MEDIA GENERAL INC
Form 4
September 01, 2005

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
WOODLIEF H GRAHAM
(Last) (First) (Middle)
333 EAST FRANKLIN ST
(Street)
RICHMOND, VA 23219
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
MEDIA GENERAL INC [MEG]

3. Date of Earliest Transaction (Month/Day/Year)
08/31/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security

(Instr. 3)	Price of Derivative Security	(Month/Day/Year)	(Instr. 8)		Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)						(Instr. 5)
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Phantom Stock (1)	$ 0	08/31/2005	A		89		(2)	(2)	Class A Common Stock	89	$ 0

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
WOODLIEF H GRAHAM 333 EAST FRANKLIN ST RICHMOND, VA 23219			Vice President	

Signatures

/s/ H. Graham Woodlief, by George L. Mahoney, Attorney-in-fact	09/01/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Units acquired under Company deferred compensation plan, final balance of which is distributed upon employee's termination of service.

(2) Upon retirement, employee has several options as to the timing and form of payout.

(3) Additionally, 42,627 non-derivative Class A common shares are held directly.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

Year Ended December 31, 2006a

	By-Product	Co-Product Method			
(In millions)	Method	Copper	Molybdenum b	Other c	Total
Revenues, excluding adjustments primarily for pricing on prior period open sales and hedging	$ 3,962	$ 3,962	$ 772	$ 44	$ 4,778

Site production and delivery, before net noncash and nonrecurring costs	$	1,472	$	1,199	$	291	$	25	$	1,515
By-product creditsb		(773)		–		–		–		–
Treatment charges		87		83		–		4		87
Net cash costs	$	786	$	1,282	$	291	$	29	$	1,602

Reconciliation to Pro Forma Revenues and Production and Delivery Costs
(In millions)

		Revenues		Production and Delivery
Totals presented above	$	4,778	$	1,515
Net noncash and nonrecurring costs		N/A		20
Treatment charges per above		N/A		87
Revenue adjustments, primarily for pricing on prior period open sales and hedging		(1,046)		N/A
Eliminations and other		(81)		(44)
North America copper mines		3,651		1,578
South America copper mines		3,442		965
Molybdenum		1,748		1,257
Eliminations and otherd		3,069		3,007
As reported in Phelps Dodge consolidated financial resultse	$	11,910	$	6,807

a. Reflects Phelps Dodge pre-acquisition data. As the pre-acquisition data represents the results under Phelps Dodge management, such data is not necessarily indicative of what past results would have been under FCX management or of future operating results.

b. Molybdenum by-product credits and revenues reflect volumes produced at market-based pricing and also include tolling revenues at Sierrita.

c. Includes gold and silver product revenues and production costs.

d. Includes revenues and production and delivery costs associated with the PDIC manufacturing operation, which was sold by FCX on October 31, 2007.

e. Obtained from the Phelps Dodge Form 10-K for the year ended December 31, 2006. As the pre-acquisition data represents the results under Phelps Dodge management, such data is not necessarily indicative of what past results would have been under FCX management or of future operating results.

106

Table of Contents

South America Copper Mines Product Revenues and Production Costs

Year Ended December 31, 2008

(In millions)	By-Product Method	Co-Product Method Copper	Co-Product Method Other a	Total
Revenues, excluding adjustments shown below	$ 3,910	$ 3,910	$ 216	$ 4,126
Site production and delivery, before net noncash nonrecurring costs shown below	1,711	1,631	102	1,733
By-product credits	(194)	–	–	–
Treatment charges	211	211	–	211
Net cash costs	1,728	1,842	102	1,944
Depreciation, depletion and amortization	508	483	25	508
Noncash and nonrecurring costs, net	103b	100	3	103
Total costs	2,339	2,425	130	2,555
Revenue adjustments, primarily for pricing on prior period open sales	230	230	–	230
Other non-inventoriable costs	(37)	(34)	(3)	(37)
Gross profit	$ 1,764	$ 1,681	$ 83	$ 1,764

Reconciliation to Amounts Reported
(In millions)

	Revenues	Production and Delivery	Depreciation, Depletion and Amortization
Totals presented above	$ 4,126	$ 1,733	$ 508
Net noncash and nonrecurring costs per above	N/A	103b	N/A
Less: Treatment charges per above	(211)	N/A	N/A
Revenue adjustments, primarily for pricing on prior period open sales per above	230	N/A	N/A
Purchased metal	196	193	N/A
Eliminations and other	(175)	(175)	3
South America copper mines	4,166	1,854	511
North America copper mines	5,265	3,708	770
Indonesia mining	3,412	1,792	222
Africa mining	–	16	6
Molybdenum	2,488	1,629	192
Rod & Refining	5,557	5,527	8
Atlantic Copper Smelting & Refining	2,341	2,276	35
Corporate, other & eliminations	(5,433)	(5,604)	38
As reported in FCX's consolidated financial statements	$ 17,796	$ 11,198 c	$ 1,782

a. Includes molybdenum, gold and silver product revenues and production costs.

b. Includes charges totaling $10 million for LCM inventory adjustments.

c. Includes LCM inventory adjustments of $782 million.

107

Explanation of Responses:

Table of Contents

March 20, 2007, through December 31, 2007a

(In millions)	By-Product Method	Co-Product Method Copper	Other b	Total
Revenues, excluding adjustments shown below	$ 3,882	$ 3,882	$ 123	$ 4,005
Site production and delivery, before net noncash nonrecurring costs shown below	1,078	1,040	52	1,092
By-product credits	(109)	–	–	–
Treatment charges	240	239	1	240
Net cash costs	1,209	1,279	53	1,332
Depreciation, depletion and amortization	377	364	13	377
Noncash and nonrecurring costs, net	171	170	1	171
Total costs	1,757	1,813	67	1,880
Revenue adjustments, primarily for pricing on prior period open sales	75	75	–	75
Other non-inventoriable costs	(28)	(27)	(1)	(28)
Gross profit	$ 2,172	$ 2,117	$ 55	$ 2,172

Reconciliation to Amounts Reported for the Year Ended December 31, 2007

(In millions)	Revenues	Production and Delivery	Depreciation, Depletion and Amortization
Totals presented above	$ 4,005	$ 1,092	$ 377
Net noncash and nonrecurring costs per above	N/A	171	N/A
Less: Treatment charges per above	(240)	N/A	N/A
Revenue adjustments, primarily for pricing on prior period open sales per above	75	N/A	N/A
Purchased metal	179	179	N/A
Eliminations and other	(140)	(165)	1
South America copper mines	3,879	1,277	378
North America copper mines	4,093	2,166	499
Indonesia mining	4,808	1,388	199
Africa mining	–	10	2
Molybdenum	1,746	1,287	94
Rod & Refining	5,140	5,119	7
Atlantic Copper Smelting & Refining	2,388	2,329	36
Corporate, other & eliminations	(5,115)	(5,049)	31
As reported in FCX’s consolidated financial statements	$ 16,939	$ 8,527	$ 1,246

a. Reflects the results of the South America copper mines under FCX management.

b. Includes molybdenum, gold and silver product revenues and production costs.

108

Table of Contents

Combined Product Revenues and Production Costs

For comparative purposes, the following tables summarize net cash costs for the South America copper mines for the year ended December 31, 2007, which reflects our historical data beginning March 20, 2007, combined with Phelps Dodge pre-acquisition data through March 19, 2007, and for the year ended December 31, 2006, which reflects Phelps Dodge pre-acquisition data. As the pre-acquisition data represents the results of the South America copper mines under Phelps Dodge management, such data is not necessarily indicative of what past results would have been under FCX management or of future operating results. Presentations shown below have been reconciled to the revenues and production and delivery costs included in our pro forma consolidated financial results for the year ended December 31, 2007, and as reported in Phelps Dodge's Form 10-K for the year ended December 31, 2006.

Year Ended December 31, 2007a

	By-Product	Co-Product Method		
(In millions)	Method	Copper	Other b	Total
Revenues, excluding adjustments primarily for pricing on prior period open sales	$ 4,550	$ 4,550	$ 140	$ 4,690
Site production and delivery, before net noncash nonrecurring costs	$ 1,268	$ 1,224	$ 58	$ 1,282
By-product credits	(126)	–	–	–
Treatment charges	282	279	3	282
Net cash costs	$ 1,424	$ 1,503	$ 61	$ 1,564

Reconciliation to Pro Forma Revenues and Production and Delivery Costs
(In millions)

	Revenues	Production and Delivery
Totals presented above	$ 4,690	$ 1,282
Net noncash and nonrecurring costs	N/A	3
Less: Treatment charges per above	(282)	N/A
Revenue adjustments, primarily for pricing on prior period open sales	25	N/A
Purchased metal	218	218
Purchase accounting adjustments	9	169
Eliminations and other	(222)	(207)
Combined South America copper mines	4,438	1,465
Combined North America copper mines	5,046	2,595
Indonesia mining	4,808	1,388
Combined Africa mining	–	8
Combined Molybdenum	2,193	1,593
Combined Rod & Refining	6,437	6,411
Atlantic Copper Smelting & Refining	2,388	2,329
Eliminations and other	(6,077)	(5,979)
	$ 19,233	$ 9,810

As reported in FCX's pro forma consolidated financial resultsc

a. Reflects our historical data beginning March 20, 2007, combined with Phelps Dodge pre-acquisition data through March 19, 2007. As the pre-acquisition data represents the results under Phelps Dodge management, such data is not necessarily indicative of what past results would have been under FCX management or of future operating results.

b. Includes molybdenum, gold and silver product revenues and production costs.

c. Refer to Note 18 for summary of unaudited pro forma financial information for year ended December 31, 2007.

109

Table of Contents

Year Ended December 31, 2006a

(In millions)	By-Product Method	Co-Product Method Copper	Co-Product Method Other b	Total
Revenues, excluding adjustments primarily for pricing on prior period open sales	$ 3,413	$ 3,413	$ 91	$ 3,504
Site production and delivery, before net noncash and nonrecurring costs	$ 918	$ 891	$ 27	$ 918
By-product credits	(91)	–	–	–
Treatment charges	194	194	–	194
Net cash costs	$ 1,021	$ 1,085	$ 27	$ 1,112

Reconciliation to Amounts Reported by Phelps Dodge
(In millions)

	Revenues	Production and Delivery
Totals presented above	$ 3,504	$ 918
Net noncash and nonrecurring costs	N/A	2
Less: Treatment charges per above	(194)	N/A
Revenue adjustments, primarily for pricing on prior period open sales	94	N/A
Purchased metal	213	213
Eliminations and other	(175)	(168)
South America copper mines	3,442	965
North America copper mines	3,651	1,578
Molybdenum	1,748	1,257
Eliminations and otherc	3,069	3,007
As reported in Phelps Dodge consolidated financial resultsd	$ 11,910	$ 6,807

a. Reflects Phelps Dodge pre-acquisition data. As the pre-acquisition data represents the results under Phelps Dodge management, such data is not necessarily indicative of what past results would have been under FCX management or of future operating results.

b. Includes gold and silver product revenues and production costs.

c. Includes revenues and production and delivery costs associated with the PDIC manufacturing operation, which was sold by FCX on October 31, 2007.

d. Obtained from the Phelps Dodge Form 10-K for the year ended December 31, 2006. As the pre-acquisition data represents the results under Phelps Dodge management, such data is not necessarily indicative of what past results would have been under FCX management or of future operating results.

110

Explanation of Responses:

Table of Contents

Indonesia Mining Product Revenues and Production Costs

Year Ended December 31, 2008

(In millions)	By-Product Method	Co-Product Method Copper	Gold	Silver	Total
Revenues, after adjustments shown below	$ 2,628	$ 2,628	$ 1,025	$ 50	$ 3,703
Site production and delivery, before net noncash and nonrecurring costs shown below	1,762	1,252	487	23	1,762
Gold and silver credits	(1,075)	–	–	–	–
Treatment charges	268	190	74	4	268
Royalty on metals	113	80	31	2	113
Net cash costs	1,068	1,522	592	29	2,143
Depreciation and amortization	222	158	61	3	222
Noncash and nonrecurring costs, net	30	22	8	–	30
Total costs	1,320	1,702	661	32	2,395
Revenue adjustments, primarily for pricing on prior period open sales	90	90	–	–	90
PT Smelting intercompany profit	17	12	5	–	17
Gross profit	$ 1,415	$ 1,028	$ 369	$ 18	$ 1,415

Reconciliation to Amounts Reported

(In millions)	Revenues	Production and Delivery	Depreciation, Depletion and Amortization
Totals presented above	$ 3,703	$ 1,762	$ 222
Net noncash and nonrecurring costs per above	N/A	30	N/A
Less: Treatment charges per above	(268)	N/A	N/A
Less: Royalty per above	(113)	N/A	N/A
Revenue adjustments, primarily for pricing on prior period open sales per above	90	N/A	N/A
Indonesia mining	3,412	1,792	222
North America copper mines	5,265	3,708	770
South America copper mines	4,166	1,854	511
Africa mining	–	16	6
Molybdenum	2,488	1,629	192
Rod & Refining	5,557	5,527	8
Atlantic Copper Smelting & Refining	2,341	2,276	35
Corporate, other & eliminations	(5,433)	(5,604)	38
As reported in FCX's consolidated financial statements	$ 17,796	$ 11,198 a	$ 1,782

a. Includes LCM inventory adjustments of $782 million.

111

Table of Contents

Year Ended December 31, 2007

(In millions)	By-Product Method	Co-Product Method Copper	Gold	Silver	Total
Revenues, after adjustments shown below	$ 3,777	$ 3,777	$ 1,490	$ 48	$ 5,315
Site production and delivery, before net noncash and nonrecurring costs shown below	1,342	954	376	12	1,342
Gold and silver credits	(1,538)	–	–	–	–
Treatment charges	385	274	108	3	385
Royalty on metals	133	94	38	1	133
Net cash costs	322	1,322	522	16	1,860
Depreciation and amortization	199	141	56	2	199
Noncash and nonrecurring costs, net	46	33	12	1	46
Total costs	567	1,496	590	19	2,105
Revenue adjustments, primarily for pricing on prior period open sales	11	11	–	–	11
PT Smelting intercompany profit	13	10	3	–	13
Gross profit	$ 3,234	$ 2,302	$ 903	$ 29	$ 3,234

Reconciliation to Amounts Reported

(In millions)	Revenues	Production and Delivery	Depreciation, Depletion and Amortization
Totals presented above	$ 5,315	$ 1,342	$ 199
Net noncash and nonrecurring costs per above	N/A	46	N/A
Less: Treatment charges per above	(385)	N/A	N/A
Less: Royalty per above	(133)	N/A	N/A
Revenue adjustments, primarily for pricing on prior period open sales per above	11	N/A	N/A
Indonesia mining	4,808	1,388	199
North America copper mines	4,093	2,166	499
South America copper mines	3,879	1,277	378
Africa mining	–	10	2
Molybdenum	1,746	1,287	94
Rod & Refining	5,140	5,119	7
Atlantic Copper Smelting & Refining	2,388	2,329	36
Corporate, other & eliminations	(5,115)	(5,049)	31
As reported in FCX's consolidated financial statements	$ 16,939	$ 8,527	$ 1,246

Table of Contents

Year Ended December 31, 2006

(In millions)	By-Product Method	Co-Product Method Copper	Gold	Silver	Total
Revenues, after adjustments shown below	$ 3,764	$ 3,764	$ 1,072	$ 47	$ 4,883
Site production and delivery, before net noncash and nonrecurring costs shown below	1,235	952	271	12	1,235
Gold and silver credits	(1,119)	–	–	–	–
Treatment charges	477	368	104	5	477
Royalty on metals	126	97	28	1	126
Net cash costs	719	1,417	403	18	1,838
Depreciation and amortization	184	142	40	2	184
Noncash and nonrecurring costs, net	44	34	10	–	44
Total costs	947	1,593	453	20	2,066
Revenue adjustments, primarily for pricing on prior period open sales	115a	197	(69)	(13)	115
PT Smelting intercompany profit	(3)	(2)	(1)	–	(3)
Gross profit	$ 2,929	$ 2,366	$ 549	$ 14	$ 2,929

Reconciliation to Amounts Reported

(In millions)	Revenues	Production and Delivery	Depreciation, Depletion and Amortization
Totals presented above	$ 4,883	$ 1,235	$ 184
Net noncash and nonrecurring costs per above	N/A	44	N/A
Less: Treatment charges per above	(477)	N/A	N/A
Less: Royalty per above	(126)	N/A	N/A
Revenue adjustments, primarily for pricing on prior period open sales per above	115	N/A	N/A
Indonesia mining	4,395	1,279	184
Atlantic Copper Smelting & Refining	2,242	2,119	33
Corporate, other & eliminations	(846)	(873)	11
As reported in FCX's consolidated financial statements	$ 5,791	$ 2,525	$ 228

a. Includes a $69 million loss on the redemption of FCX's Gold-Denominated Preferred Stock, Series II, and a $13 million loss on the redemption of FCX's Silver-Denominated Preferred Stock.

113

Table of Contents

Henderson Molybdenum Mine Product Revenues and Production Costs

(in millions)	Years Ended December 31, 2008	2007a
Revenues	$ 1,182	$ 853
Site production and delivery, before net noncash and nonrecurring costs shown below	216	137
Net cash costs	216	137
Depreciation, depletion and amortization	172	80
Noncash and nonrecurring costs, net	7b	2
Total costs	395	219
Gross profitc	$ 787	$ 634

Reconciliation to Amounts Reported (In millions)	Revenues	Production and Delivery	Depreciation, Depletion and Amortization
Year Ended December 31, 2008			
Totals presented above	$ 1,182	$ 216	$ 172
Net noncash and nonrecurring costs per above	N/A	7b	N/A
Henderson mine	1,182	223	172
Other molybdenum operations and eliminationsd	1,306	1,406e	20
Molybdenum	2,488	1,629	192
North America copper mines	5,265	3,708	770
South America copper mines	4,166	1,854	511
Indonesia mining	3,412	1,792	222
Africa mining	–	16	6
Rod & Refining	5,557	5,527	8
Atlantic Copper Smelting & Refining	2,341	2,276	35
Corporate, other & eliminations	(5,433)	(5,604)	38
As reported in FCX's consolidated financial statements	$ 17,796	$ 11,198f	$ 1,782
Year Ended December 31, 2007			
Totals presented above	$ 853	$ 137	$ 80
Net noncash and nonrecurring costs per above	N/A	2	N/A
Henderson mine	853	139	80
Other molybdenum operations and eliminationsd	893	1,148	14
Molybdenum	1,746	1,287	94
North America copper mines	4,093	2,166	499
South America copper mines	3,879	1,277	378
Indonesia mining	4,808	1,388	199
Africa mining	–	10	2
Rod & Refining	5,140	5,119	7
Atlantic Copper Smelting & Refining	2,388	2,329	36
Corporate, other & eliminations	(5,115)	(5,049)	31
As reported in FCX's consolidated financial statements	$ 16,939	$ 8,527	$ 1,246

a.

Reflects the period from March 20, 2007, through December 31, 2007, which represents the results of the Henderson molybdenum mine under FCX management.

b. Includes charges totaling $1 million for LCM inventory adjustments.

c. Gross profit reflects sales of Henderson products based on volumes produced at market-based pricing. On a consolidated basis, the Molybdenum segment includes profits on sales as they are made to third parties and realizations based on actual contract terms. As a result, the actual gross profit realized will differ from the amounts reported in this table.

d. Primarily includes amounts associated with the molybdenum sales company, which includes sales of molybdenum produced as a by-product at our North and South America copper mines.

e. Includes LCM inventory adjustments of $100 million.

f. Includes LCM inventory adjustments of $782 million.

114

Table of Contents

Combined Product Revenues and Production Costs

For comparative purposes, the following tables summarize net cash costs for the Henderson molybdenum mine for the year ended December 31, 2007, which reflects our historical data beginning March 20, 2007, combined with Phelps Dodge pre-acquisition data through March 19, 2007, and for the year ended December 31, 2006, which reflects Phelps Dodge pre-acquisition data. As the pre-acquisition data represents the results of the Henderson molybdenum mine under Phelps Dodge management, such data is not necessarily indicative of what past results would have been under FCX management or of future operating results. Presentations shown below have been reconciled to the revenues and production and delivery costs included in our pro forma consolidated financial results for the year ended December 31, 2007, and as reported in Phelps Dodge's Form 10-K for the year ended December 31, 2006.

	Years Ended December 31,			
		2007a		2006a
Revenues	$	1,029	$	821
Site production and delivery, before net noncash and nonrecurring costs	$	171	$	137
Net cash costs	$	171	$	137

Reconciliation to Revenues and Production and Delivery Costs (In millions)		Revenues		Production and Delivery
Year Ended December 31, 2007				
Totals presented above	$	1,029	$	171
Net noncash and nonrecurring costs		N/A		1
Combined Henderson mine		1,029		172
Other molybdenum operations and eliminationsb		1,164		1,421
Combined Molybdenum		2,193		1,593
Combined North America copper mines		5,046		2,595
Combined South America copper mines		4,438		1,465
Indonesia mining		4,808		1,388
Combined Africa mining		–		8
Combined Rod & Refining		6,437		6,411
Atlantic Copper Smelting & Refining		2,388		2,329
Eliminations and other		(6,077)		(5,979)
As reported in FCX's pro forma consolidated financial resultsc	$	19,233	$	9,810
Year Ended December 31, 2006				
Totals presented above	$	821	$	137
Net noncash and nonrecurring costs		N/A		1
Henderson mine		821		138
Other molybdenum operations and eliminationsb		927		1,119
Molybdenum		1,748		1,257
North America copper mines		3,651		1,578
South America copper mines		3,442		965
Eliminations and otherd		3,069		3,007
	$	11,910	$	6,807

As reported in Phelps Dodge consolidated financial resultse

a. The year ended December 31, 2007, combines our historical data beginning March 20, 2007, with Phelps Dodge pre-acquisition data through March 19, 2007, and for the year ended December 31, 2006, which reflects Phelps Dodge pre-acquisition data. As the pre-acquisition data represents the results under Phelps Dodge management, such data is not necessarily indicative of what past results would have been under FCX management or of future operating results.

b. Primarily includes amounts associated with the molybdenum sales company, which includes sales of molybdenum produced as a by-product at our North and South America copper mines.

c. Refer to Note 18 for summary of unaudited pro forma financial information for year ended December 31, 2007.

d. Includes revenues and production and delivery costs associated with the PDIC manufacturing operation, which was sold by FCX on October 31, 2007.

e. Obtained from the Phelps Dodge Form 10-K for the year ended December 31, 2006. As the pre-acquisition data represents the results under Phelps Dodge management, such data is not necessarily indicative of what past results would have been under FCX management or of future operating results.

115

Table of Contents

CAUTIONARY STATEMENT

Our discussion and analysis contains forward-looking statements in which we discuss our expectations regarding future performance. Forward-looking statements are all statements other than statements of historical facts, such as those statements regarding anticipated production volumes, sales volumes, unit net cash costs, ore grades, milling rates, commodity prices, development and capital expenditures, mine production and development plans, availability of power, water, labor and equipment, anticipated environmental reclamation and closure costs and plans, environmental liabilities and expenditures, litigation liabilities and expenses, potential future dividend payments, reserve estimates, anticipated political, economic and social conditions in our areas of operations, projected exploration efforts and results, operating cash flows, the impact of copper, gold and molybdenum price changes, the impact of deferred intercompany profits on earnings, liquidity, other financial commitments and tax rates. The words "anticipates," "may," "can," "plans," "believes," "estimates," "expects," "projects," "intends," "likely," "will," "should," "to be expressions and/or statements that are not historical facts, in each case as they relate to us or our management, are intended to identify those assertions as forward-looking statements.

In making any of those statements, the person making them believes that the expectations are based on reasonable assumptions. We caution readers that those statements are not guarantees of future performance, and our actual results may differ materially from those anticipated, projected or assumed in the forward-looking statements. Important factors that can cause our actual results to differ materially from those anticipated in the forward-looking statements include commodity prices, mine sequencing, production rates, industry risks, regulatory changes, political risks, weather-related risks, labor relations, environmental risks, litigation results, currency translation risks and other factors described in more detail under the heading "Risk Factors" in our Form 10-K for the year ended December 31, 2008.

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 our results of operations or financial condition. Except for our ongoing obligations under the federal securities laws, we do not intend and undertake no obligation to update or revise any forward-looking statements.

Table of Contents

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Freeport-McMoRan Copper & Gold Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Freeport-McMoRan Copper & Gold Inc. at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109," and effective December 31, 2006, the Company adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132R."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Freeport-McMoRan Copper & Gold Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 18, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Phoenix, Arizona
February 18, 2009

Table of Contents

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Freeport-McMoRan Copper & Gold Inc.'s (the Company's) management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company's assets;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our principal executive officer and principal financial officer, assessed the effectiveness of our internal control over financial reporting as of the end of the fiscal year covered by this annual report on Form 10-K. In making this assessment, our management used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our management's assessment, management concluded that, as of December 31, 2008, our Company's internal control over financial reporting is effective based on the COSO criteria.

Ernst & Young LLP, an independent registered public accounting firm, who audited the Company's consolidated financial statements included in this Form 10-K, has issued an attestation report on the Company's internal control over financial reporting, which is included herein.

/s/ Richard C. Adkerson
Richard C. Adkerson
President and Chief Executive Officer

/s/ Kathleen L. Quirk
Kathleen L. Quirk
Executive Vice President,
Chief Financial Officer and Treasurer

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited Freeport-McMoRan Copper & Gold Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Freeport-McMoRan Copper & Gold Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Freeport-McMoRan Copper & Gold Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Freeport-McMoRan Copper & Gold Inc. as of December 31, 2008 and 2007 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2008, and our report dated February 18, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Phoenix, Arizona

February 18, 2009

119

Table of Contents

FREEPORT-McMoRan COPPER & GOLD INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2008	2007	2006
	(In Millions, Except Per Share Amounts)		
Revenues	$ 17,796	$ 16,939	$ 5,791
Cost of sales:			
Production and delivery	10,416	8,527	2,525
Depreciation, depletion and amortization	1,782	1,246	228
Lower of cost or market inventory adjustments	782	–	–
Total cost of sales	12,980	9,773	2,753
Selling, general and administrative expenses	269	466	157
Exploration and research expenses	292	145	12
Goodwill impairment	5,987	–	–
Long-lived asset impairments and other charges	10,978	–	–
Total costs and expenses	30,506	10,384	2,922
Operating (loss) income	(12,710)	6,555	2,869
Interest expense, net	(584)	(513)	(76)
Losses on early extinguishment and conversion of debt, net	(6)	(173)	(32)
Gains on sales of assets	13	85	31
Other (expense) income, net	(22)	157	28
(Loss) income from continuing operations before income taxes, minority interests and equity in affiliated companies' net earnings	(13,309)	6,111	2,820
Benefit from (provision for) income taxes	2,844	(2,400)	(1,201)
Minority interests in consolidated subsidiaries	(617)	(791)	(168)
Equity in affiliated companies' net earnings	15	22	6
(Loss) income from continuing operations	(11,067)	2,942	1,457
Income from discontinued operations, net of taxes	–	35	–
Net (loss) income	(11,067)	2,977	1,457
Preferred dividends and losses on induced conversions	(274)	(208)	(61)
Net (loss) income applicable to common stock	$ (11,341)	$ 2,769	$ 1,396
Basic net (loss) income per share of common stock:			
Continuing operations	$ (29.72)	$ 8.02	$ 7.32
Discontinued operations	–	0.10	–
Basic net (loss) income per share of common stock	$ (29.72)	$ 8.12	$ 7.32
Diluted net (loss) income per share of common stock:			
Continuing operations	$ (29.72)	$ 7.41	$ 6.63
Discontinued operations	–	0.09	–
Diluted net (loss) income per share of common stock	$ (29.72)	$ 7.50	$ 6.63
Average common shares outstanding:			
Basic	382	341	191
Diluted	382	397	221
Dividends declared per share of common stock	$ 1.375	$ 1.375	$ 5.0625

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

Table of Contents

FREEPORT-McMoRan COPPER & GOLD INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2008	2007	2006
	(In Millions)		
Cash flow from operating activities:			
Net (loss) income	$ (11,067)	$ 2,977	$ 1,457
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation, depletion and amortization	1,782	1,264	228
Minority interests in consolidated subsidiaries	617	802	168
Asset impairments, including goodwill	16,854	–	–
Lower of cost or market inventory adjustments	782	–	–
Pension and postretirement special benefits and curtailments	61	–	–
Stock-based compensation	98	144	55
Charges for reclamation and environmental obligations, including accretion	181	32	3
Unrealized losses on copper price protection program	–	175	–
Losses on early extinguishment and conversion of debt, net	6	173	32
Deferred income taxes	(4,653)	(288)	16
Gains on sales of assets	(13)	(85)	(31)
Decrease in long-term mill and leach stockpiles	(225)	(48)	–
Amortization of intangible assets/liabilities and other, net	117	45	52
(Increases) decreases in working capital, excluding amounts acquired from Phelps Dodge:			
Accounts receivable	542	428	196
Inventories	(478)	272	(146)
Prepaid expenses and other current assets	(91)	21	(27)
Accounts payable, accrued liabilities and copper price protection program	(171)	400	15
Accrued income taxes	(767)	24	(152)
Settlement of reclamation and environmental obligations	(205)	(111)	–
Net cash provided by operating activities	3,370	6,225	1,866
Cash flow from investing activities:			
North America capital expenditures	(846)	(933)	–
South America capital expenditures	(323)	(123)	–
Indonesia capital expenditures	(444)	(368)	(234)
Africa capital expenditures	(1,058)	(266)	–
Other capital expenditures	(37)	(65)	(17)
Acquisition of Phelps Dodge, net of cash acquired	(1)	(13,910)	(5)
Net proceeds from the sale of Phelps Dodge International Corporation	–	597	–
Proceeds from sales of assets	47	260	34
Decrease in global reclamation and remediation trust assets	430	–	–
Other, net	(86)	(53)	(2)
Net cash used in investing activities	(2,318)	(14,861)	(224)

