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FREEPORT-MCMORAN INC

FORM 10-K
(Annual Report)

Filed 03/15/06 for the Period Ending 12/31/05

Address	333 NORTH CENTRAL AVENUE PHOENIX, AZ 85004
Telephone	6023668100
CIK	0000831259
Symbol	FCX
SIC Code	1000 - Metal Mining
Industry	Metal Mining
Sector	Basic Materials
Fiscal Year	12/31

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FREEPORT MCMORAN COPPER & GOLD INC

FORM 10-K
(Annual Report)

Filed 3/15/2006 For Period Ending 12/31/2005

Address	1615 POYDRAS ST
	NEW ORLEANS, Louisiana 70112
Telephone	504-582-4000
CIK	0000831259
Industry	Metal Mining
Sector	Basic Materials
Fiscal Year	12/31

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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, 2005
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.)
1615 Poydras Street **New Orleans, Louisiana**	**70112**
(Address of principal executive offices)	(Zip Code)

(504) 582-4000
(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
Class B Common Stock, par value $0.10 per share	New York Stock Exchange
Depositary Shares representing 0.003125 shares of Silver-Denominated Preferred Stock, par value $0.10 per share	New York Stock Exchange
10⅛% Senior Notes due 2010 of the registrant	New York Stock Exchange
7% Convertible Senior Notes due 2011 of the registrant	New York Stock Exchange

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

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

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

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

S Large accelerated filer 0 Accelerated filer 0 Non-accelerated filer

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

The aggregate market value of common stock held by non-affiliates of the registrant was approximately $8.7 billion on March 1, 2006, and approximately $5.0 billion on June 30, 2005.

On March 1, 2006, there were issued and outstanding 188,428,983 shares of Class B Common Stock and on June 30, 2005, there were issued and outstanding 177,342,552 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for our 2006 Annual Meeting to be held on May 4, 2006 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 "Notes" are Notes in our "Notes to Consolidated Financial Statements" included in our 2005 Annual Report incorporated herein by reference (see "Item 8. Financial Statements and Supplementary Data").

General

Through our majority-owned subsidiary, PT Freeport Indonesia, we have one of the world's largest copper and gold mining and production operations in terms of reserves and production. We are also one of the lowest-cost copper producers in the world, after taking into account credits for related gold and silver production. Our principal asset is the Grasberg minerals district. We discovered the largest ore body in the district, Grasberg, in 1988. Based on available year-end 2004 reserve data, the Grasberg minerals district contains the largest single copper reserve and the largest single gold reserve of any mine in the world.

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

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

Another of our operating subsidiaries, PT Irja Eastern Minerals, which we refer to as Eastern Minerals, holds an additional Contract of Work in Papua covering approximately 1.2 million acres. Eastern Minerals conducts exploration activities, which have been suspended in recent years, under this Contract of Work (see "Contracts of Work"). We continue to assess the possible timing for the resumption of exploration activities in Eastern Minerals' exploration area. We have a 100 percent ownership interest in Eastern Minerals.

In 1996, we established joint ventures with Rio Tinto plc, which is an international mining company with headquarters in London, England. Rio Tinto conducts mining operations in North America, South America, Asia, Australia, Europe and southern Africa. One of our joint ventures with Rio Tinto covers PT Freeport Indonesia 's mining operations in Block A. This joint venture gives Rio Tinto, through 2021, a 40 percent interest in certain assets and in production above specified levels from operations in Block A and, after 2021, a 40 percent interest in all production in Block A. Under our joint venture arrangements, Rio Tinto also has a 40 percent interest in PT Freeport Indonesia 's Contract of Work and Eastern Minerals ' Contract of Work. In addition, Rio Tinto has the option to participate in 40 percent of any of our other future exploration projects in Papua. To date, Rio Tinto has elected to participate in all exploration projects, including PT Nabire Bakti Mining.

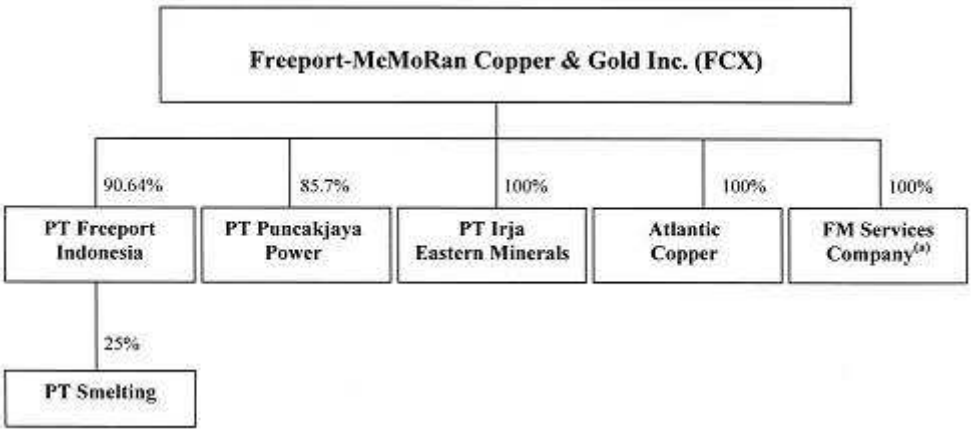
Under a joint venture agreement through PT Nabire Bakti Mining, we conduct exploration activities, which have been suspended in recent years (see "Contracts of Work"), in an area covering approximately 500,000 acres in five parcels contiguous to PT Freeport Indonesia 's Block B and one of Eastern Minerals ' blocks. We continue to assess the possible timing for the resumption of exploration activities in PT Nabire Bakti Mining 's exploration area.

At December 31, 2005, PT Freeport Indonesia's share of proven and probable recoverable reserves totaled 40.3 billion pounds of copper and 43.9 million ounces of gold, all of which are located in Block A. Our approximate 90.64 percent equity share of these proven and probable recoverable reserves totaled 36.5 billion pounds of copper and 39.8 million ounces of gold (see "Ore Reserves"). In this annual report, we refer to (1) aggregate reserves, which means all reserves for the operations we manage, (2) PT Freeport Indonesia's share of reserves, which means the reserves net of Rio Tinto's interest under our joint venture arrangements and which are the reserves reported as those of our operations in our consolidated financial statements and (3) our equity share of reserves, which is net of the 9.36 percent of PT Freeport Indoneisa owned by the Government of Indonesia.

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

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

The diagram below shows our corporate structure.



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

The following four maps indicate

- the distance from the Grasberg minerals district in Papua to Bali (approximately 1,500 miles) and to Jakarta (approximately 2,000 miles);

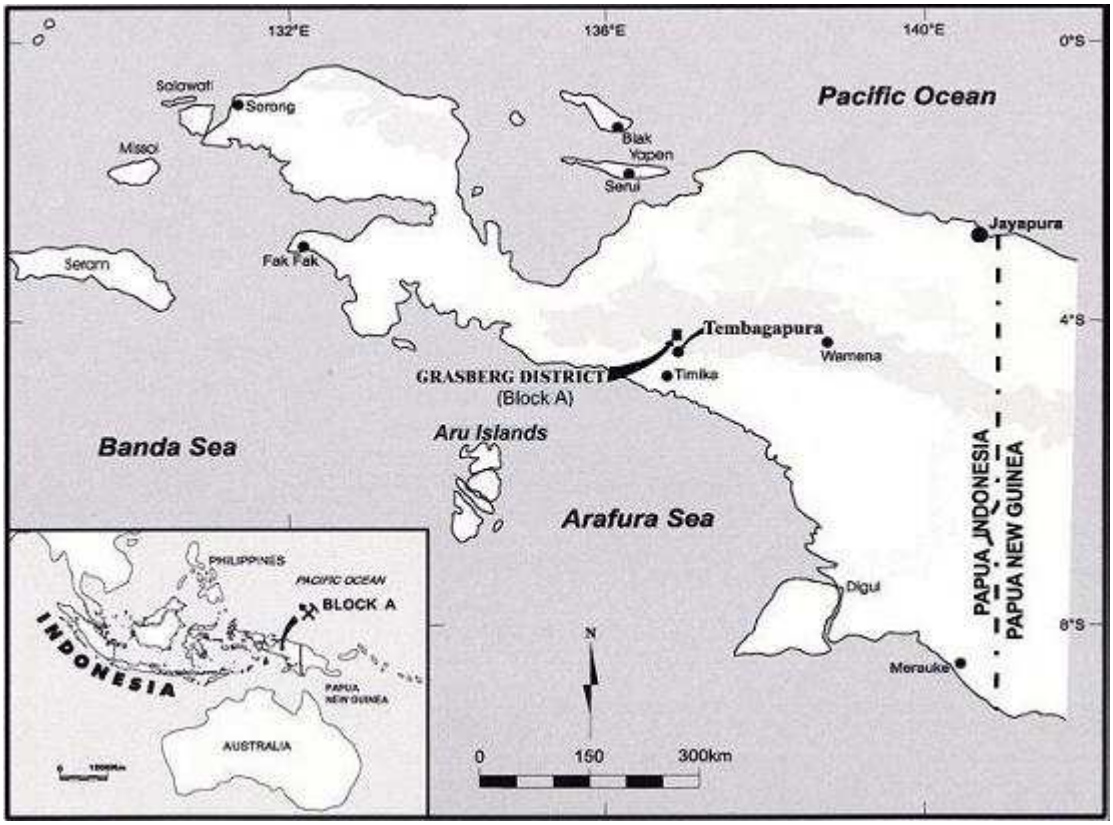
- the location of the Papua province in which we operate;

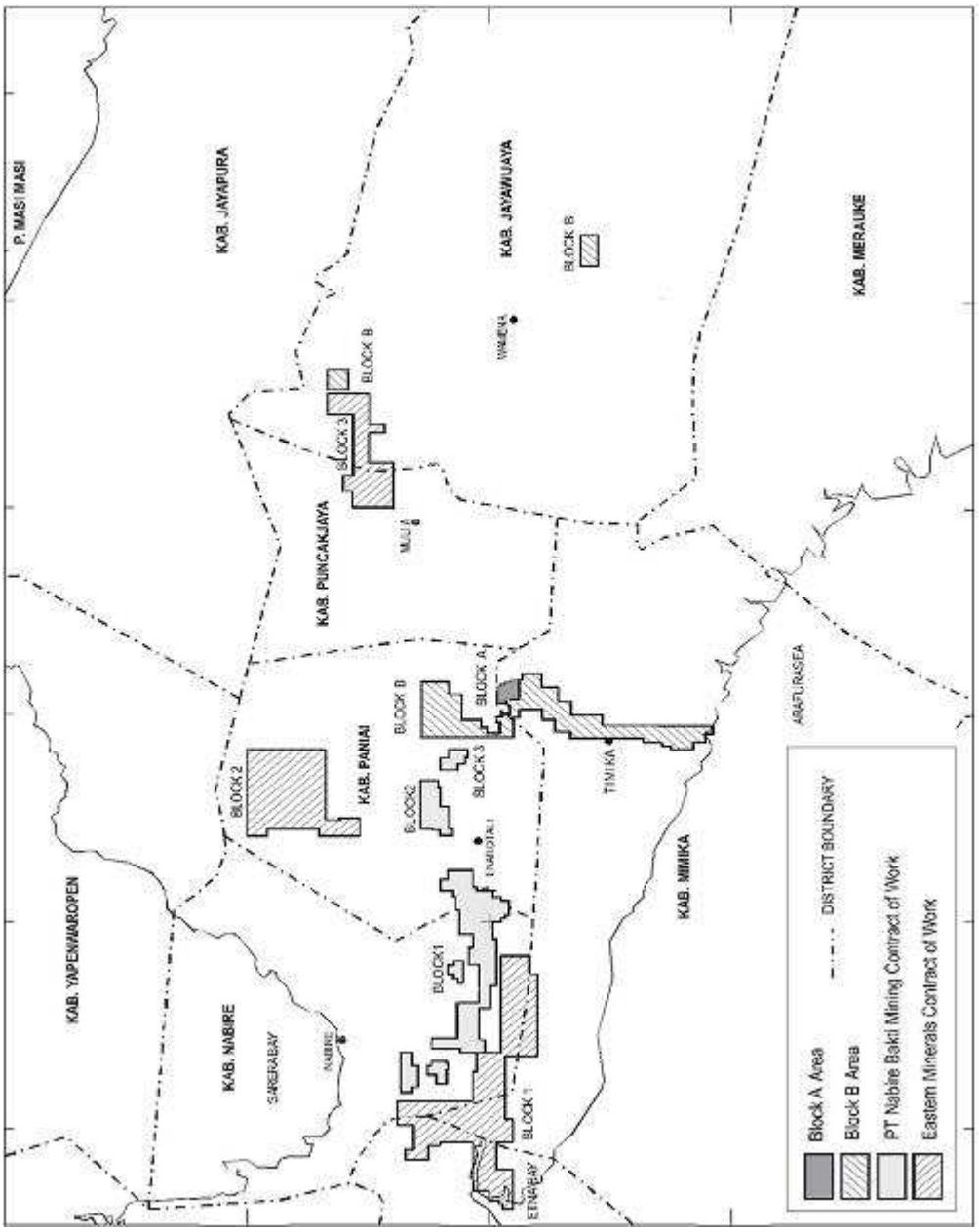
- the location of our Contracts of Work areas within the Papua province; and

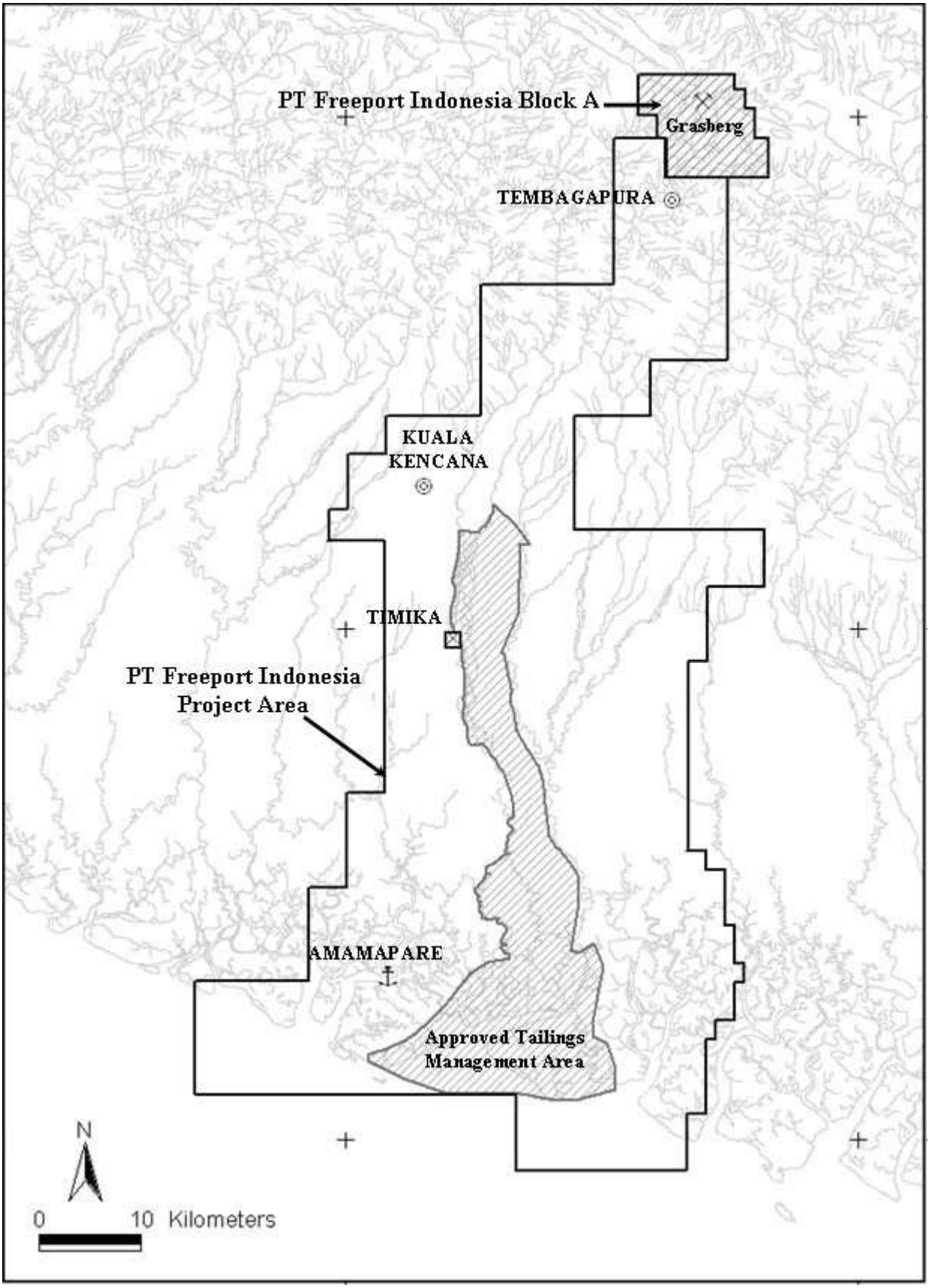
- the infrastructure of our Contract of Work project area.

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P. MASI MASI
KAB. JAYAPURA
KAB. JAYAWIJAYA
KAB. MERAUKE
KAB. PUNCAKJAYA
KAB. PANIAI
KAB. YAPENWAROPEN
KAB. NABIRE
KAB. MIMIKA
BLOCK A
BLOCK B
BLOCK 1
BLOCK 2
BLOCK 3
NABIRE
TIMIKA
ARAFURASEA
Block A Area
Block B Area
DISTRICT BOUNDARY
PT Nabire Bakil Mining Contract of Work
Eastern Minerals Contract of Work


PT Freeport Indonesia Block A
Grasberg
TEMBAGAPURA
KUALA
KENCANA
TIMIKA
PT Freeport Indonesia
Project Area
AMAMAPARE
Approved Tailings
Management Area
N
0
10 Kilometers

Contracts of Work

Through Contracts of Work with the Government of Indonesia, PT Freeport Indonesia and Eastern Minerals conduct their current exploration operations and PT Freeport Indonesia conducts its mining operations in Indonesia. Both Contracts of Work govern our rights and obligations relating to taxes, exchange controls, royalties, repatriation and other matters. Both Contracts of Work were concluded pursuant to the 1967 Foreign Capital Investment Law, which expresses Indonesia ’s foreign investment policy and provides basic guarantees of remittance rights and protection against nationalization, a framework for economic incentives and basic rules regarding other rights and obligations of foreign investors. Specifically, the Contracts of Work provide that the Government of Indonesia will not nationalize or expropriate PT Freeport Indonesia ’s or Eastern Minerals’ mining operations. Any disputes regarding the provisions of the Contracts of Work are subject to international arbitration. We have experienced no disputes requiring arbitration during the 38 years we have operated in Indonesia.

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

Eastern Minerals signed its Contract of Work in August 1994. The Contract of Work originally covered approximately 2.5 million acres. Eastern Minerals' Contract of Work provides for a four-to-seven year exploratory term and a 30-year term for mining operations. Subject to Indonesian government approval, which cannot be withheld or delayed unreasonably, we can extend this period for two 10-year periods. Eastern Minerals’ Contract of Work requires us to relinquish our rights to 25 percent of the original 2.5-million-acre Contract of Work area at the end of each of three specified periods. As of December 31, 2005, we had relinquished approximately 1.3 million acres and must relinquish an additional 0.6 million acres at the end of the three-year exploration period (currently in suspension), which can be extended by the Government of Indonesia for as many as two additional years.

We suspended our exploration activities outside of Block A in recent years because of safety and security issues and regulatory uncertainty relating to a possible conflict between our mining and exploration rights in certain forest areas and an Indonesian Forestry law enacted in 1999 prohibiting open-pit mining in forest preservation areas. In 2001, we requested and received from the Government of Indonesia formal temporary suspensions of our obligations under the Contracts of Work in all areas outside Block A. The current suspensions were granted for one-year periods ending February 26, 2006, for Block B; March 31, 2006, for PT Nabire Bakti Mining; and November 15, 2006, for Eastern Minerals. We have requested additional one-year suspensions for Block B and PT Nabire Bakti Mining. Recent Indonesian legislation permits open-pit mining in PT Freeport Indonesia ’s Block B area, subject to certain requirements. We continue to assess these requirements and security issues. The timing for our resumption of exploration activities in our Contract of Work areas outside Block A depends on the resolution of these matters.

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 metal from production 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 200,000 metric tons of ore per day is double the Contract of Work royalty rate, and our royalty rates on gold and silver sales from production above 200,000 metric tons of ore per day are triple the Contract of Work royalty rates.

PT Freeport Indonesia ’s share of the combined royalties, including the additional royalties which became effective January 1, 1999, totaled $103.7 million in 2005, $43.5 million in 2004 and $26.5 million in 2003.

Republic of Indonesia

General. The Republic of Indonesia consists of more than 17,000 islands stretching 3,000 miles along the equator from Malaysia to Australia and is the fourth most populous nation in the world with over 240 million people. Following many years of Dutch colonial rule, Indonesia gained independence in 1945 and now has a presidential republic system of government.

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

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

There were repeated challenges to the political leadership of President Wahid after his election in October 1999. In July 2001, the People ’s Consultative Assembly voted to remove President Wahid, and elected Vice President Megawati Sukarnoputri as president. In October 2004, Susilo Bambang Yudhoyono was elected as president in the nation's first direct persidential election.

Other Developments. In February 2006, a group of illegal gold panners engaged in conflict with Indonesian police and PT Freeport Indonesia security personnel when they were requested to leave an area near our milling facilities. Following the incident, the illegal panners blocked the road leading to the Grasberg mine and mill in protest and we temporarily suspended mining and milling operations as a precautionary measure. The panners also vandalized some of our light vehicles and offices near this area, causing approximately $4 million in damages. Our port facilities continued to operate during the disruption and concentrate shipments were not affected. The panners, mostly Papuans from outside our area of operations, presented a list of aspirations, primarily relating to their desire to share in the benefits of our existing initiatives and programs provided for the Papuans who are the traditional residents of our operations area. Mining and milling operations resumed after an approximate four-day outage. During the incident at our mine and mill, protestors in Jakarta vandalized the entrance floor of the office building housing our Indonesian headquarters and staged a three-day rally outside the building. The Indonesian police handled this matter, which did not disrupt our administrative functions or damage any of our facilities.

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

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

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

Economic and Social Conditions. The Indonesian economy grew by an estimated 6 percent in 2005 and 5 percent in 2004. The Indonesian currency, the rupiah, averaged approximately 9,700 rupiah to one United States (U.S.) dollar during 2005 and closed at 9,825 rupiah to one U.S. dollar on December 30, 2005, compared with 9,270 rupiah to one U.S. dollar on December 31, 2004.

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

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

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

Our Contracts of Work and the Government of Indonesia. The Indonesian government has repeatedly assured investors that existing contracts would be honored. In our 38 years of operating in Indonesia, the Indonesian government has always honored its commitments to us. Our belief that our Contracts of Work will continue to be honored is further supported by U.S. laws, which prohibit U.S. aid to countries that nationalize property owned by, or take steps to nullify a contract with, a U.S. citizen or company at least 50 percent owned by U.S. citizens if the foreign country does not within a reasonable time take appropriate steps to provide full value compensation or other relief under international law.

In July 2004, we received a request from the Indonesian Department of Energy and Mineral Resources that we offer to sell shares in PT Indocopper Investama to Indonesian nationals at fair market value. PT Indocopper Investama, which we wholly own, has an approximate 9.36 percent ownership interest in PT Freeport Indonesia. In response to this request and in view of the potential benefits of having additional Indonesian ownership in our operations, we have agreed to consider a potential sale of an interest in PT Indocopper Investama at fair market value. Neither our Contract of Work nor Indonesian law requires us to divest any portion of our ownership interest in PT Freeport Indonesia or PT Indocopper Investama. We have received no offers for our ownership interest.

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

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

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

PT Freeport Indonesia is also one of the largest private employers in Indonesia and by far the largest in Papua. As of December 31, 2005, PT Freeport Indonesia directly employed 8,044 people; and 6,225 contract workers provided services to PT Freeport Indonesia. In addition, 4,475 persons worked for privatized companies providing services within PT Freeport Indonesia ’s operations area.

Besides the estimated $3.9 billion in direct benefits from taxes, royalties, dividends and fees payable to the Indonesian government under the Contract of Work from 1992 through 2005, PT Freeport Indonesia’s operations have provided another $10.0 billion during this period in indirect benefits to Papua and the Republic of Indonesia in the form of wages and benefits paid to workers, purchases of goods and services, charitable contributions and reinvestments in operations. For 2005, direct benefits totaled approximately $1.2 million and indirect benefits totaled approximately $736 million.

Ore Reserves

During 2005, net additions and revisions to the aggregate proven and probable reserves of the Grasberg and other Block A ore bodies in the Grasberg minerals district totaled approximately 132 million metric tons of ore representing increases of 2.1 billion recoverable pounds of copper, 0.4 million recoverable ounces of gold and 12.1 million recoverable ounces of silver. The additions were primarily the result of positive drilling results at the Mill Level Zone and Deep Mill Level Zone deposits, a 345-million-metric-ton complex with average ore grades of 1.06 percent copper and 0.83 grams per metric ton (g/t) of gold, and at the Grasberg underground extension to the Kucing Liar deposit, a 579-million-metric-ton complex with average ore grades of 1.20 percent copper and 1.06 g/t of gold. Completion of a successful feasibility study at Big Gossan also contributed to these gains. Year-end aggregate proven and probable recoverable reserves, net of 2005 production, were 2.8 billion metric tons of ore averaging 1.07 percent copper, 0.92 g/t of gold and 4.02 g/t of silver representing 56.6 billion pounds of copper, 58.0 million ounces of gold and 180.8 million ounces of silver. Our aggregate exploration budget for 2006, including Rio Tinto ’s share, is expected to total approximately $15 million ($10 million for our share) with most of the efforts focused on potential extensions of the Grasberg underground and Kucing Liar mine complex, and testing downward extensions of the previously mined Ertsberg deposit. We continue to assess the timing of resumption of suspended exploration activities in areas outside the existing producing area of the Grasberg minerals district.

Pursuant to joint venture arrangements between PT Freeport Indonesia and Rio Tinto, Rio Tinto has a 40 percent interest in production from reserves above those reported at December 31, 1994. Net of Rio Tinto ’s share, PT Freeport Indonesia ’s share of proven and probable recoverable reserves as of December 31, 2005, was 40.3 billion pounds of copper, 43.9 million ounces of gold and 127.0 million ounces of silver. FCX ’s equity interest in proven and probable recoverable reserves as of December 31, 2005, was 36.5 billion pounds of copper, 39.8 million ounces of gold and 115.1 million ounces of silver. We estimated recoverable reserves using a copper price of $0.90 per pound and a gold price of $350 per ounce. If metal prices were adjusted to the approximate average London spot prices for the past three years, i.e., copper prices adjusted from $0.90 per pound to $1.26 per pound and gold prices adjusted from $350 per ounce to $406 per ounce, the resulting additional proven and probable reserves would not be material to our reported reserves.

All of our proven and probable recoverable reserves lie within Block A. Aggregate Grasberg open pit and underground proven and probable recoverable ore reserves as of December 31, 2005, are shown below along with those of our other deposits. Reserve calculations were prepared by our employees under the supervision of George D. MacDonald, our Vice President of Exploration, and were reviewed and verified by Independent Mining Consultants, Inc., experts in mining, geology and reserve determination. See “Risk Factors.” We developed our current mine plan based on completing the mining of all of our currently designated recoverable reserves before the end of 2041, which would be the expiration of our Contract of Work including the two 10-year extensions discussed above. Prior to the expiration of the initial term of our Contract of Work in December 2021, under our current mine plan we expect to mine approximately 44 percent of aggregate proven and probable ore, representing approximately 52 percent of PT Freeport Indonesia ’s share of recoverable copper reserves and approximately 65 percent of PT Freeport Indonesia ’s share of recoverable gold reserves.

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	Proven				Probable				Total
	Metric Tons of Ore (000s) [a]	Average Ore Grade			Metric Tons of Ore (000s) [a]	Average Ore Grade			Metric Tons of Ore (000s) [a]
		Copper (%)	Gold (g/t)	Silver (g/t)		Copper (%)	Gold (g/t)	Silver (g/t)	
Developed and producing:									
Grasberg open pit	193,245	1.08	1.31	2.47	444,83	1.08	1.18	2.59	638,084
Deep Ore Zone	82,202	0.92	0.62	4.91	80,697	0.83	0.59	4.92	162,899
Undeveloped:									
Grasberg block cave	164,904	1.08	0.96	2.86	686,968	0.95	0.69	2.96	851,872
Kucing Liar	183,545	1.35	1.05	4.75	395,579	1.12	1.07	5.70	579,124
Deep Mill Level Zone	52,759	1.28	0.99	6.48	196,535	1.11	0.85	5.42	249,294
Ertsberg Stockwork Zone	36,656	0.50	0.85	1.78	110,112	0.50	0.86	1.74	146,768
Mill Level Zone	47,398	0.99	0.75	4.20	48,643	0.70	0.66	3.01	96,041
Big Gossan	9,040	2.48	1.14	13.40	43,696	2.28	1.09	15.03	52,736
Dom open pit	5,753	2.07	0.43	12.78	17,897	2.01	0.43	11.93	23,650
Dom block cave	7,201	1.43	0.36	9.31	14,820	1.34	0.36	8.58	22,021
Total	782,703	1.13	1.01	3.95	2,039,786	1.03	0.89	4.04	2,822,489

	Mill Recoveries (%)			Proven and Probable Recoverable Reserves [b]		
	Copper	Gold	Silver	Copper (Billions of Lbs.)	Gold (Millions of Ozs.)	Silver (Millions of Ozs.)
Developed and producing:						
Grasberg open pit	89.6	86.5	58.6	13.3	20.8	23.7
Deep Ore Zone	86.2	76.5	66.2	2.6	2.3	13.1
Undeveloped:						
Grasberg block cave	87.8	68.5	69.4	15.6	13.5	43.0
Kucing Liar	89.0	49.5	49.7	13.2	9.5	38.4
Deep Mill Level Zone	89.8	80.7	82.2	5.4	5.5	28.6
Ertsberg Stockwork Zone	88.3	78.7	86.1	1.4	3.1	5.5
Mill Level Zone	88.0	79.1	82.4	1.5	1.7	7.0
Big Gossan	94.7	69.4	82.8	2.5	1.2	15.9
Dom open pit	62.3	63.8	46.6	0.6	0.2	3.3
Dom block cave	84.1	63.9	46.9	0.5	0.2	2.3
Total	88.5	71.4	64.5	56.6	58.0	180.8
PT Freeport Indonesia ’s share				40.3	43.9	127.0
FCX ’s equity share				36.5	39.8	115.1

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

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

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

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

PT Freeport Indonesia's ores contain three commercially recoverable metals; copper, gold and silver. We value all three metals in terms of a copper equivalent percentage to determine a single break-even cutoff grade. Copper equivalent percentage is used to express the relative value of multi-metal ores in terms of one metal. The calculation expresses the relative value of the ore using estimates of contained metal quantities, metals prices as used for reserve

determination, recovery rates, treatment charges and royalties. The table below shows the break-even cutoff grade, expressed as a copper equivalent percentage, for each of our existing ore bodies as of December 31, 2005.

Ore Body	Copper Equivalent Cutoff Grade
Grasberg open pit	0.65%
Deep Ore Zone	0.73%
Grasberg block cave	0.70%
Kucing Liar	0.88%
Mill Level Zone	0.80%
Deep Mill Level Zone	0.83%
Ertsberg Stockwork Zone	0.78%
Dom block cave	1.00%
Big Gossan	1.63%
Dom open pit	1.14%
Average	**0.77%**

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

		Spacing (in meters)			Average Distance (in meters)	
Deposit	Mining Unit	Surface Drilling Grids	Underground (& Surface) Drill Fans	Drilling Method	To Nearest Sample	Between Drill Holes (less than)
Grasberg	Open Pit	83	73	Core	39	79
Deep Ore Zone	Block Cave	-	50	Core	27	54
Grasberg	Block Cave	-	94	Core	44	89
Kucing Liar	Block Cave	-	81	Core	39	78
Mill Level Zone	Block Cave	-	50	Core	28	56
Deep Mill Level Zone	Block Cave	-	91	Core	44	88
Ertsberg Stockwork Zone	Block Cave	100	55	Core	29	58
Dom	Block Cave	-	50	Core	43	86
Big Gossan	Open Stope	100	62	Core	20	39
Dom	Open Pit	-	50	Core	35	71

Mining Operations - Mines in Production

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

Grasberg Open Pit. We began open-pit mining of the Grasberg ore body in 1990. Open-pit operations are expected to continue until 2015 at which time the Grasberg underground mining operations are scheduled to begin.

Production is currently at the 3,385- to 4,060-meter elevation level and totaled 60.3 million metric tons of ore in 2005 and 48.9 million metric tons of ore in 2004, which provided 81 percent of our 2005 mill feed and 76 percent of our 2004 mill feed. Our open-pit mining rate, including ore and overburden, totaled 691,600 metric tons per day in 2005 and 592,700 metric tons per day in 2004. Annual production rates are expected to range between 650,000 metric tons per day and 750,000 metric tons per day through 2010 and then decline through 2015. The Grasberg open pit is fully developed and we expect to incur only maintenance capital costs with respect to the Grasberg open pit during its remaining life.

The current Grasberg equipment fleet consists of over 800 pieces of equipment. As of December 31, 2005, the larger mining equipment directly associated with production of the Grasberg open pit includes 164 haul trucks with payloads ranging from approximately 70 metric tons to 330 metric tons, 18 shovels with bucket sizes ranging from 15 cubic meters to 42 cubic meters and 62 bulldozers and graders. We believe our current equipment level is adequate to meet our projected production levels over the remaining life of the pit.

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

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

In the mining industry, the costs of removing overburden and waste material to access mineral deposits are referred to as "stripping costs." Through 2005, we applied the deferred mining cost method in accounting for our post-production stripping costs. The deferred mining cost method has been used by some companies in the metals mining industry; however, industry practice has varied. The deferred mining cost method matches the cost of production with the sale of the related metal from the open pit by assigning each metric ton of ore removed an equivalent amount of overburden tonnage, thereby averaging overburden removal costs over the life of the mine. The mining cost capitalized in inventory and the amounts charged to cost of goods sold do not represent the actual costs incurred to mine the ore in any given period. The application of the deferred mining cost method resulted in an asset on our balance sheets ("Deferred Mining Costs") totaling $285.4 million at December 31, 2005 and $220.4 million at December 31, 2004 (see Note 1).

In March 2005, the Financial Accounting Standards Board (FASB) ratified Emerging Issues Task Force (EITF) Issue No. 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry," (EITF 04-6) (see Note 1) which requires that stripping costs incurred during production be considered costs of the extracted minerals and recognized as a component of inventory to be recognized in cost of sales in the same period as the revenue from the sale of inventory. As a result, capitalization of stripping costs incurred during production is appropriate only to the extent product inventory exists at the end of a reporting period. The guidance in EITF 04-6 is effective for financial statements issued for fiscal years beginning after December 15, 2005. Companies may apply this guidance either by recognition of a cumulative effect adjustment to beginning retained earnings in the period of adoption or by restating prior period financial statements. We adopted the guidance on January 1, 2006, with the most significant impacts of adoption being the deferred mining costs asset on our balance sheet on that date ($285.4 million) was recorded, net of taxes, minority interest share and inventory effects ($135.9 million), as a cumulative effect adjustment to reduce our retained earnings. Stripping costs incurred in 2006 and later periods will now effectively be charged to cost of sales as incurred. Adoption of the new guidance has no impact on our cash flows. The pro forma impact of applying EITF 04-6 would be to reduce net income by $35.3 million or $0.16 per diluted share for the year ended December 31, 2005, $39.4 million or $0.21 per share for the year ended December 31, 2004 and $33.8 million or $0.21 per diluted share for the year ended December 31, 2003. These pro forma amounts are not necessarily indicative of what charges may be for future periods.

Deep Ore Zone. The Deep Ore Zone ore body lies vertically below the now depleted Intermediate Ore Zone ore body. We began production from the Deep Ore Zone ore body in 1989, but we suspended production in 1991 in favor of production from the Grasberg deposit. Production using the block-cave method resumed in September 2000. Production is at the 3,110-meter elevation level and totaled 15.3 million metric tons of ore in 2005 and 15.9 million metric tons of ore in 2004. The Deep Ore Zone has performed above design capacity of 35,000 metric tons of ore per day. We are expanding the Deep Ore Zone operation to a sustained rate of 50,000 metric tons of ore per day with the installation of a second crusher and additional ventilation. Production from the Deep Ore Zone averaged 42,000 metric tons of ore per day in 2005 and 43,600 metric tons of ore per day in 2004.

The Deep Ore Zone mine fleet consists of over 140 pieces of mobile heavy equipment. The primary mining equipment directly associated with production and development includes 41 load-haul-dump (LHD) units and 14 haul trucks. Our LHD units typically carry approximately 11 metric tons of ore. Using orepasses and chutes, the LHD units transfer ore into 55-ton capacity haul trucks. The trucks dump into a gyratory crusher and ore is then conveyed to the surface stockpiles.

During 2005 at the Deep Ore Zone mine, we completed over 10,000 meters of development drifting in support of the block-cave mining method and the ongoing expansion to 50,000 metric tons of ore per day. The expansion to a sustained rate of 50,000 metric tons of ore per day with the installation of a second crusher and additional ventilation is expected to be completed in 2007. The aggregate development costs for the Deep Ore Zone expansion is expected to approximate $62 million (approximately $37 million for PT Freeport Indonesia's share) through the projected 2007 ramp-up. The Deep Ore Zone mine, a block cave operation, is one of the world's largest underground mines.

Our development costs include costs incurred resulting from mine pre-production activities undertaken to gain access to proven and probable reserves including adits, drifts, ramps, permanent excavations, infrastructure and removal of overburden. Depreciation for mining and milling life-of-mine assets is determined using the unit-of-production method based on estimated recoverable proven and probable copper reserves. Development costs that relate to a specific ore body are depreciated using the unit-of-production method based on estimated recoverable proven and probable copper reserves for the ore body benefited. PT Freeport Indonesia's total development costs at December 31, 2005 for the Deep Ore Zone mine, currently our only operating underground mine, totaled approximately $220 million, which are being depreciated on a unit-of-production basis over the life of the Deep Ore Zone proven and probable reserves (see Note 1).

The majority of maintenance activities are performed on site by a combination of PT Freeport Indonesia employees and contract workers. As of December 31, 2005, we had approximately 7,500 employees and contract workers directly involved in Grasberg open-pit and Deep Ore Zone underground mining, milling and ore flow operations.

The Intermediate Ore Zone was an underground block-cave operation that began production in 1994. The Intermediate Ore Zone was depleted in 2003. Production totaled 2.5 million metric tons of ore in 2003. During its 10-year life, the Intermediate Ore Zone operation produced almost 30 percent more copper and gold than the initial reserve estimates.

Our principal source of power for all our operations is a coal-fired power plant that we built in conjunction with our fourth concentrator expansion (see "Infrastructure"). Diesel generators supply peaking and backup electrical power generating capacity. A combination of naturally occurring mountain streams and water derived from our underground operations provides water for our operations. The average annual rainfall in the project area is 180 inches.

Mining Operations - Mines in Development

Seven other ore bodies (the underground Grasberg, Kucing Liar, Mill Level Zone, Deep Mill Level Zone, Ertsberg Stockwork Zone, Big Gossan and the Dom) are located in Block A. These ore bodies are at various stages of development, and are included in our proven and probable recoverable reserves. We continually review our operations development opportunities to maximize the value of the reserves. We incurred $12.6 million for mine development, expansion and infrastructure capital expenditures related to these ore bodies and $45.2 million for common underground infrastructure development during the three years ended December 31, 2005. 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 2015. The Kucing Liar ore body lies on the southern flank of and underneath the southern portion of the Grasberg open pit at the 2,605- to 3,115-meter elevation level. We expect to mine the Kucing Liar ore body using the block-cave method.

