FREEPORT MCMORAN COPPER & GOLD INC
Form 10-K
February 29, 2008

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

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

OR

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

For the transition period from to

Commission File Number: 1-9916

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

Delaware	74-2480931
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
One North Central Avenue Phoenix, Arizona	85004-4414
(Address of principal executive offices)	(Zip Code)

(602) 366-8100
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.10 per share	New York Stock Exchange
7% Convertible Senior Notes due 2011 of the registrant	New York Stock Exchange
6¾% Mandatory Convertible Preferred Stock, par value $0.10 per share	New York Stock Exchange

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one): R Large accelerated filer 0 Accelerated filer 0 Non-accelerated filer 0 Smaller reporting company

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

The aggregate market value of common stock held by non-affiliates of the registrant was approximately $35.0 billion on February 15, 2008, and approximately $31.3 billion on June 30, 2007.

Common stock issued and outstanding was 382,767,582 shares on February 15, 2008, and 381,655,613 shares on June 30, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for our 2008 Annual Meeting are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) of this report.

FREEPORT-McMoRan COPPER & GOLD INC.
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PART I

Items 1. and 2. Business and Properties.

All of our periodic report filings with the Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available, free of charge, through our web site, www.fcx.com, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports. These reports and amendments are available through our web site as soon as reasonably practicable after we electronically file or furnish such material to the SEC.

References to "we," "us" and "our" refer to Freeport-McMoRan Copper & Gold Inc. (FCX) and its consolidated subsidiaries, including, except as otherwise stated, Phelps Dodge Corporation (Phelps Dodge) and its subsidiaries, which we acquired on March 19, 2007. References to "Notes" refer to the "Notes to Consolidated Financial Statements" included in our 2007 Annual Report included herein (see Item 8. Financial Statements and Supplementary Data).

GENERAL

We are one of the world's largest copper, gold and molybdenum mining companies in terms of reserves and production. Our principal asset is the Grasberg minerals district in Papua, Indonesia, which based on the latest available reserve data provided by third-party industry consultants, contains the largest single recoverable copper reserve and the largest single gold reserve of any mine in the world.

On March 19, 2007, we acquired Phelps Dodge, a fully integrated producer of copper and molybdenum, with mines in North and South America, processing capabilities for other by-product minerals and several development projects, including Tenke Fungurume in the Democratic Republic of Congo (DRC).

In North America we have six operating copper mines – Morenci, Bagdad, Sierrita and Safford in Arizona, and Chino and Tyrone in New Mexico, as well as one operating molybdenum mine – Henderson in Colorado. In addition, we have announced plans to restart the Miami copper mine in Arizona, and the Climax molybdenum mine in Colorado. All of these operations are wholly owned, except for Morenci, in which we have an 85 percent joint venture interest. The North American mining operations are operated in an integrated fashion and have long-lived reserves with additional development potential.

In South America we have four operating copper mines – Cerro Verde in Peru, and Candelaria, Ojos del Salado and El Abra in Chile. We own a 53.56 percent interest in Cerro Verde, 80 percent interests in Candelaria and Ojos del Salado, and a 51 percent interest in El Abra.

In Indonesia we own 90.64 percent of PT Freeport Indonesia, including 9.36 percent owned through our wholly owned subsidiary, PT Indocopper Investama. The Government of Indonesia owns the remaining 9.36 percent of PT Freeport Indonesia. PT Freeport Indonesia operates under an agreement called a Contract of Work with the Government of Indonesia. The Contract of Work permits us to conduct exploration, mining and production activities in a 24,700-acre area called Block A, which includes the Grasberg mineral district. Under the Contract of Work, PT Freeport Indonesia also conducts exploration activities (which had been suspended, but resumed in 2007) in an approximate 500,000-acre area called Block B.

In Africa, we have a 57.75 percent interest in the Tenke Fungurume project in the DRC. The Tenke Fungurume mine will produce copper and cobalt and is expected to commence mining operations in 2009.

Our mining revenue for 2007 (pro forma to include the operations of Phelps Dodge before the acquisition), includes sales of copper (approximately 79 percent), molybdenum (approximately 11 percent) and gold (approximately 6

percent). Our consolidated copper production (on a proforma basis to include the operations of Phelps Dodge before the acquisition) was primarily from three mines, the Grasberg minerals district in Indonesia (approximately 30 percent), the Morenci mine in Arizona (approximately 18 percent), and the Cerro Verde mine in Peru (approximately 15 percent).

For information about our segments and geographic areas see Note 18.

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The locations of our operating mines, as well those in development are shown on the map below.

As a mining company, our principal assets are our reserves. At December 31, 2007, consolidated recoverable proven and probable reserves totaled 93.2 billion pounds of copper, 41.0 million ounces of gold, 2.0 billion pounds of molybdenum, 230.9 million ounces of silver and 0.6 billion pounds of cobalt. Approximately 40 percent of our copper reserves were in Indonesia, approximately 28 percent were in South America, approximately 27 percent were in North America and approximately five percent were in Africa. Approximately 96 percent of our gold reserves were in Indonesia, with our remaining gold reserves in South America. Our molybdenum reserves are primarily in North America (approximately 90 percent), with our remaining molybdenum reserves in South America. (See “Ore Reserves”).

The diagram below shows our corporate structure.

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NORTH AMERICA

Our North American mining operations comprise copper operations from mining through rod production, molybdenum operations from mining through conversion to chemical and metallurgical products, and the marketing and sale of both product lines. We have six operating copper mines in North America – Morenci, Bagdad, Sierrita, Safford, Chino and Tyrone, and one operating molybdenum mine – Henderson. Additionally, in December 2007, we announced our plan to restart the Climax molybdenum mine and in January 2008, our plan to restart our Miami mine. Our North American mining division also includes rod and refining operations, which consist of copper conversion facilities including a smelter, refinery, rod mills and a specialty copper products facility.

Following are maps and descriptions of our North American mining operations:

Morenci and Safford

Morenci. Morenci, the largest copper mine in North America, is an open-pit copper mining complex located in Greenlee County, Arizona, approximately 50 miles northeast of Safford on U.S. Highway 191. The site is accessible by a paved highway and a railway spur. We own an 85 percent interest in Morenci, and 15 percent is owned by affiliates of Sumitomo Corporation. Each partner takes in kind its share of Morenci's production. The open-pit mine has been in continuous operation since 1939 and previously was mined through underground workings. The Morenci mine is a porphyry copper deposit that has leachable oxide and secondary sulfide mineralization, and millable primary sulfide mineralization. The predominant oxide copper mineral is chrysocolla. Chalcocite is the most important secondary copper sulfide mineral and chalcopyrite the dominant primary copper sulfide.

The Morenci operation consists of a 49,000 metric ton-per-day (54,000 short tons per day) concentrator that produces copper and molybdenum concentrate, an 80,000 metric ton-per-day crushed-ore leach pad and stacking system, a large low-grade run-of-mine (ROM) leaching system, four solution-extraction (SX) plants, and three electrowinning (EW) tank houses that produce copper cathode. Total EW tank house capacity is approximately 965 million pounds of copper per year. Total annual copper production over the next three years is expected to range between 790 to 990 million pounds (670 to 840 million pounds for our share) and total annual molybdenum production approximates one million pounds per year. Morenci uses a fleet of 115 235-metric ton haul trucks loaded by 15 shovels with bucket sizes ranging from 47 to 55 cubic meters, which are capable of moving an average of 1,000,000 metric tons of material per day.

The concentrate leach, direct-electrowinning facility at Morenci is ramping up production following commissioning in third-quarter 2007. This project uses our proprietary medium-temperature, pressure-leaching and direct-electrowinning technology, which will enhance cost savings by processing concentrates on-site instead of shipping concentrates to smelters for treatment and by providing acid as a by-product for use in leaching operations. The concentrate-leach project included the restart of a mill, which adds 115 million pounds of copper production per year and the mill is operating near capacity of 49,000 metric tons-per day.

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Morenci is located in a desert environment with rainfall averaging 13 inches per year. The highest bench elevation is 1,950 meters above sea level, and the ultimate pit bottom is expected to have an elevation of 900 meters above sea level. The Morenci operation encompasses approximately 53,944 acres comprising 47,609 acres of patented mining claims and other fee lands, 5,914 acres of unpatented mining claims, and 421 acres of land held by state or federal permits, easements and rights-of-way.

Morenci receives electrical power from Tucson Electric Power Company, Arizona Public Service, and the Luna Energy Facility in Deming, New Mexico (in which we own a one-third interest). Although we believe the Morenci operation has sufficient water sources to support mining operations as currently planned, we are a party to litigation that could adversely affect our water rights at Morenci and at our other properties in Arizona. (Refer to Item 3, Legal Proceedings, for information concerning the status of these proceedings.)

Safford. The Safford project is an open-pit copper mining complex located in Graham County, Arizona, approximately eight miles north of the town of Safford and 170 miles east of Phoenix. The site is accessible by paved county road off U.S. Highway 70. The project construction is essentially complete, and initial production commenced in late 2007 with a ramp up to full production of 240 million pounds of copper per year expected in the first half of 2008. The Safford mine includes two porphyry copper deposits that have leachable oxide and secondary sulfide mineralization. The predominant oxide copper minerals are chrysocolla and copper-bearing iron oxides. Chalcocite is the most important secondary copper sulfide mineral.

The property is a mine-for-leach project and produces copper cathodes. The operation will consist of two open pits feeding a crushing facility with a capacity of 103,000 metric tons per day of crushed ore. The crushed ore is delivered to a single leach pad by a series of overland and portable conveyors. ROM ore is placed on the leach pad by trucks. Leach solutions feed an SX/EW facility with a capacity of 240 million pounds of copper per year. Average annual copper production over the next three years is expected to range between 205 to 240 million pounds. The mining fleet consists of 17 235-metric ton haul trucks, expanding to 21 trucks by the end of 2008, loaded by five shovels with bucket sizes ranging from 31 to 34 cubic meters, which are capable of moving an average of approximately 285,000 metric tons per day.

Safford is located in a desert environment with rainfall averaging 10 inches per year. The highest bench elevation is expected to be 1,350 meters above sea level, and the ultimate pit bottom is expected to have an elevation of 750 meters above sea level. The Safford operation encompasses approximately 24,957 acres comprising 20,994 acres of patented lands, 3,932 acres of unpatented lands and 31 acres of land held by federal permit.

The Safford project receives electrical power through the Southwest Transmission Cooperative, a subsidiary of Arizona Electric Power Cooperative, Inc. Although we believe the Safford operation has sufficient water resources to support mining operations as currently planned, we are a party to litigation that could adversely impact the water rights at Safford and at our other properties in Arizona. (Refer to Item 3, Legal Proceedings, for information concerning the status of these proceedings.)

Bagdad

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Bagdad is an open-pit copper and molybdenum mining complex located in Yavapai County in west-central Arizona. It is approximately 60 miles west of Prescott and 100 miles northwest of Phoenix. The property can be reached by Arizona Highway 96, which ends at the town of Bagdad. The closest railroad siding is at Hillside, Arizona, approximately 24 miles southeast on Arizona Highway 96. The open-pit mining operation has been ongoing since 1945, and prior mining was conducted through underground workings. The Bagdad mine is a porphyry copper deposit that has leachable oxide and secondary sulfide mineralization, and millable primary sulfide mineralization. The predominant oxide copper minerals are chrysocolla, malachite and azurite. Chalcocite is the most important secondary copper sulfide mineral, and chalcopyrite and molybdenite the dominant primary sulfides.

The Bagdad operation consists of a 75,000 metric ton-per-day concentrator that produces copper and molybdenum concentrates, and an SX/EW plant that produces copper cathode from solution generated by low-grade ROM leaching and from conversion of a portion of mill copper concentrates in a concentrate-leach plant. The majority of concentrate produced is smelted at our Miami, Arizona, facility. Additionally, up to 35 million pounds per year are produced as cathode from the SX/EW and concentrate-leach plants and up to 20 million pounds per year from the ROM leaching system. Total projected annual copper production over the next three years is expected to range from 200 to 225 million pounds. Molybdenum production at the Bagdad mill ranges from 8 million to 11 million pounds per year. The current mining fleet has the capacity to move in excess of 180,000 metric tons of material per day using 25 235-metric ton haul trucks loaded by seven shovels with bucket sizes ranging from 20 to 47 cubic meters.

In 2002, we constructed a high-temperature, concentrate-leaching demonstration plant designed to recover 35 million pounds of commercial-grade copper cathode annually from chalcopyrite concentrates. The facility is the first of its kind in the world to use high-temperature, pressure leaching to process chalcopyrite concentrates. During 2005, this facility was used to test and demonstrate medium-temperature, pressure leaching and direct-electrowinning technology, which is now used at the Morenci concentrate-leaching facility, and was converted back to high-temperature, pressure leaching in December 2005. In December 2007, we announced plans to convert this facility to a molybdenum concentrate leach facility by 2010, which is expected to increase our annual molybdenum processing capacity by approximately 20 million pounds.

Bagdad is located in a desert environment with rainfall averaging 15 inches per year. The highest bench elevation is 1,200 meters above sea level, and the ultimate pit bottom is expected to be 475 meters above sea level. The Bagdad operation encompasses approximately 21,743 acres comprising 21,143 acres of patented mining claims and other fee lands, and 600 acres of unpatented mining claims.

Bagdad receives electrical power from Arizona Public Service Company. Although we believe the Bagdad operation has sufficient water resources to support mining operations as currently planned, we are a party to litigation that could adversely affect our water rights at Bagdad and at our other properties in Arizona. (Refer to Item 3, Legal Proceedings, for information concerning the status of these proceedings.)

Sierrita

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Sierrita is an open-pit copper and molybdenum mining complex located in Pima County, Arizona, approximately 20 miles southwest of Tucson and seven miles west of the town of Green Valley and Interstate Highway 19. The site is accessible by a paved highway and by rail. The mine has been in operation since 1959. The Sierrita mine is a porphyry copper deposit that has leachable oxide and secondary sulfide mineralization, and millable primary sulfide mineralization. The predominant oxide copper minerals are malachite, azurite and chrysocolla. Chalcocite is the most important secondary copper sulfide mineral, and chalcopyrite and molybdenite the dominant primary sulfides.

The Sierrita operation consists of a 102,000 metric ton-per-day concentrator, two molybdenum roasters and a rhenium processing facility. The facility produces copper and molybdenum concentrates. Sierrita also produces copper from a ROM oxide-leaching system. Cathode copper is plated at the Twin Buttes EW facility which has a design capacity of approximately 50 million pounds of copper per year. In 2004, a copper sulfate crystal plant began production. The facility has the capacity to produce 40 million pounds of copper sulfate per year. Total annual copper production over the next three years is expected to range from 155 to 190 million pounds. Molybdenum production averages approximately 20 million pounds per year. The molybdenum facility consists of a leaching circuit, two molybdenum roasters and a packaging facility. The molybdenum facilities process Sierrita concentrate, concentrate from our other mines and concentrate from third-party sources. The current mining fleet has the capacity to move an average of 200,000 metric tons of material per day using 23 210- to 235-metric ton haul trucks loaded by five shovels with bucket sizes ranging from 21 to 47 cubic meters.

Sierrita is located in a desert environment with rainfall averaging 12 inches per year. The highest bench elevation is 1,350 meters above sea level, and the ultimate pit bottom is expected to be 600 meters above sea level. The Sierrita operation encompasses approximately 22,320 acres comprising 14,400 acres of patented mining claims and other fee lands, 5,725 acres of unpatented mining claims (includes 3,655 acres overlaying federal minerals on previously counted fee lands), and 2,195 acres of leased lands.

Sierrita receives electrical power through long-term contracts with the Tucson Electric Power Company. Although we believe the Sierrita operation has sufficient water resources to support mining operations as currently planned, we are a party to litigation that could adversely affect our water rights at Sierrita and at our other properties in Arizona. (Refer to Item 3, Legal Proceedings, for information concerning the status of these proceedings.)

Miami

Miami is an open-pit copper mining complex located in Gila County, Arizona, approximately 90 miles east of Phoenix and six miles west of the city of Globe on U.S. Highway 60. The site is accessible by a paved highway and by rail. The Miami mining operation has been on care-and-maintenance status since 2002, but has historically processed copper ore using both flotation and leaching technologies since about 1915. Since 2002, residual leaching of stockpiles has continued with copper recovered by the SX/EW process. The Miami mine is a porphyry copper deposit that has leachable oxide and secondary sulfide

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mineralization. The predominant oxide copper minerals are chrysocolla, copper-bearing clays, malachite and azurite. Chalcocite and covellite are the most important secondary copper sulfide minerals.

The design capacity of the SX/EW plant is 200 million pounds per year. In January 2008, we announced our plan to restart the Miami mine. We expect full rates of production to approximate 100 million pounds of copper per year. Refer to “Development and Exploration” for further discussion.

The Miami smelter processes concentrate primarily from Bagdad, Sierrita, Morenci and Chino and has been in production for over 80 years. The smelter has been upgraded during that period to implement new technologies, to improve production and to comply with current air quality standards. Concentrate processed through the smelter totaled approximately 759,000 metric tons in 2007 and 612,000 metric tons in 2006. Sulfuric acid is a by-product of smelting concentrates, and the Miami smelter is the most significant source of sulfuric acid for our domestic leaching operations. The Miami rod plant treats cathodes from Miami and other domestic operations and produces approximately 316 million pounds of copper rod per year.

Miami is located in a desert environment with rainfall averaging approximately 18 inches per year. The highest bench elevation is 1,400 meters above sea level, and the ultimate pit bottom is expected to be 800 meters above sea level. The Miami operation encompasses approximately 9,058 acres comprising 8,725 acres of patented mining claims and other fee lands, and 333 acres of unpatented mining claims.

Miami receives electrical power through long-term contracts with the Salt River Project and natural gas through long-term contracts with El Paso Natural Gas. Although we believe the Miami operation has sufficient water resources to support mining operations as currently planned, we are a party to litigation that could adversely affect our water rights at Miami and at our other properties in Arizona. (Refer to Item 3, Legal Proceedings, for information concerning the status of these proceedings.)

Chino and Tyrone

Chino. Chino is an open-pit copper mining complex located in southwestern New Mexico in Grant County, approximately 15 miles east of the town of Silver City off of State Highway 180. The mine is accessible by paved roads and by rail. Chino has been in operation since 1910. The Chino mine is a porphyry copper deposit with adjacent copper skarn deposits. There is leachable oxide and secondary sulfide mineralization, and millable primary sulfide mineralization. The predominant oxide copper minerals are chrysocolla and azurite. Chalcocite is the most important secondary copper sulfide mineral, and chalcopyrite and molybdenite the dominant primary sulfides.

The Chino operation consists of a 39,000 metric ton-per-day concentrator that produces copper and molybdenum concentrates, and a 150 million pound-per-year SX/EW plant that produces copper cathode from solution generated by ROM leaching. Total annual copper production over the next three years is expected to range from 180 to 245 million pounds, along with annual molybdenum production of approximately one million pounds. The current mining fleet has the capacity to move an average of 180,000 metric tons of material per day utilizing a fleet of 23 245- and 290-metric ton haul trucks loaded

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by eight shovels/loaders with bucket sizes ranging from 14 to 47 cubic meters. Copper ore is crushed and sent to the concentrator. Leach ore is placed on stockpiles located throughout the property and the leach solution is processed at Chino's SX/EW facility that has a maximum capacity of 153 million pounds of copper cathode per year.

Chino is located in a desert environment with rainfall averaging 16 inches per year. The highest bench elevation is 2,250 meters above sea level, and the ultimate pit bottom is expected to be 1,500 meters above sea level. The Chino operation encompasses approximately 118,062 acres comprising 113,258 acres of patented mining claims and other fee lands, and 4,804 acres of unpatented mining claims (including 22,907 acres overlaying federal and state minerals on previously counted fee lands).

Chino receives power from the Luna Energy Facility and from the open market. It also has the ability to self-generate power. We believe Chino has sufficient water resources to support mining operations as currently planned.

Tyrone. Tyrone is an open-pit copper mining complex located in southwestern New Mexico in Grant County, approximately 10 miles south of Silver City, New Mexico, along State Highway 90. The site is accessible by paved road. The open-pit mine has been in operation since 1967. The Tyrone mine is a porphyry copper deposit. Mineralization is predominantly leachable secondary sulfide consisting of chalcocite.