Cash flow from financing activities:			
Proceeds from term loans under bank credit facility	–	12,450	–
Repayments of term loans under bank credit facility	–	(12,450)	–
Net proceeds from sales of senior notes	–	5,880	–
Net proceeds from sale of common stock	–	2,816	–
Net proceeds from sale of 6¾% Mandatory Convertible Preferred Stock	–	2,803	–
Proceeds from revolving credit facility and other debt	890	744	103
Repayments of other debt and redemption of preferred stock	(766)	(1,069)	(394)
Purchases of FCX common stock	(500)	–	(100)
Cash dividends paid:			
Common stock	(693)	(421)	(916)
Preferred stock	(255)	(175)	(61)
Minority interests	(730)	(967)	(161)
Minority interest contribution related to Tenke Fungurume	201	–	–
Net proceeds from (payments for) exercised stock options	22	(14)	15
Excess tax benefit from stock-based awards	25	16	21
Bank credit facilities fees and other, net	–	(258)	(6)
Net cash (used in) provided by financing activities	(1,806)	9,355	(1,499)
Net (decrease) increase in cash and cash equivalents	(754)	719	143
Cash and cash equivalents at beginning of year	1,626	907	764
Cash and cash equivalents at end of year	$ 872	$ 1,626	$ 907

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

121

Explanation of Responses:

Table of Contents

FREEPORT-McMoRan COPPER & GOLD INC.
CONSOLIDATED BALANCE SHEETS

	December 31,			
	2008		2007	
	(In Millions, Except Par Values)			
ASSETS				
Current assets:				
Cash and cash equivalents	$	872	$	1,626
Trade accounts receivable		374		1,099
Income tax receivables		611		67
Other accounts receivable		227		129
Inventories:				
Product		1,068		1,360
Materials and supplies, net		1,124		818
Mill and leach stockpiles		571		707
Prepaid expenses and other current assets		386		97
Total current assets		5,233		5,903
Property, plant, equipment and development costs, net		16,002		25,715
Goodwill		–		6,105
Long-term mill and leach stockpiles		1,145		1,106
Intangible assets, net		364		472
Trust assets		142		606
Other assets		467		754
Total assets	$	23,353	$	40,661
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	$	2,722	$	2,345
Accrued income taxes		163		420
Current portion of reclamation and environmental obligations		162		263
Current portion of long-term debt and short-term borrowings		67		31
Dividends payable		44		212
Copper price protection program		–		598
Total current liabilities		3,158		3,869
Long-term debt, less current portion:				
Senior notes		6,884		6,928
Project financing, equipment loans and other		250		252
Revolving credit facility		150		–
Total long-term debt, less current portion		7,284		7,180
Deferred income taxes		2,339		7,300
Reclamation and environmental obligations, less current portion		1,951		1,733
Other liabilities		1,520		1,106
Total liabilities		16,252		21,188
Minority interests in consolidated subsidiaries		1,328		1,239
Stockholders' equity:				

5½% Convertible Perpetual Preferred Stock, 1 shares issued and outstanding		832		1,100
6¾% Mandatory Convertible Preferred Stock, 29 shares issued and outstanding		2,875		2,875
Common stock, par value $0.10, 505 shares and 497 shares issued, respectively		51		50
Capital in excess of par value		13,989		13,407
Retained earnings (accumulated deficit)		(8,267)		3,601
Accumulated other comprehensive income (loss)		(305)		42
Common stock held in treasury – 121 shares and 114 shares, respectively, at cost		(3,402)		(2,841)
Total stockholders' equity		5,773		18,234
Total liabilities and stockholders' equity	$	23,353	$	40,661

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

122

Table of Contents

FREEPORT-McMoRan COPPER & GOLD INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Convertible Perpetual Preferred Stock		Mandatory Convertible Preferred Stock		Common Stock					Common Stock Held in Treasury		
	Number of Shares	At Par Value	Number of Shares	At Par Value	Number of Shares	At Par Value	Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Number of Shares	At Cost	Stockholders' Equity
	(In Millions)											
Balance at January 1, 2006	1	$ 1,100	-	$ -	297	$ 30	$ 2,212	$ 1,086	$ 11	110	$ (2,596)	$ 1,843
Conversions of 7% Convertible Senior Notes	-	-	-	-	10	1	311	-	-	-	-	312
Exercised and issued stock-based awards	-	-	-	-	3	-	93	-	-	-	-	93
Stock-based compensation costs	-	-	-	-	-	-	28	-	-	-	-	28
Tax benefit for stock-based awards	-	-	-	-	-	-	24	-	-	-	-	24
Tender of shares for stock-based awards	-	-	-	-	-	-	-	-	-	1	(53)	(53)
Shares purchased	-	-	-	-	-	-	-	-	-	2	(100)	(100)
Cumulative effect adjustment to initially apply EITF 04-6	-	-	-	-	-	-	-	(149)	-	-	-	(149)
Dividends on common stock	-	-	-	-	-	-	-	(918)	-	-	-	(918)
Dividends on preferred stock	-	-	-	-	-	-	-	(61)	-	-	-	(61)
Comprehensive income (loss):												
Net income	-	-	-	-	-	-	-	1,457	-	-	-	1,457
Other comprehensive income (loss), net of taxes:												
Change in unrealized derivatives' fair value	-	-	-	-	-	-	-	-	(9)	-	-	(9)
	-	-	-	-	-	-	-	-	4	-	-	4

Reclassification to earnings												
Other comprehensive loss	-	-	-	-	-	-	-	-	(5)	-	-	(5)
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	-	1,452
Adjustment for adoption of SFAS No. 158, net of taxes of $7 million	-	-	-	-	-	-	-	-	(26)	-	-	(26)
Balance at December 31, 2006	1	$ 1,100	-	$ -	310	$ 31	$ 2,668	$ 1,415	$ (20)	113	$ (2,749)	$ 2,445

123

Table of Contents

FREEPORT-McMoRan COPPER & GOLD INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(continued)

	Convertible Perpetual Preferred Stock		Mandatory Convertible Preferred Stock		Common Stock					Common Stock Held in Treasury		
	Number of Shares	At Par Value	Number of Shares	At Par Value	Number of Shares	At Par Value	Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Number of Shares	At Cost	Stockholders' Equity
	(In Millions)											
Balance at December 31, 2006	1	$ 1,100	-	$ -	310	$ 31	$ 2,668	$ 1,415	$ (20)	113	$ (2,749)	$ 2,445
Sale of 6¾% Mandatory Convertible Preferred Stock	-	-	29	2,875	-	-	(72)	-	-	-	-	2,803
Common stock issued to acquire Phelps Dodge	-	-	-	-	137	14	7,767	-	-	-	-	7,781
Sale of common stock	-	-	-	-	47	5	2,811	-	-	-	-	2,816
Conversions of 7% Convertible Senior Notes	-	-	-	-	-	-	6	-	-	-	-	6
Exercised and issued stock-based awards	-	-	-	-	3	-	131	-	-	-	-	131
Stock-based compensation costs	-	-	-	-	-	-	86	-	-	-	-	86
Tax benefit for stock-based awards	-	-	-	-	-	-	10	-	-	-	-	10
Tender of shares for stock-based awards	-	-	-	-	-	-	-	-	-	1	(92)	(92)
Cumulative effect adjustment to initially apply FIN 48	-	-	-	-	-	-	-	4	-	-	-	4
Dividends on common stock	-	-	-	-	-	-	-	(587)	-	-	-	(587)
	-	-	-	-	-	-	-	(208)	-	-	-	(208)

Dividends on preferred stock												
Comprehensive income (loss):												
Net income	-	-	-	-	-	-	-	2,977	-	-	-	2,977
Other comprehensive income (loss), net of taxes:												
Unrealized gain on securities	-	-	-	-	-	-	-	-	2	-	-	2
Translation adjustment	-	-	-	-	-	-	-	-	(3)	-	-	(3)
Change in unrealized derivatives' fair value	-	-	-	-	-	-	-	-	(3)	-	-	(3)
Reclassification to earnings	-	-	-	-	-	-	-	-	7	-	-	7
Defined benefit pension plans:												
Net gain during period, net of taxes of $34 million	-	-	-	-	-	-	-	-	53	-	-	53
Amortization of unrecognized amounts	-	-	-	-	-	-	-	-	6	-	-	6
Other comprehensive income	-	-	-	-	-	-	-	-	62	-	-	62
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	-	3,039
Balance at December 31, 2007	1	$ 1,100	29	$ 2,875	497	$ 50	$ 13,407	$ 3,601	$ 42	114	$ (2,841)	$ 18,234

Table of Contents

FREEPORT-McMoRan COPPER & GOLD INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(continued)

	Convertible Perpetual Preferred Stock		Mandatory Convertible Preferred Stock		Common Stock					Common Stock Held in Treasury		
	Number of Shares	At Par Value	Number of Shares	At Par Value	Number of Shares	At Par Value	Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Number of Shares	At Cost	Stockholders' Equity
	(In Millions)											
Balance at December 31, 2007	1	$ 1,100	29	$ 2,875	497	$ 50	$ 13,407	$ 3,601	$ 42	114	$ (2,841)	$ 18,234
Conversions of 5½% Convertible Perpetual Preferred Stock	-	(268)	-	-	7	1	290	-	-	-	-	23
Exercised and issued stock-based awards	-	-	-	-	1	-	179	-	-	-	-	179
Stock-based compensation costs	-	-	-	-	-	-	100	-	-	-	-	100
Tax benefit for stock-based awards	-	-	-	-	-	-	13	-	-	-	-	13
Tender of shares for stock-based awards	-	-	-	-	-	-	-	-	-	1	(61)	(61)
Shares purchased	-	-	-	-	-	-	-	-	-	6	(500)	(500)
Dividends on common stock	-	-	-	-	-	-	-	(527)	-	-	-	(527)
Dividends on preferred stock	-	-	-	-	-	-	-	(274)	-	-	-	(274)
Comprehensive income (loss):												
Net loss	-	-	-	-	-	-	-	(11,067)	-	-	-	(11,067)
Other comprehensive income (loss), net of taxes:												
Unrealized loss on securities	-	-	-	-	-	-	-	-	(9)	-	-	(9)

Translation adjustment	-	-	-	-	-	-	-	-	(4)	-	-	(4)
Defined benefit pension plans:												
Net loss during period, net of taxes of $190 million	-	-	-	-	-	-	-	-	(341)	-	-	(341)
Amortization of unrecognized amounts	-	-	-	-	-	-	-	-	7	-	-	7
Other comprehensive loss	-	-	-	-	-	-	-	-	(347)	-	-	(347)
Total comprehensive loss	-	-	-	-	-	-	-	-	-	-	-	(11,414)
Balance at December 31, 2008	1	$ 832	29	$ 2,875	505	$ 51	$ 13,989	$ (8,267)	$ (305)	121	$ (3,402)	$ 5,773

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

125

Table of Contents

FREEPORT-McMoRan COPPER & GOLD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Basis of Presentation. The consolidated financial statements of Freeport-McMoRan Copper & Gold Inc. (FCX) include the accounts of those subsidiaries where FCX directly or indirectly has more than 50 percent of the voting rights and has the right to control significant management decisions. The most significant entities that FCX consolidates include its 90.64 percent-owned subsidiary PT Freeport Indonesia and its wholly owned subsidiaries, Freeport-McMoRan Corporation (FMC, formerly Phelps Dodge Corporation) and Atlantic Copper, S.A. (Atlantic Copper). FCX acquired Phelps Dodge Corporation (Phelps Dodge) on March 19, 2007. FCX's results of operations include Phelps Dodge's results beginning March 20, 2007 (see Note 18). FCX changed Phelps Dodge's legal name to Freeport-McMoRan Corporation in 2008; therefore, references to FMC and Phelps Dodge in these notes represent the same entity. FCX's unincorporated joint ventures with Rio Tinto plc (Rio Tinto) and Sumitomo Metal Mining Arizona, Inc. (Sumitomo) are reflected using the proportionate consolidation method (see Note 3). All significant intercompany transactions have been eliminated. Dollar amounts in tables are stated in millions, except per share amounts.

Investments in unconsolidated companies owned 20 percent or more are recorded using the equity method. Investments in companies owned less than 20 percent, and for which FCX does not exercise significant influence, are carried at cost.

Use of Estimates. The preparation of FCX's financial statements in conformity with accounting principles generally accepted in the United States (U.S.) requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. The more significant areas requiring the use of management estimates include fair values of assets acquired and liabilities assumed in the acquisition of Phelps Dodge; mineral reserve estimation; useful asset lives for depreciation, depletion and amortization; reclamation and closure costs; environmental obligations; estimates of recoverable copper in mill and leach stockpiles; pension, postretirement, postemployment and other employee benefits; deferred taxes and valuation allowances; reserves for contingencies and litigation; and asset impairment, including estimates used to derive future cash flows associated with those assets. Actual results could differ from those estimates.

Foreign Currencies. For foreign subsidiaries whose functional currency is the local currency, assets and liabilities are translated at current exchange rates, while revenues and expenses are translated at average rates in effect for the period. The related translation gains and losses are included in accumulated other comprehensive income (loss) within stockholders' equity.

For foreign subsidiaries whose functional currency is the U.S. dollar, assets receivable and liabilities payable in cash are translated at current exchange rates, and inventories and other non-monetary assets and liabilities are translated at historical rates. Gains and losses resulting from translation of such account balances are included in operating results, as are gains and losses from foreign currency transactions.

Cash Equivalents. Highly liquid investments purchased with maturities of three months or less are considered cash equivalents.

Inventories. As shown in Note 5, the largest components of inventories include finished goods (primarily concentrates and cathodes) at mining operations, concentrates and work-in-process at Atlantic Copper's smelting and refining operations, and materials and supplies inventories. Inventories of materials and supplies, as well as salable products, are stated at the lower of weighted-average cost or market. Costs of finished goods and work-in-process (i.e., not materials and supplies) inventories include labor and benefits, supplies, energy, depreciation, depletion, amortization, site overhead costs, and other necessary costs associated with the extraction and processing of ore,

including, depending on the process, mining, haulage, milling, concentrating, smelting, leaching, solution extraction, refining, roasting and chemical processing. Corporate general and administrative costs are not included in inventory costs.

Work-in-Process. In-process inventories represent materials that are currently in the process of being converted to a salable product. Conversion processes for mining operations vary depending on the nature of the copper ore and the specific mining operation. For sulfide ores, processing includes milling and concentrating and results in

126

Table of Contents

the production of copper and molybdenum concentrates or, alternatively, copper cathode by concentrate leaching. For oxide ores and certain secondary sulfide ores, processing includes leaching of stockpiles, solution extraction and electrowinning (SX/EW) and results in the production of copper cathodes. In-process material is measured based on assays of the material included in these processes and projected recoveries. In-process inventories are valued based on the costs incurred to various points in the process, including depreciation relating to associated process facilities. For Atlantic Copper, in-process inventories represent copper concentrates at various stages of conversion into anodes and cathodes. Atlantic Copper's in-process inventories are valued at the weighted-average cost of the material fed to the smelting and refining process plus in-process conversion costs.

Finished Goods. Finished goods include salable products (e.g., copper and molybdenum concentrates, copper anodes, copper cathodes, copper rod, copper wire, molybdenum oxide, high-purity molybdenum chemicals and other metallurgical products). Finished goods are valued based on the weighted-average cost of source material plus applicable conversion costs relating to associated process facilities.

Mill and Leach Stockpiles. Mill and leach stockpiles are stated at the lower of weighted-average cost or market.

Both mill and leach stockpiles generally contain lower-grade ores that have been extracted from the ore body and are available for copper recovery. For mill stockpiles, recovery is through milling, concentrating, smelting and refining or, alternatively, by concentrate leaching. For leach stockpiles, recovery is through exposure to acidic solutions that dissolve contained copper and deliver it in solution to extraction processing facilities. The recorded cost of mill and leach stockpiles includes mining and haulage costs incurred to deliver ore to stockpiles, depreciation, depletion, amortization and site overhead costs.

Because it is generally impracticable to determine copper contained in mill and leach stockpiles by physical count, reasonable estimation methods are employed. The quantity of material delivered to mill and leach stockpiles is based on surveyed volumes of mined material and daily production records. Sampling and assaying of blasthole cuttings determine the estimated copper grade of the material delivered to mill and leach stockpiles.

Expected copper recovery rates for mill stockpiles are determined by metallurgical testing. The recoverable copper in mill stockpiles, once entered into the production process, can be produced into copper concentrate almost immediately.

Expected copper recovery rates for leach stockpiles are determined using small-scale laboratory tests, small- to large-scale column testing (which simulates the production-scale process), historical trends and other factors, including mineralogy of the ore and rock type. Ultimate recovery of copper contained in leach stockpiles can vary significantly from a low percentage to more than 90 percent depending on several variables, including type of copper recovery, mineralogy and particle size of the rock. For newly placed material on active stockpiles, as much as 70 percent of the copper ultimately recoverable may be extracted during the first year, and the remaining copper may be recovered over many years.

Processes and recovery rates are monitored regularly, and recovery rate estimates are adjusted periodically as additional information becomes available and as related technology changes.

Property, Plant, Equipment and Development Costs. Property, plant, equipment and development costs are carried at cost. Mineral exploration costs, as well as drilling and other costs incurred for the purpose of converting mineral resources to proven and probable reserves or identifying new mineral resources at development or production stage properties, are charged to expense as incurred. Development costs are capitalized beginning after proven and probable reserves have been established. Development costs include costs incurred resulting from mine pre-production activities undertaken to gain access to proven and probable reserves including shafts, adits, drifts, ramps, permanent

excavations, infrastructure and removal of overburden. Additionally, interest expense allocable to the cost of developing mining properties and to constructing new facilities is capitalized until assets are ready for their intended use.

Expenditures for replacements and improvements are capitalized. Costs related to periodic scheduled maintenance (i.e., turnarounds) are expensed as incurred. Depreciation for mining and milling life-of-mine assets, infrastructure and other common costs is determined using the unit-of-production method based on total estimated recoverable proven and probable copper reserves (for primary copper mines) and proven and probable molybdenum reserves (for the primary molybdenum mine). Development costs and acquisition costs for proven and probable reserves that relate to a specific ore body are depreciated using the unit-of-production method based

127

Table of Contents

on estimated recoverable proven and probable reserves for the ore body benefited. Depreciation, depletion and amortization using the unit-of-production method is recorded upon extraction of the recoverable copper or molybdenum from the ore body, at which time it is allocated to inventory cost and then included as a component of cost of goods sold. Other assets are depreciated on a straight-line basis over estimated useful lives of up to 30 years for buildings, three to 20 years for machinery and equipment, and three to 20 years for mobile equipment.

Included in property, plant, equipment and development costs is value beyond proven and probable reserves (VBPP) resulting from FCX's acquisition of Phelps Dodge. The concept of VBPP is described in Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) Issue No. 04-3, "Mining Assets: Impairment and Business Combinations," and has been interpreted differently by different mining companies. FCX's VBPP is attributable to (i) mineralized material, which includes measured and indicated amounts, that FCX believes could be brought into production with the establishment or modification of required permits and should market conditions and technical assessments warrant, (ii) inferred mineral resources and (iii) exploration potential.

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 minerals. Such a deposit does not qualify as proven and probable reserves until legal and economic feasibility are confirmed based upon a comprehensive evaluation of development costs, unit costs, grades, recoveries and other material factors. Inferred mineral resources are that part of a mineral resource for which the overall tonnages, grades and mineral contents can be estimated with a reasonable level of confidence based on geological evidence and apparent geological and grade continuity after applying economic parameters. An inferred mineral resource has a lower level of confidence than that applying to an indicated mineral resource. Exploration potential is the estimated value of potential mineral deposits that FCX has the legal right to access. The value assigned to exploration potential was determined by interpreting the known exploration information and exploration results, including geological data and/or geological information, that were available as of the acquisition date.

Carrying amounts assigned to VBPP are not charged to expense until the VBPP becomes associated with additional proven and probable reserves and they are produced or the VBPP is determined to be impaired. Additions to proven and probable reserves for properties with VBPP will carry with them the value assigned to VBPP at the date FCX acquired Phelps Dodge, less any impairment amounts.

Goodwill. FCX recorded goodwill as a result of the acquisition of Phelps Dodge. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," goodwill has an indefinite useful life and is not amortized, but rather is tested for impairment at least annually, unless events occur or circumstances change between annual tests that would more likely than not reduce the fair value of a related reporting unit below its carrying amount. FCX uses discounted cash flow models to determine if the carrying value of the reporting unit is less than the fair value of the reporting unit. FCX's annual impairment test in the fourth quarter of 2008 resulted in the full impairment of goodwill (see Note 7 for further discussion).

Intangible Assets and Liabilities. FCX recorded intangible assets and liabilities as a result of the acquisition of Phelps Dodge. Indefinite-lived intangibles primarily include water rights. Definite-lived intangibles include favorable and unfavorable contracts (primarily related to molybdenum sales contracts, treatment and refining contract rates, power contracts and tire contracts), royalty payments, patents and process technology. The fair value of identifiable intangible assets was estimated based principally upon comparable market transactions and discounted future cash flow projections. The ranges for estimated useful lives are one to 10 years for molybdenum sales, treatment and refining, power and tire contracts; one to 12 years for royalty payments; and principally 10 to 20 years for patents and process technology. All indefinite-lived intangible assets are subject to impairment testing at least annually, unless events occur or circumstances change between annual tests that would more likely than not reduce the indefinite-lived intangible asset's fair value below its carrying value.

Asset Impairment. FCX 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. Long-lived assets, other than goodwill and indefinite-lived intangible assets, are evaluated for impairment under the two-step model established by SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." An impairment loss is measured as the amount by which asset carrying value exceeds its fair value. Fair value is generally determined using valuation techniques such as estimated future cash flows. An impairment is considered to exist if total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset.

Table of Contents

In evaluating mining operations' long-lived assets for recoverability, estimates of after-tax undiscounted future cash flows of FCX's individual mining operations are used, with impairment losses measured by reference to fair value. As quoted market prices are unavailable for FCX's individual mining operations, fair value is determined through the use of discounted estimated future cash flows. Estimated cash flows used to assess recoverability of long-lived assets and measure the fair value of FCX's mining operations are derived from current business plans developed using near-term price forecasts reflective of the current price environment and management's projections for long-term average metal prices. Estimates of future cash flows include near and long-term metal price assumptions; estimates of commodity-based and other input costs; proven and probable reserve estimates; and the use of appropriate current escalation and discount rates.

Deferred Mining Costs. In accordance with EITF Issue No. 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry" (EITF 04-6), stripping costs (i.e., the costs of removing overburden and waste material to access mineral deposits) incurred during the production phase of a mine are considered variable production costs and are included as a component of inventory produced during the period in which stripping costs are incurred. Major development expenditures, including stripping costs to prepare unique and identifiable areas outside the current mining area for future production that are considered to be pre-production mine development, are capitalized and amortized on the unit-of-production method based on estimated recoverable proven and probable reserves for the ore body benefited. However, where a second or subsequent pit or major expansion is considered to be a continuation of existing mining activities, stripping costs are accounted for as current production cost and a component of the associated inventory.

Prior to the adoption of EITF 04-6, FCX applied the deferred mining cost method in accounting for its post-production stripping costs, which FCX referred to as overburden removal costs. The deferred mining cost method was used by some companies in the metals mining industry; however, industry practice varied. The deferred mining cost method matched the cost of production with the sale of the related metal from the open pit by assigning each metric ton of ore removed an equivalent amount of overburden tonnage, thereby averaging overburden removal costs over the life of the mine. The mining cost capitalized in inventory and the amounts charged to cost of goods sold did not represent the actual costs incurred to mine the ore in any given period. Upon adoption of EITF 04-6 on January 1, 2006, FCX recorded a cumulative effect adjustment ($149 million) to reduce beginning retained earnings for its deferred mining costs asset ($285 million) as of December 31, 2005, net of taxes, minority interest share and inventory effects ($136 million).

Environmental Expenditures. Environmental expenditures are expensed or capitalized, depending upon their future economic benefits. Liabilities for such expenditures are recorded when it is probable that obligations have been incurred and the costs can be reasonably estimated. For closed facilities and closed portions of operating facilities with environmental obligations, an environmental obligation is accrued when a decision to close a facility, or a portion of a facility, is made by management and the environmental obligation is considered to be probable. Environmental obligations attributed to the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) or analogous state programs are considered probable when a claim is asserted, or is probable of assertion, and FCX, or any of its subsidiaries, have been associated with the site. Other environmental remediation obligations are considered probable based on specific facts and circumstances. FCX's estimates of these costs are based on an evaluation of various factors, including currently available facts, existing technology, presently enacted laws and regulations, remediation experience, whether or not FCX is a potentially responsible party (PRP) and the ability of other PRPs to pay their allocated portions. With the exception of those obligations assumed in the acquisition of Phelps Dodge that were recorded at estimated fair values (see Note 15), environmental obligations are recorded on an undiscounted basis. Where the available information is sufficient to estimate the amount of liability, that estimate has been used. Where the information is only sufficient to establish a range of probable liability and no point within the range is more likely than any other, the lower end of the range has been used. Possible recoveries of some of these costs from other parties are not recognized in the consolidated financial statements until they become probable. Legal costs associated with

environmental remediation, as defined in American Institute of Certified Public Accountants Statement of Position (SOP) 96-1, "Environmental Remediation Liabilities," are included as part of the estimated liability.

Asset Retirement Obligations. In accordance with SFAS No. 143, "Accounting for Asset Retirement Obligations," FCX records the fair value of estimated asset retirement obligations (AROs) associated with tangible long-lived assets in the period incurred. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which there is a legal obligation to settle under existing or enacted law, statute, written or oral contract or by legal construction. These liabilities, which are initially estimated based on discounted cash flow estimates, are accreted to full value over time through charges to income. In addition, asset

129

Table of Contents

retirement costs (ARCs) are capitalized as part of the related asset's carrying value and are depreciated (primarily on a unit-of-production basis) over the asset's respective useful life. Reclamation costs for future disturbances are recognized as an ARO and as a related ARC in the period of the disturbance. FCX's AROs consist primarily of costs associated with mine reclamation and closure activities. These activities, which are site specific, generally include costs for earthwork, revegetation, water treatment and demolition (see Note 15).

Income Taxes. FCX accounts for income taxes pursuant to SFAS No. 109, "Accounting for Income Taxes." Deferred income taxes are provided to reflect the future tax consequences of differences between the tax basis of assets and liabilities and their reported amounts in the financial statements (see Note 14). A valuation allowance is provided for those deferred tax assets for which it is more likely than not that the related benefits will not be realized. The effect on deferred income tax assets and liabilities of a change in tax rates and laws is recognized in income in the period in which such changes are enacted.

On January 1, 2007, FCX adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" (FIN 48), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Upon adoption of FIN 48, FCX recorded a cumulative effect adjustment of $4 million to increase beginning retained earnings. Following adoption of FIN 48, for amounts accrued for unrecognized tax benefits, FCX includes accrued interest in interest expense and accrued penalties in other income and expenses rather than in its provision for income taxes. FCX had previously included interest and penalties in its provision for income taxes.

Derivative Instruments. FCX and its subsidiaries have entered into derivative contracts to manage certain risks resulting from fluctuations in commodity prices (primarily copper and gold), foreign currency exchange rates and interest rates by creating offsetting market exposures. FCX accounts for derivatives pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as subsequently amended, established accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the resulting designation. See Note 17 for a summary of FCX's outstanding derivative instruments at December 31, 2008, and a discussion of FCX's risk management strategies for those designated as hedges.

FCX elected to continue its historical accounting for its mandatorily redeemable preferred stock indexed to commodities under the provisions of SFAS No. 133, which allow such instruments issued before January 1, 1998, to be excluded from those instruments required to be adjusted for changes in their fair values. Mandatorily redeemable preferred stock indexed to commodities was treated as a hedge of future production and was carried at its original issue value. As redemption payments occurred, differences between the carrying value and the payments were recorded as adjustments to revenues. In 2006, FCX made the final redemptions of its preferred stock indexed to commodities. Under SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," FCX classified its mandatorily redeemable preferred stock as debt. Dividend payments on FCX's mandatorily redeemable preferred stock were classified as interest expense (see Notes 11 and 17).

Revenue Recognition. FCX sells its products pursuant to sales contracts entered into with its customers. Revenue for all FCX's products is recognized when title and risk of loss pass to the customer and when collectibility is reasonably assured. The passing of title and risk of loss to the customer is based on terms of the sales contract, generally upon shipment or delivery of product.

Revenues from FCX's concentrate and cathodes sales are recorded based on either 100 percent of a provisional sales price or a final sales price calculated in accordance with the terms specified in the relevant sales contract. Revenues from concentrate sales are recorded net of treatment and all refining charges (including price participation, if applicable, as discussed below) and the impact of derivative contracts, including the impact of redemptions of FCX's mandatorily redeemable preferred stock indexed to commodities and the copper collars acquired from Phelps Dodge (see Notes 11 and 17). Moreover, because a portion of the metals contained in copper concentrates is unrecoverable as a result of the smelting process, FCX's revenues from concentrate sales are also recorded net of allowances based on the quantity and value of these unrecoverable metals. These allowances are a negotiated term of FCX's contracts and vary by customer. Treatment and refining charges

130

Table of Contents

represent payments or price adjustments to smelters and refiners and are either fixed or, in certain cases, vary with the price of copper (referred to as price participation).

Under the long-established structure of sales agreements prevalent in the industry, copper contained in concentrates and cathodes is generally provisionally priced at the time of shipment. The provisional prices are finalized in a specified future period (generally one to four months from the shipment date) based on the quoted London Metal Exchange (LME) or the New York Mercantile Exchange (COMEX) prices. FCX receives market prices based on prices in the specified future period, and, under SFAS No. 133, these sales result in changes recorded to revenues until the specified future period. FCX records revenues and invoices customers at the time of shipment based on then-current LME or COMEX prices, which results in an embedded derivative (i.e., a pricing mechanism that is finalized after the time of delivery) that is required to be bifurcated from the host contract. The host contract is the sale of the metals contained in the concentrates or cathodes at the then-current LME or COMEX price. FCX applies the normal purchase and sale exception allowed by SFAS No. 133 to the host contract in its concentrate or cathode sales agreements because the sales agreements do not allow for net settlement and always result in physical delivery. Under SFAS No. 133, as amended, the embedded derivative does not qualify for hedge accounting. At December 31, 2008, revenues based on provisional sales prices totaled $768 million. At December 31, 2008, FCX had outstanding provisionally priced sales of 508 million pounds of copper (net of minority interests), priced at an average of $1.39 per pound, subject to final pricing. Final prices on these sales will be established over the first several months of 2009 pursuant to terms of sales contracts.