The Mill Level Zone ore body lies directly below the Deep Ore Zone mine at the 2,890-meter elevation. The Deep Mill Level Zone ore body lies beneath the Mill Level Zone ore body at the 2,590-meter elevation. This ore represents the downward continuation of mineralization in the Ertsberg East Skarn system and neighboring Ertsberg porphyry. Drilling efforts continue to determine the extent of these ore bodies. We expect to mine the Mill Level Zone ore body using a block-cave method near completion of mining at the Deep Ore Zone ore body. Near the end of mining the Mill Level Zone ore body, we expect to mine the Deep Mill Level Zone ore body also using a block-cave method.

The Ertsberg Stockwork Zone ore body extends off the southwest side of the Deep Ore Zone ore body at the 3,126- to 3,626-meter elevation level. Drilling efforts continue to determine the extent of this ore body, which we expect to mine using a block-cave method starting in about 2009.

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

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

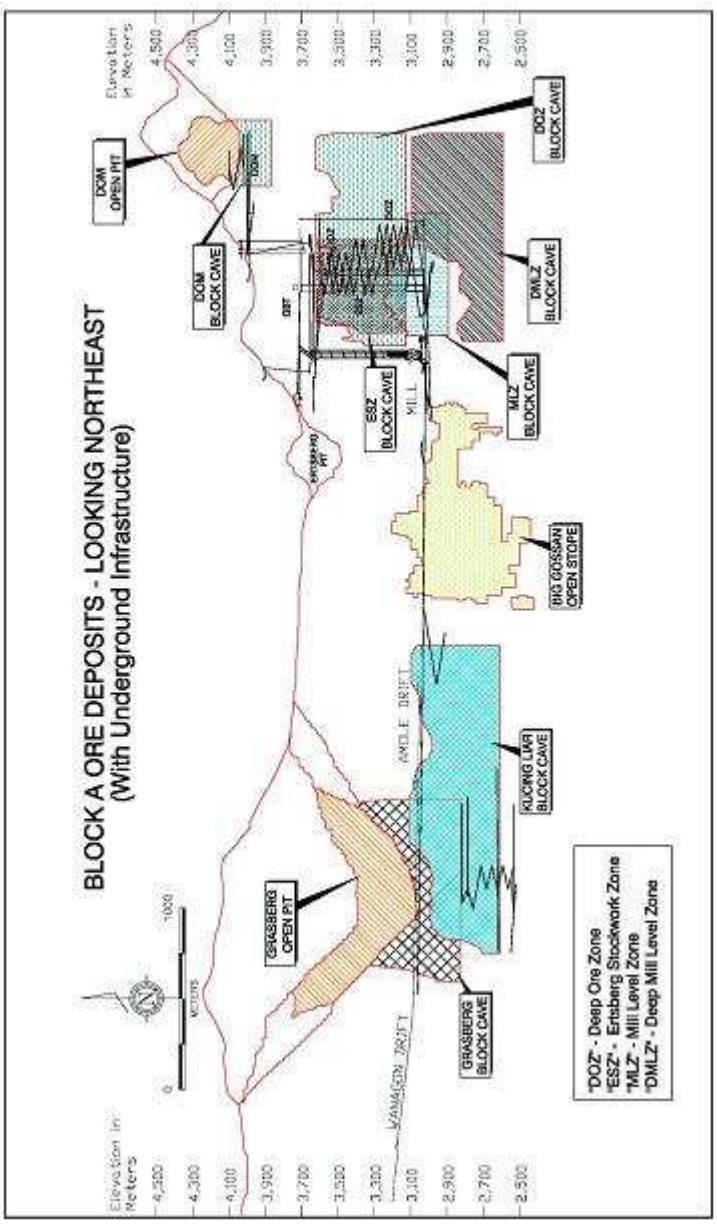
The projected aggregate capital expenditures required to reach full production capacity for each of our undeveloped ore bodies based on our latest mine plans and our proven and probable recoverable reserves as of December 31, 2005, are shown below in millions of U.S. dollars. Actual costs could differ materially from these estimates as we will not incur most of the expenditures for several years and we will incur them over a period of several years. In addition to the mine development costs below, our current mine development plans include approximately $1 billion of capital expenditures at our processing facilities to optimize the handling of underground ore types once Grasberg open-pit operations cease. We continue to review our processing plans to maximize the value of our reserves. Based on our current estimates, we expect aggregate expenditures will range between $40 million and $330 million annually, during the next 15 years. In addition, these costs will be shared with Rio Tinto in accordance with our joint venture agreement.

Grasberg block cave	$	1,120
Kucing Liar block cave		690
Mill Level Zone block cave		310
Deep Mill Level Zone block cave		280
Big Gossan open stope		225
Ertsberg Stockwork Zone block cave		170
Dom block cave		130
Dom open pit		70
Total	$	2,995

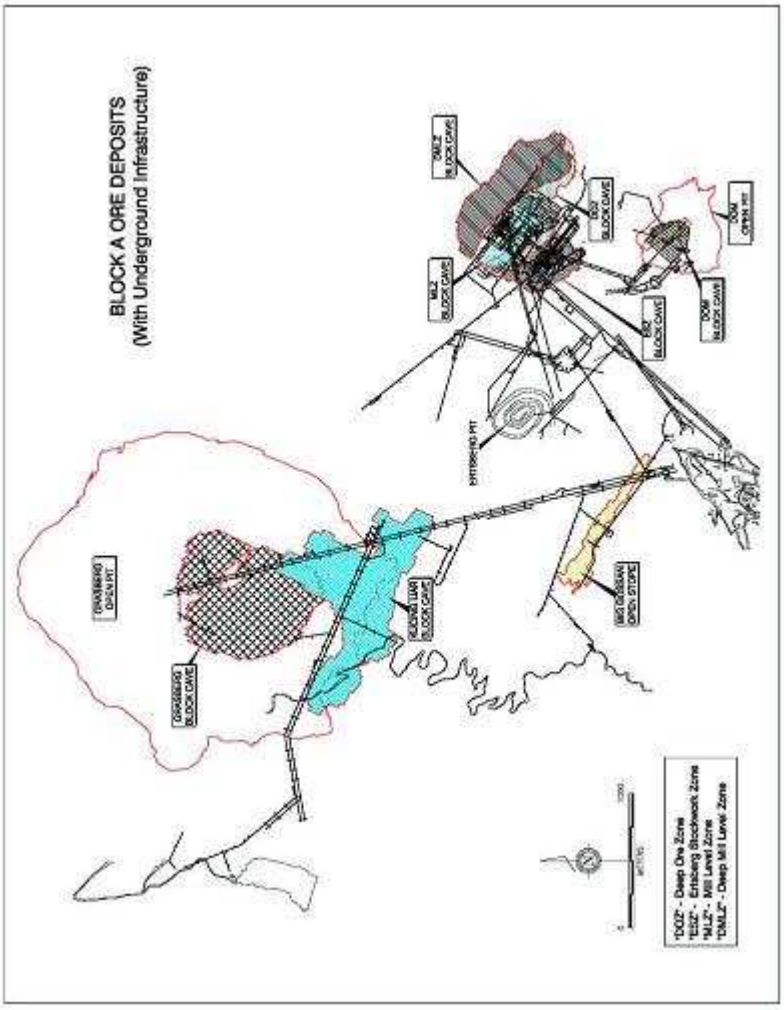
Description of Ore Bodies. Our ore bodies are located within and around two main igneous intrusions, the Grasberg monzodiorite and the Ertsberg diorite. The host rocks of these ore bodies include both carbonate and clastic rocks that form the ridge crests and upper flanks of the Sudirman Range, and the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

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

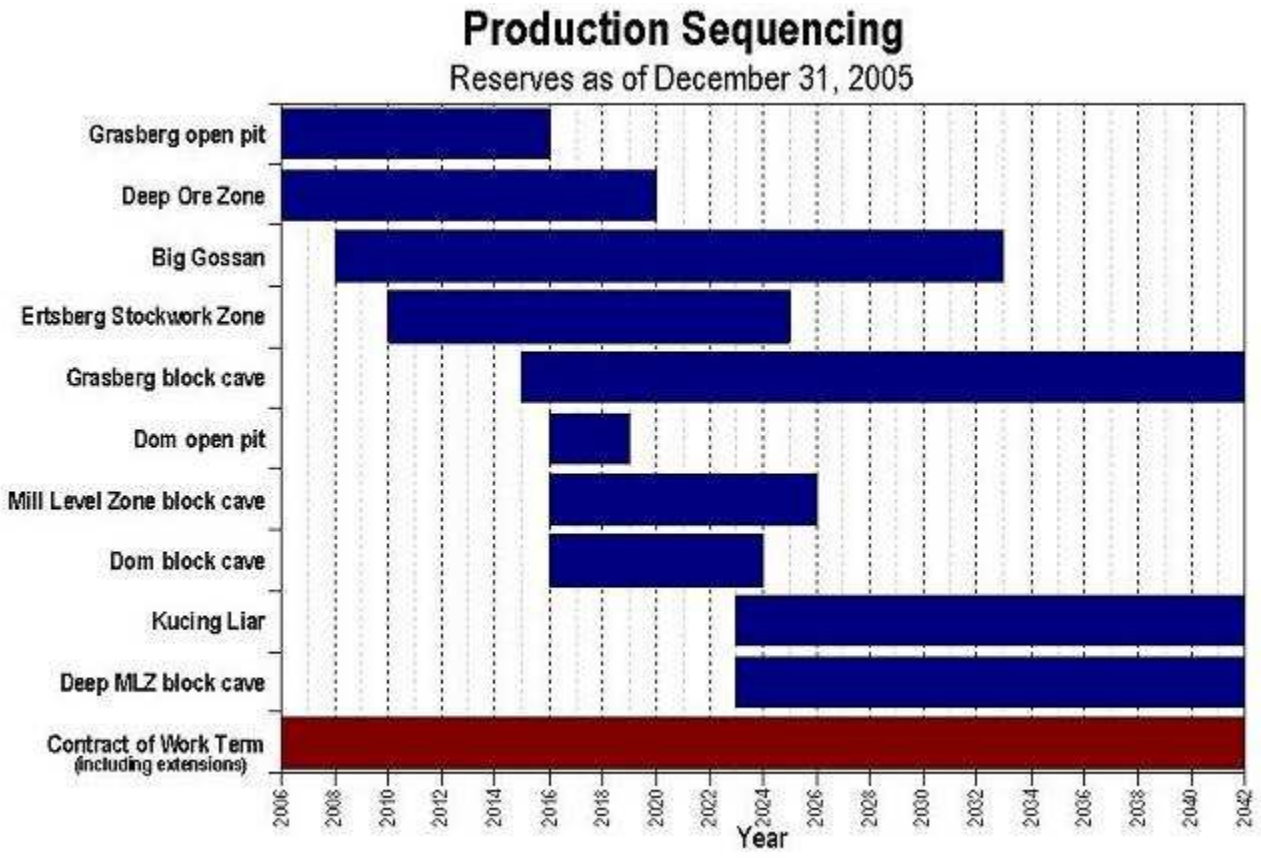
The following diagram indicates the relative elevations (in meters) of our reported reserve ore bodies.



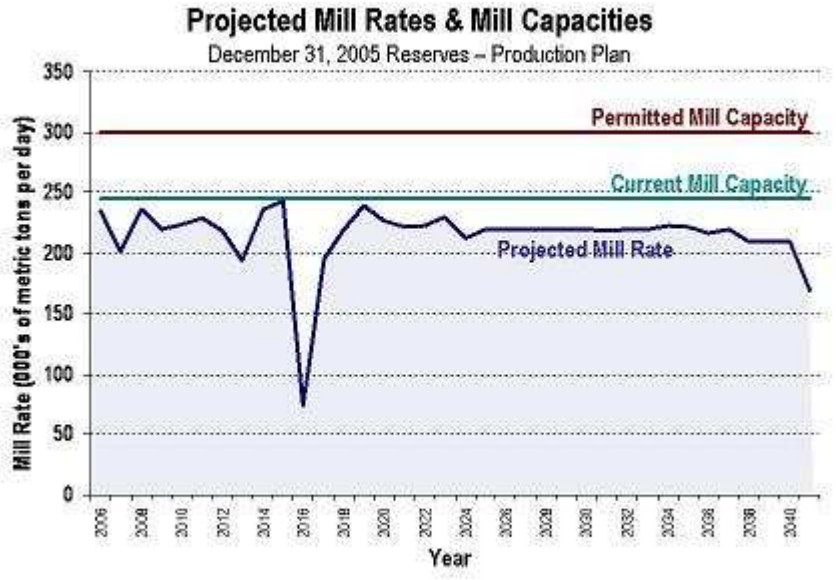
The following map, which encompasses an area of approximately 42 square kilometers (approximately 16 square miles), indicates the relative positions and sizes of our reported reserve ore bodies and their locations.



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



During 2005, we mined an average of 733,600 metric tons of material per day, including ore and overburden. We do not require any additional approvals for higher mining rates. During 2004, we mined an average of 636,200 metric tons of material per day. The following chart illustrates our current aggregate mill capacity; our aggregate permitted mill capacity and our projected milling rates. Mill capacity will vary with the ore type being processed. The decline in milling rates in 2016 reflects the expected completion date of open-pit mining at the Grasberg ore body. We are continuing to develop mine plans to optimize production levels.



Milling and Production

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

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

	Years Ended December 31,			Percentage Change	
	2005	2004	2003	2004 to 2005	2003 to 2004
Mill throughput (metric tons of ore per day)	216,200	185,100	203,000	17%	(9)%
Copper production, net to PT Freeport Indonesia (000 pounds)	1,455,900	996,500	1,291,600	46%	(23)%
Gold production, net to PT Freeport Indonesia (ounces)	2,789,400	1,456,200	2,463,300	92%	(41)%
Average unit net cash costs (credits) per pound of copper [a]	$0.07	$0.40	$(0.02)	(83)%	N.M.

N.M. Not Meaningful

a. Includes site production and delivery costs, smelting and refining costs, and royalties, less credits for gold and silver sales. See our 2005 Annual Report incorporated herein by reference for a reconciliation of average unit net cash costs per pound to production and delivery costs applicable to sales reported in our consolidated financial statements.

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

In October 2003, a slippage of material occurred in a section of the Grasberg open pit and in December 2003, a smaller debris flow occurred in the same section. The area affected by the slippage events included two active mining areas which were scheduled to be mined in the fourth quarter of 2003 (see “Grasberg Open-Pit Slippage”). Mill throughput and production in 2003 and 2004 were negatively affected by PT Freeport Indonesia ’s efforts to accelerate removal of overburden material and restore safe access to higher-grade areas in the pit. Mill throughput averaged 185,100 metric tons of ore per day in 2004, a nine percent decrease from the 203,000 metric tons average in 2003. Copper and gold production was lower in 2004 compared with 2003 reflecting the lower mill throughput and lower average ore grades. Copper production for 2004 totaled 1.0 billion pounds, 295 million pounds lower than 2003 production. Gold production for 2004 totaled 1.46 million ounces, 1.0 million ounces lower than 2003 production. The lower sales volumes and the primarily fixed nature of a large portion of PT Freeport Indonesia ’s cost structure resulted in average unit net cash costs for 2004 increasing to $0.40 per pound compared with a net credit of $(0.02) per pound for 2003. Average unit net cash costs per pound of copper totaled a net credit of $(0.02) per pound for 2003, which was an annual record low.

Because of the fixed nature of a large portion of our costs, unit costs vary significantly from period to period depending on volumes of copper and gold sold during the period. In addition, we have experienced significant increases in our production costs in recent years primarily as a result of higher energy costs and costs of other consumables, higher mining costs and milling rates, labor costs and other factors. Once we complete our open-pit mining operations at the Grasberg mine in approximately 2015 and transition to underground, we expect our share of annual copper and gold production to be lower than current levels, and all other factors being equal, our average unit net cash costs to increase. For more information regarding our operating and financial results, see our 2005 Annual Report incorporated herein by reference.

We estimate our share of sales for 2006 to approximate 1.3 billion pounds of copper and 1.7 million ounces of gold. Average annual sales volumes over the five-year period from 2006 through 2010 are expected to approximate 1.3 billion pounds of copper and 1.9 million ounces of gold. As a result of lower than targeted mining rates, ore from a high-grade section in the primary ore area (“6 North”) of the Grasberg open pit, previously expected to be mined in late 2006 has been deferred to early 2007. Accordingly, our current mine plans alter the timing of subsequent years’ ore production compared with previous plans. These revised production estimates do not have a significant economic effect since the deferrals occur within months of overlapping annual periods. Efforts are under way to improve productivity of mining activities which would increase mining rates and advance the timing of metal production. See “Risk Factors.”

Geotechnical Programs

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

A group of our senior level employees has the responsibility, authority and oversight for our overall geotechnical programs. Our multi-disciplinary approach combines in-house personnel with backgrounds in civil, geotechnical, mining engineering, geology and hydrology to form a technical services group that reports to our senior managers. Our technical services group develops information that our mine engineering group uses to develop mine and stockpile designs, production schedules and related plans. Our technical services group also monitors slope stability and other geotechnical and hydrological developments.

Our technical services group is composed of expatriates and Indonesian nationals, who are university educated. International consulting experts in each of the applicable technical fields support this group. In-house training provided by consultants as well as off-site seminars and industry conferences supports the training of our staff. Our

joint venture partner has also provided geotechnical and engineering support to our operations. Consultants and our joint venture partner provide input into program development and assess performance of these critical roles.

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

Grasberg Open-Pit Slippage

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

As a result of the fourth-quarter 2003 slippage and debris flow events, PT Freeport Indonesia notified its copper concentrate customers that it was declaring force majeure under the terms of its contracts as it would be unable to satisfy its annual sales and delivery commitments. In December 2004, PT Freeport Indonesia terminated the force majeure that had been in effect since December 2003 under its concentrate sales contracts.

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

Exploration

As a result of our joint venture arrangements, Rio Tinto generally pays for 40 percent of our joint venture exploration and exploratory drilling costs in Papua. The joint ventures incurred total exploration costs of $13.3 million in 2005 and $13.6 million in 2004. The joint ventures’ exploration budget for 2006, including Rio Tinto’s share, is expected to total approximately $15 million ($10 million for our share) with most of the effort focused on potential extensions of the Grasberg underground and Kucing Liar mine complex, and testing downward extensions of the previously mined Ertsberg deposit. We continue to assess the timing of resumption of suspended exploration activities in areas outside the existing producing area of the Grasberg minerals district.

In June 1998, we entered into a joint venture agreement to conduct exploration activities in PT Nabire Bakti Mining ’s Contract of Work area, which currently covers approximately 500,000 acres in several blocks contiguous to PT Freeport Indonesia ’s Block B and one of Eastern Minerals’ blocks in Papua. Rio Tinto shares in 40 percent of our interest and costs in this exploration joint venture. We and Rio Tinto can earn up to a 62 percent interest in the PT Nabire Bakti Mining Contract of Work by spending up to $21 million on exploration and other activities in the joint venture areas. We have spent $17.3 million through December 31, 2005.

With the subsequent approval of the Indonesian government, in 2000 we suspended our field exploration activities in Block B, which includes the Wabu Ridge gold prospect, as well as in the other Contract of Work areas of Eastern Minerals and PT Nabire Bakti Mining. The suspensions are due to 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. All of the

suspended areas are outside of our current mining operations area. We continue to assess the possible timing for resumption of our exploration activities.

Infrastructure

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

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

In July 2003, we acquired the 85.7 percent ownership interest in Puncakjaya Power owned by affiliates of Duke Energy Corporation for $68.1 million cash, net of $9.9 million of cash acquired. Puncakjaya Power is the owner of assets supplying power to PT Freeport Indonesia's operations, including the 3x65 megawatt coal-fired power facilities. PT Freeport Indonesia purchases power from Puncakjaya Power under infrastructure asset financing arrangements. In March 2005, we prepaid $187.0 million of bank debt associated with Puncakjaya Power's operations; and as a result of this prepayment of debt, at December 31, 2005, we had a $135.4 million intercompany loan outstanding to Puncakjaya Power. At December 31, 2005, PT Freeport Indonesia had infrastructure asset financing obligations to Puncakjaya Power totaling $218.1 million and Puncakjaya Power had a receivable from PT Freeport Indonesia for $280.0 million, including Rio Tinto's share. We consolidate PT Freeport Indonesia and Puncakjaya Power and our consolidated balance sheet only reflects a $61.9 million receivable ($8.8 million in other accounts receivable and $53.1 million in long-term assets) for Rio Tinto's share of Puncakjaya Power's receivable as provided for in our joint venture agreement with Rio Tinto.

Marketing

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

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

We have commitments, including commitments from Atlantic Copper and PT Smelting, for essentially all of PT Freeport Indonesia's estimated 2006 production. PT Freeport Indonesia has a long-term contract through 2007 to provide Atlantic Copper with a quantity of copper concentrates at market prices which currently approximates 60 percent of Atlantic Copper 's annual copper concentrate requirements. PT Freeport Indonesia 's agreement with PT Smelting provides, for the life of PT Freeport Indonesia 's mines, for the supply of 100 percent of the copper concentrate requirements necessary to produce 205,000 metric tons of copper (essentially the Gresik smelter 's original design capacity) on a priority basis. In 2004, PT Smelting increased its stated production capacity to 250,000 metric tons of copper per year. PT Smelting plans to expand its production capacity to approximately 270,000 metric tons of copper metal per year by the middle of 2006. 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. 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:

	2005	2004	2003
PT Smelting	29%	40%	30%
Atlantic Copper	25%	19%	25%
Other parties	46%	41%	45%
	100%	100%	100%

Investment in Smelters

Our investment in smelters (Atlantic Copper and PT Smelting) serves an important role in our concentrate marketing strategy. As discussed above, PT Freeport Indonesia generally sells approximately one-half of its concentrate production to its affiliated smelters, Atlantic Copper and PT Smelting, and the remainder to other customers. Treatment charges for smelting and refining copper concentrates represent a cost to PT Freeport Indonesia and income to Atlantic Copper and PT Smelting. Through downstream integration, we are assured placement of a significant portion of our concentrate production. While low smelting and refining charges in recent years adversely affected the operating results of Atlantic Copper, they benefited the operating results of PT Freeport Indonesia 's mining operations, effectively achieving a hedge for these charges. Market rates for treatment and refining charges have increased significantly since late 2004. Higher treatment and refining charges benefit the operating results of Atlantic Copper and adversely affect the operating results of PT Freeport Indonesia. However, the net effect of changes in treatment and refining rates on our consolidated results is not material.

Atlantic Copper, S.A. We own 100 percent of Atlantic Copper. Atlantic Copper completed the last expansion of its production capacity in 1997 and its smelter currently has a nominal capacity of 290,000 metric tons of copper per year and its refinery currently has a design capacity of 260,000 metric tons of copper per year. We have no present plans to expand Atlantic Copper 's production capacity. During 2005, Atlantic Copper treated 975,400 metric tons of concentrate and scrap and produced 284,200 metric tons of new copper anodes. During 2004, Atlantic Copper treated 768,100 metric tons of concentrate and scrap and produced 224,300 metric tons of new copper anodes. Atlantic Copper's positive results in 2005 compared with 2004 primarily reflect higher treatment charge rates and realized benefits from a recent cost reduction and operational enhancement effort, partially offset by higher energy costs. Atlantic Copper completed a 51-day scheduled major maintenance turnaround in May 2004, adversely affecting 2004 results. Major maintenance turnarounds of this duration typically occur approximately every nine years for Atlantic Copper, with significantly shorter-term maintenance turnarounds occurring in the interim. Atlantic Copper has a 22-day maintenance turnaround currently scheduled for 2007. Atlantic Copper purchased approximately 55 percent of its 2005 concentrate requirements from PT Freeport Indonesia at market prices. Atlantic Copper has experienced no material operating problems, and we are not aware of any potential material environmental liabilities at Atlantic Copper.

We made no capital contributions to Atlantic Copper in 2005; however, we contributed $202.0 million to Atlantic Copper in 2004 and $10.0 million in 2003. In addition, we loaned $189.5 million to Atlantic Copper in 2004. The funds were used to improve Atlantic Copper 's financial structure during its major maintenance turnaround and during a period of extremely low treatment and refining charge rates, which negatively affected Atlantic Copper 's results. Our net investment in Atlantic Copper through December 31, 2005, was $115.0 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. No amounts were paid under this assignment. PT Freeport Indonesia ’s total investment in PT Smelting through December 31, 2005, was $98.7 million.

During 2005, PT Smelting treated 908,900 metric tons of concentrate and produced 275,000 metric tons of new copper anodes. During 2004, PT Smelting treated 758,100 metric tons of concentrate and produced 211,600 metric tons of new copper anodes. PT Smelting completed a 31-day major maintenance turnaround in the second quarter of 2004. Major maintenance turnarounds of this duration typically occur approximately every four years for PT Smelting, with significantly shorter term maintenance turnarounds in the interim. PT Smelting has an 18-day maintenance turnaround scheduled for mid-2006 and its next major maintenance turnaround is scheduled for 2008. PT Smelting also completed a refinery expansion during the maintenance turnaround, increasing its production capacity to approximately 250,000 metric tons of copper metal per year. PT Smelting plans to further expand its production capacity to approximately 270,000 metric tons of copper metal per year by the middle of 2006. PT Smelting has experienced no material operating problems and we are not aware of any potential material environmental liabilities at PT Smelting.

Competition

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

Social Development, Employment and Human Rights

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

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

In 1996, PT Freeport Indonesia agreed to commit at least one percent of its revenues to the Freeport Partnership Fund for Community Development (formerly the Freeport Fund for Irian Jaya Development) to support village-based health, education, economic and social development programs in its area of operations. This commitment replaced our community development programs in which we spent a similar amount of money each year. Our share of contributions to the Freeport Partnership Fund for Community Development totaled $35.7 million in 2005, $17.5 million in 2004 and $17.4 million in 2003. Our joint venture partner, Rio Tinto, also contributes to this fund and including their share the contributions totaled $42.3 million in 2005, $19.0 million in 2004 and $21.5 million in 2003.

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.

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

In December 2000, we endorsed the joint U.S. State Department-British Foreign Office Voluntary Principles on Human Rights and Security. Several major natural resources companies and international human rights

organizations participated in developing the Voluntary Principles and have endorsed them. We participated in developing these principles and incorporated them into our social and human rights policy.

Security Matters

Consistent with our Contract of Work and the requirement to protect our employees and property, we have taken appropriate steps to provide a safe and secure working environment. As part of its security program, PT Freeport Indonesia maintains its own internal security department, which performs functions such as protecting company facilities, monitoring the shipment of company goods through the airport and terminal, assisting in traffic control and aiding rescue operations. PT Freeport Indonesia ’s civilian security employees (numbering about 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 $11.3 million for 2005, $12.3 million for 2004 and $11.2 million for 2003. The security department has received human rights training and each member is required to certify his or her compliance with our human rights policy.

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

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

PT Freeport Indonesia ’s share of support costs for the government-provided security, involving over 2,400 Indonesian government security personnel currently located in the general area of our operations, was $6.2 million for 2005, $6.9 million for 2004 and $5.9 million for 2003. This supplemental support consists of various infrastructure and other costs, such as food, housing, fuel, travel, vehicle repairs, allowances to cover incidental and administrative costs, and community assistance programs conducted by the military/police. PT Freeport Indonesia ’s capital costs for associated infrastructure was $0.1 million for 2005, $0.2 million for 2004 and $0.6 million for 2003.

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

Environmental Matters

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

Mining operations on the scale of our operations in Papua involve significant environmental challenges, primarily related to the disposition of tailings, which are the crushed and ground rock material resulting from the physical separation of commercially valuable minerals from the ore. We have comprehensive, ongoing environmental

management and monitoring plans for the disposal of tailings resulting from our milling operations, which the Government of Indonesia has approved. Pursuant to these plans, we manage and monitor the impact of our tailings disposal on the surrounding area of the Ajkwa River and adjoining water bodies and the surrounding coastal areas. In 1997, we completed an engineered levee system to minimize the impact of the tailings through a controlled deposition area located on a portion of the flood plain on the Ajkwa River.

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

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

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

We have also committed to the Indonesian government to have independent external environmental audits of our Papuan operations performed by qualified experts every three years, with results available for public review. We have had four independent environmental audits conducted by internationally recognized consulting and auditing firms. Montgomery Watson Harza has completed the fieldwork for the 2005 external environmental audit and we expect the audit report to be completed by early in the second quarter of 2006. We conduct annual internal audits to ensure that our environmental management and monitoring programs remain sound and our operations will continue to comply in all material respects with applicable regulations.

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

We have environmental approvals from the Government of Indonesia to expand our milling rate up to a maximum of 300,000 metric tons of ore per day. In 2005, we averaged 216,200 metric tons of ore per day and in 2004 we averaged 185,100 metric tons of ore per day.

The cost of complying with environmental laws is a fundamental cost of our business. We incurred aggregate environmental capital expenditures and other environmental costs totaling $44.0 million in 2005, $65.1 million in 2004 and $72.1 million in 2003, including tailings management levee maintenance and mine reclamation. In 2006, we expect to incur approximately $28 million of aggregate environmental capital expenditures and $37 million of other environmental costs.

We are currently revegetating portions of the tailings deposition area. Upon the completion of our mining operations, we will fulfill the commitments included in our approved environmental management plans. Our plans for revegetation of affected areas of the deposition area include natural revegetation, forage crops and grasses, fruits, grains and vegetables, and other traditional food and medicinal crops. Decisions on these plans are made in consultation with local and regional government, local residents and other stakeholders. In addition to the revegetation and reclamation of the deposition area, we will continue to operate treatment systems as long as necessary. We also monitor and test the water discharged from our mine and the pH, sulfate and electrical conductivity levels of ground water in the deposition area. The stability of our levees will be ensured through

comprehensive visual inspection, maintenance and improvement programs directed by an experienced engineering group dedicated to levee management and revegetation of the levee embankments. Moreover, we will submit an annual written report to the Indonesian government regarding our reclamation activities.

Our ultimate reclamation and closure activities will be determined after consultation with the Indonesian government, local residents and other parties. Our estimate as of December 31, 2005 of PT Freeport Indonesia 's total aggregate reclamation and closure obligations total approximately $156 million. Estimates of reclamation and closure costs involve complex issues requiring integrated assessments over a period of many years, and we may revise them as we perform more complete studies. Some reclamation costs will be incurred during mining activities, while most closure costs and the remaining reclamation costs will be incurred at the end of mining activities, which are currently estimated to continue for more than 35 years.

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

In 1996, we began contributing to a cash fund ($7.2 million balance at December 31, 2005) designed to accumulate at least $100 million by the end of our Indonesian mining activities. We plan to use this fund, including accrued interest, to pay for mine closure and reclamation costs. Any incremental costs in excess of this $100 million fund are expected to be incurred throughout the life of the mine and would be funded by operational cash flow or other sources. Future environmental considerations and future changes in regulations could require us to incur additional costs that would be charged against future operations. Estimates involving environmental matters are by their nature imprecise and changes in government regulations, operations, technology and inflation can be expected to require us to revise them over time.

We believe that Atlantic Copper 's facilities and operations are in compliance in all material respects with all currently applicable Spanish environmental laws, rules and regulations. In July 2002, the Integrated Pollution Prevention and Control guidelines were adopted under Spanish law with a phase in for compliance by 2009. Atlantic Copper, working with local environmental authorities, is continually assessing the impact of these new guidelines on its operations, and has budgeted approximately $20 million as its estimate of the remaining required capital expenditures from 2006 through 2009 to comply. In April 2005, the Environmental Management Systems at Atlantic Copper's operations in Huelva were audited by the Spanish Association for Standardization and Certification (AENOR), in accordance with the ISO 14001:96 international certification standards and the European Union Environmental, Eco-Management and Eco-Auditing (EMAS) Regulation No. 761/2001. AENOR is a Spanish not-for-profit entity that has been accredited by the Spanish government to inspect, audit and certify environmental management systems. Atlantic Copper received positive results from the audits, which are required annually to retain the ISO 14001 certification that Atlantic Copper achieved in prior years.

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

Employees and Relationship with FM Services Company

As of December 31, 2005, PT Freeport Indonesia had 8,044 employees (approximately 98 percent Indonesian) and 6,225 contract workers, the vast majority of whom were Indonesian. Approximately 75 percent of PT Freeport Indonesia 's employees are represented by the All Indonesia Workers' Union, which operates under Government of Indonesia supervision. PT Freeport Indonesia has a labor agreement covering its hourly paid Indonesian employees, the key provisions of which are renegotiated biannually. In June 2005, PT Freeport Indonesia and its workers agreed to terms for a new labor agreement that expires in September 2007. PT Freeport Indonesia's relations with the workers' union have generally been satisfactory. In addition, 4,475 persons worked for privatized companies providing services within PT Freeport Indonesia 's operations area.

As of December 31, 2005, Atlantic Copper had 544 employees, of which approximately 72 percent are represented by union contracts. Atlantic Copper's labor contract covering its smelter/refinery workforce in Huelva, Spain expired on December 31, 2005 and was renewed for a three-year period with no material changes in terms. Atlantic Copper experienced a four-day labor strike in October 2004 at its smelter facility in Huelva because of a workforce reduction plan. The union's issues with the workforce reduction plan were resolved and the plan was approved by Spanish authorities and implemented in December 2004.

FM Services Company (FM Services) furnishes executive, administrative, financial, accounting, legal, tax and similar services to us. FM Services became our wholly owned subsidiary in October 2002, when we purchased the remaining 50 percent ownership in FM Services from McMoRan Exploration Co. (McMoRan) for $1.3 million. As of December 31, 2005, FCX had 10 employees and FM Services had 140 employees. FM Services employees continue to also provide services to McMoRan, a publicly traded company engaged in the exploration, development and production of oil and gas, and Stratus Properties Inc., a publicly traded company engaged in the development of real estate.

Item 1A. Risk Factors

This report contains "forward-looking statements" within the meaning of the federal securities laws. Forward-looking statements are all statements other than statements of historical facts, such as statements regarding anticipated production volumes, unit net cash costs, sales volumes, ore grades, commodity prices, development and capital expenditures, mine production and development plans, environmental reclamation and closure cost and plans, reserve estimates, political, economic and social conditions in our areas of operations, 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:

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

Indonesia has faced political, economic and social uncertainties, including separatist movements and civil and religious strife in a number of provinces. In particular, several separatist groups are opposing Indonesian rule over the province of Papua, where our mining operations are located, and have sought political independence for the province. In response to demands for political independence, new Indonesian regional autonomy laws became effective January 1, 2001. However, the manner in which the new laws are being implemented and the degree of political and economic autonomy that they may bring to individual provinces, including Papua, is uncertain and is an ongoing issue in Indonesian politics. Moreover, in Papua there have been sporadic attacks on civilians by separatists and sporadic but highly publicized conflicts between separatists and the Indonesian military. Social, economic and political instability in Papua could materially and adversely affect us if this instability results in damage to our property or interruption of our activities.

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

In February 2006, a group of illegal gold panners engaged in conflict with Indonesian police and PT Freeport Indonesia security personnel when they were requested to leave an area near our milling facilities. Following the incident, the illegal panners blocked the road leading to the Grasberg mine and mill in protest and we temporarily suspended mining and milling operations as a precautionary measure. The panners also vandalized some of our light vehicles and offices near this area, causing approximately $4 million in damages. Our port facilities continued to operate during the disruption and concentrate shipments were not affected. The panners, mostly Papuans from outside our area of operations, presented a list of aspirations, primarily relating to their desire to share in the benefits

of our existing initiatives and programs provided for the Papuans who are the traditional residents of our operations area. Mining and milling operations resumed after an approximate four-day outage. During the incident at our mine and mill, protestors in Jakarta vandalized the entrance floor of the office building housing our Indonesian headquarters and staged a three-day rally outside the building. The Indonesian police handled this matter, which did not disrupt our administrative functions or damage any of our facilities.

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

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

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

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

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

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

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

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

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

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

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

Our revenues are derived primarily from the sale of copper concentrates, which also contain significant quantities of gold and silver, and from the sale of copper cathodes and anodes. Although we sell most of our copper concentrates under long-term contracts, the selling price is based on world metal prices at or near the time of shipment and delivery.

During 2005, the daily closing prices on the London spot market ranged from $1.39 to $2.11 per pound for copper and $411 to $538 per ounce for gold. During 2004, the daily closing prices on the London spot market ranged from $1.06 to $1.49 per pound for copper and $374 to $456 per ounce for gold.

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

- the strength of the U.S. economy and the economies of other industrialized and developing nations, including China;
- available supplies of copper from mine production and inventories;
- sales by holders and producers of copper;
- demand for industrial products containing copper; and
- investment activity, including speculation, in copper as a commodity.

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

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

Any material decrease in market prices of copper or gold would materially and adversely affect our results of operations and financial condition. See our 2005 Annual Report incorporated herein by reference for an analysis of the effect on our revenues and net income of changes in copper and gold prices.

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

PT Freeport Indonesia ’s Contracts of Work and other Contracts of Work in which we have an interest were entered into under Indonesia ’s 1967 Foreign Capital Investment Law, which provides guarantees of remittance rights and protection against nationalization. Our Contracts of Work can be terminated by the Government of Indonesia if we do not satisfy our contractual obligations, which include the payment of royalties and taxes to the government and the satisfaction of certain mining, environmental, safety and health requirements. Indonesian government officials have periodically raised questions regarding our compliance with Indonesian environmental laws and regulations and the terms of the Contracts of Work. In order to address these questions, the Indonesian government formed a fact-finding team in 2000 that reviewed our compliance with all aspects of PT Freeport Indonesia ’s Contract of Work. We cannot assure you that, if and when the Indonesian government ’s report is released, the report will conclude that we are complying with all of the provisions of PT Freeport Indonesia ’s Contract of Work.

Moreover, 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), 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 Contracts of Work and our other Contracts of Work require that disputes with the Indonesian government be submitted to international arbitration. Notwithstanding that provision, if a dispute arises under the Contracts of Work, we face the risk of having to submit to the jurisdiction of a foreign court or arbitration panel, and if we prevail in such a dispute, we will face the additional risk of having to enforce the judgment of a foreign court or arbitration panel against Indonesia within its own territory.

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 due to 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. We continue to assess these requirements and security issues. The timing for the resumption of exploration activities in our Contract of Work areas outside of Block A depends on the resolution of these matters.

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

Mining operations on the scale of our operations in Papua involve significant environmental risks and challenges. Our primary challenge is to dispose of the large amount of crushed and ground rock material, called tailings, that results from the process by which we physically separate the copper-, gold- and silver-bearing materials from the ore that we mine. Our tailings management plan uses the river system near our mine to transport the tailings to the lowlands where the tailings and natural sediments are deposited in a controlled area contained within a levee system

that will be revegetated. We incurred aggregate costs relating to tailings management of $8.7 million in 2005, $11.8 million in 2004 and $8.3 million in 2003.

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

Certain Indonesian governmental officials have from time to time raised issues with respect to our tailings and overburden management plans, including a suggestion that we implement a pipeline system rather than our river deposition system for tailings disposal. Because our mining operations are remotely located in steep mountainous terrain and in an active seismic area, a pipeline system would be costly, difficult to construct and maintain, more prone to catastrophic failure and involve environmental issues. An external panel of qualified experts, as directed in our 300K ANDAL (the Environmental Impact Assessment document submitted to the Indonesian government), conducted detailed reviews and analyses of a number of technical studies. They concluded that all significant impacts identified were in line with the 300K ANDAL predictions, and that the current system of riverine tailings management was appropriate considering all site-specific factors. For these reasons, we do not believe that a pipeline system is necessary or practical.