Copper processing facilities consist of an SX/EW operation with a maximum capacity of 168 million pounds of copper cathodes per year. Annual copper production over the next three years is expected to range from 80 to 115 million pounds. The current mining fleet has the capacity to move an average of 120,000 metric tons of material per day using a fleet of 15 190-metric ton haul trucks loaded by five shovels with bucket sizes ranging from 22 to 54 cubic meters. Historically, ore production has occurred from numerous open pits throughout the site. Mining is currently ongoing in a single, large, central open pit.

Tyrone is located in a desert environment with rainfall averaging 16 inches per year. The highest bench elevation is 2,000 meters above sea level, and the ultimate pit bottom is expected to have an elevation of 1,500 meters above sea level. The Tyrone operation encompasses approximately 35,200 acres comprising 18,755 acres of patented mining claims and other fee lands, and 16,445 acres of unpatented mining claims (includes 1,116 acres overlaying federal minerals on previously counted fee lands).

Tyrone receives electrical power from the Luna Energy Facility and from the open market. Tyrone also has the ability to self-generate power. We believe the Tyrone operation has sufficient water resources to support mining operations as currently planned.

Henderson and Climax

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Henderson. The Henderson molybdenum mine is located approximately 42 miles west of Denver, Colorado, off U.S. Highway 40. Nearby communities include the towns of Empire, Georgetown and Idaho Springs. The Henderson mill site is located approximately 15 miles west of the mine, and is accessible from Colorado State Highway 9. The Henderson mine and mill are connected by a 10-mile conveyor tunnel under the Continental Divide and an additional five-mile surface conveyor. The tunnel portal is located five miles east of the mill. The mine has been in operation since 1976. The Henderson mine is a porphyry molybdenum deposit with molybdenite as the primary sulfide mineral.

The Henderson operation consists of a large block-cave underground mining complex feeding a 36,000 metric ton-per-day concentrator. Henderson has the capacity to produce approximately 40 million pounds of molybdenum per year with production expected to be at or near capacity over the next three years. The underground mining equipment fleet consists of 17 nine-metric ton load-haul-dumps, and seven 36- and 73-metric ton haul trucks, which feed a gyratory crusher feeding a series of three overland conveyors to the mill stockpiles. Mining is currently from two production levels. The majority of the molybdenum concentrate produced is shipped to our Fort Madison, Iowa, processing facility.

The Henderson mine is located in a mountain region with the main access shaft at 3,180 meters above sea level. The main production levels are currently at elevations of 2,350 and 2,000 meters above sea level. This region experiences significant snowfall during the winter months.

The Henderson mine and mill operations encompass approximately 11,878 acres comprising 11,843 acres of patented mining claims and other fee lands, and a 35-acre easement with the U.S. Forest Service for the surface portion of the conveyor corridor.

Henderson operations receive electrical power through long-term contracts with Xcel Energy and natural gas through long-term contracts with BP Energy with Xcel Energy as the transporter. We believe Henderson has sufficient water resources at the mine and mill for any planned production scenarios.

Climax. The Climax molybdenum mine is located 13 miles northeast of Leadville, Colorado, off Colorado State Highway 91 at the top of Freemont Pass. The mine is accessible by paved roads. The Climax mine is a porphyry molybdenum deposit with molybdenite as the primary sulfide mineral.

The Climax mine was placed on care-and-maintenance status in 1995. In December 2007, we announced plans to restart the Climax mine. This $500 million project involves construction of new milling facilities and the restart of open-pit mining. Refer to “Development and Exploration” for further discussion.

The Climax mine is located in a mountain region. The highest bench elevation is approximately 4,050 meters above sea level, and the ultimate pit bottom is expected to be approximately 3,100 meters above sea level. This region experiences significant snowfall during the winter months. The Climax operation encompasses approximately 14,339 acres of patented mining claims and other fee lands.

Climax’s electrical power is supplied by Xcel Energy. We expect that once the operations are restarted, Xcel Energy will be able to supply sufficient energy to the Climax mine. Although we believe the Climax operation has sufficient water resources to support mining operations as currently planned, we are a party to litigation that could adversely affect our water rights at Climax. (Refer to Item 3, Legal Proceedings, for information concerning the status of these proceedings.)

Other North American Operations

Rod and Refining operations. Our rod and refining operations consist of conversion facilities including a refinery in El Paso, Texas, rod mills in El Paso, Texas; Norwich, Connecticut; Miami, Arizona and Chicago, Illinois, and a specialty copper products facility in Bayway, New Jersey. We refine our anode copper production from our smelter in Miami, Arizona, along with purchased anodes at our El Paso refinery. The El Paso refinery has an annual production capacity of about 900 million pounds of copper cathode, which is sufficient to refine all the anode copper we produce at Miami. Our El Paso refinery also produces nickel carbonate, copper telluride, and autoclaved slimes material containing gold, silver, platinum and palladium.

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We are the world's largest producer of continuous-cast copper rod, which is the basic feed for the electrical wire and cable industry. Most of our refined copper and additional purchased copper cathode is converted into rod at our four continuous-cast copper rod mills, which have a collective annual capacity to convert more than two billion pounds of refined copper into rod and other refined copper products.

Molybdenum Conversion facilities. We process molybdenum concentrates at our conversion plants in the United States and Europe into such products as technical-grade molybdic oxide, ferromolybdenum, pure molybdic oxide, ammonium molybdates, molybdenum metal powders and molybdenum disulfide. We operate molybdenum roasters at Green Valley, Arizona; Fort Madison, Iowa; and Rotterdam, the Netherlands.

The Green Valley, Arizona facility, which is located at our Sierrita mine, consists of two molybdenum roasters that process molybdenum concentrates produced at our mines and on a toll basis for third parties. The facility produces molybdenum oxide and related products.

The Fort Madison, Iowa, facility consists of two molybdenum roasters, a sulfuric acid plant, a metallurgical (technical oxide) packaging facility, and a chemical conversion plant, which includes a wet-chemicals plant and sublimation equipment. In the chemical plant, molybdic oxide is further refined into various high-purity molybdenum chemicals for a wide range of uses by chemical and catalyst manufacturers. In addition to metallurgical oxide products, the Fort Madison facility produces ammonium dimolybdate, pure molybdic oxide, ammonium heptamolybdate, ammonium octamolybdate, sodium molybdate, sublimed pure molybdic oxide and molybdenum disulfide.

The Rotterdam conversion plant consists of a molybdenum roaster, sulfuric acid plant, metallurgical packaging facility and chemical conversion plant. The plant produces metallurgical products primarily for third parties. Ammonium dimolybdate and pure molybdic oxide are produced in the wet-chemicals plant.

We also produce ferromolybdenum and molybdenum disulfide for worldwide customers at our conversion plant located in Stowmarket, United Kingdom. The plant is operated both as an internal and external customer tolling facility.

Process Technology Centers. We have a process technology center located in Safford, Arizona. The objective of the center is to develop technologies that will enhance our competitive position in the world copper market. The center provides metallurgical process development capabilities, process optimization services, metallurgical testing and advanced material characterization services to meet the needs of our operations. Activities are focused on the development of new cost-competitive, "step change" technologies and the continuous improvement of existing processes, with an emphasis on the effective implementation, transfer and sharing of technology within our operations and projects. The center employs approximately 125 engineers, scientists and technical support staff. The facilities include:

- a large-diameter, column-leach facility for testing run-of-mine material, which is capable of processing up to approximately 550 metric tons of ore annually;
- a continuous SX/EW test facility capable of producing approximately 3,000 pounds of copper cathode per day;
- a small-diameter, column-leach facility with a capacity of about 250 individual tests per year for crushed material;
- a metallurgical laboratory for the development of biological leaching processes and enhancements, and other biological applications;
- a demonstration facility for production of new copper products; and
- a state-of-the-art material characterization laboratory with advanced mineralogy, analytical chemistry and metallography capabilities.

The principal areas of activity include hydrometallurgy (leaching and SX/EW), mineral processing (crushing, grinding and flotation), material characterization, environmental technology, new copper products and technical information services.

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We also have a molybdenum technology center located in Sahuarita, Arizona, focused on new product development and product applications as an extension of our metals business. In addition, our Climax technology center produces molybdenum metal powders.

SOUTH AMERICA

We have 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.

Following are maps and descriptions for our South American Mining operations:

Cerro Verde

Cerro Verde is an open-pit copper and molybdenum mining complex located 20 miles southwest of Arequipa, Peru. The site is accessible by paved highway. We have a 53.56 percent interest in Cerro Verde. The remaining 46.44 percent is held by SMM Cerro Verde Netherlands B.V. (21.0 percent), Compañia de Minas Buenaventura S.A.A. (18.5 percent) and other shareholders whose shares are publicly traded on the Lima Stock Exchange (6.94 percent). The Cerro Verde mine has been in operation since 1976.

The Cerro Verde mine is a porphyry copper deposit that has leachable oxide and secondary sulfide mineralization, and millable primary sulfide mineralization. The predominant oxide copper minerals are brochantite, chrysocolla, malachite and copper “pitch.” Chalcocite and covellite are the most important secondary copper sulfide minerals. Chalcopyrite and molybdenite are the dominant primary sulfides.

Cerro Verde’s current operation consists of an open-pit copper mine and SX/EW leaching facilities. Leach-copper production is derived from a 39,000 metric ton-per-day crushed leach facility and a ROM leach system. This leaching operation has a capacity of approximately 200 million pounds of copper per year. A new 108,000 metric ton-per-day concentrator was completed in late 2006, and processing of sulfide ore began in the fourth quarter of 2006. Annual production over the next three years is expected to range from 655 to 705 million pounds of copper (350 to 375 million pounds for our share) and seven to nine million pounds of molybdenum (four to five million pounds for our share).

Cerro Verde has sufficient equipment to move an average of 295,000 metric tons of material per day using a fleet of 26 180-metric ton and 230-metric ton haul trucks loaded by six shovels with bucket sizes ranging in size from 21 to 46 cubic meters.

Copper cathodes and concentrate production are transported approximately 70 miles by truck and rail to the Pacific Port of Matarani for shipment to international markets.

Cerro Verde is located in a desert environment with rainfall averaging 1.5 inches per year and is in an active seismic zone. The highest bench elevation is 2,900 meters above sea level, and the ultimate pit bottom is expected to be 2,000 meters above sea level. Cerro Verde has a mining concession covering

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approximately 53,094 acres plus 15 acres of owned property and 22 acres of rights-of-way outside the mining concession area.

Cerro Verde receives electrical power under long-term contracts with Electroperu and Empresa de Generación Eléctrica de Arequipa. The existing freshwater intake and supply system on the Rio Chili was expanded for the Cerro Verde concentrator project. Cerro Verde's participation in the Pillones Reservoir Project has secured water rights that we believe will be sufficient to support Cerro Verde's operations as currently planned.

Candelaria and Ojos del Salado

Candelaria. Candelaria is an open-pit and underground copper mining complex located approximately 12 miles south of Copiapó in northern Chile's Atacama province, Region III. The site is accessible by two maintained dirt roads, one coming through the Tierra Amarilla community and the other off of Route 5 of the International Pan-American Highway. We have an 80 percent interest in Candelaria. The remaining 20 percent interest is owned by affiliates of the Sumitomo Corporation. The open-pit copper mine has been in operation since 1993 and the underground copper mine since 2005.

The Candelaria mine is an iron oxide, copper/gold deposit. Millable primary sulfide mineralization consists of chalcopyrite.

The Candelaria operation consists of an open-pit copper mine and a 4,000 metric ton-per-day underground copper mine, which is mined by sublevel stoping, feeding a 67,000 metric ton-per-day concentrator. On average, open-pit mining operations move 290,000 metric tons of material per day using a fleet of 50 225-metric ton haul trucks loaded by nine shovels with bucket sizes ranging from 13 to 43 cubic meters. Copper concentrates are transported by truck to the Punta Padrones port facility located in Caldera, approximately 50 miles northwest of the mine. Annual copper production is expected to range from 300 to 360 million pounds (240 to 285 million pounds for our share) over the next three years.

Candelaria is located in a desert environment with rainfall averaging less than one inch per year and is in an active seismic zone. The highest bench elevation is 675 meters above sea level, and the ultimate pit bottom is expected to be 30 meters below sea level. The Candelaria property encompasses approximately 13,390 acres, including approximately 544 acres for the port facility in Caldera. The remaining property consists of mineral rights owned by us in which the surface is not owned but is controlled by us consistent with Chilean law.

Candelaria receives electrical power through long-term contracts with Empresa Eléctrica Guacolda S.A., a local energy company. Candelaria's water supply comes from well fields in the area of Tierra Amarilla and Copiapó that draw water from the Copiapó River aquifer. Because of rapid depletion of that aquifer in recent years, ongoing studies are addressing the adequacy of this water supply for mining operations as planned.

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Ojos del Salado. Ojos del Salado consists of two underground copper mines (Santos and Alcaparrosa) and a 4,000 metric ton-per-day concentrator. The operation is located approximately 10 miles east of Copiapó in northern Chile's Atacama province, Region III, and is accessible by paved highway. We have an 80 percent interest in Ojos del Salado. The remaining 20 percent interest is owned by affiliates of the Sumitomo Corporation. The Ojos del Salado operation began commercial production in 1929.

The Ojos del Salado mines are iron oxide and copper/gold deposits. Millable primary sulfide mineralization consists of chalcopyrite.

The Ojos del Salado operation has a capacity of 3,800 metric tons per day of ore from the Santos underground mine and 4,000 metric tons per day from the Alcaparrosa underground mine. The ore from both mines is mined by sublevel stoping, which is a variation of blasthole stoping, because both the ore and enclosing rocks are competent. The broken ore is removed from the stopes using front-end loaders and loaded into 18 28-metric ton trucks, which transport the ore to the surface. The ore from the Santos mine is hauled directly to the Ojos del Salado mill for processing, and the ore from the Alcaparrosa mine is reloaded into five 54-metric ton trucks and hauled 12 miles to the Candelaria mill for processing. The Ojos del Salado concentrator has the capacity to produce over 60 million pounds of copper and 19,000 ounces of gold per year. Annual copper production over the next three years is expected to range from 30 to 60 million pounds (24 to 48 million pounds for our share), and annual gold production is expected to range from 6,000 to 19,000 ounces (4,800 to 15,200 ounces for our share) over the next four years. Tailings from the Ojos del Salado mill are pumped to the Candelaria tailings facility for final deposition. The Candelaria facility has sufficient capacity for the remaining Ojos del Salado tailings in addition to Candelaria's tailings.

Ojos del Salado is located in a desert environment with rainfall averaging less than one inch per year and is in an active seismic zone. The highest underground level is at an elevation of 500 meters above sea level, with the lowest underground level at 150 meters above sea level. The Ojos del Salado mineral rights encompass approximately 15,815 acres, which includes approximately 6,784 acres of owned land in and around the Ojos del Salado underground mines and plant site.

Ojos del Salado receives electrical power through long-term contracts with Empresa Eléctrica Guacolda S.A. Ojos del Salado's water supply draws water from the Copiapo River aquifer. Because of rapid depletion of this aquifer in recent years, ongoing studies are addressing the adequacy of this water supply for the mining operation as planned.

El Abra

El Abra is an open-pit copper mining complex located 47 miles north of Calama in Chile's El Loa province, Region II. The site is accessible by paved highway and by rail. We have a 51 percent interest in El Abra. The remaining 49 percent interest is held by the state-owned copper enterprise Corporación Nacional del Cobre de Chile (CODELCO). The mine has been in operation since 1996.

The El Abra mine is a porphyry copper deposit that has leachable oxide and sulfide mineralization. The predominant oxide copper minerals are chrysocolla and pseudomalachite. There are lesser amounts of

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copper-bearing clays and tenorite. The predominant primary sulfide copper minerals are bornite and chalcopyrite. The secondary sulfide mineralization is chalcocite. The El Abra operation consists of an open-pit copper mine and an SX/EW facility with a capacity of 500 million pounds of copper cathode per year from a 120,000 metric ton-per-day crushed leach circuit and a similar-sized, ROM leaching operation. Annual copper production is expected to range from 335 pounds to 370 million pounds over the next three years (170 million to 190 million pounds for our share). The mining operation has sufficient equipment to move an average of 223,000 metric tons per day using a fleet of 26 220-metric ton haul trucks loaded by six shovels with buckets ranging in size from 26 to 41 cubic meters. At the end of 2006, we completed a feasibility study to evaluate the development of the large sulfide deposit at El Abra. This project would extend the mine life by over ten years and is expected to provide an additional 325 million pounds of copper per year compared to the current oxide operation. Copper production from the sulfides is expected to begin in 2010. Refer to “Development and Exploration” for further discussion.

El Abra is located in a desert environment with rainfall averaging less than one inch per year and is in an active seismic zone. The highest bench elevation is 4,180 meters above sea level, and the ultimate pit bottom is expected to be 3,410 meters above sea level. El Abra controls a total of 110,268 acres of mining claims covering the ore deposit, stockpiles, process plant, and water wellfield and pipeline. In addition, El Abra has acquired land surface rights for the plant to mine access road, the wellfield, power transmission line, and for the water pipeline from the Salar de Ascotán. Acquisition of additional land surface area required for the future development of the sulfide project is in process.

El Abra currently receives electrical power under a contract with Electroandina, which will expire at the end of 2017. We believe the El Abra operation has sufficient water rights to support operations as currently planned.

INDONESIA

PT Freeport Indonesia is a limited liability company organized under the laws of the Republic of Indonesia and incorporated in Delaware. We directly own 81.28 percent of PT Freeport Indonesia, 9.36 percent indirectly through our subsidiary, PT Indocopper Investama, and the Government of Indonesia owns the remaining 9.36 percent. PT Freeport Indonesia mines, processes and explores for ore containing copper, gold and silver. It operates in the remote highlands of the Sudirman Mountain Range in the province of Papua, Indonesia, which is on the western half of the island of New Guinea. PT Freeport Indonesia markets its concentrates containing copper, gold and silver worldwide.

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

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

In 1996, we established joint ventures with Rio Tinto plc (Rio Tinto), an international mining company with headquarters in London, England. One joint venture covers PT Freeport Indonesia’s mining operations in Block A and gives Rio Tinto, through 2021, a 40 percent interest in certain assets and future production exceeding specified annual

amounts of copper, gold and silver in Block A, and, after 2021, a 40 percent interest in all production from Block A. Operating, nonexpansion capital and administrative costs are shared proportionately between PT Freeport Indonesia and Rio Tinto based on the ratio of (a) the incremental revenues from production from our expansion completed in 1998 to (b) total revenues from

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Block A, including production from PT Freeport Indonesia's previously existing reserves. PT Freeport Indonesia receives 100 percent of the cash flow from specified annual amounts of copper, gold and silver through 2021, calculated by reference to its proven and probable reserves as of December 31, 1994, and 60 percent of all remaining cash flow. PT Freeport Indonesia records its joint venture interest using the proportionate consolidation method.

Contracts of Work

Through a Contract of Work with the Government of Indonesia, PT Freeport Indonesia conducts its current exploration and mining operations in Indonesia. The Contract of Work governs our rights and obligations relating to taxes, exchange controls, royalties, repatriation and other matters, and was concluded pursuant to the 1967 Foreign Capital Investment Law, which expresses Indonesia's foreign investment policy and provides basic guarantees of remittance rights and protection against nationalization, a framework for economic incentives and basic rules regarding other rights and obligations of foreign investors. Specifically, the Contract of Work provides that the Government of Indonesia will not nationalize or expropriate PT Freeport Indonesia's mining operations. Any disputes regarding the provisions of the Contract of Work are subject to international arbitration. We have experienced no disputes requiring arbitration during the 40 years we have operated in Indonesia.

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

PT Irja Eastern Minerals (Eastern Minerals), of which we own 100 percent, has a Contract of Work with the Government of Indonesia containing similar terms to PT Freeport Indonesia's Contract of Work. Eastern Minerals signed its Contract of Work in August 1994. The Contract of Work originally covered approximately 2.5 million exploration acres. Eastern Minerals' Contract of Work provides for a four-to-seven year exploratory term and a 30-year term for mining operations. Subject to Indonesian government approval, which cannot be withheld or delayed unreasonably, we can extend this period for two 10-year periods. Eastern Minerals' Contract of Work requires us to relinquish our rights to 25 percent of the original 2.5-million-acre Contract of Work area at the end of each of three specified periods. As of December 31, 2007, we had relinquished approximately 1.3 million acres and we expect to relinquish an additional 0.6 million acres in early 2008. The exploration activities under Eastern Minerals' Contract of Work also have been suspended in recent years; however, in December 2006, Eastern Minerals received approval from the Government of Indonesia to resume exploration activities in 2007.