Gold sales are priced according to individual contract terms, generally the average London Bullion Market Association price for a specified month near the month of shipment.

Approximately 85 percent of FCX's 2008 molybdenum sales were priced based on prices published in Platts Metals Week, Ryan's Notes or Metal Bulletin, plus conversion premiums for products that undergo additional processing, such as ferromolybdenum and molybdenum chemical products. The majority of these sales use the average of the previous month. FCX's remaining molybdenum sales generally have pricing that is either based on a fixed price or adjusts within certain price ranges.

PT Freeport Indonesia concentrate sales are subject to certain royalties, which are recorded as a reduction to revenues (see Note 16 for further discussion).

Stock-Based Compensation. As of December 31, 2008, FCX has five stock-based employee compensation plans and one stock-based director compensation plan. Prior to 2007, the market price for stock options was defined as the average of the high and low price of FCX common stock on the date of grant. Effective January 2007, the plans were amended to define the market price for future grants as the closing price of FCX common stock on the date of grant.

Effective January 1, 2006, FCX adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R), using the modified prospective transition method. Under that transition method, compensation costs recognized in the consolidated statements of operations include: (i) 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, "Accounting for Stock-Based Compensation," and (ii) 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. In addition, for other stock-based awards under the plans, compensation costs are recognized based on the fair value on the date of grant for restricted stock units and the intrinsic value on the reporting or exercise date for cash-settled stock appreciation rights (SARs). FCX has elected to recognize compensation costs for stock option awards that vest over several years on a straight-line basis over the vesting period. FCX's stock option awards provide for employees to receive the next year's vesting after an employee retires. For awards granted after January 1, 2006, FCX accelerates

one year of amortization for retirement-eligible employees. Certain restricted stock units are performance-based awards with accelerated vesting upon retirement. Therefore, in accordance with SFAS No. 123R, FCX recognizes compensation costs for restricted stock units granted to retirement-eligible employees in the period during which the employee performs the service related to the grant. The services may be performed in the calendar year preceding the date of grant. FCX includes estimated forfeitures in its compensation costs and updates the estimated forfeiture rate through the final vesting date of the awards.

131

Table of Contents

Earnings Per Share. FCX's basic net (loss) income per share of common stock was calculated by dividing net (loss) income applicable to common stock by the weighted-average number of common shares outstanding during the year. The following is a reconciliation of net (loss) income and weighted-average common shares outstanding for purposes of calculating diluted net (loss) income per share for the years ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
(Loss) income from continuing operations	$ (11,067)	$ 2,942	$ 1,457
Preferred dividends and losses on induced conversions	(274)	(208)	(61)
(Loss) income from continuing operations applicable to common stock	(11,341)	2,734	1,396
Plus income impact of assumed conversion of:			
6¾% Mandatory Convertible Preferred Stock	–	147	–
5½% Convertible Perpetual Preferred Stock	–	61	61
7% Convertible Senior Notes	–	–	12
Diluted net (loss) income from continuing operations applicable to common stock	(11,341)	2,942	1,469
Income from discontinued operations	–	35	–
Diluted net (loss) income applicable to common shares	$ (11,341)	$ 2,977	$ 1,469

	2008	2007	2006
Weighted-average common shares outstanding	382	341	191
Add shares issuable upon conversion, exercise or vesting of:			
6¾% Mandatory Convertible Preferred Stock (see Note 13)	–a	30	–
5½% Convertible Perpetual Preferred Stock (see Note 13)	–b	23	22
7% Convertible Senior Notes (see Note 11)	–	–	7
Dilutive stock options (see Note 13)	–c	2	1
Restricted stock (see Note 13)	–d	1	–
Weighted-average common shares outstanding for purposes of calculating diluted net (loss) income per share	382	397	221
Diluted net (loss) income per share of common stock:			
Continuing operations	$ (29.72)	$ 7.41	$ 6.63
Discontinued operations	–	0.09	–
Diluted net (loss) income per share of common stock	$ (29.72)	$ 7.50	$ 6.63

a. Conversion of preferred shares to common stock of approximately 39 million was anti-dilutive.
b. Conversion of preferred shares to common stock of approximately 23 million was anti-dilutive.
c. Potential additional shares of common stock of approximately 2 million were anti-dilutive.
d. Potential additional shares of common stock of approximately 1 million were anti-dilutive.

FCX's convertible instruments are excluded from the computation of diluted net (loss) income per share of common stock when including the conversion of these instruments results in an anti-dilutive effect on earnings per share (see footnotes a and b in the table above). Outstanding stock options with exercise prices greater than the average market price of FCX's common stock during the period are excluded from the computation of diluted net (loss) income per

share of common stock. There were approximately two million stock options with a weighted-average exercise price of $69.89 excluded in 2008, none in 2007 and approximately one million stock options with a weighted-average exercise price of $63.77 in 2006.

New Accounting Standards. Fair Value Measurements. In September 2006, FASB issued SFAS No. 157, “Fair Value Measurements,” which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 does not require any new fair value measurements under U.S. generally accepted accounting principles (GAAP); rather this statement establishes a common definition of fair value, provides a framework for measuring fair value under U.S. GAAP and expands disclosure requirements about fair value measurements. In February 2008, FASB issued FASB Staff Position (FSP) No. FAS 157-2, which delays the effective date of SFAS No. 157 for nonfinancial assets or liabilities that are not required or permitted to be measured at fair value on a recurring basis to fiscal years beginning after November 15, 2008, and interim periods within those years. FCX adopted SFAS No. 157 for financial assets and liabilities recognized at fair value on a recurring basis effective

132

Table of Contents

January 1, 2008. This partial adoption of SFAS No. 157 did not have a material impact on our financial reporting and disclosures as FCX's financial assets are measured using quoted market prices, or Level 1 inputs. FCX is currently evaluating the impact that the adoption of SFAS No. 157 will have on its financial reporting for nonfinancial assets or liabilities not valued on a recurring basis (at least annually).

Fair Value Option for Financial Assets and Liabilities. In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Liabilities – Including an amendment of FASB No. 115," which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. FCX adopted SFAS No. 159 effective January 1, 2008, and FCX did not measure any additional financial instruments at fair value that are not required to be measured at fair value.

Business Combinations. In December 2007, FASB issued SFAS No. 141 (revised 2007), "Business Combinations" (SFAS No. 141R). Under SFAS No. 141R, all business combinations will be accounted for under the acquisition method, and the new standard makes certain other changes to the accounting for business combinations, of which the most significant are as follows: (i) whether all or a partial interest is acquired, the acquirer will recognize the full value of assets acquired, liabilities assumed and noncontrolling interests; (ii) direct costs of a business combination will be charged to expense if they are not associated with issuing debt or equity securities; (iii) any contingent consideration will be recognized and measured at fair value on the acquisition date, with subsequent changes to the fair value recognized in earnings; and (iv) equity issued in consideration for a business combination will be measured at fair value as of the acquisition date. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after fiscal years beginning after December 15, 2008. Early adoption is prohibited.

Noncontrolling Interests in Consolidated Financial Statements. In December 2007, FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51," which clarifies that noncontrolling interests (minority interests) are to be treated as a separate component of equity and any changes in the ownership interest (in which control is retained) are to be accounted for as capital transactions. However, a change in ownership of a consolidated subsidiary that results in a loss of control is considered a significant event that triggers gain or loss recognition, with the establishment of a new fair value basis in any remaining ownership interests. SFAS No. 160 also provides additional disclosure requirements for each reporting period. SFAS No. 160 applies to fiscal years beginning on or after December 15, 2008, with early adoption prohibited. This statement is required to be adopted prospectively, except for the following provisions, which are expected to be applied retrospectively: (i) the reclassification of noncontrolling interests to equity in the consolidated balance sheets and (ii) the adjustment to consolidated net income to include net income attributable to both the controlling and noncontrolling interests.

Disclosures about Derivative Instruments and Hedging Activities. In March 2008, FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133." SFAS No. 161 amends the disclosure requirements for derivative instruments and hedging activities contained in SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Under SFAS No. 161, entities are required to provide enhanced disclosures about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and related interpretations and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS No. 161 encourages, but does not require disclosure for earlier periods presented for comparative purposes at initial adoption. FCX adopted SFAS No. 161 for the year ended December 31, 2008.

The Hierarchy of Generally Accepted Accounting Principles. In May 2008, FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles," which identifies the sources of accounting and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. SFAS No. 162 was effective November 15, 2008, and

adoption did not result in a change in FCX's accounting practices.

Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion. In May 2008, FASB issued FSP No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)," which will change the accounting treatment for convertible debt securities that the issuer may settle fully or partially in cash. FSP No. APB 14-1 requires bifurcation of convertible debt instruments into a debt component that is initially recorded at fair value and an equity component that

133

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represents the difference between the initial proceeds from issuance of the instrument and the fair value allocated to the debt component. The debt component is subsequently accreted (as a component of interest expense) to par value over its expected life. FSP No. APB 14-1 is effective for fiscal years and interim periods beginning after December 15, 2008, and must be retrospectively applied to all prior periods presented, even if an instrument has matured, converted, or otherwise been extinguished as of the FSP's effective date. FCX will adopt FSP No. APB 14-1 on January 1, 2009, and will be required to retrospectively apply its provisions to its 7% Convertible Senior Notes. FCX is currently evaluating the impact that the adoption of FSP No. APB 14-1 will have on its consolidated financial statements.

Determining the Fair Value of a Financial Asset when the Market for That Asset is Not Active. In October 2008, FASB issued FSP No. FAS 157-3, "Determining the Fair Value of a Financial Asset when the Market for That Asset is Not Active," which clarifies the application of SFAS No. 157 in a market that is not active and provides key considerations in determining the fair value of the financial asset. FSP FAS 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate. The adoption of FSP No. FAS 157-3 did not have a material impact on FCX's financial reporting and disclosures.

Employers' Disclosures about Postretirement Benefit Plan Assets. In December 2008, FASB issued FSP No. FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets," which provides enhanced guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP FAS 132(R)-1 revises disclosure requirements on pension and postretirement plan assets from those required in the original SFAS No. 132 after the FASB decided disclosures about fair value measurements for postretirement plan assets were not within the scope of SFAS No. 157. The disclosures about plan assets required by FSP FAS 132(R)-1 are effective for fiscal years ending after December 15, 2009, with early application permitted. Upon initial application, disclosures are not required for earlier periods that are presented for comparative purposes. FCX is currently evaluating the impact that the adoption of FSP No. FAS 132(R)-1 will have on its financial disclosures.

Reclassifications. For comparative purposes, primarily the revision to FCX's presentation of its business segments, certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2. ASSET IMPAIRMENTS AND OTHER CHARGES

The following table summarizes long-lived asset impairments, other than goodwill, and other charges recorded during the year ended December 31, 2008 (see Note 19 for long-lived asset impairments and other charges by FCX's reportable segments):

Long-lived asset impairments	$ 10,867
Pension and postretirement special benefits and curtailments	61
Restructuring costs	50
Total long-lived asset impairments and other charges	$ 10,978

During the fourth quarter of 2008, there was a dramatic decline in copper and molybdenum prices. After averaging $3.05 per pound in 2006, $3.23 per pound in 2007 and $3.61 per pound for the first nine months of 2008, LME spot copper prices declined to a four-year low of $1.26 per pound in December 2008 and averaged $1.78 per pound in the fourth quarter of 2008 and closed at $1.32 per pound on December 31, 2008. Additionally, while molybdenum markets have been strong in recent years with prices averaging approximately $25 per pound in 2006, $30 per pound in 2007 and $33 per pound for the first nine months of 2008, molybdenum prices declined significantly to a four-year low of $8.75 per pound in November 2008 and averaged approximately $16 per pound in the fourth quarter of 2008 and closed at $9.50 per pound on December 31, 2008.

Although FCX's long-term strategy of developing its resources to their full potential remains in place, the decline in copper and molybdenum prices and the deterioration of the economic and credit environment during the fourth quarter of 2008 have limited FCX's ability to invest in growth projects and required FCX to make adjustments to its near-term plans. FCX responded to the sudden downturn and uncertain near-term outlook by revising its near-term strategy to protect liquidity while preserving its mineral resources and growth options for the longer term. Accordingly, operating plans were revised to reflect: (i) curtailment of copper production at high-cost North America operations and of molybdenum production at the Henderson molybdenum mine; (ii) capital cost reductions; (iii) aggressive cost control, including workforce reductions, reduced equipment purchases that were

134

Table of Contents

planned to support expansion projects, a reduction in material and supplies inventory and reductions in exploration, research and administrative costs; and (iv) suspension of FCX's annual common stock dividend.

In connection with these significant adverse changes during the fourth quarter of 2008, FCX evaluated its long-lived assets, other than goodwill and indefinite-lived intangible assets, for impairment as of December 31, 2008. Goodwill and indefinite-lived intangible assets are evaluated for impairment annually as of December 31.

FCX's asset impairment evaluations, including its annual goodwill impairment test, required FCX to make several assumptions in determining estimates of future cash flows to determine fair value of its individual mining operations, including: near and long-term metal price assumptions; estimates of commodity-based and other input costs; proven and probable reserve estimates, including any costs to develop the reserves and the timing of producing the reserves; and the use of appropriate current escalation and discount rates. Projected long-term average metal prices represented the most significant assumption used in the cash flow estimates. In connection with the March 2007 acquisition of Phelps Dodge, FCX allocated the $25.8 billion purchase price to the estimated fair values of net assets acquired, including $6.2 billion for goodwill. Metal price projections used to value the net assets acquired at the acquisition date ranged from near-term prices of $2.98 per pound for copper declining over an eight-year period to $1.20 per pound and $26.20 per pound for molybdenum declining over a five-year period to $8.00 per pound, reflecting price expectations at that time. FCX's impairment evaluations at December 31, 2008, were based on price assumptions reflecting prevailing copper futures prices for three years, which ranged from approximately $1.40 per pound to $1.50 per pound, and a long-term average price of $1.60 per pound. Molybdenum prices were assumed to average $8.00 per pound.

FCX's evaluation of long-lived assets (other than goodwill) for impairment resulted in the recognition of asset impairment charges totaling $10.9 billion ($6.6 billion to net loss or $17.34 per diluted share) for 2008. See Note 7 for discussion of impairment charges relating to goodwill.

Other charges relating to FCX's revised operating plans in the fourth quarter of 2008 include pension and postretirement charges of $61 million ($37 million to net loss or $0.10 per diluted share) for special retirement benefits and curtailments and restructuring charges of $50 million ($30 million to net loss or $0.08 per diluted share) for employee severance and benefit costs, contract termination costs and other project cancellation costs. The restructuring charge reflects workforce reductions of approximately 3,000 employees and other charges resulting from revised operating plans that reflect a 25 percent reduction in mining and crushed-leach rates at the Morenci mine in Arizona, a 50 percent reduction in mining and stacking rates at the Safford mine in Arizona, a 50 percent reduction in the mining rate at the Tyrone mine in New Mexico, suspension of mining and milling activities at the Chino mine in New Mexico, and a 25 percent reduction in annual production at the Henderson molybdenum mine in Colorado. In addition, the revised operating plans included decisions to defer certain capital projects, including the (i) incremental expansion projects at the Sierrita and Bagdad mines in Arizona, the Cerro Verde mine in Peru and the sulfide project at the El Abra mine in Chile, (ii) the planned restart of the Miami mine in Arizona and (iii) the suspension of construction activities associated with the restart of the Climax molybdenum mine in Colorado. In the first quarter of 2009, Morenci's operating plans were revised to reflect an additional reduction in mining and crushed-leach rates for a total 50 percent reduction.

Table of Contents

The following table reflects 2008 activities associated with the liabilities (included in accounts payable and accrued liabilities) incurred in connection with the restructuring:

	2008 Additions	Payments	December 31, 2008
North America Copper Mines			
Morenci			
Employee severance and benefit costs	$ 3	$ (1)	$ 2
Sierrita			
Contract cancellation and other costs	2	(2)	–
Other mines			
Employee severance and benefit costs	12	–	12
Contract cancellation and other costs	6	(5)	1
	23	(8)	15
South America Copper Mines			
Cerro Verde			
Contract cancellation and other costs	1	–	1
Other mines			
Employee severance and benefit costs	6	–	6
	7	–	7
Africa			
Employee severance and benefit costs	2	–	2
Molybdenum			
Employee severance and benefit costs	1	–	1
Contract cancellation and other costs	3	(3)	–
	4	(3)	1
Rod & Refining			
Employee severance and benefit costs	4	–	4
Corporate & Other			
Employee severance and benefit costs	7	(1)	6
Contract cancellation and other costs	3	–	3
	10	(1)	9
Total	$ 50	$ (12)	$ 38

NOTE 3. OWNERSHIP IN SUBSIDIARIES, JOINT VENTURES AND INVESTMENT IN PT SMELTING

Ownership in Subsidiaries. On March 19, 2007, FMC became a wholly owned subsidiary of FCX. FMC is a fully integrated producer of copper and molybdenum, with mines in North America and South America, copper and molybdenum conversion facilities, and several development projects, including Tenke Fungurume in the Democratic Republic of Congo (DRC). At December 31, 2008, FMC's major operating copper mines in North America were Morenci, Sierrita, Bagdad and Safford located in Arizona, and Tyrone located in New Mexico. FCX has an 85 percent interest in Morenci (see "Joint Ventures – Sumitomo") and owns 100 percent of the other North America mines. At December 31, 2008, operating copper mines in South America were Cerro Verde (53.56 percent owned) located in

Peru and Candelaria (80 percent owned), Ojos del Salado (80 percent owned) and El Abra (51 percent owned) located in Chile. FMC also owns the Henderson and Climax molybdenum mines located in Colorado. The Henderson mine is currently operating, while the Climax mine is on care-and-maintenance status. In addition to copper and molybdenum, certain mines produce other minerals as by-products, such as gold, silver and rhenium. At December 31, 2008, FMC's net assets totaled $9.4 billion and its accumulated deficit totaled $16.1 billion. As of December 31, 2008, FCX had a $137 million loan outstanding to FMC.

FCX owns an effective 57.75 percent interest (through its ownership in FMC) in Tenke Fungurume Mining, S.A.R.L. (Tenke Fungurume), a company incorporated under the laws of the DRC. The remaining ownership interests are held by Tenke Mining Corp. (TMC), which is owned by Lundin Mining Corporation (an effective 24.75 percent) and La Générale des Carrières et des Mines (Gécamines), which is wholly owned by the Government of the DRC (17.5 percent). FCX is responsible for funding 70 percent of project development costs and is also responsible for certain cost overruns on the initial project. Gécamines has an undilutable carried interest and is not

136

Table of Contents

responsible for funding any project costs. In accordance with the terms of the agreement, Gécamines will receive asset transfer payments totaling $100 million, $70 million of which has already been paid and the remainder of which will be paid over a period of approximately three years. Tenke Fungurume will produce copper and cobalt and is expected to commence mining operations during the second half of 2009.

FCX's direct ownership in PT Freeport Indonesia totals 81.28 percent. PT Indocopper Investama, an Indonesian company, owns 9.36 percent of PT Freeport Indonesia and FCX owns 100 percent of PT Indocopper Investama. At December 31, 2008, PT Freeport Indonesia's net assets totaled $2.3 billion and its retained earnings totaled $2.1 billion. As of December 31, 2008, FCX had no outstanding loans to PT Freeport Indonesia.

FCX owns 100 percent of the outstanding Atlantic Copper common stock. At December 31, 2008, Atlantic Copper's net assets totaled $155 million and its accumulated deficit totaled $235 million. FCX had a $130 million loan outstanding to Atlantic Copper, and Atlantic Copper's debt under financing arrangements that are guaranteed by FCX totaled $82 million at December 31, 2008.

In 2003, FCX acquired the 85.71 percent ownership interest in PT Puncakjaya Power (Puncakjaya Power) owned by affiliates of Duke Energy Corporation for $68 million cash, net of $10 million of cash acquired. Puncakjaya Power is the owner of assets supplying power to PT Freeport Indonesia's operations, including the 3x65 megawatt coal-fired power facilities. PT Freeport Indonesia purchases power from Puncakjaya Power under infrastructure asset financing arrangements. In 2005, FCX prepaid $187 million of bank debt associated with Puncakjaya Power's operations. At December 31, 2008, FCX had a $37 million loan outstanding to Puncakjaya Power, PT Freeport Indonesia had infrastructure asset financing obligations payable to Puncakjaya Power totaling $132 million and Puncakjaya Power had a receivable from PT Freeport Indonesia for $172 million, including Rio Tinto's share. FCX consolidates PT Freeport Indonesia and Puncakjaya Power. FCX's consolidated balance sheets reflect receivables of $37 million ($10 million in other accounts receivable and $27 million in long-term assets) at December 31, 2008, and $46 million ($9 million in other accounts receivable and $37 million in long-term assets) at December 31, 2007, for Rio Tinto's share of Puncakjaya Power's receivable as provided for in FCX's joint venture agreement with Rio Tinto.

Joint Ventures. FCX has the following unincorporated joint ventures with third parties.

Rio Tinto. In 2004, FCX purchased Rio Tinto's 23.9 million shares of FCX common stock for $882 million (approximately $36.85 per share) with a portion of the proceeds from the sale of the 5½% Convertible Perpetual Preferred Stock (see Note 13). Rio Tinto acquired these shares from FCX's former parent company in 1995 in connection with the spin-off of FCX as an independent company. FCX and Rio Tinto have established certain unincorporated joint ventures that were not impacted by FCX's purchase of its shares from Rio Tinto. Under the joint venture arrangements, Rio Tinto has a 40 percent interest in PT Freeport Indonesia's Contract of Work and the option to participate in 40 percent of any other future exploration projects in Papua, Indonesia.

Pursuant to the joint venture agreement, Rio Tinto has a 40 percent interest in certain assets and future production exceeding specified annual amounts of copper, gold and silver through 2021 in Block A of PT Freeport Indonesia's Contract of Work, and, after 2021, a 40 percent interest in all production from Block A. All of PT Freeport Indonesia's proven and probable reserves and its mining operations are located in the Block A area. Operating, nonexpansion capital and administrative costs are shared proportionately between PT Freeport Indonesia and Rio Tinto based on the ratio of (i) the incremental revenues from production from PT Freeport Indonesia's most recent expansion completed in 1998 to (ii) total revenues from production from Block A, including production from PT Freeport Indonesia's previously existing reserves. PT Freeport Indonesia will continue to receive 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 amounts of copper, gold and silver attributable 100 percent to PT Freeport Indonesia 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 partially 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

137

Table of Contents

110 million recoverable pounds for copper and 102,000 recoverable ounces for gold in 2021. The payable to Rio Tinto for its share of joint venture cash flows was less than $1 million at December 31, 2008, and $68 million at December 31, 2007.

Under the joint venture arrangements, Rio Tinto funded $100 million in 1996 for approved exploration costs in the areas covered by Contracts of Work held by FCX subsidiaries. Agreed-upon exploration costs in the joint venture areas are shared 60 percent by FCX and 40 percent by Rio Tinto. In September 2008, Rio Tinto notified FCX that it no longer planned to participate in exploration joint ventures in the PT Nabire Bakti Mining and PT Irja Eastern Minerals Contract of Work areas in Indonesia for the remainder of 2008. As a result, as long as Rio Tinto continues not to fund these exploration projects, FCX has the option to fund 100 percent of future exploration costs in these areas and Rio Tinto's interest in these areas will decline over time in accordance with the joint venture agreement. Rio Tinto has the option to resume participation in PT Irja Eastern Minerals on a monthly basis and in PT Nabire Bakti Mining on an annual basis. Rio Tinto continues to participate in exploration joint ventures in PT Freeport Indonesia's Contract of Work areas.

Sumitomo. FCX owns an 85 percent undivided interest in Morenci via an unincorporated joint venture. The remaining 15 percent is owned by Sumitomo, a jointly owned subsidiary of Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation. Each partner takes in kind its share of Morenci’s production. FMC purchased 90 million pounds of Morenci’s copper cathode from Sumitomo for $281 million during 2008 and 87 million pounds for $299 million during the period March 20, 2007 to December 31, 2007. FCX had a $2 million net receivable from Sumitomo at December 31, 2008, and a $10 million net payable at December 31, 2007.

Investment in PT Smelting. PT Smelting, an Indonesian company, operates a smelter/refinery in Gresik, Indonesia. During 2006, PT Smelting completed an expansion of its production capacity to 275,000 metric tons of copper per year from 250,000 metric tons. PT Freeport Indonesia, Mitsubishi Materials Corporation (Mitsubishi Materials), Mitsubishi Corporation (Mitsubishi) and Nippon Mining & Metals Co., Ltd. (Nippon) own 25 percent, 60.5 percent, 9.5 percent, and 5 percent, respectively, of the outstanding PT Smelting common stock.

PT Freeport Indonesia’s contract with PT Smelting provides for the supply of 100 percent of the copper concentrate requirements necessary for PT Smelting to produce 205,000 metric tons of copper annually (essentially the smelter’s original design capacity) on a priority basis. For the first 15 years of PT Smelting’s commercial operations, beginning December 1998, PT Freeport Indonesia agreed that the combined treatment and refining charges (fees paid to smelters by miners) would approximate market rates, but will not fall below specified minimum rates. The minimum rate, applicable to the period April 27, 2008 to April 27, 2014, is to be determined annually and be sufficient to cover PT Smelting’s annual cash operating costs (net of credits and including costs of debt service) for 205,000 metric tons of copper. The maximum rate is $0.30 per pound. The agreement is an amendment to the long-term sales contract, which is pending approval from the Department of Energy and Mineral Resources of the Government of Indonesia. PT Freeport Indonesia also sells copper concentrate to PT Smelting at market rates, which are not subject to a minimum or maximum rate, for quantities in excess of 205,000 metric tons of copper annually.

FCX’s investment in PT Smelting totaled $99 million at December 31, 2008, and $71 million at December 31, 2007. PT Smelting had project-specific debt, nonrecourse to PT Freeport Indonesia, totaling $240 million at December 31, 2008, and $219 million at December 31, 2007. PT Freeport Indonesia had a trade receivable from PT Smelting totaling $37 million at December 31, 2008, and $91 million at December 31, 2007.

NOTE 4. DISCONTINUED OPERATIONS

On October 31, 2007, FCX sold its international wire and cable business, Phelps Dodge International Corporation (PDIC), for $735 million, which resulted in a net loss of $14 million ($9 million to net income) for transaction-related costs. The transaction generated after-tax proceeds of approximately $650 million (net proceeds of $597 million after

taxes, transaction-related costs and PDIC cash).

138

Table of Contents

As a result of the sale, the operating results of PDIC have been removed from continuing operations and reported as discontinued operations in the consolidated statements of operations. Selected financial information that has been reported as discontinued operations for the period March 20, 2007, through December 31, 2007, follows:

Revenues	$	937
Operating income		78
Provision for income taxes		(24)
Income from discontinued operations		35

Cash flows from discontinued operations for the year ended December 31, 2007, have not been separately identified in the consolidated statements of cash flows.

NOTE 5. INVENTORIES, AND MILL AND LEACH STOCKPILES

The components of inventories follow:

	December 31,			
	2008		2007	
Mining Operations:				
Raw materials	$	1	$	1
Work-in-process		128		71
Finished goodsa		703		898
Atlantic Copper:				
Raw materials (concentrates)		164		164
Work-in-process		71		220
Finished goods		1		6
Total product inventories		1,068		1,360
Total materials and supplies, netb		1,124		818
Total inventories	$	2,192	$	2,178

a. Primarily includes copper concentrates, anodes, cathodes and rod, and molybdenum.

b. Materials and supplies inventory is net of obsolescence reserves totaling $22 million at December 31, 2008, and $16 million at December 31, 2007.

The following summarizes mill and leach stockpiles as of December 31, 2008:

	North America		South America		Africa		Total	
Current:								
Mill stockpiles	$	–	$	10	$	–	$	10
Leach stockpiles		489		72		–		561
Total current mill and leach stockpiles	$	489	$	82	$	–	$	571
Long-terma:								
Mill stockpiles	$	2	$	335	$	3	$	340
Leach stockpiles		625		180		–		805
Total long-term mill and leach								

stockpiles	$	627	$	515	$	3	$	1,145

a. Materials in stockpiles not expected to be recovered within the next 12 months.

139

Table of Contents

The following summarizes mill and leach stockpiles as of December 31, 2007:

	North America	South America	Total
Current:			
Mill stockpiles	$ –	$ 6	$ 6
Leach stockpiles	630	71	701
Total current mill and leach stockpiles	$ 630	$ 77	$ 707
Long-terma:			
Mill stockpiles	$ –	$ 248	$ 248
Leach stockpiles	685	173	858
Total long-term mill and leach stockpiles	$ 685	$ 421	$ 1,106

a. Materials in stockpiles not expected to be recovered within the next 12 months.

In connection with the March 2007 acquisition of Phelps Dodge, acquired inventories, including mill and leach stockpiles, were recorded at fair value using near-term price forecasts reflecting the then-current price environment and management's projections for long-term average metal prices. As a result of the declines in copper and molybdenum prices in the fourth quarter of 2008 and the impact of higher operating costs on inventory balances during 2008, FCX recorded charges of $782 million ($479 million to net loss or $1.26 per diluted share) for lower of cost or market (LCM) inventory adjustments.