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

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

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

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

All of our current proven and probable reserves, including the Grasberg deposit, are located in Block A. The initial term of our Contract of Work covering these reserves expires at the end of 2021. We can extend this term for two successive 10-year periods, subject to the approval of the Indonesian government, which under our Contract of Work cannot be withheld or delayed unreasonably. Our reserves reflect estimates of minerals that can be recovered through the end of 2041 (*i.e* ., through the expiration of the two 10-year extensions) and our current mine plan has been developed, and our operations are based on the assumption that we will receive the two 10-year extensions. As a result, we will not mine all of our reserves during the current term of our Contract of Work, and there can be no assurance that the Indonesian government will approve the extensions. Prior to the end of 2021, we expect to mine approximately 44 percent of aggregate proven and probable recoverable ore at December 31, 2005, representing approximately 52 percent of PT Freeport Indonesia ’s share of recoverable copper reserves and approximately 65 percent of its share of recoverable gold reserves.

Servicing our debt will require a significant amount of cash, and our ability to generate sufficient cash depends on many factors, some of which are beyond our control.

Our ability to make payments on and to refinance our maturing debt depends on our ability to generate sufficient cash flow. This ability, to a significant extent, is subject to commodity prices and general economic, financial, regulatory, political and other factors that are beyond our control. In addition, our ability to borrow funds in the future to service our debt will depend on meeting the financial covenants in our 10⅛% senior notes due 2010, our 6⅞% senior notes due 2014, our bank credit facilities and other debt agreements we may have in the future. Future borrowings may not be available to us under our bank credit facilities or from the capital markets in amounts sufficient to enable us to pay our obligations as they mature or to fund other liquidity needs. As a result, we may

need to refinance all or a portion of our debt on or before maturity. Any inability to generate sufficient cash flow or refinance our debt on favorable terms could materially and adversely affect our financial condition.

Covenants in our bank credit facilities impose restrictions on us.

Although we currently have no amounts outstanding under our bank credit facilities, our bank credit facilities:

- restrict the repurchase of, and payment of dividends on, our common stock under certain circumstances;
- limit, among other things, our ability to:
    - incur additional indebtedness;
    - make investments;
    - engage in transactions with affiliates;
    - create liens on our assets; and
- require us to maintain specified financial ratios and satisfy financial condition tests.

Events beyond our control, including changes in general economic and business conditions, may affect our ability to satisfy these covenants, which could result in a default. If an event of default occurs, the banks could declare any amounts outstanding together with accrued interest, to be immediately due and payable. An event of default under our bank credit facilities may also give rise to an event of default under our other existing and future debt agreements.

Covenants in our 10⅛% senior notes due 2010 and 6⅞% senior notes due 2014 also impose restrictions on us.

Our 10⅛% senior notes and our 6⅞% senior notes limit, among other things, our ability to:

- pay dividends on our common stock and repurchase and redeem certain classes of our capital stock;
- incur additional indebtedness;
- make investments;
- engage in transactions with affiliates; and
- create liens on our assets.

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

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

The rupiah/U.S. dollar daily closing exchange rate ranged from 9,142 to 10,753 rupiah per U.S. dollar during 2005, and on December 30, 2005, the closing exchange rate was 9,825 rupiah per U.S. dollar compared with 9,270 rupiah per U.S. dollar on December 31, 2004. During 2005, the Australian dollar/U.S. dollar daily closing exchange rate ranged from $0.72 to $0.80 per Australian dollar and the euro/U.S. dollar daily closing exchange rate ranged from $1.16 to $1.36 per euro. On December 30, 2005, the closing exchange rates were $0.73 per Australian dollar and $1.18 per euro, compared with the December 31, 2004 closing exchange rates of $0.78 per Australian dollar and $1.36 per euro.

From time to time, we have in the past and may in the future implement currency hedges intended to reduce our exposure to changes in foreign currency exchange rates. However, our hedging strategies may not be successful, and any of our unhedged foreign exchange payment requirements will continue to be subject to market fluctuations.

In addition, our bank credit facilities are based on fluctuating interest rates. Accordingly, an increase in interest rates could adversely affect our results of operations and financial condition.

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

Because we conduct business primarily through PT Freeport Indonesia, our major subsidiary, and other subsidiaries, our ability to pay our debts depends upon the earnings and cash flow of PT Freeport Indonesia and our other subsidiaries and their ability to pay us dividends and to advance us funds. Contractual and legal restrictions applicable to our subsidiaries could also limit our ability to obtain cash from them. Our rights to participate in any distribution of our subsidiaries' assets upon their liquidation, reorganization or insolvency would generally be subject to the prior claims of the subsidiaries' creditors, including any trade creditors and preferred shareholders.

I tem 1B. Unresolved Staff Comments.

Not applicable.

Item 3. Legal Proceedings.

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

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

Not applicable.

Executive Officers of the Registrant.

Certain information as of March 1, 2006 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	67	Chairman of the Board of FCX. President Commissioner of PT Freeport Indonesia.
Richard C. Adkerson	59	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	53	Chief Administrative Officer of FCX. Director, Executive Vice President and Chief Financial Officer of PT Freeport Indonesia.
Mark J. Johnson	46	Senior Vice President and Chief Operating Officer of FCX.
Adrianto Machribie	64	President Director of PT Freeport Indonesia.
Kathleen L. Quirk	42	Senior 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 April 1997 and Chief Executive Officer since December 2003. Mr. Adkerson previously served as FCX 's Chief Financial Officer from October 2000 to December 2003. Mr. Adkerson is also a director and Executive Vice President of PT Freeport Indonesia, Chairman of the Board of Directors of Atlantic Copper, and Co-Chairman of the Board of McMoRan. From November 1998 to February 2004, he also served as President and Chief Executive Officer of McMoRan.

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

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

Adrianto Machribie has served as President Director of PT Freeport Indonesia since March 1996.

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

PART II

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

Unregistered Sales of Equity Securities

In January 2006, we privately negotiated a transaction with holders representing $11.0 million of our 7% Convertible Senior Notes due 2011 to induce conversions into 0.4 million shares of FCX common stock. This transaction is in reliance on the exemption from registration provided under Section 3(a)(9) of the Securities Act of 1933.

Class B Common Shares

Our Class B common shares trade on the New York Stock Exchange (NYSE) under the symbol "FCX." The FCX share price is reported daily in the financial press under "FMCG" in most listings of NYSE securities. At year-end 2005, the number of holders of record of our Class B common shares was 8,649. NYSE composite tape Class B common share price ranges during 2005 and 2004 follow:

	2005		2004	
	High	Low	High	Low
First Quarter	$ 43.90	$ 35.12	$ 44.90	$ 35.09
Second Quarter	40.31	31.52	39.85	27.76
Third Quarter	49.48	37.12	42.13	31.54
Fourth Quarter	56.35	43.41	42.55	33.98

As of March 1, 2006, there were approximately 8,571 holders of record of our Class B common stock.

Common Share Dividends

In February 2003, the Board of Directors initiated a cash dividend for FCX's common stock of $0.09 per share quarterly beginning May 1, 2003. In October 2003, the Board authorized an increase in the cash dividend to an annual rate of $0.80 per share and increased the dividend again in October 2004 to an annual rate of $1.00 per share. In December 2004, the Board authorized a supplemental common stock dividend of $0.25 per share, and during 2005 the Board authorized three supplemental dividends of $0.50 per share paid on March 31, 2005, September 30, 2005 and December 30, 2005. In November 2005, the Board authorized an increase in our annual common stock dividend to $1.25 per share (from $1.00 per share) payable quarterly ($0.3125 per share) beginning with the

February 1, 2006 dividend payment. In addition, on January 31, 2006, the Board authorized a supplemental dividend of $0.50 per share payable on March 31, 2006 to shareholders of record as of March 15, 2006.

Below is a summary of the common stock cash dividends declared and paid for the quarterly periods of 2005 and 2004, and the 2005 and 2004 supplemental dividends:

	2005			2004		
	Amount Per Share	Record Date	Payment Date	Amount Per Share	Record Date	Payment Date
First Quarter	$0.25	Jan. 14, 2005	Feb. 1, 2005	$0.20	Jan. 15, 2004	Feb. 1, 2004
Supplemental dividend	0.50	Mar. 15, 2005	Mar. 31, 2005	N/A	N/A	N/A
Second Quarter	0.25	Apr. 15, 2005	May 1, 2005	0.20	Apr. 15, 2004	May 1, 2004
Third Quarter	0.25	July 15, 2005	Aug. 1, 2005	0.20	July 15, 2004	Aug. 1, 2004
Supplemental dividend	0.50	Sept. 15, 2005	Sept. 30, 2005	N/A	N/A	N/A
Fourth Quarter	0.25	Oct. 14, 2005	Nov. 1, 2005	0.25	Oct. 15, 2004	Nov. 1, 2004
Supplemental dividend	0.50	Dec. 15, 2005	Dec. 30, 2005	0.25	Dec. 20, 2004	Dec. 29, 2004

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 10⅛% Senior Notes and 6⅞% Senior Notes and, in certain circumstances, our credit facility.

Issuer Purchases of Equity Securities

In October 2003, our Board of Directors approved a new open market share purchase program for up to 20 million shares, which replaced our previous program. The program does not have an expiration date. No shares were purchased during the three-month period ended December 31, 2005, and 14.2 million shares remain available for purchase.

Item 6. Selected Financial Data.

The information set forth under the caption “Selected Financial and Operating Data” of our 2005 Annual Report is incorporated herein by reference.

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

	Years Ended December 31,				
	2005	2004	2003	2002	2001
Ratio of earnings to fixed charges	15.7x	4.7x	3.9x	3.4x	2.9x
Ratio of earnings to fixed charges and preferred stock dividends	8.1x	2.8x	3.0x	2.5x	2.1x

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

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

The information set fourth under the caption “Management’s Discussion and Analysis” of our 2005 Annual Report is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

Our financial statements and the notes thereto, the report thereon of Ernst & Young LLP, each as set forth in our 2005 Annual Report, are in

corporated herein by reference.

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

Not applicable.

Item 9A. Controls and Procedures.

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

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

(c) Management 's annual report on internal control over financial reporting and the report thereon of Ernst & Young LLP are incorporated herein by reference to our 2005 Annual Report.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information set forth under the captions "Information About Director Nominees" and "Section 16(a) Beneficial Ownership Reporting Compliance" of our definitive Proxy Statement to be filed with the SEC, relating to our 2006 Annual Meeting to be held on May 4, 2006, is incorporated herein by reference. The information required by Item 10 regarding our executive officers appears in a separately captioned heading after Item 4 in Part I of this report.

Item 11. Executive Compensation.

The information set forth under the captions "Director Compensation" and "Executive Officer Compensation" of our definitive Proxy Statement to be filed with the SEC, relating to our 2006 Annual Meeting to be held on May 4, 2006, is incorporated herein by reference.

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

The information set forth under the captions "Stock Ownership of Directors and Executive Officers," "Stock Ownership of Certain Beneficial Owners" and "Proposal to Adopt the 2006 Stock Incentive Plan" of our definitive Proxy Statement to be filed with the SEC, relating to our 2006 Annual Meeting to be held on May 4, 2006, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

The information set forth under the caption "Certain Transactions" of our definitive Proxy Statement to be filed with the SEC, relating to our 2006 Annual Meeting to be held on May 4, 2006, is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

The information set forth under the caption "Independent Auditors" of our definitive Proxy Statement to be filed with the SEC, relating to our 2006 Annual Meeting to be held on May 4, 2006, is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1). Financial Statements.

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

(a)(2). Financial Statement Schedules.

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

(a)(3). Exhibits.

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

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SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 14, 2006.

Freeport-McMoRan Copper & Gold Inc.

By: /s/ Richard C. Adkerson

Richard C. Adkerson
President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities indicated on March 14, 2006.

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

*	Director
Bobby Lee Lackey	
*	Director
J. Taylor Wharton	

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

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

Our financial statements and the notes thereto, and the report of Ernst & Young LLP included in our 2005 Annual Report are incorporated herein by reference. The financial statements in schedule I listed below should be read in conjunction with our financial statements included in our 2005 Annual Report incorporated herein by reference.

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the consolidated financial statements of Freeport-McMoRan Copper & Gold Inc. (the Company) as of December 31, 2005 and 2004 and for each of the three years in the period ended December 31, 2005, and have issued our report thereon dated February 24, 2006. Our audits also included the schedules listed in the index above for this Form 10-K. The schedules listed in the index above are the responsibility of the Company ’s management. Our responsibility is to express an opinion based on our audits.

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

Ernst & Young LLP

New Orleans, Louisiana
February 24, 2006

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

	December 31,	
	2005	2004
Assets:	(In Thousands)	
Cash	$ 145,215	$ 98,125
Restricted cash and investments	-	500
Interest receivable	1,344	1,296
Due from affiliates	37,099	31,973
Notes receivable from PT Freeport Indonesia	179,880	192,381
Notes receivable from Atlantic Copper	189,500	189,500
Notes receivable from PT Puncakjaya Power	135,426	-
Investments in PT Freeport Indonesia and PT Indocopper Investama	2,355,273	2,326,089
Investment in Atlantic Copper	122,908	104,971
Investment in PT Puncakjaya Power	82,537	83,824
Other assets	94,622	100,999
Total assets	$ 3,343,804	$ 3,129,658
Liabilities and Stockholders' Equity:		
Accounts payable and accrued liabilities	$ 40,693	$ 18,852
Accrued interest payable	31,112	46,199
Long-term debt, including current portion	1,188,391	1,683,699
Other long-term liabilities	51,595	44,636
Deferred income taxes	189,019	172,623
Stockholders' equity	1,842,994	1,163,649
Total liabilities and stockholders' equity	$ 3,343,804	$ 3,129,658

The footnotes to the consolidated financial statements of FCX contained in FCX 's 2005 Annual Report to stockholders incorporated by reference are an integral part of these statements.

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

	Years Ended December 31,		
	2005	2004	2003
	(In Thousands)		
Income from investments in PT Freeport Indonesia and PT Indocopper Investama, net of tax provisions	$ 1,270,269	$ 380,418	$ 421,493
Net income (loss) from investment in Atlantic Copper	17,842	(103,388)	(58,538)
Income from investment in PT Puncakjaya Power	15,642	15,712	6,521
Intercompany charges and eliminations [a]	8,368	88,678	72,588
General and administrative expenses	(19,431)	(18,059)	(14,937)
Depreciation and amortization	(14,693)	(11,324)	(13,557)
Interest expense, net	(115,641)	(125,674)	(151,453)
Interest income on PT Freeport Indonesia and Atlantic Copper notes receivable:			
Gold and silver production payment loans	9,054	9,037	13,683
Promissory notes	17,570	5,246	-
Other income, net	5,392	2,897	4,715
Gains on sales of assets	6,631	21,281	-
Losses on early extinguishment and conversion of debt	(30,778)	(10,176)	(30,268)
Provision for income taxes	(175,098)	(52,381)	(43,912)
Cumulative effect of change in accounting principle, net	-	-	(24,675) [b]
Net income	995,127	202,267	181,660
Preferred dividends	(60,500)	(45,491)	(27,441)
Net income applicable to common stock	$ 934,627	$ 156,776	$ 154,219

a. Includes reimbursements from PT Freeport Indonesia and Rio Tinto, FCX ’s joint venture partner, totaling $73.7 million in 2005, $94.3 million in 2004 and $69.1 million in 2003 for certain FCX stock option exercises.
b. Effective July 1, 2003, FCX adopted SFAS No. 150 and reclassified its mandatorily redeemable preferred stock as debt and recorded a cumulative effect charge to accelerate amortization of deferred financing costs. SFAS No. 150 does not allow restatement of prior periods.

The footnotes to the consolidated financial statements of FCX contained in FCX ’s 2005 Annual Report to stockholders incorporated by reference are an integral part of these statements.

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

	Years Ended December 31,		
	2005	2004	2003
	(In Thousands)		
Cash flow from operating activities:			
Net income	$ 995,127	$ 202,267	$ 181,660
Adjustments to reconcile net income to net cash used in operating activities:			
Income from investments in PT Freeport Indonesia and PT Indocopper Investama	(1,270,269)	(380,418)	(421,493)
Deferred income taxes	20,852	37,277	41,669
Net (income) loss from investment in Atlantic Copper	(17,842)	103,388	58,538
Income from investment in PT Puncakjaya Power	(15,642)	(15,712)	(6,521)
Elimination of intercompany profit	65,335	5,594	(3,500)
Dividends received from PT Freeport Indonesia and PT Indocopper Investama	1,179,201	96,981	-
Dividends received from PT Puncakjaya Power	16,928	8,571	9,736
Depreciation and amortization	14,693	11,324	13,557
Amortization of deferred financing costs	4,528	4,818	6,157
Gains on sales of assets	(6,631)	(21,281)	-
Losses on early extinguishment and conversion of debt	30,778	10,176	30,268
Cumulative effect of change in accounting principle	-	-	24,675
(Increase) decrease in interest receivable and due from affiliates	(1,374)	9,435	(13,437)
(Decrease) increase in accounts payable and accrued liabilities	(10,109)	(1,571)	21,833
Increase (decrease) in accrued income taxes	16,973	2,467	(314)
Increase in long-term compensation benefits	10,079	13,000	5,716
Other	2,234	2,178	922
Net cash provided by (used in) operating activities	1,034,861	88,494	(50,534)
Cash flow from investing activities:			
Sale of assets	6,631	21,634	-
Capital expenditures and other	(9,090)	(3,446)	(2,083)
Sale of restricted investments	-	21,804	73,629
Investment in Atlantic Copper	-	(202,000)	(10,000)
Investment in PT Puncakjaya Power	-	-	(78,367)
Net cash used in investing activities	(2,459)	(162,008)	(16,821)
Cash flow from financing activities:			
Cash dividends paid:			
Common stock	(452,510)	(198,782)	(41,682)
Convertible perpetual preferred stock	(60,500)	(35,460)	-
Step-up convertible preferred stock	(1)	(10)	(24,552)
Mandatory redeemable preferred stock	-	-	(9,181)
Net proceeds from sale of senior notes	-	344,354	1,046,437
Net proceeds from sale of convertible perpetual preferred stock	-	1,067,000	-
Repayment of debt	(396,918)	(260,299)	(931,136)
Redemption of step-up convertible preferred stock	(215)	(1,172)	(5,792)
Repayment from PT Freeport Indonesia	-	30,000	245,121
Repayments to PT Freeport Indonesia	-	-	(81,500)
Purchase of FCX common shares from Rio Tinto	-	(881,868)	-

Purchases of other FCX common shares	(80,227)	(99,477)	-
Net proceeds from exercised stock options	5,081	3,196	68,776
Other	(22)	(1,547)	6,258
Net cash provided by (used in) financing activities	(985,312)	(34,065)	272,749
Net increase (decrease) in cash and cash equivalents	47,090	(107,579)	205,394
Cash at beginning of year	98,125	205,704	310
Cash at end of year	$ 145,215	$ 98,125	$ 205,704
Interest paid	$ 126,945	$ 124,903	$ 126,875
Taxes paid	$ 117,044	$ 12,681	$ 1,026

The footnotes to the consolidated financial statements of FCX contained in FCX ’s 2005 Annual Report to stockholders incorporated by reference are an integral part of these statements.

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

Col. A	Col B	Col. C		Col. D	Col. E
		Additions			
	Balance at Beginning of Period	Charged to Costs and Expense	Charged to Other Accounts	Other Add (Deduct)	Balance at End of Period
Reserves and allowances deducted from asset accounts:					
2005					
Materials and supplies reserves:					
PT Freeport Indonesia	$ 16,994	$ 6,000	$ -	$ (6,416) [a]	$ 16,578
Atlantic Copper	139	-	-	(139) [a]	-
2004					
Materials and supplies reserves:					
PT Freeport Indonesia	16,110	3,525	-	(2,641) [a]	16,994
Atlantic Copper	1,498	1,391	-	(2,750) [a]	139
2003					
Materials and supplies reserves:					
PT Freeport Indonesia	15,303	6,000	-	(5,193) [a]	16,110
Atlantic Copper	520	978	-	-	1,498
Reclamation and mine shutdown reserves:					
2005					
PT Freeport Indonesia	22,010	2,709	1,744	-	26,463
Atlantic Copper	838	113		(798)	153
2004					
PT Freeport Indonesia	25,696	2,848	-	(6,534) [b]	22,010
Atlantic Copper	790	212	-	(164)	838
2003					
PT Freeport Indonesia	29,175	2,781	605	(6,865) [c]	25,696
Atlantic Copper	-	170	-	620	790
Reserves for non-income taxes:					
2005					
PT Freeport Indonesia	17,815	4,500	-	(4,161) [d]	18,154
Atlantic Copper	1,095	-	-	(146)	949
2004					
PT Freeport Indonesia	17,978	3,856	-	(4,019) [d]	17,815
Atlantic Copper	1,022	-	-	73	1,095
2003					
PT Freeport Indonesia	15,306	3,286	-	(614) [d]	17,978
Atlantic Copper	848	-	-	174	1,022

a. Primarily represents write-offs of obsolete materials and supplies inventories.
b. Represents impact of changes in reclamation and closure estimates.
c. Includes $(1.2) million for liabilities settled in 2003, $(4.3) million for changes in reclamation and closure estimates and $(1.4) million for cumulative effect adjustment for adoption of SFAS No. 143, “Accounting for Asset Retirement Obligations.”
d. Represents amounts paid or adjustments to reserves based on revised estimates.

Freeport-McMoRan Copper & Gold Inc.
EXHIBIT INDEX

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Freeport-McMoRan Copper & Gold Inc. (FCX). Incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q of FCX for the quarter ended March 31, 2002 (the FCX 2002 First Quarter Form 10-Q).
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of FCX. Incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q of FCX for the quarter ended March 31, 2003 (the FCX 2003 First Quarter Form 10-Q).
3.3	Amended and Restated By-Laws of FCX as amended, effective January 31, 2006. Incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K of FCX dated January 31, 2006.
4.1	Deposit Agreement dated as of July 25, 1994, among FCX, Mellon, as Depositary, and holders of depositary receipts (Silver-Denominated Depositary Receipts) evidencing certain Depositary Shares, each of which, in turn, initially represented 0.025 shares of Silver-Denominated Preferred Stock. Incorporated by reference to Exhibit 4.7 to the Quarterly Report on Form 10-Q of FCX for the quarter ended June 30, 2002 (the FCX 2002 Second Quarter Form 10-Q).
4.2	Form of Silver-Denominated Depositary Receipt. Incorporated by reference to Exhibit 4.8 to the FCX 2002 Second Quarter Form 10-Q.
4.3	Certificate of Designations of 5½% Convertible Perpetual Preferred Stock of FCX. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of FCX dated March 30, 2004 and filed March 31, 2004.
4.4	Amended and Restated Credit Agreement dated as of September 30, 2003, but effective as of October 2, 2003, among FCX, PT Freeport Indonesia, the several financial institutions that are parties thereto, U.S. Bank Trust National Association, as PT Freeport Indonesia Trustee, J.P. Morgan Securities Inc., as Arranger, and JPMorgan Chase Manhattan Bank as Administrative Agent, Issuing Bank, Security Agent, JAA Security Agent and Documentation Agent. Incorporated by reference to Exhibit 4.7 to the Quarterly Report on Form 10-Q of FCX for the quarter ended September 30, 2003.
4.5	Senior Indenture dated as of November 15, 1996, from FCX to The Chase Manhattan Bank, as Trustee. Incorporated by reference to Exhibit 4.4 to the Registration Statement on Form S-3 of FCX filed November 5, 2001 (the FCX November 5, 2001 Form S-3).
4.6	First Supplemental Indenture dated as of November 18, 1996, from FCX to The Chase Manhattan Bank, as Trustee, providing for the issuance of the Senior Notes and supplementing the Senior Indenture dated November 15, 1996, from FCX to such Trustee, providing for the issuance of the 7.50% Senior Notes due 2006 and the 7.20% Senior Notes due 2026. Incorporated by reference to Exhibit 4.5 to the FCX November 5, 2001 Form S-3.
4.7	Indenture dated as of January 29, 2003, from FCX to The Bank of New York, as Trustee, with respect to the 10 ⅛ % Senior Notes due 2010. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of FCX dated February 6, 2003.
4.8	Indenture dated as of February 11, 2003, from FCX to The Bank of New York, as Trustee, with respect to the 7% Convertible Senior Notes due 2011. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of FCX dated February 11, 2003 and filed February 25, 2003.
4.9	Indenture dated as of February 3, 2004, from FCX to The Bank of New York, as Trustee, with respect to the 6⅞% Senior Notes due 2014. Incorporated by reference to Exhibit 4.12 to the Annual Report on Form 10-K of FCX for the fiscal year ended December 31, 2003 (the FCX 2003 Form 10-K).

4.10	Rights Agreement dated as of May 3, 2000, between FCX and ChaseMellon Shareholder Services, L.L.C., as Rights Agent. Incorporated by reference to Exhibit 4.26 to the Quarterly Report on Form 10-Q of FCX for the quarter ended March 31, 2000.
4.11	Amendment No. 1 to Rights Agreement dated as of February 26, 2002, between FCX and Mellon Investor Services. Incorporated by reference to Exhibit 4.16 to the FCX 2002 First Quarter Form 10-Q.
10.1	Contract of Work dated December 30, 1991, between the Government of the Republic of Indonesia and PT Freeport Indonesia. Incorporated by reference to Exhibit 10.1 to the FCX November 5, 2001 Form S-3.
10.2	Contract of Work dated August 15, 1994, between the Government of the Republic of Indonesia and PT Irja Eastern Minerals Corporation. Incorporated by reference to Exhibit 10.2 to the FCX November 5, 2001 Form S-3.
10.3	Participation Agreement dated as of October 11, 1996, between PT Freeport Indonesia and P.T. RTZ-CRA Indonesia with respect to a certain contract of work. Incorporated by reference to Exhibit 10.4 to the FCX November 5, 2001 Form S-3.
10.4	Agreement dated as of October 11, 1996, to Amend and Restate Trust Agreement among PT Freeport Indonesia, FCX, the RTZ Corporation PLC, P.T. RTZ-CRA Indonesia, RTZ Indonesian Finance Limited and First Trust of New York, National Association, and The Chase Manhattan Bank, as Administrative Agent, JAA Security Agent and Security Agent. Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of FCX dated November 13, 1996 and filed November 15, 1996.
10.5	Concentrate Purchase and Sales Agreement dated effective December 11, 1996, between PT Freeport Indonesia and PT Smelting. Incorporated by reference to Exhibit 10.3 to the FCX November 5, 2001 Form S-3.
10.6	Second Amended and Restated Joint Venture and Shareholders' Agreement dated as of December 11, 1996, among Mitsubishi Materials Corporation, Nippon Mining and Metals Company, Limited and PT Freeport Indonesia. Incorporated by reference to Exhibit 10.5 to the FCX November 5, 2001 Form S-3.
10.7	Settlement Agreement dated December 17, 2004, between Underwriters Subscribing to Certain Policies Reinsuring the Original Policy, Freeport-McMoRan Insurance Company Limited, FM Services Company (FMS) and FCX. Incorporated by reference to Exhibit 10.7 to the Annual Report on Form 10-K of FCX for the fiscal year ended December 31, 2004 (the FCX 2004 Form 10-K).
	Executive Compensation Plans and Arrangements (Exhibits 10.8 through 10.55)
10.8	Annual Incentive Plan of FCX as amended effective February 2, 1999. Incorporated by reference to Exhibit 10.11 to the Annual Report on Form 10-K of FCX for the fiscal year ended December 31, 1998 (the FCX 1998 Form 10-K).
10.9	FCX Performance Incentive Awards Program as amended effective February 2, 1999. Incorporated by reference to Exhibit 10.13 to the FCX 1998 Form 10-K.
10.10	FCX President 's Award Program. Incorporated by reference to Exhibit 10.7 to the FCX November 5, 2001 Form S-3.
10.11	FCX Adjusted Stock Award Plan. Incorporated by reference to Exhibit 10.12 to the FCX 2003 Form 10-K.
10.12	FCX 1995 Stock Option Plan. Incorporated by reference to Exhibit 10.13 to the FCX 2003 Form 10-K.

10.13	FCX 1999 Stock Incentive Plan. Incorporated by reference to Exhibit 10.13 to the Quarterly Report on Form 10-Q of FCX for the quarter ended June 30, 2005 (the FCX 2005 Second Quarter Form 10-Q).
10.14	Form of Notice of Grant of Nonqualified Stock Options under the 1999 Stock Incentive Plan. Incorporated by reference to Exhibit 10.14 to the FCX 2005 Second Quarter Form 10-Q.
10.15	Form of Restricted Stock Unit Agreement under the 1999 Stock Incentive Plan. Incorporated by reference to Exhibit 10.15 to the FCX 2005 Second Quarter Form 10-Q.
10.16	Form of Performance-Based Restricted Stock Unit Agreement under the 1999 Stock Incentive Plan. Incorporated by reference to Exhibit 10.16 to the FCX 2005 Second Quarter Form 10-Q.
10.17	FCX 1999 Long-Term Performance Incentive Plan. Incorporated by reference to Exhibit 10.19 to the Annual Report of FCX on Form 10-K for the year ended December 31, 1999 (the FCX 1999 Form 10-K).
10.18	FCX Stock Appreciation Rights Plan dated May 2, 2000. Incorporated by reference to Exhibit 10.20 to the Quarterly Report on Form 10-Q of FCX for the quarter ended June 30, 2001 (the FCX 2001 Second Quarter Form 10-Q).
10.19	FCX 2003 Stock Incentive Plan. Incorporated by reference to Exhibit 10.19 to the FCX 2005 Second Quarter Form 10-Q.
10.20	Form of Notice of Grant of Nonqualified Stock Options under the 2003 Stock Incentive Plan. Incorporated by reference to Exhibit 10.20 to the FCX 2005 Second Quarter Form 10-Q.
10.21	Form of Restricted Stock Unit Agreement under the 2003 Stock Incentive Plan. Incorporated by reference to Exhibit 10.21 to the FCX 2005 Second Quarter Form 10-Q.
10.22	Form of Performance-Based Restricted Stock Unit Agreement under the 2003 Stock Incentive Plan. Incorporated by reference to Exhibit 10.22 to the FCX 2005 Second Quarter Form 10-Q.
10.23	FCX 1995 Stock Option Plan for Non-Employee Directors. Incorporated by reference to Exhibit 10.23 to the FCX 2005 Second Quarter Form 10-Q.
10.24	FCX 2004 Director Compensation Plan. Incorporated by reference to Exhibit 10.24 to the FCX 2005 Second Quarter Form 10-Q.
10.25	FCX Director Compensation. Incorporated by reference to Exhibit 10.25 to the FCX 2004 Form 10-K.
10.26	FCX Supplemental Executive Retirement Plan dated February 26, 2004. Incorporated by reference to Exhibit 10.26 to the FCX 2004 Form 10-K.
10.27	Amendment No. 1 to FCX Supplemental Executive Retirement Plan. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of FCX dated May 3, 2005.
10.28	FCX 2005 Annual Incentive Plan. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of FCX dated May 5, 2005.
10.29	Amended Financial Counseling and Tax Return Preparation and Certification Program of FCX. Incorporated by reference to Exhibit 10.18 to the FCX 2003 First Quarter Form 10-Q.

10.30	FM Services Company Performance Incentive Awards Program as amended effective February 2, 1999. Incorporated by reference to Exhibit 10.19 to the FCX 1998 Form 10-K.
10.31	Amended FM Services Company Financial Counseling and Tax Return Preparation and Certification Program. Incorporated by reference to Exhibit 10.20 to the FCX 2003 First Quarter Form 10-Q.
10.32	Consulting Agreement dated as of December 22, 1988, with Kissinger Associates, Inc. (Kissinger Associates). Incorporated by reference to Exhibit 10.21 to the Annual Report on Form 10-K of FCX for the fiscal year ended December 31, 1997 (the FCX 1997 Form 10-K).
10.33	Letter Agreement dated May 1, 1989, with Kent Associates, Inc. (Kent Associates, predecessor in interest to Kissinger Associates). Incorporated by reference to Exhibit 10.22 to the FCX 1997 Form 10-K.
10.34	Letter Agreement dated January 27, 1997, among Kissinger Associates, Kent Associates, FCX, Freeport-McMoRan Inc., and FMS. Incorporated by reference to Exhibit 10.26 to the Annual Report on Form 10-K of FCX for the fiscal year ended December 31, 2001 (the FCX 2001 Form 10-K).
10.35	Supplemental Consulting Agreement with Kissinger Associates and Kent Associates, effective as of January 1, 2006.
10.36	Agreement for Consulting Services between FTX and B. M. Rankin, Jr. effective as of January 1, 1990 (assigned to FMS as of January 1, 1996). Incorporated by reference to Exhibit 10.24 to the FCX 1997 Form 10-K.
10.37	Supplemental Agreement between FMS and B. M. Rankin, Jr. dated December 15, 1997. Incorporated by reference to Exhibit 10.25 to the FCX 1997 Form 10-K.
10.38	Supplemental Letter Agreement between FMS and B. M. Rankin, Jr., effective as of January 1, 2006.
10.39	Letter Agreement effective as of January 7, 1997, between Senator J. Bennett Johnston, Jr. and FMS. Incorporated by reference to Exhibit 10.31 to the FCX 2001 Form 10-K.
10.40	Supplemental Letter Agreement dated July 14, 2003, between J. Bennett Johnston, Jr. and FMS. Incorporated by reference to Exhibit 10.28 to the Quarterly Report on Form 10-Q of FCX for the quarter ended June 30, 2003.
10.41	Supplemental Letter Agreement between FMS and J. Bennett Johnston, Jr., dated January 18, 2005. Incorporated by reference to Exhibit 10.40 to the FCX 2004 Form 10-K.
10.42	Supplemental Consulting Agreement between FMS and J. Bennett Johnston, Jr., effective as of January 1, 2006.
10.43	Letter Agreement dated November 1, 1999, between FMS and Gabrielle K. McDonald. Incorporated by reference to Exhibit 10.33 to the FCX 1999 Form 10-K.
10.44	Supplemental Letter Agreement, between FMS and Gabrielle K. McDonald, effective as of January 1, 2006.
10.45	Executive Employment Agreement dated April 30, 2001, between FCX and James R. Moffett. Incorporated by reference to Exhibit 10.35 to the FCX 2001 Second Quarter Form 10-Q.
10.46	Executive Employment Agreement dated April 30, 2001, between FCX and Richard C. Adkerson. Incorporated by reference to Exhibit 10.36 to the FCX 2001 Second Quarter Form 10-Q.

10.47	Change of Control Agreement dated April 30, 2001, between FCX and James R. Moffett. Incorporated by reference to Exhibit 10.37 to the FCX 2001 Second Quarter Form 10-Q.
10.48	Change of Control Agreement dated April 30, 2001, between FCX and Richard C. Adkerson. Incorporated by reference to Exhibit 10.38 to the FCX 2001 Second Quarter Form 10-Q.
10.49	First Amendment to Executive Employment Agreement dated December 10, 2003, between FCX and James R. Moffett. Incorporated by reference to Exhibit 10.36 to the FCX 2003 Form 10-K.
10.50	First Amendment to Executive Employment Agreement dated December 10, 2003, between FCX and Richard C. Adkerson. Incorporated by reference to Exhibit 10.37 to the FCX 2003 Form 10-K.
10.51	First Amendment to Change of Control Agreement dated December 10, 2003, between FCX and James R. Moffett. Incorporated by reference to Exhibit 10.38 to the FCX 2003 Form 10-K.
10.52	First Amendment to Change of Control Agreement dated December 10, 2003, between FCX and Richard C. Adkerson. Incorporated by reference to Exhibit 10.39 to the FCX 2003 Form 10-K.
10.53	Change of Control Agreement dated February 3, 2004, between FCX and Michael J. Arnold. Incorporated by reference to Exhibit 10.40 to the FCX 2003 Form 10-K.
10.54	Change of Control Agreement dated February 3, 2004, between FCX and Mark J. Johnson. Incorporated by reference to Exhibit 10.41 to the FCX 2003 Form 10-K.
10.55	Change of Control Agreement dated February 3, 2004, between FCX and Kathleen L. Quirk. Incorporated by reference to Exhibit 10.42 to the FCX 2003 Form 10-K.
12.1	FCX Computation of Ratio of Earnings to Fixed Charges.
13.1	Those portions of the 2005 Annual Report to stockholders of FCX that are incorporated herein by reference.
14.1	Ethics and Business Conduct Policy. Incorporated by reference to Exhibit 14.1 to the FCX 2003 Form 10-K.
21.1	Subsidiaries of FCX.
23.1	Consent of Ernst & Young LLP.
23.2	Consent of Independent Mining Consultants, Inc.
24.1	Certified resolution of the Board of Directors of FCX authorizing this report to be signed on behalf of any officer or director pursuant to a Power of Attorney.
24.2	Powers of Attorney pursuant to which this report has been signed on behalf of certain officers and directors of FCX.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d - 14(a).
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d - 14(a).
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C Section 1350.

[FM Services Company Letterhead]

October 13, 2005

Dr. Henry A. Kissinger
350 Park Avenue
New York, NY 10022

Dear Dr. Kissinger:

Supplemental Agreement Providing an Extension to
Consulting Agreement of May 1, 1989

The purpose of this letter is to confirm the automatic renewal of your Consulting Agreement with FM Services. Your contracts under both Kissinger Associates, Inc. dated December 22, 1998, as amended and Kent Associates Inc. dated May 1, 1989, as amended are considered renewed.

Each Agreement renews for an additional one-year period beginning January 1, 2006 and ending December 31, 2006. All other terms and conditions of the Agreements as amended between you and FM Services shall remain the same.

Please confirm that the foregoing correctly sets forth your understanding with respect to this matter by signing both originals of this Supplemental Agreement and returning one to me.

Very truly yours,

/s/ Richard C. Adkerson
Richard C. Adkerson
Chairman of the Board and President
FM Services Company

AGREED TO AND ACCEPTED

BY: /s/ Dr. Henry A. Kissinger
Dr. Henry A. Kissinger

DATE: October 24, 2005

[FM Services Company Letterhead]

November 30, 2005

B. M. Rankin, Jr.
300 Crescent Court, Suite 875
Dallas, Texas 75201

Dear Mr. Rankin:

The purpose of this letter is to confirm the automatic renewal of your Consulting Agreement dated January 1, 1991, as amended (the "Agreement").

Your contract will automatically renew for an additional one-year period beginning January 1, 2006, and ending December 31, 2006. All other terms and conditions of the Agreement shall remain the same.

Please confirm that the foregoing correctly sets forth your understanding with respect to this matter by signing both originals of this letter and returning one to me.

Very truly yours,
/s/ Richard C. Adkerson

Richard C. Adkerson
Chairman of the Board
President
FM Services Company

AGREED TO AND ACCEPTED
BY: /s/ B. M. Rankin, Jr. 12/5/05
B. M. Rankin, Jr. Date

[FM Services Company Letterhead]

October 13, 2005

Mr. J. Bennett Johnston, Jr.
1317 Merrie Ridge Road
McLean, Virginia 22101

Dear Mr. Johnston:

Supplemental Agreement Providing an Extension to the Consulting Agreement of January 7, 1997

This Supplemental Agreement refers to the consulting agreement of January 7, 1997 (The "Consulting Agreement") with the undersigned, FM Services Company (The "Company"), with respect to your performance of consulting services for FM Services and its subsidiaries and affiliates (collectively with FM Services, the "Freeport Entities").

By way of this Supplemental Agreement, the Company would like to extend your Consulting Agreement from January 1, 2006 through December 31, 2006.

Please confirm that the foregoing correctly sets forth your understanding with respect to this matter by signing both originals of this Supplemental Agreement and returning one to me.
Very truly yours,

/s/ Richard C. Adkerson

Richard C. Adkerson
Chairman of the Board and President
FM Services Company

AGREED TO AND ACCEPTED

BY: /s/ J. Bennett Johnston, Jr.
J. Bennett Johnston, Jr.