Under a joint venture agreement through PT Nabire Bakti Mining, we conduct exploration activities in an area covering approximately 500,000 acres in five parcels contiguous to PT Freeport Indonesia's Block B and one of Eastern Minerals' blocks.

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

A large part of the mineral royalties under Government of Indonesia regulations are designated to the provinces from which the minerals are extracted. In connection with our fourth concentrator mill expansion, PT Freeport Indonesia agreed to pay the Government of Indonesia additional royalties (royalties not required by our Contract of Work) to provide further support to the local governments and the people of Papua. PT Freeport Indonesia pays the additional royalties on production exceeding specified annual amounts of copper, gold and silver expected to be generated when

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

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PT Freeport Indonesia's share of the combined royalties, including the additional royalties which became effective January 1, 1999, totaled $133 million in 2007, $126 million in 2006 and $104 million in 2005.

Grasberg Minerals District

We and our predecessors have conducted exploration and mining operations in Block A since 1967 and have been the only operator of these operations. We currently have two mines in operation: the Grasberg open pit and the Deep Ore Zone (DOZ) underground block cave. The DOZ and the Ertsberg Stockwork Zone are adjacent to each other and are being mined together following our recently completed expansion of our underground operations to 50,000 metric tons per day, and the planned expansion to 80,000 metric tons per day.

Grasberg open-pit. We began open-pit mining of the Grasberg ore body in 1990. Open-pit operations are expected to continue until mid-2015 at which time the Grasberg underground mining operations are scheduled to begin. Production is currently at the 3,305- to 4,285-meter elevation level and totaled 57.5 million metric tons of ore in 2007 and 63.7 million metric tons of ore in 2006, which provided 75 percent of our 2007 mill feed and 80 percent of our 2006 mill feed. Our open-pit mining rate, including ore and overburden, totaled 667,600 metric tons per day in 2007 and 677,200 metric tons per day in 2006. Approximate annual production rates are expected to range between 600,000 metric tons per day and 700,000 metric tons per day through 2010 and then decline through 2015.

The current Grasberg equipment fleet consists of over 500 units. As of December 31, 2007, the larger mining equipment directly associated with production includes 143 haul trucks with payloads ranging from approximately 215 metric tons to 330 metric tons, 18 shovels with bucket sizes ranging from 30 cubic meters to 42 cubic meters.

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

Deep Ore Zone. The DOZ ore body lies vertically below the now depleted Intermediate Ore Zone. We began production from the DOZ ore body in 1989 using open stope mining methods, but we suspended production in 1991 in favor of production from the Grasberg deposit. Production resumed in September 2000 using the block-cave method. Production is at the 3,110-meter elevation level and totaled 19.5 million metric tons of ore in 2007 and 16.5 million metric tons of ore in 2006. Production from the DOZ

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averaged 53,500 metric tons of ore per day in 2007 and 45,200 metric tons of ore per day in 2006.

During 2007, we completed over 16,300 meters of development drifting in support of the block-cave mining method, and in mid-2007 we completed an expansion of the DOZ underground operation to allow a sustained rate of 50,000 metric tons of ore per day. Further expansion of the DOZ operation to 80,000 metric tons of ore per day is under way with completion targeted by 2010. Our success in developing the DOZ mine, one of the world's largest underground mines, has given us additional confidence in the future development of our large-scale undeveloped ore bodies.

The DOZ mine fleet consists of over 175 pieces of mobile heavy equipment. The primary mining equipment directly associated with production and development includes 51 load-haul-dump (LHD) units and 20 haul trucks. Our production LHD units typically carry approximately 11 metric tons of ore. Using ore passes and chutes, the LHD units transfer ore into 55-ton capacity haul trucks. The trucks dump into two gyratory crushers and ore is then conveyed to the surface stockpiles.

Our principal source of power for all our Indonesian operations is a coal-fired power plant that we built in conjunction with our fourth concentrator mill expansion. Diesel generators supply peaking and backup electrical power generating capacity. A combination of naturally occurring mountain streams and water derived from our underground operations provides water for our operations. Our Indonesian operations are in an active seismic zone and experience average annual rainfall of 195 inches.

Mining Operations - Mines in Development

Development projects. In addition to the Grasberg open pit and DOZ, four other ore bodies (the underground Grasberg, Kucing Liar, Mill Level Zone/Deep Mill Level Zone and Big Gossan) are located in Block A. These ore bodies are at various stages of development, and are included in our proven and probable recoverable reserves. We continually review our operation's development opportunities to maximize the value of the reserves. We incurred $270 million ($247 million for our share) for mine development, and supporting infrastructure capital expenditures related primarily to the Grasberg block cave and Big Gossan ore bodies and $40 million ($30 million for our share) for common underground infrastructure development during the three years ended December 31, 2007. See "Risk Factors."

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

Beginning in 2007, we report the Mill Level Zone and Deep Mill Level Zone ore bodies as one ore body because we plan to mine them using some of the same infrastructure. The Mill Level Zone lies directly below the DOZ mine at the 2,890-meter elevation and the Deep Mill Level Zone lies beneath the Mill Level Zone at the 2,590-meter elevation. This ore represents the downward continuation of mineralization in the Ertsberg East Skarn system and neighboring Ertsberg porphyry. Drilling efforts continue to determine the extent of this ore body. We expect to mine the Mill Level Zone using a block-cave method near completion of mining at the DOZ. Near the end of mining the Mill Level Zone, we expect to mine the Deep Mill Level Zone also using a block-cave method.

The Big Gossan ore body is located approximately 1,000 meters southwest of the original Ertsberg open-pit deposit. We began the initial underground development of the ore body in 1993 when we drove tunnels from the mill area into the ore zone at the 3,000-meter elevation level. A stope and fill mining method will be used on the Big Gossan deposit. We expect to begin mining the Big Gossan ore body in 2008, with production expected to ramp up to 7,000 metric tons per day in late 2010 (average annual aggregate incremental production of 125 million pounds of copper and 65,000 ounces of gold with PT Freeport Indonesia receiving 60 percent of these amounts).

In 2004, PT Freeport Indonesia commenced its “Common Infrastructure” project, which will provide access to its large undeveloped underground ore bodies located in the Grasberg minerals district through a tunnel system located approximately 400 meters deeper than its existing underground tunnel system. In addition to providing access to our underground ore bodies, the tunnel system will enable us to conduct future exploration in prospective areas associated with currently identified ore bodies. The tunnel system

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has reached the Big Gossan terminal and we are proceeding with development of the lower Big Gossan infrastructure. We have also advanced development of the Grasberg spur and as of December 31, 2007, has completed 96 percent of the tunneling required to reach the Grasberg underground ore body. We expect the Grasberg spur to reach the Grasberg underground ore body and to initiate multi-year mine development activities in the second half of 2008.

Studies are under way to update the estimated aggregate capital expenditures to reach full production capacity for the undeveloped ore bodies in the Grasberg district. Previous estimates of approximately $3.1 billion for the development of these ore bodies were primarily based on studies completed in 2003. These amounts included $1.2 billion in estimated capital for the Grasberg underground, $0.7 billion for Kucing Liar, $0.2 billion for Big Gossan and $0.6 billion for MLZ/Deep MLZ. Recent estimates for the development of the Grasberg underground ore body, which continue to be reviewed, indicate aggregate capital approximating $3 billion to be incurred between 2008 and 2021. The increase of approximately $1.8 billion primarily reflects higher labor and contractor costs, increased costs for mobile equipment and other input costs. Current cost estimates for Big Gossan approximate $0.5 billion. Our underground operations in Indonesia are more sensitive to changes in labor costs than our open pit and process operations. We will continue to pursue productivity initiatives to mitigate the impact of increased labor costs. Cost estimates for Kucing Liar and MLZ/Deep MLZ, which are not expected to begin development for several years, have not been updated from prior studies.

Aggregate capital costs to develop the underground ore bodies are expected to average approximately $275 million per year through 2021.

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

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

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

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

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AFRICA

We are developing our initial project at Tenke Fungurume in the DRC. Following is a map and description of our African operations:

Tenke Fungurume

The Tenke Fungurume deposits are located in the Katanga province of the DRC approximately 110 miles northwest of Lubumbashi. The deposits are accessible by unpaved roads and by rail. We have an effective 57.75 percent interest in the concessions, and are the operator of the project. The remaining ownership interests are held by Tenke Mining Corp.(TMC), which is owned by Lundin Mining Corporation (24.75 percent) and La Generale des Carrieres et des Mines, which is wholly owned by the Government

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of the DRC (17.5 percent). We are responsible for funding 70 percent of project development costs and, at our joint venture partner's election, we are also responsible for financing our partner's share of project overruns of more than 25 percent of the feasibility study cost estimates.

In February 2008, we received a letter from the Ministry of Mines, Government of the Democratic Republic of Congo, seeking our comment on proposed material modifications to our mining contract 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. Our mining contract was negotiated transparently and approved by the Government of the DRC following extended negotiations, and we believe it complies with Congolese law and is enforceable without modifications. We are currently working cooperatively with the Ministry of Mines to resolve these matters while continuing with our project development activities.

The Tenke Fungurume deposits are sediment-hosted copper/cobalt deposits with leachable oxide, mixed oxide-sulfide and sulfide mineralization. The dominant oxide minerals are malachite, pseudomalachite and heterogenite. Important sulfide minerals consist of bornite, carrollite, chalcocite and chalcopyrite.

Copper and cobalt will be recovered through an agitation-leach plant capable of processing 8,000 metric tons of ore per day. Operations are expected to begin in 2009 with average annual production of approximately 250 million pounds of copper (approximately 144 million pounds for our share) and 18 million pounds of cobalt (approximately 10 million pounds for our share). The current fleet includes 28 five-cubic meter front-end loaders, 28 45-metric ton haul trucks, surface miners, production drills, sampling machines and crawler dozers.

Tenke Fungurume is located in a tropical region; however, temperatures are moderated by its higher altitudes. Weather in this region is characterized by a dry season and a wet season, each lasting about six months, and average rainfall is 47 inches per year. The highest bench elevation is expected to be 1,480 meters above sea level, and the ultimate pit bottom is expected to be 1,270 meters above sea level. The Tenke Fungurume deposits are located within four concessions totaling 394,455 acres of mining claims.

Tenke Fungurume has entered into long-term power supply and infrastructure funding agreements with La Societe Nationale d'Electricite (SNEL), the state-owned electric utility company serving the region. The results of a recent water exploration program, as well as the regional geological and hydro-geological conditions, indicate that adequate water will be available for the expected life of the operation.

ATLANTIC COPPER AND PT SMELTING

Atlantic Copper, S.A. We own 100 percent of Atlantic Copper, a copper smelter located in Huelva, Spain. Atlantic Copper completed the last expansion of its production capacity in 1997 and the design capacity of its smelter is 290,000 metric tons of copper per year and its refinery currently has a nominal capacity of 260,000 metric tons of copper per year. We have no present plans to expand Atlantic Copper's production capacity.

During 2007, Atlantic Copper treated 952,300 metric tons of concentrate and scrap and produced 256,100 metric tons of new copper anodes and 243,600 metric tons of copper cathodes. During 2006, Atlantic Copper treated 953,700 metric tons of concentrate and scrap and produced 263,700 metric tons of new copper anodes and 235,400 metric tons of copper cathodes. In June 2007, Atlantic Copper completed a scheduled 23-day maintenance turnaround. Major maintenance turnarounds typically occur approximately every 12 years for Atlantic Copper, with significantly shorter term maintenance turnarounds occurring in the interim. The next scheduled maintenance activity at Atlantic Copper is in 2011.

Atlantic Copper purchased approximately 43 percent of its 2007 concentrate requirements from PT Freeport Indonesia at market prices. Atlantic Copper has experienced no significant operating problems, and we are not aware of any potential material environmental liabilities at Atlantic Copper.

We made no capital contributions to Atlantic Copper from 2005 through 2007; however, we contributed

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$202 million to Atlantic Copper in 2004. In addition, we loaned $190 million to Atlantic Copper in 2004. The funds were used to improve Atlantic Copper's financial structure during its 2004 major maintenance turnaround and during a period of extremely low treatment and refining charge rates. Our net investment in Atlantic Copper through December 31, 2007, was approximately $139 million.

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

PT Smelting is a joint venture among PT Freeport Indonesia, Mitsubishi Materials Corporation, Mitsubishi Corporation and Nippon Mining & Metals Co., Ltd., which own 25 percent, 60.5 percent, 9.5 percent and 5 percent, respectively, of the outstanding PT Smelting common stock. In accordance with the joint venture agreements, PT Freeport Indonesia provides the majority of PT Smelting's copper concentrate requirements. In December 2003, PT Smelting's shareholder agreement was amended to eliminate PT Freeport Indonesia's assignment of its earnings in PT Smelting to support a 13 percent cumulative annual return to the other owners for the first 20 years of operations. PT Freeport Indonesia's total investment in PT Smelting through December 31, 2007, was $101 million.

During 2007, PT Smelting treated 976,300 metric tons of concentrate and produced 277,100 metric tons of new copper anodes and 256,900 metric tons of copper cathodes. During 2006, PT Smelting treated 737,500 metric tons of concentrate and produced 201,200 metric tons of new copper anodes and 217,600 metric tons of copper cathodes. Higher volumes in 2007, compared to 2006, primarily reflect a 22-day maintenance turnaround in the second quarter of 2006 and PT Smelting's temporary suspension of operations beginning in October 2006 and ending in mid-December 2006 following an equipment failure at the oxygen plant supplying the smelter. Major maintenance turnarounds typically occur approximately every four years for PT Smelting, with significantly shorter term maintenance turnarounds in the interim. We have a 25-day maintenance turnaround scheduled for May 2008. PT Smelting's production capacity is approximately 275,000 metric tons. We are not aware of any potential material environmental liabilities at PT Smelting.

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PRODUCTION DATA

COPPER, Pro Forma (millions of recoverable pounds)	Years Ended December 31, 2007a	2006a	2005a	2004a	2003a
MINED COPPER (FCX's net interest in %)					
North America					
Morenci (85%)	687b	693b	680b	715b	715b
Bagdad (100%)	202	165	201	220	214
Sierrita (100%)	150	162	158	155	151
Chino (100%)	190	186	210	183	55
Tyrone (100%)	50	64	81	86	114
Miami (100%)	20	19	25	20	36
Tohono (100%)	3	5	5	-	-
Safford (100%)	1	-	-	-	-
Other (100%)	17	11	5	5	11
Total North America	1,320c	1,305	1,365	1,384	1,296
South America					
Cerro Verde (53.56%)	594	222	206	195	193
Candelaria (80%)	399	374	359	441	469
Ojos del Salado (80%)	54	55	62	20	-
El Abra (51%)	366	482	464	481	499
Total South America	1,413c	1,133	1,091	1,137	1,161
Indonesia					
Grasberg (90.64%)	1,151d	1,201d	1,456d	997d	1,292d
Consolidated basis	3,884	3,639	3,912	3,518	3,749
Less minority participants' share	653	537	543	512	550
Net equity interest	3,231	3,102	3,369	3,006	3,199
GOLD, Pro Forma (thousands of recoverable ounces)					
MINED GOLD (FCX's net interest in %)					
North America (100%)	15b	19b	17	13	2
South America (80%)	116e	112	117	122	127
Indonesia (90.64%)	2,198d	1,732d	2,789d	1,456d	2,463d
Consolidated basis	2,329	1,863	2,923	1,591	2,592
Less minority participants' shares	229	184	284	160	256
Net equity interest	2,100	1,679	2,639	1,431	2,336
MOLYBDENUM, Pro Forma					

(millions of recoverable pounds)

MINED MOLYBDENUM (FCX's net interest in %)					
Henderson (100%)	39f	37	32	28	22
By-product – North America (100%)	30b	31b	30	29	30
By-product – Cerro Verde (53.56%)	1	-	-	-	-
Consolidated basis	70	68	62	57	52

a. Includes Phelps Dodge's pre-acquisition results for comparative purposes only.
b. Amounts are net of Morenci's 15 percent joint venture partner interest.
c. Includes North American copper production of 258 million pounds and South American copper production of 259 million pounds for Phelps Dodge's pre-acquisition results.
d. Amounts are net of Grasberg's joint venture partner's interest, which varies in accordance with terms of the joint venture agreement.
e. Includes gold production of 21 thousand ounces for Phelps Dodge's pre-acquisition results.
f. Includes molybdenum production of 14 million pounds for Phelps Dodge's pre-acquistion results.

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SALES DATA

	Years Ended December 31,				
COPPER, Pro Forma (millions of recoverable pounds)	2007a	2006a	2005a	2004a	2003a
MINED COPPER (FCX's net interest in %)					
North America					
Morenci (85%)	693b	692b	680b	715b	716b
Bagdad (100%)	200	165	209	224	222
Sierrita (100%)	157	161	165	158	159
Chino (100%)	186	186	209	183	52
Tyrone (100%)	53	64	81	86	114
Miami (100%)	24	19	29	22	40
Tohono (100%)	3	5	5	-	-
Safford (100%)	-	-	-	-	-
Other (100%)	16	11	5	5	13
Total North America	1,332c	1,303	1,383	1,393	1,316
South America					
Cerro Verde (53.56%)	587	214	205	196	191
Candelaria (80%)	393	370	359	446	469
Ojos del Salado (80%)	54	55	62	21	-
El Abra (51%)	365	487	467	482	503
Total South America	1,399c	1,126	1,093	1,145	1,163
Indonesia					
Grasberg (90.64%)	1,131d	1,201d	1,457d	992d	1,296d
Consolidated basis	3,862	3,630	3,933	3,530	3,775
Less minority participants' share	647	535	545	513	550
Net equity interest	3,215	3,095	3,388	3,017	3,225
Consolidated sales from mines	3,862	3,630	3,933	3,530	3,775
Purchased copper	650	736	821	866	749
Total consolidated sales	4,512	4,366	4,754	4,396	4,524
Average realized price per pound					
Excluding hedging	$3.28	$3.06	$1.76	$1.33	$0.82
Including hedging	$3.23e	$2.79e	$1.67e	$1.33	$0.82
GOLD, Pro Forma (thousands of recoverable ounces)					
MINED GOLD (FCX's net interest in %)					
North America (100%)	21b	19b	18	12	7
South America (80%)	114f	111	117	122	127

Indonesia (90.64%)	2,185d	1,736d	2,790d	1,443d	2,470d
Consolidated	2,320	1,866	2,925	1,577	2,604
Less minority participants' shares	228	185	285	159	257
Net	2,092	1,681	2,640	1,418	2,347
Consolidated sales from mines	2,320	1,866	2,925	1,577	2,604
Purchased gold	6	12	12	20	35
Total consolidated sales	2,326	1,878	2,937	1,597	2,639
Average realized price per ounce	$681.80	$566.11g	$453.80	$410.85	$364.40
MOLYBDENUM, Pro Forma (millions of recoverable pounds)					
MINED MOYBDENUM - Consolidated basis	69h	69	60	63	54
Purchased molybdenum	9	8	13	13	8
Total consolidated sales	78	77	73	76	62
Average realized price per pound	$25.87	$21.87	$25.89	$12.71	$5.78

a. Includes Phelps Dodge's pre-acquisition results for comparative purposes only.

b. Amounts are net of Morenci's joint venture partner's 15 percent interest.

c. Includes North American copper sales of 283 million pounds and South American copper sales of 222 million pounds for Phelps Dodge's pre-acquisition results.

d. Amounts are net of Grasberg's joint venture partner's interest, which varies in accordance with terms of the joint venture agreement.

e. Includes the impact of hedging losses related to copper price protection programs.

f. Includes gold sales of 18 thousand ounces for Phelps Dodge's pre-acquisition results.

g. Amount was approximately $606 per ounce before a loss on redemption of FCX's Gold-Denominated Preferred Stock, Series II.

h. Includes molybdenum sales of 17 million pounds for Phelps Dodge's pre-acquisition results.