NOTE 6. PROPERTY, PLANT, EQUIPMENT AND DEVELOPMENT COSTS, NET

The components of net property, plant, equipment and development costs, along with 2008 impairment charges, follow:

	December 31, 2008	December 31, 2007	2008 Impairments
Proven and probable reserves	$ 4,052	$ 13,797	$ 10,056
VBPP	1,341	2,103	471
Development and other	2,572	2,516	279
Buildings and infrastructure	2,381	2,300	167
Machinery and equipment	5,713	6,023	938
Mobile equipment	1,801	2,106	393
Construction in progress	2,686	1,197	27
Property, plant, equipment and development costs	20,546	30,042	12,331
Accumulated depreciation, depletion and amortization	(4,544)	(4,327)	(1,583)
Property, plant, equipment and development costs, net	$ 16,002	$ 25,715	$ 10,748

FCX recorded $2.2 billion for VBPP in connection with the Phelps Dodge acquisition in 2007 and transferred $287 million during 2008 and $93 million during 2007 to proven and probable reserves.

FCX’s capitalized interest totaled $122 million in 2008, $147 million in 2007 and $11 million in 2006. Capitalized interest primarily related to development projects at Tenke Fungurume in 2008 and Safford and Tenke Fungurume in 2007.

In connection with the decline in copper and molybdenum prices and the deterioration of the economic environment during the fourth quarter of 2008, FCX evaluated its long-lived assets for impairment as of December 31, 2008. FCX’s evaluations were based on current business plans developed using near-term price forecasts reflective of the current price environment and management’s projections for long-term average metal prices. These evaluations resulted in the recognition of asset impairment charges of $10.9 billion ($6.6 billion to net loss or $17.34 per diluted share), consisting of $10,748 million to reduce the carrying values of property, plant, equipment and development costs and $119 million to reduce the carrying values of definite-lived intangible assets (see Note 2 for further discussion).

Table of Contents

NOTE 7. GOODWILL, AND INTANGIBLE ASSETS AND LIABILITIES

Goodwill. Changes in the carrying amount of goodwill for the years ended December 31, 2008 and 2007, follow:

Balance at January 1, 2007	$	–
Acquisition of Phelps Dodge		6,265
Additionsa		21
Disposal of PDIC (see Note 4)		(181)
Balance at December 31, 2007		6,105
Purchase accounting adjustment		(57)
Deferred tax liability adjustment associated with the purchase of Phelps Dodgeb		(61)
Impairment losses		(5,987)
Balance at December 31, 2008	$	–

a. In 2007, FCX acquired minority shareholders' interests in several of its subsidiaries, which were subsequently included in the sale of PDIC.

b. Adjustment was allocated to the Morenci mine.

FCX recorded goodwill in connection with the Phelps Dodge acquisition, which primarily related to the requirement to recognize a deferred tax liability for the difference between the assigned values and the tax basis of assets acquired and liabilities assumed in a business combination. In accordance with accounting rules, goodwill resulting from a business combination is assigned to the acquiring entity's reporting units that are expected to benefit from the business combination. The allocation of goodwill to the reporting units, which FCX determined included its individual mines, was completed in the first quarter of 2008.

Goodwill has an indefinite useful life and is not amortized, but rather is tested for impairment at least annually, unless events occur or circumstances change between annual tests that would more likely than not reduce the fair value of a related reporting unit below its carrying amount. FCX performed its annual goodwill impairment testing in the fourth quarter of 2008. FCX's evaluations were based on current business plans developed using near-term price forecasts reflective of the current price environment and management's projections for long-term average metal prices. These evaluations resulted in the recognition of impairment charges of $6.0 billion ($6.0 billion to net loss or $15.69 per diluted share) to eliminate the full carrying value of goodwill (see Note 2 for further discussion of assumptions used in determining fair value).

Intangible Assets and Liabilities. The components of intangible assets and intangible liabilities (included in other liabilities) as of December 31, 2008, follow:

	December 31, 2008					
		Gross Carrying Valuea		Accumulated Amortizationa		Net Book Value
Indefinite-lived water rights	$	256	$	–	$	256
Patents and process technology		48		(6)		42
Royalty payments		47		(7)		40
Power contracts		26		(11)		15
Tire contracts		9		(2)		7
Other intangibles		4		–		4

Total intangible assets	$	390	$	(26)	$	364
Treatment and refining terms in sales contracts	$	52	$	(15)	$	37
Molybdenum sales contracts		108		(108)		–
Total intangible liabilities	$	160	$	(123)	$	37

a. After impairments recorded in 2008.

141

Table of Contents

In connection with the decline in copper and molybdenum prices and the deterioration of the economic environment during the fourth quarter of 2008, FCX evaluated its long-lived assets for impairment as of December 31, 2008. FCX's evaluations were based on current business plans developed using near-term price forecasts reflective of the current price environment and management's projections for long-term average metal prices. These evaluations resulted in the recognition of asset impairment charges of $119 million ($74 million to net loss or $0.19 per diluted share) to reduce the carrying values of definite-lived intangible assets (see Note 2 for further discussion).

Indefinite-lived intangible assets are tested for impairment at least annually, unless events occur or circumstances change between annual tests that would more likely than not reduce the indefinite-lived intangible asset's fair value below its carrying value. FCX performed its annual impairment testing in the fourth quarter of 2008 and concluded that there was no impairment of indefinite-lived intangible assets.

The components of intangible assets and intangible liabilities (included in other liabilities) as of December 31, 2007, follow:

	December 31, 2007					
		Gross Carrying Value		Accumulated Amortization		Net Book Value
Indefinite-lived water rights	$	200	$	–	$	200
Patents and process technology		48		(2)		46
Royalty payments		39		(2)		37
Power contracts		169		(38)		131
Tire contracts		39		(4)		35
Other intangibles		24		(1)		23
Total intangible assets	$	519	$	(47)	$	472
Treatment and refining terms in sales contracts	$	52	$	(9)	$	43
Molybdenum sales contracts		115		(111)		4
Total intangible liabilities	$	167	$	(120)	$	47

Amortization of intangible assets recognized in production and delivery costs was $63 million in 2008 and $47 million in 2007. Amortization of intangible liabilities recognized in revenues totaled $3 million in 2008 and $120 million in 2007. The estimated net amortization expense for the next five years totals $7 million in 2009, $9 million in 2010, $5 million in 2011, $5 million in 2012 and $3 million in 2013.

NOTE 8. TRUST ASSETS

The components of trust assets follow:

	December 31,			
		2008		2007
Employee and retiree benefit trustsa	$	117	$	18
Global reclamation and remediationb		114		544
Change of control		15		21
Rabbi trust		14		23
Total trust assets		260		606
Less current portion (included in other current assets)		(118)		–

Long-term trust assets	$	142	$	606

a. During 2008, the Voluntary Employees' Beneficiary Association (VEBA) trusts were amended to allow benefit payments for active as well as retired employees; therefore, these trusts no longer qualify under applicable accounting rules as plan assets under FCX's postretirement medical and life insurance benefit plans.

b. Decrease results primarily from reimbursement of previously incurred costs for reclamation and environmental activities. Includes $114 million in 2008 and $106 million in 2007 of legally restricted funds for AROs at the Chino, Tyrone and Cobre mines. See Note 15 for further discussion.

142

Table of Contents

NOTE 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following provides additional information regarding accounts payable and accrued liabilities.

	December 31, 2008	December 31, 2007
Accounts payable	$ 1,164	$ 1,195
Provisionally priced sales adjustmentsa	698	59
Pension, postretirement, postemployment and other employee benefitsb	156	108
Accrued interestc	136	144
Salaries, wages and other compensation	129	278
Current deferred tax liability	78	171
Community development programs	74	118
Other	287	272
Total accounts payable and accrued liabilities	$ 2,722	$ 2,345

a. Represents payables to customers as a result of adjusting embedded derivatives in provisionally priced sales to market prices (see “Revenue Recognition” in Note 1 for further discussion).

b. See Note 10 for long-term portion and Note 12 for further discussion.

c. Third-party interest paid by FCX was $741 million in 2008, $504 million in 2007 and $80 million in 2006.

NOTE 10. OTHER LIABILITIES

The following provides additional information regarding other liabilities.

	December 31, 2008	December 31, 2007
Pension, postretirement, postemployment and other employment benefits and long-term incentive compensationa	$ 964	$ 644
Reserve for uncertain tax benefits	159	115
Accrued long-term tax liability	82	80
Atlantic Copper contractual obligation to insurance company (see Note 12)	62	72
Community development programs	59	–
Insurance claim reserve	50	44
Other	144	151
Total other liabilities	$ 1,520	$ 1,106

a. See Note 9 for short-term portion and Note 12 for further discussion.

143

Table of Contents

NOTE 11. LONG-TERM DEBT

The components of long-term debt follow:

	December 31,	
	2008	2007
Senior Credit Facility	$ 150	$ –
Senior Notes:		
8.375% Senior Notes due 2017	3,500	3,500
8.25% Senior Notes due 2015	1,500	1,500
Senior Floating Rate Notes due 2015	1,000	1,000
6 % Senior Notes due 2014	340	340
9½% Senior Notes due 2031	198	239
8¾% Senior Notes due 2011	115	118
6 % Senior Notes due 2034	115	115
7 % Debentures due 2027	115	115
7% Convertible Senior Notes due 2011	1	1
Other (including equipment capital leases and short-term borrowings)	317	283
Total debt	7,351	7,211
Less current portion of long-term debt and short-term borrowings	(67)	(31)
Long-term debt	$ 7,284	$ 7,180

Senior Credit Facility. In connection with financing FCX's acquisition of Phelps Dodge, FCX used proceeds from its borrowings under its $11.5 billion senior credit facility. At the close of the Phelps Dodge acquisition, the senior credit facility consisted of a $2.5 billion senior term loan due March 2012, a $7.5 billion Tranche B term loan due March 2014 and $1.5 billion in revolving credit facilities due March 2012, with no amounts drawn on the revolving credit facilities. The revolving credit facilities are composed of (i) a $1.0 billion revolving credit facility available to FCX and (ii) a $0.5 billion revolving credit facility available to both FCX and PT Freeport Indonesia. FCX used proceeds from equity offerings, operating cash flows and asset sales to prepay the $10 billion of term loans by December 31, 2007. FCX had borrowings of $150 million and $74 million of letters of credit issued under the revolving credit facilities at December 31, 2008, resulting in availability of approximately $1.3 billion, of which $926 million could be used for additional letters of credit.

Interest on the revolving credit facilities is based on the London Interbank Offered Rate (LIBOR) plus 1.00 percent, subject to an increase or decrease in the interest rate margin based on the credit ratings assigned by Standard & Poor's Rating Services and Moody's Investor Services. The interest rate on the revolving credit facilities was 1.44 percent at December 31, 2008.

The senior credit facility also contains covenants, including limitations on indebtedness, liens, asset sales, restricted payments and transactions with affiliates. In addition, the senior credit facility requires that FCX meet certain financial tests at any time that borrowings are outstanding under the facility, including a leverage ratio test (Total Debt to Consolidated EBITDA, as those terms are defined in the facility, for the preceding four quarters cannot exceed 5.0 to 1.0 on the last day of any fiscal quarter) and a secured leverage ratio test (Total Secured Debt to Consolidated EBITDA, as those terms are defined in the facility, for the preceding four quarters cannot exceed 3.0 to 1.0 on the last day of any fiscal quarter). For the four quarters ended December 31, 2008, the Total Debt to Consolidated EBITDA ratio was 1.1 to 1.0 and the Total Secured Debt to Consolidated EBITDA ratio was 0.07 to 1.0. In January 2009, the facility was amended to adjust the calculation for Consolidated EBITDA to reduce the third quarter of 2008 and increase the fourth quarter of 2008 by $715 million, which is associated with the adjustment for provisionally priced

copper sales from prior periods that resulted from the decline in copper prices. The amendment avoids a distortion in the fourth quarter of 2008 Consolidated EBITDA for purposes of quarterly calculations through third quarter of 2009. The senior credit facility is guaranteed by certain wholly owned subsidiaries of FCX and is secured by the pledge of equity in substantially all of these subsidiary guarantors and certain other non-guarantor subsidiaries of FCX, and intercompany indebtedness owed to FCX. Borrowings by FCX and PT Freeport Indonesia under the $0.5 billion revolver are also secured with a pledge of 50.1 percent of the outstanding stock of PT Freeport Indonesia, over 90 percent of the assets of PT Freeport Indonesia and, with respect to borrowings by PT Freeport Indonesia, a pledge of the Contract of Work.

144

Table of Contents

During 2007, FCX recorded net charges totaling $154 million ($120 million to net income or $0.30 per diluted share) for early extinguishment of debt related to the accelerated recognition of deferred financing costs associated with the repayment of amounts under the senior credit facility.

Senior Notes. In March 2007, in connection with financing FCX's acquisition of Phelps Dodge, FCX sold $3.5 billion of 8.375% Senior Notes due April 2017, $1.5 billion of 8.25% Senior Notes due April 2015 and $1.0 billion of Senior Floating Rate Notes due April 2015 for total net proceeds of $5.9 billion. Interest on the senior notes is payable semiannually on April 1 and October 1. Interest on the Senior Floating Rate Notes accrues at six-month LIBOR plus 3.25 percent. The interest rate on the Senior Floating Rate Notes was 7.08 percent at December 31, 2008. These notes are redeemable in whole or in part, at the option of FCX, at make-whole redemption prices prior to the redemption dates, and afterwards at stated redemption prices. The terms of the agreements allow for optional make-whole redemptions prior to April 1, 2009, for the Senior Floating Rate Notes; April 1, 2011, for the 8.25% Senior Notes; and April 1, 2012, for the 8.375% Senior Notes. The indenture governing the notes contains covenants that include, among others, restrictions on incurring debt, creating liens, selling assets, making restricted payments and entering into certain transactions with affiliates. In April 2008, Standard & Poor's Rating Services (S&P) and Fitch Ratings raised FCX's corporate credit rating and the ratings on FCX's unsecured debt to BBB- (investment grade). As a result of the upgrade by S&P, the restrictions on incurring debt, making restricted payments and selling assets were suspended. To the extent the rating is downgraded below investment grade, these covenants would again become effective.

In February 2004, FCX sold $350 million of 6 % Senior Notes due February 2014 for net proceeds of $344 million. Interest on the notes is payable semiannually on February 1 and August 1. These notes are redeemable in whole or in part, at the option of FCX, at stated redemption prices. During 2004, FCX purchased in open-market transactions $10 million of its 6 % Senior Notes. The indenture governing the notes contains covenants that include, among others, certain restrictions on incurring debt, creating liens, selling assets, making restricted payments and entering into certain transactions with affiliates. At the time of the Phelps Dodge acquisition, the 6 % Senior Notes received the benefit of the same guarantees and subsidiary pledges provided under the FCX senior credit facility. This security could be released under certain circumstances involving changes in FCX's capital structure. As a result of the aforementioned upgrade to investment grade by S&P, the restrictions on incurring debt, making restricted payments, selling assets and entering into certain transactions with affiliates were suspended. To the extent the rating is downgraded below investment grade, these covenants would again become effective.

The 9½% Senior Notes due June 2031 and the 8¾% Senior Notes due June 2011 bear interest payable semiannually on June 1 and December 1. These notes are redeemable in whole or in part, at the option of FCX, at a make-whole redemption price. In March 2007, in connection with the acquisition of Phelps Dodge, FCX assumed these senior notes with a stated value of $306 million, which was increased by $54 million to reflect the fair market value of these obligations at the acquisition date. The increase in value is being amortized over the term of the notes and recorded as a reduction of interest expense. In February 2008, FCX purchased in an open-market transaction $33 million of the 9½% Senior Notes for $46 million and recorded charges of $6 million ($5 million to net loss or $0.01 per diluted share). At December 31, 2008, the outstanding principal amount of the 9½% Senior Notes was $161 million and the 8¾% Senior Notes was $108 million.

The 6 % Senior Notes due March 2034 bear interest payable semiannually on March 15 and September 15. These notes are redeemable in whole or in part, at the option of FCX, at a make-whole redemption price. In March 2007, in connection with the acquisition of Phelps Dodge, FCX assumed these senior notes with a stated value of $150 million, which was reduced by $11 million to reflect the fair market value of these obligations at the acquisition date. The decrease in value is being amortized over the term of the notes and recorded as additional interest expense. During 2007, FCX purchased in an open-market transaction $26 million of these notes and recorded charges of $2 million ($2 million to net income or less than $0.01 per diluted share). At December 31, 2008, the outstanding principal amount of these senior notes was $124 million.

The 7 % Debentures due November 2027 bear interest payable semiannually on May 1 and November 1. The debentures are redeemable in whole or in part, at the option of FCX, at a make-whole redemption price. In March 2007, in connection with the acquisition of Phelps Dodge, FCX assumed these debentures with a stated and fair value of $115 million. At December 31, 2008, the outstanding principal amount of these debentures was $115 million.

145

Table of Contents

In February 2003, FCX sold $575 million of 7% Convertible Senior Notes due February 2011 for net proceeds of $559 million. Interest on the notes is payable semiannually on March 1 and September 1. The notes were initially convertible, at the option of the holder, at any time on or prior to maturity into shares of FCX's common stock at a conversion price of $30.87 per share, which was equal to a conversion rate of approximately 32.39 shares of common stock per $1,000 principal amount of notes. The conversion rate is adjustable when dividends over a twelve-month period exceed a certain threshold. As a result of FCX's cumulative twelve-month dividends through February 2007, the conversion price was adjusted to $30.16 per share, which is equal to a conversion rate of approximately 33.16 shares of common stock per $1,000 principal amount of notes. No further adjustments to the conversion price have been required since that time. In 2005, FCX privately negotiated transactions to induce conversion of $251 million of these notes into 8.1 million shares of FCX common stock, which resulted in a 2005 net charge of $25 million ($23 million to net income or $0.11 per diluted share). In 2006, FCX completed a tender offer and privately negotiated transactions to induce conversions of $317 million of these notes into 10.3 million shares of FCX common stock, which resulted in a 2006 net charge of $31 million ($30 million to net income or $0.13 per diluted share). In 2007, $6 million of these notes were converted into 0.2 million shares of FCX common stock and the balance at December 31, 2008, was $1 million.

In January 2003, FCX sold $500 million of 10 % Senior Notes due 2010 for net proceeds of $487 million. In 2005, FCX purchased in open-market transactions $216 million of these notes and recorded transaction-related charges of $27 million ($17 million to net income or $0.08 per diluted share). In 2006, FCX purchased in an open-market transaction $11 million of these notes and recorded transaction-related charges of $1 million ($1 million to net income or less than $0.01 per diluted share). During 2007, FCX purchased in an open-market transaction the remaining $273 million of these notes and recorded transaction-related charges of $17 million ($10 million to net income or $0.02 per diluted share).

All of FCX's senior notes are unsecured, except for the 6 % Senior Notes.

Redeemable Preferred Stock. As discussed in Note 1, pursuant to SFAS No. 150, mandatorily redeemable preferred stock is classified as debt.

At December 31, 2005, FCX had outstanding 4.3 million depositary shares representing 215,279 shares of its Gold-Denominated Preferred Stock, Series II totaling $167 million. Each depositary share had a cumulative quarterly cash dividend equal to the value of 0.0008125 ounce of gold and was redeemed in February 2006 for the cash value of 0.1 ounce of gold ($236 million). The mandatory redemption resulted in a $167 million decrease in debt and a loss recognized in 2006 revenues of $69 million ($37 million to net income or $0.17 per diluted share).

At December 31, 2005, FCX had outstanding 4.8 million depositary shares representing 14,875 shares of its Silver-Denominated Preferred Stock totaling $13 million. Each depositary share had a cumulative quarterly cash dividend equal to the value of 0.0051563 ounce of silver. On August 1, 2006, FCX funded the last of eight scheduled annual redemption payments on its Silver-Denominated Preferred Stock for $26 million, resulting in a $13 million decrease in debt. The mandatory redemptions also resulted in losses recognized in revenues totaling $13 million in 2006 ($7 million to net income or $0.03 per diluted share).

Restrictive Covenants. The senior credit facility, the $6.0 billion of senior notes used to finance the acquisition of Phelps Dodge and the 6 % Senior Notes contain covenants that limit FCX's ability to make certain payments. These restrictions vary among the instruments, but generally limit FCX's ability to pay certain dividends on common and preferred stock, repurchase or redeem common and preferred equity, prepay subordinated debt and make certain investments. As a result of the upgrade of FCX's unsecured notes to investment grade, the restricted payment covenants contained in its $6.0 billion of senior notes used to finance the acquisition of Phelps Dodge and 6 % Senior Notes have been suspended. To the extent the rating is downgraded below investment grade, the covenants would

again become effective. At December 31, 2008, the most restrictive of these covenants allowed for such payments up to a limit in excess of $5 billion.

Maturities. Maturities of debt instruments based on the amounts and terms outstanding at December 31, 2008, total $67 million in 2009, $10 million in 2010, $135 million in 2011, $246 million in 2012, $14 million in 2013 and $6,879 million thereafter.

146

Table of Contents

NOTE 12. EMPLOYEE BENEFITS
Pension Plans. Following is a discussion of FCX's pension plans.

FMC Plans. As a result of the acquisition of Phelps Dodge, FCX acquired trusteed, non-contributory pension plans covering substantially all of FMC's U.S. employees and some employees of its international subsidiaries. The applicable FMC plan design determines the manner in which benefits are calculated for any particular group of employees. For certain of these plans, benefits are calculated based on final average monthly compensation and years of service. In the case of other plans, benefits are calculated based on a fixed amount for each year of service. Participants in the FMC plans generally vest in their accrued benefits after five years of service. Non-bargained FMC employees hired after December 31, 2006, are not eligible to participate in the FMC U.S. pension plan.

FCX's funding policy for these plans provides that contributions to pension trusts shall be at least equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended, for U.S. plans; or, in the case of international plans, the minimum legal requirements that may be applicable in the various countries. Additional contributions also may be made from time to time.

FCX's policy for determining asset-mix targets for the Phelps Dodge Corporation Defined Benefit Master Trust (Master Trust) includes the periodic development of asset/liability studies to determine expected long-term rates of return and expected risk for various investment portfolios. Management considers these studies in the formal establishment of asset-mix targets that are reviewed by FCX's retirement plan administration and investment committee. The expected rate of return on plan assets is evaluated at least annually, taking into consideration its asset allocation, historical returns on the types of assets held in the Master Trust and the current economic environment. For U.S. plans, the determination of the expected long-term rate of return on plan assets is based on expected future performance of the plan asset mix and active plan asset management. Based on these factors, FCX expects the pension assets will earn an average of 8.5 percent per annum during the 10 years beginning January 1, 2009, with a standard deviation of 8.8 percent. The 8.5 percent estimation was based on a passive return on a compound basis of 8.0 percent and a premium for active management of 0.5 percent reflecting the target asset allocation and current investment array. On an arithmetic average basis, the passive return would have been 8.0 percent with a premium for active management of 0.5 percent.

For estimation purposes, FCX assumes the long-term asset mix for these plans generally will be consistent with the current mix. Changes in the asset mix could impact the amount of recorded pension income or expense, the funded status of the plans and the need for future cash contributions. A lower-than-expected return on assets also would decrease plan assets and increase the amount of recorded pension expense in future years. When calculating the expected return on plan assets, FCX uses the market value of assets.

Among the assumptions used to estimate the benefit obligation is a discount rate used to calculate the present value of expected future benefit payments for service to date. The discount rate assumption for FCX's U.S. plans is designed to reflect yields on high-quality, fixed-income investments for a given duration. The determination of the discount rate for these plans is based on expected future benefit payments for service to date together with the Citibank Pension Discount Curve. Changes in this assumption are reflected in FCX's benefit obligation and, therefore, in the liabilities and income or expense that are recorded.

Other FCX Plans. During 2000, FCX and FM Services Company, FCX's wholly owned subsidiary, elected to terminate their defined benefit pension plans covering substantially all U.S. and certain overseas expatriate employees and replace these plans with defined contribution programs, as further discussed below. All participants' account balances in the defined benefit plans were fully vested on June 30, 2000, and interest credits continued to accrue under the plans until the assets were liquidated and distributed in 2008 after obtaining final approval from the Internal Revenue Service.

In February 2004, FCX established an unfunded Supplemental Executive Retirement Plan (SERP) for its two most senior executive officers. The SERP provides for retirement benefits payable in the form of a joint and survivor annuity or an equivalent lump sum. The annuity will equal a percentage of the executive's highest average compensation for any consecutive three-year period during the five years immediately preceding the earlier of the executive's retirement or completion of 25 years of credited service. The SERP benefit will be reduced by the value of all benefits paid or due under any defined benefit or defined contribution plan sponsored by FM Services Company, FCX or its predecessor, but not including accounts funded exclusively by deductions from participant's pay. FCX also has an unfunded pension plan for its directors and an excess benefits plan for its executives.

147

Table of Contents

PT Freeport Indonesia Plan. PT Freeport Indonesia has a defined benefit pension plan denominated in Indonesian rupiah covering substantially all of its Indonesian national employees. PT Freeport Indonesia funds the plan and invests the assets in accordance with Indonesian pension guidelines. The pension obligation was valued at an exchange rate of 10,850 rupiah to one U.S. dollar on December 31, 2008, and 9,390 rupiah to one U.S. dollar on December 31, 2007. Indonesian labor laws enacted in 2003 require that companies provide a minimum level of benefits to employees upon employment termination based on the reason for termination and the employee's years of service. PT Freeport Indonesia's pension benefit disclosures include benefits related to this law. PT Freeport Indonesia's expected rate of return on plan assets is evaluated at least annually, taking into consideration its historical yield and the long range estimated return for the plan based on the asset mix.

Atlantic Copper Plan. Atlantic Copper has a contractual obligation denominated in euros to supplement amounts paid to certain retired Spanish national employees. As required by Spanish law, beginning in August 2002, Atlantic Copper began funding 7.2 million euros ($10 million based on a December 31, 2008, exchange rate of $1.39 per euro) annually for 15 years to an approved insurance company for its estimated 72 million euro contractual obligation to the retired employees. The insurance company invests the plan assets in accordance with Spanish regulations, and Atlantic Copper has no control over these investments. Atlantic Copper is amortizing the unrecognized net actuarial loss over the remaining eight-year funding period.

Plan Information. FCX uses a measurement date of December 31 for its plans. In some plans, the plan assets exceed the accumulated benefit obligations, while in the remainder, the accumulated benefit obligations exceed the plan assets. The following table presents the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for those plans where the accumulated benefit obligations exceed the plan assets:

	December 31,	
	2008	2007
Projected benefit obligation	$ 1,486	$ 230
Accumulated benefit obligation	1,403	259
Fair value of plan assets	968	66

Information as of December 31, 2008 and 2007, on the FCX (including FMC's plans; FCX's SERP, director and excess benefits plans; and FM Services Company's plans), PT Freeport Indonesia and Atlantic Copper plans follows:

	FCX		PT Freeport Indonesia		Atlantic Copper	
	2008	2007	2008	2007	2008	2007
Change in benefit obligation:						
Benefit obligation at beginning of year	$ 1,342	$ 50	$ 65	$ 54	$ 87	$ 83
Acquisition of Phelps Dodge	–	1,370	–	–	–	–
Service cost	29	24	6	5	–	–
Interest cost	80	62	6	5	4	5
Amendments	(6)	–	–	–	–	–
Actuarial (gains) losses	62	(78)	(5)	7	1	–
Divestitures	–	(5)	–	–	–	–
Foreign exchange (gain) loss	(4)	2	(9)	(3)	(3)	8
Curtailmentsa	(19)	–	–	–	–	–
Special retirement benefitsa	39	–	–	–	–	–
Benefits paid	(111)	(83)	(4)	(3)	(8)	(9)

Benefit obligation at end of year	$	1,412	$	1,342	$	59	$	65	$	81	$	87

148

Table of Contents

	FCX		PT Freeport Indonesia		Atlantic Copper	
	2008	2007	2008	2007	2008	2007
Change in plan assets:						
Fair value of plan assets at beginning of year	$ 1,442	$ 13	$ 38	$ 30	$ 15	$ 14
Acquisition of Phelps Dodge	–	1,374	–	–	–	–
Actual return on plan assets	(390)	113	(2)	4	–	–
Employer contributionsb	21	24	15	8	12	10
Foreign exchange gain (loss)	(3)	1	(6)	(1)	–	–
Benefits paid	(111)	(83)	(3)	(3)	(8)	(9)
Fair value of plan assets at end of year	959	1,442	42	38	19	15
Funded status	$ (453)	$ 100	$ (17)	$ (27)	$ (62)	$ (72)
Accumulated benefit obligation	$ 1,329	$ 1,252	$ 37	$ 39	$ 81	$ 87
Weighted-average assumptions used to determine benefit obligations:						
Discount ratec	6.10%	6.30%	12.00%	10.25%	6.77%	6.77%
Rate of compensation increased	4.25%	4.25%	8.00%	8.00%	N/A	N/A
Balance sheet classification of funded status:						
Other assets	$ 3	$ 195	$ –	$ –	$ –	$ –
Accounts payable and accrued liabilities	(5)	(7)	–	(1)	–	–
Other liabilities	(451)	(88)	(17)	(26)	(62)	(72)
Total	$ (453)	$ 100	$ (17)	$ (27)	$ (62)	$ (72)

a. Resulted from revised mine operating plans and reductions in the workforce (see Note 2 for further discussion).

b. Employer contributions for 2009 are expected to approximate $6 million for the FCX plans, $14 million for the PT Freeport Indonesia plan (based on a December 31, 2008, exchange rate of 10,850 Indonesian rupiah to one U.S. dollar) and $10 million for the Atlantic Copper plan (based on a December 31, 2008, exchange rate of $1.39 per euro).

c. The discount rate shown in 2008 for the FCX plans relates to all plans except the SERP plan. The discount rate shown in 2007 for the FCX plans relates to the FMC plans and the excess benefit plan. The SERP plan’s discount rate in 2008 and 2007 was 4.00 percent.

d. The rate of compensation increase shown for the FCX plans only relates to the FMC plans.