DATE: October 24, 2005

[FM Services Company Letterhead]

October 13, 2005

The Honorable Gabrielle K. McDonald
2001 Holcombe Boulevard, #3201
Houston, Texas 77030

Dear Judge McDonald:

Supplemental Agreement to the
Consulting Agreement of November 1, 1999

This Supplemental Agreement refers to the consulting agreement of November 1, 1999 (the "Consulting Agreement"), with the undersigned, FM Services Company (the "Company"), with respect to your performance of consulting services for the Company and its subsidiaries and affiliates.

By way of this Supplemental Agreement, the Company would like to extend your Consulting Agreement from January 1, 2006 through December 31, 2006. All other terms and conditions of the Consulting Agreement shall remain unchanged.

Please confirm that the foregoing correctly sets forth your understanding with respect to this matter by signing both originals of this Supplemental Agreement and returning one to me.

Very truly yours,

/s/ Richard C. Adkerson

Richard C. Adkerson
Chairman of the Board and President
FM Services Company

AGREED TO AND ACCEPTED:

BY: /s/ Gabrielle K. McDonald
The Honorable Gabrielle K. McDonald

DATE: October 26, 2005

FREEPORT-McMoRan COPPER & GOLD INC.

Computation of Ratio of Earnings
to Fixed Charges:

	Years Ended December 31,				
	2005	2004	2003	2002	2001
			(In Thousands)		
Income from continuing operations	$ 995,127	$ 202,267	$ 181,660	$ 164,654	$ 113,025
Add:					
Provision for income taxes	915,068	330,680	338,053	245,518	202,979
Cumulative effect of accounting changes, net	-	-	15,593	3,049	-
Equity in PT Smelting (earnings) losses	(9,302)	(2,045)	(5,609)	4,181	5,137
Minority interests' share of net income	126,743	41,437	48,469	36,441	42,772
Interest expense, net	131,639	148,103	197,017	171,209	173,595
Rental expense factor	1,697	1,342	1,027	-	-
Earnings available for fixed charges	$ 2,160,972	$ 721,784	$ 776,210	$ 625,052	$ 537,508
Interest expense, net	$ 131,639	$ 148,103	$ 197,017	$ 171,209	$ 173,595
Capitalized interest	4,132	2,860	2,994	12,245	9,438
Rental expense factor (a)	1,697	1,342	1,027	-	-
Fixed charges	$ 137,468	$ 152,305	$ 201,038	$ 183,454	$ 183,033
Ratio of earnings to fixed charges (b)	15.7x	4.7x	3.9x	3.4x	2.9x

Computation of Ratio of Earnings to Fixed Charges and
Preferred Dividends:

	Years Ended December 31,				
	2005	2004	2003	2002	2001
			(In Thousands)		
Income from continuing operations	$ 995,127	$ 202,267	$ 181,660	$ 164,654	$ 113,025
Add:					
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Interest expense, net	$ 131,639	$ 148,103	$ 197,017	$ 171,209	$ 173,595
Capitalized interest	4,132	2,860	2,994	12,245	9,438
Rental expense factor (a)	1,697	1,342	1,027	-	-
Preferred dividends	128,172	103,108	60,045	69,179	70,563
Fixed charges	$ 265,640	$ 255,413	$ 261,083	$ 252,633	$ 253,596
Ratio of earnings to fixed charges (c)	8.1x	2.8x	3.0x	2.5x	2.1x

(a) Portion of rent deemed representative of an interest factor.

(b) For purposes of this calculation, earnings consist of income from continuing operations before income taxes, minority interests and fixed charges. Fixed charges include interest and that portion of rent deemed representative of interest.

(c) For purposes of this calculation, we assume that our preferred stock dividend requirements were equal to the pre-tax earnings that would be required to cover those dividend requirements.

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

Years Ended December 31,	2005	2004	2003	2002	2001
	(Financial Data in Dollars, Except Average Shares, and in Thousands, Except Per Share Amounts)				
FCX CONSOLIDATED FINANCIAL DATA					
Revenues	$ 4,179,118	$ 2,371,866	$ 2,212,165	$ 1,910,462	$ 1,838,866
Operating income	2,177,286	703,576[a]	823,308	640,137	542,926
Net income before cumulative effect of changes in accounting principles	934,627[b]	156,776[c]	169,812[d]	130,099	76,496
Cumulative effect of changes in accounting principles, net	-	-	(15,593) [e]	(3,049) [f]	-
Net income applicable to common stock	934,627[b]	156,776[c]	154,219[d]	127,050	76,496
Pro forma net income, assuming accounting changes are applied retroactively	934,627[b]	156,776[c]	169,307[d, e]	129,635	104,847
Basic net income per common share	5.18	0.86	0.99	0.88	0.53
Diluted net income per common share:					
Applicable to common stock	4.67[b]	0.85[c]	0.97[d, e]	0.87	0.53
Pro forma, assuming accounting changes are applied retroactively	4.67[b]	0.85[c]	1.06[d, e]	0.89	0.72
Dividends paid per common share	2.50	1.10	0.27	-	-
Basic average shares outstanding	180,270	182,272	155,805	144,649	143,952
Diluted average shares outstanding	220,470	184,923	159,102	146,418	144,938
At December 31:					
Cash, restricted cash and investments	763,599	551,950	498,616	115,782	149,475
Property, plant, equipment and development costs, net	3,088,931	3,199,292	3,261,697	3,320,561	3,409,687
Total assets	5,550,206	5,086,995	4,718,366	4,192,193	4,211,929
Long-term debt, including current portion and short-term borrowings	1,255,948	1,951,906	2,228,330[e]	2,038,390	2,338,600
Redeemable preferred stock	-	-	- [e]	450,003	462,504
Stockholders' equity	1,842,994	1,163,649	775,984	266,826	104,444
PT FREEPORT INDONESIA OPERATING DATA, Net of Rio Tinto's Interest					
Copper (recoverable)					
Production (000s of pounds)	1,455,900	996,500	1,291,600	1,524,200	1,393,400
Production (metric tons)	660,400	452,000	585,900	691,400	632,000
Sales (000s of pounds)	1,456,500	991,600	1,295,600	1,522,300	1,399,100
Sales (metric tons)	660,700	449,800	587,700	690,500	634,600
Average realized price per pound	$1.85	$1.37	$0.82	$0.71	$0.69
Gold (recoverable ounces)					
Production	2,789,400	1,456,200	2,463,300	2,296,800	2,634,900
Sales	2,790,200	1,443,000	2,469,800	2,293,200	2,644,800
Average realized price per ounce	$456.27	$412.32	$366.60[g]	$311.97	$269.24
Silver (recoverable ounces)					
Production	4,742,400	3,270,700	4,112,700	4,121,100	3,771,500
Sales	4,734,600	3,257,800	4,126,700	4,116,100	3,782,600
Average realized price per ounce	$6.36	$6.10	$5.15	$4.66	$4.80
ATLANTIC COPPER OPERATING DATA					
Concentrate and scrap treated (metric tons)	975,400	768,100	964,400	1,016,700	891,100
Anodes					
Production (000s of pounds)	626,600	494,400	640,000	657,000	617,300
Production (metric tons)	284,200	224,300	290,300	298,000	280,000
Sales (000s of pounds)	85,100	36,700	97,000	101,200	87,500
Sales (metric tons)	38,600	16,600	44,000	45,900	39,700
Cathodes					

Production (000s of pounds)	545,300	454,700	544,700	552,200	518,700
Production (metric tons)	247,300	206,200	247,100	250,500	235,300
Sales (including wire rod and wire)					
(000s of pounds)	548,600	479,200	546,800	556,500	549,800
(metric tons)	248,800	217,400	248,000	252,400	249,400
Gold sales in anodes and slimes (ounces)	542,800	316,700	929,700	813,900	831,300
Cathode cash unit cost per pound [h]	$0.17	$0.25	$0.16	$0.12	$0.14

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

Years Ended December 31,	2005	2004	2003	2002	2001
PT SMELTING OPERATING DATA, 25%-Owned by PT Freeport Indonesia					
Concentrate treated (metric tons)	908,900	758,100	824,800	719,600	702,900
Anodes					
Production (000s of pounds)	606,300	466,500	545,500	465,700	479,400
Production (metric tons)	275,000	211,600	247,400	211,200	217,500
Sales (000s of pounds)	-	2,300	64,600	33,000	10,100
Sales (metric tons)	-	1,000	29,300	15,000	4,600
Cathodes					
Production (000s of pounds)	579,700	464,000	492,400	424,100	468,400
Production (metric tons)	262,900	210,500	223,300	192,400	212,500
Sales (000s of pounds)	580,900	462,900	493,500	424,100	468,800
Sales (metric tons)	263,500	210,000	223,800	192,400	212,600
Cathode cash unit cost per pound [h]	$0.13	$0.12	$0.10	$0.14	$0.12
PT FREEPORT INDONESIA OPERATING DATA, 100% Aggregate					
Ore milled (metric tons per day)	216,200	185,100	203,000	235,600	237,800
Average ore grade					
Copper (percent)	1.13	.87	1.09	1.14	1.00
Gold (grams per metric ton)	1.65	.88	1.54	1.24	1.41
Gold (ounce per metric ton)	.053	.028	.050	.040	.045
Silver (grams per metric ton)	4.88	3.85	4.03	3.60	3.20
Silver (ounce per metric ton)	.157	.124	.130	.116	.103
Recovery rates (percent)					
Copper	89.2	88.6	89.0	88.5	86.9
Gold	83.1	81.8	87.3	88.4	89.5
Silver	58.2	56.8	61.3	61.3	59.0
Copper (recoverable)					
Production (000s of pounds)	1,688,900	1,098,600	1,522,900	1,839,000	1,594,200
Production (metric tons)	766,100	498,300	690,800	834,200	723,100
Sales (000s of pounds)	1,689,400	1,092,700	1,527,700	1,836,800	1,600,900
Sales (metric tons)	766,300	495,600	693,000	833,200	726,200
Gold (recoverable ounces)					
Production	3,439,600	1,536,600	3,163,900	2,938,800	3,488,100
Sales	3,437,800	1,523,600	3,171,500	2,934,000	3,498,300
Silver (recoverable ounces)					
Production	5,791,400	3,873,800	4,978,600	4,922,900	4,264,300
Sales	5,795,200	3,857,500	4,994,000	4,916,000	4,280,400

The selected consolidated financial data shown above is derived from our audited consolidated financial statements. These historical results are not necessarily indicative of results that you can expect for any future period. You should read this data in conjunction with management's discussion and analysis and our full consolidated financial statements and notes thereto contained in this annual report.

a. Includes a $95.0 million gain on insurance settlement related to the fourth-quarter 2003 slippage and debris flow events at the Grasberg open pit and a $12.0 million charge related to Atlantic Copper's workforce reduction plan.

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

c. Includes a $48.8 million ($0.26 per share) gain on insurance settlement related to the fourth-quarter 2003 slippage and debris flow events at the Grasberg open pit; a $20.4 million ($0.11 per share) gain from the sale of a parcel of land in Arizona held by an FCX joint venture; a

$7.5 million ($0.04 per share) gain from Atlantic Copper's sale of its wire rod and wire assets; a $12.0 million ($0.06 per share) charge related to Atlantic Copper's workforce reduction plan; $13.8 million ($0.07 per share) of losses on early extinguishment and conversion of debt; and a $6.3 million ($0.03 per share) reduction of interest expense for conversion of debt.

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

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

f. Effective January 1, 2002, we changed our methodology used in the determination of depreciation associated with PT Freeport Indonesia's mining and milling life-of-mine assets.

g. Amount was $357.61 before hedging gain resulting from redemption of FCX's Gold-Denominated Preferred Stock.

h. For a reconciliation of cathode cash unit cost per pound to production costs applicable to sales, for Atlantic Copper's costs, and to equity in PT Smelting's earnings, for PT Smelting's costs, reported in FCX's consolidated financial statements refer to "Product Revenues and Production Costs" in "Management's Discussion and Analysis."

FREEPORT-McMoRan COPPER & GOLD INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

In management's discussion and analysis, "we," "us" and "our" refer to Freeport-McMoRan Copper & Gold Inc. (FCX) and its consolidated subsidiaries. References to "aggregate" amounts mean the total of our share and Rio Tinto plc's share as our joint venture partner. The results of operations reported and summarized below are not necessarily indicative of future operating results. The following discussion should be read together with our consolidated financial statements and the related notes. References to "Notes" are Notes included in our "Notes to Consolidated Financial Statements."

Through our majority-owned subsidiary, PT Freeport Indonesia, we have one of the world's largest copper and gold mining and production operations in terms of reserves and production. We are also one of the lowest-cost copper producers in the world, after taking into account credits for related gold and silver production. Our principal asset is the Grasberg minerals district, which based on available year-end 2004 reserve data, contains the largest single copper reserve and the largest single gold reserve of any mine in the world.

PT Freeport Indonesia, our principal operating subsidiary, operates under an agreement, called a 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 called Block A located in Papua, Indonesia. Under the Contract of Work, PT Freeport Indonesia also conducts exploration activities (which are currently suspended, but are under review for resumption) in an approximate 500,000-acre area called Block B in Papua. All of our proven and probable mineral reserves and current mining operations are located in Block A.

We also conduct mineral exploration activities (which are currently suspended) in Papua, Indonesia through one of our wholly owned subsidiaries, PT Irja Eastern Minerals (Eastern Minerals). Eastern Minerals holds an additional Contract of Work originally covering a 2.5-million-acre area. Under the terms of Eastern Minerals' Contract of Work, we have already relinquished 1.3 million acres and must relinquish an additional 0.6 million acres at the end of the three-year exploration period (currently in suspension), which can be extended by the Government of Indonesia for as many as two additional years.

In addition to the PT Freeport Indonesia and Eastern Minerals exploration acreage, we have the right to conduct other mineral exploration activities in Papua pursuant to a joint venture through PT Nabire Bakti Mining. Field exploration activities outside of our current mining operations in Block A have been suspended 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. Recent Indonesian legislation permits open-pit mining in PT Freeport Indonesia's Block B area, subject to certain requirements. We continue to assess these requirements and security issues. The timing for our resumption of exploration activities in our Contract of Work areas outside of Block A depends on the resolution of these matters.

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. 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 project, we have agreed to consider a potential sale of an interest in PT Indocopper Investama at fair market value. Neither our Contract of Work nor Indonesian law requires us to divest any portion of our ownership interest in PT Freeport Indonesia or PT Indocopper Investama.

We also operate through a majority-owned subsidiary, PT Puncakjaya Power (Puncakjaya Power), and through Atlantic Copper, S.A. (Atlantic Copper), a wholly owned subsidiary. We acquired an 85.7 percent ownership in Puncakjaya Power in 2003. Puncakjaya Power's sole business is to supply power to PT Freeport Indonesia's operations (see Note 2). Atlantic Copper's operations are in Spain and involve the smelting and refining of copper concentrates and the marketing of refined copper and precious metals in slimes. PT Freeport Indonesia owns a 25 percent interest in PT Smelting, an Indonesian company which operates a copper smelter and refinery in Gresik, Indonesia.

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

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

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

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

Outlook

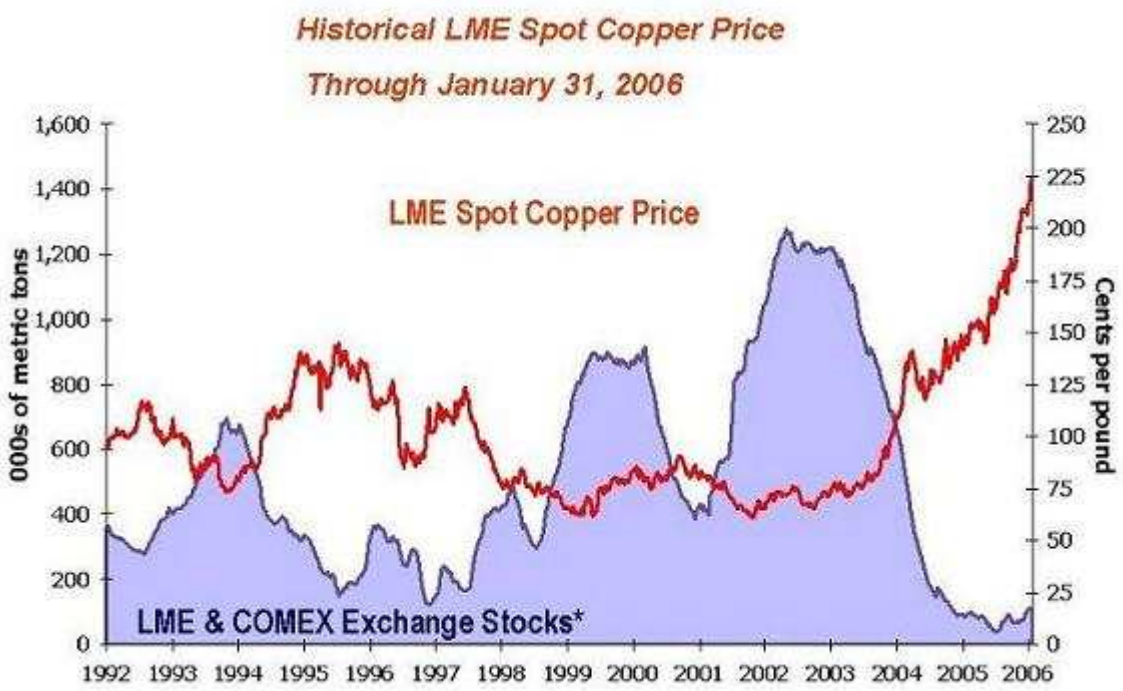
Annual sales totaled 1.46 billion pounds of copper and 2.8 million ounces of gold in 2005, increases of 47 percent for copper and 93 percent for gold compared with 2004. PT Freeport Indonesia's operations in 2005 benefited from access to higher-grade material while operations in 2004 were focused on recovery efforts from the fourth-quarter 2003 slippage and debris flow events at the Grasberg open pit.

At the Grasberg open-pit mine, the sequencing in mining areas with varying ore grades causes fluctuations in the timing of ore production, which impacts sales volumes, particularly for gold. PT Freeport Indonesia has updated its mine plans to incorporate 2005 results and revised estimates on mining rates in the Grasberg open pit. Based on its current mine plan, PT Freeport Indonesia estimates its share of sales for 2006 will approximate 1.3 billion pounds of copper and 1.7 million ounces of gold. Average annual sales volumes over the five-year period from 2006 through 2010 are expected to approximate 1.3 billion pounds of copper and 1.9 million ounces of gold. As a result of lower than targeted mining rates, ore from a high-grade section in the primary ore area, "6 North," previously expected to be mined in late 2006 has been deferred to early 2007. Accordingly, our current mine plans also alter the timing of subsequent years' ore production compared with previous plans. These revised production estimates do not have a significant economic effect since the deferrals occur within months overlapping annual periods. Efforts are under way to improve productivity of mining activities which would increase mining rates and advance the timing of metal production.

Sales volumes may vary from these estimates depending on the areas being mined within the Grasberg open pit. Quarterly variations in sales volumes are expected to vary significantly. Based on current estimates of average annual sales volumes over the next five years and copper prices of approximately $2.00 per pound and gold prices of approximately $550 per ounce, the impact on our annual cash flow for each $0.10 per pound change in copper prices would approximate $65 million, including the effects of price changes on related royalty costs, and for each $25 per ounce change in gold prices would approximate $24 million.

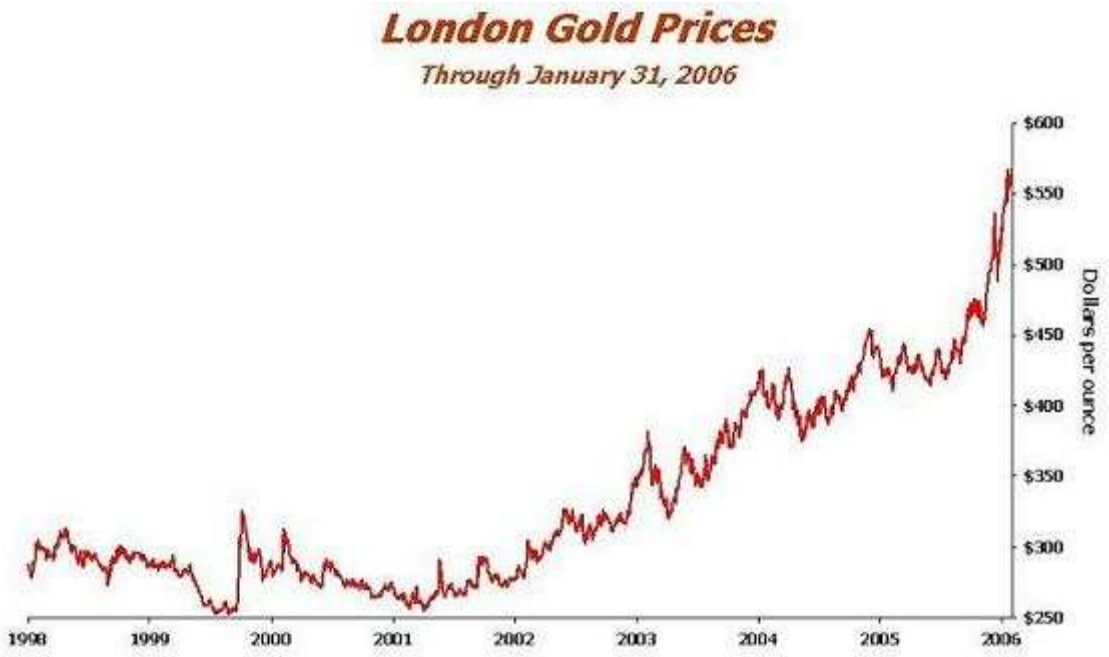
Copper and Gold Markets

As shown in the graphs below, world metal prices for copper have fluctuated during the period from 1992 through January 2006 with the London Metal Exchange (LME) spot copper price varying from a low of approximately $0.60 per pound in 2001 to a high of $2.24 per pound on January 30, 2006, and world gold prices have fluctuated during the period from 1998 through January 2006 from a low of approximately $250 per ounce in 1999 to a high of approximately $569 per ounce on January 31, 2006. Copper and gold prices are affected by numerous factors beyond our control as described further in our Form 10-K for the year ended December 31, 2005.



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

The graph above presents LME spot copper prices and reported stocks of copper at the LME and New York Commodity Exchange (COMEX) through January 31, 2006. Market fundamentals for copper continued to be positive throughout 2005 (demand exceeding supply). Since 2003 and continuing in 2005, global demand has exceeded supply, evidenced by the decline in warehouse inventories. LME and COMEX inventories were at levels of less than 100,000 metric tons at December 31, 2005, less than 14 percent of the available stocks at the beginning of 2004. Despite previous market forecasts that prices would decline in the second half of 2005, prices rose to new highs as projected increases in supply fell short of expectations; even though global demand was weaker than generally anticipated. Prices ranged from $1.39 per pound to a multi-year high of $2.11 per pound in 2005. Copper prices have remained strong in early 2006 and the LME spot price closed at $2.23 per pound on January 31, 2006. Global copper demand in 2005 was lower than expectations; however, disruptions associated with strikes and other operational issues have reduced copper supply and continued to keep inventories at very low levels. Many market analysts expect copper supplies will increase somewhat in 2006 and prices to moderate from current levels. Nevertheless, analysts' price expectations for 2006 are generally higher than earlier in 2005, with the continuation of very low inventory levels, the potential for supply disruptions and the absence of major new mines being developed. Future copper prices are expected to continue to be influenced by demand from China, economic performance in the United States (U.S.) and other industrialized countries, the timing of the development of new supplies of copper and production levels of mines and copper smelters. We consider the current underlying supply and demand conditions in the global copper markets to be positive for our company.



The environment for gold continues to be positive with gold prices recently reaching new 25-year highs above $550 per ounce, supported by increased investment demand for gold, ongoing geopolitical tensions, a weak U.S. dollar, inflationary pressures, falling production from older mines, limited development of new mines and actions by gold producers to reduce hedge positions. Gold prices averaged $445 per ounce in 2005, with prices ranging from $411 per ounce to $538 per ounce. The London gold price closed at approximately $569 per ounce on January 31, 2006.

CRITICAL ACCOUNTING ESTIMATES

Management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the U.S. The preparation of these statements requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We base these estimates on historical experience and on assumptions that we consider reasonable under the circumstances; however, reported results could differ from those based on the current estimates under different assumptions or conditions. The areas requiring the use of management's estimates are discussed in Note 1 under the subheading "Use of Estimates." Management has reviewed the following discussion of its development and selection of critical accounting estimates with the Audit Committee of our Board of Directors.

- *Mineral Reserves and Depreciation and Amortization* - As discussed in Note 1, we depreciate our life-of-mine mining and milling assets using the unit-of-production method based on our estimates of our proven and probable recoverable copper reserves. We have other assets that we depreciate on a straight-line basis over their estimated useful lives. Our estimates of proven and probable recoverable copper reserves and of the useful lives of our straight-line assets impact our depreciation and amortization

expense. These estimates affect the operating results of both our “mining and exploration” and “smelting and refining” segments.

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

There are a number of uncertainties inherent in estimating quantities of reserves, including many factors beyond our control. Ore reserves estimates are based upon engineering evaluations of samplings of drill holes and other openings. Our estimates of proven and probable recoverable reserves are prepared by our employees and reviewed and verified by independent experts in mining, geology and reserve determination. As of December 31, 2005, aggregate proven and probable recoverable copper reserves totaled 56.6 billion pounds and PT Freeport Indonesia’s estimated share totaled 40.3 billion pounds. These estimates involve assumptions regarding future copper and gold prices, the geology of our mines, the mining methods we use and the related costs we incur to develop and mine our reserves. Changes in these assumptions could result in material adjustments to our reserve estimates, which could result in changes to depreciation and amortization expense in future periods, with corresponding adjustments to net income. If aggregate estimated copper reserves were 10 percent higher or lower at December 31, 2005, and based on our current sales projections for 2006, we estimate that our annual depreciation expense for 2006 would change by approximately $11 million, changing net income by approximately $6 million. Although some degree of variability is expected, we believe the extent of our technical data and operating experience - specifically as it relates to our Grasberg open-pit mine, which we have been mining for 16 years - mitigates the potential for significant changes in reserve estimates, especially as compared with mines that are undeveloped or newly developed.

As discussed in Note 1, we review and evaluate our long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Changes to our estimates of proven and probable recoverable copper and gold reserves could have an impact on our assessment of asset impairment. However, we believe it is unlikely that revisions to our estimates of proven and probable recoverable copper and gold reserves would give rise to an impairment of our assets because of the significant size of our reserves in relation to our asset carrying values.

- *Deferred Mining Costs* - Mining costs are charged to operations as incurred. However, because of the configuration and location of the Grasberg ore body and the location and extent of surrounding overburden, the ratio of overburden to ore is much higher in the initial mining of the pit than in later years. In 2005 and years prior, surface mining costs associated with overburden removal at PT Freeport Indonesia’s Grasberg open-pit mine that were estimated to relate to future production were initially deferred when the ratio of actual overburden removed to ore mined exceeded the estimated average ratio of overburden to ore over the life of the Grasberg open-pit mine as projected in our most recent mine plan. Those deferred costs are subsequently charged to operating costs when the ratio of actual overburden removed to ore mined falls below the estimated average ratio of overburden removed to ore mined over the life of the Grasberg open-pit mine. We use the proven and probable ore reserves for the Grasberg open pit disclosed in the notes to our consolidated financial statements to calculate the estimated average ratio of overburden to ore over the life of the mine.

  In the mining industry, the costs of removing overburden and waste material to access mineral deposits are referred to as “stripping costs.” Through 2005, we applied the deferred mining cost method in accounting for our post-production stripping costs, which we refer to as overburden removal costs. The deferred mining cost method is used by some companies in the metals mining industry; however, industry practice varies. The deferred mining cost method matches the cost of production with the sale of the related metal from the open pit by assigning each metric ton of ore removed an equivalent amount of overburden tonnage, thereby averaging overburden removal costs over the life of the mine. The mining cost capitalized in inventory and

the amounts charged to cost of goods sold do not represent the actual costs incurred to mine the ore in any given period. The application of the deferred mining cost method has resulted in an asset on our balance sheets ("Deferred Mining Costs") totaling $285.4 million at December 31, 2005, and $220.4 million at December 31, 2004.

The estimated average ratio of overburden to ore over the life of the Grasberg open pit used in our deferred mining costs calculation has been a critical accounting estimate because (1) it is susceptible to change from period to period because it requires management to make assumptions about future mining activities and (2) changes could materially affect net income. Our mine plan is derived from a model that takes into consideration available geological data and determines the most efficient and cost-effective method of accessing the economic reserves. Significant assumptions underlying our mine plan include the amount of total overburden and ore we expect to move in a given year, the ultimate configuration of the pit and the level of ore contributed by our underground mines. All other variables being equal, increases in the life of mine overburden removed to ore mined ratio would result in more of the overburden removal costs being matched with current period production and therefore charged to expense rather than deferred. Decreases in the life of mine overburden removed to ore mined ratio would result in more of the overburden removal costs being deferred and matched with production in future periods.

PT Freeport Indonesia's estimated life-of-mine overburden-to-ore ratio averaged 2.4 to 1 in 2005, 2.3 to 1 in 2004 and 2.0 to 1 in 2003. PT Freeport Indonesia's geologists and engineers reassess the overburden-to-ore ratio and the remaining life of the Grasberg open-pit mine at least annually, and we reflect any changes in our estimates prospectively beginning in the quarter of change. The increases in the ratio in 2003 and 2004 primarily relate to changes in the cutoff grade at the open pit caused by a reassessment of the optimal milling rate at our mill facilities, including a greater proportional contribution to our total ore processed from our underground Deep Ore Zone mine. As a result of our adoption of Emerging Issues Task Force Issue No. 04-6 (EITF 04-6) on January 1, 2006 (see "New Accounting Standards"), we no longer defer mining costs except to the extent inventory exists at the end of the reporting period; and accounting for deferred mining costs is no longer a critical accounting policy.

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

  Effective January 1, 2003, we adopted Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations" (see Note 1). SFAS No. 143 requires that we record the fair value of our estimated asset retirement obligations in the period incurred. We measure fair value as the present value of multiple cash flow scenarios that reflect a range of possible outcomes after considering inflation and then applying a market risk premium. The accounting estimates related to reclamation and closure costs are critical accounting estimates because (1) we will not incur most of these costs for a number of years, requiring us to make estimates over a long period; (2) reclamation and closure laws and regulations could change in the future or circumstances affecting our operations could change, either of which could result in significant changes to our current plans; (3) calculating the fair value of our asset retirement obligations in accordance with SFAS No. 143 requires management to assign probabilities to projected cash flows, to make long-term assumptions about inflation rates, to determine our credit-adjusted, risk-free interest rates and to determine market risk premiums that are appropriate for our operations; and (4) given the magnitude of our estimated reclamation and closure costs, changes in any or all of these estimates could have a material impact on net income.

  In 2002, we engaged an independent environmental consulting and auditing firm to assist in estimating PT Freeport Indonesia's aggregate asset retirement obligations, and worked with other consultants in estimating Atlantic Copper's asset retirement obligations. We estimated these obligations using an expected cash flow approach, in which multiple cash flow scenarios were used to reflect a range of possible outcomes. To calculate the fair value of these obligations, we applied an estimated long-term inflation rate of 2.5 percent, except for Indonesian rupiah-denominated labor costs with respect to PT Freeport Indonesia's obligations, for which an estimated inflation rate of 9.0 percent was applied. The projected cash flows were discounted at our estimated credit-adjusted, risk-free interest rates, which ranged from 9.4 percent to 12.6 percent

for the corresponding time periods over which these costs would be incurred. The inflation rates and discount rates we used to calculate the fair value of PT Freeport Indonesia's asset retirement obligation are critical factors in the calculation of future value and discounted present value costs. An increase of one percent in the inflation rates used results in an approximate 17 percent increase in the discounted present value costs. A decrease of one percent in the discount rates used has a similar effect resulting in an approximate 16 percent increase in the discounted present value costs. After discounting the projected cash flows, a market risk premium of 10 percent was applied to the total to reflect what a third party might require to assume these asset retirement obligations. The market risk premium was based on market-based estimates of rates that a third party would have to pay to insure its exposure to possible future increases in the value of these obligations.

At January 1, 2003, we estimated the fair value of our aggregate asset retirement obligations to be $28.5 million. We recorded the fair value of these obligations and the related additional assets as of January 1, 2003. The net difference between our previously recorded reclamation and closure cost liability and the amounts estimated under SFAS No. 143, after taxes and minority interest, resulted in a gain of $9.1 million (after reduction by $8.5 million for taxes and minority interest sharing), $0.06 per diluted share, which was recognized as a cumulative effect adjustment for a change in accounting principle.

At least annually, PT Freeport Indonesia reviews its estimates for (1) changes in the projected timing of certain reclamation costs, (2) changes in cost estimates, and (3) additional asset retirement obligations incurred during the period. We estimated PT Freeport Indonesia's aggregate asset retirement obligations to be about $156 million at December 31, 2005 , and $149 million at December 31, 2004. An analysis of PT Freeport Indonesia's calculated fair value of its asset retirement obligation follows (in millions):

	2005	2004	2003
Asset retirement obligation at beginning of year	$ 22.0	$ 25.7	$ 27.9
Accretion expense	2.7	2.8	2.7
Revisions for changes in estimates	-	(6.5)	(4.3)
Liabilities incurred	1.8	-	0.6
Liabilities settled	-	-	(1.2)
Asset retirement obligation at end of year	$ 26.5	$ 22.0	$ 25.7

The expected deferral of certain costs was the primary change in estimates that caused the decline in the obligation balance in 2003 and 2004. These changes reduced the related asset balance and are not expected to have a material impact on future net income.

CONSOLIDATED RESULTS OF OPERATIONS

Consolidated revenues include PT Freeport Indonesia's sale of copper concentrates, which also contain significant quantities of gold and silver, and the sale by Atlantic Copper of copper anodes, copper cathodes, wire rod, wire and gold in anodes and slimes. Consolidated revenues and net income vary significantly with fluctuations in the market prices of copper and gold and other factors. Consolidated revenues of $4.2 billion for 2005 were significantly higher than consolidated revenues of $2.4 billion for 2004, reflecting substantially higher copper and gold sales volumes and prices than 2004. The 2004 results were adversely affected by lower ore grades and reduced mill throughput as PT Freeport Indonesia completed efforts to restore safe access to the higher-grade ore areas in its Grasberg open-pit mine following the fourth-quarter 2003 slippage and debris flow events (see "Mining and Exploration Operations - PT Freeport Indonesia Operating Results"). In addition, Atlantic Copper's scheduled major maintenance turnaround adversely affected its 2004 revenues (see "Smelting and Refining Operations - Atlantic Copper Operating Results"). Consolidated revenues in 2004 were slightly higher compared with 2003 revenues of $2.2 billion as higher copper and gold prices in 2004 were partially offset by the lower ore grades and reduced mill throughput in 2004.

Consolidated production and delivery costs were higher in 2005 at $1.64 billion compared with $1.45 billion for 2004 and $1.07 billion for 2003. The increase in 2005 was primarily because of higher costs of concentrate purchases at Atlantic Copper caused by increased production volumes and higher metals prices and higher production costs at PT Freeport Indonesia caused by higher energy costs. Production and delivery costs in 2004 were higher than in 2003 primarily because of higher costs of concentrate purchases at Atlantic Copper caused by higher metals prices, higher production costs at PT Freeport Indonesia and the costs of Atlantic Copper's smelter turnaround. Consolidated depreciation and amortization expense was $251.5 million in 2005, $206.4 million in 2004 and $230.8 million in 2003. Depreciation and amortization expense increased in 2005 compared with 2004, primarily because of higher copper sales volumes at PT Freeport Indonesia during 2005, and decreased in 2004

compared with 2003 primarily because a large portion of our depreciation is calculated on a unit-of-production basis and our copper sales volumes at PT Freeport Indonesia declined in 2004.

Exploration expenses totaled $8.8 million in 2005, $8.7 million in 2004 and $6.4 million in 2003. Our exploration program for 2005 focused on drilling at the Mill Level Zone and Deep Mill Level Zone deposits and the Grasberg underground extension to the Kucing Liar deposit. Our 2005 drilling efforts resulted in additions to our proven and probable reserves as of December 31, 2005 (see "Exploration and Reserves"). All approved exploration costs in the joint venture areas with Rio Tinto are generally shared 60 percent by us and 40 percent by Rio Tinto. The FCX/Rio Tinto joint ventures' 2006 exploration budgets total approximately $15 million ($10 million for our share).

Consolidated general and administrative expenses increased to $103.9 million in 2005 from $89.9 million in 2004, primarily reflecting higher incentive compensation costs associated with stronger financial performance and pursuant to established plans under which certain compensation plans are based on annual operating cash flow results, which were significantly higher in 2005 compared with 2004. General and administrative expenses in 2005 also include $3.4 million in administrative costs incurred following Hurricane Katrina and for contributions to hurricane-relief efforts. Our parent company charges PT Freeport Indonesia for the in-the-money value of exercised employee stock options. These charges are eliminated in consolidation; however, PT Freeport Indonesia shares a portion of these charges with Rio Tinto and Rio Tinto's reimbursements reduce our consolidated general and administrative expenses. General and administrative expenses are net of Rio Tinto's share of joint venture reimbursements for employee stock option exercises, which decreased general and administrative expenses by $9.2 million in 2005 and $7.0 million in 2004. In accordance with our joint venture agreement, Rio Tinto's percentage share of PT Freeport Indonesia's general and administrative expenses varies with metal sales volumes and prices and totaled approximately 16 percent in 2005 compared with approximately 8 percent in 2004. Estimated general and administrative expenses for 2006 are expected to approximate the 2005 level.

General and administrative expenses increased by $9.6 million to $89.9 million in 2004 from $80.3 million in 2003. General and administrative expenses for 2004 include a $2.2 million charge for Atlantic Copper's workforce reduction plan (see "Smelting and Refining Operations - Atlantic Copper Operating Results"). As a percentage of revenues, general and administrative expenses were 2.5 percent in 2005, 3.8 percent in 2004 and 3.6 percent in 2003.

PT Freeport Indonesia maintains property damage and business interruption insurance related to its operations. In December 2004, we entered into an insurance settlement agreement and settled all claims that arose from the fourth-quarter 2003 slippage and debris flow events i n the Grasberg open-pit mine. Our insurers agreed to pay us an aggregate of $125.0 million in connection with our claims. After considering our joint venture partner's interest in the proceeds, PT Freeport Indonesia's share of proceeds totaled $95.0 million. As a result of the settlement, we recorded in our Consolidated Statements of Income an $87.0 million gain on insurance settlement for the business interruption recovery and an $8.0 million gain to production costs for the property loss recovery for a net gain of $48.8 million ($0.26 per share), after taxes and minority interest sharing, in 2004.

Total consolidated interest cost (before capitalization) was $135.8 million in 2005, $151.0 million in 2004 and $200.0 million in 2003. Interest costs decreased from 2003 through 2005 primarily because we reduced average debt levels during the three-year period with significant reductions in 2005. Over the past three years, we completed a number of transactions that resulted in total debt reductions, including mandatorily redeemable preferred stock, of $1.2 billion. Our interest cost for 2006 is expected to decrease compared to 2005, reflecting annual interest cost savings of approximately $48 million from the 2005 debt reductions. See "Capital Resources and Liquidity - Financing Activities" for further discussion. Capitalized interest totaled $4.1 million in 2005, $2.9 million in 2004 and $3.0 million in 2003.

Losses on early extinguishment and conversion of debt totaled $52.2 million ($40.2 million to net income or $0.18 per share, net of related reduction of interest expense) in 2005, $14.0 million ($7.4 million to net income or $0.04 per share, net of related reduction of interest expense) in 2004 and $34.6 million ($31.9 million to net income or $0.20 per share, net of related reduction of interest expense) in 2003.