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Ore Reserves

Recoverable proven and probable reserves shown below have been calculated as of December 31, 2007, in accordance with Industry Guide 7 as required by the Securities and Exchange Act of 1934. Proven and probable reserves may not be comparable to similar information regarding mineral reserves disclosed in accordance with the guidance of other countries. Recoverable 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 which can be economically and legally extracted or produced at the time of the reserve determination. The term "proven reserves" means reserves for which (1) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; (2) grade and/or quality are computed from the result of detailed sampling; and (3) 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.

Our reserve estimates are based on the latest available geological and geotechnical studies. We conduct ongoing studies of our ore bodies to optimize economic values and to manage risk. We revise our mine plans and estimates of recoverable proven and probable mineral reserves as required in accordance with the latest available studies. Estimated recoverable proven and probable reserves were assessed using long-term average prices of $1.20 per pound for copper, $450 per ounce for gold, $6.50 per pound for molybdenum, $7.50 per ounce for silver and $12.00 per pound for cobalt, along with near-term price forecasts reflective of the current price environment. The London spot metal prices for the past three years averaged $2.65 per pound for copper and $582 per ounce for gold, and the Metals Week Molybdenum Dealer Oxide price averaged $28.90 per pound for molybdenum.

	Recoverable Proven and Probable Reserves at December 31, 2007				
	Copper (billions of lbs)	Gold (millions of ozs)	Molybdenum (billions of lbs)	Silver (millions of ozs)	Cobalt (billions of lbs)
North America	25.8	0.2	1.8	40.3	-
South America	26.0	1.4	0.2	61.7	-
Indonesia	37.1	39.4	-	128.9	-
Africa	4.3	-	-	-	0.6
Consolidated basisa	93.2	41.0	2.0	230.9	0.6
Net equity interestb	77.0	37.0	1.9	196.1	0.3

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

b. Net equity interest represents our net ownership interest (i.e., estimated consolidated reserves further reduced for minority interests).

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Recoverable Proven and Probable Reserves
Estimated at December 31, 2007

		Proven Reserves						Probable Reserves					
			Average Ore Grade						Average Ore Grade				
	Processing Method	Million metric tons	Copper %	Gold g/t	Moly %	Silver g/t	Cobalt %	Million metric tons	Copper %	Gold g/t	Moly %	Silver g/t	Cobalt %
North America													
Morenci	Mill	224	0.53	-	0.022	-	-	11	0.55	-	0.022	-	-
	Crushed leach	446	0.56	-	-	-	-	23	0.52	-	-	-	-
	ROM leach	2,014	0.19	-	-	-	-	100	0.18	-	-	-	-
Bagdad	Mill	548	0.35	0.004	0.022	1.14	-	42	0.30	0.004	0.022	1.14	-
	ROM leach	220	0.12	-	-	-	-	18	0.12	-	-	-	-
Chino	Mill	44	0.65	0.034	0.018	0.48	-	12	0.57	0.034	0.010	0.48	-
	ROM leach	88	0.46	-	-	-	-	20	0.37	-	-	-	-
Cobrea	ROM leach	74	0.41	-	-	-	-	3	0.33	-	-	-	-
Miami	ROM leach	86	0.40	-	-	-	-	16	0.36	-	-	-	-
Safford	Crushed leach	258	0.46	-	-	-	-	187	0.31	-	-	-	-
	ROM leach	34	0.22	-	-	-	-	70	0.20	-	-	-	-
Sierrita	Mill	984	0.26	0.003	0.030	1.03	-	69	0.23	0.003	0.025	1.03	-
	ROM leach	6	0.18	-	-	-	-	3	0.18	-	-	-	-
Tyrone	ROM leach	150	0.34	-	-	-	-	41	0.24	-	-	-	-
Henderson	Mill	116	-	-	0.193	-	-	6	-	-	0.187	-	-
Climaxa	Mill	63	-	-	0.201	-	-	102	-	-	0.142	-	-
		5,355	0.29	0.001	0.015	0.31	-	723	0.23	0.001	0.026	0.17	-
South America													
Cerro Verde	Mill	405	0.53	-	0.016	2.00	-	1,051	0.41	-	0.013	2.00	-
	Crushed leach	122	0.54	-	-	-	-	130	0.41	-	-	-	-
	ROM leach	27	0.32	-	-	-	-	30	0.26	-	-	-	-
Candelaria	Mill	339	0.59	0.132	-	2.16	-	21	0.64	0.146	-	2.39	-
Ojos del Salado	Mill	4	1.25	0.286	-	2.61	-	3	0.99	0.286	-	2.61	-

El Abra	Crushed leach	507	0.54	-	-	-	-	149	0.51	-	-	-	-
	ROM leach	318	0.31	-	-	-	-	227	0.29	-	-	-	-
		1,722	0.50	0.027	0.004	0.90	-	1,611	0.40	0.003	0.009	1.34	-
Indonesia													
Grasberg open pit	Mill	147	1.01	1.280	-	2.54	-	286	0.84	0.830	-	2.11	-
DOZ/ESZ	Mill	107	0.70	0.701	-	3.40	-	177	0.62	0.711	-	2.84	-
Grasberg block cavea	Mill	275	1.20	1.204	-	3.78	-	708	1.01	0.715	-	3.15	-
Kucing Liara	Mill	167	1.20	1.090	-	6.45	-	401	1.17	1.038	-	5.59	-
MLZ/DMLZa	Mill	67	1.09	0.822	-	5.17	-	325	1.00	0.811	-	4.91	-
Big Gossana	Mill	9	2.48	1.140	-	14.55	-	44	2.27	1.092	-	14.79	-
		772	1.10	1.090	-	4.31	-	1,941	1.01	0.823	-	4.03	-
Africa													
Tenke Fungurumea	Agitation leach	56	2.11	-	-	-	0.357	44	2.47	-	-	-	0.301
Total		7,905	0.43	0.113	0.011	0.83	0.003	4,319	0.67	0.371	0.008	2.34	0.003

a. Undeveloped reserves requiring significant capital investment to bring into production.

The reserve table above and the tables on pages 27 to 31 and 34 utilize the following abbreviations:

- g/t – grams per metric ton
- DOZ/ESZ – Deep Ore Zone/Ertsberg Stockwork Zone. In prior years these ore bodies were shown separately.
- MLZ/DMLZ – Mill Level Zone/Deep Mill Level Zone. In prior years these ore bodies were shown separately.
- Moly – Molybdenum
- ROM – Run of Mine

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Recoverable Proven and Probable Reserves
Estimated at December 31, 2007

			Average Ore Grade					Recoveries				
	Processing Method	Proven and Probable Million Metric tons	Copper %	Gold g/t	Moly %	Silver g/t	Cobalt %	Copper %	Gold %	Moly %	Silver %	Cobalt %
North America												
Morenci	Mill	235	0.53	-	0.022	-	-	78.5	-	29.7	-	-
	Crushed leach	469	0.56	-	-	-	-	76.7	-	-	-	-
	ROM leach	2,114	0.19	-	-	-	-	41.7	-	-	-	-
Bagdad	Mill	590	0.35	0.004	0.022	1.14	-	84.8	60.0	72.3	70.0	-
	ROM leach	238	0.12	-	-	-	-	27.3	-	-	-	-
Chino	Mill	56	0.63	0.034	0.016	0.48	-	78.2	77.9	37.0	77.9	-
	ROM leach	108	0.44	-	-	-	-	61.9	-	-	-	-
Cobre	ROM leach	77	0.40	-	-	-	-	66.9	-	-	-	-
Miami	ROM leach	102	0.39	-	-	-	-	60.1	-	-	-	-
Safford	Crushed leach	445	0.40	-	-	-	-	67.6	-	-	-	-
	ROM leach	104	0.21	-	-	-	-	19.6	-	-	-	-
Sierrita	Mill	1,053	0.26	0.003	0.030	1.03	-	85.4	60.0	84.7	70.0	-
	ROM leach	9	0.18	-	-	-	-	49.2	-	-	-	-
Tyrone	ROM leach	191	0.32	-	-	-	-	64.6	-	-	-	-
Henderson	Mill	122	-	-	0.193	-	-	-	-	86.1	-	-
Climax	Mill	165	-	-	0.165	-	-	-	-	88.6	-	-
		6,078										
South America												
Cerro Verde	Mill	1,456	0.44	-	0.014	2.00	-	85.7	-	49.1	40.9	-
	Crushed leach	252	0.47	-	-	-	-	79.4	-	-	-	-
	ROM leach	57	0.29	-	-	-	-	43.2	-	-	-	-
Candelaria	Mill	360	0.59	0.133	-	2.17	-	91.1	79.8	-	77.1	-
	Mill	7	1.14	0.286	-	2.61	-	90.0	68.3	-	60.1	-

Ojos del Salado												
El Abra	Crushed leach	656	0.53	-	-	-	-	60.5	-	-	-	-
	ROM leach	545	0.30	-	-	-	-	31.1	-	-	-	-
		3,333										
Indonesia												
Grasberg open pit	Mill	433	0.89	0.983	-	2.25	-	83.9	82.5	-	43.3	-
DOZ/ESZ	Mill	284	0.65	0.707	-	3.05	-	83.8	75.6	-	55.0	-
Grasberg block cave	Mill	983	1.06	0.852	-	3.33	-	85.1	68.0	-	59.6	-
Kucing Liar	Mill	568	1.18	1.054	-	5.84	-	85.8	47.2	-	38.9	-
MLZ/DMLZ	Mill	392	1.01	0.813	-	4.95	-	84.6	75.6	-	62.5	-
Big Gossan	Mill	53	2.31	1.100	-	14.75	-	90.9	67.2	-	63.3	-
		2,713										
Africa												
Tenke Fungurume	Agitation leach	100	2.26	-	-	-	-	0.332	87.2	-	-	80.0
Total		12,224	0.51	0.204	0.010	1.362	0.003	69.8	66.3	64.6	56.1	80.0

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Recoverable Proven and Probable Reserves
Estimated at December 31, 2007

			Recoverable Reserves				
	FCX's Interest	Processing Method	Copper billion lbs.	Gold million ozs.	Moly billion lbs.	Silver million ozs.	Cobalt billion lbs.
North America							
Morenci	85%	Mill	2.1	-	0.1	-	-
		Crushed leach	4.4	-	-	-	-
		ROM leach	3.7	-	-	-	-
Bagdad	100%	Mill	3.8	0.1	0.2	15.2	-
		ROM leach	0.2	-	-	-	-
Chino	100%	Mill	0.6	-	-	0.7	-
		ROM leach	0.7	-	-	-	-
Cobre	100%	ROM leach	0.5	-	-	-	-
Miami	100%	ROM leach	0.5	-	-	-	-
Safford	100%	Crushed leach	2.6	-	-	-	-
		ROM leach	0.1	-	-	-	-
Sierrita	100%	Mill	5.1	0.1	0.6	24.4	-
		ROM leach	-	-	-	-	-
Tyrone	100%	ROM leach	0.9	-	-	-	-
Henderson	100%	Mill	-	-	0.4	-	-
Climax	100%	Mill	-	-	0.5	-	-
			25.2	0.2	1.8	40.3	-
Recoverable metal in stockpiles			2.2	-	-	-	-
100% operations			27.4	0.2	1.8	40.3	-
Consolidated basisa			25.8	0.2	1.8	40.3	-
Net equity interestb			25.8	0.2	1.8	40.3	-
South America							
Cerro Verde	53.56%	Mill	12.1	-	0.2	38.3	-
		Crushed leach	2.1	-	-	-	-
		ROM leach	0.1	-	-	-	-
Candelaria	80%	Mill	4.3	1.2	-	19.4	-
Ojos del Salado	80%	Mill	0.2	-	-	0.4	-
El Abra	51%	Crushed leach	4.7	-	-	-	-
		ROM leach	1.1	-	-	-	-
			24.6	1.2	0.2	58.1	-
Recoverable metal in stockpiles			1.4	0.2	-	3.6	-
100% operations			26.0	1.4	0.2	61.7	-
Consolidated basisa			26.0	1.4	0.2	61.7	-
Net equity interestb			15.0	1.1	0.1	38.9	-

Indonesia							
Grasberg open pit	(c)	Mill	7.2	11.2	-	13.6	-
DOZ/ESZ	(c)	Mill	3.4	4.9	-	15.3	-
Grasberg block cave	(c)	Mill	19.6	18.3	-	62.7	-
Kucing Liar	(c)	Mill	12.7	9.1	-	41.5	-
MLZ/DMLZ	(c)	Mill	7.4	7.7	-	39.1	-
Big Gossan	(c)	Mill	2.4	1.3	-	15.8	-
			52.7	52.5	-	188.0	-
Recoverable metal in stockpiles			-	-	-	-	-
100% operations			52.7	52.5	-	188.0	-
Consolidated basisa			37.1	39.4	-	128.9	-
Net equity interestb			33.7	35.7	-	116.9	-
Africa							
Tenke Fungurume	57.75%	Agitation leach	4.3	-	-	-	0.6
100% operations			4.3	-	-	-	0.6
Consolidated basisa			4.3	-	-	-	0.6
Net interestb			2.5	-	-	-	0.3
TOTAL – 100% operations			110.4	54.1	2.0	290.0	0.6
TOTAL – Consolidated basisa			93.2	41.0	2.0	230.9	0.6
TOTAL – Net equity interestb			77.0	37.0	1.9	196.1	0.3

a. Consolidated basis represents estimated metal quantities after reduction for joint venture partner interests at the Morenci mine in North America and at the Grasberg mining complex in Indonesia.

b. Net equity interest represents our net ownership interest (i.e., estimated consolidated reserves further reduced for minority interests).

c. Our joint venture agreement with Rio Tinto gives us, through 2021, a 60% interest on a consolidated basis, in certain assets and future production exceeding specified annual amounts of copper, gold and silver in Block A, and 100% of the remaining assets and production. After 2021, we have a 60% interest in all production from Block A on a consolidated basis.

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

Our copper mines may contain other commercially recoverable metals, such as gold, molybdenum, silver and cobalt. We value all commercially recoverable metals in terms of a copper equivalent percentage to determine a single break-even cutoff grade. Copper equivalent percentage is used to express the relative value of multi-metal ores in terms of one metal. The calculation expresses the relative value of the ore using estimates of contained metal quantities, metals prices as used for reserve determination, recovery rates, treatment charges and royalties. Our molybdenum properties use a molybdenum cutoff grade. The table below shows the break-even cutoff grade by process for each of our existing ore bodies as of December 31, 2007:

	Copper Equivalent Cutoff Grade			Moly Cutoff Grade
	Mill	Crushed or Agitation Leach	ROM Leach	Mill
North America				
Morenci	0.25 %	0.25 %	0.10%	N/A
Bagdad	0.19	N/A	0.05	N/A
Chino	0.25	N/A	0.11	N/A
Cobre	N/A	N/A	0.17	N/A
Miami	N/A	N/A	0.04	N/A
Safford	N/A	0.12	0.08	N/A
Sierrita	0.24	N/A	0.04	N/A
Tyrone	N/A	N/A	0.05	N/A
Henderson	N/A	N/A	N/A	0.14%
Climax	N/A	N/A	N/A	0.06
South America				
Cerro Verde	0.21	0.16	0.13	N/A
Candelaria	0.23	N/A	N/A	N/A
Ojos del Salado	0.88	N/A	N/A	N/A
El Abra	N/A	0.19	0.02	N/A
Indonesia				
Grasberg open pit	0.71	N/A	N/A	N/A
DOZ/ESZ	0.72	N/A	N/A	N/A
Grasberg block cave	0.66	N/A	N/A	N/A
Kucing Liar	0.83	N/A	N/A	N/A
MLZ/DMLZ	0.78	N/A	N/A	N/A
Big Gossan	1.42	N/A	N/A	N/A
Africa				

Tenke Fungurume	N/A	1.30	N/A	N/A

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Drill hole spacing data is used by mining professionals, such as mining engineers, in determining the suitability of data coverage (on a relative basis) in a given deposit type and mining method scenario so as to achieve a given level of confidence in the resource estimate. Drill hole spacing is only one of several criteria necessary to establish resource classification. Drilling programs are typically designed to achieve an optimum sample spacing to support the level of confidence in results that apply to a particular stage of development of a mineral deposit. The following table sets forth the average drill hole spacing for proven and probable ore reserves by process type:

		Average Spacing in Meters			
		Proven		Probable	
	Mining Unit	Mill	Leach	Mill	Leach
North America					
Morenci	Open Pit	86	86	122	122
Bagdad	Open Pit	58	25	134	98
Chino	Open Pit	43	86	86	122
Cobre	Open Pit	46	61	61	91
Miami	Open Pit	N/A	61	N/A	91
Safford	Open Pit	N/A	61	N/A	122
Sierrita	Open Pit	68	41	106	76
Tyrone	Open Pit	N/A	86	N/A	86
Henderson	Block Cave	38	N/A	85	N/A
Climax	Open Pit	61	N/A	61	N/A
South America					
Cerro Verde	Open Pit	50	50	100	100
Candelaria	Open Pit	35	N/A	70	N/A
Ojos del Salado	Block Cave	25	N/A	50	N/A
El Abra	Open Pit	N/A	75	N/A	120
Indonesia					
Grasberg	Open Pit	36	N/A	92	N/A
DOZ/ESZ	Block Cave	20	N/A	50	N/A
Grasberg	Block Cave	33	N/A	98	N/A
Kucing Liar	Block Cave	34	N/A	92	N/A
Mill Level Zone	Block Cave	19	N/A	60	N/A
Deep Mill Level Zone	Block Cave	21	N/A	94	N/A
Big Gossan	Open Stope	13	N/A	42	N/A
Africa					
Tenke Fungurume	Open Pit	N/A	50	N/A	100

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The following chart illustrates our current plans for sequencing and producing the December 31, 2007, proven and probable reserves at each of our ore bodies and the years in which we currently expect production of each ore body to begin and end. The chart also shows the term of PT Freeport Indonesia's Contract of Work. Production volumes are typically lower in the first few years of each ore body as development activities are ongoing and as the mine ramps up to full production. The ultimate timing of the start of production from our undeveloped mines is dependent upon a number of factors, including the results of our exploration and development efforts, and may vary from the dates shown below. In addition, we develop our mine plans based on maximizing the net present value from the ore bodies.

Mill and Leach Stockpiles

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.

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 grades of material delivered

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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 extracted 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 continuously, and recovery rate estimates are adjusted periodically as additional information becomes available and as related technology changes.

Following are our stockpiles and the estimated recoverable copper contained within those stockpiles as of December 31, 2007:

	Recoverable Copper in Stockpiles			
	Millions of Metric Tons	Average Grade (%)	Recovery Rate (%)	Recoverable Copper (Billions of Lbs.)
Mill stockpiles				
Cerro Verde	38	0.55	81.5	0.4
Candelaria	78	0.40	82.5	0.6
Subtotal	116	0.45	82.1	1.0
Leach stockpiles				
Morenci	4,127	0.26	2.1	0.5
Bagdad	371	0.29	4.4	0.1
Chino	1,609	0.25	12.9	1.1
Miami	422	0.39	1.9	0.1
Safford	7	0.20	47.1	-
Sierrita	642	0.16	13.5	0.3
Tyrone	922	0.28	1.7	0.1
Cerro Verde	308	0.55	2.9	0.1
El Abra	220	0.33	19.1	0.3
Subtotal	8,628	0.27	5.1	2.6
Total 100% basis				3.6
Consolidated basisa				3.5
Net equity interestb				3.0

a. Consolidated basis represents estimated metal quantities after reduction for joint venture partner interests at the Morenci mine in North America.
b. Net equity interest represents our net ownership interest (i.e., estimated consolidated reserves further reduced for minority interests).