Table of Contents

The weighted-average assumptions used to determine net periodic benefit cost and the components of net periodic benefit cost for FCX's pension plans (including FMC's plans for the year ended December 31, 2008, and the period March 20, 2007, through December 31, 2007; FCX's SERP, director and excess benefits plans; and FM Services Company's plans) for the years ended December 31, 2008, 2007 and 2006, follow:

	2008	2007	2006
Weighted-average assumptions:			
Discount rate			
FCX SERP	4.00%	4.00%	6.00%
FMC plans	6.30%	5.78%	N/A
Expected return on plan assetsa	8.50%	8.50%	N/A
Rate of compensation increasea	4.25%	4.25%	N/A
Service cost	$ 29	$ 24	$ –
Interest cost	80	62	2
Expected return on plan assets	(118)	(90)	–
Amortization of prior service cost	4	4	4
Special retirement benefitsb	39	–	–
Net periodic benefit cost	$ 34	$ –	$ 6

a. The assumptions shown only relate to the FMC plans.

b. Resulted from revised mine operating plans and reductions in the workforce (see Note 2 for further discussion).

The weighted-average assumptions used to determine net periodic benefit cost and the components of net periodic benefit cost for PT Freeport Indonesia's and Atlantic Copper's pension plans for the years ended December 31, 2008, 2007 and 2006, follow:

	PT Freeport Indonesia		
	2008	2007	2006
Weighted-average assumptions:			
Discount rate	10.25%	10.50%	12.00%
Expected return on plan assets	9.00%	10.00%	10.00%
Rate of compensation increase	8.00%	9.00%	10.00%
Service cost	$ 6	$ 5	$ 4
Interest cost	6	5	5
Expected return on plan assets	(3)	(3)	(3)
Amortization of prior service cost	1	1	1
Amortization of net actuarial loss	1	1	1
Net periodic benefit cost	$ 11	$ 9	$ 8

	Atlantic Copper		
	2008	2007	2006
Weighted-average assumption:			
Discount rate	6.77%	6.77%	6.77%
Interest cost	$ 4	$ 5	$ 5

Amortization of net actuarial loss		2		–		1
Net periodic benefit cost	$	6	$	5	$	6

Included in accumulated other comprehensive income (loss) are the following amounts that have not been recognized in net periodic pension cost: unrecognized prior service credits of $3 million ($2 million net of tax and minority interest share) and unrecognized actuarial losses of $470 million ($305 million net of tax and minority interest share) at December 31, 2008; and unrecognized prior service costs of $9 million ($7 million net of tax and minority interest share) and unrecognized actuarial gains of $75 million ($44 million net of tax and minority interest
150

Table of Contents

share) at December 31, 2007. The amounts expected to be recognized in net periodic pension cost for 2009 are less than $1 million for prior service credits and $33 million ($20 million net of tax and minority interest share) for actuarial losses.

FCX does not expect to have any plan assets returned to it in 2009. The pension plan weighted-average asset allocations for the FCX and PT Freeport Indonesia plans at December 31, 2008 and 2007, follow:

	FCX		PT Freeport Indonesia	
	2008	2007	2008	2007
Equity securities	45%	55%	9%	19%
Fixed income	43	35	91	74
Real estate	8	7	–	–
Other	4	3	–	7
Total	100%	100%	100%	100%

Atlantic Copper’s plan is administered by a third-party insurance company, and Atlantic Copper is not provided asset allocations.

The expected benefit payments for FCX’s (including FMC’s plans, and FCX’s SERP, director and excess benefits plans), PT Freeport Indonesia’s and Atlantic Copper’s pension plans follow.

	FCX	PT Freeport Indonesiaa	Atlantic Copperb
2009	$ 87	$ 3	$ 8
2010	85	11	8
2011	85	6	8
2012	136	7	8
2013	88	8	8
2014 through 2018	477	52	42

a. Based on a December 31, 2008, exchange rate of 10,850 Indonesian rupiah to one U.S. dollar.

b. Based on a December 31, 2008, exchange rate of $1.39 per euro.

Postretirement and Other Benefits. FCX also provides postretirement medical and life insurance benefits for certain U.S employees and, in some cases, employees of certain international subsidiaries. These postretirement benefits vary among plans, and many plans require contributions from retirees. The expected cost of providing such postretirement benefits is accrued during the years employees render service.

As a result of the acquisition of Phelps Dodge, FCX acquired postretirement obligations with a fair value of $82 million (representing a benefit obligation of $255 million less the fair value of plan assets of $173 million). Assets for these plans consisted of two VEBA trusts. One trust was dedicated to funding postretirement medical obligations and the other to funding postretirement life insurance obligations for eligible U.S. retirees of FMC. During 2008, the VEBA trusts were amended to allow FCX to pay benefits for both active employees and retirees from the trusts. As a result, in accordance with SFAS No. 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions,” the VEBA trusts no longer qualify as plan assets for purposes of FCX’s postretirement medical and life insurance benefit obligations.

The discount rate for FCX’s postretirement medical and life insurance benefit plans was determined on the same basis as FCX’s pension plans.
151

Table of Contents

Information as of December 31, 2008 and 2007, on the postretirement benefit plans follows:

	2008	2007
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 256	$ 4
Acquisition of Phelps Dodge	–	255
Service cost	1	1
Interest cost	14	11
Actuarial (gains) losses	(8)	8
Curtailmentsa	23	–
Benefits paid, net of employee contributions and Medicare Part D subsidy	(29)	(23)
Benefit obligation at end of year	257	256
Change in plan assets:		
Fair value of plan assets at beginning of year	150	–
Acquisition of Phelps Dodge	–	173
Actual return on plans assets	3	5
Employer contributionsb	2	2
Benefits paid	(40)	(30)
Transfer of plan assetsc	(115)	–
Fair value of plan assets at end of year	–	150
Funded status	$ (257)	$ (106)
Discount rate assumption	6.30%	6.00%
Balance sheet classification of funded status:		
Accounts payable and accrued liabilities	$ (32)	$ (2)
Other liabilities	(225)	(104)
Total	$ (257)	$ (106)

a. Resulted from revised mine operating plans and reductions in the workforce (see Note 2 for further discussion).

b. Employer contributions for 2009 are expected to approximate $32 million.

c. During 2008, the VEBA trusts were amended to allow benefit payments for both active employees and retirees; therefore, the VEBA trusts no longer qualify as plan assets.

Expected benefit payments for these plans total $32 million for 2009, $30 million for 2010, $29 million for 2011, $27 million for 2012, $25 million for 2013, and $100 million for 2014 through 2018.

152

Table of Contents

The weighted-average assumptions used to determine net periodic benefit cost and the components of net periodic benefit cost for FCX's postretirement benefits for the years ended December 31, 2008 and 2007, follow:

	2008	2007
Weighted-average assumptionsa:		
Discount rate – medical retiree	6.00%	5.62%
Discount rate – life retiree	6.00%	5.66%
Expected return on plan assets – medical retiree	3.30%	3.70%
Expected return on plan assets – life retiree	4.30%	4.50%
Service cost	$ 1	$ 1
Interest cost	14	11
Expected return on plan assets	(4)	(5)
Curtailmentsb	23	–
Net periodic benefit cost	$ 34	$ 7

a. The assumptions shown only relate to the FMC plans.

b. Resulted from revised mine operating plans and reductions in the workforce (see Note 2 for further discussion).

FCX's postretirement net periodic benefit costs were less than $1 million for 2006.

Included in accumulated other comprehensive income (loss) are the following amounts that have not been recognized in net periodic benefit cost: unrecognized prior service credits of less than $1 million and unrecognized actuarial gains of $4 million ($2 million net of tax and minority interest share) at December 31, 2008; and unrecognized prior service credits of $1 million ($1 million net of tax and minority interest share) and unrecognized actuarial losses of $8 million ($5 million net of tax and minority interest share) at December 31, 2007. The amount expected to be recognized in net periodic benefit cost for 2009 is less than $1 million for prior service credits and actuarial losses.

The assumed medical-care trend rates at December 31, 2008 and 2007, follow:

	2008	2007
Medical-care cost trend rate assumed for the next year	9%	9%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5%	5%
Year that the rate reaches the ultimate trend rate	2013	2012

The effect of a one percent increase or decrease in the medical-care cost trend rates assumed for postretirement medical benefits would result in increases or decreases of approximately $1 million in the aggregate service and interest cost components; in the postretirement benefit obligation the effect of a one-percent increase is approximately $8 million and the effect of a one-percent decrease is approximately $7 million.

As a result of the Phelps Dodge acquisition, FCX has a number of postemployment plans covering severance, long-term disability income, continuation of health and life insurance coverage for disabled employees or other welfare benefits. The accumulated postemployment benefit consisted of a current portion of $6 million (included in accounts payable and accrued liabilities) and a long-term portion of $41 million (included in other liabilities) at

December 31, 2008, and a current portion of $6 million and a long-term portion of $43 million at December 31, 2007.

FCX also sponsors savings plans for the majority of its U.S. employees. The plans allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with specified guidelines. These savings plans are principally qualified 401(k) plans for all U.S. salaried and non-bargained hourly employees. In these plans, participants exercise control and direct the investment of their contributions and account balances among a broad range of investment options. FCX matches a percentage of employee pre-tax deferral contributions up to certain limits, which varies by plan. In addition, the FMC principal savings plan includes a profit sharing feature for its non-bargained employees.

Table of Contents

During 2000, FCX and FM Services Company enhanced their primary savings plan for substantially all their employees following their decision to terminate their defined benefit pension plans. Subsequent to the enhancement, FCX and FM Services Company contribute amounts to individual accounts totaling either 4 percent or 10 percent of each employee's pay, depending on a combination of each employee's age and years of service as of June 30, 2000. For employees whose eligible compensation exceeds certain levels, FCX provides an unfunded defined contribution plan. The balance of this liability totaled $43 million on December 31, 2008, and $32 million on December 31, 2007.

As a result of the acquisition of Phelps Dodge, FCX also has a defined contribution plan for eligible FMC employees hired on or after January 1, 2007. Under this plan, FCX contributes amounts to individual accounts depending on a combination of each employee's annual salary and years of service.

The costs charged to operations for FCX's, FM Services Company's, and FMC's employee savings plans and defined contribution plans totaled $58 million in 2008, $43 million in 2007 and $7 million in 2006.

FCX has other employee benefit plans, certain of which are related to FCX's financial results, which are recognized in operating costs.

NOTE 13. STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION

Common Stock. At the 2008 annual stockholder meeting, FCX's stockholders approved an increase in FCX's authorized shares of capital stock to 1.85 billion shares, consisting of 1.8 billion shares of common stock and 50 million shares of preferred stock.

In July 2008, FCX's Board of Directors approved an increase in the open-market share purchase program for up to 30 million shares, which replaced FCX's previous program. During 2008, FCX acquired 6.3 million shares for $500 million ($79.15 per share average) and 23.7 million shares remain available under this program. Under a previous 20 million share purchase program, FCX acquired 2.0 million shares for $100 million ($49.94 per share average) in 2006. The timing of future purchases of FCX's common stock is dependent on many factors, including FCX's operating results, cash flows and financial position; copper, molybdenum and gold prices; the price of FCX's common stock; and general economic and market conditions. During September 2008, because of the financial turmoil and the decline in copper and molybdenum prices, FCX suspended its purchases of shares under its open-market share purchase program.

In February 2009, FCX completed a public offering of 26.8 million shares of FCX common stock at an average price of $28.00 per share, which generated gross proceeds of $750 million (net proceeds of approximately $740 million).

Preferred Stock. On March 28, 2007, FCX sold 28.75 million shares of 6¾% Mandatory Convertible Preferred Stock, with a liquidation preference of $100 per share, for net proceeds of $2.8 billion. The 6¾% Mandatory Convertible Preferred Stock will automatically convert on May 1, 2010, into shares of FCX common stock. The conversion rate is adjustable upon the occurrence of certain events, including the payment in any quarter of common stock dividends exceeding $0.3125 per share; however, adjustments required as a result of dividends that do not exceed one percent are carried forward and must be made no later than August 1 of each year. As a result of the quarterly common stock dividends paid through December 31, 2008, each share of preferred stock is now convertible on May 1, 2010, into between 1.3654 and 1.6386 shares of FCX common stock, depending on the applicable market value of FCX's common stock. The conversion rate per $100 face amount of the preferred stock will be 1.6386 when the FCX common stock price is at or below $61.03 and 1.3654 when the FCX common stock price is at or above $73.24. For FCX common stock prices between these levels, the conversion rate will be equal to $100 divided by FCX's common stock price. Holders may elect to convert at any time prior to May 1, 2010, at a conversion rate equal to 1.3654 shares of FCX common stock, or an aggregate of approximately 39 million shares. Dividends are payable quarterly on February 1, May 1, August 1 and November 1.

In March 2004, FCX sold 1.1 million shares of 5½% Convertible Perpetual Preferred Stock for net proceeds of $1.1 billion. The conversion rate is adjustable upon the occurrence of certain events, including the payment in any quarter of common stock dividends exceeding $0.20 per share. As a result of the quarterly and supplemental common stock dividends paid through December 31, 2008, each share of preferred stock is now convertible into 21.5305 shares of FCX common stock, equivalent to a conversion price of approximately $46.45 per common share, or an aggregate of approximately 18 million shares of FCX common stock. Beginning March 30, 2009, FCX may redeem shares of the preferred stock by paying cash, FCX common stock or any combination thereof for
154

Table of Contents

$1,000 per share plus unpaid dividends, but only if FCX's 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. FCX used a portion of the proceeds from the sale to purchase 23.9 million shares of FCX common stock owned by Rio Tinto for $882 million (approximately $36.85 per share) and used the remainder for general corporate purposes. Rio Tinto no longer owns an equity interest in FCX; however, it is still PT Freeport Indonesia's joint venture partner (see Note 3). In December 2008, through privately negotiated transactions, FCX induced conversion of 0.3 million shares of its 5½% Perpetual Preferred Stock with a liquidation preference of $268 million into 5.8 million shares of FCX common stock. To induce conversion of these shares, FCX issued to the holders an additional 1.0 million shares of FCX common stock valued at $22 million, which was recorded as losses on induced conversions in the consolidated statements of operations.

Stock Award Plans. FCX currently has six stock-based compensation plans, including two Phelps Dodge plans resulting from the acquisition. As of December 31, 2008, only four of the plans, all of which are stockholder approved (which are discussed below), have awards available for grant.

FCX's 1999 Stock Incentive Plan (the 1999 Plan) and 2003 Stock Incentive Plan (the 2003 Plan) provide for the issuance of stock options, SARs, restricted stock, restricted stock units and other stock-based awards. Each plan allows FCX to grant awards for up to 8 million common shares to eligible participants. In 2004, FCX's stockholders approved the 2004 Director Compensation Plan (the 2004 Plan). The 2004 Plan authorizes awards of options and restricted stock units for up to 1 million shares of common stock and the one-time grant of 66,882 SARs. In 2006, FCX's stockholders approved the 2006 Stock Incentive Plan (the 2006 Plan), and in 2007, FCX's stockholders approved amendments to the plan primarily to increase the number of shares. The 2006 Plan provides for the issuance of stock options, SARs, restricted stock, restricted stock units and other stock-based awards for up to 37 million common shares. As of December 31, 2008, there were 28.8 million shares under the 2006 Plan, 0.1 million shares under the 2004 Plan, 0.1 million shares under the 2003 Plan and less than 6,000 shares under the 1999 Plan available for grant.

In connection with the Phelps Dodge acquisition, former Phelps Dodge stock options and restricted stock awards were converted into 806,595 FCX stock options and 87,391 FCX restricted stock awards, which retain the terms by which they were originally granted under Phelps Dodge's plans. The stock options carry a maximum term of 10 years with 672,134 stock options vested upon the acquisition of Phelps Dodge and 134,461 stock options that vest ratably over a three-year period or the period until the participant becomes retirement-eligible, whichever is shorter. Restricted stock awards generally become fully vested in five years, with a majority of these shares having graded-vesting features in which 25 percent of the shares will vest on the third and fourth anniversaries of the award and the remaining 50 percent in the fifth year. The fair value of the restricted stock awards was determined based on the quoted market price at the time of the acquisition.

Stock-Based Compensation Cost. Compensation cost charged against earnings for stock-based awards is shown below for the years ended December 31, 2008, 2007 and 2006. FCX did not capitalize any stock-based compensation costs during the years ended December 31, 2008, 2007 and 2006.

	2008		2007		2006	
Stock options awarded to employees (including directors)	$	66	$	71	$	28
Stock options awarded to nonemployees		5		5		3
Restricted stock units awarded to employees		52		–		–
Restricted stock units in lieu of cash awards		(29)a		67		23
Restricted stock awards to employees		3		6		–
Restricted stock units awarded to directors		4		3		1

Stock appreciation rights	(6)	7	1
Total stock-based compensation costb	95	159	56
Tax benefit	(36)	(62)	(20)
Minority interests share	(2)	(4)	(3)
Impact on net (loss) income	$ 57	$ 93	$ 33

a. Reflects an adjustment related to 2007 awards.

b. Amounts are before Rio Tinto's share of the cost of employee exercises of in-the-money stock options, which decreased consolidated selling, general and administrative expenses by $1 million in 2008, $4 million in 2007 and $7 million in 2006.

155

Table of Contents

Options and SARs. Stock options and SARs granted under the plans generally expire 10 years after the date of grant and vest in 25 percent annual increments beginning one year from the date of grant. The plans and award agreements provide that participants will receive the following year's vesting after retirement and provide for accelerated vesting if there is a change in control (as defined in the plans).

A summary of options outstanding as of December 31, 2008, including 72,533 SARs, and changes during the year ended December 31, 2008, follow:

	Number of Options	Weighted-Average Option Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Balance at January 1	10,759,798	$ 58.17		
Granted	1,449,500	91.10		
Exercised	(2,198,601)	48.51		
Expired/Forfeited	(157,750)	70.43		
Balance at December 31	9,852,947	64.98	7.8	$ 4
Vested and exercisable at December 31	2,108,906	50.72	6.6	$ 4

Summaries of options outstanding, including SARs, and changes during the years ended December 31, 2007 and 2006, follow:

	2007		2006	
	Number of Options	Weighted-Average Option Price	Number of Options	Weighted-Average Option Price
Balance at January 1	5,801,716	$ 39.70	7,355,612	$ 31.43
Granted	6,641,500	69.89	1,126,250	62.88
Conversion of Phelps Dodge options	806,595	28.38	–	–
Exercised	(2,276,391)	34.45	(2,614,273)	26.51
Expired/Forfeited	(213,622)	59.29	(65,873)	39.12
Balance at December 31	10,759,798	58.17	5,801,716	39.70

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option valuation model. Expected volatility is based on implied volatilities from traded options on FCX's stock and historical volatility of FCX's stock. FCX uses historical data to estimate future option exercises, forfeitures and expected life of the options. When appropriate, separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected dividend rate is calculated as the annual dividend (excludes supplemental dividends) at the date of grant divided by the average stock price for the one-year period preceding the grant date. The risk-free interest rate is based on Federal Reserve rates in effect for bonds with maturity dates equal to the expected term of the option at the grant date. The weighted-average assumptions used to value stock option awards during the years ended December 31, 2008, 2007 and 2006, are noted in the following table.

	2008	2007	2006
Expected volatility	49.3%	37.3%	37.7%
Expected life of options (in years)	4.6	4.25	4.0
Expected dividend rate	2.0%	2.2%	2.9%
Risk-free interest rate	3.3%	4.6%	4.4%

The weighted-average grant-date fair value of options granted was $34.91 per option during 2008, $21.33 per option during 2007 and $17.67 per option during 2006. The total intrinsic value of options exercised was $128 million during 2008 and $96 million during each of 2007 and 2006. The total fair value of options vested was $61 million during 2008, $29 million during 2007 and $30 million during 2006. As of December 31, 2008, FCX had
156

Table of Contents

$86 million of total unrecognized compensation cost related to unvested stock options expected to be recognized over a weighted-average period of one year.

The following table includes amounts related to exercises of stock options and SARs and vesting of restricted stock units and restricted stock awards during the years ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
FCX shares tendered to pay the exercise price and/or the minimum required taxesa	823,915	1,389,845	809,926
Cash received from stock option exercises	$ 56	$ 54	$ 37
Actual tax benefit realized for tax deductions	180	138	31
Amounts FCX paid for employee taxes	34	68	22
Amounts FCX paid for exercised SARs	1	5	2

a. Under terms of the related plans, upon exercise of stock options and vesting of restricted stock units and restricted stock awards, employees may tender FCX shares to FCX to pay the exercise price and/or the minimum required taxes.

Restricted Stock Units. Prior to December 2008, FCX had a restricted stock program that allowed FCX senior executives to elect to receive restricted stock units in lieu of all or part of their annual cash incentive compensation. The annual cash incentive was a function of FCX's consolidated operating cash flows for the preceding year. Awards of these restricted stock units to the FCX executive officers were considered performance-based awards. To compensate for certain restrictions and the risk of forfeiture, the restricted stock units were awarded at a 50 percent premium to the market value on the date of grant. The awards vest ratably over three years or upon retirement and were subject to achievement of certain performance measures. For retirement-eligible executives, the fair value of the restricted stock units was estimated based on projected operating cash flows for the year and was charged to expense ratably over the year the cash flows were generated. Effective December 2, 2008, the board of directors discontinued this program.

FCX also granted other restricted stock units that vest over a period of up to five years. The plans and award agreements provide for accelerated vesting of all restricted stock units if there is a change of control (as defined in the plans) and provide that participants will receive the following year's vesting after retirement (except for the restricted stock units with five year vesting that do not allow acceleration because of retirement). Dividends and interest on restricted stock units accrue and are paid upon the award's vesting.

FCX grants restricted stock units to its directors under the 2004 Plan. The restricted stock units vest over four years. The fair value of the restricted stock units is amortized over the four-year vesting period or the period until the director becomes retirement-eligible, whichever is shorter. Upon a director's retirement, all of their unvested

restricted stock units immediately vest. For retirement-eligible directors, the fair value of restricted stock units is recognized on the date of grant.

A summary of outstanding restricted stock units as of December 31, 2008, and activity during the year ended December 31, 2008, is presented below:

Weighted-

	Number of Restricted Stock Units	Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Balance at January 1	796,373		
Granted	1,359,915		
Vested	(376,460)		
Forfeited	(3,366)		
Balance at December 31	1,776,462	1.9	$ 43

The grant-date fair value of restricted stock units granted to FCX senior executives who elected to receive restricted stock units in lieu of all or part of their cash incentive compensation during the year ended December 31, 2008, was $40 million. Because this was a performance-based award and the requisite service period under SFAS No. 123R is considered to be the calendar year prior to the grant date, the entire value of this award on the date of
157

Table of Contents

grant was charged to expense during 2007. The total grant-date fair value of all other restricted stock units granted during the year ended December 31, 2008, was $78 million.

The total intrinsic value of restricted stock units vesting during the year ended December 31, 2008, was $33 million. As of December 31, 2008, FCX had $24 million of total unrecognized compensation cost related to unvested restricted stock units expected to be recognized over a weighted-average period of 1.3 years.

Restricted Stock Awards. As discussed above, FCX has restricted stock awards that were issued in connection with the Phelps Dodge acquisition. A summary of outstanding restricted stock awards as of December 31, 2008, and activity during the year ended December 31, 2008, is presented below:

Balance at January 1	49,241
Vested	(2,884)
Forfeited	(1,036)
Balance at December 31	45,321

The total grant-date fair value of restricted stock awards was $5 million at the acquisition date. The total fair value of shares released or vested was less than $1 million during 2008 and $2 million during 2007. As of December 31, 2008, FCX had $4 million of total unrecognized compensation cost, including the cash portion resulting from the conversion of restricted stock awards at the acquisition date, related to unvested restricted stock awards expected to be recognized over a weighted-average period of 2.1 years.

NOTE 14. INCOME TAXES

Geographic sources of (loss) income from continuing operations before income taxes, minority interests and equity in affiliated companies' net earnings for the years ended December 31, 2008, 2007 and 2006, consist of the following:

	2008	2007	2006
United States	$ (13,850)	$ 977	$ 25
Foreign	541	5,134	2,795
Total	$ (13,309)	$ 6,111	$ 2,820

The (benefit from) provision for income taxes from continuing operations for the years ended December 31, 2008, 2007 and 2006, consists of the following:

	2008	2007	2006
Current income taxes:			
Federal	$ 536	$ 458	$ –
State	14	72	–
Foreign	1,213	1,942	1,035
Total current	1,763	2,472	1,035
Deferred income taxes (benefits):			
Federal	(3,635)	(295)	–
State	(686)	(20)	–
Foreign	(609)	243	166
Total deferred	(4,930)	(72)	166

Valuation allowance on prior year deferred tax asset		323		–		–
(Benefit from) provision for income taxes	$	(2,844)	$	2,400	$	1,201

158

Table of Contents

A reconciliation of the U.S. federal statutory tax rate to FCX's effective income tax rate for the years ended December 31, 2008, 2007 and 2006, follows:

	2008		2007		2006	
	Amount	Percent	Amount	Percent	Amount	Percent
U.S. federal statutory tax rate	$ (4,658)	35%	$ 2,139	35%	$ 987	35%
Foreign withholding tax	(55)	1	371	6	168	6
Foreign tax credit limitation	95	(1)	125	2	–	–
Reversal of APB Opinion No. 23 assertion	–	–	111	2	–	–
Percentage depletion	(336)	3	(284)	(5)	–	–
International tax rate differential	59	(1)	(184)	(3)	48	2
Valuation allowance on minimum tax credits	359	(3)	–	–	–	–
Goodwill impairment	2,095	(16)	–	–	–	–
State income taxes	(437)	3	–	–	–	–
Other items, net	34	–	122	2	(2)	–
(Benefit from) provision for income taxes	$ (2,844)	21%	$ 2,400	39%	$ 1,201	43%

FCX paid federal, state, local and foreign income taxes totaling $2,656 million in 2008, $2,660 million in 2007 and $1,288 million in 2006. FCX received refunds of federal, state, local and foreign income taxes of $123 million in 2008 and 2007 and $1 million in 2006.

FCX's income tax receivable increased by $544 million primarily as a result of Indonesian estimated tax overpayments in 2008 made in accordance with statutory requirements.

The components of deferred taxes follow:

	December 31,	
	2008	2007
Deferred tax assets:		
Foreign tax credits	$ 1,260	$ 1,004
Net operating loss carryforwards	128	164
Minimum tax credits	359	323
Accrued expenses	767	812
Intercompany profit elimination	25	65
Deferred compensation	9	45
Postretirement benefits	53	35
Employee benefit plans	183	–
Provisionally priced sales adjustments	112	–
Other	128	77
Deferred tax assets	3,024	2,525
Valuation allowances	(1,763)	(1,165)
Net deferred tax assets	1,261	1,360

Deferred tax liabilities:				
Property, plant, equipment and development costs		(2,956)		(7,441)
Undistributed earnings		(569)		(603)
Inventory		(38)		(458)
Employee benefit plans		–		(75)
Other		(34)		(142)
Total deferred tax liabilities		(3,597)		(8,719)
Net deferred tax liabilities	$	(2,336)	$	(7,359)

At December 31, 2008, FCX had U.S. foreign tax credit carryforwards from continuing operations of $1.3 billion that will expire between 2009 and 2018. In addition, FCX had U.S. minimum tax credits carryforwards from

159

Table of Contents

continuing operations of $359 million. These credits can be carried forward indefinitely, but may be used only to the extent that regular tax exceeds the alternative minimum tax in any given year.

At December 31, 2008, FCX had Spanish net operating loss carryforwards from continuing operations of $282 million that expire between 2012 and 2022. In addition, FCX has U.S. state net operating loss carryforwards from continuing operations of $705 million that expire between 2009 and 2028.

On the basis of available information at December 31, 2008, FCX has provided valuation allowances for certain of its deferred tax assets where FCX believes it is likely that the related tax benefits will not be realized. At December 31, 2008, valuation allowances totaled $1.8 billion and covered all of FCX’s U.S. foreign tax credit carryforwards, U.S. minimum tax credit carryforwards, foreign net operating loss carryforwards and U.S. state net operating loss carryforwards, and also a portion of its net U.S. deferred tax assets. At December 31, 2007, valuation allowances totaled $1.2 billion and covered all of FCX’s U.S. foreign tax credit carryforwards, a portion of its foreign net operating loss carryforwards and a portion of its U.S. state net operating loss carryforwards. The $598 million increase in the valuation allowance during 2008 was primarily a result of additional valuation allowances recorded against U.S. foreign tax credit carryforwards, U.S. minimum tax credit carryforwards and U.S. state net operating loss carryforwards. The establishment of a valuation allowance against all of the U.S. minimum tax credit carryforwards was primarily the result of the decline in copper and molybdenum prices and the long-lived asset impairment charges recorded in the fourth quarter of 2008.

Income taxes are provided on the earnings of FCX’s material foreign subsidiaries under the assumption that these earnings will be distributed. FCX has not provided for other differences between the book and tax carrying amounts of these investments as FCX considers its ownership position to be permanent in duration and quantification of the related deferred tax liability is not practicable.

A summary of the activities associated with FCX’s FIN 48 reserve for unrecognized tax benefits, interest and penalties follows:

	Unrecognized Tax Benefits	Interest	Penalties
Balance at January 1, 2007	$ 41	$ 11	$ –
Additions:			
Acquisition of Phelps Dodge	169	7	2
Prior year tax positions	9	*	*
Current year tax positions	38	*	*
Associated with interest and penalties	–	6	–
Decreases:			
Prior year tax positions	(53)	*	*
Lapse of statue of limitations	(2)	*	*
Associated with interest and penalties	–	(5)	(2)
Balance at December 31, 2007	202	19	–
Additions:			
Prior year tax positions	14	*	*
Current year tax positions	32	*	*
Associated with interest and penalties	–	5	–
Decreases:			
Prior year tax positions	(3)	*	*
Lapse of statue of limitations	(7)	*	*
Associated with interest and penalties	–	(1)	–

Balance at December 31, 2008	$	238	$	23	$	–

* Amounts not allocated.

The reserve for unrecognized tax benefits of $238 million at December 31, 2008, includes $143 million ($84 million net of income tax benefits) that, if recognized, would reduce FCX’s provision for income taxes.