Gains on sales of assets totaled $6.6 million ($4.9 million to net income or $0.02 per share) in 2005 from the sale of land in Arizona held by a joint venture in which we own a 50 percent interest. The joint venture previously was engaged in a copper mining research project in Arizona. Gains on sales of assets totaled $28.8 million in 2004 as a result of two transactions. The first transaction was the sale to a real estate

developer of a parcel of land in Arizona owned by the joint venture mentioned above resulting in a gain of $21.3 million ($20.4 million to net income or $0.11 per share). In the second transaction, Atlantic Copper completed a sale of its wire rod and wire assets for $18.3 million cash and recorded a gain of $7.5 million ($7.5 million to net income or $0.04 per share).

Other income (expense) includes interest income of $16.8 million in 2005, $5.9 million in 2004 and $8.9 million in 2003. Other income (expense) also includes the impact of translating into U.S. dollars Atlantic Copper's net euro-denominated liabilities, primarily its retiree pension obligations. Changes in the U.S. dollar/euro exchange rate require us to adjust the dollar value of our net euro-denominated liabilities and record the adjustment in earnings. Exchange rate effects on our net income from euro-denominated liabilities were gains (losses) of $5.8 million in 2005, $(1.6) million in 2004 and $(13.6) million in 2003. The gains reflect a stronger U.S. dollar in relation to the euro and the losses reflect a stronger euro in relation to the U.S. dollar in the respective periods (see "Disclosures About Market Risks"). Other expenses in 2003 also include a $5.6 million ($3.7 million to net income or $0.02 per share) charge associated with the amended FCX and PT Freeport Indonesia credit facility (see "Capital Resources and Liquidity - Financing Activities").

PT Freeport Indonesia's Contract of Work provides for a 35 percent corporate income tax rate. PT Indocopper Investama pays a 30 percent corporate income tax on dividends it receives from its 9.36 percent ownership in PT Freeport Indonesia. In addition, the tax treaty between Indonesia and the U.S. provides for a withholding tax rate of 10 percent on dividends and interest that PT Freeport Indonesia and PT Indocopper Investama pay to their parent company, FCX. Prior to 2005, we also incurred a U.S. alternative minimum tax at an effective rate of two percent based primarily on consolidated income, net of smelting and refining results. As a result of the enactment of the American Jobs Creation Act of 2004, the 90 percent limitation on the use of foreign tax credits to offset the U.S. federal alternative minimum tax liability was repealed effective January 1, 2005. The removal of this limitation significantly reduced our U.S. federal taxes beginning in 2005. Our U.S. federal alternative minimum tax liability totaled $8.2 million in 2004 and $9.3 million in 2003. We currently record no income taxes at Atlantic Copper, which is subject to taxation in Spain, because it has not generated significant taxable income in recent years and has substantial tax loss carryforwards for which we have provided no net financial statement benefit. We receive no consolidated tax benefit from these losses because they cannot be used to offset PT Freeport Indonesia's profits in Indonesia, but can be utilized to offset Atlantic Copper's profits.

Parent company costs consist primarily of interest, depreciation and amortization, and general and administrative expenses. We receive minimal tax benefit from these costs, including interest expense, primarily because our parent company normally generates no taxable income from U.S. sources. As a result, our provision for income taxes as a percentage of our consolidated income before income taxes and minority interests will vary as PT Freeport Indonesia's income changes, absent changes in Atlantic Copper and parent company costs. The provision for income taxes as a percentage of consolidated income before income taxes and minority interests totaled 45 percent for 2005 and 58 percent for 2004 and 2003. Summaries of the approximate significant components of the calculation of our consolidated provision for income taxes are shown below (in thousands, except percentages).

	Years Ended December 31,		
	2005	2004	2003
Mining and exploration segment operating income [a]	$ 2,312,771	$ 832,112	$ 850,253
Mining and exploration segment interest expense, net	(22,386)	(22,209)	(44,861)
Intercompany operating profit (deferred) recognized	(144,986)	(24,683)	13,828
Income before taxes	2,145,399	785,220	819,220
Indonesian corporate income tax rate (35%) plus U.S. alternative minimum tax rate (2%) for 2004 and 2003	35%	37%	37%
Corporate income taxes	750,890	290,531	303,111
Approximate PT Freeport Indonesia net income	1,394,509	494,689	516,109
Withholding tax on FCX's equity share	9.064%	9.064%	9.064%
Withholding taxes	126,398	44,839	46,780
PT Indocopper Investama corporate income tax	36,544	3,005	-
Other, net	1,236	(7,695)	(11,838)
FCX consolidated provision for income taxes	$ 915,068	$ 330,680	$ 338,053
FCX consolidated effective tax rate	45%	58%	58%

a. Excludes charges for the in-the-money value of FCX stock option exercises, which are eliminated in consolidation, totaling $64.5 million in 2005, $87.3 million in 2004 and $57.8 million in 2003.

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

	Years Ended December 31,		
	2005	2004	2003
Mining and exploration [a]	$ 2,248.3	$ 744.8	$ 792.5
Smelting and refining	34.8	(83.5)	(21.8)
Intercompany eliminations and other [a, b]	(105.8)	42.3	52.6
FCX operating income	$ 2,177.3	$ 703.6	$ 823.3

a. Includes charges to the mining and exploration segment for the in-the-money value of FCX stock option exercises, which are eliminated in consolidation, totaling $64.5 million in 2005, $87.3 million in 2004 and $57.8 million in 2003.
b. We defer recognizing profits on PT Freeport Indonesia’s sales to Atlantic Copper and on 25 percent of PT Freeport Indonesia’s sales to PT Smelting until their sales of final products to third parties. Changes in the amount of these deferred profits impacted operating income by $(145.0) million in 2005, $(24.7) million in 2004 and $13.8 million in 2003. Our consolidated earnings can fluctuate materially depending on the timing and prices of these sales. At December 31, 2005, our deferred profits to be recognized in future periods’ operating income totaled $225.9 million, $119.8 million to net income, after taxes and minority interest sharing.

MINING AND EXPLORATION OPERATIONS

A summary of changes in PT Freeport Indonesia revenues follows (in millions):

	2005	2004
PT Freeport Indonesia revenues - prior year	$ 1,746.6	$ 1,744.6
Sales volumes:		
Copper	636.4	(249.0)
Gold	555.5	(376.4)
Price realizations:		
Copper	706.4	545.4
Gold	122.6	66.0
Adjustments, primarily for copper pricing on prior year open sales	(1.4)	4.9
Treatment charges, royalties and other	(198.1)	11.1
PT Freeport Indonesia revenues - current year	$ 3,568.0	$ 1,746.6

PT Freeport Indonesia Operating Results - 2005 Compared with 2004
PT Freeport Indonesia achieved significantly higher production and sales and multiple operating records in 2005, reflecting higher ore grades and milling rates than in 2004. Copper and gold sales totaled 1.46 billion pounds of copper and a record 2.8 million ounces of gold in 2005, compared with sales of 1.0 billion pounds of copper and 1.4 million ounces of gold in 2004.

Mill throughput, which varies depending on ore types being processed, averaged 216,200 metric tons of ore in 2005, compared with 185,100 metric tons of ore in 2004. Following the fourth-quarter 2003 Grasberg open-pit slippage and debris flow events, we accelerated the removal of overburden and mined low-grade ore prior to restoring safe access to higher-grade ore areas in the second quarter of 2004 and resuming normal milling rates in June 2004. As a result, mill throughput was lower in 2004. Mill rates will vary during 2006 depending on ore types mined and are expected to average in excess of 220,000 metric tons of ore per day for the year. Approximate average daily throughput processed at our mill facilities from each of our producing mines follows (metric tons of ore per day):

	Years Ended December 31,	
	2005	2004
Grasberg open pit	174,200	141,500
Deep Ore Zone	42,000	43,600
Total	216,200	185,100

Copper ore grades averaged 1.13 percent in 2005, compared with 0.87 percent in 2004, and copper recovery rates were 89.2 percent, compared with 88.6 percent for 2004. In 2005, gold ore grades averaged 1.65 grams per metric ton (g/t), compared with 0.88 g/t in 2004, and gold recovery rates averaged 83.1 percent in 2005, compared with 81.8 percent in 2004. The 2005 grades reflect the return to normal mining operations at Grasberg, including accessing higher-grade material in accordance with our mine plan. Copper and gold ore grades are projected to be lower in 2006 when compared with the 2005 ore grades because of mine sequencing.

Production from the Deep Ore Zone (DOZ) underground mine averaged 42,000 metric tons of ore per day in 2005, representing 19 percent of mill throughput as it continued to perform above design capacity of 35,000 metric tons of ore per day. PT Freeport Indonesia is expanding the capacity of the DOZ underground operation to a sustained rate of 50,000 metric tons per day with the installation of a second crusher and additional ventilation, expected to be complete in 2007. PT Freeport Indonesia's share of capital expenditures for the DOZ expansion totaled approximately $16 million in 2005 and is expected to approximate $37 million through the projected 2007 ramp-up, with approximately $16 million estimated for 2006. The DOZ mine, a block cave operation, is one of the world's largest underground mines.

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. PT Freeport Indonesia’s share of capital expenditures for its Common Infrastructure project totaled approximately $19 million in 2005 and is estimated to total approximately $6 million in 2006. The Common Infrastructure project is progressing according to plan. Work on the Grasberg underground ore body is scheduled to begin in 2006 with projected capital expenditures of approximately $21 million.

PT Freeport Indonesia is also proceeding with plans to develop Big Gossan, a high-grade deposit located near the existing milling complex. Our Board of Directors has approved this project and aggregate capital expenditures from 2005 to 2009 for Big Gossan are expected to total approximately $225 million ($195 million net to PT Freeport Indonesia, with approximately $50 million in 2006). Production is expected to ramp up to 7,000 metric tons per day by 2010 (average annual aggregate incremental production of 135 million pounds of copper and 65,000 ounces of gold, with PT Freeport Indonesia receiving 60 percent of these amounts). The Big Gossan mine is expected to be an open-stope mine with cemented backfill, which is an established mining methodology expected to be higher-cost than the block-cave method used at the DOZ mine.

Copper sales volumes totaled 1.46 billion pounds in 2005, 47 percent higher than the 1.0 billion pounds reported in 2004. Copper price realizations of $1.85 per pound in 2005 were $0.48 per pound higher than the 2004 realizations of $1.37 per pound. Gold sales volumes totaled 2.8 million ounces in 2005, 93 percent higher than the 1.4 million ounces reported in 2004. Gold price realizations of $456.27 per ounce in 2005 were nearly $44 an ounce higher than 2004 realizations of $412.32 per ounce.

Treatment charges vary with the volume of metals sold and the price of copper, and royalties vary with the volume of metals sold and the prices of copper and gold. In addition, treatment charges vary based on PT Freeport Indonesia’s customer mix as sales to PT Smelting are subject to a minimum rate (see below). Market rates for treatment and refining charge rates began to increase significantly in late 2004, and PT Freeport Indonesia’s average 2005 rate exceeded its average 2004 rate. Royalties totaled $103.7 million in 2005 and $43.5 million in 2004, reflecting higher sales volumes and metal prices.

Substantially all of PT Freeport Indonesia’s concentrate sales contracts provide final copper pricing in a specified future period based on prices quoted on the LME. PT Freeport Indonesia records revenues and invoices its customers based on LME prices at the time of shipment. Under accounting rules, these terms create an “embedded derivative” in our concentrate sales contracts which must be adjusted to fair value through earnings each period until the date of final copper pricing. PT Freeport Indonesia’s 2005 revenues include net additions of $223.3 million for adjustments to the fair value of embedded copper derivatives in concentrate sales contracts, compared with $68.2 million in 2004.

Gross Profit per Pound of Copper (¢)/per Ounce of Gold and Silver ($)

Year Ended December 31, 2005				
Pounds of copper sold (000s)	1,456,500	1,456,500		
Ounces of gold sold			2,790,200	
Ounces of silver sold				4,734,600

	By-Product Method	Co-Product Method		
		Copper	Gold	Silver
Revenues, after adjustments shown below	185.4¢	185.4¢	$456.27	$6.36
Site production and delivery, before net non-cash and nonrecurring costs shown below	65.2[a]	44.0[b]	107.71[b]	1.76[b]
Gold and silver credits	(89.6)	-	-	-
Treatment charges	24.1	16.2	39.75	0.65
Royalty on metals	7.1	4.8	11.77	0.19
Unit net cash costs [c]	6.8	65.0	159.23	2.60
Depreciation and amortization	14.4	9.7	23.79	0.39
Noncash and nonrecurring costs, net	0.3	0.2	0.52	0.01
Total unit costs	21.5	74.9	183.54	3.00
Revenue adjustments, primarily for pricing on prior period open sales and silver hedging	1.2	1.4	(1.14)	0.02
PT Smelting intercompany profit elimination	(1.6)	(1.1)	(2.67)	(0.04)
Gross profit per pound/ounce	163.5¢	110.8¢	$268.92	$3.34

Year Ended December 31, 2004				
Pounds of copper sold (000s)	991,600	991,600		
Ounces of gold sold			1,443,000	
Ounces of silver sold				3,257,800

	By-Product Method	Co-Product Method		
		Copper	Gold	Silver
Revenues, after adjustments shown below	136.9¢	136.9¢	$412.32	$6.10
Site production and delivery, before net non-cash and nonrecurring credits shown below	77.1[d]	53.1[e]	159.17[e]	2.56[e]
Gold and silver credits	(62.2)	-	-	-
Treatment charges	20.4	14.0	42.12	0.68
Royalty on metals	4.4	3.0	9.06	0.15
Unit net cash costs [c]	39.7	70.1	210.35	3.39
Depreciation and amortization	17.0	11.7	35.03	0.56
Noncash and nonrecurring credits, net	(0.4)	(0.3)	(0.85)	(0.01)
Total unit costs	56.3	81.5	244.53	3.94
Revenue adjustments, primarily for pricing on prior period open sales and silver hedging	1.9	2.0	0.15	0.10
PT Smelting intercompany profit elimination	(1.4)	(1.0)	(2.87)	(0.05)
Gross profit per pound/ounce	81.1¢	56.4¢	$165.07	$2.21

a. Net of deferred mining costs totaling $64.9 million or 4.5¢ per pound. Upon adoption of EITF 04-6 (see “New Accounting Standards” and Note 1) mining costs will no longer be deferred.
b. Net of deferred mining costs totaling $43.8 million or 3.0¢ per pound for copper, $20.6 million or $7.37 per ounce for gold and $0.6 million or $0.12 per ounce for silver (see Note a above).
c. For a reconciliation of unit net cash costs to production and delivery costs applicable to sales reported in FCX’s consolidated financial statements refer to “Product Revenues and Production Costs.”
d. Net of deferred mining costs totaling $77.8 million or 7.8¢ per pound (see Note a above).
e. Net of deferred mining costs totaling $53.6 million or 5.4¢ per pound for copper, $23.4 million or $16.20 per ounce for gold and $0.8 million or $0.26 per ounce for silver (see Note a above).

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

Because of the fixed nature of a large portion of our costs, unit costs vary significantly from period to period depending on volumes of copper and gold sold during the period. In addition, we have experienced significant increases in our production costs in recent years primarily as a result of higher energy costs and costs of other consumables, higher mining costs and milling rates, labor costs and other factors. Our energy costs, which approximate 22 percent of PT Freeport Indonesia’s production costs, primarily include purchases of 100 million gallons of diesel per year and 650,000 metric tons of coal per year. Diesel prices have risen by more than 120 percent since 2002 and our coal costs are approximately 40 percent higher. The costs of other consumables, including steel and reagents, also have increased. Our costs have been affected by the stronger Australian dollar against the U.S. dollar (approximately 40 percent increase since the beginning of 2003), which comprise approximately 15 percent of PT Freeport Indonesia’s production costs. We are pursuing cost reduction initiatives to mitigate the impacts of these increases.

Lower unit site production and delivery costs in 2005 reflected significantly higher sales volumes resulting from higher ore grades and the primarily fixed nature of a large portion of PT Freeport Indonesia’s cost structure. Unit site production and delivery costs are net of deferred mining costs, which will no longer be deferred and will be charged to cost of sales as incurred upon adoption of EITF 04-6 (see

"New Accounting Standards" and Note 1). PT Freeport Indonesia's 2005 overburden-to-ore ratio averaged 3.1 to 1, compared with a life-of-mine average ratio of 2.4 to 1. In the fourth quarter of 2004, PT Freeport Indonesia changed its life-of-mine overburden-to-ore ratio to 2.4 to 1 from 2.2 to 1, and in the fourth quarter of 2003 the ratio changed to 2.1 to 1 from 1.9 to 1. As of December 31, 2005, deferred mining costs totaled $285.4 million, compared with $220.4 million at December 31, 2004. See "Critical Accounting Estimates" for a discussion of changes in the estimated life-of-mine overburden-to-ore ratio.

Unit treatment charges vary with the price of copper, and royalty rates vary with prices of copper and gold. In addition, treatment charges vary based on PT Freeport Indonesia's customer mix. The copper royalty rate payable by PT Freeport Indonesia under its Contract of Work varies from 1.5 percent of copper net revenue at a copper price of $0.90 or less per pound to 3.5 percent at a copper price of $1.10 or more per pound. The Contract of Work royalty rate for gold and silver sales is 1.0 percent.

In connection with our fourth concentrator mill expansion completed in 1998, PT Freeport Indonesia agreed to pay the Government of Indonesia additional royalties (royalties not required by the Contract of Work) to provide further support to the local governments and the people of the Indonesian province of Papua (see Note 1). The additional royalties are paid on metal from production from PT Freeport Indonesia's milling facilities above 200,000 metric tons of ore per day. PT Freeport Indonesia's royalty rate on copper net revenues from production above 200,000 metric tons of ore per day is double the Contract of Work royalty rate, and the royalty rates on gold and silver sales from production above 200,000 metric tons of ore per day are triple the Contract of Work royalty rates.

As a result of higher copper and gold sales volumes, our 2005 royalty costs of $103.7 million increased compared with royalty costs of $43.5 million in 2004, including $18.1 million in 2005 and none in 2004 for the additional royalties discussed above. If copper prices average $2.00 per pound and gold prices average $550 per ounce during 2006, we would expect royalty costs to total approximately $83 million ($0.06 per pound of copper) for 2006. These estimates assume 2006 sales volumes of 1.3 billion pounds of copper and 1.7 million ounces of gold.

As a result of the higher copper production and sales volumes in 2005, PT Freeport Indonesia's unit depreciation rate decreased compared with 2004. Because certain assets are depreciated on a straight-line basis, the unit rate will vary with the level of copper production and sales.

PT Freeport Indonesia has a labor agreement covering its hourly paid Indonesian employees, the key provisions of which are renegotiated biannually. The labor agreement was scheduled to expire on September 30, 2005. In June 2005, PT Freeport Indonesia and its workers agreed to terms for a new labor agreement that expires in September 2007. PT Freeport Indonesia's relations with the workers' union have generally been satisfactory.

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

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

Gold and silver credits increased to $0.90 per pound in 2005, compared with $0.62 per pound in 2004, reflecting higher gold sales volumes and average realized prices in 2005. Treatment charges increased to $0.24 per pound in 2005 from $0.20 per pound in 2004 primarily because of higher copper prices and higher treatment rates. Royalties of $0.07 per pound in 2005 were almost $0.03 per pound above 2004 primarily because of higher copper and gold prices and sales volumes.

Assuming 2006 average prices of $2.00 per pound for copper and $550 per ounce for gold, and copper and gold sales of 1.3 billion pounds and 1.7 million ounces for 2006, PT Freeport Indonesia estimates that its annual 2006 unit net

cash costs, including gold and silver credits, would approximate $0.51 per pound. Forecasted unit net cash costs are calculated on the same basis as the historical unit costs. Unit net cash costs for 2006 would change by approximately $0.03 per pound for each $25 per ounce change in the average price of gold for 2006. While aggregate costs are expected to be similar to 2005 amounts, estimated unit cash costs for 2006 are projected to be higher than the 2005 average, primarily because of lower 2006 copper and gold sales volumes. Because the majority of PT Freeport Indonesia's costs are fixed, unit costs will vary with the volumes sold and will therefore be higher during the first half of 2006 and lower during the second half compared to the projected annual average.

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

PT Freeport Indonesia Operating Results - 2004 Compared with 2003

PT Freeport Indonesia's 2004 revenues were slightly higher than 2003 revenues, with higher price realizations offset by lower sales volumes. PT Freeport Indonesia reported lower production and sales in 2004, reflecting the mining of lower-grade material and accelerated overburden removal activities following the fourth-quarter 2003 slippage and debris flow events. Copper sales volumes totaled 1.0 billion pounds in 2004, 23 percent lower than the 1.3 billion pounds reported in 2003. Copper price realizations of $1.37 per pound in 2004 were $0.55 per pound higher than the 2003 realizations of $0.82 per pound. Gold sales volumes totaled 1,443,000 ounces in 2004, 42 percent lower than the 2,469,800 ounces reported in 2003. Gold price realizations of $412.32 per ounce in 2004 were $54.71 an ounce higher than the 2003 realizations of $357.61 per ounce, before realized gains related to the redemption of our Gold-Denominated Preferred Stock. Gold price realizations were $366.60 per ounce in 2003 after hedging gains from redemption of our Gold-Denominated Preferred Stock.

Total treatment charges for PT Freeport Indonesia in 2004 were lower because of the lower volume of metal sales. Royalty costs totaled $43.5 million in 2004 compared with $26.5 million in 2003, reflecting higher metal prices partly offset by lower sales volumes. Royalty costs included no additional royalties in 2004 and $6.4 million of additional royalties, discussed above, in 2003.

Following the fourth-quarter 2003 Grasberg open-pit slippage and debris flow events, we accelerated the removal of overburden and mined low-grade ore prior to restoring safe access to higher-grade ore areas in the second quarter of 2004 and resuming normal milling rates in June 2004. Mill throughput averaged 185,100 metric tons of ore per day in 2004 and 203,000 metric tons of ore in 2003. Approximate average daily throughput processed at our mill facilities from each of our producing mines follows (metric tons of ore per day):

	Years Ended December 31	
	2004	2003
Grasberg open pit	141,500	155,700
Deep Ore Zone	43,600	40,500
Intermediate Ore Zone	-	6,800
Total	185,100	203,000

Production from the DOZ underground mine averaged 43,600 metric tons of ore per day, representing 24 percent of total 2004 mill throughput. The Intermediate Ore Zone underground mine was depleted during the third quarter of 2003, producing almost 30 percent more copper and gold throughout its 10-year life than the initial reserve estimates.

Copper ore grades averaged 0.87 percent in 2004, compared with 1.09 percent in 2003. Copper recovery rates were 88.6 percent for 2004, compared with 89.0 percent for 2003. In 2004, gold ore grades averaged 0.88 g/t, compared with 1.54 g/t in 2003. Gold recovery rates were 81.8 percent for 2004, compared with 87.3 percent for 2003. The mining of lower grade material resulted in lower 2004 recovery rates.

Gross Profit per Pound of Copper (¢)/per Ounce of Gold and Silver ($)

Year Ended December 31, 2003				
Pounds of copper sold (000s)	1,295,600	1,295,600		
Ounces of gold sold			2,469,800	
Ounces of silver sold				4,126,700

	By-Product Method	Co-Product Method		
		Copper	Gold	Silver
Revenues, after adjustments shown below	81.9¢	81.9¢	$366.60	$5.15
Site production and delivery, before net reclamation, noncash and nonrecurring costs shown below	47.6[a]	25.7[b]	112.44[b]	1.49[b]
Gold and silver credits	(69.8)	-	-	-
Treatment charges	17.9	9.7	42.24	0.56
Royalty on metals	2.0	1 .1	4.82	0.06
Unit net cash costs (credits) [c]	(2.3)	36.5	159.50	2.11
Depreciation and amortization	14.7	7.9	34.69	0.46
Reclamation, noncash and nonrecurring costs, net	1.2	0.7	2.91	0.04
Total unit costs	13.6	45.1	197.10	2.61
Revenue adjustments, primarily for pricing on prior period open sales and gold/silver hedging	2.8	1.0	0.55	0.01
PT Smelting intercompany profit elimination	0.5	0.3	1.28	0.02
Reclamation incurred	0.1	0.1	0.22	-
Gross profit per pound/ounce	71.7¢	38.2¢	$171.55	$2.57

a. Net of deferred mining costs totaling $64.4 million or 5.0¢ per pound. Upon adoption of EITF 04-6 (See “New Accounting Standards” and Note 1), mining costs will no longer be deferred.
b. Net of deferred mining costs totaling $34.8 million or 2.7¢ per pound for copper, $29.0 million or $11.73 per ounce for gold and $0.6 million or $0.16 per ounce for silver (see Note a above).
c. For a reconciliation of unit net cash costs (credits) to production and delivery costs applicable to sales reported in FCX’s consolidated financial statements refer to “Product Revenues and Production Costs.”

Unit Net Cash Costs: By-Product Method - Unit net cash costs, including gold and silver credits, averaged $0.40 per pound of copper during 2004, compared with a net credit of $(0.02) per pound for 2003. Higher unit site production and delivery costs in 2004 reflected significantly lower sales volumes resulting from lower ore grades and the primarily fixed nature of a large portion of PT Freeport Indonesia’s cost structure. In addition, the lower sales volumes resulted in PT Freeport Indonesia being allocated a larger percentage of those fixed costs in 2004 under our joint venture arrangements with Rio Tinto. To a lesser extent, 2004 unit costs were impacted by higher energy costs, increased maintenance costs, the impact of a stronger Australian dollar and increased treatment and refining charge rates caused by higher copper prices and our customer mix.

Unit site production and delivery costs in 2004 averaged $0.77 per pound of copper, $0.29 per pound higher than the $0.48 reported in 2003. Unit production and delivery costs are net of deferred mining costs of $0.08 per pound ($77.8 million) for 2004 and $0.05 per pound ($64.4 million) for 2003. The increase in deferred mining costs included the effects of PT Freeport Indonesia’s accelerated overburden removal efforts during 2004. In the fourth quarter of 2004, PT Freeport Indonesia changed its life-of-mine overburden-to-ore ratio to 2.4 to 1 from 2.2 to 1, and in the fourth quarter of 2003 the ratio changed to 2.1 to 1 from 1.9 to 1. The fourth-quarter 2004 change increased 2004 costs by $5.5 million or 0.6 cents per pound. See “Critical Accounting Estimates” for a discussion of changes in the estimated life-of-mine overburden-to-ore ratio.

Gold and silver credits were $0.62 per pound for 2004, compared with $0.70 for 2003. The decrease primarily reflects the reduced production and sales of gold during 2004, partly offset by the improved gold realizations. Royalties of $0.04 per pound in 2004 were $0.02 per pound above the 2003 period primarily because of higher copper and gold prices. As a result of the lower copper production and sales in 2004, PT Freeport Indonesia’s depreciation rate per pound of copper increased to $0.17 for 2004 compared with $0.15 for 2003.

Unit Net Cash Costs: Co-Product Method - Under the co-product method, unit site production and delivery costs in 2004 averaged $0.53 per pound of copper, compared with $0.26 in 2003. For gold, unit site production and delivery costs in 2004 averaged $159 per ounce, compared with $112 in 2003. The higher unit costs in 2004 primarily reflect the lower sales volumes for copper and gold in 2004. Treatment charges per pound of copper were higher in 2004 because of higher

rates, compared with 2003, and were essentially unchanged per ounce of gold in 2004, compared with 2003. Royalties per pound and per ounce were higher in 2004 because of higher realized prices compared with 2003.

PT Freeport Indonesia Sales Outlook

PT Freeport Indonesia sells its copper concentrates primarily under long-term sales agreements denominated in U.S. dollars, mostly to companies in Asia and Europe and to international trading companies. PT Freeport Indonesia expects its share of sales to approximate 1.3 billion pounds of copper and 1.7 million ounces of gold for 2006, and to average 1.3 billion pounds of copper and 1.9 million ounces of gold annually over the next five years (2006 - 2010). At the Grasberg mine, the sequencing in mining areas with varying ore grades causes fluctuations in the timing of ore production, resulting in varying quarterly and annual copper and gold sales. During 2006, approximately 58 percent of copper and gold sales are expected in the second half of the year. Because of mine sequencing, first-quarter 2006 sales are expected to be the lowest of the year, estimated to approximate 240 million pounds of copper and 340,000 ounces of gold.

PT Freeport Indonesia has long-term contracts to provide approximately 60 percent of Atlantic Copper's copper concentrate requirements at market prices and nearly all of PT Smelting's copper concentrate requirements. Under the PT Smelting contract, for the first 15 years of PT Smelting's operations beginning December 1998, the treatment and refining charges on the majority of the concentrate PT Freeport Indonesia provides will not fall below specified minimum rates, subject to renegotiation in 2008. The rate was $0.23 per pound during the period from the commencement of PT Smelting's operations in 1998 until April 2004, when it declined to a minimum of $0.21 per pound. PT Smelting's rates for 2006 are expected to exceed the minimum $0.21 per pound (see "Smelting and Refining").

Exploration and Reserves

During 2005, net additions and revisions to the aggregate proven and probable reserves at the Grasberg minerals district totaled approximately 132 million metric tons of ore representing increases of 2.1 billion recoverable pounds of copper, 0.4 million recoverable ounces of gold and 12.1 million recoverable ounces of silver. The additions were primarily the result of positive drilling results at the Mill Level Zone and Deep Mill Level Zone deposits, a 345-million-metric-ton complex with average ore grades of 1.06 percent copper and 0.83 g/t of gold, and at the Grasberg underground extension to the Kucing Liar deposit, a 579-million-metric-ton ore body with average ore grades of 1.20 percent copper and 1.06 g/t of gold. Completion of a successful feasibility study at Big Gossan also contributed to these gains. Our aggregate exploration budget for 2006, including Rio Tinto's share, is expected to total approximately $15 million ($10 million for our share) with most of the effort focused on potential extensions of the Grasberg underground and Kucing Liar mine complex, and testing downward extensions of the previously mined Ertsberg deposit. We continue to assess the timing of resumption of suspended exploration activities in areas outside the existing producing area of the Grasberg minerals district.

Net of Rio Tinto's share, PT Freeport Indonesia's share of proven and probable recoverable reserves as of December 31, 2005, was 40.3 billion pounds of copper, 43.9 million ounces of gold and 127.0 million ounces of silver. FCX's equity interest in proven and probable recoverable reserves as of December 31, 2005, was 36.5 billion pounds of copper, 39.8 million ounces of gold and 115.1 million ounces of silver (see Note 13). PT Freeport Indonesia's share of reserve additions replaced approximately 86 percent of its 2005 copper production, 9 percent of 2005 gold production and 153 percent of 2005 silver production. Estimated recoverable reserves were assessed using a copper price of $0.90 per pound and a gold price of $350 per ounce. If we adjusted metal prices used in our reserve estimates to the approximate average London spot prices for the past three years ($1.26 per pound of copper and $406 per ounce of gold), the additions to proven and probable reserves would not be material to reported reserves.

The Indonesian government previously approved suspensions of our field exploration activities outside of our current mining operations area, which have been in suspension in recent years due to 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. The current suspensions were granted for one-year periods ending February 26, 2006, for Block B; March 31, 2006, for PT Nabire Bakti Mining; and November 15, 2006, for Eastern Minerals. Recent Indonesian legislation permits open-pit mining in PT Freeport Indonesia's Block B area, subject to certain requirements. We continue to assess these requirements and security issues. The timing for our resumption of exploration activities in our Contract of Work areas outside of Block A depends on the resolution of these matters.

SMELTING AND REFINING OPERATIONS

Our investment in smelters serves an important role in our concentrate marketing strategy. PT Freeport Indonesia generally sells approximately one-half of its concentrate production to its affiliated smelters, Atlantic Copper and PT Smelting, and the remainder to other customers. Treatment charges for smelting and refining copper concentrates represent a cost to PT Freeport Indonesia and income to Atlantic Copper and PT Smelting. Through downstream integration, we are assured placement of a significant portion of our concentrate production. Low smelter treatment and refining charges in recent years adversely affected the operating results of Atlantic Copper and benefited the operating results of PT Freeport Indonesia's mining operations. Market rates for treatment and refining charges have increased significantly since late 2004 as worldwide smelter availability was insufficient to accommodate increased mine production. Higher treatment and refining charges benefit our smelter operations and adversely affect our mining operations. Taking into account taxes and minority ownership interests, an equivalent change in smelting and refining charge rates essentially offsets in our consolidated operating results.

Atlantic Copper Operating Results

	Years Ended December 31,		
(In Millions)	2005	2004	2003
Gross profit (loss)	$ 45.6	$ (69.4)	$ (10.7)
Add depreciation and amortization expense	29.0	28.6	28.5
Other	3.7	16.4[a]	4.6
Cash margin (deficit)	$ 78.3	$ (24.4)[b]	$ 22.4
Operating income (loss) (in millions)	$ 34.8	$ (83.5)	$ (21.8)
Concentrate and scrap treated (metric tons)	975,400	768,100	964,400
Anodes production (000s of pounds)	626,600	494,400	640,000
Treatment rates per pound	$0.23	$0.16	$0.16
Cathodes, wire rod and wire sales (000s of pounds)	548,600	479,200	546,800
Cathode cash unit cost per pound [c]	$0.17	$0.25	$0.16
Gold sales in anodes and slimes (ounces)	542,800	316,700	929,700

a. Includes a $9.8 million charge for Atlantic Copper's workforce reduction plan.
b. Includes costs related to Atlantic Copper's 51-day major maintenance turnaround totaling $27.5 million.
c. For a reconciliation of cathode cash unit cost per pound to production costs applicable to sales reported in FCX's consolidated financial statements refer to "Product Revenues and Production Costs" below.

Atlantic Copper Operating Results - 2005 Compared with 2004
Atlantic Copper's operating cash margin was $78.3 million in 2005, compared with a deficit of $24.4 million in 2004. The deficit in 2004 was primarily attributable to Atlantic Copper's major maintenance turnaround, which began in March 2004 and was completed in May 2004. Atlantic Copper reported operating income of $34.8 million in 2005, compared with operating losses of $83.5 million in 2004. The positive results in 2005 primarily reflect higher treatment charge rates, realized benefits from a recent cost reduction and operational enhancement effort and copper market pricing conditions, partially offset by higher energy costs, compared with 2004, which included a 51-day scheduled major maintenance turnaround and a $12.0 million charge for work force reductions. The maintenance turnaround adversely affected costs and volumes resulting in impacts of approximately $40 million, including an approximate $12 million impact from lower volumes, on 2004 operating results and net income. Major maintenance turnarounds typically occur approximately every nine years for Atlantic Copper, with significantly shorter term maintenance turnarounds occurring in the interim. Atlantic Copper has a 22-day maintenance turnaround currently scheduled for 2007.

Atlantic Copper treated 975,400 metric tons of concentrate and scrap in 2005, compared with 768,100 metric tons in 2004. Cathode production totaled 545.3 million pounds and sales totaled 548.6 million pounds during 2005, compared with cathode production of 454.7 million pounds and sales of 479.2 million pounds during 2004. Atlantic Copper's cathode cash unit cost per pound of copper averaged $0.17 in 2005 and $0.25 in 2004. Unit costs in 2004 were adversely affected by lower production and higher costs from the scheduled maintenance turnaround. Atlantic Copper's treatment charges (including price participation), which are what PT Freeport Indonesia and third parties pay Atlantic Copper to smelt and refine concentrates, averaged $0.23 per pound in 2005 and $0.16 per pound in 2004. Excess smelter capacity, combined with limited copper concentrate availability, resulted in historically low long-term treatment and refining rates for the past several years. However, as discussed above, treatment charge rates have increased significantly since late 2004 with increased mine production and higher copper prices. Atlantic Copper expects these higher rates to benefit its 2006 operations with its average rates at current copper prices projected to approximate $0.28 per pound in 2006.

We defer recognizing profits on PT Freeport Indonesia's sales to Atlantic Copper and on 25 percent of PT Freeport Indonesia's sales to PT Smelting until the final sales to third parties occur. Changes in these net deferrals resulted in reductions to our operating income totaling $145.0 million ($77.8 million to net income or $0.35 per share) in 2005, compared with $24.7 million ($12.7 million to net income or $0.07 per share) in 2004. At December 31, 2005, our net deferred profits on PT Freeport Indonesia concentrate inventories at Atlantic Copper and PT Smelting to be recognized in future periods' net income after taxes and minority interest sharing totaled $119.8 million. Based on copper prices of $2.00 per pound and gold prices of $550 per ounce for the first quarter of 2006 and current shipping schedules, we expect that the net change in deferred profits on intercompany sales will result in an increase to net income of approximately $60 million in the first quarter of 2006. The actual change in deferred intercompany profits may differ substantially from this estimate because of changes in the timing of shipments to affiliated smelters and metal prices.

As of December 31, 2005, FCX's net investment in Atlantic Copper totaled approximately $115 million, FCX had a $189.5 million loan outstanding to Atlantic Copper and Atlantic Copper's debt to third parties under nonrecourse financing arrangements totaled $5.0 million. In March 2004, we used a portion of the proceeds from the sale of our 6⅞% Senior Notes to fund Atlantic Copper's repayment of $162.4 million of its borrowings (see "Capital Resources and Liquidity - Financing Activities"). Atlantic Copper recorded a $3.7 million ($0.02 per share) accounting charge for losses on early extinguishment of debt in 2004 related to these debt repayments.

Atlantic Copper Operating Results - 2004 Compared with 2003

As discussed above, Atlantic Copper completed a 51-day scheduled major maintenance turnaround in May 2004, adversely affecting 2004 results. Atlantic Copper's operating cash margin was a $24.4 million deficit in 2004, compared with a positive $22.4 million in 2003. The deficit in 2004 was primarily because of Atlantic Copper's major maintenance turnaround.

Atlantic Copper treated 768,100 metric tons of concentrate and scrap in 2004, compared with 964,400 metric tons in 2003. Cathode production totaled 454.7 million pounds and sales totaled 479.2 million pounds during 2004, compared with cathode production of 544.7 million pounds and sales of 546.8 million pounds during 2003. Atlantic Copper's cathode cash unit cost per pound of copper, before currency hedging, averaged $0.25 in 2004 and $0.16 in 2003. Unit costs for 2004 were adversely affected by lower production and higher costs from the maintenance turnaround. Treatment charges (including price participation) were at historically low levels, averaging $0.16 per pound for 2004 and 2003.

Atlantic Copper reported operating losses of $83.5 million in 2004 and $21.8 million in 2003. The higher losses in 2004 include a $12.0 million charge for workforce reductions, lower treatment charges and lower production levels, compared with 2003. The effect of the 51-day turnaround on Atlantic Copper's results for 2004 was approximately $40 million, including an approximate $12 million impact from lower volumes.

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

PT Smelting Operating Results

	Years Ended December 31,		
(In Millions)	2005	2004	2003
PT Freeport Indonesia sales to PT Smelting	$ 1,008.5	$ 696.0	$ 510.2
Equity in PT Smelting earnings	9.3	2.0	5.6
PT Freeport Indonesia operating profits (deferred) recognized	(23.6)	(13.8)	7.0

PT Smelting Operating Results - 2005 Compared with 2004

PT Freeport Indonesia accounts for its 25 percent interest in PT Smelting using the equity method and provides PT Smelting with substantially all of its concentrate requirements (see Note 9). During the second quarter of 2004, PT Smelting completed a 31-day maintenance turnaround and resumed normal operations. Major maintenance turnarounds of this duration typically occur approximately every four years for PT Smelting, with significantly shorter term maintenance turnarounds in the interim. PT Smelting has an 18-day maintenance turnaround scheduled for mid-2006 and its next major maintenance turnaround is scheduled for 2008. PT Smelting also completed

a refinery expansion during the 2004 maintenance turnaround, increasing its production capacity to approximately 250,000 metric tons of copper metal per year. PT Smelting plans to further expand its production capacity to approximately 270,000 metric tons of copper metal per year by the middle of 2006.