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Mineralized Material

We hold various properties containing mineralized materials that we believe could be brought into production should market conditions warrant. Mineralized material is a mineralized body that has been delineated by appropriately spaced drilling and/or underground sampling to support the reported tonnage and average metal grades. Such a deposit may not qualify as recoverable 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. Estimated mineralized materials were assessed using prices of $1.50 per pound of copper, $450 per ounce of gold and $10.00 per pound of molybdenum. Permitting and significant capital expenditures would likely be required before operations could commence at these properties. Our estimated mineralized material as of December 31, 2007, follows:

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Mineralized Material
100% Basis
Estimated at December 31, 2007

		Milling Material				Leaching Material		Total Mineralized Material			
	FCX's Interest	Million metric tons	Copper %	Gold g/t	Moly %	Million metric tons	Copper %	Million metric tons	Copper %	Gold g/t	Moly %
North America											
Sierrita	100%	2,245	0.21	-	0.02	25	0.17	2,270	0.21	-	0.02
Morenci	85%	336	0.36	-	0.02	1,172	0.24	1,508	0.27	-	0.004
Lone Star	100%	-		-	-	1,451	0.38	1,451	0.38	-	-
Bagdad	100%	834	0.32	-	0.02	-	-	834	0.32	-	0.02
Chino	100%	232	0.58	-	0.01	402	0.30	634	0.40	-	0.004
Ajo	100%	352	0.41	-	0.01	-	-	352	0.41	-	0.01
Safford	100%	211	0.73	-	-	88	0.36	299	0.62	-	-
Tyrone	100%	-	-	-	-	287	0.30	287	0.30	-	-
Tohono	100%	135	0.70	-	-	146	0.84	281	0.77	-	-
Cochise/Bisbee	100%	-	-	-	-	272	0.45	272	0.45	-	-
Sanchez	100%	-	-	-	-	209	0.29	209	0.29	-	-
Miami	100%	-	-	-	-	21	0.26	21	0.26	-	-
Cobre	100%	3	0.94	-	-	-	-	3	0.94	-	-
Climax	100%	397	-	-	0.17	-	-	397	-	-	0.17
Henderson	100%	286	-	-	0.12	-	-	286	-	-	0.12
South America											
El Abra	51%	330	0.40	-	-	497	0.43	827	0.42	-	-
Cerro Verde	53.56%	392	0.35	-	0.01	30	0.31	422	0.35	-	0.01
Candelariaa	80%	136	0.44	0.12	-	-	-	136	0.44	0.12	-
Indonesia											
Grasberg districtb	54.38%f	2,804	0.57	0.50	-	-	-	2,804	0.57	0.50	-
Africa											
Tenke Fungurumec	57.75%	83	2.98	-	-	44	2.49	127	2.81	-	-
Total 100% basis		8,776	0.41	0.16	0.02	4,644	0.37	13,420	0.39	0.11	0.01
Consolidated basisd		7,605	0.38	0.11	0.02	4,468	0.38	12,073	0.38	0.07	0.01
Net equity intereste		7,041	0.37	0.11	0.03	4,192	0.36	11,233	0.36	0.07	0.02

a. Candelaria stated tonnage also includes 1.7 grams of silver per metric ton.
b. Grasberg stated tonnage also includes 3.3 grams of silver per metric ton.

c. Tenke Fungurume stated tonnage also includes 0.30 percent cobalt.

d. Consolidated basis represents estimated mineralized material after reduction for joint venture partner interests at the Morenci mine in North America and at the Grasberg minerals district in Indonesia.

e. Net equity interest represents our net ownership interest (i.e., estimated mineralized material further reduced for minority interests).

f. FCX's interest in the Grasberg minerals district reflects our 60 percent joint venture ownership, further reduced by minority interests.

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DEVELOPMENT AND EXPLORATION

Development Activities. We have significant development activities recently completed or under way to expand our production capacity, extend our mine lives and develop large-scale underground ore bodies. Recently completed or current major projects include:

· the expansion of the Cerro Verde mill, which reached capacity in the second half of 2007;
· a major new mining complex at Safford, Arizona, currently ramping up to full production;
· the restart of a mill and the completion of a concentrate-leach, direct-electrowinning facility at Morenci;
· a sulfide leach project to extend the mine life at El Abra;
· the development of large-scale, high-grade underground ore bodies in the Grasberg district;
· development of the Tenke Fungurume project in the DRC;
· the planned restart of our Climax molybdenum mine;
· the planned restart of our Miami mine; and
· incremental expansion projects at Morenci, Bagdad, Sierrita and Cerro Verde.

The recently expanded mill at Cerro Verde reached design capacity of 108,000 metric tons of ore per day in mid-2007. The expansion enables Cerro Verde to produce approximately 650 to 700 million pounds of copper per year.

The Safford mining complex in Arizona is substantially complete and commenced production in late 2007. Safford will produce from two open pits and includes a SX/EW facility. Total capital expenditures for this project approximated $675 million.

The concentrate-leach, direct electrowinning facility at Morenci was commissioned in third-quarter 2007, and is currently ramping up production. The project utilizes our proprietary medium-temperature, pressure-leaching and direct-electrowinning technology which will enhance cost savings by processing concentrate on-site instead of shipping concentrate to smelters for treatment. In addition, the project included the restart of a mill in the first half of 2007. Mill throughput adds 115 million pounds of copper production per year, and is running near capacity of 49,000 metric tons of ore per day. Total capital expenditures for this project approximated $250 million.

At the end of 2006, a feasibility study was completed to evaluate the development of a large sulfide deposit at El Abra. The project would extend the mine life by over ten years, and is expected to provide an additional 325 million pounds of copper per year. Copper production from sulfides is expected to begin in 2010. The project will utilize a portion of the existing facilities to process the additional reserves. Capital investment is expected to approximate $450 million, the majority of which will be spent between 2008 and 2011. We are currently working with Chilean authorities on an environmental impact study related to this project and expect to receive approval in the first half of 2008.

There are several projects in progress throughout the Grasberg minerals district, including developing the large-scale underground ore bodies located beneath and adjacent to the Grasberg open pit. The DOZ expansion was completed in 2007, with fourth-quarter production averaging 59,000 metric tons of ore per day. A further expansion of the DOZ mine is currently under way with completion targeted for 2010. Other projects include the development of the high-grade Big Gossan mine, expected to ramp-up to full production of 7,000 metric tons per day in late 2010, and the continued development of the Common Infrastructure project, which will provide access to the Grasberg underground ore body, the Kucing Liar ore body and future development of the mineralized areas below the DOZ mine.

The initial project at Tenke Fungurume is based on ore reserves approximating 100 million metric tons with ore grades of 2.3 percent copper and 0.3 percent cobalt. Construction of this project is in progress. Operations are targeted to commence during 2009, with average annual production of approximately 250 million pounds of copper

and approximately 18 million pounds of cobalt.

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We are responsible for funding 70 percent of project development costs. The total capital investment for this project is currently estimated at approximately $900 million, with approximately 35 percent incurred through December 31, 2007. Capital cost estimates will continue to be reviewed as engineering and construction activities progress.

In December 2007, we announced the plans to proceed with the restart of the Climax mine, which is expected to produce approximately 30 million pounds of molybdenum per year beginning in 2010. The project is designed to enable the consideration of further large-scale expansion of the mine. Capital investment for this restart is expected to approximate $500 million.

In January 2008, we announced the restart of the Miami mine in Arizona for an approximate five-year period. We expect production of 100 million pounds of copper per year by 2010. Capital investment for this restart is expected to approximate $100 million, primarily for mining equipment.

In addition to the projects currently under way, we are continuing to evaluate expansion opportunities associated with existing ore bodies. As an initial step, we are pursuing incremental expansions at Morenci, Sierrita, Bagdad and Cerro Verde. The Morenci project is expected to increase annual copper production by 100 million pounds starting in 2009. The Bagdad mill expansion is expected to increase annual copper production by 55 million pounds starting in 2009. The Sierrita mill expansion is expected to increase annual copper production by 25 million pounds starting in 2010, and the Cerro Verde mill expansion is expected to increase annual copper production by 30 million pounds. These projects will require an aggregate capital investment of approximately $400 million. Detailed engineering for these projects is under way.

Capital costs have been affected by the prices of input costs, including equipment, materials and supplies and labor. We will continue to review and update our capital cost estimates as engineering and construction activities progress on our major projects.

Exploration Activities. We are conducting exploration activities near our existing mines and in other areas around the world. Aggregate exploration expenditures in 2008 are expected to approximate $175 million, compared with $119 million in 2007. Exploration is focused on finding large-scale copper and copper/gold deposits in the four principal copper-producing regions of the world: southwest U.S./Mexico, South American Cordillera, Central Africa and Australasia, as well as in other prospective areas. This group operates in more than 15 countries and maintains offices in Australia, Brazil, Bulgaria, Canada, Chile, China, Central Africa, Macedonia, Mexico, Peru, Russia, Serbia, the Philippines, the United States and Zambia.

Our exploration efforts in North America include drilling of the Lone Star deposit located approximately four miles from the Safford ore bodies, as well as targets in the Morenci and Bagdad districts. We are also conducting exploration activities near the Henderson molybdenum deposit. In South America, exploration is ongoing in and around the Cerro Verde, Candelaria and Ojos del Salado deposits. In Africa, we are actively pursuing targets outside of the area of initial development at Tenke Fungurume. The number of drill rigs operating on these and other programs near our mine sites increased from 26 at the end of March 2007 to 55 at the end of 2007.

PT Freeport Indonesia’s 2008 exploration efforts in Indonesia include testing extensions of the Deep Grasberg and Kucing Liar mine complex and evaluating targets in the area between the Ertsberg East and Grasberg mineral systems from the new Common Infrastructure tunnels. Initial drill results from the Common Infrastructure tunnel are positive and additional drilling is in process. We are continuing our efforts to resume exploration activities in certain prospective areas in Papua outside Block A (the Grasberg contract area).

Research and Development. Following our acquisition of Phelps Dodge, we conduct research and development programs relating to technology for exploration for minerals, mining and recovery of metals from ores, concentrates and solutions, smelting and refining of copper, metal processing, reclamation and remediation, and product and engineered materials development. Expenditures for research and

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development programs, together with contributions to industry and government-supported research programs, totaled $33 million in 2007.

SALES AND COMPETITION

North American Mining.

Copper. A majority of the copper produced or purchased at our North American mining operations is cast into rod. Rod sales, including Phelps Dodge sales volumes prior to our acquisition, to outside wire and cable manufacturers constituted approximately 83 percent of North American copper sales in 2007, 85 percent in 2006 and 88 percent in 2005. The remainder of our North American copper sales is primarily in the form of copper cathode or copper concentrate. Sales of rod and cathode principally are made directly to wire and cable fabricators and brass mills under U.S. dollar-denominated contracts usually of one-year duration. Cathode and rod contract prices are generally based on the prevailing COMEX copper monthly average spot price for shipments in that period. We generally sell our copper rod and cathode produced at our North American mining operations at a premium over COMEX prices.

Molybdenum. Most of our molybdenum is sold as five main product types: molybdic oxide, ferromolybdenum, molybdenum chemicals, molybdenum disulfide and pure molybdenum metal powder. Molybdic oxide and ferromolybdenum are used primarily in the steel industry for corrosion and heat resistance and strengthening. Approximately 80 percent of molybdenum production is used in this application. Molybdenum chemicals are used in a number of diverse applications, such as catalyst for petroleum refining, feedstock for the production of pure molybdenum metals, lubricants and additives for water treatment. Molybdenum disulfide is used principally in lubricant and grease applications. Pure molybdenum metal powder products are used in a number of diverse applications, such as lighting, electronics and specialty steel alloys.

Approximately 85 percent of our expected 2008 molybdenum production is committed for sale throughout the world pursuant to annual or quarterly agreements based primarily on prevailing market prices one month prior to the time of sale.

The market for molybdenum is characterized by cyclical and volatile prices, little product differentiation and strong competition. The chemical market is more diverse and contains more specialty products and segments. In both markets, prices are influenced by production costs of domestic and foreign competitors, worldwide economic conditions, world and regional supply/demand balances, inventory levels, governmental regulatory actions, currency exchange rates and other factors. Molybdenum prices also are affected by the demand for end-use products in, for example, the construction, transportation and durable goods markets. A substantial portion of world molybdenum is produced as a by-product of copper mining, which is relatively insensitive to molybdenum price levels. By-product production was estimated at approximately 60 percent of global molybdenum production in 2007.

South American Mining. Production from our South American mines is sold as copper concentrate or copper cathode under U.S. dollar-denominated long-term contracts. A majority of our Cerro Verde cathode production is shipped to our U.S. rod mills for processing. The remainder of Cerro Verde’s cathode production is sold, under annual contracts, to South American customers or to merchants on a spot basis. Cerro Verde has committed to sell approximately 20 percent of its annual concentrate production at market prices to Atlantic Copper. The balance of its copper concentrate production is sold to copper smelters primarily located in Japan and elsewhere in Asia under long-term contracts. The Candelaria mine sells its production in the form of copper concentrate primarily to copper smelters located in Japan and elsewhere in Asia, while production not committed under long-term contracts is sold to other smelters or merchants. A majority of our Ojos del Salado concentrate production is sold to local Chilean smelters. El Abra produces copper cathodes that are sold, primarily under annual or multi-year contracts, to Asian or European rod or brass mill customers or to merchants.

Copper cathode sold by our South American operations is generally sold at a premium over LME prices, with the price based on the prevailing LME copper monthly average spot price in the month of, or the

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month following, arrival. Substantially all of our concentrate sales are priced on the basis of the third calendar month following the month of arrival at the buyer's facilities.

Indonesia. PT Freeport Indonesia sells its copper concentrates, which contain significant quantities of gold and silver, under U.S. dollar-denominated sales agreements, mostly to companies in Asia and Europe and to international trading companies. We sell substantially all of our budgeted production of copper concentrates under long-term contracts with copper selling prices based on LME prices. Under these contracts, initial billing occurs at the time of shipment and final settlement on the copper portion is generally based on average prices for a specified future period. PT Freeport Indonesia's customers receive similar pricing options to those discussed above for South American mining. Gold generally is sold at the average London Bullion Market Association price for a specified month near the month of shipment.

Revenues from South American and Indonesian concentrate sales are recorded net of royalties (see "Contracts of Work" for Indonesian sales), treatment and refining charges (including price participation charges, if applicable, based on the market prices of metals), and the impact of derivative financial instruments, if any, used to hedge against risks from metals price fluctuations. We do not plan on entering into hedging programs in the future. Moreover, because a portion of the metals contained in copper concentrates is unrecoverable as a result of the smelting process, our revenues from concentrate sales are also recorded net of allowances based on the quantity and value of these unrecoverable metals. These allowances are a negotiated term of our contracts and vary by customer. Treatment and refining charges represent payments to smelters and refiners and are either fixed or in certain cases vary with the price of copper. We sell a small amount of copper concentrates in the spot market.

We have commitments, including commitments from Atlantic Copper and PT Smelting, for essentially all of PT Freeport Indonesia's estimated 2008 production. PT Freeport Indonesia has a long-term contract, which is pending approval of the Department of Energy and Mineral Resources of the Government of Indonesia, to provide Atlantic Copper with a quantity of copper concentrates at market prices that currently approximates 40 percent of Atlantic Copper's annual copper concentrate requirements. PT Freeport Indonesia's agreement with PT Smelting provides, for the life of PT Freeport Indonesia's mines, for the supply of 100 percent of the copper concentrate requirements necessary to produce 205,000 metric tons of copper (essentially the Gresik smelter's original design capacity) on a priority basis. In 2004, PT Smelting increased its stated production capacity to 250,000 metric tons of copper per year. During 2006, PT Smelting completed further expansion of its production capacity from 250,000 metric tons of copper per year to 275,000 metric tons. For the first 15 years of PT Smelting's commercial operations beginning December 1998, PT Freeport Indonesia agreed that the treatment and refining charges on specified quantities of the concentrate PT Freeport Indonesia supplies will not fall below specified minimum rates, subject to renegotiation in 2008. The rate was $0.23 per pound, during the period from the commencement of PT Smelting's operations in 1998 until April 3, 2004 when it declined to a minimum of $0.21 per pound. PT Smelting's rates for 2008 are expected to exceed the minimum $0.21 per pound. We anticipate that PT Freeport Indonesia will sell approximately 50 to 60 percent of its annual concentrate production to Atlantic Copper and PT Smelting. A summary of PT Freeport Indonesia's aggregate percentage concentrate sales to its affiliates and to other parties for the last three years follows:

	2007	2006	2005
PT Smelting	39%	27%	29%
Atlantic Copper	25%	23%	25%
Other parties	36%	50%	46%
	100%	100%	100%

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COPPER, GOLD AND MOLYBDENUM MARKETS

Copper. Copper is an internationally traded commodity, and the relevant prices are determined by the major metals exchanges – COMEX, the LME and the Shanghai Futures Exchange (SHFE). Prices on these exchanges generally reflect the worldwide balance of copper supply and demand.

Copper is a critical component of the world's infrastructure and the demand for copper ultimately reflects the rate of underlying world economic growth, particularly in industrial production and construction. According to Brook Hunt, a widely-used independent metals market consultant, copper's end-use markets (and their estimated shares of total consumption) are:

· Construction (37 percent);
· Electrical applications (26 percent);
· Industrial machinery (15 percent);
· Transportation (11 percent); and
· Consumer products (11 percent)

Since 1990, refined copper consumption has grown by an estimated compound annual growth rate of 3.1 percent to 18.1 million tons in 2007, according to CRU, an international metal markets consultancy. This rate of increase was slightly higher than the growth rate of 2.9 percent for world industrial production over the same period. Asian copper consumption, led by China, has been particularly strong, increasing by approximately six percent annually from 1990. Asia now represents approximately half of the world's refined copper consumption, compared with approximately 24 percent for Western Europe and approximately 18 percent for the Americas. From 1990 through 2007, refined copper production has grown at an average annual rate of approximately three percent, according to Brook Hunt.

Copper consumption is closely associated with industrial production and, therefore, tends to follow global economic cycles. Copper prices are volatile and cyclical. Since 1990, the LME spot price of copper has averaged $1.24 per pound and ranged from a high annual average price of $3.23 per pound in 2007 to a low annual average price of $0.71 per pound in 1999 and 2002. Over the same period, the COMEX price of copper averaged $1.25 per pound and has ranged from a high annual average price of $3.22 per pound in 2007 to a low annual average price of $0.72 per pound in 1999 and 2002.

In 2007, the average LME price of $3.23 per pound was $0.18 above the average for 2006. Continued low global inventory levels, stronger global consumption in most regions and unanticipated production shortfalls resulted in continued high copper prices throughout the year. During 2007, CRU estimates global refined copper production and copper consumption grew by approximately 4.5 percent and 4.1 percent, respectively. Consumption continued to be strong in Asia (up 6.1 percent) driven largely by China, whose copper consumption grew approximately 16 percent in 2007. European copper consumption, however, contracted by approximately two percent. Likewise, U.S. demand for copper was down approximately two percent as a result of slowing in the residential housing market. Visible exchange inventories decreased by approximately 14,000 metric tons over the prior year to approximately 236,000 metric tons.

In 2006, the average LME price of $3.05 per pound was $1.38 above the average for 2005.

Gold. The market for gold was strong in 2007, as a weak U.S. dollar, growing investment demand, inflationary pressures and ongoing geo-political tensions all contributed to strong market demand. Prices were higher in 2007 than 2006, ranging from a low of approximately $608 per ounce to a high of approximately $842, with the average price during the year of $696 per ounce. Prices in 2006 ranged from $521 to $725, averaging $604 per ounce, compared with an average of $445 per ounce in 2005.

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Molybdenum. In 2007, worldwide molybdenum mine production increased by more than 10 percent from 2006 levels. Primary production in China grew by more than 20 percent in response to increased demand in China and restart of production idled by the government in 2005. Primary production in North America declined because of unplanned production outages. By-product production in South America and North America grew at approximately 3 to 4 percent, which was lower than expected, because of labor unrest, particularly in South America, and lower ore grades following an extended period of higher ore grades.

Molybdenum supply from China to western molybdenum markets was sharply constrained later in the year because of new export quotas implemented by the Chinese government in June 2007. Western roaster capacity was adequate in 2007 for processing of concentrate supplies. Overall, the industry production to consumption demand balance was in deficit for most of the year.

Prices were higher in 2007 than 2006 and approached 2005's record high levels. Prices were driven by (1) strong stainless and alloy steel demand in the first half of the year; (2) strong chemical demand later in 2007; and (3) constrained supply in the U.S., Europe and Japan. Annual Metals Week Dealer Oxide mean prices averaged $30.23 per pound in 2007, compared with $24.75 per pound in 2006 and $31.73 per pound in 2005. Inventory levels throughout the industry remain low. The majority of our molybdenum sales are based on published pricing (i.e., Platts Metals Week, Ryan's Notes or Metal Bulletin) plus a negotiated premium. The remaining sales are priced on a fixed basis or on a variable basis within certain ranges for periods of varying duration.

COSTS

Energy, including electricity, diesel fuel and natural gas, represents a significant portion of production costs at our operations. Because energy is a significant portion of our production costs, we could be negatively affected by future energy availability issues or increases in energy costs.