Changes in the reserve for unrecognized tax benefits associated with current year tax positions were primarily related to uncertainties associated with FCX’s cost recovery methods. Changes in the reserve for unrecognized tax benefits associated with prior year tax positions were primarily related to the refinement of estimated information to actual.
160

Table of Contents

It is reasonably possible that FCX will experience a $25 million to $35 million decrease in its reserve for unrecognized tax benefits within the next twelve months. FCX would experience this decrease in relation to uncertainties associated with its cost recovery methods if a settlement is reached with taxing authorities.

FCX or its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The tax years for FCX and its significant subsidiaries that remain subject to examination are as follows:

Jurisdiction	Years Under Examination	Additional Open Years
U.S. Federal	2003-2005	2006-2008
Indonesia	2005-2006	2004, 2007-2008
Peru	2002-2005	2006-2008
Chile	2007	2005-2006, 2008
Arizona	–	2003-2008
New Mexico	–	2003-2008

NOTE 15. CONTINGENCIES

Environmental. FCX incurred aggregate environmental capital expenditures and other environmental costs, including joint venture partners' share, totaling $468 million in 2008, $320 million in 2007 and $63 million in 2006.

FCX subsidiaries that operate in the U.S. are subject to various federal, state and local environmental laws and regulations that govern emissions of air pollutants; discharges of water pollutants; and generation, handling, storage and disposal of hazardous substances, hazardous wastes and other toxic materials. FCX subsidiaries that operate in the U.S. also are subject to potential liabilities arising under CERCLA or similar state laws that impose responsibility on persons who arranged for the disposal of hazardous substances, and on current and previous owners and operators of a facility for the cleanup of hazardous substances released from the facility into the environment, including damages to natural resources. With the passage of CERCLA in 1980, companies like FMC became legally responsible for environmental remediation on properties previously owned or operated by them, irrespective of when the damage to the environment occurred or who caused it. That liability often is shared on a joint and several basis with all other owners and operators, meaning that each owner or operator of the property is fully responsible for the clean-up, although in many cases some or all of the other historical owners or operators no longer exist, do not have the financial ability to respond or cannot be found. As a result, because of FCX's acquisition of Phelps Dodge in 2007, many of the subsidiary companies FCX now owns are responsible for a wide variety of environmental remediation projects throughout the U.S. FCX expects to spend substantial sums annually for many years to address those remediation issues. Certain FCX subsidiaries have been advised by the U.S. Environmental Protection Agency (EPA), the Department of the Interior, the Department of Agriculture and several state agencies that, under CERCLA or similar state laws and regulations, they may be liable for costs of responding to environmental conditions at a number of sites that have been or are being investigated to determine whether releases of hazardous substances have occurred and, if so, to develop and implement remedial actions to address environmental concerns. As of December 31, 2008, FCX had more than 100 active remediation projects in the U.S. in approximately 25 states. FCX is also subject to claims where the release of hazardous substances is alleged to have damaged natural resources.

A summary of changes in environmental obligations for the years ended December 31, 2008 and 2007, follows:

	2008	2007
Balance at beginning of year	$ 1,268	$ –
Liabilities assumed in the acquisition of Phelps Dodge	117	1,334
Accretion expensea	95	–
Additions	36	6

Reductions		(1)		(1)
Spending		(114)		(71)
Balance at end of year		1,401		1,268
Less current portion		(120)		(166)
Long-term portion	$	1,281	$	1,102

a. Represents accretion of the fair value of environmental obligations assumed in the acquisition of Phelps Dodge, which were determined on a discounted cash flow basis.

161

Table of Contents

As a result of the acquisition of Phelps Dodge, FCX was required to record Phelps Dodge's environmental obligations at fair value on the acquisition date in accordance with SFAS No. 141, "Business Combinations." At the acquisition date, Phelps Dodge's historical environmental obligations of $385 million, before purchase accounting adjustments to fair value, were based on accounting guidance provided by SFAS No. 5, "Accounting for Contingencies," and SOP 96-1, which require that an estimated loss be recorded for a loss contingency if, prior to the issuance of the financial statements, it is probable that a liability had been incurred and the loss can be reasonably estimated. Amounts recorded under this guidance are generally not considered fair value. FCX has an environmental and legal group dedicated to the ongoing review and monitoring of environmental remediation sites. At the acquisition date, the largest environmental remediation sites were undergoing studies to evaluate the extent of the environmental damage and the available remedies. Advancement of these studies and consideration of alternative remedies and cost sharing arrangements resulted in FCX's calculation of the estimated fair values being approximately $1.1 billion greater than the historical Phelps Dodge estimates. FCX finalized the allocation of the purchase price associated with the Phelps Dodge acquisition in the first quarter of 2008. As a result, the fair value of the environmental obligations was estimated at approximately $1.45 billion. Significant adjustments to these reserves could occur in the future. New environmental obligations will be recorded in accordance with SFAS No. 5 and SOP 96-1, as described in Note 1 under "Environmental Expenditures."

FCX believes that there may be other potential claims for recovery from other third parties, including the U.S. government and other PRPs. These potential recoveries are not recognized unless realization is considered probable.

At December 31, 2008, the most significant environmental obligations are associated with the Pinal Creek site, several historical smelter sites principally located in Arizona, Kansas and Oklahoma, and uranium mining sites in the western U.S. The recorded environmental reserves for these sites totaled $954 million at December 31, 2008. A discussion of these sites follows.

Pinal Creek. FCX is a party to litigation entitled Pinal Creek Group, et al. v. Newmont Mining Corporation, et al., United States District Court, District of Arizona, Case No. CIV 91-1764 PHX DAE (LOA), filed on May 1, 1991. The Pinal Creek site located near Miami, Arizona, was listed under the Arizona Department of Environmental Quality (ADEQ) Water Quality Assurance Revolving Fund program in 1989 for contamination in the shallow alluvial aquifers within the Pinal Creek drainage near Miami, Arizona. Since that time, environmental remediation has been performed by the members of the Pinal Creek Group (PCG), consisting of Phelps Dodge Miami, Inc. (Miami), a wholly owned subsidiary of FMC, and two other companies. In 1998, the District Court approved a Consent Decree between the PCG members and the state of Arizona resolving all matters related to an enforcement action contemplated by the state of Arizona against the PCG members with respect to groundwater. The Consent Decree committed the PCG members to complete the remediation work outlined in the Consent Decree. That work continues at this time pursuant to the Consent Decree and consistent with state law and the National Contingency Plan prepared by EPA under CERCLA.

Remediation has been proceeding pursuant to an interim allocation of cost sharing among the members of the PCG, with Miami's interim allocation being approximately two-thirds; however, there are significant disagreements among the members of the PCG regarding the allocation of the cost of remediation. Discovery disputes resulted in a sanctions order against Miami that included significant evidentiary restrictions on Miami's case. The trial on the allocation issue will be scheduled after the final determination of Miami's pending interlocutory appeal of a trial court ruling on the liability standard that should apply to one of the remaining defendants on Miami's case. A final determination of the allocation, if different from the interim allocation, would likely result in a "true up" payment with respect to the remediation that has already been completed from the party found to be responsible for a higher proportion than the interim allocation and would establish the cost-sharing proportions for the remainder of the clean up. The overall cost of the clean up is expected to be significant.

Historical Smelter Sites. FMC and its predecessors at various times owned or operated historical copper and zinc smelters in several states, including Arizona, Kansas, Oklahoma and Pennsylvania. For some of these smelter sites, certain FCX subsidiaries have been advised by EPA or state agencies that they may be liable for costs of investigating and, if appropriate, remediating environmental conditions associated with the smelters. At other sites, certain FCX subsidiaries have entered into state voluntary remediation programs to investigate and, if appropriate, remediate site conditions associated with the smelters. The historical smelter sites are in various stages of assessment, with the current most significant individual site being the one located in Blackwell, Oklahoma.

162

Table of Contents

From 1916 to 1974, Blackwell Zinc Company, Inc. (BZC), currently a subsidiary of FCX, owned and operated a zinc smelter in Blackwell, Oklahoma. In 1974, the smelter was demolished and the property deeded to the Blackwell Industrial Authority. Pursuant to an administrative order with the State of Oklahoma (the State), BZC undertook remedial actions in Blackwell in 1996 and 1997, including sampling residential and commercial properties, and removing soils on properties that were found to have metal concentrations above state-established cleanup standards. From 1997 to 2003, BZC investigated the nature and extent of groundwater contamination potentially attributable to the former smelter and evaluated options for remedying such contamination. In 2003, the State adopted a cleanup plan requiring the installation of a groundwater extraction and treatment system and the closure of domestic groundwater wells within the groundwater plume area. BZC is prepared to install the groundwater extraction and treatment system as soon as the necessary building permits are issued by Blackwell.

In 2007, FCX, on behalf of BZC, commenced a voluntary community outreach program inviting property owners in and around Blackwell to have their properties sampled for the presence of smelter-related contaminants, and agreed to remediate properties whose soils are found to have metal concentrations above state-established cleanup standards. As a result of these efforts, owners of about 3,800 properties requested sampling, representing over 90 percent of all eligible properties. Based on sampling results from approximately two-thirds of the properties, about 16 percent of sampled yards and 5 percent of alleyways require some level of cleanup.

Residential yard cleanups started in October 2008. All of these soil sampling and remediation activities are being coordinated with, and supervised by, the State.

On April 14, 2008, a purported class action was filed in the District Court of Kay County, Oklahoma, against FCX, and several direct and indirect subsidiaries, including BZC, and several other parties, entitled Coffey, et al., Plaintiffs, v. Freeport-McMoRan Copper & Gold, Inc., et al., Defendants, Kay County, Oklahoma District Court, Case No. CJ-2008-68. The suit alleges that the operations of BZC’s zinc smelter in Blackwell, Oklahoma, from 1918 to 1974 resulted in contamination of the soils and groundwater in Blackwell and the surrounding area. Unspecified compensatory and punitive damages are sought on behalf of the putative class members for alleged diminution in property values. There is also a request for an order compelling remediation of alleged contaminated properties and the establishment of a monetary fund to monitor the present and future health of the putative class members. FCX intends to defend this matter vigorously.

Uranium Mining Sites. During a period between 1940 and the early 1970s, certain FMC predecessor entities were involved in uranium exploration and mining in the western U.S. Similar exploration and mining activities by other companies have caused environmental impacts that have warranted remediation, and EPA and local authorities are currently evaluating the need for significant clean-up activities in the region. To date, FMC has undertaken remediation at a limited number of sites associated with these predecessor entities. FCX recognized the existence of a potential liability for these activities and had environmental reserves for six former uranium sites. An initiative to gather additional information about sites in the region is ongoing, and information gathered under this initiative was submitted to EPA Region 9 during the second and third quarters of 2008 in response to an information request by EPA regarding uranium mining activities on Navajo Nation properties. FCX utilized the results of FMC’s remediation experience, in combination with historical and updated information gathered to date, to initially estimate its fair value of uranium-related liabilities assumed in the Phelps Dodge acquisition.

Asset Retirement Obligations (AROs). FCX’s ARO cost estimates are reflected on a third-party cost basis and comply with FCX’s legal obligation to retire tangible, long-lived assets as defined by SFAS No. 143.

A summary of changes in FCX’s AROs for the years ended December 31, 2008, 2007 and 2006, follows:

	2008	2007	2006

Balance at beginning of year	$	728	$	30	$	27
Liabilities assumed in the acquisition of Phelps Dodge		–		531a		–
Liabilities incurred		5		1		–
Revisions to cash flow estimates		21		179		–
Accretion expense		51		27		3
Spending		(91)		(40)		–
Foreign currency translation adjustment		(2)		–		–
Balance at end of year		712		728		30
Less current portion		(42)		(97)		–
Long-term portion	$	670	$	631	$	30

163

Table of Contents

a. The fair value of AROs assumed in the acquisition of Phelps Dodge was estimated based on projected cash flows, an estimated long-term annual inflation rate of 2.4 percent, a discount rate based on FCX's estimated credit-adjusted, risk-free interest rate of 7.8 percent and a market risk premium of 10 percent to reflect what a third-party might require to assume these AROs.

ARO costs may increase or decrease significantly in the future as a result of changes in regulations, engineering designs and technology, permit modifications or updates, mine plans, cost of inflation or other factors and as actual reclamation spending occurs. ARO activities and expenditures generally are made over an extended period of time commencing near the end of the mine life; however, certain reclamation activities could be accelerated if required, or if they are determined to be economically beneficial.

The most significant revisions to cash flow estimates in 2007 were related to changes at Chino, Tyrone and PT Freeport Indonesia. During 2007, Chino and Tyrone each submitted updated third-party closure cost estimates to the state of New Mexico as part of the closure permit renewal process. As a result, FCX revised its cash flow estimates and increased its ARO by $95 million for Chino and $45 million for Tyrone. Additional adjustments may be required based upon the state's review of the updated closure plans and any permit conditions imposed by the state of New Mexico. Additionally, PT Freeport Indonesia updated its cost estimates primarily for changes to its plans for the treatment of acidic water, resulting in an increase of $33 million.

Legal requirements in New Mexico, Arizona and Colorado require financial assurance to be provided for the estimated costs of reclamation and closure, including groundwater quality protection programs. FCX has satisfied financial assurance requirements by using a variety of mechanisms, such as third-party performance guarantees, financial capability demonstrations, trust funds, surety bonds, letters of credit and collateral. The applicable regulatory requirements provide financial strength tests to support performance guarantees and financial capability demonstrations, which are designed to confirm a company's or guarantor's financial capability to fund future estimated reclamation and closure costs. The amount of financial assurance FCX is required to provide will vary with changes in laws, regulations and reclamation and closure cost estimates. As of December 31, 2008, FCX's financial assurance obligations associated with closure and reclamation costs totaled $708 million, of which approximately $425 million was in the form of parent company guarantees and financial capability demonstrations. At December 31, 2008, FCX had trust assets totaling $114 million, which are legally restricted to fund a portion of its AROs for Chino, Tyrone and Cobre as required by New Mexico regulatory authorities. During 2008, FCX's trust assets that were voluntarily designated for funding global reclamation and remediation activities decreased by $430 million resulting primarily from reimbursement of previously incurred costs for reclamation and environmental activities.

New Mexico Environmental and Reclamation Programs. FCX's New Mexico operations are subject to regulation under the New Mexico Water Quality Act and the Water Quality Control Commission (WQCC) regulations adopted under that Act. The New Mexico Environment Department (NMED) has required each of these operations to submit closure plans for NMED's approval. The closure plans must include measures to assure meeting groundwater quality standards following the closure of discharging facilities and to abate any groundwater or surface water contamination.

FCX's New Mexico operations also are subject to regulation under the New Mexico Mining Act (the Mining Act), which was enacted in 1993, and the Mining Act rules, which are administered by the Mining Minerals Division (MMD). Under the Mining Act, mines are required to submit and obtain approval of closeout plans describing the reclamation to be performed following cessation of mining operations at all or a portion of the mines. At December 31, 2008, FCX had accrued reclamation and closure costs of $372 million for its New Mexico operations. As stated above, additional accruals may be required based on the state's review of FCX's updated closure plans and any resulting permit conditions, and the amount of those accruals could be material.

Arizona Environmental and Reclamation Programs. FCX's Arizona properties are subject to regulatory oversight and compliance in several areas. The Arizona Department of Environmental Quality (ADEQ) has adopted regulations for its aquifer protection permit (APP) program that replaced previous Arizona groundwater quality protection permit regulations. APP regulations require permits for certain facilities, activities and structures for mining, concentrating and smelting and require compliance with aquifer water quality standards at an applicable point of compliance well or location. The APP program also may require mitigation and discharge reduction or elimination of some discharges.

164

Table of Contents

An application for an APP requires a description of a closure strategy to meet applicable groundwater protection requirements following cessation of operations and a cost estimate to implement the closure strategy. An APP may specify closure requirements, which may include post-closure monitoring and maintenance requirements. A more detailed closure plan must be submitted within 90 days after a permitted entity notifies ADEQ of its intent to cease operations. A permit applicant must demonstrate its financial capability to meet the closure costs required under the APP.

Portions of the Arizona mining facilities that operated after January 1, 1986, also are subject to the Arizona Mined Land Reclamation Act (AMLRA). AMLRA requires reclamation to achieve stability and safety consistent with post-mining land use objectives specified in a reclamation plan. Reclamation plans require approval by the State Mine Inspector and must include a cost estimate to perform the reclamation measures specified in the plan. During 2008, FCX updated its closure approach at Sierrita and Tohono to address site-specific regulatory obligations and will continue to evaluate options for future reclamation and closure activities at its other operating and non-operating sites, which are likely to result in additional adjustments to FCX's ARO liabilities. At December 31, 2008, FCX had accrued reclamation and closure costs of $164 million for its Arizona operations.

PT Freeport Indonesia Reclamation and Closure Programs. The ultimate amount of reclamation and closure costs to be incurred at PT Freeport Indonesia's operations will be determined based on applicable laws and regulations and PT Freeport Indonesia's assessment of appropriate remedial activities in the circumstances, after consultation with governmental authorities, affected local residents and other affected parties and cannot currently be projected with precision. 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 as more complete studies are performed. Some reclamation costs will be incurred during mining activities, while most closure costs and the remaining reclamation costs will be incurred at the end of mining activities, which are currently estimated to continue for more than 32 years. At December 31, 2008, PT Freeport Indonesia had accrued reclamation and closure costs of $83 million.

In 1996, PT Freeport Indonesia began contributing to a cash fund ($11 million balance at December 31, 2008) designed to accumulate at least $100 million (including interest) by the end of its Indonesian mining activities. PT Freeport Indonesia plans to use this fund, including accrued interest, to pay the above-mentioned mine closure and reclamation costs. Any costs in excess of the $100 million fund would be funded by operational cash flow or other sources.

In May 2008, the Indonesian Minister of the Department of Energy and Mineral Resources issued a new regulation regarding mine reclamation and closure, which requires a company to provide a mine closure guarantee in the form of a time deposit placed in a state-owned bank in Indonesia. PT Freeport Indonesia does not believe that a deposit is required under the terms of its Contract of Work, but is working with the Department of Energy and Mineral Resources to review these requirements and discuss other options for the mine closure guarantee.

Litigation. FCX is subject to legal proceedings claims and liabilities that arise in the normal course of business. FCX believes the amount of the ultimate liability with respect to those matters will not have a material adverse effect, either individually or in the aggregate, upon its business, financial condition, liquidity, results of operations or cash flow.

Since approximately 1990, FMC or its subsidiaries have been named as a defendant in product liability or premises lawsuits claiming injury from exposure to asbestos found in electrical wire products produced or marketed many years ago, or from asbestos at certain FMC properties. FCX believes its liability, if any, in these matters will not have a material adverse effect, either individually or in the aggregate, upon its business, financial condition, liquidity, results of operations or cash flow. There can be no assurance, however, that future developments will not alter this conclusion.

Letters of Credit and Surety Bonds. Standby letters of credit totaled $81 million at December 31, 2008, primarily for reclamation and environmental obligations and workers' compensation insurance programs. In addition, FCX had surety bonds totaling $89 million at December 31, 2008, associated with reclamation and closure ($66 million – see discussion above), self-insurance bonds primarily for workers' compensation ($21 million) and miscellaneous bonds ($2 million).

Insurance. FCX purchases a variety of insurance products to mitigate potential losses. The various insurance products typically have specified deductible amounts, or self-insured retentions, and policy limits. FCX generally is
165

self-insured for U.S. workers' compensation, but purchases excess insurance up to statutory limits. An actuarial analysis is performed twice a year for various FCX casualty programs, including workers' compensation, to estimate required insurance reserves. Insurance reserves totaled $60 million at December 31, 2008, which consisted of a current portion of $10 million (included in accounts payable and accrued liabilities) and a long-term portion of $50 million (included in other liabilities).

Other. In December 2008, Cerro Verde was notified by Peruvian taxing authorities of their intent to assess mining royalties related to the minerals processed by the Cerro Verde concentrator. The amount claimed to be due through December 2007 is approximately $33 million. FCX believes that Cerro Verde's royalty obligations with respect to all minerals extracted are governed by its existing stability agreement, regardless of the processing method applied after extraction, and believes that Cerro Verde owes no royalties with respect to minerals processed through its concentrator. FCX intends to work cooperatively with the Peruvian authorities to resolve this matter.

NOTE 16. COMMITMENTS AND GUARANTEES

Operating Leases. FCX leases various types of properties, including offices and equipment. A summary of future minimum rentals under these non-cancelable leases at December 31, 2008, follows:

2009	$	26
2010		22
2011		17
2012		8
2013		4
After 2013		5
Total payments	$	82

Minimum payments under operating leases have not been reduced by aggregate minimum sublease rentals, which are minimal.

Total aggregate rental expense under operating leases was $90 million in 2008, $54 million in 2007 and $10 million in 2006.

Contractual Obligations. Based on applicable prices at December 31, 2008, FCX has unconditional purchase obligations of $1.2 billion, primarily comprising the procurement of copper concentrates and cathodes ($522 million), transportation ($184 million) and oxygen ($163 million) that are essential to its operations worldwide. Some of FCX's unconditional purchase obligations are settled based on the prevailing market rate for the service or commodity purchased. In some cases, the amount of the actual obligation may change over time because of market conditions. Obligations for copper concentrates and cathodes provide for deliveries of specified volumes, at market-based prices, primarily to Atlantic Copper and the North America copper mines. Transportation obligations are primarily for South America contracted ocean freight rates and for North America natural gas transportation. Oxygen obligations provide for deliveries of specified volumes, at fixed prices, primarily to Atlantic Copper.

FCX's future commitments total $694 million in 2009, $182 million in 2010, $124 million in 2011, $39 million in 2012, $24 million in 2013 and $151 million thereafter. During 2008, 2007 and 2006, FCX fulfilled its minimum contractual purchase obligations or negotiated settlements in those situations in which it terminated an agreement containing an unconditional obligation.

Mining Contracts. Indonesia. FCX is entitled to mine in Indonesia under the "Contract of Work" between PT Freeport Indonesia and the Government of Indonesia. The original Contract of Work was entered into in 1967 and was replaced with a new Contract of Work in 1991. The initial term of the current Contract of Work expires in 2021, but can be

extended by PT Freeport Indonesia for two 10-year periods, subject to Indonesian government approval, which cannot be withheld or delayed unreasonably. Given the importance of contracts of work under the Indonesian legal system and PT Freeport Indonesia's approximately 40 years of working with the Indonesian government, which included entering into the Contract of Work in 1991 well before the expiration of the 1967 Contract of Work, PT Freeport Indonesia fully expects that the government will approve the extensions as long as it continues to comply with the terms of the Contract of Work.

Table of Contents

In July 2004, FCX 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 the operations, FCX agreed, at the time, 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 FCX to divest any portion of its ownership in PT Freeport Indonesia or PT Indocopper Investama. In May 2008, FCX signed a Memorandum of Understanding with the Papua provincial government (the Province) whereby the parties agreed to work cooperatively to determine the feasibility of an acquisition by the Province of the PT Indocopper Investama shares at fair market value.

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.

A large part of the mineral royalties under Government of Indonesia regulations is designated to the provinces from which the minerals are extracted. In connection with its 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. The additional royalty for copper equals the Contract of Work royalty rate, and for gold and silver equals twice the Contract of Work royalty rates. Therefore, 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.

The combined royalties, including the additional royalties, which became effective January 1, 1999, totaled $113 million in 2008, $133 million in 2007 and $126 million in 2006. PT Freeport Indonesia records these royalty payments as a reduction to revenues.

Africa. In February 2008, the Ministry of Mines, Government of the DRC, sent a letter seeking comment on proposed material modifications to the mining contracts for the Tenke Fungurume concession, including the amount of transfer payments payable to the government, the government’s percentage ownership and involvement in the management of the mine, regularization of certain matters under Congolese law and the implementation of social plans. FCX responded to this letter indicating that its mining contracts were negotiated transparently and approved by the Government of the DRC following extended negotiations, and FCX believes they are fair and equitable, comply with Congolese law and are enforceable without modifications. FCX is continuing to work cooperatively with the government to resolve these matters while continuing with its project development activities.

Community Development Programs. FCX has adopted policies that govern its working relationships with the communities where it operates that are designed to guide its practices and programs in a manner that respects basic human rights and the culture of the local people impacted by FCX’s operations. FCX continues to make significant expenditures on community development, education, training and cultural programs.

In 1996, PT Freeport Indonesia established the Freeport Partnership Fund for Community Development (formerly the Freeport Fund for Irian Jaya Development) through which PT Freeport Indonesia has made available funding and technical assistance to support the economic health, education and social development of the area. PT Freeport Indonesia has committed through 2011 to provide one percent of its annual revenue for the development of the local people in its area of operations through the Freeport Partnership Fund for Community Development. PT Freeport Indonesia charged $34 million in 2008, $48 million in 2007 and $44 million in 2006 to production costs for this commitment.

FCX's Cerro Verde copper mine has provided a variety of community support projects over the years. During 2006, as a result of discussions with local mayors in the Arequipa region, Cerro Verde agreed to contribute to the design and construction of domestic water and sewage treatment plants for the benefit of the region. These facilities are being designed in a modular fashion so that initial installations can be readily expanded in the future. FCX has funded approximately 150 million Peruvian nuevo soles (approximately $49 million at December 31, 2008) to a designated bank account (included in other assets) to be used for financing Cerro Verde's share of the construction costs of these facilities.
167

Table of Contents

During 2006, the Peruvian government announced that all mining companies operating in Peru will make annual contributions to local development funds for a five-year period when copper prices exceed certain levels that are adjusted annually. The contribution is equal to 3.75 percent of after-tax profits, of which 2.75 percent is contributed to a local mining fund and 1.00 percent to a regional mining fund. The charge for these local mining fund contributions totaled $28 million in 2008 and $49 million in 2007.

Guarantees. FCX provides certain financial guarantees (including indirect guarantees of the indebtedness of others) and indemnities.

At its Morenci mine in Arizona, FCX has a venture agreement dated February 7, 1986, with Sumitomo, which includes a put and call option guarantee clause. FCX holds an 85 percent undivided interest in the Morenci complex. Under certain conditions defined in the venture agreement, Sumitomo has the right to sell its 15 percent share to FCX. Likewise, under certain conditions, FCX has the right to purchase Sumitomo's share of the venture. Based on calculations defined in the venture agreement, at December 31, 2008, the maximum potential payment FCX is obligated to make to Sumitomo upon exercise of the put option (or FCX's exercise of its call option) totaled approximately $166 million. At December 31, 2008, FCX had not recorded any liability in its consolidated financial statements in connection with this guarantee as FCX does not believe, based on information available, that it is probable that any amounts will be paid under this guarantee as the fair value of Sumitomo's 15 percent share is well in excess of the exercise price.

Prior to its acquisition by FCX, FMC and its subsidiaries have, as part of merger, acquisition, divestiture and other transactions, from time to time, indemnified certain sellers, buyers or other parties related to the transaction from and against certain liabilities associated with conditions in existence (or claims associated with actions taken) prior to the closing date of the transaction. As part of these transactions, FMC indemnified the counterparty from and against certain excluded or retained liabilities existing at the time of sale that would otherwise have been transferred to the party at closing. These indemnity provisions generally now require FCX to indemnify the party against certain liabilities that may arise in the future from the pre-closing activities of FMC for assets sold or purchased. The indemnity classifications include environmental, tax and certain operating liabilities, claims or litigation existing at closing and various excluded liabilities or obligations. Most of these indemnity obligations arise from transactions that closed many years ago, and given the nature of these indemnity obligations, it is impossible to estimate the maximum potential exposure. Except as described in the following sentence, FCX does not consider any of such obligations as having a probable likelihood of payment that is reasonably estimable, and accordingly, has not recorded any obligations associated with these indemnities. With respect to FCX's environmental indemnity obligations, any expected costs from these guarantees are accrued when potential environmental obligations are considered by management to be probable and the costs can be reasonably estimated.

Table of Contents

NOTE 17. FINANCIAL INSTRUMENTS

FCX and its subsidiaries do not purchase, hold or sell derivative financial instruments unless there is an existing asset or obligation or if FCX anticipates a future activity that is likely to occur and will result in exposure to market risks. FCX does not enter into any derivative financial instruments for speculative purposes. FCX and its subsidiaries have entered into derivative financial instruments in limited instances to achieve specific objectives. These objectives principally relate to managing risks associated with commodity price, foreign currency and interest rate risks. The fair values of FCX's financial derivative instruments are based on derivative pricing models or widely published market closing prices. As of December 31, 2008, no FCX derivative instruments met all the criteria under SFAS No. 133, as amended, to qualify as a hedge transaction. A recap of gains (losses) charged to (loss) income from continuing operations before income taxes, minority interests and equity in affiliated companies' net earnings for derivative financial instruments, including embedded derivatives, for the years ended December 31, 2008, 2007 and 2006, follows:

	2008	2007	2006
Commodity contracts:			
Embedded derivatives in provisional sales contractsa	$ (1,278)	$ 197	$ 293
Embedded derivatives in provisional purchase contractsb	34	(10)	–
Copper forward contractsb	(71)	(44)	47
Copper futures and swap contractsa	(184)	(38)	–
FMC's zero-premium copper collarsa	–	(175)	–
Gold-Denominated Preferred Stock, Series IIa	–	–	(69)
Silver-Denominated Preferred Stocka	–	–	(13)
Foreign currency exchange contractsb	–	–	7

a. Amounts recorded in revenues.

b. Amounts recorded in cost of sales as production and delivery costs.

Summarized below are financial instruments whose carrying amounts are not equal to their fair values and unsettled derivative financial instruments at December 31, 2008 and 2007:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Commodity contracts:				
Embedded derivatives in provisional sales/ purchases contracts:a				
Asset position	$ 87	$ 87	$ 34	$ 34
Liability position	(485)	(485)	(157)	(157)
Copper forward contracts:				
Liability positionb	(4)	(4)	(4)	(4)
Copper futures and swap contracts:				
Asset positionc	2	2	–	–
Liability positionb, d	(89)	(89)	(9)	(9)
Long-term debt (including amounts due within one year)	(7,351)	(5,889)	(7,211)	(7,595)

a. Amounts recorded either as a net accounts receivable or a net accounts payable except for Atlantic Copper's copper purchases, which are recorded to product inventories ($56 million for 2008 and $18 million for 2007).

b. Amounts recorded in accounts payable and accrued liabilities.

c. Amounts recorded in accounts receivable.

d. At December 31, 2008, FCX had paid $92 million to brokers for margin requirements, which is recorded in other current assets.