PT Smelting treated 908,900 metric tons of concentrate in 2005 and 758,100 metric tons in 2004. Higher concentrate tonnage from PT Freeport Indonesia in 2005 resulted in higher production, compared with 2004 when PT Freeport Indonesia's production was much lower. PT Smelting produced 579.7 million pounds of cathodes and sold 580.9 million pounds of cathodes in 2005, compared with production of 464.0 million pounds and sales of 462.9 million pounds in 2004. PT Smelting's cathode cash unit costs averaged $0.13 per pound in 2005 and $0.12 per pound in 2004, reflecting higher energy costs in 2005 partly offset by higher volumes in 2005 (see "Product Revenues and Production Costs").

PT Smelting Operating Results - 2004 Compared with 2003
PT Smelting treated 758,100 metric tons of concentrate in 2004 and 824,800 metric tons in 2003. PT Smelting reported production of 464.0 million pounds of cathodes and sales of 462.9 million pounds of cathodes in 2004, compared with production of 492.4 million pounds and sales of 493.5 million pounds in 2003. PT Smelting's cathode cash unit costs averaged $0.12 per pound in 2004 and $0.10 per pound in 2003. The 2004 unit costs reflect the impact of lower volumes in 2004 resulting from the scheduled maintenance turnaround.

CAPITAL RESOURCES AND LIQUIDITY

Our operating cash flows vary with prices realized for copper and gold sales, our production levels, production costs, cash payments for income taxes and interest, working capital changes and other factors. Based on current mine plans and subject to future copper and gold prices, we expect to generate operating cash flows in excess of our budgeted capital expenditures, providing opportunities to reduce debt further and return cash to shareholders through dividends and share purchases. Financial transactions completed during 2005 totaled $1.2 billion, including $0.7 billion in debt reductions and $0.5 billion in common stock dividends and share purchases. During 2005 our Board of Directors authorized three supplemental common stock dividends totaling $1.50 per share, and increased our current regular common stock dividend to $1.25 per share, which is payable quarterly beginning February 1, 2006, at a rate of $0.3125 per share. In January 2006, our Board of Directors declared a supplemental dividend of $0.50 per share payable March 31, 2006 to shareholders of record on March 15, 2006. Our Board of Directors will continue to review our dividend policy.

We purchased 2.4 million shares of our common stock for $80.2 million ($33.83 per share average) during 2005 and have purchased a total of 5.8 million shares for $179.7 million ($31.22 per share average) under the Board authorized 20-million share open market purchase program. As of February 28, 2006, 14.2 million shares remain available under the Board authorized 20-million share open market purchase program.

The potential payment of future regular and supplemental dividends will be determined by our Board of Directors and will be dependent upon many factors, including FCX's cash flows and financial position, copper and gold prices, and general economic and market conditions. The timing of future purchases of our common stock is dependent upon a number of factors including the price of our common shares, our cash flows and financial position, copper and gold prices and general economic and market conditions.

Operating Activities
We generated operating cash flows totaling $1,552.5 million, including $178.8 million from working capital sources, during 2005, compared with $341.4 million in 2004. The significant improvement in 2005 compared with the prior year primarily reflects significantly higher production and sales and higher copper and gold prices and a decrease in working capital requirements.

Our operating cash flows totaled $341.4 million in 2004, including $85.9 million received as a settlement from insurance coverage related to the fourth-quarter 2003 slippage and debris flow events and $130.7 million used for working capital requirements, compared with $572.1 million in 2003. The decrease in 2004 from the prior year reflects the extended maintenance turnaround at Atlantic Copper and increased working capital requirements. For 2004, significant uses of cash from operating activities included increases in deferred mining costs, accounts receivable and inventories. For 2003, significant uses included increases in deferred mining costs and inventories, and payment of income taxes, partly offset by an increase in our accounts payable and accrued liabilities.

Operating activities are expected to generate positive cash flows for the foreseeable future based on anticipated operating results and metal prices. Using estimated sales volumes for 2006 and assuming prices of $2.00 per pound of copper and $550 per ounce of gold, we would generate operating cash flows approximating $1.1 billion in 2006. First-quarter 2006 operating cash flows are expected to be the lowest of the year as a result of significant tax payments related to 2005, other working capital requirements, lower first- quarter sales volumes, and a hedging loss from the February 1, 2006 redemption of our Gold-Denominated Preferred Stock (see below).

Investing Activities

Total capital expenditures of $143.0 million in 2005 were only slightly higher than the $141.0 million reported in 2004. Our capital expenditures for 2005 included approximately $16 million for the DOZ expansion and $19 million for the Common Infrastructure project. The largest individual capital expenditures for 2004 primarily related to long-term development projects, including development of the DOZ mine, totaling approximately $37 million. Capital expenditures in 2003, which totaled $139.2 million, included the expansion of the DOZ mine (approximately $22 million) and work on the Grasberg overburden handling system (approximately $21 million). Capital expenditures, including approximately $115 million for long-term projects, are estimated to total $250 million for 2006 and average approximately $200 million per year over the next five years.

In the first quarter of 2005, PT Freeport Indonesia received the $23.2 million balance of its share of insurance settlement proceeds related to its open-pit slippage claim, $2.0 million of which represented a recovery of property losses. In 2005, we sold a parcel of land in Arizona held by a joint venture in which we own a 50 percent interest and our share of net cash proceeds from the sale totaled $6.6 million. In November 2004, this same joint venture completed the sale to a real estate developer of a parcel of land in Arizona where the joint venture previously was engaged in a copper mining research project. Our share of net cash proceeds from the sale totaled $21.6 million. In December 2004, Atlantic Copper completed a sale of its wire rod and wire assets and received $18.3 million cash.

In 2001, we sold $603.8 million of 8¼% Convertible Senior Notes due 2006. The terms of the notes required that we use $139.8 million of the proceeds to purchase a portfolio of U.S. government securities to secure and pay for the first six semiannual interest payments. We sold $6.7 million of these restricted investments in 2004 and $46.6 million in 2003 to pay interest. Conversions of these notes allowed us to sell $15.1 million of our restricted investments during 2004 and $27.0 million during 2003 (see below). In the first quarter of 2004, Atlantic Copper repaid its working capital revolving credit facility that was secured by certain copper concentrate inventory, resulting in the release of $11.0 million of previously restricted cash.

In July 2003, we acquired the 85.7 percent ownership interest in Puncakjaya Power owned by affiliates of Duke Energy Corporation for $68.1 million cash, net of $9.9 million of cash acquired. PT Freeport Indonesia purchases power from Puncakjaya Power under infrastructure asset financing arrangements.

Financing Activities

As of December 31, 2005, we had total unrestricted cash and cash equivalents of $763.6 million and total outstanding debt of $1.3 billion. Debt was reduced by $696.0 million during 2005, primarily reflecting the following transactions to accelerate the repayment of debt totaling $669.9 million:

- prepayment of $187.0 million of Puncakjaya Power's bank debt;
- purchases in open market transactions of
  - $216.1 million of 10⅛% Senior Notes due 2010 for $239.4 million;
  - $11.1 million of 7.50% Senior Notes due 2006 for $11.5 million; and
  - $4.4 million of 7.20% Senior Notes due 2026 for $4.1 million;
- privately negotiated transactions to induce conversion of $251.3 million of 7% Convertible Senior Notes due 2011 into 8.1 million shares of FCX common stock.

We recorded charges of $52.2 million ($40.2 million to net income, net of related reduction of interest expense, or $0.18 per share) in 2005 as a result of these transactions. The aggregate interest cost savings of these transactions is estimated to approximate $48 million per annum. In January 2006, we privately negotiated transactions to induce conversion of $11.0 million of our 7% Convertible Senior Notes into 0.4 million shares of FCX common stock. We will record net charges of $0.8 million, $0.5 million to net income, in the first quarter of 2006 as a result of these transactions. We are continuing to assess opportunities to repay debt in advance of scheduled maturities.

On August 1, 2005, we funded the seventh of eight scheduled annual redemption payments on our Silver-Denominated Preferred Stock for $17.5 million. The mandatory redemption resulted in a $12.5 million decrease in debt and a reduction of revenues of $5.0 million, $2.6 million to net income or $0.01 per share, in 2005. Mandatory partial redemptions of our Silver-Denominated Preferred Stock totaled $13.9 million in 2004 and $10.8 million in 2003. Our Gold-Denominated and Silver-Denominated Preferred Stock are treated as hedges and any gains or losses realized upon redemption are therefore recorded as adjustments to revenues under accounting rules in place at the time of their original issuance. In February 2006, we redeemed the 4.3 million shares of our Gold-Denominated Preferred Stock, Series II for $236.3 million. The mandatory redemption resulted in a $167.4 million decrease in debt and a hedging loss to 2006 revenues of $69.0 million, $36.6 million to net income or $0.20 per share based on outstanding shares at December 31, 2005.

In 2003, our Board of Directors approved a new open market share purchase program for up to 20 million shares, which replaced our previous program. Through February 24, 2006, under this new program, we acquired 2.4 million shares in 2005 for $80.2 million, $33.83 per share average, and 3.4 million shares in 2004 for $99.5 million, $29.39 per share average, and 14.2 million shares remain available. The timing of future purchases of our common stock is dependent on many factors including the price of our common shares, our cash flows and financial position, copper and gold prices and general economic and market conditions.

Common stock dividends totaled $452.5 million in 2005 ($2.50 per share), including $272.3 million ($1.50 per share) for the three $0.50 per share supplemental dividends paid on March 31, 2005, September 30, 2005, and December 30, 2005. In November 2005, our Board of Directors authorized an increase in our annual common stock dividend to $1.25 per share (from $1.00 per share). The dividend will be payable quarterly ($0.3125 per share) beginning with the February 1, 2006 dividend payment. In January 2006, our Board of Directors declared a supplemental dividend of $0.50 per share payable March 31, 2006 to shareholders of record on March 15, 2006. The declaration and payment of dividends is at the discretion of our Board of Directors. The amount of our current quarterly cash dividend ($0.3125 per share) on our common stock and the possible payment of additional future supplemental cash dividends will depend on our financial results, cash requirements, future prospects and other factors deemed relevant by our Board of Directors.

In February 2003, our Board of Directors authorized the initiation of an annual cash dividend on our common stock of $0.36 per share, increased the dividend in October 2003 to an annual rate of $0.80 per share and increased the dividend again in October 2004 to an annual rate of $1.00 per share. In December 2004, our Board of Directors authorized a supplemental common stock dividend of $0.25 per share, which was paid on December 29, 2004. Dividend payments on common stock totaled $198.8 million in 2004 and $41.7 million in 2003. Cash dividends on preferred stock, $60.5 million in 2005 and $35.5 million in 2004, represent dividends on our 5½% Convertible Perpetual Preferred Stock we sold in March 2004 (see below). The 2003 preferred dividends of $33.7 million were for our Step-Up Convertible Preferred Stock that we called for redemption in December 2003 (see below). Cash dividends to minority interests represent dividends paid to the minority interest owners of PT Freeport Indonesia and Puncakjaya Power. Pursuant to the restricted payment covenants in our 10⅛% Senior Notes and 6⅞% Senior Notes, the amount available for dividend payments, purchases of our common stock and other restricted payments as of December 31, 2005, was approximately $760 million.

In January 2004, we completed a tender offer and privately negotiated transactions for a portion of our remaining 8¼% Convertible Senior Notes due 2006 resulting in the early conversion of $226.1 million of notes into 15.8 million shares of FCX common stock. We recorded a $10.9 million charge to losses on early extinguishment and conversion of debt in connection with these conversions. The $10.9 million charge included $6.4 million of previously accrued interest costs, resulting in an equivalent reduction in interest expense. In June 2004, we called for redemption on July 31, 2004, all of the remaining $66.5 million of 8¼% Convertible Senior Notes. During July, all remaining notes were converted into 4.7 million shares of FCX common stock. As of July 31, 2004, all of the 8¼% Convertible Senior Notes, which totaled $603.8 million at issuance in 2001, had been converted into 42.2 million shares of FCX common stock.

In February 2004, we sold $350 million of 6⅞% Senior Notes due 2014 for net proceeds of $344.4 million. We used a portion of the proceeds to repay $162.4 million of Atlantic Copper borrowings and to refinance other FCX 2004 debt maturities. Atlantic Copper recorded a $3.7 million charge to losses on early extinguishment of debt to accelerate amortization of deferred financing costs. Interest on the notes is payable semiannually on February 1 and August 1 of each year, beginning August 1, 2004. We may redeem some or all

of the notes at our option at a make-whole redemption price prior to February 1, 2009, and afterwards at stated redemption prices. The indenture governing the notes contains certain restrictions, including restrictions on incurring debt, creating liens, selling assets, entering into transactions with affiliates, paying cash dividends on common stock, repurchasing or redeeming common or preferred equity, prepaying subordinated debt and making investments. During the second quarter of 2004, we purchased in the open market $9.7 million of the 6⅞% Senior Notes for $8.8 million, which resulted in a net gain of $0.8 million recorded as a reduction to losses on early extinguishment and conversion of debt.

In March 2004, we sold 1.1 million shares of 5½% Convertible Perpetual Preferred Stock for $1.1 billion, with net proceeds totaling $1.067 billion. Each share of preferred stock was initially convertible into 18.8019 shares of our common stock, equivalent to an initial conversion price of approximately $53.19 per common share. The conversion rate is adjustable upon the occurrence of certain events, including any quarter that our common stock dividend exceeds $0.20 per share. As a result of the quarterly and supplemental common stock dividends paid through February 2006 discussed above, each share of preferred stock is now convertible into 19.7273 shares of FCX common stock, equivalent to a conversion price of approximately $50.69 per common share. Beginning March 30, 2009, we may redeem shares of the preferred stock by paying cash, our common stock or any combination thereof for $1,000 per share plus unpaid dividends, but only if our common stock price has exceeded 130 percent of the conversion price for at least 20 trading days within a period of 30 consecutive trading days immediately preceding the notice of redemption. We used a portion of the proceeds from the sale to purchase 23.9 million shares of FCX common stock owned by Rio Tinto for $881.9 million (approximately $36.85 per share) and used the remainder for general corporate purposes. Rio Tinto no longer owns any equity interest in FCX; however, it is still PT Freeport Indonesia's joint venture partner (see Note 2).

During the first quarter of 2003, we completed two senior note offerings. In January 2003, we sold $500 million of 10⅛% Senior Notes due 2010. Interest on the notes is payable semiannually on February 1 and August 1 of each year. We may redeem some or all of the notes at our option at a make-whole redemption price prior to February 1, 2007, and afterwards at stated redemption prices. The indenture governing the notes contains certain restrictions on incurring debt, creating liens, entering into sale leaseback transactions, taking actions to limit distributions from certain subsidiaries, selling assets, entering into transactions with affiliates, paying cash dividends on common stock, repurchasing or redeeming common or preferred equity, prepaying subordinated debt and making investments. At December 31, 2005, $283.9 million of the notes remained outstanding.

In February 2003, we sold $575 million of 7% Convertible Senior Notes due 2011. Interest on the notes is payable semiannually on March 1 and September 1 of each year. The notes are convertible, at the option of the holder, at any time on or prior to maturity into shares of FCX's common stock at a conversion price of $30.87 per share, which is equal to a conversion rate of approximately 32.39 shares of common stock per $1,000 principal amount of notes. At December 31, 2005, $323.7 million of the notes remained outstanding. We used a portion of the $1.046 billion in net proceeds from the two first-quarter 2003 note offerings to repay all of the then-outstanding amounts under our bank credit facilities.

In April 2003, we concluded tender offers to purchase our outstanding 7.20% Senior Notes due 2026 and our 7.50% Senior Notes due 2006. Of the $450 million outstanding at March 31, 2003, notes with a face amount of $234.0 million were tendered for $239.0 million cash. We recorded a charge of $6.6 million ($4.8 million to net income or $0.03 per share) in 2003 associated with these early extinguishments of debt. In July 2003, we purchased an additional $76.0 million face amount of our 7.20% Senior Notes for $77.2 million, and recorded a $1.3 million ($0.9 million to net income or less than $0.01 per share) charge to losses on extinguishment of debt. In October 2003, the holders of $68.9 million of the remaining $73.5 million of outstanding 7.20% Senior Notes elected early repayment in November 2003 as permitted under their terms. As discussed above, in 2005 we purchased in open market transactions $4.4 million of our 7.20% Senior Notes and $11.1 million of our 7.50% Senior Notes, resulting in charges of less than $0.1 million. At December 31, 2005, we had outstanding $0.2 million of 7.20% Senior Notes and $55.4 million of 7.50% Senior Notes.

In August 2003, we redeemed 6.0 million shares of Gold-Denominated Preferred Stock for $210.5 million and partially redeemed our Silver-Denominated Preferred Stock for $10.8 million. The mandatory redemptions resulted in a $245.1 million decrease in debt and a hedging gain to revenues of $23.8 million ($12.2 million to net income or $0.08 per share).

In August 2003, we privately negotiated the early conversion of 51.5 percent of our 8¼% Convertible Senior Notes, which resulted in a $311.1 million reduction in debt. The holders converted their notes into 21.76 million shares of FCX common stock and received $23.0 million in cash from restricted investments held in escrow for payment of future interest on these notes. We recorded charges totaling $24.7 million ($24.2 million to net income or $0.15 per share) related to these conversions.

In October 2003, FCX and PT Freeport Indonesia entered into an amended revolving credit facility that provides a commitment of $195 million and matures in September 2006. We recorded charges totaling $5.6 million ($3.7 million to net income or $0.02 per share) in 2003 to accelerate amortization of deferred financing costs related to the prior credit facility.

In December 2003, we called for redemption the depositary shares representing our 7% Step-Up Convertible Preferred Stock. Of the 14.0 million depositary shares outstanding at the time of the call, 13.8 million depositary shares were converted into 11.5 million shares of FCX common stock. The remaining shares were redeemed for approximately $7 million cash.

As a result of the transactions discussed above, we had net cash borrowings (repayments) of debt totaling $(493.0) million in 2005, $(30.0) million in 2004 and $37.5 million in 2003.

Debt Maturities. Below is a summary (in millions) of our total debt maturities based on loan balances as of December 31, 2005, and original issue amounts for mandatorily redeemable preferred stock.

	2006	2007	2008	2009	2010	Thereafter
Equipment loans and other	$ 13.1	$ 13.5	$ 13.5	$ 13.5	$ 10.2	$ 3.7
Redeemable preferred stock	179.9	-	-	-	-	-
7.50% Senior Notes due 2006	55.4	-	-	-	-	-
Atlantic Copper debt	5.0	-	-	-	-	-
10⅛% Senior Notes due 2010	-	-	-	-	283.9	-
7% Convertible Senior Notes due 2011 [a]	-	-	-	-	-	323.7
6⅞% Senior Notes due 2014	-	-	-	-	-	340.3
7.20% Senior Notes due 2026	-	-	-	-	-	0.2
Total debt maturities	$ 253.4	$ 13.5	$ 13.5	$ 13.5	$ 294.1	$ 667.9
Pro forma adjustment	77.5[b]	-	-	-	-	(11.0) [c]
Pro forma debt maturities	$ 330.9	$ 13.5	$ 13.5	$ 13.5	$ 294.1	$ 656.9

a. Conversion price is $30.87 per share.
b. Represents additional amounts due above the original issue amounts based on the price of gold and silver, totaling $69.0 million for our Gold-Denominated Preferred Stock, Series II and $8.5 million for our Silver-Denominated Preferred Stock. For the Gold-Denominated Preferred Stock, the adjustment is based on the February 2006 redemption amount. For the Silver-Denominated Preferred Stock, we calculated the adjustment using the December 30, 2005, London silver fixing price for one ounce of silver ($8.83) in the London bullion market (which determines the Silver-Denominated Preferred Stock redemption amount).
c. Includes the 7% Convertible Senior Notes due 2011 that we induced conversion of in January 2006 (see above).

Other Contractual Obligations

In addition to our debt and redeemable preferred stock maturities shown above, we have other contractual obligations and commitments, which we expect to fund with projected operating cash flows, available credit facilities or future financing transactions, if necessary. These obligations and commitments include PT Freeport Indonesia's commitments to provide one percent of its annual revenue for development of the local people in our area of operations through the Freeport Partnership Fund for Community Development and to contribute amounts to a cash fund designed to accumulate at least $100 million by the end of our Indonesian mining activities to pay for mine closure and reclamation. Atlantic Copper has a mostly unfunded contractual obligation denominated in euros to supplement amounts paid to certain retired employees. In August 2002, Atlantic Copper complied with Spanish legislation by agreeing to fund 7.2 million euros annually for 15 years, beginning August 2002, to an approved insurance company for an estimated 72 million euro contractual obligation to the retired employees. Atlantic Copper had $57.2 million recorded as of December 31, 2005, for this obligation and is amortizing the unaccrued balance of $7.0 million over the remaining 11-year funding period. Atlantic Copper has firm contractual commitments with third parties to purchase concentrates at market prices. We have various noncancelable operating leases and open purchase orders at December 31, 2005. A summary of these various obligations follows (in millions, except concentrates):

	Total	1 Year or Less	Years 2 - 3	Years 4 - 5	More than 5 Years
PT Freeport Indonesia mine closure and reclamation fund	$20.9[a]	$0.9	$1.4	$1.4	$17.2
Atlantic Copper contractual obligation to insurance company	$93.6	$8.5	$17.0	$17.0	$51.1
Atlantic Copper contracts to purchase concentrates at market prices (in thousand metric tons)	1,170	375	605	190	-
Aggregate operating leases, including Rio Tinto's share [b]	$36.8	$8.2	$15.2	$11.4	$2.0
Open purchase orders at December 31, 2005	$113.4	$113.4	-	-	-

a. Funding plus accrued interest are projected to accumulate to $100.0 million by the end of our Indonesian mining activities.
b. Minimum payments under operating leases have not been reduced by aggregate minimum sublease rentals of $0.8 million due under noncancelable subleases.

Environmental Matters

We believe that we conduct our Indonesian operations pursuant to applicable permits and that we comply in all material respects with applicable Indonesian environmental laws, rules and regulations. We have had four independent environmental audits conducted by internationally recognized environmental consulting and auditing firms. Audits were completed in 1996 by Dames & Moore, in 1999 by Montgomery Watson, in 2002 by SGS International Certification Services Indonesia, a member of the Société Générale de Surveillance group, and in 2005 by Montgomery Watson Harza. Montgomery Watson Harza has completed the fieldwork for the 2005 audit and we expect the audit report to be issued in the first quarter of 2006.

In connection with obtaining our environmental approvals from the Indonesian government, we committed to performing a one-time environmental risk assessment on the impacts of our tailings management plan. We completed this extensive environmental risk assessment with more than 90 scientific studies conducted over four years and submitted it to the Indonesian government in December 2002. We developed the risk assessment 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.

We will determine our ultimate reclamation and closure activities based on applicable laws and regulations and our assessment of appropriate remedial activities in the circumstances after consultation with governmental authorities, affected local residents and other affected parties. As of December 31, 2005, we estimated aggregate reclamation and closure obligations to be approximately $156 million for PT Freeport Indonesia and $15 million for Atlantic Copper. Estimates of the ultimate reclamation and closure costs PT Freeport Indonesia will incur in the future involve complex issues requiring integrated assessments over a period of many years and are subject to revision over time, and actual costs may vary from our estimates. Some reclamation costs will be incurred during mining activities, while most closure costs and the remaining reclamation costs will be incurred at the end of the Grasberg open-pit mining operations and at the end of all mining activities, which are currently estimated to continue for more than 35 years.

In 1996, PT Freeport Indonesia began contributing to a cash fund ($7.2 million balance at December 31, 2005) 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. Future changes in regulations could require us to incur additional costs which would be charged against future operations. Estimates involving environmental matters are by their nature imprecise and can be expected to be revised over time because of changes in government regulations, operations, technology and inflation.

The cost of complying with environmental laws is a fundamental cost of our business. We incurred aggregate environmental capital expenditures and other environmental costs totaling $44.0 million in 2005, $65.1 million in 2004 and $72.1 million in 2003, including tailings management levee maintenance and mine reclamation. In 2006, we expect to incur approximately $28 million of aggregate environmental capital expenditures and $37 million of other environmental costs. These environmental expenditures are part of our overall 2006 operating budget.

DISCLOSURES ABOUT MARKET RISKS

Commodity Price Risk

Our consolidated revenues include PT Freeport Indonesia's sale of copper concentrates, which also contain significant quantities of gold and silver, and Atlantic Copper's sale of

copper anodes, cathodes, wire rod, wire and gold in anodes and slimes. Atlantic Copper sold its wire rod and wire assets in December 2004. Our consolidated revenues and net income vary significantly with fluctuations in the market prices of copper and gold and other factors. A change of $0.10 in the average price per pound of copper would have an approximate $130 million impact on our 2006 consolidated revenues and an approximate $65 million impact on our 2006 consolidated net income, assuming 2006 PT Freeport Indonesia copper sales of approximately 1.3 billion pounds. A change of $25 in the average price per ounce of gold would have an approximate $42 million impact on our 2006 consolidated revenues and an approximate $21 million impact on our 2006 consolidated net income, assuming 2006 PT Freeport Indonesia gold sales of approximately 1.7 million ounces.

On limited past occasions, in response to market conditions, we have entered into copper and gold price protection contracts for a portion of our expected future mine production to mitigate the risk of adverse price fluctuations. We currently have no copper or gold price protection contracts relating to our mine production. We had outstanding Gold-Denominated and Silver-Denominated Preferred Stock with dividends and redemption amounts determined by commodity prices. Our Gold-Denominated Preferred Stock was redeemed in February 2006 and the final scheduled redemption for our Silver-Denominated Preferred Stock is in August 2006 (see “Capital Resources and Liquidity - Financing Activities”).

PT Freeport Indonesia’s concentrate sales agreements, with regard to copper, provide for provisional billings at the time of shipment with final pricing settlement generally based on the average LME price for a specified future period. Under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” PT Freeport Indonesia’s sales based on a provisional sales price contain an embedded derivative, which we bifurcate from the sale of the concentrates at the current spot LME price. The embedded derivative, which does not qualify for hedge accounting, is marked-to-market through earnings each period until the date of final copper pricing (see Note 1). At December 31, 2005, we had consolidated embedded derivatives on copper sales totaling 379.6 million pounds recorded at an average price of $2.03 per pound. Final prices on these sales will be established over the next several months pursuant to terms of sales contracts. We estimate that a one-cent change in the average price used for these embedded derivatives and realized prices for these sales would have an approximate $4 million impact on our 2006 consolidated revenues and an approximate $2 million impact on our 2006 consolidated net income.

At December 31, 2005, we had outstanding two issues of redeemable preferred stock, which have cash dividend and redemption requirements indexed to gold and silver prices. We account for these securities as a hedge of future production and reflect them as debt on our balance sheets at their original issue value less redemptions under accounting rules in place at the time of their original issuance. As redemption payments occur, differences between the carrying value and the redemption payment, which is based on commodity prices at the time of redemption, are recorded as an adjustment to revenues (see Notes 1, 5 and 11). Partial redemptions of our Silver-Denominated Preferred Stock totaled $17.5 million in 2005 and $13.9 million in 2004 resulting in hedging losses recorded in revenues of $5.0 million ($2.6 million to net income or $0.01 per share) in 2005 and $1.4 million ($0.7 million to net income or less than $0.01 per share) in 2004. During 2003, we redeemed all our Gold-Denominated Preferred Stock due in August 2003 and made an annual partial redemption of our Silver-Denominated Preferred Stock. We paid $221.3 million to redeem these securities, which had a book balance of $245.1 million. We recorded the $23.8 million gain as revenues. In February 2006, we redeemed the 4.3 million shares of our Gold-Denominated Preferred Stock, Series II for $236.3 million. The mandatory redemption resulted in a $167.4 million decrease in debt and a hedging loss to 2006 revenues of $69.0 million, $36.6 million to net income or $0.20 per share based on outstanding shares at December 31, 2005. The final redemption of our Silver-Denominated Preferred Stock is scheduled for August 2006. The final redemption payment totals 2,380,000 ounces of silver. Based on the December 30, 2005, London silver fixing price for one ounce of silver ($8.83) in the London bullion market (which determines the preferred stock redemption and dividend amounts), our Silver-Denominated Preferred Stock redemption amount would be $21.0 million and the 2006 dividend amounts would total $0.7 million.

The fair value of the Silver-Denominated Preferred Stock, based on a December 30, 2005, quoted market price of $4.50 per depositary share, was $21.4 million.

Atlantic Copper prices its purchases of copper concentrate at approximately the same time as it sells the refined copper, thereby protecting Atlantic Copper from most copper price risk. Atlantic Copper enters into futures contracts to hedge

its price risk whenever its physical purchases and sales pricing periods do not match. At December 31, 2005, Atlantic Copper had net contracts, with a fair value of $2.2 million, to purchase 22.5 million pounds of copper at an average price of $1.90 per pound through April 2006.

Foreign Currency Exchange Risk

The functional currency for our operations in Indonesia and Spain is the U.S. dollar. All of our revenues and a significant portion of our costs are denominated in U.S. dollars; however, some costs and certain asset and liability accounts are denominated in Indonesian rupiah, Australian dollars or euros. Generally, our results are positively affected when the U.S. dollar strengthens in relation to those foreign currencies and adversely affected when the U.S. dollar weakens in relation to those foreign currencies.

One U.S. dollar was equivalent to 9,825 rupiah at December 31, 2005, 9,270 rupiah at December 31, 2004, and 8,437 rupiah at December 31, 2003. PT Freeport Indonesia recorded losses to production costs totaling $0.4 million in 2005, $0.7 million in 2004 and $3.0 million in 2003 related to its rupiah-denominated net monetary assets and liabilities. At December 31, 2005, net liabilities totaled $14.4 million at an exchange rate of 9,825 rupiah to one U.S. dollar. PT Freeport Indonesia's labor costs are mostly rupiah denominated. At estimated aggregate annual rupiah payments of 1.6 trillion for operating costs and an exchange rate of 9,825 rupiah to one U.S. dollar, the exchange rate as of December 31, 2005, a one-thousand-rupiah increase in the exchange rate would result in an approximate $15 million decrease in aggregate annual operating costs. A one-thousand-rupiah decrease in the exchange rate would result in an approximate $19 million increase in aggregate annual operating costs.

Approximately 15 percent of PT Freeport Indonesia's total purchases of materials, supplies and services are denominated in Australian dollars. The exchange rate was $0.73 to one Australian dollar at December 31, 2005, $0.78 to one Australian dollar at December 31, 2004, and $0.75 to one Australian dollar at December 31, 2003. At estimated annual aggregate Australian dollar payments of 225 million and an exchange rate of $0.73 to one Australian dollar, the exchange rate as of December 31, 2005, a $0.01 increase or decrease in the exchange rate would result in an approximate $2 million change in aggregate annual operating costs.

At times, PT Freeport Indonesia has entered into foreign currency forward contracts to hedge a portion of its aggregate anticipated Indonesian rupiah and/or Australian dollar payments. In 2005, PT Freeport Indonesia entered into foreign currency contracts to hedge 735.0 billion in rupiah payments, including certain rupiah-based capital expenditures, or approximately 46 percent of aggregate projected rupiah payments for 2006, at an average exchange rate of 10,085 rupiah to one U.S. dollar. PT Freeport Indonesia accounts for these contracts as cash flow hedges.

The majority of Atlantic Copper's revenues are denominated in U.S. dollars; however, operating costs, other than concentrate purchases, and certain asset and liability accounts are denominated in euros. Atlantic Copper's estimated annual euro payments total approximately 100 million euros. A $0.05 increase or decrease in the exchange rate would result in an approximate $5 million change in annual costs. The exchange rate on December 31, 2005, was $1.18 per euro.

In connection with refinancing its debt in June 2000, Atlantic Copper's lenders required it to hedge its anticipated euro-denominated operating costs. This hedging requirement was removed when Atlantic Copper refinanced the facility in March 2004. Atlantic Copper had no outstanding currency hedging contracts at December 31, 2005. Atlantic Copper's operating results reflect gains on currency hedging contracts totaling $9.6 million in 2003.

Atlantic Copper had euro-denominated net monetary liabilities at December 31, 2005, totaling $54.6 million recorded at an exchange rate of $1.18 per euro. The exchange rate was $1.36 per euro at December 31, 2004, and $1.26 per euro at December 31, 2003. Adjustments to Atlantic Copper's euro-denominated net monetary liabilities to reflect changes in the exchange rate are recorded in other income (expense) and totaled $5.8 million in 2005, $(1.6) million in 2004 and $(13.6) million in 2003.

Interest Rate Risk

The table below presents average interest rates for our scheduled maturities of principal for outstanding debt and fair value at December 31, 2005 (dollars in millions).

	2006	2007	2008	2009	2010	Thereafter	Fair Value
Fixed-rate debt	$ 55.4	$ -	$ -	$ -	$ 283.9	$ 664.2	$ 1,305.0
Average interest rate	7.5%	-	-	-	10.1%	6.9%	7.9%
Variable-rate debt	$ 198.0	$ 13.5	$ 13.5	$ 13.5	$ 10.2	$ 3.7	$ 314.5
Average interest rate	4.6%	6.9%	6.9%	6.9%	6.9%	6.9%	5.1%

NEW ACCOUNTING STANDARDS

Inventory Costs

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

Stock-Based Payments

Through December 31, 2005, we have accounted for grants of employee stock options under the recognition principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, which require compensation costs for stock-based employee compensation plans to be recognized based on the difference on the date of grant, if any, between the quoted market price of the stock and the amount an employee must pay to acquire the stock. If we had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," which requires stock-based compensation to be recognized based on the use of a fair value method, our net income would have been reduced by $12.5 million, $0.06 per basic share and $0.03 per diluted share, in 2005, $5.2 million, $0.03 per basic share and $0.05 per diluted share, in 2004 and $4.7 million, $0.03 per basic share and $0.05 per diluted share, in 2003 (see Note 1). These pro forma amounts are not necessarily indicative of what charges may be in future periods. In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment"

(SFAS No. 123R). SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. This new accounting standard will also change the timing of recognition of certain compensation costs, such as restricted stock units granted in place of all or part of cash incentive compensation. SFAS No. 123R's effective date is fiscal periods beginning after June 15, 2005. We adopted SFAS No. 123R on January 1, 2006. Including employee stock option grants in January 2006, we expect the 2006 charge to earnings before taxes and minority interest sharing for employee stock options will total approximately $30 million, and the reduction in net income will total approximately $16 million or $0.09 per share based on outstanding shares at December 31, 2005.

Deferred Mining Costs

In March 2005, the FASB ratified EITF 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry" (see Note 1), which requires that stripping costs incurred during production be considered costs of the extracted minerals and recognized as a component of inventory to be recognized in cost of sales in the same period as the revenue from the sale of inventory. As a result, capitalization of stripping costs incurred during production is appropriate only to the extent product inventory exists at the end of a reporting period. The guidance in EITF 04-6 is effective for financial statements issued for fiscal years beginning after December 15, 2005. Companies may apply this guidance either by recognition of a cumulative effect adjustment to beginning retained earnings in the period of adoption or by restating prior period financial statements. We adopted the guidance on January 1, 2006, with the most significant impacts of adoption being that the deferred mining costs asset on our balance sheet on that date ($285.4 million) was recorded, net of taxes, minority interest share and inventory effects ($135.9 million), as a cumulative effect adjustment to reduce our retained earnings. Stripping costs incurred in 2006 and later periods will now effectively be charged to cost of sales as incurred. Adoption of the new guidance has no impact on our cash flows. The pro forma impact of applying EITF 04-6 would be to reduce net income by $35.3 million or $0.16 per diluted share for the year ended December 31, 2005, $39.4 million or $0.21 per diluted share for the year ended December 31, 2004, and $33.8 million or $0.21 per diluted share for the year ended December 31, 2003. These pro forma amounts are not necessarily indicative of what charges may be for future periods.

PRODUCT REVENUES AND PRODUCTION COSTS

PT Freeport Indonesia Product Revenues and Unit Net Cash Costs

All amounts used in both the by-product and co-product method presentations are included in our recorded results under generally accepted accounting principles. We separately identify certain of these amounts as shown in the following reconciliation to amounts reported in our consolidated financial statements and as explained here.

1. We show adjustments to revenues for prior period open sales as separate line items. Because such copper pricing adjustments do not result from current period sales, we have reflected these separately from revenues on current period sales.

2. Noncash and nonrecurring costs, which consist of items such as write-offs of equipment or unusual charges, have not been material. They are removed from site production and delivery costs in the calculation of unit net cash costs.

3. Gold and silver revenues are reflected as credits against site production and delivery costs in the by-product method.

Year Ended December 31, 2005

(In Thousands)	By-Product Method	Co-Product Method			
		Copper	Gold	Silver	Total
Revenues, after adjustments shown below	$ 2,707,049	$ 2,707,049	$ 1,269,893	$ 35,165	$ 4,012,107
Site production and delivery, before net noncash and nonrecurring costs shown below	949,469[a]	640,626[b]	300,521[b]	8,322[b]	949,469
Gold and silver credits	(1,305,058)	-	-	-	-
Treatment charges	350,422	236,437	110,914	3,071	350,422
Royalty on metals	103,726	69,986	32,831	909	103,726
Unit net cash costs	98,559	947,049	444,266	12,302	1,403,617
Depreciation and amortization	209,713	141,498	66,377	1,838	209,713
Noncash and nonrecurring costs, net	4,570	3,083	1,447	40	4,570
Total unit costs	312,842	1,091,630	512,090	14,180	1,617,900
Revenue adjustments, primarily for pricing on prior period open sales and silver hedging	10,023	14,975	-	(4,952)	10,023
PT Smelting intercompany profit elimination	(23,565)	(15,899)	(7,459)	(207)	(23,565)
Gross profit	$ 2,380,665	$ 1,614,495	$ 750,344	$ 15,826	$ 2,380,665

Reconciliation to Amounts Reported

(In Thousands)	Revenues	Production and Delivery	Depreciation and Amortization
Totals presented above	$ 4,012,107	$ 949,469	$ 209,713
Net noncash and nonrecurring costs per above	N/A	4,570	N/A
Less: Treatment charges per above	(350,422)	N/A	N/A
Royalty per above	(103,726)	N/A	N/A
Revenue adjustments, primarily for pricing on prior period open sales and hedging per above	10,023	N/A	N/A
Mining and exploration segment	3,567,982	954,039	209,713
Smelting and refining segment	1,363,208	1,288,610	28,995
Eliminations and other	(752,072)	(605,017)	12,804
As reported in FCX's consolidated financial statements	$ 4,179,118	$ 1,637,632	$ 251,512

a. Net of def erred mining costs totaling $64.9 million or 4.5¢ per pound. Upon adoption of EITF 04-6, mining costs will no longer be deferred (see "New Accounting Standards" and Note 1).

b. Net of deferred mining costs totaling $43.8 million or 3.0¢ per pound for copper, $20.6 million or $7.37 per ounce for gold and $0.6 million or $0.12 per ounce for silver (see Note a above).