During 2007, we realized cost increases that were the result of the overall improved business climate. Some of these cost increases were anticipated. For example, we realized additional compensation costs resulting from employee bonus and variable-compensation programs that are contingent on copper price and/or our performance. Additionally, our decision to bring back into production some of our higher-cost properties, in response to strong demand for copper, has increased our average cost of copper production. Other costs that have increased include labor, taxes, freight and transportation, sulfuric acid and materials and supplies that are manufactured from metal or fossil fuels. We anticipate that at least a portion of these cost increases may reverse in periods of lower metal and commodity prices.

In addition, we own a one-third interest in the Luna power plant located near Deming, New Mexico. Public Service Company of New Mexico (PNM), a subsidiary of PNM Resources, and Tucson Electric Power, a subsidiary of Unisource Energy Corporation, also own one-third interests and each co-owner is responsible for a third of the costs and expenses. PNM is the operating partner of the plant. Approximately 190 megawatts, or one-third of the plant's electricity, is available to satisfy the electricity demands of our New Mexico and Arizona operations. Electricity in excess of our demand is sold on the wholesale market. Our interest in this efficient, low-cost plant, which utilizes natural gas, is expected to continue to stabilize our southwest U.S. operations' energy costs and increase the reliability of our energy supply.

OWNERSHIP OF PROPERTY

North America. In the U.S., most of the land occupied by our copper and molybdenum mines, concentrators, SX/EW facilities, smelter, refinery, rod mills, and molybdenum roasters, processing facilities and the Climax technology center generally is owned by, or is located on unpatented mining claims owned by us. Certain portions of our

Henderson, Miami, Bagdad, Sierrita, Tyrone, Chino and Cobre operations are located on government-owned land and are operated under a Mine Plan of Operations or other use permit. The Sierrita operation leases property adjacent to its mine upon which its electrowinning tank house is located. The lease expires in 2009 but can be extended for an additional five years. Various federal and state permits or leases on government land are held for purposes incidental to

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mine operations.

South America. At the operations in South America, mine properties and facilities are controlled through mining claims or concessions under the general mining laws of the relevant country. The claims or concessions are owned or controlled by the operating companies in which we or our subsidiaries have an ownership interest. Roads, power lines and aqueducts are controlled by easements.

Indonesia. All of our mining operations in Indonesia are controlled through the Contract of Work, which covers both Block A, which was first included in a 1967 Contract of Work that was replaced by a new Contract of Work in 1991, and Block B, to which we gained rights in 1991. The initial term of our Contract of Work expires in December 2021, but we can extend it for two 10-year periods subject to Indonesian government approval, which cannot be withheld or delayed unreasonably.

Africa. At the Tenke Fungurume operations in the DRC, mine properties and facilities are controlled through mining concessions under general mining laws. The concessions are owned or controlled by the operating companies in which we or our subsidiaries have an ownership interest. See additional discussion at Tenke Fungurume site description on page 20.

Spain. Atlantic Copper's smelter and refinery are located in Huelva, Spain, on land concessions from the Huelva port authorities. The land concessions expire in 2022. Additionally, Atlantic Copper has offices and warehouses located on similar land concessions in Huelva, which expire in 2014.

LABOR MATTERS

At December 31, 2007, we employed approximately 25,400 people to sustain our global operations. Additionally, there are approximately 9,500 contractor employees working at our Grasberg minerals district and approximately 400 contractor employees at Atlantic Copper. Employees represented by unions are listed below, with the approximate number of employees represented and the expiration date of the applicable union agreements.

Location	Number of Unions	Number of Union-Represented Employees	Expiration Date
PT Freeport Indonesia – Indonesia	1	4,260	October 2009
Tenke Fungurume – DRC	2	1,080	March 2008
Cerro Verde – Peru	1	684	December 2008
Candelaria – Chile	2	484	October 2009
El Abra – Chile	2	471	October 2008
Chino – New Mexico	1	293	November 2009
Atlantic Copper – Spain	2	172	December 2007a
Stowmarket – United Kingdom	1	53	May 2008
Bayway – New Jersey	1	52	April 2010
Rotterdam – The Netherlands	2	50	March 2008
Aurex – Chile	1	34	February 2010

a. The contract has been provisionally extended and is currently being renegotiated.

FM Services Company (FM Services), a wholly-owned subsidiary of FCX, furnishes certain executive, administrative, financial, accounting, legal, tax and similar services to us. As of December 31, 2007, FM Services had 141 employees.

FM Services employees also provide services to two other publicly traded companies.

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SOCIAL DEVELOPMENT, EMPLOYMENT AND HUMAN RIGHTS

We have a social, employment and human rights policy designed to insure we operate in compliance with the laws in the areas of our operations, and in a manner that respects basic human rights and the culture of the people who are indigenous to the area. We continue to make significant expenditures on social and cultural activities, primarily in Papua, Indonesia, and we expect to make significant expenditures over time for similar activities in the DRC. These activities include:

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

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

South America. Cerro Verde 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 design 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. The cost associated with the construction of these facilities is currently under review; however, we have agreed with the local authorities that the costs associated with the first phase of construction of the facilities (currently estimated at $80 million, $40 million for Cerro Verde's share) will be split evenly between Cerro Verde and the local municipalities.

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. 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. At December 31, 2007, Cerro Verde’s liability associated with the local mining fund contributions totaled $49 million.

Indonesia. In 1996, PT Freeport Indonesia agreed to commit at least one percent of its revenues to the Freeport Partnership Fund for Community Development (formerly the Freeport Fund for Irian Jaya Development) to support village-based health, education, economic and social development programs in its area of operations. This commitment replaced our community development programs in which we spent a similar amount of money each year. Our share of contributions to the Freeport Partnership Fund for Community Development totaled $48 million in 2007, $44 million in 2006 and $36 million in 2005. Our joint venture partner, Rio Tinto, also contributes to this fund and, including their share, the contributions totaled $53 million in 2007, $48 million in 2006 and $42 million in 2005.

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

We believe that our social and economic development programs are responsive to the issues raised by

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the local villages and people and should help us to maintain good relations with the surrounding communities and avoid disruptions of mining operations. Nevertheless, social and political instability in the area may adversely impact our mining operations. See “Risk Factors.”

Africa. We have committed to assist the communities surrounding our Tenke Fungurume concession in the Katanga Province of the DRC. Initiatives that have commenced over the past two years include the building of two schools and the remodeling of a third, development of ten community water wells, construction of roads, and agricultural support programs to local farmers. Additionally, we have committed to contribute a portion of net sales revenue from production to a trust fund for local development.

Security Matters in Indonesia. Consistent with our Contract of Work in Indonesia and the requirement to protect our employees and property, we have taken appropriate steps to provide a safe and secure working environment. As part of its security program, PT Freeport Indonesia maintains its own internal security department, which performs functions such as protecting company facilities, monitoring the shipment of company goods through the airport and terminal, assisting in traffic control and aiding rescue operations. PT Freeport Indonesia’s civilian security employees (numbering approximately 680) are unarmed and perform duties consistent with their internal security role. PT Freeport Indonesia’s share of costs for its internal civilian security department totaled approximately $17 million for 2007, $14 million for 2006 and $11 million for 2005. The security department has received human rights training and each member is required to certify his or her compliance with our human rights policy.

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

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

PT Freeport Indonesia’s share of support costs for the government-provided security, involving approximately 2,100 Indonesian government security personnel currently located in the general area of our operations, was $9 million for 2007, $9 million for 2006 and $6 million for 2005. This supplemental support consists of various infrastructure and other costs, such as food, housing, fuel, travel, vehicle repairs, allowances to cover incidental and administrative costs, and community assistance programs conducted by the military and police. PT Freeport Indonesia’s capital costs for associated infrastructure was less than $1 million for the three years ended December 31, 2007.

As reported in January 2006, we have received and responded to requests from governmental authorities related to PT Freeport Indonesia’s support of Indonesian security institutions. We are cooperating fully with these requests.

ENVIRONMENTAL AND RECLAMATION MATTERS

Environmental

In the U.S. we are subject to stringent federal, state and local environmental laws and regulations that govern emissions of air pollutants; discharges of water pollutants; and generation, handling, storage and

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disposal of hazardous substances, hazardous wastes and other toxic materials. We also are subject to potential liabilities arising under the federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and 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.

Phelps Dodge and many of its affiliates and predecessor companies have been involved in mining, milling and manufacturing in the U.S. for more than a century. Activities that occurred in the late 19th century and the 20th century prior to the advent of modern environmental laws were not subject to environmental regulation and were conducted before American industrial companies understood the long-term effects of their operations on the surrounding environment. With the passage of CERCLA in 1980, companies like Phelps Dodge 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 historical owners or operators no longer exist, do not have the financial ability to respond or cannot be found. As a result, because of our acquisition of Phelps Dodge in 2007, many of the subsidiary companies we now own are responsible for a wide variety of environmental remediation projects throughout the U.S., and we expect to spend substantial sums annually for many years to address those remediation issues. Various of our subsidiaries previously 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 sites that have been or are being investigated by EPA, the Department of the Interior, the Department of Agriculture, or state agencies 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, 2007, we had more than 100 active remediation projects in the U.S. in more than 25 states. We are also subject to claims for natural resource damages where the release of hazardous substances is alleged to have injured natural resources. A number of our subsidiaries have also been advised by trustees for natural resources that they may be liable under CERCLA or similar state laws for damages to natural resources caused by releases of hazardous substances.

Under applicable purchase accounting rules, we are required to allocate the purchase price paid for Phelps Dodge in accordance with our estimate of the fair value of all the Phelps Dodge assets and liabilities, including contingencies such as environmental remediation obligations. That process must be completed by the first anniversary of the acquisition, or March 19, 2008. Our revised estimates resulted in a significant increase in our reserve for environmental obligations at December 31, 2007. At December 31, 2007, environmental reserves recorded in our consolidated balance sheets totaled $1.3 billion, which include the purchase accounting adjustments to reflect the estimated fair value of the Phelps Dodge obligations attributed to CERCLA or analogous state programs and for estimated future costs associated with environmental matters at closed facilities and closed portions of certain operating facilities.

In 2005, PT Freeport Indonesia agreed to participate in the Government of Indonesia’s PROPER (Program for Pollution Control, Evaluation and Rating) program. In March 2006, the Indonesian Ministry of Environment announced the preliminary results of its PROPER environmental management audit, acknowledging the effectiveness of PT Freeport Indonesia’s environmental management practices in some areas while making several suggestions for improvement in others. We are working with the Ministry of Environment to address the issues raised as we complete the audit process.

In connection with obtaining our environmental approvals from the Indonesian government, we committed to perform a one-time environmental risk assessment on the impacts of our tailings management plan. We completed this extensive environmental risk assessment with more than 90 scientific studies

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conducted over four years and submitted it to the Indonesian government in December 2002. We developed the risk assessment study with input from an independent review panel, which included representatives from the Indonesian government, academia and non-governmental organizations. The risks that we identified during this process were in line with our impact projections of the tailings management program contained in our environmental approval documents.

The cost of complying with environmental laws is a fundamental cost of our business. In 2007, we incurred aggregate environmental capital expenditures and other environmental costs of $320 million (including $228 million incurred since March 20, 2007, related to the acquired Phelps Dodge operations) for programs to comply with applicable environmental laws and regulations that affect our operations. Aggregate environmental capital expenditures totaled $63 million in 2006 and $44 million in 2005. In 2008, we expect to incur approximately $520 million of aggregate environmental capital expenditures and other environmental costs, which are part of our overall 2008 operating budget.

Refer to Note 15 for additional information on significant environmental matters.

Asset Retirement Obligations

We recognize asset retirement obligations (AROs) as liabilities when incurred, with the initial measurement at fair value. These liabilities are accreted to full value over time through charges to income. Reclamation costs for future disturbances are recorded as an ARO in the period of disturbance. Our cost estimates are reflected on a third-party cost basis and comply with our legal obligation to retire tangible, long-lived assets as defined by SFAS No. 143. Refer to Note 1 for further discussion of our accounting policy for reclamation and closure costs.

At December 31, 2007, we had $728 million recorded for AROs in current and long-term liabilities on the consolidated balance sheet. 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 we elect or are required to do so.

Legal requirements in New Mexico, Arizona and Colorado require financial assurance to be provided for estimated costs of reclamation and closure, including groundwater quality protection programs. We have 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 third-party performance guarantees and financial capability demonstrations, which are designed to confirm a company’s or third-party guarantor’s financial capability to fund future estimated reclamation and closure costs. The amount of financial assurance we are required to provide will vary with changes in laws, regulations and reclamation and closure cost estimates. At December 31, 2007, we had trust assets totaling $544 million that are designated for funding global reclamation and remediation activities, of which $106 million is legally restricted to fund a portion of our asset retirement obligations for Chino, Tyrone and Cobre as required by New Mexico regulatory authorities.

Additionally, in 1996, PT Freeport Indonesia began contributing to a cash fund ($10 million balance at December 31, 2007) designed to accumulate at least $100 million by the end of our Indonesian mining activities. We plan to use this fund, including accrued interest, to pay mine closure and reclamation costs. Any costs in excess of the $100 million fund would be funded by operational cash flow or other sources.

Prior to its acquisition by FCX, Phelps Dodge had initiated a process of identifying and prioritizing opportunities to accelerate certain demolition, environmental reserve and asset retirement obligation projects. The projects were

prioritized based on regulatory flexibility to remediate at a faster pace structures that could be readily demolished, reclamation of visibly impacted areas, and projects in Arizona and New Mexico where we have substantial long-term closure obligations. These costs are included in our aggregate environmental capital and other costs reported above.

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Refer to Note 15 for additional information on asset retirement obligations.

WATER RIGHTS

Our mining operations require significant quantities of water for mining, ore processing and related support facilities. Our operations in North and South America are in desert areas where water is scarce and competition among users for continuing access to water is significant. Continuous production at our mines is dependent on our ability to maintain our water rights and claims and defeat claims adverse to our current water uses in legal proceedings.

At our U.S. operations, under state law, our water rights give us only the right to use public waters for a statutorily defined beneficial use at a designated location. In Arizona, we are a participant in two active general stream adjudications in which for 30 years the State of Arizona has been attempting to quantify and prioritize surface water claims in two of the state's largest river systems that include four of our mines (Morenci, Sierrita, Safford and Miami) and which may also affect our Arizona mine at Bagdad. Groundwater is not subject to adjudication in Arizona, but is subject to the doctrine of reasonable use, which requires balancing the utility of the use against the gravity of the harm to others who have rights in the same aquifer; however, wells may be subject to adjudication to the extent they are found to produce or affect surface water. In Colorado, our surface water and groundwater rights are subject to adjudication and we are involved in legal proceedings to resolve disputes regarding priority of administration of rights, including priority of some of our rights for the Climax mine. Our surface water and groundwater rights are fully licensed or have been fully adjudicated in New Mexico.

In South America, water for our mining operations at Candelaria and Ojos del Salado is drawn from the Copiapo River aquifer. Because of rapid depletion of this aquifer in recent years, ongoing studies are addressing the adequacy of this water supply for our mining operations planned at these sites.

Although we believe our mining operations have sufficient water, the loss of water rights for any of our mines, in whole or in part, or shortages of water to which we have rights, could require us to curtail or shut down mining operations. Additionally, we have not yet secured adequate water rights to support all of our potential expansion projects, and our inability to secure those rights could prevent us from pursuing some of those opportunities. See "Risk Factors"

Item 1A. Risk Factors

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

FINANCIAL RISKS

Declines in the market prices of copper, gold and molybdenum could adversely affect our earnings and cash flows and, therefore, our ability to repay debt. Such declines could also cause significant volatility in our financial performance and adversely affect the trading prices of our debt and equity securities.

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Our earnings and cash flows will be affected significantly by the market prices of copper and, to a lesser extent, gold and molybdenum. The world market prices of these commodities have fluctuated historically and are affected by numerous factors beyond our control. Many financial analysts who follow the metals markets are predicting that copper prices will decline significantly from their current, historically high levels over the next few years. A decline in the world market price of one or more of these commodities could (1) adversely affect our earnings and cash flows, (2) adversely affect our ability to repay our debt and meet our other fixed obligations, and (3) depress the trading prices of our common and preferred stock and of our publicly traded debt securities. In addition, substantially all of our copper concentrate sales contracts and some of our copper cathode sales contracts provide final pricing in a specified future period based on LME or COMEX prices. Accordingly, in times of falling copper prices, our revenues during a quarter are negatively impacted from lower prices received for contracts priced at current market rates and also from a decrease related to the final pricing of provisionally priced contracts entered in prior periods.

World copper prices have historically fluctuated widely. During the three years ended December 31, 2007, LME daily closing spot prices ranged from $1.39 to $4.00 per pound for copper. World copper prices are affected by numerous factors beyond our control, including:

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

World gold prices have historically fluctuated widely. During the three years ended December 31, 2007, the daily closing prices on the London spot market ranged from $411 to $842 per ounce for gold. World gold prices are affected by numerous factors beyond our control, including:

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

Molybdenum prices also fluctuate widely. Molybdenum demand depends primarily on the global steel industry, which uses the metal as a hardening and corrosion inhibiting agent. Approximately 80 percent of molybdenum production is used in this application. The remainder is used in specialty chemical applications such as catalysts, water treatment agents and lubricants. Approximately 60 percent of global molybdenum production is a by-product of copper mining, which is relatively insensitive to molybdenum prices. During the three years ended December 31, 2007, the Metals Week Dealer Oxide price for molybdenum ranged from $20.50 to $40.00 per pound. Molybdenum prices are affected by numerous factors beyond our control, including:

· the worldwide balance of molybdenum demand and supply;

· rates of global economic growth, especially construction and infrastructure activity that requires significant amounts of steel;

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· the volume of molybdenum produced as a by-product of copper production;
· inventory levels;
· currency exchange fluctuations, including the relative strength of the U.S. dollar; and
· production costs of U.S. and foreign competitors.

The agreements governing our indebtedness contain provisions that limit our discretion in the operation of our business and require us to meet financial tests and other covenants. In addition, we are required to meet financial tests showing our capability to perform required closure and remediation. The failure to comply with such tests and covenants could have a material adverse effect on us.

We incurred significant debt to fund a portion of the cash consideration paid to Phelps Dodge shareholders in our acquisition of Phelps Dodge. As of December 31, 2007, the outstanding principal amount of our indebtedness was $7.2 billion (excluding unused availability under our revolving credit facilities of $1.4 billion after giving effect to outstanding letters of credit). The agreements governing our indebtedness contain covenants that restrict our ability to:

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

In addition, our senior credit facilities require that we meet specified financial tests at any time that borrowings or letters of credit are outstanding under our revolving credit facility, including a leverage ratio test and a secured leverage ratio test.

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

If we are unable to repay, refinance or restructure our indebtedness under, or amend the covenants contained in, our senior credit agreements at maturity or in the event of a default, the lenders under our senior credit facilities could terminate their commitments thereunder, cease making further loans, declare all borrowings outstanding (together with accrued interest and other fees) immediately due and payable and institute foreclosure proceedings against the security. Any such actions could force us into bankruptcy or liquidation.

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In addition, most of the financial assurance for our southwestern U.S. mines is provided by financial capability demonstrations or guarantees, both of which require a demonstration that we meet financial tests showing our capability to perform the required closure and remediation or ability to back guarantees provided for our subsidiaries. Financial capability demonstrations or guarantees have been submitted for essentially all of the financial assurance for our Arizona mines. We maintain a part of our financial assurance using guarantees in New Mexico. However, a portion of our financial assurance requirements in New Mexico is supplied in another form, such as letters of credit, real property collateral or a trust. Our ability to satisfy financial capability demonstrations or utilize third-party guarantees for financial assurance with respect to reclamation obligations may be adversely affected if our credit ratings continue to be rated below investment grade and we are unable to pass the affirmative financial tests. If this were to occur, we may be required to provide alternative forms of financial assurance, such as letters of credit, surety bonds, real property collateral or a trust.

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

We must generate sufficient amounts of cash to service and repay our debt. Our ability to generate cash will be affected by general economic, financial, competitive and other factors that may be beyond our control. Future borrowings may not be available to us under our senior credit facilities or from the capital markets in amounts sufficient to pay our obligations as they mature or to fund other liquidity needs. If we are not able to obtain such borrowings or generate sufficient cash from operations to service and repay our indebtedness, we will need to refinance our indebtedness to avoid any default. Such refinancing may not be available on favorable terms or at all. The inability to service, repay or refinance our indebtedness could negatively affect our financial condition and results of operations.