Commodity Contracts. From time to time, FCX has entered into forward, futures, swaps and option contracts to hedge the market risk associated with fluctuations in the prices of commodities it sells. Derivative financial instruments used by FCX to manage its risks do not contain credit risk-related contingent provisions. As of December 31, 2008 and 2007, FCX had no price protection contracts relating to its mine production. A summary of FCX’s derivative contracts and programs follows.

169

Table of Contents

Embedded Derivatives. As described in Note 1 under "Revenue Recognition," a portion of FCX's copper concentrate and cathode sales contracts and gold sales contracts provides for provisional pricing primarily based on LME or COMEX prices at the time of shipment as specified in the contract. Similarly, FCX purchases copper and molybdenum under contracts that provide for provisional pricing. FCX applies the normal purchase and sale exception under SFAS No. 133, as amended, to the host sales agreements since the contracts do not allow for net settlement and always result in physical delivery. Under SFAS No. 133, as amended, sales and purchases made on a provisional sales price contain an embedded derivative (i.e., the price settlement mechanism that is settled after the time of delivery) that is required to be bifurcated from the host contract. The host contract is the sale or purchase of the metals contained in the concentrates or cathodes at the then-current LME or COMEX price. Mark-to-market price fluctuations recorded through the settlement date are reflected in revenues for sales contracts and in cost of sales as production and delivery costs for purchase contracts. At December 31, 2008, FCX had embedded derivatives on 508 million pounds of copper sales (net of minority interests), with maturities through May 2009 and 113 million pounds of copper purchases, with maturities through March 2009.

Copper Forward Contracts. Atlantic Copper enters into forward copper contracts designed to hedge its copper price risk whenever its physical purchases and sales pricing periods do not match. These economic hedge transactions are intended to hedge against changes in copper prices, with the mark-to-market hedging gains or losses recorded to cost of sales. At December 31, 2008, Atlantic Copper held forward copper purchase contracts for 55 million pounds at an average price of $1.45 per pound, with maturities through February 2009.

Copper Futures and Swap Contracts. Some of FCX's U.S. copper rod customers request a fixed market price instead of the COMEX average price in the month of shipment. FCX hedges this price exposure in a manner that allows it to receive the COMEX average price in the month of shipment while the customers pay the fixed price they requested. FCX accomplishes this by entering into copper futures and swap contracts and then liquidating the copper futures contracts and settling the copper swap contracts during the month of shipment, which generally results in FCX receiving the COMEX average price in the month of shipment. Gains and losses for these economic hedge transactions are recorded to revenues. At December 31, 2008, FCX held copper futures and swap contracts for 93 million pounds at an average price of $2.34 per pound, with maturities through December 2010.

FMC Copper Collars. As a result of the acquisition of Phelps Dodge, FCX assumed Phelps Dodge's 2007 copper price protection program ($423 million obligation at acquisition date), which consisted of zero-premium copper collars (consisting of both put and call options) for 486 million pounds of copper capped at $2.00 per pound and copper put options for 730 million pounds with a floor price of $0.95 per pound. The zero-premium copper collars consisted of the simultaneous purchase of a monthly or annual put option and the sale of an annual call option. The put option portion of this economic hedge effectively ensured a minimum price per pound while the call option portion established a maximum price per pound. The primary objective of these contracts was to set a minimum price, and the secondary objective was to retain market upside. At December 31, 2007, the copper put options expired without settlement, and FCX paid $598 million in January 2008 to settle the copper call options. FCX does not currently intend to enter into similar hedging programs in the future.

Gold- and Silver-Denominated Preferred Stock. In 2006, FCX redeemed its gold-denominated and silver-denominated preferred stock that had dividends and redemption amounts determined by commodity prices.

Foreign Currency Exchange Contracts. As a global company, FCX transacts business in many countries and in many currencies. Foreign currency transactions of FCX's international subsidiaries increase its risks because exchange rates can change between the time agreements are made and the time foreign currency transactions are settled. FCX may hedge or protect its international subsidiaries' foreign currency transactions from time to time by entering into forward exchange contracts to lock in or minimize the effects of fluctuations in exchange rates. FCX had no outstanding foreign currency exchange contracts at December 31, 2008.

Interest Rate Swap Contracts. From time to time, FCX or its subsidiaries may enter into interest rate swaps to manage its exposure to interest rate changes on a portion of its debt. Floating-rate debt exposes FCX to increasing costs from rising interest rates. FCX may enter into interest rate swap contracts to lock in an interest rate considered to be favorable in order to protect against its exposure to variability in future interest payments attributable to increases in interest rates of the designated floating-rate debt. FCX had no outstanding interest rate swap contracts at December 31, 2008.

170

Table of Contents

Credit Risk. FCX is exposed to credit loss when financial institutions with which FCX has entered into derivative transactions (commodity, foreign exchange and interest rate swaps) are unable to pay. To minimize the risk of such losses, FCX uses highly rated financial institutions that meet certain requirements. FCX also periodically reviews the creditworthiness of these institutions to ensure that they are maintaining their ratings. FCX does not anticipate that any of the financial institutions FCX deals with will default on their obligations. As of December 31, 2008, FCX did not have any significant credit exposure associated with derivative transactions.

Other Financial Instruments. The methods and assumptions FCX used to estimate the fair value of significant groups of financial instruments for which it can reasonably determine a value are as follows:

Cash and Cash Equivalents. The financial statement amount is a reasonable estimate of the fair value because of the short maturity of these instruments.

Trust Assets. The financial statement amount represents the fair value of trust assets, which is based on quoted market prices.

Long-Term Debt. The fair value of substantially all of FCX's long-term debt is estimated based on quoted market prices.

NOTE 18. ACQUISITION OF PHELPS DODGE

On March 19, 2007, FCX acquired Phelps Dodge, a fully integrated producer of copper and molybdenum, with mines in North and South America and processing capabilities for other by-product minerals, such as gold, silver and rhenium, and several development projects, including Tenke Fungurume in the DRC.

In the acquisition, each share of Phelps Dodge common stock was exchanged for 0.67 of a share of FCX common stock and $88.00 in cash. As a result, FCX issued 136.9 million shares and paid $18.0 billion in cash to Phelps Dodge shareholders. The acquisition was accounted for under the purchase method as required by SFAS No. 141 with FCX as the accounting acquirer.

The estimated fair value of assets acquired and liabilities assumed and the results of Phelps Dodge's (now known as FMC) operations are included in FCX's consolidated financial statements beginning March 20, 2007.

The following table summarizes the $25.8 billion purchase price, which was funded through a combination of common shares issued, borrowings under an $11.5 billion senior credit facility, proceeds from the offering of $6.0 billion of senior notes (see Note 11 for further discussion) and available cash resources:

Phelps Dodge common stock outstanding and issuable at March 19, 2007 (in millions)		204.3
Exchange offer ratio per share of FCX common stock for each Phelps Dodge common share		0.67
Shares of FCX common stock issued (in millions)		136.9
Cash consideration of $88.00 for each Phelps Dodge common share	$	17,979a
Fair value of FCX common stock issued		7,781b
Transaction and change of control costs and related employee benefits		137
Release of FCX deferred tax asset valuation allowances		(92)c
Total purchase price	$	25,805

a. Cash consideration includes cash paid in lieu of any fractional shares of FCX stock.

b. Measurement of the common stock component of the purchase price was based on a weighted-average closing price of FCX's common stock of $56.85 for the two days prior to through two days after the public announcement of the merger on November 19, 2006.

c. FCX determined that, as a result of the acquisition of Phelps Dodge, it would be able to realize certain U.S. tax credits for which it had previously not recognized any benefit. Recognition of these tax credits resulted in a $92 million reduction to the purchase price.

171

Table of Contents

In accordance with the purchase method of accounting, the purchase price paid was determined at the date of the public announcement of the transaction and was allocated to the assets acquired and liabilities assumed based upon their estimated fair values on the closing date of March 19, 2007. In valuing acquired assets and assumed liabilities, fair values were based on, but not limited to: quoted market prices, where available; the intent of FCX with respect to whether the assets purchased were to be held, sold or abandoned; expected future cash flows; current replacement cost for similar capacity for certain fixed assets; market rate assumptions for contractual obligations; and appropriate discount rates and growth rates. The excess of the purchase price over the estimated fair value of the net assets acquired was recorded as goodwill. At the date of acquisition of Phelps Dodge, copper price projections used to value the assets acquired ranged from near-term prices of $2.98 per pound for copper declining over an eight-year period to $1.20 per pound and $26.20 per pound for molybdenum declining over a five-year period to $8.00 per pound, reflecting price expectations at that time.

A summary of the final purchase price allocation as of March 19, 2007, follows (in billions):

	Phelps Dodge Historical Balances	Fair Value Adjustments	Purchase Price Allocation
Cash and cash equivalents	$ 4.2	$ –	$ 4.2
Inventories, including mill and leach stockpiles	0.9	2.8	3.7
Property, plant and equipmenta	6.0	16.2	22.2
Other assets	3.1	0.2	3.3
Allocation to goodwillb	–	6.2	6.2c
Total assets	14.2	25.4	39.6
Deferred income taxes (current and long-term)d	(0.7)	(6.3)	(7.0)
Other liabilities	(4.1)	(1.5)	(5.6)
Minority interests	(1.2)	–	(1.2)
Total	$ 8.2	$ 17.6	$ 25.8

a. Includes amounts for proven and probable reserves and values of VBPP (see Note 1).

b. None of the $6.2 billion of goodwill was deductible for tax purposes.

c. Includes $160 million of goodwill associated with PDIC, which was sold in the fourth quarter of 2007 (see Note 4).

d. Deferred income taxes were recognized based on the difference between the tax basis and the estimated fair values assigned to net assets.

Unaudited Pro Forma Financial Information. The following unaudited pro forma financial information assumes that FCX acquired Phelps Dodge effective January 1, 2007. The most significant adjustments relate to the purchase accounting impacts of increases in the carrying values of acquired metal inventories (including mill and leach stockpiles) and property, plant and equipment using March 19, 2007, metal prices and assumptions:

	Historical			
	FCX	Phelps Dodgea	Pro Forma Adjustments	Pro Forma Consolidated
Year Ended December 31, 2007				
Revenues	$ 16,939	$ 2,294	$ –	$ 19,233b

Operating income	6,555	793	(178)	7,170b,c

a. Represents the results of Phelps Dodge’s operations from January 1, 2007, through March 19, 2007. Beginning March 20, 2007, the results of Phelps Dodge’s operations are included in FCX’s consolidated financial information.

b. Includes charges to revenues for mark-to-market accounting adjustments on copper price protection programs totaling $195 million. Also includes credits for amortization of acquired intangible liabilities totaling $120 million.

c. Includes charges associated with the impacts of the increases in the carrying values of acquired metal inventories (including mill and leach stockpiles) and property, plant and equipment, and also includes the amortization of intangible assets and liabilities resulting from the acquisition totaling $1.7 billion.

172

Table of Contents

The above unaudited pro forma consolidated financial information has been prepared for illustrative purposes only and is not intended to be indicative of the results that would actually have occurred, or the results expected in future periods, had the events reflected herein occurred on the dates indicated.

NOTE 19. BUSINESS SEGMENTS
FCX has organized its operations into five primary divisions – North America copper mines, South America copper mines, Indonesia mining, Africa mining and Molybdenum operations. Notwithstanding this structure, FCX internally reports information on a mine-by-mine basis. Therefore, in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," FCX concluded that its operating segments include individual mines. Operating segments that meet certain SFAS No. 131 thresholds are reportable segments.

During 2008, FCX revised the presentation of its operating divisions to better reflect management's view of the consolidated FCX operations. Additionally, in 2008, Sierrita and Africa mining became reportable segments. FCX has revised its segment disclosures for the years ended December 31, 2007 and 2006, to conform with the current year presentation.

Further discussion of the reportable segments included in FCX's operating divisions, as well as FCX's other reportable segments – Rod & Refining and Atlantic Copper Smelting & Refining – follows. See Note 3 for information on FCX's ownership interests.

North America Copper Mines. Until the fourth quarter of 2008, FCX had seven operating copper mines in North America – Morenci, Sierrita, Bagdad, Safford and Miami in Arizona and Chino and Tyrone in New Mexico. As a result of the revised operating plans, mining and milling activities have been suspended at Chino, and the project to restart the Miami mine has been deferred. The North America copper mines include open-pit mining, sulfide ore concentrating, leaching and SX/EW operations. A majority of the copper produced at the North America copper mines is cast into copper rod by FCX's Rod & Refining operations. The North America copper mines division includes Morenci and Sierrita as reportable segments.

Morenci. The Morenci open-pit mine, located in southeastern Arizona, primarily produces copper cathodes and copper concentrates. In addition to copper, the Morenci mine produces a small amount of molybdenum concentrates as a by-product.

Sierrita. The Sierrita open-pit mine, located in Pima County, Arizona, primarily produces copper cathodes, copper concentrates and copper sulfate. In addition to copper, the Sierrita mine produces molybdenum concentrate as a by-product.

Other Mines. Other mines include FCX's other operating southwestern U.S. copper mines – Bagdad, Safford and Tyrone. In addition to copper, the Bagdad mine produces molybdenum concentrate as a by-product. Other mines also include FCX's southwestern U.S. copper mines that are currently on care-and-maintenance status, including Miami and Chino.

South America Copper Mines. FCX has four operating copper mines in South America – Cerro Verde in Peru, and Candelaria, Ojos del Salado and El Abra in Chile. These operations include open-pit and underground mining, sulfide ore concentrating, leaching and SX/EW operations. The South America copper mines division includes Cerro Verde as a reportable segment.

Cerro Verde. The Cerro Verde open-pit copper mine, located near Arequipa, Peru, produces copper cathodes and copper concentrates. In addition to copper, the Cerro Verde mine produces molybdenum concentrate as a by-product. In the first quarter of 2009, FCX announced plans to temporarily curtail the molybdenum circuit at Cerro Verde.

Other Mines. Other mines include FCX's Chilean copper mines – Candelaria, Ojos del Salado and El Abra – which include open-pit and underground mining, sulfide ore concentrating, leaching and SX/EW operations. In addition to copper, the Candelaria and Ojos del Salado mines produce gold and silver as by-products.

Indonesia. Indonesia mining includes PT Freeport Indonesia's Grasberg minerals district. PT Freeport Indonesia produces copper concentrates, which contain significant quantities of gold and silver.

173

Table of Contents

Africa. Africa mining includes the Tenke Fungurume copper and cobalt mining concessions in the Katanga province of the DRC. Construction activities are well advanced and initial production is targeted during the second half of 2009. The initial project at Tenke Fungurume is based on mining and processing ore reserves approximating 119 million metric tons with average ore grades of 2.6 percent copper and 0.35 percent cobalt.

Molybdenum. The Molybdenum segment is an integrated producer of molybdenum, with mining, sulfide ore concentrating, roasting and processing facilities that produce high-purity, molybdenum-based chemicals, molybdenum metal powder and metallurgical products, which are sold to customers around the world, and includes the wholly owned Henderson molybdenum mine in Colorado and related conversion facilities. The Henderson underground mine produces high-purity, chemical-grade molybdenum concentrates, which are typically further processed into value-added molybdenum chemical products. This segment also includes a sales company that purchases and sells molybdenum from the Henderson mine as well as from FCX’s North and South America copper mines that produce molybdenum as a by-product. In addition, at times this segment roasts and/or processes material on a toll basis. Toll arrangements require the tolling customer to deliver appropriate molybdenum-bearing material to FCX’s facilities for processing into a product that is returned to the customer, who pays FCX for processing its material into the specified products.

The Molybdenum segment also includes FCX’s wholly owned Climax molybdenum mine in Colorado, which has been on care-and-maintenance status since 1995.

Rod & Refining. The Rod & Refining segment consists of copper conversion facilities located in North America, and until the fourth quarter of 2008, included a refinery, four rod mills and a specialty copper products facility. As a result of the revised operating plans in the fourth quarter of 2008, one of FCX’s rod mills was permanently closed. These operations process copper produced at the North America mines and purchased copper into copper cathode, rod and custom copper shapes. At times these operations refine copper and produce copper rod and shapes for customers on a toll basis. Toll arrangements require the tolling customer to deliver appropriate copper-bearing material to FCX’s facilities for processing into a product that is returned to the customer, who pays FCX for processing its material into the specified products.

Atlantic Copper Smelting & Refining. Atlantic Copper, FCX’s wholly owned smelting unit in Spain, smelts and refines copper concentrates and markets refined copper and precious metals in slimes. PT Freeport Indonesia and the South America copper mines generally sell a portion of their concentrate and cathode (South America) production to Atlantic Copper.

Intersegment sales. Intersegment sales between FCX’s operations are based on similar arms-length transactions with third parties at the time of the sale. Intersegment sales may not be reflective of the actual prices ultimately realized because of a variety of factors, including additional processing, timing of sales to unaffiliated customers and transportation premiums.

Allocations. FCX allocates certain operating costs, expenses and capital to the operating divisions and individual segments. However, not all costs and expenses applicable to a mine or operation are allocated. All U.S. federal and state income taxes are recorded and managed at the corporate level with the exception of foreign income taxes, which are recorded and managed at the applicable mine or operation. In addition, most exploration and research activities are managed at the corporate level, and those costs are not allocated to the operating division or segments. Accordingly, the following segment information reflects management determinations that may not be indicative of what the actual financial performance of each operating division or segment would be if it was an independent entity.

Table of Contents

FCX revenues attributable to the products it produces for the years ended December 31, 2008, 2007 and 2006, follow:

	2008	2007	2006
Refined copper products	$ 9,575	$ 8,918	$ 1,865
Copper in concentratesa	3,954	4,541	2,721
Molybdenum	2,408	1,703	–
Gold	1,286	1,664	1,155
Otherb	573	113	50
Total	$ 17,796	$ 16,939	$ 5,791

a. Amounts are net of treatment and refining charges totaling $398 million for 2008, $502 million for 2007 and $388 million for 2006.

b. Amounts are net of royalty charges totaling $113 million in 2008, $133 million in 2007 and $126 million in 2006. Also includes $273 million in 2008, $(36) million in 2007 and $139 million in 2006 for adjustments to prior year sales and pre-acquisition sales in 2007 subject to final pricing.

Information concerning financial data by geographic area for the years ended December 31, 2008, 2007 and 2006, is presented in the following tables.

Geographic Area

	2008	2007	2006
Revenuesa:			
United States	$ 7,609	$ 6,480	$ 76
Japan	2,662	2,479	1,242
Spain	1,872	1,773	1,380
Indonesia	1,420	2,105	1,202
Chile	669	627	–
United Kingdom	404	661	126
Others	3,160	2,814	1,765
Total	$ 17,796	$ 16,939	$ 5,791

	2008	2007	2006
Long-lived assetsb:			
United States	$ 6,529	$ 16,954	$ 41
Indonesia	3,361	3,126	2,933
Peru	3,278	3,242	–
Democratic Republic of Congo	2,696	1,506	–
Chile	1,551	2,882	–
Spain	283	274	265
Others	59	84	–
Total	$ 17,757	$ 28,068	$ 3,239

a. Revenues are attributed to countries based on the location of the customer.

b. Long-lived assets exclude deferred tax assets, goodwill and intangible assets.

Major Customers

No single customer accounted for 10 percent or more of FCX's consolidated revenues in 2008. Sales to PT Smelting totaled $1.8 billion (11 percent of FCX's consolidated revenues) in 2007 and $1.2 billion (21 percent of FCX's consolidated revenues) in 2006. See Note 3 for further discussion of FCX's investment in PT Smelting.

Business Segments

Business segments for the years ended December 31, 2008, 2007 and 2006, are presented in the following tables.

175

Table of Contents

Business Segments

Year Ended December 31, 2008	North America Copper Mines				South America Copper Mines			Indonesia	Africa					
	Morenci	Sierrita	Other Mines	Total	Cerro Verde	Other Mines	Total	Grasberg	Tenke	Molybdenum	Rod & Refining	Atlantic Copper Smelting & Refining	Corporate, Other & Eliminations	FCX Total
Revenues:														
Unaffiliated customersb	$ 370	$ 90	$ 256	$ 716	$ 1,602	$ 2,166	$ 3,768	$ 2,934a	$ –	$ 2,488	$ 5,524	$ 2,333	$ 33	$ 17,796
Intersegment	1,630	1,103	1,816	4,549	261	137	398	478	–	–	33	8	(5,466)	–
Production and deliveryb	1,313	487	1,247	3,047	698	1,146	1,844	1,792	6	1,528	5,527	2,276	(5,604)	10,416
Depreciation, depletion and amortizationb	330	88	352	770	178	333	511	222	6	192	8	35	38	1,782
LCM inventory adjustments	302	–	359	661	–	10	10	–	10	101	–	–	–	782
Selling, general and administrative expenses	–	–	–	–	–	–	–	91	–	18	–	20	140	269
Exploration and research expenses	–	–	–	–	–	–	–	–	–	2	–	–	290	292
Goodwill impairment	1,851	991	1,308	4,150	763	366	1,129	–	2	703	–	–	3	5,987
Long-lived asset impairments and other chargesc	2,702	1,908	3,549	8,159	1	1,365	1,366	–	2	1,417	20	–	14	10,978
Operating (loss) incomeb	(4,498)	(2,281)	(4,743)	(11,522)	223	(917)	(694)	1,307	(26)	(1,473)	2	10	(314)	(12,710)
Interest expense, net	2	1	10	13	2	2	4	(1)	69	–	4	13	482	584
(Benefit from) provision for income taxes	–	–	–	–	313	(267)	46	612	(66)	–	–	–	(3,436)	(2,844)
Total assets at December 31,	2,148	495	3,555	6,198	3,994	2,406	6,400	4,420	2,685	1,795	266	852	737	23,353

2008														
Capital expenditures	276	51	282	609	129	194	323	444	1,058	180	9	34	51	2,708

a. Includes PT Freeport Indonesia's sales to PT Smelting totaling $1.4 billion.
b. The following table summarizes the impact of purchase accounting fair value adjustments on operating (loss) income primarily associated with the impacts of the increases in the carrying values of acquired metals inventories (including mill and leach stockpiles) and property, plant and equipment:

Revenues	$ –	$ –	$ –	$ –	$ 5	$ 1	$ 6	N/A	$ –	$ (2)	$ N/A		$ –	$ 4
Production and delivery	37	11	(24)	24	9	37	46	N/A	–	32	N/A		23	125
Depreciation, depletion and amortization	209	62	199	470	87	203	290	N/A	–	139	N/A		(11)	888
Impact on operating (loss) income	$ (246)	$ (73)	$ (175)	$ (494)	$ (91)	$ (239)	$ (330)	N/A	$ –	$ (173)	$ N/A		$ (12)	$ (1,009)

c. The following table summarizes long-lived asset impairments and other charges:

Long-lived asset impairments	$ 2,683	$ 1,900	$ 3,511	$ 8,094	$ –	$ 1,359	$ 1,359	$ –	$ –	$ 1,408	$ 6	$ –	$ –	$ 10,867
Restructuring charges	3	2	18	23	1	6	7	–	2	4	4	–	10	50
Special retirement benefits and curtailments	16	6	20	42	–	–	–	–	–	5	10	–	4	61
Long-lived asset impairments and other charges	$ 2,702	$ 1,908	$ 3,549	$ 8,159	$ 1	$ 1,365	$ 1,366	$ –	$ 2	$ 1,417	$ 20	$ –	$ 14	$ 10,978

176

Table of Contents

Business Segments (continued)

	North America Copper Mines				South America Copper Mines			Indonesia	Africa					
Year Ended December 31, 2007	Morenci	Sierrita	Other Mines	Total	Cerro Verde	Other Mines	Total	Grasberg	Tenke	Molybdenum	Rod & Refining	Atlantic Copper Smelting & Refining	Corporate, Other & Eliminations	FCX Total
Revenues:														
Unaffiliated customersb	$ 286	$ 53	$ 203	$ 542	$ 1,243	$ 2,228	$ 3,471	$ 3,640a	$ –	$ 1,746	$ 5,108	$ 2,388	$ 44	$ 16,939
Intersegment	1,516	780	1,255	3,551	390	18	408	1,168	–	–	32	–	(5,159)	–
Production and deliveryb	1,014	352	800	2,166	479	798	1,277	1,388	10	1,287	5,119	2,329	(5,049)	8,527
Depreciation, depletion and amortizationb	240	54	205	499	129	249	378	199	2	94	7	36	31	1,246
Selling, general and administrative expenses	–	–	–	–	–	–	–	188	–	10	–	20	248	466
Exploration and research expenses	–	–	–	–	–	–	–	–	–	2	–	–	143	145
Operating income (loss)b	548	427	453	1,428	1,025	1,199	2,224	3,033	(12)	353	14	3	(488)	6,555
Interest expense, net	–	–	–	–	9	(2)	7	12	(41)	–	4	26	505	513
Provision for income taxes	–	–	–	–	484	369	853	1,326	4	–	–	–	217	2,400
Total assets at December 31, 2007	5,043	2,419	7,209	14,671	4,236	4,183	8,419	3,737	1,477	3,522	438	915	7,482c	40,661
Capital expenditures	269	28	559	856	58	65	123	368	266	45	8	42	47	1,755

a. Includes PT Freeport Indonesia's sales to PT Smelting totaling $1.8 billion.

b.The following table summarizes the impact of purchase accounting fair value adjustments on operating income (loss) primarily associated with the impacts of the increases in the carrying values of acquired metals inventories (including mill and leach stockpiles) and property, plant and equipment:

	Morenci	Sierrita	Other Mines	Total	Cerro Verde	Other Mines	Total	Grasberg	Tenke	Molybdenum	Rod & Refining	Atlantic Copper Smelting & Refining	Corporate, Other & Eliminations	FCX Total
Revenues	$ –	$ –	$ –	$ –	$ 8	$ 1	$ 9	N/A	$ –	$ 111	$ –	N/A	$ –	$ 120
Production and delivery	218	50	76	344	73	96	169	N/A	–	164	–	N/A	104	781

Depreciation, depletion and amortization	167	37	130	334	64	145	209	N/A	–	52	–	N/A	–	595
Impact on operating income (loss)	$ (385)	$ (87)	$(206)	$ (678)	$ (129)	$ (240)	$ (369)	N/A	$ –	$ (105)	$ –	N/A	$ (104)	$ (1,256)

c. Includes preliminary goodwill of $6.1 billion, which had not been allocated to reporting units.

Year Ended December 31, 2006	North America Copper Mines				South America Copper Mines			Indonesia	Africa					
	Morenci	Sierrita	Other Mines	Total	Cerro Verde	Other Mines	Total	Grasberg	Tenke	Molybdenum	Rod & Refining	Atlantic Copper Smelting & Refining	Corporate, Other & Eliminations	FCX Total
Revenues:														
Unaffiliated customers	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 3,543a	$ –	$ –	$ –	$ 2,242	$ 6	$ 5,791
Intersegment	–	–	–	–	–	–	–	852	–	–	–	–	(852)	–
Production and delivery	–	–	–	–	–	–	–	1,279	–	–	–	2,119	(873)	2,525
Depreciation, depletion and amortization\	–	–	–	–	–	–	–	184	–	–	–	33	11	228
Selling, general and administrative expenses	–	–	–	–	–	–	–	211	–	–	–	16	(70)	157
Exploration and research expenses	–	–	–	–	–	–	–	–	–	–	–	–	12	12
Operating income	–	–	–	–	–	–	–	2,721	–	–	–	74	74	2,869
Interest expense, net	–	–	–	–	–	–	–	20	–	–	–	25	31	76
Provision for income taxes	–	–	–	–	–	–	–	950	–	–	–	–	251	1,201
Total assets at December 31, 2006	–	–	–	–	–	–	–	4,112	–	–	–	915	363	5,390
Capital expenditures	–	–	–	–	–	–	–	234	–	–	–	17	–	251

a. Includes PT Freeport Indonesia’s sales to PT Smelting totaling $1.2 billion.

Table of Contents

NOTE 20. SUPPLEMENTARY MINERAL RESERVE INFORMATION (UNAUDITED)

Recoverable proven and probable reserves have been calculated as of December 31, 2008, in accordance with Industry Guide 7 as required by the Securities and Exchange Act of 1934. FCX's proven and probable reserves may not be comparable to similar information regarding mineral reserves disclosed in accordance with the guidance in other countries. Proven and probable reserves were determined by the use of mapping, drilling, sampling, assaying and evaluation methods generally applied in the mining industry, as more fully discussed below. The term "reserve," as used in the reserve data presented here, means that part of a mineral deposit that can be economically and legally extracted or produced at the time of the reserve determination. The term "proven reserves" means reserves for which (i) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; (ii) grade and/or quality are computed from the results of detailed sampling; and (iii) the sites for inspection, sampling and measurements are spaced so closely and the geologic character is sufficiently defined that size, shape, depth and mineral content of reserves are well established. The term "probable reserves" means reserves for which quantity and grade are computed from information similar to that used for proven reserves but the sites for sampling are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.

FCX's reserve estimates are based on the latest available geological and geotechnical studies. FCX conducts ongoing studies of its ore bodies to optimize economic values and to manage risk. FCX revises its mine plans and estimates of proven and probable mineral reserves as required in accordance with the latest available studies. At December 31, 2008, FCX's estimated consolidated recoverable reserves include 102.0 billion pounds of copper, 40.0 million ounces of gold, 2.48 billion pounds of molybdenum, 266.6 million ounces of silver and 0.7 billion pounds of cobalt. At December 31, 2008, recoverable reserves include estimated recoverable copper totaling 2.8 billion pounds in leach stockpiles and 1.1 billion pounds in mill stockpiles, including FCX's joint venture partner's interest in the Morenci mine.