Year Ended December 31, 2004

(In Thousands)	By-Product Method	Co-Product Method: Copper	Gold	Silver	Total
Revenues, after adjustments shown below	$ 1,363,587	$ 1,363,587	$ 595,206	$ 21,593	$ 1,980,386
Site production and delivery, before net noncash and nonrecurring credits shown below	764,206[a]	526,191[b]	229,682[b]	8,333[b]	764,206
Gold and silver credits	(616,799)	-	-	-	-
Treatment charges	202,243	139,254	60,784	2,205	202,243
Royalty on metals	43,498	29,950	13,074	474	43,498
Unit net cash costs	393,148	695,395	303,540	11,012	1,009,947
Depreciation and amortization	168,195	115,810	50,551	1,834	168,195
Noncash and nonrecurring credits, net	(4,075)	(2,806)	(1,225)	(44)	(4,075)
Total unit costs	557,268	808,399	352,866	12,802	1,174,067
Revenue adjustments, primarily for pricing on prior period open sales and silver hedging	11,928	13,369	-	(1,441)	11,928
PT Smelting intercompany profit elimination	(13,798)	(9,501)	(4,147)	(150)	(13,798)
Gross profit	$ 804,449	$ 559,056	$ 238,193	$ 7,200	$ 804,449

Reconciliation to Amounts Reported

(In Thousands)	Revenues	Production and Delivery	Depreciation and Amortization
Totals presented above	$ 1,980,386	$ 764,206	$ 168,195
Net noncash and nonrecurring credits per above	N/A	(4,075)	N/A
Less: Treatment charges per above	(202,243)	N/A	N/A
Royalty per above	(43,498)	N/A	N/A
Revenue adjustments, primarily for pricing on prior period open sales and hedging per above	11,928	N/A	N/A
Mining and exploration segment	1,746,573	760,131	168,195
Smelting and refining segment	873,700	914,452	28,632
Eliminations and other	(248,407)	(224,292)	9,581
As reported in FCX's consolidated financial statements	$ 2,371,866	$ 1,450,291	$ 206,408

a. Net of deferred mining costs totaling $77.8 million or 7.8 ¢ per pound. Upon adoption of EITF 04-6, mining costs will no longer be deferred (see "New Accounting Standards" and Note 1).

b. Net of deferred mining costs totaling $53.6 million or 5.4¢ per pound for copper, $23.4 million or $16.20 per ounce for gold and $0.8 million or $0.26 per ounce for silver (see Note a above).

Year Ended December 31, 2003

(In Thousands)	By-Product Method	Co-Product Method			
		Copper	Gold	Silver	Total
Revenues, after adjustments shown below	$ 1,062,042	$ 1,062,042	$ 884,666	$ 19,613	$ 1,966,321
Site production and delivery, before net reclamation, noncash and nonrecurring costs shown below	617,219[a]	333,370[b]	277,693[b]	6,156[b]	617,219
Gold and silver credits	(904,279)	-	-	-	-
Treatment charges	231,856	125,229	104,314	2,313	231,856
Royalty on metals	26,472	14,298	11,910	264	26,472
Unit net cash costs (credits)	(28,732)	472,897	393,917	8,733	875,547
Depreciation and amortization	190,450	102,865	85,685	1,900	190,450
Reclamation, noncash and nonrecurring costs, net	15,954	8,617	7,178	159	15,954
Total unit costs	177,672	584,379	486,780	10,792	1,081,951
Revenue adjustments, primarily for pricing on prior period open sales and gold/silver hedging	36,587	12,755	22,110	1,722	36,587
PT Smelting intercompany profit elimination	7,018	3,791	3,157	70	7,018
Reclamation incurred	1,222	660	550	12	1,222
Gross profit	$ 929,197	$ 494,869	$ 423,703	$ 10,625	$ 929,197

Reconciliation to Amounts Reported

(In Thousands)	Revenues	Production and Delivery	Depreciation and Amortization
Totals presented above	$ 1,966,321	$ 617,219	$ 190,450
Net reclamation, noncash and nonrecurring costs per above	N/A	15,954	N/A
Less: Treatment charges per above	(231,856)	N/A	N/A
Royalty per above	(26,472)	N/A	N/A
Reclamation	N/A	(1,222)	N/A
Revenue adjustments, primarily for pricing on prior period open sales and hedging per above	36,587	N/A	N/A
Mining and exploration segment	1,744,580	631,951	190,450
Smelting and refining segment	910,417	892,681	28,464
Eliminations and other	(442,832)	(453,306)	11,889
As reported in FCX's consolidated financial statements	$ 2,212,165	$ 1,071,326	$ 230,803

a. Net of deferred mining costs totaling $64.4 million or 5.0 ¢ per pound. Upon adoption of EITF 04-6, mining costs will no longer be deferred (see "New Accounting Standards" and Note 1).

b. Net of deferred mining costs totaling $34.8 million or 2.7¢ per pound for copper, $29.0 million or $11.73 per ounce for gold and $0.6 million or $0.16 per ounce for silver (see Note a above).

Atlantic Copper Cathode Cash Unit Cost Per Pound Of Copper

Atlantic Copper cathode cash unit cost per pound of copper is a measure intended to provide investors with information about the costs it incurs to produce cathodes at its smelting operations in Spain. We use this measure for the same purpose and for monitoring operating performance at Atlantic Copper's smelting operations. This information differs from measures of performance determined in accordance with generally accepted accounting principles and should not be considered in isolation or as a substitute for measures of performance determined in accordance with generally accepted accounting principles. Other smelting companies present this measure, although Atlantic Copper's measure may not be comparable to similarly titled measures reported by other companies. The reconciliation below presents reported production costs for our smelting and refining segment (Atlantic Copper) and subtracts or adds components of those costs that do not directly relate to the process of converting copper concentrates to cathodes. The adjusted production costs amounts are used to calculate Atlantic Copper's cathode cash unit cost per pound of copper (in thousands, except per pound amounts):

	Years Ended December 31,		
	2005	2004	2003
Smelting and refining segment production costs reported in FCX's consolidated financial statements	$ 1,288,610	$ 914,452[a]	$ 892,681
Less:			
Raw material purchase costs	(907,130)	(249,689)	(384,347)
Production costs of wire rod and wire	- [b]	(370,431)	(66,106)
Production costs of anodes sold	(13,226)	(3,720)	(13,124)
Currency hedging	-	-	9,625
Other	(958)	(16,771)	(1,459)
Credits:			
Gold and silver revenues	(245,772)	(133,960)	(326,948)
Acid and other by-product revenues	(28,446)	(25,068)	(20,566)
Production costs used in calculating cathode cash unit cost per pound	$ 93,078	$ 114,813	$ 89,756
Pounds of cathode produced	545,300	454,700	544,700
Cathode cash unit cost per pound	$ 0.17	$ 0.25	$ 0.16

a. Includes $27.5 million, $0.06 per pound, for costs related to Atlantic Copper's major maintenance turnaround.
b. Atlantic Copper sold its wire rod and wire assets in December 2004.

PT Smelting Cathode Cash Unit Cost Per Pound Of Copper

PT Smelting cathode cash unit cost per pound of copper is a measure intended to provide investors with information about the costs it incurs to produce cathodes at its smelting operations in Indonesia. We use this measure for the same purpose and for monitoring operating performance at PT Smelting's smelting operations. This information differs from measures of performance determined in accordance with generally accepted accounting principles and should not be considered in isolation or as a substitute for measures of performance determined in accordance with generally accepted accounting principles. Other smelting companies present this measure, although PT Smelting's measure may not be comparable to similarly titled measures reported by other companies. The calculation below presents PT Smelting's reported operating costs and subtracts or adds components of those costs that do not directly relate to the process of converting copper concentrates to cathodes. PT Smelting's operating costs are then reconciled to PT Freeport Indonesia's equity in PT Smelting earnings reported in our consolidated financial statements (in thousands, except per pound amounts):

	Years Ended December 31,		
	2005	2004	2003
Operating costs - PT Smelting (100%)	$ 85,546	$ 64,858	$ 55,787
Add: Gold and silver refining charges	4,233	4,064	6,200
Less: Acid and other by-product revenues	(14,524)	(13,732)	(10,665)
Production cost of anodes sold	-	(225)	(4,743)
Other	(1,944)	336	1,492
Production costs used in calculating cathode cash unit cost per pound	$ 73,311	$ 55,301	$ 48,071
Pounds of cathode produced	579,700	464,000	492,400
Cathode cash unit cost per pound	$ 0.13	$ 0.12	$ 0.10
Reconciliation to Amounts Reported			
Operating costs per above	$ (85,546)	$ (64,858)	$ (55,787)
Other costs	(1,278,356)	(852,911)	(780,530)
Revenue and other income	1,402,071	926,914	859,715
PT Smelting net income	38,169	9,145	23,398
PT Freeport Indonesia's 25% equity interest	9,542	2,286	5,850
Amortization of excess investment cost	(240)	(241)	(241)
Equity in PT Smelting earnings reported in FCX's consolidated financial statements	$ 9,302	$ 2,045	$ 5,609

CAUTIONARY STATEMENT

Our discussion and analysis contains forward-looking statements in which we discuss our expectations regarding future performance. Forward-looking statements are all statements other than historical facts, such as those regarding anticipated sales volumes, ore grades and milling rates, commodity prices, general and administrative expenses, unit net cash costs, operating cash flows, royalty costs, capital expenditures, future environmental costs, debt repayments and refinancing, debt maturities, treatment charge rates, depreciation rates, exploration efforts and results, the impact of changes in deferred intercompany profits on earnings, dividend payments, liquidity and other financial commitments. We caution you that these statements are not guarantees of future performance, and our actual results may differ materially from those projected, anticipated or assumed in the forward-looking statements. Important factors that can cause our actual results to differ materially from those anticipated in the forward-looking statements include unanticipated mining, milling and other processing problems, accidents that lead to personal injury or property damage, persistent commodity price reductions, changes in political, social or economic circumstances in our area of operations, variances in ore grades, labor relations, adverse weather conditions, the speculative nature of mineral exploration, fluctuations in interest rates and other adverse financial market conditions, and other factors described in more detail under the heading "Risk Factors" in our Form 10-K for the year ended December 31, 2005.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Freeport-McMoRan Copper & Gold Inc. and its subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, cash flows and stockholders' equity for each of the three years in the period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Freeport-McMoRan Copper & Gold Inc. and its subsidiaries at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 143, “Accounting for Asset Retirement Obligations,” and effective July 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.”

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Freeport-McMoRan Copper & Gold Inc.’s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

New Orleans, Louisiana
February 24, 2006

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

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

Our management, including our principal executive officer and principal financial officer, assessed the effectiveness of our internal control over financial reporting as of the end of the fiscal year covered by this annual report on Form 10-K. In making this assessment, our management used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our management's assessment, management concluded that, as of December 31, 2005, our Company's internal control over financial reporting is effective based on the COSO criteria.

Ernst & Young LLP, an independent registered public accounting firm, has issued their audit report on our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005, as stated in their report dated February 24, 2006, which is included herein.

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Freeport-McMoRan Copper & Gold Inc. and its subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Freeport-McMoRan Copper & Gold Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Freeport-McMoRan Copper & Gold Inc. and its subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Freeport-McMoRan Copper & Gold Inc. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Freeport-McMoRan Copper & Gold Inc. and its subsidiaries as of December 31, 2005 and 2004, and the related statements of income, cash flows and stockholders' equity for each of the three years in the period ended December 31, 2005 and our report dated February 24, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

New Orleans, Louisiana
February 24, 2006

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

	Years Ended December 31,		
	2005	2004	2003
	(In Thousands, Except Per Share Amounts)		
Revenues	$4,179,118	$ 2,371,866	$ 2,212,165
Cost of sales:			
Production and delivery	1,637,632	1,450,291	1,071,326
Depreciation and amortization	251,512	206,408	230,803
Total cost of sales	1,889,144	1,656,699	1,302,129
Exploration expenses	8,803	8,664	6,449
General and administrative expenses	103,885	89,927	80,279
Gain on insurance settlement	-	(87,000)	-
Total costs and expenses	2,001,832	1,668,290	1,388,857
Operating income	2,177,286	703,576	823,308
Equity in PT Smelting earnings	9,302	2,045	5,609
Interest expense, net	(131,639)	(148,103)	(197,017)
Losses on early extinguishment and conversion of debt	(52,210)	(14,011)	(34,589)
Gains on sales of assets	6,631	28,756	-
Other income (expense), net	27,568	2,121	(13,536)
Income before income taxes and minority interests	2,036,938	574,384	583,775
Provision for income taxes	(915,068)	(330,680)	(338,053)
Minority interests in net income of consolidated subsidiaries	(126,743)	(41,437)	(48,469)
Net income before cumulative effect of changes in accounting principles and preferred dividends	995,127	202,267	197,253
Cumulative effect of changes in accounting principles, net	-	-	(15,593)
Net income	995,127	202,267	181,660
Preferred dividends	(60,500)	(45,491)	(27,441)
Net income applicable to common stock	$ 934,627	$ 156,776	$ 154,219
Net income per share of common stock:			
Basic:			
Before cumulative effect	$5.18	$0.86	$1.09
Cumulative effect	-	-	(0.10)
Net income per share of common stock	$5.18	$0.86	$0.99
Diluted:			
Before cumulative effect	$4.67	$0.85	$1.07
Cumulative effect	-	-	(0.10)
Net income per share of common stock	$4.67	$0.85	$0.97
Average common shares outstanding:			
Basic	180,270	182,272	155,805
Diluted	220,470	184,923	159,102
Dividends paid per share of common stock	$2.50	$1.10	$0.27

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

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

	Years Ended December 31,		
	2005	2004	2003
		(In Thousands)	
Cash flow from operating activities:			
Net income	$ 995,127	$ 202,267	$ 181,660
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	251,512	206,408	230,803
Losses on early extinguishment and conversion of debt	52,210	14,011	34,589
Gains on sales of assets	(6,631)	(28,756)	-
Cumulative effect of changes in accounting principles	-	-	15,593
Gain on redemption of Gold-Denominated and Silver-Denominated Preferred Stock	-	-	(23,832)
Deferred income taxes	(32,347)	76,253	110,653
Equity in PT Smelting earnings	(9,302)	(2,045)	(5,609)
Minority interests' share of net income	126,743	41,437	48,469
Increase in deferred mining costs	(64,940)	(77,780)	(64,400)
Amortization of deferred financing costs	7,596	8,501	16,196
Increase in long-term compensation benefits	24,795	2,830	13,689
Currency translation (gains) losses	(5,822)	1,628	13,561
Equipment loss caused by pit slippage	-	-	8,434
Elimination (recognition) of profit on PT Freeport Indonesia sales to PT Smelting	23,565	13,798	(7,018)
Provision for inventory obsolescence	6,000	4,916	6,000
Other	5,191	8,591	11,084
(Increases) decreases in working capital:			
Accounts receivable	(252,934)	(235,756)	8,304
Inventories	(108,225)	(91,744)	(30,607)
Prepaid expenses and other	(45)	34,304	(5,428)
Accounts payable and accrued liabilities	216,331	97,781	60,878
Rio Tinto share of joint venture cash flows	66,133	17,793	(9,806)
Accrued income taxes	257,588	46,918	(41,141)
Decrease (increase) in working capital	178,848	(130,704)	(17,800)
Net cash provided by operating activities	1,552,545	341,355	572,072
Cash flow from investing activities:			
PT Freeport Indonesia capital expenditures	(129,190)	(119,207)	(129,245)
Atlantic Copper and other capital expenditures	(13,796)	(21,792)	(9,941)
Sale of assets	6,631	39,885	2,020
Proceeds from insurance settlement	2,016	6,261	-
Sale of restricted investments	-	21,804	73,629
Decrease in Atlantic Copper restricted cash	-	11,000	-
Investment in PT Smelting and other	-	(1,923)	(1,154)
Investment in PT Puncakjaya Power, net of cash acquired	-	-	(68,127)
Net cash used in investing activities	(134,339)	(63,972)	(132,818)
Cash flow from financing activities:			
Net proceeds from sales of senior notes	-	344,354	1,046,437
Proceeds from other debt	66,058	96,122	56,698
Repayments of debt	(559,071)	(470,472)	(1,065,663)
Redemption of step-up preferred stock	(215)	(1,172)	(5,792)

Net proceeds from sale of convertible perpetual preferred stock	-	1,067,000	-
Purchase of FCX common shares from Rio Tinto	-	(881,868)	-
Purchases of other FCX common shares	(80,227)	(99,477)	-
Cash dividends paid:			
Common stock	(452,510)	(198,782)	(41,682)
Preferred stock	(60,501)	(35,470)	(33,733)
Minority interests	(124,636)	(11,447)	(1,623)
Net proceeds from exercised stock options	5,081	3,196	68,776
Bank credit facilities fees and other	(36)	(1,569)	(6,856)
Net cash (used in) provided by financing activities	(1,206,057)	(189,585)	1 6,562
Net increase in cash and cash equivalents	212,149	87,798	455 ,816
Cash and cash equivalents at beginning of year	551,450	463,652	7 ,836
Cash and cash equivalents at end of year	$ 763,599	$ 551,450	$ 463,652
Interest paid	$ 139,824	$ 143,958	$ 163,513
Income taxes paid	$ 670,240	$ 178,379	$ 268,796

The accompanying Notes to Consolidated Financial Statements, which include information regarding noncash transactions, are an integral part of these financial statements.

FREEPORT-McMoRan COPPER & GOLD INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2005	December 31, 2004
	(In Thousands, Except Par Value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 763,599	$ 551,450
Restricted cash	-	500
Trade accounts receivable:		
Customers other than PT Smelting	459,916	267,237
PT Smelting	161,981	87,512
Other accounts receivable:		
Value-added taxes and other	55,673	37,291
Rio Tinto receivables	10,399	12,572
Insurance settlement	-	30,450
Inventories:		
Product	300,389	253,265
Materials and supplies, net	264,630	213,447
Prepaid expenses and other	5,795	6,223
Total current assets	2,022,382	1,459,947
Property, plant, equipment and development costs, net	3,088,931	3,199,292
Deferred mining costs	285,355	220,415
Other assets	57,908	86,941
Rio Tinto long-term receivables	62,091	72,598
Investment in PT Smelting	33,539	47,802
Total assets	$ 5,550,206	$ 5,086,995
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 573,560	$ 386,590
Accrued income taxes	327,041	92,346
Current portion of long-term debt and short-term borrowings	253,350	78,214
Rio Tinto share of joint venture cash flows	125,809	60,224
Unearned customer receipts	57,184	33,021
Accrued interest payable	32,034	47,167
Total current liabilities	1,368,978	697,562
Long-term debt, less current portion	1,002,598	1,873,692
Accrued postretirement benefits and other liabilities	210,259	200,228
Deferred income taxes	902,386	932,416
Minority interests	222,991	219,448
Stockholders' equity:		
Convertible perpetual preferred stock, 1,100 shares issued and outstanding	1,100,000	1,100,000
Class B common stock, par value $0.10, 296,959 shares and 284,964 shares issued, respectively	29,696	28,496
Capital in excess of par value of common stock	2,212,246	1,852,816
Retained earnings	1,086,191	604,680
Accumulated other comprehensive income	10,749	11,342
Common stock held in treasury - 110,153 shares and 105,974 shares, at cost, respectively	(2,595,888)	(2,433,685)
Total stockholders' equity	1,842,994	1,163,649
Total liabilities and stockholders' equity	$ 5,550,206	$ 5,086,995

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

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

	Years Ended December 31,		
	2005	2004	2003
		(In Thousands)	
Convertible perpetual preferred stock:			
Balance at beginning of year	$ 1,100,000	$ -	$ -
Sale of 1,100 shares to the public	-	1,100,000	-
Balance at end of year representing 1,100 shares in 2005 and 2004	1,100,000	1,100,000	-
Step-up convertible preferred stock:			
Balance at beginning of year representing 14,000 shares in 2003	-	-	349,990
Conversions to Class B common stock and redemptions	-	-	(349,990)
Balance at end of year	-	-	-
Class B common stock:			
Balance at beginning of year representing 284,964 shares in 2005, 260,001 shares in 2004 and 220,083 shares in 2003	28,496	26,000	22,008
7% convertible senior notes conversions	814	-	-
Exercised stock options, issued restricted stock and other representing 3,854 shares in 2005, 4,501 shares in 2004 and 6,703 shares in 2003	386	450	670
8¼% convertible senior notes conversions	-	2,046	2,176
Step-up convertible preferred stock conversions	-	-	1,146
Balance at end of year representing 296,959 shares in 2005, 284,964 shares in 2004 and 260,001 shares in 2003	29,696	28,496	26,000
Capital in excess of par value of common stock:			
Balance at beginning of year	1,852,816	1,468,426	687,828
7% convertible senior notes conversions	245,834	-	-
Exercised stock options and other stock option amounts	90,043	83,648	105,577
Tax benefit for stock option exercises	18,736	39,567	1,343
Restricted stock grants	4,817	7,486	1,380
8¼% convertible senior notes conversions	-	286,689	303,782
Issuance costs of convertible perpetual preferred stock	-	(33,000)	-
Step-up convertible preferred stock conversions	-	-	341,885
Reclass of redeemable preferred stock issuance costs to other assets	-	-	26,631
Balance at end of year	2,212,246	1,852,816	1,468,426
Retained earnings:			
Balance at beginning of year	604,680	646,933	534,447
Net income	995,127	202,267	181,660
Dividends on common stock	(453,116)	(199,029)	(41,733)
Dividends on preferred stock	(60,500)	(45,491)	(27,441)
Balance at end of year	1,086,191	604,680	646,933
Accumulated other comprehensive income (loss):			
Balance at beginning of year	11,342	8,668	10,963
Other comprehensive income (loss), net of taxes:			
Change in unrealized derivatives' fair value	(24)	1,226	5,195

Reclass to earnings of net realized derivatives losses (gains)	(254)	1,448	(7,490)
Minimum pension liability adjustment	(315)	-	-
Balance at end of year	10,749	11,342	8,668
Common stock held in treasury:			
Balance at beginning of year representing 105,974 shares in 2005, 76,634 shares in 2004 and 75,173 shares in 2003	(2,433,685)	(1,374,043)	(1,338,410)
Tender of 1,808 shares in 2005, 2,024 shares in 2004 and 1,461 shares in 2003 to FCX for exercised stock options and restricted stock	(81,976)	(78,297)	(35,633)
Shares purchased representing 2,371 shares in 2005 and 27,316 shares in 2004	(80,227)	(981,345)	-
Balance at end of year representing 110,153 shares in 2005, 105,974 shares in 2004 and 76,634 shares in 2003	(2,595,888)	(2,433,685)	(1,374,043)
Total stockholders' equity	$ 1,842,994	$ 1,163,649	$ 775,984

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The consolidated financial statements of Freeport-McMoRan Copper & Gold Inc. (FCX) include the accounts of those subsidiaries where FCX directly or indirectly has more than 50 percent of the voting rights and has the right to control significant management decisions. FCX consolidates its 90.6 percent-owned subsidiary PT Freeport Indonesia and its 85.7 percent-owned subsidiary PT Puncakjaya Power (Puncakjaya Power), as well as its wholly owned subsidiaries, primarily Atlantic Copper, S.A. and PT Irja Eastern Minerals. FCX's unincorporated joint ventures with Rio Tinto plc (Rio Tinto) are reflected using the proportionate consolidation method (see Note 2). PT Freeport Indonesia's 25 percent ownership interest and related investment in PT Smelting is accounted for under the equity method (see Note 9). All significant intercompany transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the 2005 presentation. Changes in the accounting principles applied during the years presented are discussed below under the captions "Reclamation and Closure Costs" and "Derivative Instruments."

Use of Estimates. The preparation of FCX's financial statements in conformity with accounting principles generally accepted in the United States (U.S.) requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. The more significant areas requiring the use of management estimates include mineral reserve estimation, useful asset lives for depreciation and amortization, the estimated average ratio of overburden removed to ore mined over the life of the open-pit mine, allowances for obsolete inventory, reclamation and closure costs, environmental obligations, postretirement and other employee benefits, deferred taxes and valuation allowances and future cash flows associated with assets. Actual results could differ from those estimates.

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

Other Accounts Receivable. Other accounts receivable include value-added taxes totaling $29.6 million at December 31, 2005, and $20.6 million at December 31, 2004; receivables from Rio Tinto include $8.8 million at December 31, 2005, and $11.5 million at December 31, 2004, for its current share of infrastructure financing arrangements with Puncakjaya Power (see Note 2); and $30.5 million at December 31, 2004, related to the settlement of an insurance claim (see Note 10).

Inventories. In-process inventories represent materials that are currently in the process of being converted to a salable product. PT Freeport Indonesia does not have material quantities of in-process inventories. For Atlantic Copper, in-process inventories represent copper concentrates at various stages of conversion into anodes and cathodes. Atlantic Copper's in-process inventories are valued at the cost of the material fed to the smelting and refining process plus in-process conversion cost. Inventories of materials and supplies, as well as salable products, are stated at the lower of cost or market. PT Freeport Indonesia uses the average cost method for all inventories and Atlantic Copper uses the first-in, first-out (FIFO) cost method for its sales of finished copper products (see Note 3).

Property, Plant, Equipment and Development Costs. Property, plant, equipment and development costs are carried at cost. Mineral exploration costs are expensed as incurred. Development costs are capitalized beginning after proven and probable reserves have been established. Development costs include costs incurred resulting from mine pre-production activities undertaken to gain access to proven and probable reserves including adits, drifts, ramps, permanent excavations, infrastructure and removal of overburden. Additionally, interest expense allocable to the cost of developing mining properties and to constructing new facilities is capitalized until assets are ready for their intended use. Expenditures for replacements and improvements are capitalized. Costs related to periodic scheduled maintenance (i.e., turnarounds) are expensed as incurred. Depreciation for mining and milling life-of-mine assets, infrastructure and other common costs is determined using the unit-of-production method based on total estimated recoverable proven and probable copper reserves. Development costs that relate to a specific ore body are depreciated using the unit-of-production method based on estimated recoverable proven and probable copper reserves for the ore body benefited. Recording of depreciation and amortization using the unit-of-production method occurs upon extraction of the recoverable copper from the ore body, at which time it is allocated to inventory cost and then included as a component of cost of goods sold. Other assets are depreciated on a straight-line basis over estimated useful lives of 15 to 20 years for buildings and 3 to 25 years for machinery and equipment.

Asset Impairment. FCX reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. An impairment loss is measured as the amount by which asset carrying value exceeds its fair value. Fair value is generally determined using valuation techniques such as estimated future cash flows. An impairment is considered to exist if total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset. An impairment loss is measured and recorded based on discounted estimated future cash flows. Future cash flows for PT Freeport Indonesia's mining assets, which are considered one asset group, include estimates of recoverable pounds and ounces, metal prices (considering current and historical prices, price trends and related factors), production rates and costs, capital and reclamation costs as appropriate, all based on detailed life-of-mine engineering plans. Future cash flows for Atlantic Copper's smelting assets include estimates of treatment and refining rates (considering current and historical prices, price trends and related factors), production rates and costs, capital and reclamation costs as appropriate, all based on operating projections. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. No impairment losses were recorded during the periods presented.

Deferred Mining Costs. Effective January 1, 2006, FCX's accounting for mining costs will change because of new accounting rules (see "New Accounting Standards"). Mining costs are charged to operations as incurred. However, because of the configuration and location of the Grasberg open-pit ore body and the location and extent of the related surrounding overburden, the ratio of overburden to ore is much higher in the initial mining of the open pit than in later years. In 2005 and prior years, surface mining costs associated with overburden removal at PT Freeport Indonesia's Grasberg open-pit mine that were estimated to relate to future production were initially deferred when the ratio of actual overburden removed to ore mined exceeded the estimated average ratio of overburden removed to ore mined over the life of the Grasberg open-pit mine as projected in the most recent mine plan. Those deferred costs are subsequently charged to operating costs when the ratio of actual overburden removed to ore mined falls below the estimated average ratio of overburden to ore over the life of the Grasberg open-pit mine. The reserve quantities used to develop the life of mine ratio are the proven and probable ore quantities for the Grasberg open pit disclosed in Note 13. Additions to deferred mining costs are classified as increases in deferred mining costs in operating activities in the consolidated statements of cash flows and totaled $64.9 million in 2005, $77.8 million in 2004 and $64.4 million in 2003. PT Freeport Indonesia evaluates the recoverability of these deferred mining costs in conjunction with its evaluation of the recoverability of its mining assets as described in FCX's "Asset Impairment" accounting policy. The Grasberg mine is currently FCX's only producing open-pit mine.

In the mining industry, the costs of removing overburden and waste material to access mineral deposits are referred to as "stripping costs." Through December 31, 2005, FCX applied the deferred mining cost method in accounting for its post-production stripping costs, which FCX refers to as overburden removal costs. The deferred mining cost method is used by some companies in the metals mining industry; however, industry practice varies. The deferred mining cost method matches the cost of production with the sale of the related metal from the open pit by assigning each metric ton of ore removed an equivalent amount of overburden tonnage, thereby averaging overburden removal costs over the life of the mine. The mining cost capitalized in inventory and the amounts charged to cost of goods sold do not represent the actual costs incurred to mine the ore in any given period. The application of the deferred mining cost method has resulted in an asset on FCX's balance sheets ("Deferred Mining Costs") totaling $285.4 million at December 31, 2005, and $220.4 million at December 31, 2004.

PT Freeport Indonesia's geologists and engineers reassess the overburden to ore ratio and the remaining life of its open-pit mine at least annually, and any changes in estimates are reflected prospectively beginning in the quarter of change. All other variables being equal, increases in the life of mine overburden removed to ore mined ratio would result in more of the overburden removal costs being matched with current period production and therefore charged to expense rather than deferred. Decreases in the life of mine overburden removed to ore mined ratio would result in more of the overburden removal costs being deferred and matched with production in future periods.

PT Freeport Indonesia's estimated ratio of mine overburden removed to ore mined over the life of the mine in its deferred mining costs calculation averaged 2.4 to 1 in 2005, 2.3 to 1 in 2004 and 2.0 to 1 in 2003. The ratio changed in the fourth quarter of 2004 and the fourth quarter of 2003 and the impact of the changes on each year's results was to decrease net income by $2.8 million ($0.02 per share) in 2004

and $1.5 million ($0.01 per share) in 2003. The increases in the ratio in 2003 and 2004 primarily relate to changes in the cutoff grade at the Grasberg open pit caused by a reassessment of the optimal milling rate at the mill facilities, including a greater proportional contribution to total ore processed from the underground Deep Ore Zone mine.

Reclamation and Closure Costs. Effective January 1, 2003, FCX adopted Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," which requires recording the fair value of an asset retirement obligation associated with tangible long-lived assets in the period incurred. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which there is a legal obligation to settle under existing or enacted law, statute, written or oral contract or by legal construction.

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

At January 1, 2003, FCX estimated the fair value of its total asset retirement obligations to be $28.5 million. FCX recorded the fair value of these obligations and the related additional assets as of January 1, 2003. The net difference between FCX's previously recorded reclamation and closure cost liability and the amounts estimated under SFAS No. 143, after taxes and minority interest, resulted in a gain of $9.1 million (after reduction by $8.5 million for taxes and minority interest sharing), $0.06 per diluted share, which was recognized as a cumulative effect adjustment for a change in accounting principle. See Note 10 for further discussion about FCX's asset retirement obligations as of December 31, 2005 and 2004.

Income Taxes. FCX accounts for income taxes pursuant to SFAS No. 109, "Accounting for Income Taxes." Deferred income taxes are provided to reflect the future tax consequences of differences between the tax bases of assets and liabilities and their reported amounts in the financial statements (see Note 8).

Derivative Instruments. At times FCX and its subsidiaries have entered into derivative contracts to manage certain risks resulting from fluctuations in commodity prices (primarily copper and gold), foreign currency exchange rates and interest rates by creating offsetting market exposures. FCX accounts for derivatives pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as subsequently amended, established accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the resulting designation. See Note 11 for a summary of FCX's outstanding derivative instruments at December 31, 2005, and a discussion of FCX's risk management strategies for those designated as hedges.

FCX elected to continue its historical accounting for its redeemable preferred stock indexed to commodities under the provisions of SFAS No. 133, which allow such instruments issued before January 1, 1998, to be excluded from those instruments required to be adjusted for changes in their fair values. Redeemable preferred stock indexed to commodities is treated as a hedge of future production and is carried at its original issue value. As redemption payments occur, differences between the carrying value and the payment are recorded as an adjustment to revenues (see Notes 5 and 11).

Effective July 1, 2003, FCX adopted SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." On July 1, 2003, FCX reclassified its mandatorily redeemable preferred stock totaling $450.0 million as debt and reclassified the $26.6 million of original issuance costs from capital in excess of par value of common stock to other assets. FCX also recorded a $24.7 million ($0.16 per share) cumulative effect adjustment

for the amortization of the original issuance costs through July 1, 2003. Effective July 1, 2003, dividend payments on FCX's mandatorily redeemable preferred stock are classified as interest expense. SFAS No. 150 does not permit prior period financial statements to be restated to reflect the changes in classification. In addition to the cumulative effect adjustment, adopting SFAS No. 150 decreased net income applicable to common stock by approximately $0.4 million, less than $0.01 per share, in 2003 for amortization after July 1 of original issuance costs.

Pro Forma Net Income. Had FCX's Consolidated Statements of Income been adjusted for the retroactive application of the 2003 changes in accounting principles (SFAS No. 143 and SFAS No. 150), FCX would have reported 2003 net income applicable to common stock of $169.3 million, $1.09 per basic share and $1.06 per diluted share, compared with actual 2003 net income applicable to common stock of $154.2 million, $0.99 per basic share and $0.97 per diluted share.

Revenue Recognition. PT Freeport Indonesia's sales of copper concentrates, which also contain significant quantities of gold and silver, are recognized in revenues when the title to the concentrates is transferred to the buyer (which coincides with the transfer of the risk of loss) at the point the concentrates are moved over the vessel's rail at PT Freeport Indonesia's port facility.

Revenues from PT Freeport Indonesia's concentrate sales are recorded based on either 100 percent of a provisional sales price or a final sales price calculated in accordance with the terms specified in the relevant sales contract. Revenues from concentrate sales are recorded net of royalties, treatment and all refining charges (including price participation, if applicable) and the impact of commodity contracts, including the impact of redemptions of FCX's mandatorily redeemable preferred stock indexed to commodities (see Notes 5 and 11). Moreover, because a portion of the metals contained in copper concentrates is unrecoverable as a result of the smelting process, PT Freeport Indonesia's revenues from concentrate sales are also recorded net of allowances based on the quantity and value of these unrecoverable metals. These allowances are a negotiated term of PT Freeport Indonesia's 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 (price participation or price sharing).

PT Freeport Indonesia's concentrate sales agreements, including its sales to Atlantic Copper and PT Smelting, provide for provisional billings based on world metals prices when shipped, primarily using then-current prices on the London Metal Exchange (LME). Final settlement on the copper portion is generally based on the average LME price for a specified future period, generally three months after the month of arrival at the customer's facility. PT Freeport Indonesia's concentrate sales agreements do not allow for net settlement and always result in physical delivery. Final delivery to customers in Asia generally takes up to 25 days and to customers in Europe generally takes up to 57 days.

Under SFAS No. 133, PT Freeport Indonesia's sales based on a provisional sales price contain an embedded derivative which is required to be bifurcated from the host contract. The host contract is the sale of the metals contained in the concentrates at the current spot LME price. PT Freeport Indonesia applies the normal purchase and sale exception allowed by SFAS No. 133 to the host contract in its concentrate sales agreements because the sales always result in physical delivery. Revenues based on provisional sales prices totaled $738.6 million at December 31, 2005. The embedded derivative, which does not qualify for hedge accounting, is marked-to-market through earnings each period. At December 31, 2005, FCX had consolidated embedded copper derivatives on 379.6 million pounds recorded at an average price of $2.03 per pound based on forward prices for the expected settlement dates. Final prices on these sales will be established over the next several months pursuant to terms of sales contracts. The impact of fluctuations in the forward prices used for these derivatives through the settlement date is reflected as derivative gains and losses in revenues. A one-cent change in the average price used for these embedded derivatives and realized prices for these sales would have an approximate $4 million impact on FCX's 2006 consolidated revenues and an approximate $2 million impact on FCX's 2006 consolidated net income. Gold sales are priced according to individual contract terms, generally the average London Bullion Market Association price for a specified month near the month of shipment. At December 31, 2005, FCX had consolidated embedded gold derivatives on 298,900 ounces recorded at an average price of $513 per ounce. A $20 change in the average price used for these embedded derivatives and realized prices for these sales would have an approximate $6 million impact on FCX's 2006 consolidated revenues and an approximate $3 million impact on FCX's 2006 consolidated net income. For 2005, 2004 and 2003, the

maximum net price adjustment to revenues after initial recognition was nine percent for copper revenues and one percent for gold revenues.

PT Freeport Indonesia pays royalties under a Contract of Work (see Note 10). The copper royalty rate payable by PT Freeport Indonesia under its Contract of Work varies from 1.5 percent of copper net revenue at a copper price of $0.90 or less per pound to 3.5 percent at a copper price of $1.10 or more per pound. The Contract of Work royalty rate for gold and silver sales is 1.0 percent.

A large part of the mineral royalties under Government of Indonesia regulations is designated to the provinces from which the minerals are extracted. In connection with its fourth concentrator mill expansion completed in 1998, PT Freeport Indonesia agreed to pay the Government of Indonesia additional royalties (royalties not required by the Contract of Work) to provide further support to the local governments and the people of the Indonesian province of Papua. The additional royalties are paid on metal from production from PT Freeport Indonesia's milling facilities above 200,000 metric tons of ore per day. The additional royalty for copper equals the Contract of Work royalty rate, and for gold and silver equals twice the Contract of Work royalty rates. Therefore, PT Freeport Indonesia's royalty rate on copper net revenues from production above 200,000 metric tons of ore per day is double the Contract of Work royalty rate, and the royalty rates on gold and silver sales from production above 200,000 metric tons of ore per day are triple the Contract of Work royalty rates. The combined royalties, including the additional royalties, which became effective January 1, 1999, totaled $103.7 million in 2005, $43.5 million in 2004 and $26.5 million in 2003.

Foreign Currencies. Transaction gains and losses associated with Atlantic Copper's euro-denominated and PT Freeport Indonesia's rupiah-denominated monetary assets and liabilities are included in net income. Atlantic Copper's euro-denominated net monetary liabilities totaled $54.6 million at December 31, 2005, based on an exchange rate of $1.18 per euro. Excluding hedging amounts, net Atlantic Copper foreign currency transaction gains (losses) totaled $5.8 million in 2005, $(1.6) million in 2004 and $(13.6) million in 2003. PT Freeport Indonesia's rupiah-denominated net monetary liabilities totaled $14.4 million at December 31, 2005, based on an exchange rate of 9,825 rupiah to one U.S. dollar. Excluding hedging amounts, net PT Freeport Indonesia foreign currency transaction losses totaled $0.4 million in 2005, $0.7 million in 2004 and $3.0 million in 2003.

Comprehensive Income. FCX follows SFAS No. 130, "Reporting Comprehensive Income," for the reporting and display of comprehensive income (net income plus other comprehensive income, or all other changes in net assets from nonowner sources) and its components. FCX's comprehensive income for 2005, 2004 and 2003 follows (in thousands):

	2005	2004	2003
Net income	$ 995,127	$ 202,267	$ 181,660
Other comprehensive income (loss):			
Change in unrealized derivatives' fair value, net of taxes of $1.0 million for 2004 (no taxes for other years)	(24)	1,226	5,195
Reclass to earnings, net of taxes of $0.3 million for 2005 (no taxes for other years)	(254)	1,448	(7,490)
Minimum pension liability adjustment	(315)	-	-
Total comprehensive income	$ 994,534	$ 204,941	$ 179,365

Effective January 1996, Atlantic Copper changed its functional currency from the peseta (the Spanish currency at the time) to the U.S. dollar. This change resulted from significant changes in Atlantic Copper's operations related to a large expansion of its smelting and refining operations financed with U.S. dollar borrowings and the sale of its mining operations that incurred significant peseta operating costs. Accumulated Other Comprehensive Income reported in the Consolidated Statements of Stockholders' Equity before 2001 totaled $10.2 million and consisted solely of the cumulative foreign currency translation adjustment at Atlantic Copper prior to changing its functional currency, for which there is no tax effect. In accordance with SFAS No. 52, "Foreign Currency Translation," the currency translation adjustment recorded up through the date of the change in functional currency will only be adjusted in the event of a full or partial disposition of FCX's investment in Atlantic Copper.