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

Substantially all of our revenues and a significant portion of our costs are denominated in U.S. dollars; however, some of our costs, and certain of our asset and liability accounts, are denominated in Indonesian rupiah, Chilean pesos, Peruvian nuevos soles, Australia dollars, Euros and other foreign currencies. As a result, we will be generally less profitable when the U.S. dollar weakens in relation to these foreign currencies.

As of December 31, 2007, approximately 18 percent of outstanding debt was subject to variable interest rates. Increases in these rates will increase our interest costs and reduce our profits and operating cash flows.

From time to time, we may implement currency or interest rate hedges intended to reduce our exposure to changes in foreign currency exchange or interest rates. However, our hedging strategies may not be successful, and any of our unhedged foreign exchange or interest payments will continue to be subject to market fluctuations.

OPERATIONAL RISKS

The volume and grade of ore reserves that we recover and our rate of production may be more or less than anticipated. In addition, our exploration activities may not result in additional discoveries.

Our ore reserve amounts are determined in accordance with established mining industry practices and standards, and are estimates of the mineral deposits that can be recovered economically and legally based on currently available data. Ore bodies may not conform to standard geological expectations, and estimates may change as new data becomes available. Because ore bodies do not contain uniform grades and types of minerals, our metal recovery rates will vary from time to time. There are also uncertainties inherent in estimating quantities of ore reserves and copper recovered from stockpiles.

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The quantity of copper contained in mill and leach stockpiles is based on surveyed volumes of mined material and daily production records. The volume and grade of ore reserves recovered, rates of production and recovered copper from stockpiles may be less than anticipated. Additionally, because the determination of reserves is based partially on historical selling prices, a prospective decrease in such prices may result in a reduction in economically recoverable, and therefore reported, ore reserves. These factors may result in variations in the volumes of mineral reserves that we report and the volume of minerals that we can sell from period to period.

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

Our business is subject to operational risks that are generally outside of our control and could adversely affect our business.

Mines by their nature are subject to many operational risks and factors that are generally outside of our control and could adversely affect our business, operating results and cash flows. These operational risks and factors include the following:

· unanticipated ground and water conditions;
· adverse claims to water rights and shortages of water to which we have rights;
· geological problems, including earthquakes and other natural disasters;
· metallurgical and other processing problems;
· the occurrence of unusual weather or operating conditions and other force majeure events;
· lower than expected ore grades or recovery rates;
· accidents;
· delays in the receipt of or failure to receive necessary government permits;
· the results of litigation, including appeals of agency decisions;
· uncertainty of exploration and development;
· delays in transportation;
· interruption of energy supply;
· labor disputes;
· inability to hire and retain a sufficient number of skilled employees;
· inability to obtain satisfactory insurance coverage;
· unavailability of experienced labor, equipment and materials; and
· the failure of equipment or processes to operate in accordance with specifications or expectations.

Continuation of our mining production is dependent on the availability of a sufficient water supply to support our mining operations.

Our mining operations require significant quantities of water for mining, ore processing and related support facilities. Our operations in North and South America are in desert areas where water is scarce and competition amoung users for continuing access to water is significant. Continuous production at our mines is dependent on our ability to maintain our water rights and claims and defeat claims adverse to our current water uses in legal proceedings. In addition, our right to use water at our U.S. operations is subject to applicable state laws. Although each operation currently has sufficient water claims to cover its operational demands, we cannot predict the potential outcome of pending or future legal proceedings on our water rights, claims and uses. The loss of some or all water rights for any of our mines, in whole or in part, or shortages of water to which we have rights could require us to curtail or shut down mining production and could prevent us from pursuing expansion opportunities.

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An interruption of energy supply could adversely affect our mining operations.

Our mining operations and development projects require significant energy. Our principal energy sources are electricity, purchased petroleum products, natural gas and coal. Our South American mining operations receive electrical power under long-term contracts with local energy companies. Our African development project, Tenke Fungurume, has entered into long-term power supply and infrastructure funding agreements with the state-owned electric utility company serving the Katanga province of the DRC. A disruption in the transmission of energy, inadequate energy transmission infrastructure, or the termination of any of our energy supply contracts could interrupt our energy supply and adversely affect our operations.

Worldwide expansion of mining activity has increased costs and created shortages of equipment, supplies and experienced personnel. Increased production costs could reduce our profitability and cash flow.

In the last few years, there has been a significant increase in mining activity worldwide to meet the demand of an expanding world economy and in response to significant increases in prices of natural resources. The opening of new mines and expansion of existing mines has led to increased demand for, and increased costs and shortages of, equipment, supplies and experienced personnel. These cost increases have significantly increased overall operating and capital budgets of companies like ours, and continuing shortages could affect the timing and feasibility of expansion projects.

Energy represents a significant portion of our production costs. Our principal energy sources are electricity, purchased petroleum products, natural gas and coal. An inability to procure sufficient energy at reasonable prices could adversely affect our profits, cash flow and growth opportunities. Our production costs are also affected by the prices of commodities we consume or use in our operations, such as sulfuric acid, grinding media, steel, reagents, liners, explosives and diluents. The prices of such commodities are influenced by supply and demand trends affecting the mining industry in general and other factors outside our control and such prices are at times subject to volatile movements. Increases in the cost of these commodities could make our operations less profitable, even in an environment of relatively high copper prices. Increases in the costs of commodities that we consume or use may also significantly affect the capital costs of new projects.

In addition to the usual risks encountered in the mining industry, our Indonesian operations involve additional risks because they are located on unusually difficult terrain in a very remote area.

Our Grasberg mining operations are located in steep mountainous terrain in a very remote area in Indonesia. Because of these conditions, we have had to overcome special engineering difficulties and develop extensive infrastructure facilities. In addition, the area receives considerable rainfall, which has led to periodic floods and mudslides. The mine site is also in an active seismic area and has experienced earth tremors from time to time. Our insurance may not sufficiently cover an unexpected natural or operating disaster.

On October 9, 2003, a slippage of material occurred in a section of the Grasberg open pit, resulting in eight fatalities. On December 12, 2003, a debris flow involving a relatively small amount of loose material occurred in the same section of the open pit resulting in only minor property damage. The events caused us to alter our short-term mine sequencing plans, which adversely affected our 2003 and 2004 production. We resumed normal production activities in the second quarter of 2004.

On March 23, 2006, a mud/topsoil slide involving approximately 75,000 metric tons of material occurred from a mountain ridge above service facilities supporting PT Freeport Indonesia’s mining facilities. Regrettably, three contract workers were fatally injured in the event. The material damaged a mess hall and an adjacent area. As a result of investigations by PT Freeport Indonesia and the Indonesian Department of Energy and Mineral Resources, we

conducted geotechnical studies to identify and address any potential hazards to workers and facilities from slides. The existing early warning system for potential

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slides, based upon rainfall and other factors, has also been expanded. However, no assurance can be given that similar events will not occur in the future.

Development projects are inherently risky and may require more capital than anticipated, which could adversely affect our business. In addition, our most significant development project, Tenke Fungurume, is located in a remote area of the DRC.

There are many risks and uncertainties inherent in all development projects, including our significant future development of underground mines at the Grasberg minerals district, our Tenke Fungurume project and ongoing projects at our North and South American operations. The economic feasibility of development projects is based on many factors, including the accuracy of estimated reserves, metallurgical recoveries, capital and operating costs and future prices of the relevant minerals. The capital expenditures and time required to develop new mines or other projects are considerable, and changes in costs or construction schedules can affect project economics. Thus it is possible that actual costs and economic returns may differ materially from our estimates.

New development projects have no operating history upon which to base estimates of future cash flow. These development projects also require the successful completion of feasibility studies, acquisition of governmental permits, acquisition of land, power and water and ensuring that appropriate community infrastructure is developed by third parties to support such projects. It is possible that we could fail to obtain the government approvals necessary for the operation of a project, in which case, the project may not proceed, either on its original timing or at all. It is not unusual for new mining operations to experience unexpected problems during the start-up phase, resulting in delays in producing revenue and increases in invested capital.

Our Tenke Fungurume project is located in a remote area of the DRC and is subject to additional challenges due to:

· severely limited infrastructure, including road and rail access;
· limited and possibly unreliable energy supply;
· security risks; and
· limited health care in an area plagued by disease and other potential endemic health issues, including malaria.

Consequently, our Tenke Fungurume development project may be substantially affected by factors beyond our control, which could increase the cost of the project and adversely affect its ultimate contribution to our operating results.

ENVIRONMENTAL RISKS

Our domestic and international operations are subject to complex and evolving environmental laws and regulations, and compliance with environmental and regulatory requirements involves significant costs.

Our ongoing mining operations and exploration activities, both in the U.S. and elsewhere, are subject to extensive laws and regulations governing exploration, development, production, occupational health, mine safety, toxic substances, waste disposal, protection and remediation of the environment, protection of endangered and protected species, and other related matters. Compliance with these laws and regulations imposes substantial costs and we expect these costs to continue to increase in the future because of increased demand for remediation services and shortages of equipment, supplies, labor and other factors. The Federal Clean Air Act (CAA) has had a significant impact, particularly on our domestic smelter and power plants. Any change in regulation of the mining industry under the Federal Resource Conservation and Recovery Act (RCRA) could have a significant impact, both on operational compliance and closure costs. In addition, environmental laws and regulations may change in ways that could adversely affect our operations or expansion opportunities.

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In addition to compliance with environmental regulation at our operating sites, we incur significant costs for remediating environmental conditions on properties that have not been operated in many years.

Phelps Dodge and many of its affiliates and predecessor companies have been involved in mining, milling, and manufacturing in the U.S. for more than a century. Activities that occurred in the late 19th century and the 20th century prior to the advent of modern environmental laws were not subject to environmental regulation and were conducted before American industrial companies understood the long-term effects of their operations on the surrounding environment. With the passage of CERCLA in 1980, companies like Phelps Dodge 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 is often 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 our acquisition of Phelps Dodge in 2007, many of the subsidiary companies we now own are responsible for a wide variety of environmental remediation projects throughout the U.S., and we expect to spend substantial sums annually for many years to address these remediation issues. We are also subject to claims for natural resource damages where the release of hazardous substances is alleged to have injured natural resources. As of December 31, 2007, we had more than 100 active remediation projects in the U.S. in more than 25 states.

Mine closure regulations impose substantial costs on our operations.

Our domestic operations are subject to various federal and state mine closure and mined-land reclamation laws. The requirements of these laws vary depending upon the jurisdiction. In general, our domestic mines are required to post increasing amounts of financial assurance as estimated costs increase to ensure the availability of funds to meet future closure and reclamation obligations.

Our New Mexico financial assurance amounts at December 31, 2007, which reflected reductions for work completed through 2006 and agreed upon by the New Mexico Environment Department and Mining Minerals Division, totaled $463 million, up to 70 percent of which is in the form of guarantees issued by Phelps Dodge on behalf of our operating subsidiaries and the balance is in the form of real property collateral, letters of credit and cash. These amounts may change based on the completion of additional permitting procedures, final agency determinations and the results of administrative appeals, which could result in changes to the closure and reclamation plans and lead to increases in the cost estimates and our related financial assurance obligations.

At December 31, 2007, we had accrued closure costs of approximately $152 million for our Arizona operations. The amount of financial assurance currently demonstrated for Arizona closure and reclamation activities is approximately $147 million. We have also approved mined-land reclamation plans and financial assurance in place for our two Colorado mines totaling approximately $81 million.

Most of the financial assurance provided for our U.S. mines requires that we meet financial tests that demonstrate our capability to perform the required closure and remediation or ability to back guarantees provided for our subsidiaries. Financial capability demonstrations or guarantees have been submitted for essentially all of the financial assurance for our Arizona mines. We maintain a part of our financial assurance using guarantees in New Mexico. However, a portion of our financial assurance requirements in New Mexico is supplied in another form, such as letters of credit, real property collateral or a trust. Our ability to satisfy financial capability demonstrations or utilize third-party guarantees for financial assurance with respect to reclamation obligations may be adversely affected if our credit ratings continue to be rated below investment grade and we are unable to pass the affirmative financial tests. If this were to occur, we may be required to provide alternative form of financial assurance, such as letters of credit, surety bonds, real property collateral or a trust.

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In recent years, many surety companies have begun to require a significant level of collateral to support surety bonds, and the costs associated with such bonds have increased significantly. As a result, if surety bonds are unavailable at commercially reasonable terms to support our financial assurance obligations, we could be required to post letters of credit, other collateral or cash or cash equivalents directly in support of those obligations.

In addition, our international mines are subject to various mine closure and mined-land reclamation laws, and there have recently been significant changes in closure and reclamation programs in both Peru and Chile that impose more stringent obligations on us for closure and reclamation.

Regulation of greenhouse effects and climate change may adversely affect our operations and markets.

Energy is a significant input to our mining and processing operations. Our principal energy sources are electricity, purchased petroleum products, natural gas and coal. Many scientists believe that emissions from the combustion of carbon-based fuels contribute to greenhouse effects and therefore potentially to climate change.

A number of governments or governmental bodies have introduced or are contemplating regulatory changes in response to the potential impacts of climate change. The December 1997 Kyoto Protocol established a set of greenhouse gas emission targets for developed countries that have ratified the Protocol. Although the Kyoto Protocol has not been ratified by the U.S., several states have initiated legislative action on climate change. Climate change legislation has been introduced in, but not yet passed by the U.S. Congress, which could result in increased future energy and compliance costs. From a medium and long-term perspective, we are likely to see an increase in costs relating to our assets that emit significant amounts of greenhouse gases as a result of regulatory initiatives in the countries in which we operate. These regulatory initiatives may be either voluntary or mandatory and may impact our operations directly or through our suppliers or customers. Assessments of the potential impact of future climate change regulation are uncertain, given the wide scope of potential regulatory change in countries in which we operate.

The potential physical impacts of climate change on our operations are highly uncertain, and would be particular to the geographic circumstances. These may include changes in rainfall patterns, water shortages, changing sea levels, changing storm patterns and intensities, and changing temperatures. These effects may adversely impact the cost, production and financial performance of our operations.

Our operating, inactive and historical domestic mining sites and facilities may be subject to future regulation of radioactive materials that are commonly associated with, or result from, our mining operations.

A number of federal and state agencies are considering new regulations to characterize, regulate and remediate potential workplace exposures and environmental impacts of radioactive materials commonly associated with mining operations. For example, the EPA intends to promulgate rules to regulate technologically enhanced naturally occurring radioactive materials (TENORM) and their impacts at mining operations. In addition, several states are promulgating groundwater quality compliance and remediation standards for radioactive materials, including uranium. Radioactive materials can be associated with copper mineral deposits. Consequently, our copper operations may generate, concentrate or release radioactive materials that may subject our operations to new and increased regulation. The impact of such future regulation on our operating, closure, reclamation, and remediation costs is uncertain.

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

Mining operations on the scale of our operations in Papua involve significant environmental risks and challenges. Our primary challenge is to dispose of the large amount of crushed and ground rock material,

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called tailings, that results from the process by which we physically separate the copper-, gold- and silver-bearing materials from the ore that we mine. Our tailings management plan, which has been approved by the Government of Indonesia, uses the river system near our mine to transport the tailings to the lowlands where the tailings and natural sediments are deposited in a controlled area contained within an engineered levee system that will be revegetated.

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

Certain Indonesian governmental officials have from time to time raised issues with respect to our tailings and overburden management plans, including a suggestion that we implement a pipeline system rather than our river deposition system for tailings disposal. Because our mining operations are remotely located in steep mountainous terrain and in an active seismic area, a pipeline system would be costly, difficult to construct and maintain, and more prone to catastrophic failure, and could therefore involve significant potentially adverse environmental issues. Based on our own studies and others conducted by third parties, we do not believe that a pipeline system is necessary or practical.

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

INTERNATIONAL RISKS

Our operations outside of the United States are subject to political, social and geographic risks of doing business in foreign countries.

We are a global mining company with substantial assets located outside of the United States. We conduct international mining operations in Indonesia, Chile and Peru. We also have a significant development project in the DRC, which is expected to begin production in 2009. Accordingly, our business may be adversely affected by political, economic and social uncertainties in each of these countries, in addition to the usual risks associated with conducting business in foreign countries. Such risks include (1) forced modification of existing contracts, (2) expropriation, (3) changes in a country's laws and policies, including those relating to labor, taxation, royalties, divestment, imports, exports, trade regulations, currency and environmental matters, (4) political instability and civil strife, (5) exchange controls, and (6) the risk of having to submit to the jurisdiction of a foreign court or arbitration panel or having to enforce the judgment of a foreign court or arbitration panel against a sovereign nation within its own territory. Our insurance does not cover most losses caused by these risks.

Because our Grasberg mine in Papua, Indonesia remains our most significant operating asset, our business may continue to be adversely affected by Indonesian political, economic and social uncertainties.

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

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

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Maintaining a good working relationship with the Indonesian government is important to us because our mining operations there are among Indonesia's most significant business enterprises and are conducted pursuant to a Contract of Work with the Indonesian government. Partially because of their significance to Indonesia's economy, the environmentally sensitive area in which they are located, and the number of people employed, our operations are occasionally the subject of criticism in the Indonesian press and in political debates, and have been the target of protests and occasional violence.

Grasberg operated at reduced mining and milling rates during a four-day period from April 18, 2007 to April 21, 2007, as a result of peaceful protests by certain workers regarding benefits. The protests ended on April 21 with an agreement on a framework for minimum wages for its workers and Grasberg returned to normal operations. The impacts to production were not significant.

We cannot predict whether additional incidents will occur that could disrupt our Indonesian operations, or whether similar incidents may occur in other countries that could affect our other operations. If additional protests or other disruptive incidents occur at any of our facilities, they could adversely affect our business and profitability in ways that we cannot predict at this time.

We do not expect to mine all of our Indonesian ore reserves before the initial term of our Contract of Work in Indonesia expires.

All of our Indonesian proven and probable ore reserves, including the Grasberg deposit, are located in Block A. The initial term of our Contract of Work covering these ore reserves expires at the end of 2021. We can extend this term for two successive 10-year periods, subject to the approval of the Indonesian government, which under our Contract of Work cannot be withheld or delayed unreasonably. Our ore reserves reflect estimates of minerals that can be recovered through the end of 2041 (i.e., through the expiration of the two 10-year extensions) and our current mine plan has been developed, and our operations are based on the assumption that we will receive the two 10-year extensions. As a result, we will not mine all of these ore reserves during the current term of our Contract of Work, and there can be no assurance that the Indonesian government will approve the extensions. Prior to the end of 2021, we expect to mine approximately 37 percent of aggregate proven and probable recoverable ore at December 31, 2007, representing approximately 43 percent of PT Freeport Indonesia's share of recoverable copper reserves and approximately 57 percent of its share of recoverable gold reserves.

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

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

At times, certain government officials and others in Indonesia have questioned the validity of contracts entered into by the Government of Indonesia prior to May 1998 (i.e., during the Suharto regime, which lasted over 30 years), including PT Freeport Indonesia's Contract of Work, which was signed in December 1991. We cannot assure you that the validity of, or our compliance with, the Contracts of Work will not be challenged for political or other reasons. PT Freeport Indonesia's Contract of Work and our other Contracts of Work require that disputes with the Indonesian government be submitted to international arbitration. Consequently, if a dispute arises under the Contracts of Work, we face the risk of having to submit to the jurisdiction of a foreign court or arbitration panel, and if we prevail in such a dispute, we will face the additional risk of having to enforce the judgment of a foreign court or arbitration panel

against Indonesia within its own territory.

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

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

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

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

Our Tenke Fungurume development project is located in the DRC, and our business may be adversely affected by political, economic and social instability in the DRC.