Recoverable Proven and Probable Reservesa
at December 31, 2008

	Copper (billion pounds)	Gold (million ounces)	Molybdenum (billion pounds)
North America	28.3	0.2	2.08
South America	32.2	1.3	0.40
Indonesia	35.6	38.5	–
Africa	5.9	–	–
Consolidated basisb	102.0	40.0	2.48
Net equity interestc	82.4	36.2	2.30

a. Proven and probable recoverable reserves are estimated metal quantities from which FCX expects to be paid after application of estimated metallurgical recovery rates and smelter recovery rates, where applicable. Recoverable reserves are that part of a mineral deposit that FCX estimates can be economically and legally extracted or produced at the time of the reserve determination.

b. Consolidated basis reserves represent estimated metal quantities after reduction for joint venture partner interests at the Morenci mine in North America and the Grasberg minerals district in Indonesia.

c. Net equity interest reserves represent estimated consolidated basis metal quantities further reduced for minority interest ownership.

Estimated recoverable reserves were determined using long-term average prices of $1.60 per pound for copper, $550 per ounce for gold, $8.00 per pound for molybdenum, $12.00 per ounce for silver and $10.00 per pound for cobalt. The London spot metal prices for the past three years averaged $3.15 per pound for copper and $724 per ounce for gold, and molybdenum prices for the past three years averaged approximately $28 per pound.

178

Table of Contents

	100% Basis						
		Average Ore Grade Per Metric Ton			Recoverable Proven and Probable Reserves		
Year-End	Ore (million metric tons)	Copper (%)	Gold (grams)	Moly (%)	Copper (billion pounds)	Gold (million ounces)	Moly (million pounds)
2004	2,769	1.09	0.97	N/A	56.2	61.0	N/A
2005	2,822	1.07	0.92	N/A	56.6	58.0	N/A
2006	2,813	1.04	0.90	N/A	54.8	54.3	N/A
2007	12,224	0.51	0.20	0.01	110.4	54.1	2,042
2008	14,067	0.48	0.17	0.01	118.8	53.4	2,485
By Area at December 31, 2008:							
North America							
Developed and producing:							
Morenci	2,813	0.28	–	0.002	10.1	–	27
Sierrita	1,473	0.26	–a	0.029	7.1	0.1	769
Bagdad	1,051	0.30	–a	0.015	5.3	0.1	252
Safford	450	0.38	–	–	2.6	–	–
Tyrone	334	0.29	–	–	1.4	–	–
Henderson	149	–	–	0.176	–	–	502
Chinob	143	0.52	0.01	0.005	2.3	–a	6
Miamib	91	0.43	–	–	0.6	–	–
Undeveloped:							
Climax	165	–	–	0.165	–	–	532
Cobre	73	0.39	–	–	0.4	–	–
South America							
Developed and producing:							
Cerro Verde	3,023	0.37	–	0.012	21.6	–	397
El Abra	1,120	0.45	–	–	5.5	–	–
Candelaria	391	0.55	0.11	–	4.9	1.3	–
Ojos del Salado	8	1.12	0.27	–	0.2	–a	–
Indonesia							
Developed and producing:							
Grasberg open pit	384	0.97	1.17	–	7.1	12.0	–
Deep Ore Zonec	282	0.62	0.67	–	3.3	4.6	–
Undeveloped:							
Grasberg block cave	1,007	1.02	0.81	–	19.4	17.7	–
Kucing Liar	441	1.24	1.09	–	10.3	7.1	–
Deep Mill Level Zoned	494	0.89	0.75	–	8.3	9.1	–
Big Gossan	56	2.23	1.18	–	2.5	1.4	–

Africa Undeveloped:							
Tenke Fungurumee	119	2.64	–	–	5.9	–	–
Total 100% basis	14,067				118.8	53.4	2,485
Consolidated basis					102.0	40.0	2,482
FCX's equity share					82.4	36.2	2,297

a. Amounts not shown because of rounding.

b. Mining operations suspended as of December 31, 2008.

c. In 2007, FCX combined the Deep Ore Zone and Ertsberg Stockwork Zone reserves, which FCX now refers to as the Deep Ore Zone.

d. In 2007, FCX combined the Mill Level Zone and Deep Mill Level Zone reserves, which FCX now refers to as the Deep Mill Level Zone.

e. Recoverable proven and probable reserves also include 0.7 billion pounds of recoverable cobalt on a 100 percent basis (0.4 billion pounds on an equity share basis) with an average ore grade of 0.35 percent.

179

Table of Contents

NOTE 21. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2008					
Revenues	$ 5,672	$ 5,441	$ 4,616	$ 2,067	$ 17,796
Operating income (loss)a	2,396	2,053	1,133	(18,292)	(12,710)
Net income (loss) applicable to common stocka	1,122	947	523	(13,933)	(11,341)
Basic net income (loss) per share of common stock	2.93	2.47	1.37	(36.78)	(29.72)
Diluted net income (loss) per share of common stocka	2.64	2.25	1.31	(36.78)	(29.72)
2007					
Revenuesb	$ 2,246	$ 5,443	$ 5,066	$ 4,184	$ 16,939
Operating incomeb, c	1,172	2,354	1,877	1,152	6,555
Income from continuing operations applicable to common stockb, c, d	472	1,076	763	423	2,734
Income (loss) from discontinued operationsc	4	28	12	(9)	35
Net income applicable to common stockb, c, d	476	1,104	775	414	2,769
Basic net income (loss) per share of common stock:					
Continuing operations	$ 2.18	$ 2.83	$ 2.00	$ 1.10	$ 8.02
Discontinued operations	0.02	0.07	0.03	(0.02)	0.10
Basic net income per share of common stock	$ 2.20	$ 2.90	$ 2.03	$ 1.08	$ 8.12
Diluted net income (loss) per share of common stock:					
Continuing operationsb, c, d	$ 2.00	$ 2.56	$ 1.85	$ 1.07	$ 7.41
Discontinued operationsc	0.02	0.06	0.02	(0.02)	0.09
Diluted net income per share of common stockb, c, d	$ 2.02	$ 2.62	$ 1.87	$ 1.05	$ 7.50

All references to income or losses per share are on a diluted basis, unless otherwise noted.

a. Includes LCM inventory adjustments totaling $1 million ($1 million to net income or less than $0.01 per share) in the first quarter, $4 million ($2 million to net income or $0.01 per share) in the second quarter, $17 million ($10

million to net income or $0.02 per share) in the third quarter, $760 million ($466 million to net loss or $1.23 per share) in the fourth quarter and $782 million ($479 million to net loss or $1.26 per share) for the year. Fourth quarter also includes asset impairments totaling $10.9 billion ($6.6 billion to net loss or $17.34 per share), goodwill impairments totaling $6.0 billion ($6.0 billion to net loss or $15.69 per share), restructuring charges totaling $50 million ($30 million to net loss or $0.08 per share) and special retirement benefits and curtailments totaling $61 million ($37 million to net loss or $0.10 per share). Includes the purchase accounting impact of the increases in the carrying values of acquired metals inventories (including mill and leach stockpiles) and property, plant and equipment; the impact associated with the amortization of intangible assets and liabilities resulting from the acquisition of Phelps Dodge; and also includes amounts for non-operating income and expense primarily related to the accretion of the fair values of assumed environmental obligations (determined on a discounted cash flow basis). These impacts total $278 million to operating income and $15 million to non-operating income and expense ($183 million to net income or $0.41 per share) in the first quarter, $236 million to operating income and $22 million to non-operating income and expense ($161 million to net income or $0.36 per share) in the second quarter, $247 million to operating income and $30 million to non-operating income and expense ($174 million to net income or $0.39 per share) in the third quarter, $248 million to operating loss and $26 million to non-operating income and expense ($161 million to net loss or $0.43 per share) in the fourth quarter and $1.0 billion to operating loss and $93 million to non-operating income and expense ($679 million to net loss or $1.78 per share) for the year.

180

Table of Contents

b. Includes charges (credits) to revenues for mark-to-market accounting adjustments for the 2007 copper price protection program totaling $38 million ($23 million to net income or $0.10 per share) in the first quarter, $130 million ($80 million to net income or $0.18 per share) in the second quarter, $44 million ($26 million to net income or $0.06 per share) in the third quarter, $(37) million ($(23) million to net income or $0.06 per share) in the fourth quarter and $175 million ($106 million to net income or $0.27 per share) for the year.

c. Includes the purchase accounting impact of the increases in the carrying values of acquired metals inventories (including mill and leach stockpiles) and property, plant and equipment; and also includes the impact associated with the amortization of intangible assets and liabilities resulting from the acquisition of Phelps Dodge totaling $124 million ($79 million to net income or $0.32 per share) in the first quarter, $455 million ($284 million or $0.64 per share) in the second quarter, $445 million ($279 million to net income or $0.62 per share) in the third quarter, $232 million ($143 million to net income or $0.35 per share) in the fourth quarter and $1.3 billion to operating income ($785 million to net income or $1.98 per share) for the year associated with continuing operations. Also includes purchase accounting impact totaling $8 million ($0.02 per share) in the third quarter associated with discontinued operations.

d. Includes net losses on early extinguishment of debt totaling $88 million ($75 million to net income or $0.31 per share) in the first quarter, $47 million ($35 million to net income or $0.08 per share) in the second quarter, $36 million ($31 million to net income or $0.07 per share) in the third quarter and $173 million ($132 million to net income or $0.33 per share) for the year. Also includes gains primarily from the sales of marketable securities totaling $38 million ($23 million to net income or $0.05 per share) in the second quarter, $47 million ($29 million to net income or $0.06 per share) in the third quarter and $85 million ($52 million to net income or $0.13 per share) for the year.

Table of Contents

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

Not applicable.

Item 9A. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures. Our chief executive officer and chief financial officer, with the participation of management, have evaluated the effectiveness of our “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this annual report on Form 10-K. Based on their evaluation, they have concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report.

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

(c) Management’s annual report on internal control over financial reporting and the report thereon of Ernst & Young LLP are included herein under Item 8. “Financial Statements and Supplemental Data.”

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information set forth under the captions “Information About Director Nominees” and “Section 16(a) Beneficial Ownership Reporting Compliance” of our definitive proxy statement to be filed with the Securities and Exchange Commission (SEC), relating to our 2009 annual meeting of stockholders, is incorporated herein by reference. The information required by Item 10 regarding our executive officers appears in a separately captioned heading after Item 4 in Part I of this report.

Item 11. Executive Compensation.

The information set forth under the captions “Director Compensation” and “Executive Officer Compensation” of our definitive proxy statement to be filed with the SEC, relating to our 2009 annual meeting of stockholders, is incorporated herein by reference.

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

The information set forth under the captions “Stock Ownership of Directors and Executive Officers” and “Stock Ownership of Certain Beneficial Owners” of our definitive proxy statement to be filed with the SEC, relating to our 2009 annual meeting of stockholders, is incorporated herein by reference.

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

The information set forth under the caption “Certain Transactions” of our definitive proxy statement to be filed with the SEC, relating to our 2009 annual meeting of stockholders, is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

The information set forth under the caption "Independent Auditors" of our definitive proxy statement to be filed with the SEC, relating to our 2009 annual meeting of stockholders, is incorporated herein by reference.

182

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1). Financial Statements.

Not applicable

(a)(2). Financial Statement Schedules.

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

(a)(3). Exhibits.

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

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 26, 2009.

Freeport-McMoRan Copper & Gold Inc.

By: /s/ Richard C. Adkerson
Richard C. Adkerson
President, Chief Executive Officer
and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities indicated on February 26, 2009.

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

S-1

Table of Contents

* Charles C. Krulak	Director
* Bobby Lee Lackey	Director
* Jon C. Madonna	Director
* Dustan E. McCoy	Director
* Gabrielle K. McDonald	Director
* J. Stapleton Roy	Director
* Stephen H. Siegele	Director
* J. Taylor Wharton	Director

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

Table of Contents

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

Our financial statements and the notes thereto, and the report of Ernst & Young LLP included in our 2008 annual report are incorporated herein by reference.

	Page
Report of Independent Registered Public Accounting Firm	F-1
Schedule II-Valuation and Qualifying Accounts	F-2

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the consolidated financial statements of Freeport-McMoRan Copper & Gold Inc. (the Company) as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008, and have issued our report thereon dated February 18, 2009. Our audits also included the schedule listed in the index above for this Form 10-K. The schedule listed in the index above is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

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

/s/ Ernst & Young LLP

Phoenix, Arizona
February 18, 2009

Table of Contents

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

Col. A	Col. B	Col. C Additions		Col. D	Col. E
	Balance at Beginning of Period	Charged to Costs and Expense	Charged to Other Accounts	Other Add (Deduct)	Balance at End of Period
Reserves and allowances deducted from asset accounts: Materials and supplies allowances					
2008	16	11	-	(5)a	22
2007	16	7	-	(7)a	16
2006	17	6	-	(7)a	16
Valuation allowance for deferred tax assets					
2008	1,165	582	16	-	1,763
2007	925	332	-	(92)b	1,165
2006	802	123	-	-	925
Reserves for non-income taxes:					
2008	34	7	(3)	(6)c	32
2007	22	4	11	(3)c	34
2006	19	7	-	(4)c	22

a. Primarily represents write-offs of obsolete materials and supplies inventories.
b. Represents a release of valuation allowances as a result of the acquisition of Phelps Dodge.
c. Represents amounts paid or adjustments to reserves based on revised estimates.

Table of Contents

FREEPORT-McMoRan COPPER & GOLD INC.
EXHIBIT INDEX

Exhibit Number	Exhibit Title	Filed with this Form 10-K	Incorporated by Reference		
			Form	File No.	Date Filed
2.1	Agreement and Plan of Merger dated as of November 18, 2006, by and among Freeport-McMoRan Copper & Gold Inc. (FCX), Phelps Dodge Corporation and Panther Acquisition Corporation.		S-4	333-139252	12/11/2006
3.1	Composite Certificate of Incorporation of FCX.		8-A/A	001-11307-01	01/26/2009
3.2	Amended and Restated By-Laws of FCX, as amended through May 1, 2007.		8-K	001-11307-01	05/04/2007
4.1	Certificate of Designations of 5½% Convertible Perpetual Preferred Stock of FCX.		8-K	001-11307-01	03/31/2004
4.2	Certificate of Designations of 6¾% Mandatory Convertible Preferred Stock of FCX.		8-K	001-11307-01	03/27/2007
4.3	Rights Agreement dated as of May 3, 2000, between FCX and ChaseMellon Shareholder Services, L.L.C., as Rights Agent.		10-Q	001-09916	05/15/2000
4.4	Amendment No. 1 to Rights Agreement dated as of February 26, 2002, between FCX and Mellon Investor Services.		10-Q	001-09916	05/07/2002
4.5	Indenture dated as of February 11, 2003, from FCX to The Bank of New York, as Trustee, with respect to the 7% Convertible Senior Notes due 2011.		8-K	001-09916	02/25/2003
4.6	Indenture dated as of March 19, 2007, from FCX to The Bank of New York, as Trustee, with respect to the 8.25% Senior Notes due 2015, 8.375% Senior Notes due 2017, and the Senior Floating Rate Notes due 2015.		8-K	001-11307-01	03/19/2007
4.7	Credit Agreement dated as of March 19, 2007, by and among FCX, the Lenders party thereto, the Issuing Banks party thereto, JPMorgan Chase Bank, N.A. as Administrative Agent and Collateral Agent, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Syndication Agent.		8-K	001-11307-01	03/19/2007
4.8	Amendment Agreement dated as of July 3, 2007, amending the Credit Agreement dated as of March 19, 2007, among FCX, the Lenders party thereto, the Issuing Banks party thereto, and JPMorgan Chase		8-K	001-11307-01	07/11/2007

	Bank, N.A., as Administrative Agent and as Collateral Agent, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Syndication Agent.			
4.9	First Amendment dated as of January 22, 2009, in respect of the Amended and Restated Credit Agreement dated as of July 10, 2007, among FCX, the Lenders party thereto, the Issuing Banks party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent and as Collateral Agent, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Syndication Agent.	8-K	001-11307-01	01/26/2009
4.10	Amended and Restated Credit Agreement dated as of March 19, 2007, by and among FCX, PT Freeport Indonesia, the Lenders party thereto, the Issuing Banks party thereto, JPMorgan Chase Bank, N.A. as Administrative Agent, Collateral Agent, Security Agent and JAA Security Agent, U.S. Bank National Association, as FI Trustee, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Syndication Agent.	8-K	001-11307-01	03/19/2007

E-1

Table of Contents

FREEPORT-McMoRan COPPER & GOLD INC.
EXHIBIT INDEX

Exhibit Number	Exhibit Title	Filed with this Form 10-K	Incorporated by Reference		
			Form	File No.	Date Filed
4.11	Amendment Agreement dated as of July 3, 2007, amending the Amended and Restated Credit Agreement dated as of March 19, 2007, which amended and restated the Amended and Restated Credit Agreement, dated as of July 25, 2006, which amended and restated the Amended and Restated Credit Agreement, dated as of September 30, 2003, which amended and restated the Amended and Restated Credit Agreement, dated as of October 19, 2001, which amended and restated both the Credit Agreement, originally dated as of October 27, 1989 and amended and restated as of June 1, 1993 and the Credit Agreement, originally dated as of June 30, 1995, among FCX, PT Freeport Indonesia, U.S. Bank National Association, as trustee for the Lenders and certain other lenders under the FI Trust Agreement, the Lenders party thereto, the Issuing Banks party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent, Security Agent, JAA Security Agent and Collateral Agent, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Syndication Agent.		8-K	001-11307-01	07/11/2007
4.12	First Amendment dated as of January 22, 2009, in respect of the Amended and Restated Credit Agreement dated as of March 19, 2007, as amended as of July 3, 2007, which amends and restates the Amended and Restated Credit Agreement, dated as of July 25, 2006, which amended and restated the Amended and Restated Credit Agreement, dated as of September 30, 2003, which amended and restated the Amended and Restated Credit Agreement, dated as of October 19, 2001, which amended and restated both the Credit Agreement, originally dated as of October 27, 1989 and amended and restated as of June 1, 1993 and the Credit Agreement,		8-K	001-11307-01	01/26/2009

	originally dated as of June 30, 1995, among FCX, PT Freeport Indonesia, U.S. Bank National Association, as trustee for the Lenders and certain other lenders under the FI Trust Agreement, the Lenders party thereto, the Issuing Banks party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent, Security Agent, JAA Security Agent and Collateral Agent, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Syndication Agent.			
10.1	Contract of Work dated December 30, 1991, between the Government of the Republic of Indonesia and PT Freeport Indonesia.	S-3	333-72760	11/05/2001
10.2	Contract of Work dated August 15, 1994, between the Government of the Republic of Indonesia and PT Irja Eastern Minerals Corporation.	S-3	333-72760	11/05/2001
10.3	Participation Agreement dated as of October 11, 1996, between PT Freeport Indonesia and P.T. RTZ-CRA Indonesia (a subsidiary of Rio Tinto PLC) with respect to a certain contract of work.	S-3	333-72760	11/05/2001
10.4	Agreement dated as of October 11, 1996, to Amend and Restate Trust Agreement among PT Freeport Indonesia, FCX, the RTZ Corporation PLC (now Rio Tinto PLC), P.T. RTZ-CRA Indonesia, RTZ Indonesian Finance Limited and First Trust of New York, National Association, and The Chase Manhattan Bank, as Administrative Agent, JAA Security Agent and Security Agent.	8-K	001-09916	11/13/1996
10.5	Concentrate Purchase and Sales Agreement dated effective December 11, 1996, between PT Freeport Indonesia and PT Smelting.	S-3	333-72760	11/05/2001
10.6	Second Amended and Restated Joint Venture and Shareholders' Agreement dated as of December 11, 1996, among Mitsubishi Materials Corporation, Nippon Mining and Metals Company, Limited and PT Freeport Indonesia.	S-3	333-72760	11/05/2001

Table of Contents

FREEPORT-McMoRan COPPER & GOLD INC.
EXHIBIT INDEX

Exhibit Number	Exhibit Title	Filed with this Form 10-K	Incorporated by Reference Form	File No.	Date Filed
10.7	Participation Agreement, dated as of March 16, 2005, among Phelps Dodge Corporation, Cyprus Amax Minerals Company, a Delaware corporation, Cyprus Metals Company, a Delaware corporation, Cyprus Climax Metals Company, a Delaware corporation, Sumitomo Corporation, a Japanese corporation, Summit Global Management, B.V., a Dutch corporation, Sumitomo Metal Mining Co., Ltd., a Japanese corporation, Compañia de Minas Buenaventura S.A.A., a Peruvian sociedad anonima abierta, and Sociedad Minera Cerro Verde S.A.A., a Peruvian sociedad anonima abierta.		8-K	001-00082	03/22/2005
10.8	Shareholders Agreement, dated as of June 1, 2005, among Phelps Dodge Corporation, Cyprus Climax Metals Company, a Delaware corporation, Sumitomo Corporation, a Japanese corporation, Sumitomo Metal Mining Co., Ltd., a Japanese corporation, Summit Global Management B.V., a Dutch corporation, SMM Cerro Verde Netherlands, B.V., a Dutch corporation, Compañia de Minas Buenaventura S.A.A., a Peruvian sociedad anonima abierta, and Sociedad Minera Cerro Verde S.A.A., a Peruvian sociedad anonima abierta.		8-K	001-00082	06/07/2005
10.9	Master Agreement and Plan of Merger between Columbian Chemicals Company, Columbian Chemicals Acquisition LLC and Columbian Chemicals Merger Sub, Inc., dated November 15, 2005.		10-K	001-00082	02/27/2006
10.10	Reclamation and Remediation Trust Agreement between Phelps Dodge Corporation and Wells Fargo Delaware Trust Company, dated December 22, 2005.		10-K	001-00082	02/27/2006
10.11	Distribution Agreement, dated as of January 26, 2009, by and between FCX and J.P. Morgan Securities Inc.		8-K	001-11307-01	01/26/2009
10.12*	FCX Director Compensation.		10-Q	001-11307-01	8/11/2008
10.13*	Consulting Agreement dated December 22, 1988, with Kissinger Associates, Inc. (Kissinger Associates).		10-K405	001-09916	03/31/1998
10.14*	Letter Agreement dated May 1, 1989, with Kent Associates, Inc. (Kent Associates, predecessor in interest to Kissinger Associates).		10-K405	001-09916	03/31/1998
10.15*	Letter Agreement dated January 27, 1997, among Kissinger Associates, Kent Associates, FCX,		10-K405	001-09916	03/08/2002

	Freeport-McMoRan Inc. (FTX), and FM Services Company (FMS).				
10.16*	Supplemental Agreement with Kissinger Associates and Kent Associates, effective as of January 1, 2009.		10-Q	001-11307-01	11/10/2008
10.17*	Agreement for Consulting Services between FTX and B. M. Rankin, Jr. effective as of January 1, 1990 (assigned to FMS as of January 1, 1996).		10-K405	001-09916	03/31/1998
10.18*	Supplemental Agreement dated December 15, 1997, between FMS and B. M. Rankin, Jr.		10-K405	001-09916	03/31/1998
10.19*	Supplemental Letter Agreement between FMS and B. M. Rankin, Jr., effective as of January 1, 2009.	X			
10.20*	Letter Agreement effective as of January 7, 1997, between Senator J. Bennett Johnston, Jr. and FMS.		10-K405	001-09916	03/08/2002
10.21*	Supplemental Agreement between FMS and J. Bennett Johnston, Jr., effective as of May 1, 2008.		10-Q	001-11307-01	8/11/2008
10.22*	Supplemental Agreement between FMS and J. Bennett Johnston, Jr., effective as of January 1, 2009.		10-Q	001-11307-01	11/10/2008
10.23*	Letter Agreement dated November 1, 1999, between FMS and Gabrielle K. McDonald.		10-K405	001-09916	03/20/2000

Table of Contents

FREEPORT-McMoRan COPPER & GOLD INC.
EXHIBIT INDEX

Exhibit Number	Exhibit Title	Filed with this Form 10-K	Incorporated by Reference		
			Form	File No.	Date Filed
10.24*	Supplemental Letter Agreement between FMS and Gabrielle K. McDonald, effective as of May 1, 2008.		10-Q	001-11307-01	8/11/2008
10.25*	Supplemental Letter Agreement between FMS and Gabrielle K. McDonald, effective as of January 1, 2009.		10-Q	001-11307-01	11/10/2008
10.26*	Agreement for Consulting Services between FMS and Dr. J. Taylor Wharton, effective as of January 11, 2008.		10-K	001-11307-01	02/29/2008
10.27*	Supplemental Letter Agreement between FMS and Dr. J. Taylor Wharton, effective as of January 1, 2009.	X			
10.28*	Amended and Restated Executive Employment Agreement dated effective as of December 2, 2008, between FCX and James R. Moffett.	X			
10.29*	Amended and Restated Change of Control Agreement dated effective as of December 2, 2008, between FCX and James R. Moffett.	X			
10.30*	Amended and Restated Change of Control Agreement dated effective as of December 2, 2008, between FCX and Michael J. Arnold.	X			
10.31*	Amended and Restated Executive Employment Agreement dated effective as of December 2, 2008, between FCX and Richard C. Adkerson.	X			
10.32*	Amended and Restated Executive Employment dated effective as of December 2, 2008, between FCX and Kathleen L. Quirk.	X			
10.33*	FCX Executive Services Program, as amended and restated December 2, 2008.	X			
10.34*	FCX Supplemental Executive Retirement Plan, as amended and restated.		8-K	001-11307-01	02/05/2007
10.35*	FCX President's Award Program.		S-3	333-72760	11/05/2001
10.36*	FCX Supplemental Executive Capital Accumulation Plan.		10-Q	001-11307-01	05/12/2008
10.37*	FCX Supplemental Executive Capital Accumulation Plan Amendment One.		10-Q	001-11307-01	05/12/2008
10.38*	FCX Supplemental Executive Capital Accumulation Plan Amendment Two.	X			
10.39*	FCX 2005 Supplemental Executive Capital Accumulation Plan.	X			
10.40*	FCX 1995 Stock Option Plan for Non-Employee Directors, as amended and restated.		10-Q	001-11307-01	05/10/2007
10.41*	FCX Amended and Restated 1999 Stock Incentive Plan, as amended and restated.		10-Q	001-11307-01	05/10/2007

10.42*	FCX Amended and Restated 1999 Long-Term Performance Incentive Plan.	X			
10.43*	FCX 2003 Stock Incentive Plan, as amended and restated.		10-Q	001-11307-01	05/10/2007
10.44*	Form of Amendment No. 1 to Notice of Grant of Nonqualified Stock Options and Stock Appreciation Rights under the 2004 Director Compensation Plan.		8-K	001-11307-01	05/05/2006
10.45*	FCX 2004 Director Compensation Plan, as amended and restated.		10-Q	001-11307-01	05/10/2007
10.46*	FCX 2005 Annual Incentive Plan, as amended and restated.	X			
10.47*	FCX Amended and Restated 2006 Stock Incentive Plan.		8-K	001-11307-01	07/13/2007
10.48*	Form of Notice of Grant of Nonqualified Stock Options for grants under the FCX 1999 Stock Incentive Plan, the 2003 Stock Incentive Plan and the 2006 Stock Incentive Plan.		10-K	001-11307-01	02/29/2008

E-4

Table of Contents

FREEPORT-McMoRan COPPER & GOLD INC.
EXHIBIT INDEX

Exhibit Number	Exhibit Title	Filed with this Form 10-K	Incorporated by Reference Form	File No.	Date Filed
10.49*	Form of Restricted Stock Unit Agreement for grants under the FCX 1999 Stock Incentive Plan, the 2003 Stock Incentive Plan and the 2006 Stock Incentive Plan.		10-K	001-11307-01	02/29/2008
10.50*	Form of Performance-Based Restricted Stock Unit Agreement for grants under the FCX 1999 Stock Incentive Plan, the 2003 Stock Incentive Plan and the 2006 Stock Incentive Plan.		10-K	001-11307-01	02/29/2008
10.51*	Form of Restricted Stock Unit Agreement (form used in connection with participant elections) for grants under the FCX 1999 Stock Incentive Plan, the 2003 Stock Incentive Plan and the 2006 Stock Incentive Plan.		10-K	001-11307-01	02/29/2008
10.52*	Form of Performance-Based Restricted Stock Unit Agreement (form used in connection with participant elections) for grants under the FCX 1999 Stock Incentive Plan, the 2003 Stock Incentive Plan and the 2006 Stock Incentive Plan.		10-K	001-11307-01	02/29/2008
12.1	FCX Computation of Ratio of Earnings to Fixed Charges.	X			
14.1	FCX Principles of Business Conduct.		10-K	001-11307-01	02/29/2008
21.1	Subsidiaries of FCX.	X			
23.1	Consent of Ernst & Young LLP.	X			
24.1	Certified resolution of the Board of Directors of FCX authorizing this report to be signed on behalf of any officer or director pursuant to a Power of Attorney.	X			
24.2	Powers of Attorney pursuant to which this report has been signed on behalf of certain officers and directors of FCX.	X			
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d – 14(a).	X			
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d – 14(a).	X			
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.	X			
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C Section 1350.	X			
99.1	Amended and Restated Mining Convention dated as of September 28, 2005, among the Democratic Republic of Congo, La Générale des Carrières et des Mines, Lundin Holdings Ltd. (now TF Holdings Limited) and Tenke Fungurume Mining S.A.R.L..		8-K	001-11307-01	09/02/2008
99.2			8-K	001-11307-01	09/02/2008

Amended and Restated Shareholders Agreement dated as of September 28, 2005, by and between La Générale des Carrières et des Mines and Lundin Holdings Ltd. (now TF Holdings Limited) and its subsidiaries.

Note: Certain instruments with respect to long-term debt of FCX have not been filed as exhibits to this Annual Report on Form 10-K since the total amount of securities authorized under any such instrument does not exceed 10 percent of the total assets of FCX and its subsidiaries on a consolidated basis. FCX agrees to furnish a copy of each such instrument upon request of the Securities and Exchange Commission.

* Indicates management contract or compensatory plan or arrangement.