million in 2004 related to its rupiah-denominated net monetary assets and liabilities. At December 31, 2006, net liabilities totaled $3.3 million at an exchange rate of 8,989 rupiah to one U.S. dollar. PT Freeport Indonesia s labor costs are mostly rupiah denominated. At estimated aggregate annual rupiah payments of 1.6 trillion for operating costs and an exchange rate of 8,989 rupiah to one U.S. dollar, the exchange rate as of December 31, 2006, a one-thousand-rupiah increase in the exchange rate would result in an approximate $18 million decrease in aggregate annual operating costs. A one-thousand-rupiah decrease in the exchange rate would result in an approximate $22 million increase in aggregate annual operating costs.

Approximately 14 percent of PT Freeport Indonesia s total projected 2007 purchases of materials, supplies and services are expected to be denominated in Australian dollars. The exchange rate was $0.79 to one Australian dollar at December 31, 2006, $0.73 to one Australian dollar at December 31, 2005, and $0.78 to one Australian dollar at December 31, 2004. At estimated annual aggregate Australian dollar payments of 250 million and an exchange rate of $0.79 to one Australian dollar, the exchange rate as of December 31, 2006, a $0.01 increase or decrease in the exchange rate would result in an approximate $2.5 million change in aggregate annual operating costs.

At times, PT Freeport Indonesia has entered into foreign currency forward contracts to hedge a portion of its aggregate anticipated Indonesian rupiah and/or Australian dollar payments. The last of PT Freeport Indonesia s foreign currency forward contracts matured in December 2006. PT Freeport Indonesia accounted for these contracts as cash flow hedges. Gains on these contracts totaled $6.8 million in 2006 and $0.7 million in 2005.

The majority of Atlantic Copper s revenues are denominated in U.S. dollars; however, operating costs, other than concentrate purchases, and certain asset and liability accounts are denominated in euros. Atlantic Copper s estimated annual euro payments total approximately 100 million euros. A $0.05 increase or decrease in the exchange rate would result in an approximate $5 million change in annual costs. The exchange rate on December 31, 2006, was $1.32 per euro.

Atlantic Copper had euro-denominated net monetary liabilities at December 31, 2006, totaling $90.1 million recorded at an exchange rate of $1.32 per euro. The exchange rate was $1.18 per euro at December 31, 2005, and $1.36 per euro at December 31, 2004. Adjustments to Atlantic Copper s euro-denominated net monetary liabilities to reflect changes in the exchange rate are recorded in other income (expense) and totaled $(2.3) million in 2006, $5.8 million in 2005 and $(1.6) million in 2004.

Interest rate risk

The table below presents average interest rates for Freeport-McMoRan s scheduled maturities of principal for its outstanding debt and the related fair values at December 31, 2006 (dollars in millions).

(Dollars in millions)	2007	2008	2009	2010	2011	Thereafter	Fair value
Fixed-rate debt	$	$	$	$ 272.4	$ 7.1	$ 340.5	$ 650.3
Average interest rate				10.1%	7.0%	6.9%	8.3%
Variable-rate debt	$ 19.1	$ 13.5	$ 13.5	$ 10.2	$ 3.8	$	$ 60.1
Average interest rate	7.1%	8.2%	8.2%	8.2%	8.2%		7.9%

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New accounting standards

Inventory costs. In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. SFAS No. 151 clarifies that abnormal amounts of idle facility expense, freight handling costs and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. Freeport-McMoRan adopted SFAS No. 151 on January 1, 2006, and there was no material impact on accounting for inventory costs.

Accounting for stock-based compensation. As of December 31, 2006, Freeport-McMoRan had four stock-based employee compensation plans and two stock-based director compensation plans. Prior to January 1, 2006, Freeport-McMoRan accounted for options granted under all of its plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, as permitted by SFAS No. 123, Accounting for Stock-Based Compensation. APB Opinion No. 25 required compensation cost for stock options to be recognized based on the difference on the date of grant, if any, between the quoted market price of the stock and the amount an employee must pay to acquire the stock (i.e., the intrinsic value). Because all the plans require that the option exercise price be at least the market price on the date of grant, Freeport-McMoRan recognized no compensation cost on the grant or exercise of its employees options through December 31, 2005. Prior to 2007, Freeport-McMoRan defined the market price as the average of the high and low price of Freeport-McMoRan common stock on the date of grant. Effective January 2007, in response to new Securities and Exchange Commission disclosure rules, Freeport-McMoRan now defines the market price for future grants as the closing price of Freeport-McMoRan common stock on the date of grant. Other awards under the plans did result in compensation costs being recognized in earnings based on the projected intrinsic value for restricted stock units to be granted in lieu of cash compensation, the intrinsic value on the date of grant for other restricted stock units and the intrinsic value on the reporting or exercise date for cash-settled stock appreciation rights (SARs).

Effective January 1, 2006, Freeport-McMoRan adopted the fair value recognition provisions of SFAS No. 123R using the modified prospective transition method. Under that transition method, compensation cost recognized in 2006 includes: (a) compensation costs for all stock option awards granted to employees prior to but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation costs for all stock option awards granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. Fair value of stock option awards granted to employees was calculated using the Black-Scholes-Merton option-pricing model before and after adoption of SFAS No. 123R. Other stock-based awards charged to expense under SFAS No. 123 continue to be charged to expense under SFAS No. 123R. These include restricted stock units and SARs. Results for prior years have not been restated.

As a result of adopting SFAS No. 123R on January 1, 2006, income before income taxes and minority interests for the year ended December 31, 2006, was $27.8 million lower and net income was $16.1 million ($0.08 per basic share and $0.07 per diluted share) lower than if Freeport-McMoRan had continued to account for stock-based compensation under APB Opinion No. 25.

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Prior to the adoption of SFAS No