Our most significant development project, Tenke Fungurume, is located in the DRC, a nation that since 1960 has undergone outbreaks of political violence, changes in national leadership and financial crisis. These factors heighten the risk of abrupt changes in the national policy towards foreign investors, which in turn could result in unilateral modification of concessions or contracts, increased taxation, denial of permits or permit renewals or expropriation of assets. Our ability to continue development is currently subject to an ongoing review of all mining contracts by the Ministry of Mines in the DRC (Ministry), the outcome of which cannot be predicted. We received notification on February 20, 2008 that the Ministry wishes to renegotiate several material provisions of our mining concessions. We believe that the terms of the concessions are fair and that they were negotiated transparently and are legally binding. However, we cannot predict whether the Government of the DRC will respect our contract rights. Other political, economic and social risks that are outside of our control and could adversely affect our business include:

· political risks associated with the limited tenure of the newly elected government;
· cancellation or renegotiation of mining contracts by the government;
· royalty and tax increases or claims by governmental entities, including retroactive claims;
· security risks due to the remote location and violence in the northeastern provinces of theDRC;

· risk of loss of property due to expropriation or nationalization of property; and
· risk of loss due to civil strife, acts of war, guerrilla activities, insurrection and terrorism.

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Consequently, our Tenke Fungurume development project may be substantially affected by factors beyond our control, any of which could adversely affect our financial position or results of operations.

Terrorist attacks throughout the world and the potential for additional future terrorist acts have created economic and political uncertainties that could materially and adversely affect our business.

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

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

OTHER RISKS

The impact of purchase accounting in connection with our acquisition of Phelps Dodge in March 2007 will adversely affect our reported earnings.

Purchase accounting requires us to allocate the price paid for the acquisition of Phelps Dodge to the assets acquired and liabilities assumed based upon their estimated fair values on the acquisition date of March 19, 2007. This allocation resulted in significant increases in the carrying values of certain acquired assets, including, based on preliminary estimates, increases of approximately $2.8 billion in metal inventories and stockpiles and approximately $16.1 billion in property, plant and equipment. Although these increases in metal inventories and stockpiles and property, plant and equipment do not impact our cash flows, the increases in metal inventories and stockpiles had a significant impact to our reported earnings in 2007, and the increases in property, plant and equipment had a significant impact on our reported earnings in 2007, and will continue to have an impact on reported earnings.

A decline in copper or molybdenum prices from those used to estimate the fair values of the acquired assets could result in impairment to the carrying values of metal and stockpile inventories and property, plant and equipment. These charges would reduce reported earnings, but would have no effect on cash flows.

In addition, at December 31, 2007, the carrying value of goodwill associated with the acquisition of Phelps Dodge totaled $6.1 billion. Absent the occurrence of events or circumstances in an interim period that may indicate

impairment, we are required to evaluate goodwill for impairment on an annual basis. If we

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conclude that the goodwill associated with the transaction is impaired, the amount of the impairment would be charged to our reported earnings, but would have no effect on cash flows.

We depend on our senior management team and other key employees, and the loss of any of these employees could adversely affect our business.

Our success depends in part on our ability to retain senior management and other key employees. Competition for qualified personnel can be very intense. In addition, senior management and key employees may depart because of issues relating to the uncertainty or difficulty associated with the successful integration of the business and operations as formerly conducted by Phelps Dodge, or a desire not to remain with us. Accordingly, no assurance can be given that we will be able to retain senior management and key employees to the same extent that we have been able to do so in the past.

Our holding company structure may impact your ability to receive dividends.

We are a holding company with no material assets other than the capital stock of our subsidiaries. As a result, our ability to repay our indebtedness and pay dividends is dependent on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend, debt repayment or otherwise. Our subsidiaries do not have any obligation to make funds available to us to repay our indebtedness or pay dividends. In addition, our subsidiaries may not be able to, or be permitted to, make distributions to enable us to repay our indebtedness or pay dividends. Each of our subsidiaries is a distinct legal entity and, under certain circumstances, legal and contractual restrictions, as well as the financial condition and operating requirements of our subsidiaries, may limit our ability to obtain cash from our subsidiaries. Our rights to participate in any distribution of our subsidiaries' assets upon their liquidation, reorganization or insolvency would generally be subject to the prior claims of the subsidiaries' creditors, including any trade creditors and preferred shareholders.

Anti-takeover provisions in our charter documents and Delaware law may make an acquisition of us more difficult.

Anti-takeover provisions in our charter documents and Delaware law may make an acquisition of us more difficult. These provisions:

· authorize our board of directors to issue preferred stock without stockholder approval andto designate the rights, preferences and privileges of each
class; if issued, such preferredstock would increase the number of outstanding shares of our capital stock and could include terms that may deter an
acquisition of us;
· establish advanced notice requirements for nominations to the board of directors or forproposals that can be acted on at stockholder meetings; and
· limit who may call stockholder meetings.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit large stockholders from consummating a merger with, or acquisition of, us.

These provisions may deter an acquisition of us that might otherwise be attractive to stockholders.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 3. Legal Proceedings.

We are involved from time to time in various legal proceedings of a character normally incident to the ordinary course of our business. We believe that potential liability in such proceedings would not have a material adverse effect on our financial condition or results of operations. We maintain liability insurance

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to cover some, but not all, potential liabilities normally incident to the ordinary course of our business as well as other insurance coverage customary in our business, with coverage limits that we deem prudent.

Environmental Proceedings

Pinal Creek. The Pinal Creek site located near Miami, Arizona, was listed under the Arizona Department of Environmental Quality's (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 members of the Pinal Creek Group (PCG), consisting of Phelps Dodge Miami, Inc. (PDMI) (a wholly owned subsidiary of Phelps Dodge) 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 the U.S. Environmental Protection Agency (EPA) under CERCLA.

The PCG members have been pursuing contribution litigation against three other parties involved with the site. PDMI dismissed its contribution claims against one defendant when another PCG member agreed to be responsible for any share attributable to that defendant. PDMI and the other PCG members settled their contribution claims against another defendant in April 2005. While the terms of the settlement are confidential, the proceeds of the settlement will be used to address remediation at the Pinal Creek site. There are significant disagreements among the members of the PCG regarding the allocation of the cost of remediation, and a trial on that issue is currently scheduled to begin in late 2008. The overall cost of the clean up is expected to be significant.

Arizona Notice of Violation (NOV) – Sierrita operations. In September and October 2006, ADEQ issued two NOVs to the Phelps Dodge Sierrita, Inc. (Sierrita) operations in southeastern Arizona. The two NOVs alleged certain visibility and permit violations associated with dust emissions from Sierrita's tailing facility during high-wind events. No action has been filed at this time, and Sierrita has responded to the NOVs by acknowledging that dust likely did exceed a visibility standard, but denying the other allegations. Sierrita has implemented response actions that ADEQ has accepted, and has entered into discussions with ADEQ to seek to resolve the NOVs.

EPA Notice re Violation of Consent Decree – Sierrita operations. In September 2006, EPA notified Sierrita of the possible assessment of stipulated penalties arising from deviations from certain provisions of a Consent Decree dated June 21, 2004, by and among PDSI, the United States and ADEQ, entitled United States and the State of Arizona v. Phelps Dodge Sierrita, Inc. No. CIV 04-312 TUC FRZ. In November 2007, Sierrita paid stipulated penalties of $140,500 to EPA and ADEQ as a condition to a joint request to the federal court for termination of the Consent Decree.

New Mexico Environment Department – Chino Mines. On October 24, 2007, Chino Mines Co. (Chino) notified NMED that heavy rains during July, August and September led to a release of diluted leach solutions through a storm water outfall to an ephemeral stream on Chino's property. Chino sent a follow up notice to NMED on November 7, 2007, which identified the interim corrective actions taken as a result of the discharge. On February 28, 2008, Chino received a proposed Administrative Compliance Order, which included a demand for civil penalties in the amount of $276,600 for violation of legal requirements in connection with Chino's management of the solutions. Chino is preparing a response to NMED.

Asbestos Claims

Since approximately 1990, Phelps Dodge and various other subsidiaries have been named as defendants in a large number of product liability or premises lawsuits claiming injury from exposure to asbestos contained

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in electrical wire products produced or marketed many years ago, or from asbestos at certain Phelps Dodge properties. Based on information available to us to date, we believe our liability, if any, in these matters will not have a material adverse effect, either individually or in the aggregate, upon our business, financial condition, liquidity, results of operations or cash flow. There can be no assurance, however, that future developments will not alter this conclusion.

Antitrust Claims

Columbian Chemical Company (Columbian), formerly a subsidiary of Phelps Dodge, and several other companies were named as defendants in an action entitled Technical Industries, Inc. v. Cabot Corporation, et al., No. CIV 03-10191 WGY, filed on January 30, 2003, in the U.S. District Court in Boston, Massachusetts, and 14 other actions filed in four U.S. district courts, on behalf of a purported class of all individuals or entities who purchased carbon black directly from the defendants since January 1999. All of these actions were consolidated in the U.S. District Court for the District of Massachusetts under the caption In re Carbon Black Antitrust Litigation. On September 27, 2007, the court entered an order approving a proposed settlement and dismissing with prejudice all claims against Columbian and other defendants in these actions.

Columbian and the other defendants entered into an agreement to settle the separate action entitled Carlisle Companies Incorporated, et al. v. Cabot Corporation, et al., which was filed against Columbian and other defendants on behalf of a group of affiliated companies that opted out of the federal class action. All claims in that action were dismissed with prejudice on October 16, 2007.

Columbian and the other defendants have also settled state law claims filed on behalf of purported classes of indirect purchasers of carbon black in California, Tennessee and Kansas and six other states represented by Kansas counsel. Similar actions filed in New Jersey and North Carolina have been dismissed. Actions remain pending in state courts in Florida and South Dakota. Threatened litigation in Massachusetts has not been initiated. We retained responsibility for these claims in the agreement pursuant to which we sold Columbian, and we have paid an aggregate of $7 million to settle the claims referenced above. Columbian and the other defendants are attempting to negotiate a resolution of the remaining state lawsuits.

Water Rights

Water law in the Western U.S. is generally based on the doctrine of prior appropriation (first in time, first in right) and permits the water right holder the right to use public waters for a statutorily defined beneficial use, at a designated location. Our operations in the Western U.S. require water for mining, ore processing and related support facilities. Continuous operation of these mines is dependent on our ability to maintain our water rights and claims. The loss of water rights, in whole or in part, could have a significant adverse affect on our mining operations.

Arizona

Two water rights adjudications have been initiated in the State of Arizona in order to quantify and prioritize all surface water claims in two of the State’s river systems that include four of our mines: Morenci, Sierrita, Safford and Miami and which may affect our Bagdad, Arizona mine. These adjudications have proceeded for many years, and we cannot predict when they will be concluded, but the loss of any water claims in these legal proceedings could have a significant adverse affect on the operations of these mines.

In Re the General Adjudication of All Rights to Use Water in the Little Colorado Water System and Sources, Apache County, Superior Court, No. 6417, filed on or about February 17, 1978. The principal parties, in addition to Phelps Dodge, include: the State of Arizona; the Salt River Project; the Arizona Public Service Company; the Navajo Nation, the Hopi Indian Tribe; the San Juan Southern Paiute Tribe; and the United States on its own behalf, on behalf

of those Indian tribes, and on behalf of the White Mountain Apache Tribe.

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In Re The General Adjudication of All Rights to Use Water in the Gila River System and Sources, Maricopa County, Superior Court, Cause Nos. W-1 (Salt), W-2 (Verde), W-3 (Upper Gila), and W-4 (San Pedro), filed on February 17, 1978. The principal parties, in addition to us, include: the State of Arizona; the Gila Valley Irrigation District; the San Carlos Irrigation and Drainage District; the Salt River Project; the San Carlos Apache Tribe; the Gila River Indian Community; and the United States on behalf of those Tribes, on its own behalf, and on behalf of the White Mountain Apache Tribe, the Fort McDowell Mohave-Apache Indian Community, the Salt River Pima-Maricopa Indian Community, and the Payson Community of Yavapai Apache Indians.

In 1998, we entered into a water rights settlement agreement with the Gila River Indian Community (GRIC), which was later included in a comprehensive water rights settlement under the Arizona Water Settlements Act of 2004. The GRIC settlement is subject to contingencies that must be met before the agreement is fully effective, and the comprehensive settlement has been challenged by other parties. If we are unable to resolve the contingencies in the GRIC settlement and defeat the third-party challenges, our water rights in the Gila River watershed could be diminished, and our operations at Morenci, Safford, Sierrita and Miami could be adversely affected.

Prior to January 1, 1983, various Indian tribes filed suits in U.S. District Court in Arizona claiming superior rights to water being used by many other water users, including us, and claiming damages for prior use in derogation of their allegedly superior rights. These federal proceedings have been stayed pending the Arizona Superior Court adjudications.

United States v. Gila Valley Irrigation District, United States District Court, District of Arizona, was initiated in 1925 by the United States to settle conflicting claims to water rights in portions of the Gila River watershed. A decree settling the claims of various parties was entered in 1935, after Phelps Dodge Morenci had been dismissed from the case, with the Court retaining jurisdiction. In 1988, the Gila River Indian Community intervened, challenging uses of water in the Gila River watershed, which may impact approximately 3,000 acre-feet of water that we have the right to divert annually from Eagle Creek, Chase Creek or the San Francisco River for operation of our Morenci mine, pursuant to decreed rights and an agreement between us and the Gila Valley Irrigation District. Our Morenci operations also purchased farm lands with water rights in 1997, 1998 and 2007 that are subject to this proceeding. Impairment of our water claims in the Gila River watershed could adversely affect the operation of our Morenci and Safford mines.

Colorado

United States v. Northern Colorado Water Conservancy District, et.al., United States District Court, District of Colorado, Civil Nos. 2782, 5016 and 5017, was initiated by the United States in 1948 to resolve water claims involving the Bureau of Reclamation in Colorado, and was consolidated in 1955 with two state court proceedings involving these water claims which had been removed to the United States District Court. Principal parties include the United States on its own behalf; the Northern Colorado Conservancy District; the Colorado River Water Conservancy District; and the City and County of Denver. In 1955, the Court entered the Blue River Decree, which adjudicated the water rights for the Bureau of Reclamation's Green Mountain Reservoir and Denver's Dillon Reservoir, with the Court retaining jurisdiction to implement the Decree. In April 2007, our subsidiary, Climax Molybdenum Company, filed a motion to intervene in the Blue River Decree to resolve a dispute about the proper administration of water rights held by the Climax Mine, Green Mountain Reservoir, and Dillon Reservoir. Administration of the priorities of the water rights for Green Mountain Reservoir and Dillon Reservoir as senior to the priorities of the water rights for the Climax Mine could significantly affect the Climax Mine's right to reliably divert water needed for mine operations. Climax's motion to intervene asks the Court to determine that the priorities for the Climax Mine's water rights be administered as senior to those of Green Mountain Reservoir and Dillon Reservoir.

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Item 4. Submission of Matters to a Vote of Security Holders.
Not applicable.

Executive Officers of the Registrant.

Certain information as of February 15, 2008, about our executive officers, including their position or office with FCX, PT Freeport Indonesia and Atlantic Copper, is set forth in the following table and accompanying text:

Name	Age	Position or Office
James R. Moffett	69	Chairman of the Board of FCX. President Commissioner of PT Freeport Indonesia.
Richard C. Adkerson	61	Director, President and Chief Executive Officer of FCX. Director and Executive Vice President of PT Freeport Indonesia. Chairman of the Board of Directors of Atlantic Copper.
Michael J. Arnold	55	Executive Vice President and Chief Administrative Officer of FCX.
Kathleen L. Quirk	44	Executive Vice President, Chief Financial Officer and Treasurer of FCX. Commissioner of PT Freeport Indonesia. Director of Atlantic Copper.

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

Richard C. Adkerson has served as FCX's President since January 1, 2008 and from April 1997 to March 2007, Chief Executive Officer since December 2003 and a director since October 2006. Mr. Adkerson previously served as FCX's Chief Financial Officer from October 2000 to December 2003. Mr. Adkerson is also a director and Executive Vice President of PT Freeport Indonesia, Chairman of the Board of Directors of Atlantic Copper, and Co-Chairman of the Board of McMoRan. From November 1998 to February 2004, he also served as President and Chief Executive Officer of McMoRan.

Michael J. Arnold has served as the Chief Administrative Officer of FCX since December 2003 and as Executive Vice President of FCX since March 2007. He also served as a director and Executive Vice President of PT Freeport Indonesia from May 1998 to March 2007.

Kathleen L. Quirk has served as FCX's Executive Vice President since March 2007, Chief Financial Officer since December 2003 and Treasurer since February 2000. Ms. Quirk previously served as FCX's Senior Vice President from December 2003 to March 2007, as Vice President from February 1999 to December 2003 and as Assistant Treasurer from November 1997 to February 1999. Ms. Quirk has also served as a Commissioner of PT Freeport Indonesia since April 2000, as the Senior Vice President and Treasurer of McMoRan since April 2002 and as Vice President and Treasurer of McMoRan from January 2000 to April 2002.

PART II

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

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Unregistered Sales of Equity Securities

None.

Common Stock

Our common shares trade on the New York Stock Exchange (NYSE) under the symbol "FCX." The FCX share price is reported daily in the financial press under "FMCG" in most listings of NYSE securities. Effective March 19, 2007, our certificate of incorporation was amended to rename our Class B common stock to Common Stock. NYSE composite tape common share price ranges during 2007 and 2006 follow:

	2007		2006	
	High	Low	High	Low
First Quarter	$ 67.19	$ 48.85	$ 65.00	$ 47.11
Second Quarter	85.50	65.62	72.20	43.10
Third Quarter	110.60	67.07	62.29	47.58
Fourth Quarter	120.20	85.71	63.70	47.60

As of February 15, 2008, there were approximately 19,000 holders of record of our common stock.

Common Stock Dividends

In February 2003, the Board of Directors authorized the initiation of an annual cash dividend on our common stock of $0.36 per share payable quarterly, and authorized increases in the annual cash dividend in October 2003 to $0.80 per share, in October 2004 to $1.00 per share and in November 2005 to $1.25 per share. In December 2007, the Board of Directors authorized an increase in our annual common stock dividend to $1.75 per share. Additionally, since December 2004, we have paid eight supplemental dividends.

Below is a summary of common stock cash dividends declared and paid during 2007 and 2006:

	2007		
	Per Share Amount	Record Date	Payment Date
First Quarter	$ 0.3125	Jan. 16, 2007	Feb. 1, 2007
Second Quarter	0.3125	Apr. 16, 2007	May 1, 2007
Third Quarter	0.3125	July 16, 2007	Aug. 1, 2007
Fourth Quarter	0.3125	Oct. 15, 2007	Nov. 1, 2007

	2006		
	Per Share Amount	Record Date	Payment Date
First Quarter	$ 0.3125	Jan. 17, 2006	Feb. 1, 2006

Supplemental dividend	0.50	Mar. 15, 2006	Mar. 31, 2006
Second Quarter	0.3125	Apr. 17, 2006	May 1, 2006
Supplemental dividend	0.75	June 15, 2006	June 30, 2006
Third Quarter	0.3125	July 17, 2006	Aug. 1, 2006
Supplemental dividend	0.75	Sept. 14, 2006	Sept. 29, 2006
Fourth Quarter	0.3125	Oct. 16, 2006	Nov. 1, 2006
Supplemental dividend	1.50	Dec. 14, 2006	Dec. 29, 2006

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

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Issuer Purchases of Equity Securities

In December 2007, our Board of Directors approved a new open market share purchase program for up to 20 million shares, which replaced our previous 20-million share program. A total of eight million shares were purchased under the previous program. The program does not have an expiration date. No shares were purchased during the three-month period ended December 31, 2007 under this program.

We also purchase shares in connection with our stock incentive plans and our non-qualified supplemental savings plan. The following table sets forth information with respect to shares of common stock of FCX purchased by us during the three months ended December 31, 2007:

Period	(a) Total Number of Shares (or Units) Purchased[a]	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs
October 1-31, 2007	1,744	$ 115.76	-	-
November 1-30, 2007	2,135	$ 110.62	-	-
December 1-31, 2007	94	$ 102.56	-	-
Total	3,973	$ 112.69	-	20,000,000

a. This category includes shares repurchased under FCX's applicable stock incentive plans (Plans) and its non-qualified supplemental savings plan (SSP). Through the Plans, FCX repurchases shares to satisfy tax obligations on restricted stock awards and to cover the cost of option exercises, and in the SSP repurchases shares as a result of FCX dividends paid.

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Item 6. Selected Financial Data.

FREEPORT-McMoRan COPPER & GOLD INC.
SELECTED FINANCIAL AND OPERATING DATA

	Years Ended December 31,				
	2007a	2006	2005	2004	2003
FCX CONSOLIDATED FINANCIAL DATA	(In Millions, Except Per Share Amounts)				
Revenues	$16,939b	$ 5,791			