Stock-Based Compensation. As of December 31, 2005, FCX has four stock-based employee compensation plans and two stock-based director compensation plans, which are more fully described in Note 7. FCX accounts for options granted under all of its plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, which require compensation cost for stock-based employee compensation plans to be recognized based on the difference on the date of grant, if any, between the quoted market price of the stock and the amount an employee must pay to acquire the stock. Because all the plans

require that the option exercise price be at least the market price on the date of grant, FCX recognizes no compensation expense on the grant or exercise of its employees' options. See "New Accounting Standards" below for a discussion of SFAS No. 123 (revised 2004), "Share-Based Payment" or (SFAS No. 123R), which FCX adopted on January 1, 2006. The following table illustrates the effect on net income and earnings per share if FCX had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," which requires compensation cost for all stock-based employee compensation plans to be recognized based on a fair value method (in thousands, except per share amounts):

	2005	2004	2003
Net income applicable to common stock, as reported	$ 934,627	$ 156,776	$ 154,219
Add: Stock-based employee compensation expense included in reported net income for stock option conversions, stock appreciation rights (SARs) and restricted stock units, net of taxes and minority interests	12,973	4,809	9,512
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of taxes and minority interests	(25,514)	(10,049)	(14,225)
Pro forma net income applicable to common stock	$ 922,086	$ 151,536	$ 149,506
Earnings per share:			
Basic - as reported	$ 5.18	$ 0.86	$ 0.99
Basic - pro forma	$ 5.12	$ 0.83	$ 0.96
Diluted - as reported	$ 4.67	$ 0.85	$ 0.97
Diluted - pro forma	$ 4.64	$ 0.80	$ 0.92

For the pro forma computations, the values of option grants were calculated on the dates of grant using the Black-Scholes option pricing model. No other discounts or restrictions related to vesting or the likelihood of vesting of stock options were applied. The following table summarizes the calculated average fair values and weighted-average assumptions used to determine the fair value of FCX's stock option grants under SFAS No. 123 during the periods presented.

	2005	2004	2003
Fair value per stock option	$ 13.97	$ 15.15	$ 10.30
Risk-free interest rate	3.9%	3.7%	3.8%
Expected volatility rate	46%	49%	47%
Expected life of options (in years)	6	6	7
Assumed annual dividend	$ 1.00	$ 0.80	$ 0.36[a]

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

Earnings Per Share. FCX's basic net income per share of common stock was calculated by dividing net income applicable to common stock by the weighted-average number of common shares outstanding during the year. The following is a reconciliation of net income and weighted-average common shares outstanding for purposes of calculating diluted net income per share (in thousands, except per share amounts):

	2005	2004	2003
Net income before preferred dividends and cumulative effect of changes in accounting principles	$ 995,127	$ 202,267	$ 197,253
Preferred dividends	(60,500)	(45,491)	(27,441)
Net income before cumulative effect	934,627	156,776	169,812
Cumulative effect of changes in accounting principles	-	-	(15,593)
Net income applicable to common stock	934,627	156,776	154,219
Plus income impact of assumed conversion of:			
5½% Convertible Perpetual Preferred Stock	60,500	-	-
7% Convertible Senior Notes	35,128	-	-
Diluted net income applicable to common stock	$ 1,030,255	$ 156,776	$ 154,219
Weighted average common shares outstanding	180,270	182,272	155,805
Add:			
Shares issuable upon conversion of:			
5½% Convertible Perpetual Preferred Stock (see Note 7)	21,196	-	-
7% Convertible Senior Notes (see Note 5)	16,784	-	-
Dilutive stock options (see Note 7)	1,741	2,197	3,094
Restricted stock (see Note 7)	479	454	203
Weighted average common shares outstanding for purposes of calculating diluted net income per share	220,470	184,923	159,102
Diluted net income per share of common stock:			
Before cumulative effect	$ 4.67	$ 0.85	$ 1.07
Cumulative effect	-	-	(0.10)
Net income per share of common stock	$ 4.67	$ 0.85	$ 0.97

Outstanding stock options with exercise prices greater than the average market price of FCX's common stock during the year are excluded from the computation of diluted net income per share of common stock. FCX's convertible instruments (see Notes 5 and 7) are also excluded when including the conversion of these instruments increases reported diluted net income per share. A recap of the excluded amounts follows (in thousands, except exercise prices):

	2005	2004	2003
Weighted average outstanding options	1,367	-	1,718
Weighted average exercise price	$36.99	-	$30.37
Dividends on 5½% Convertible Perpetual Preferred Stock [a]	-	$45,491	N/A
Weighted average shares issuable upon conversion [a]	-	15,632	N/A
Interest on 7% Convertible Senior Notes [b]	-	$41,430[c]	$36,873[c]
Weighted average shares issuable upon conversion [b]	-	18,625	16,463
Interest on 8¼% Convertible Senior Notes	N/A	$3,829[c, d]	$39,902[c, d]
Weighted average shares issuable upon conversion	N/A	3,073[d]	33,992[d]
Dividends on Step-Up Convertible Preferred Stock	N/A	N/A	$20,532[e]
Weighted average shares issuable upon conversion	N/A	N/A	11,424[e]

a. FCX's 5½% Convertible Perpetual Preferred Stock was issued on March 30, 2004 (see Note 7).
b. FCX's 7% Convertible Senior Notes were issued on February 11, 2003 (see Note 5).
c. Amounts are net of the effective U.S. federal alternative minimum tax rate of two percent.

d. 51.5 percent of FCX's 8¼% Convertible Senior Notes converted to FCX common stock in August 2003. In January 2004, approximately 37 percent converted to FCX common stock and the remaining notes converted to FCX common stock in July 2004 (see Note 5).
e. FCX's Step-Up Convertible Preferred Stock was redeemed in December 2003 (see Note 7).

New Accounting Standards. In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." SFAS No. 151 clarifies that abnormal amounts of idle facility expense, freight handling costs and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. FCX adopted SFAS No. 151 on January 1, 2006, and does not expect the new standard to have a material impact on its accounting for inventory costs.

Through December 31, 2005, FCX has accounted for grants of employee stock options under the recognition principles of APB Opinion No. 25 and related interpretations, which require compensation costs for stock-based employee compensation plans to be recognized based on the difference on the date of grant, if any, between the quoted market price of the stock and the amount an employee must pay to acquire the stock. If FCX had applied the fair value recognition provisions of SFAS No. 123, which requires stock-based compensation to be recognized based on the use of a fair value method, FCX's net income would have been reduced by $12.5 million, $0.06 per basic share and $0.03 per diluted share, in 2005, $5.2 million, $0.03 per basic share and $0.05 per diluted share, in 2004 and $4.7 million, $0.03 per basic share and $0.05 per diluted share, in 2003. These pro forma amounts are not necessarily indicative of what charges may be for future periods. In December 2004, the FASB issued SFAS No. 123R. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. This new accounting standard will also change the timing of recognition of certain compensation costs, such as restricted stock units granted in place of all or part of cash incentive compensation. SFAS No. 123R's effective date is fiscal periods beginning after June 15, 2005. FCX adopted SFAS No. 123R on January 1, 2006.

In March 2005, the FASB ratified Emerging Issues Task Force Issue No. 04-6, "Accounting for Stripping Costs Incurred during Production in the Mining Industry" (EITF 04-6), which requires that stripping costs incurred during production be considered costs of the extracted minerals and recognized as a component of inventory to be recognized in cost of sales in the same period as the revenue from the sale of inventory. As a result, capitalization of stripping costs incurred during production is appropriate only to the extent product inventory exists at the end of a reporting period. The guidance in EITF 04-6 is effective for financial statements issued for fiscal years beginning after December 15, 2005. Companies may apply this guidance either by recognition of a cumulative effect adjustment to beginning retained earnings in the period of adoption or by restating prior period financial statements. FCX adopted the guidance on January 1, 2006, with the most significant impacts of adoption being that the deferred mining costs asset on FCX's balance sheet on that date ($285.4 million) was recorded, net of taxes, minority interest share and inventory effects ($135.9 million), as a cumulative effect adjustment to reduce FCX's retained earnings. Stripping costs incurred in 2006 and later periods will now effectively be charged to cost of sales as incurred. Adoption of the new guidance has no impact on FCX's cash flows. The pro forma impact of applying EITF 04-6 would be to reduce net income by $35.3 million or $0.16 per diluted share for the year ended December 31, 2005, $39.4 million or $0.21 per diluted share for the year ended December 31, 2004 and $33.8 million or $0.21 per diluted share for the year ended December 31, 2003. These pro forma amounts are not necessarily indicative of what charges may be for future periods.

NOTE 2. OWNERSHIP IN SUBSIDIARIES AND JOINT VENTURES WITH RIO TINTO

Ownership in Subsidiaries. FCX's direct ownership in PT Freeport Indonesia totaled 81.3 percent at December 31, 2005 and 2004. PT Indocopper Investama, an Indonesian company, owns 9.4 percent of PT Freeport Indonesia and FCX owns 100 percent of PT Indocopper Investama. In July 2004, FCX received a request from the Indonesian Department of Energy and Mineral Resources that it offer to sell shares in PT Indocopper Investama to Indonesian nationals at fair market value. In response to this request and in view of the potential benefits of having additional Indonesian ownership in the project, FCX has agreed to consider a potential sale of an interest in PT Indocopper Investama at fair market value. Neither its Contract of Work nor Indonesian law requires FCX to divest any portion of its ownership in PT Freeport Indonesia or PT Indocopper Investama. At December 31, 2005, PT Freeport Indonesia's net assets totaled $2.4 billion and its retained earnings totaled $2.2 billion. As of December 31, 2005, FCX has two outstanding loans to PT Freeport Indonesia totaling $179.9 million.

Substantially all of PT Freeport Indonesia's assets are located in Indonesia. Events in Indonesia during 2005 mainly centered on the recovery effort from the December 26, 2004 earthquake and tsunami, and the president's continued

efforts to improve the country's economy, fight corruption and terrorism and increase foreign investment. Indonesia continues to face political, economic and social uncertainties, including separatist movements and civil and religious strife in a number of provinces.

FCX owns 100 percent of the outstanding Atlantic Copper common stock. At December 31, 2005, FCX's net investment in Atlantic Copper totaled $115.0 million, FCX had a $189.5 million loan outstanding to Atlantic Copper and Atlantic Copper's debt under financing arrangements that are nonrecourse to FCX totaled $5.0 million. Atlantic Copper is not expected to pay dividends in the near future. Under the terms of its concentrate sales agreements with Atlantic Copper, PT Freeport Indonesia had outstanding trade receivables from Atlantic Copper totaling $320.4 million at December 31, 2005. FCX made cash contributions to Atlantic Copper totaling $202.0 million in 2004 and $10.0 million in 2003. These transactions had no impact on FCX's consolidated financial statements.

FCX owns 100 percent of FM Services Company. FM Services Company provides certain administrative, financial and other services on a cost-reimbursement basis to FCX and provides similar services to two other public companies under management services agreements with fixed fee terms plus reimbursements for special projects and out-of-pocket expenses. The costs billed to FCX and PT Freeport Indonesia, which include related overhead, totaled $47.2 million in 2005, $34.6 million in 2004 and $33.4 million in 2003. Management believes these costs do not differ materially from the costs that would have been incurred had the relevant personnel providing these services been employed directly by FCX. The amounts FM Services Company billed to the two other public companies totaled $5.6 million during 2005, $4.3 million during 2004 and $3.6 million during 2003.

In July 2003, FCX acquired the 85.7 percent ownership interest in Puncakjaya Power owned by affiliates of Duke Energy Corporation for $68.1 million cash, net of $9.9 million of cash acquired. Puncakjaya Power is the owner of assets supplying power to PT Freeport Indonesia's operations, including the 3x65 megawatt coal-fired power facilities. PT Freeport Indonesia purchases power from Puncakjaya Power under infrastructure asset financing arrangements. In March 2005, FCX prepaid $187.0 million of bank debt associated with Puncakjaya Power's operations; and as a result of this prepayment of debt, at December 31, 2005, FCX had a $135.4 million loan outstanding to Puncakjaya Power. At December 31, 2005, PT Freeport Indonesia had infrastructure asset financing obligations to Puncakjaya Power totaling $218.1 million and Puncakjaya Power had a receivable from PT Freeport Indonesia for $280.0 million, including Rio Tinto's share. FCX consolidates PT Freeport Indonesia and Puncakjaya Power and FCX's consolidated balance sheet only reflects a $61.9 million receivable ($8.8 million in other accounts receivable and $53.1 million in long-term assets) for Rio Tinto's share of Puncakjaya Power's receivable as provided for in FCX's joint venture agreement with Rio Tinto.

Joint Ventures With Rio Tinto. In March 2004, FCX purchased Rio Tinto's 23.9 million shares of FCX common stock for $881.9 million (approximately $36.85 per share) with a portion of the proceeds from the sale of the 5½% Convertible Perpetual Preferred Stock (see Note 7). Rio Tinto acquired these shares from FCX's former parent company in 1995 in connection with the spin-off of FCX as an independent company. FCX and Rio Tinto have established certain unincorporated joint ventures which are not impacted by FCX's purchase of its shares from Rio Tinto discussed above. Under the joint venture arrangements, Rio Tinto has a 40 percent interest in PT Freeport Indonesia's Contract of Work and Eastern Minerals' Contract of Work, and the option to participate in 40 percent of any other future exploration projects in Papua. Under the arrangements, Rio Tinto funded $100 million in 1996 for approved exploration costs in the areas covered by the PT Freeport Indonesia and Eastern Minerals Contracts of Work. Agreed-upon exploration costs in the joint venture areas are generally shared 60 percent by FCX and 40 percent by Rio Tinto.

Pursuant to the joint venture agreement, Rio Tinto has a 40 percent interest in certain assets and future production exceeding specified annual amounts of copper, gold and silver through 2021 in Block A of PT Freeport Indonesia's Contract of Work, and, after 2021, a 40 percent interest in all production from Block A. 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 PT Freeport Indonesia's most recent expansion completed in 1998 to (b) total revenues from production from Block A, including production from PT Freeport Indonesia's previously existing reserves. PT Freeport Indonesia will continue to receive 100 percent of the cash flow from specified annual amounts of copper, gold and silver through 2021 calculated by reference to its proven and probable reserves as of December 31, 1994, and 60 percent of all remaining cash flow.

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

NOTE 3. INVENTORIES

The components of inventories follow (in thousands):

		December 31, 2005	December 31, 2004
PT Freeport Indonesia:	Concentrates - Average cost	$ 14,723	$ 11,830
Atlantic Copper:	Concentrates - FIFO	137,740	148,246
	Work in process - FIFO	144,951	86,710
	Finished goods - FIFO	2,975	6,479
Total product inventories		300,389	253,265
Total materials and supplies, net		264,630	213,447
Total inventories		$ 565,019	$ 466,712

The average cost method was used to determine the cost of essentially all materials and supplies inventory. Materials and supplies inventory is net of obsolescence reserves totaling $16.6 million at December 31, 2005, and $17.1 million at December 31, 2004.

NOTE 4. PROPERTY, PLANT, EQUIPMENT AND DEVELOPMENT COSTS, NET

The components of net property, plant, equipment and development costs follow (in thousands):

	December 31, 2005	December 31, 2004
Development and other	$ 1,517,731	$ 1,495,854
Buildings and infrastructure	1,500,337	1,440,873
Machinery and equipment	2,236,565	2,200,844
Mobile equipment	764,637	758,073
Construction in progress	70,563	72,525
Property, plant, equipment and development costs	6,089,833	5,968,169
Accumulated depreciation and amortization	(3,000,902)	(2,768,877)
Property, plant, equipment and development costs, net	$ 3,088,931	$ 3,199,292

Development and other includes costs related to investments in consolidated subsidiaries. These costs consist of $69.5 million related to FCX's purchase in December 1992 of 49 percent of the capital stock of PT Indocopper Investama, $34.5 million related to PT Freeport Indonesia's issuance of its shares to FCX in 1993 and 1994 to settle a convertible loan due to FCX and $268.4 million related to FCX's acquisition of the remaining 51 percent of the capital stock of PT Indocopper Investama in February 2002. These costs relate to the value of the proven and probable reserves FCX acquired and are amortized using the unit-of-production method based on estimated recoverable proven and probable copper reserves. Additionally, other costs include $20.8 million related to FCX's acquisition of Atlantic Copper in 1993 and relate to its smelter assets. These costs are amortized using the straight-line method based on the estimated life of Atlantic Copper's smelter assets.

NOTE 5. LONG-TERM DEBT

	December 31, 2005	December 31, 2004
	(In Thousands)	
Senior Notes:		
6⅞% Senior Notes due 2014	$ 340,295	$ 340,295
7% Convertible Senior Notes due 2011	323,667	575,000
10⅛% Senior Notes due 2010	283,895	500,000
7.50% Senior Notes due 2006	55,404	66,516
7.20% Senior Notes due 2026	175	4,525
Redeemable Preferred Stock:		
Gold-Denominated Preferred Stock, Series II	167,379	167,379
Silver-Denominated Preferred Stock	12,501	25,002
Notes Payable:		
Equipment capital leases, average rate 6.0% in 2005 and 4.4% in 2004	67,217	72,545
Atlantic Copper facility, average rate 5.5% in 2005 and 3.6% in 2004	3	4,381
Other notes payable and short-term borrowings	5,412	9,254
Puncakjaya Power bank debt, average rate 3.2% in 2004	-	187,009
FCX and PT Freeport Indonesia credit facility	-	-
Total debt	1,255,948	1,951,906
Less current portion of long-term debt and short-term borrowings	(253,350)	(78,214)
Long-term debt	$ 1,002,598	$ 1,873,692

Senior Notes. In February 2004, FCX sold $350 million of 6⅞% Senior Notes due 2014 for net proceeds of $344.4 million. Interest on the notes is payable semiannually on February 1 and August 1 of each year, beginning August 1, 2004. FCX may redeem some or all of the notes at its option at a make-whole redemption price prior to February 1, 2009, and afterwards at stated redemption prices. The indenture governing the notes contains certain restrictions, including restrictions on incurring debt, creating liens, selling assets, entering into certain transactions with affiliates, paying cash dividends on common stock, repurchasing or redeeming common or preferred equity, prepaying subordinated debt and making investments. During 2004, FCX purchased in open market transactions $9.7 million of its 6⅞% Senior Notes, which resulted in a net gain of $0.8 million recorded as a reduction to losses on early extinguishment and conversion of debt.

In February 2003, FCX sold $575 million of 7% Convertible Senior Notes due 2011 for net proceeds of $559.1 million. Interest on the notes is payable semiannually on March 1 and September 1 of each year, beginning September 1, 2003. The notes are convertible, at the option of the holder, at any time on or prior to maturity into shares of FCX's common stock at a conversion price of $30.87 per share, which is equal to a conversion rate of approximately 32.39 shares of common stock per $1,000 principal amount of notes. In the second half of 2005, FCX privately negotiated transactions to induce conversion of $251.3 million of its 7% Convertible Senior Notes into 8.1 million shares of FCX common stock. FCX recorded charges of $25.2 million, $23.3 million to net income, net of related reduction of interest expense, or $0.11 per diluted share, in 2005 as a result of these transactions. In January 2006, FCX privately negotiated transactions to induce conversion of $11.0 million of its 7% Convertible Senior Notes into 0.4 million shares of FCX common stock. FCX will record charges of $0.8 million, $0.5 million to net income, net of related reduction of interest expense, in the first quarter of 2006 as a result of these transactions. The notes are unsecured.

In January 2003, FCX sold $500 million of 10⅛% Senior Notes due 2010 for net proceeds of $487.3 million. Interest on the notes is payable semiannually on February 1 and August 1 of each year, beginning August 1, 2003. FCX may redeem some or all of the notes at its option at a make-whole redemption price prior to February 1, 2007, and afterwards at stated redemption prices. In the second half of 2005, FCX purchased in open market transactions $216.1 million of its 10⅛% Senior Notes. FCX recorded charges of $26.9 million, $16.9 million to net income or $0.08 per diluted share, in 2005 as a result of these transactions. The indenture governing the notes contains restrictions and limitations on incurring debt, creating liens, entering into sale leaseback transactions,

taking actions to limit distributions from certain subsidiaries, selling assets, entering into certain transactions with affiliates, paying cash dividends on common stock, repurchasing or redeeming common or preferred equity, prepaying subordinated debt and making investments. The notes are unsecured.

In April 2003, FCX concluded tender offers for its 7.50% Senior Notes due 2006 and its 7.20% Senior Notes due 2026. Of the total $450 million outstanding at December 31, 2002, notes with a face amount of $234.0 million were tendered for $239.0 million cash. FCX recorded a charge of $6.6 million, $4.8 million to net income or $0.03 per diluted share, to losses on early extinguishments of debt in 2003. In July 2003, FCX purchased an additional $76.0 million face amount of its 7.20% Senior Notes for $77.2 million, and recorded a charge to losses on early extinguishment of debt of $1.3 million, $0.9 million to net income or less than $0.01 per diluted share. In October 2003, holders of $68.9 million of 7.20% Senior Notes elected early repayment as permitted under their terms. In 2005, FCX purchased in open market transactions $4.4 million of its 7.20% Senior Notes and $11.1 million of its 7.50% Senior Notes. FCX recorded charges of $0.1 million, less than $0.1 million to net income or less than $0.01 per diluted share, in 2005 as a result of these transactions. At December 31, 2005, FCX had outstanding $55.4 million of its 7.50% Senior Notes and $0.2 million of its 7.20% Senior Notes.

During the first quarter of 2004, FCX completed a tender offer and privately negotiated transactions for a portion of its remaining 8¼% Convertible Senior Notes due 2006 resulting in the early conversion of $226.1 million of notes into 15.8 million shares of FCX common stock. FCX recorded a $10.9 million charge to losses on early extinguishment and conversion of debt in the first quarter of 2004 in connection with these conversions. The $10.9 million charge included $6.4 million of previously accrued interest costs that were reversed, resulting in an equivalent reduction to interest expense. In June 2004, the remaining $66.5 million of notes were called for redemption on July 31, 2004. During July, all of these notes were converted into 4.7 million shares of FCX's common stock. As of July 31, 2004, all of the 8¼% Convertible Notes, which totaled $603.8 million at issuance in 2001, had been converted into 42.2 million shares of FCX common stock.

Redeemable Preferred Stock. As discussed in Note 1, upon adoption of SFAS No. 150 on July 1, 2003, mandatorily redeemable preferred stock totaling $450.0 million was reclassified as debt. On August 1, 2003, FCX redeemed the 6.0 million depositary shares representing its Gold-Denominated Preferred Stock for $210.5 million. The mandatory redemption of the Gold-Denominated Preferred Stock shares reduced total consolidated debt by $232.6 million and resulted in a hedging gain to revenues of $22.1 million, $11.4 million to net income or $0.07 per diluted share, in 2003.

At December 31, 2005 and 2004, FCX had outstanding 4.3 million depositary shares representing 215,279 shares of its Gold-Denominated Preferred Stock, Series II totaling $167.4 million. Each depositary share had a cumulative quarterly cash dividend equal to the value of 0.0008125 ounce of gold and was redeemed in February 2006 for the cash value of 0.1 ounce of gold. These depositary shares traded on the New York Stock Exchange (NYSE) under the symbol "FCX PrC." In February 2006, FCX redeemed its Gold-Denominated Preferred Stock, Series II for $236.3 million. The mandatory redemption resulted in a $167.4 million decrease in debt and a hedging loss to 2006 revenues of $69.0 million, $36.6 million to net income or $0.20 per share based on outstanding shares at December 31, 2005.

FCX has outstanding 4.8 million depositary shares representing 14,875 shares of its Silver-Denominated Preferred Stock totaling $12.5 million at December 31, 2005, and had 29,750 shares totaling $25.0 million at December 31, 2004. As of December 31, 2005, each depositary share has a cumulative quarterly cash dividend equal to the value of 0.0051563 ounce of silver. FCX made seven annual mandatory partial redemption payments on the underlying Silver-Denominated Preferred Stock through August 2005. For each of the partial redemptions, the difference between FCX's carrying amount of $12.5 million and the actual redemption payments was recorded in revenues as a hedging gain or loss. On August 1, 2005, FCX funded the seventh of eight scheduled annual redemption payments on its Silver-Denominated Preferred Stock for $17.5 million. The mandatory redemptions resulted in hedging gains (losses) to revenues of $(5.0) million in 2005, $(1.4) million in 2004 and $1.7 million in 2003. One annual redemption payment remains and will vary with the price of silver. These depositary shares trade on the NYSE under the symbol "FCX PrD."

Notes Payable. PT Freeport Indonesia had capital leases with a vendor totaling $67.2 million at December 31, 2005, and $72.5 million at December 31, 2004. Interest rates on the leases are variable.

Atlantic Copper has a variable-rate project loan (the Atlantic Copper facility). In February 2004, FCX used a portion of the proceeds from the sale of the 6⅞% Senior Notes (see above) to repay $162.4 million of Atlantic Copper's borrowings and to refinance certain other FCX debt maturities. Atlantic Copper recorded a $3.7 million charge for losses on early extinguishment of debt for repayment of certain of its debt. As of December 31, 2005, the variable-rate project loan, nonrecourse to FCX, consisted of a $44.0 million working capital revolver that matures in December 2007. The Atlantic Copper facility restricts other borrowings and borrowings under the facility are secured by certain Atlantic Copper receivables and inventory.

As discussed in Note 2, FCX acquired the 85.7 percent ownership interest in Puncakjaya Power owned by affiliates of Duke Energy Corporation in July 2003. In March 2005, FCX prepaid $187.0 million of bank debt associated with Puncakjaya Power's operations.

FCX and PT Freeport Indonesia have a $195 million revolving credit facility, which matures in September 2006. The facility sets limitations on liens and limitations on transactions with affiliates, and requires that certain financial ratios be maintained. The credit facility allows common stock dividends, common stock purchases and investments as long as availability under the facility plus available cash exceeds $200 million or otherwise as long as certain other thresholds are exceeded. Security for obligations outstanding under the credit facility includes over 80 percent of PT Freeport Indonesia's assets, 50.1 percent of the outstanding stock of PT Freeport Indonesia, the outstanding stock of PT Indocopper Investama owned by FCX, and a pledge of PT Freeport Indonesia's rights under its Contract of Work (see Note 10). PT Freeport Indonesia and FCX guarantee each other's obligations under the credit facility. No amounts are currently outstanding under the facility. FCX and PT Freeport Indonesia recorded charges to other expense totaling $5.6 million, $3.7 million to net income, in 2003 to accelerate amortization of deferred financing costs related to the prior credit facility.

Maturities and Capitalized Interest. Maturities of debt instruments based on the amounts and terms outstanding at December 31, 2005, totaled $253.4 million in 2006, $13.5 million in 2007, $13.5 million in 2008, $13.5 million in 2009, $294.1 million in 2010 and $667.9 million thereafter. Capitalized interest totaled $4.1 million in 2005, $2.9 million in 2004 and $3.0 million in 2003.

NOTE 6. ACCRUED POSTRETIREMENT BENEFITS AND OTHER LIABILITIES

The following is a detail of FCX's accrued postretirement benefits and other liabilities (in thousands):

	2005	2004
Atlantic Copper contractual obligation to insurance company (see Note 9)	$ 57,230	$ 69,767
Pension and long-term incentive compensation (see Note 9)	95,490	76,009
Asset retirement obligations (see Note 10)	26,616	22,848
Reserve for non-income taxes (see Note 10)	19,103	18,910
Other long-term liabilities and reserves	11,820	12,694
Total accrued postretirement benefits and other liabilities	$ 210,259	$ 200,228

NOTE 7. STOCKHOLDERS' EQUITY

Common Stock. FCX has 473.6 million authorized shares of capital stock consisting of 423.6 million shares of common stock and 50.0 million shares of preferred stock. At the 2002 annual shareholder meeting, FCX's shareholders approved the conversion of each outstanding share of Class A common stock into one share of Class B common stock. FCX now has only one class of common stock. The conversion created a new measurement date for FCX's Class A stock options that were converted to Class B stock options. Under accounting rules followed by FCX for stock-based compensation, the in-the-money value of these stock options on the new measurement date ($8.8 million) must be charged to earnings over the remaining vesting period of the options, which extends through January 2006. The related charge to general and administrative expenses totaled $2.1 million in 2005, $2.1 million in 2004 and $2.3 million in 2003.

In 2003, FCX's Board of Directors approved a new open market share purchase program for up to 20 million shares, which replaced FCX's previous program. Under this new program, FCX acquired 2.4 million shares in 2005 for $80.2 million, $33.83 per share average, and 3.4 million shares in 2004 for $99.5 million, $29.39 per share average, and

14.2 million shares remain available. No other shares were purchased through February 28, 2006. The timing of future purchases of FCX's common stock is dependent upon a number of factors including the price of FCX's common shares, FCX's cash flow and financial position, copper and gold prices and general economic and market conditions.

Preferred Stock. In December 2003, FCX called for redemption the depositary shares representing its Step-Up Convertible Preferred Stock. Of the 14.0 million depositary shares outstanding at the time of call, 13.8 million depositary shares converted into 11.5 million shares of FCX common stock. The remaining depositary shares outstanding were redeemed for approximately $7 million in cash.

In March 2004, FCX sold 1.1 million shares of 5½% Convertible Perpetual Preferred Stock for $1.1 billion, with net proceeds totaling $1.067 billion. Each share of preferred stock was initially convertible into 18.8019 shares of FCX common stock, equivalent to a conversion price of approximately $53.19 per common share. The conversion rate is adjustable upon the occurrence of certain events, including any quarter that FCX's common stock dividend exceeds $0.20 per share. In October 2004, FCX's Board of Directors increased the annual common stock dividend rate to $1.00 per share ($0.25 per share quarterly). FCX paid a supplemental dividend of $0.25 per share on December 29, 2004, and paid three $0.50 per share supplemental dividends on March 31, 2005, September 30, 2005 and December 30, 2005. In November 2005, FCX's Board of Directors authorized an increase in the annual common stock dividend to $1.25 per share from $1.00 per share. The increased quarterly dividend payments and the supplemental dividends resulted in adjustments to the conversion rate. After FCX's February 2006 quarterly dividend, each share of preferred stock is now convertible into 19.7273 shares of FCX common stock, equivalent to a conversion price of approximately $50.69 per common share. Beginning March 30, 2009, FCX may redeem shares of the preferred stock by paying cash, FCX common stock or any combination thereof for $1,000 per share plus unpaid dividends, but only if FCX's common stock price has exceeded 130 percent of the conversion price for at least 20 trading days within a period of 30 consecutive trading days immediately preceding the notice of redemption. FCX used a portion of the proceeds from the sale to purchase 23.9 million shares of FCX common stock owned by Rio Tinto for $881.9 million (approximately $36.85 per share) and used the remainder for general corporate purposes.

Stock Award Plans. FCX currently has six stock-based compensation plans. As of December 31, 2005, only three of the plans, which are discussed below, have awards available for grant. FCX's 1999 Stock Incentive Plan (the 1999 Plan) and 2003 Stock Incentive Plan (the 2003 Plan) provide for the issuance of stock options, SARs, restricted stock units and other stock-based awards. Each plan allows FCX to grant awards for up to 8.0 million common shares to eligible participants and also allows FCX senior executives to elect to receive restricted stock units in place of all or part of their cash incentive compensation. Restricted stock unit grants vest over three years and are valued on the date of grant at 50 percent above the cash incentive compensation they replace. FCX granted 0.1 million restricted stock units in 2005, 0.2 million in 2004 and 0.1 million in 2003.

In May 2004, FCX's shareholders approved the 2004 Director Compensation Plan (the 2004 Plan). The 2004 Plan authorizes awards of options and restricted stock units for up to 1.0 million shares and the one-time grant of 66,882 SARs.

Awards granted under all of the plans generally expire 10 years after the date of grant and vest in 25 percent annual increments beginning one year from the date of grant. Awards for 0.6 million shares under the 2004 Plan, 2.4 million shares under the 2003 Plan and 0.1 million shares under the 1999 Plan were available for new grants as of December 31, 2005. A summary of stock options outstanding, including 0.2 million SARs, follows:

	2005		2004		2003	
	Number Of Options	Weighted Average Option Price	Number Of Options	Weighted Average Option Price	Number of Options	Weighted Average Option Price
Balance at January 1	6,866,805	$ 23.20	10,327,745	$ 19.38	15,944,087	$ 17.82
Granted	4,490,750	37.03	1,472,399	34.74	1,315,172	20.09
Exercised	(3,838,554)	23.24	(4,581,273)	18.42	(6,625,475)	15.75
Expired/Forfeited	(163,389)	31.51	(352,066)	21.65	(306,039)	19.93
Balance at December 31	7,355,612	31.43	6,866,805	23.20	10,327,745	19.38

Summary information of stock options outstanding at December 31, 2005, excluding SARs, follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Of Options	Weighted Average Remaining Life	Weighted Average Option Price	Number Of Options	Weighted Average Option Price
$9.09 to $11.31	122,625	4.9 years	$ 10.62	122,625	$ 10.62
$13.78 to $18.89	1,539,452	6.5 years	15.86	239,308	15.48
$26.98 to $39.08	5,501,300	8.5 years	36.69	166,925	32.24
$51.97	3,750	9.9 years	51.97	-	
	7,167,127			528,858	

NOTE 8. INCOME TAXES

The components of FCX's deferred taxes follow (in thousands):

	December 31,	
	2005	2004
Deferred tax asset:		
Foreign tax credits	$ 741,104	$ 417,853
Atlantic Copper net operating loss carryforwards	127,544	148,338
U.S. alternative minimum tax credits	90,380	91,755
Intercompany profit elimination	84,010	27,130
Deferred compensation	30,101	6,018
Valuation allowance	(959,028)	(657,946)
Total deferred tax asset	114,111	33,148
Deferred tax liability:		
Property, plant, equipment and development costs	(708,221)	(702,586)
Undistributed earnings in PT Freeport Indonesia	(188,931)	(172,491)
Deferred mining costs	(99,874)	(77,145)
Other	(19,471)	(13,342)
Total deferred tax liability	(1,016,497)	(965,564)
Net deferred tax liability	$ (902,386)	$ (932,416)

FCX has provided a valuation allowance equal to its tax credit carryforwards ($831.5 million at December 31, 2005, and $509.6 million at December 31, 2004) as these would only be used should FCX be required to pay regular U.S. tax, which is considered unlikely for the foreseeable future and because the foreign tax credits expire after 10 years. Atlantic Copper is subject to taxation in Spain and has not generated significant taxable income in recent years. FCX has provided a valuation allowance equal to the future tax benefits resulting from Atlantic Copper's net operating losses totaling $364.4 million at December 31, 2005, and $423.8 million at December 31, 2004, which expire through the year 2019.

PT Freeport Indonesia's Indonesian income tax returns prior to 2001 have been audited or are no longer subject to review by the Indonesian tax authorities. FCX's provision for income taxes consists of the following (in thousands):

	2005	2004	2003
Current income taxes:			
Indonesian	$ 831,566	$ 236,836	$ 218,017
United States and other	1,923	7,049	9,383
	833,489	243,885	227,400
Deferred Indonesian income taxes	81,579	86,795	110,653
Provision for income taxes per income statements	915,068	330,680	338,053
Tax effect of cumulative effect adjustments	-	-	6,306

Total provision for income taxes	$ 915,068	$ 330,680	$ 344,359

Differences between income taxes computed at the contractual Indonesian tax rate and income taxes recorded follow (dollars in thousands):

	2005		2004		2003	
	Amount	Percent	Amount	Percent	Amount	Percent
Income taxes computed at the contractual Indonesian tax rate	$ 712,928	35%	$ 201,034	35%	$ 204,321	35%
Indonesian withholding tax on:						
Earnings/dividends	134,776	7	47,347	8	42,632	7
Interest	923	-	1,120	-	1,223	-
Other adjustments:						
Parent company costs	47,372	2	40,435	7	61,923	11
Atlantic Copper net (income) loss	(6,245)	-	36,186	6	20,488	3
U.S. alternative minimum tax	-	-	8,200	2	9,300	2
Intercompany interest expense	-	-	-	-	(4,789)	(1)
PT Indocopper Investama taxes	36,544	2	3,005	1	-	-
Other, net	(11,230)	(1)	(6,647)	(1)	2,955	1
Provision for income taxes per income statements	915,068	45%	330,680	58%	338,053	58%
Tax effect of cumulative effect adjustments	-		-		6,306	
Total provision for income taxes	$ 915,068		$ 330,680		$ 344,359	

NOTE 9. INVESTMENT IN PT SMELTING AND EMPLOYEE BENEFITS

PT Smelting. PT Smelting, an Indonesian company, operates a smelter/refinery in Gresik, Indonesia. In 2004, PT Smelting increased its stated production capacity of 200,000 metric tons of copper metal per year to 250,000 metric tons. PT Smelting plans to further expand its production capacity to approximately 270,000 metric tons of copper metal per year by the middle of 2006. PT Freeport Indonesia, Mitsubishi Materials Corporation (Mitsubishi Materials), Mitsubishi Corporation (Mitsubishi) and Nippon Mining & Metals Co., Ltd. (Nippon) own 25 percent, 60.5 percent, 9.5 percent and 5 percent, respectively, of the outstanding PT Smelting common stock. PT Freeport Indonesia provides nearly all of PT Smelting's copper concentrate requirements. Under the PT Smelting contract, for the first 15 years of PT Smelting's commercial operations beginning December 1998, the treatment and refining charges on the majority of the concentrate PT Freeport Indonesia provides will not fall below specified minimum rates, subject to renegotiation in 2008. The rate was $0.23 per pound during the period from the commencement of PT Smelting's operations in 1998 until April 2004, when it declined to a minimum of $0.21 per pound. 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 Mitsubishi Materials, Mitsubishi and Nippon for the first 20 years of commercial operations. No amounts were paid under this assignment. PT Smelting had project-specific debt, nonrecourse to PT Freeport Indonesia, totaling $292.3 million at December 31, 2005, and $259.5 million at December 31, 2004.

Pension Plans. During 2000, FCX and FM Services Company elected to terminate their defined benefit pension plans covering substantially all U.S. and certain overseas expatriate employees and replace these plans, which have substantially the same provisions, with defined contribution plans, as further discussed below. All participants' account balances in the defined benefit plans were fully vested on June 30, 2000, and interest credits continue to accrue under the plans until the assets are finally liquidated. The final distribution will occur once approved by the Internal Revenue Service and the Pension Benefit Guaranty Corporation. The plans' investment portfolios were liquidated and invested in primarily short duration fixed-income securities in the fourth quarter of 2000

to reduce exposure to equity market volatility. All of the FCX plan assets shown in the table below relate to these plans and the unfunded liability totaled $2.8 million at December 31, 2005.

In February 2004, FCX established an unfunded Supplemental Executive Retirement Plan (SERP) for its two most senior executive officers. The SERP provides for retirement benefits payable in the form of a joint and survivor annuity or an equivalent lump sum. The annuity will equal a percentage of the executive's highest average compensation for any consecutive three-year period during the five years immediately preceding the earlier of the executive's retirement or completion of 25 years of credited service. The SERP benefit will be reduced by the value of all benefits due under FCX's cash-balance pension plan and all other benefit plans sponsored by FCX or any other predecessor employer. Unrecognized prior service cost at inception of the SERP totaled $18.9 million and is being amortized over the five-year term of the executive officers' current employment agreements. FCX also has an unfunded pension plan for its directors.

PT Freeport Indonesia has a defined benefit pension plan denominated in Indonesian rupiahs covering substantially all of its Indonesian national employees. PT Freeport Indonesia funds the plan and invests the assets in accordance with Indonesian pension guidelines. The pension obligation was valued at an exchange rate of 9,825 rupiah to one U.S. dollar on December 31, 2005, and 9,270 rupiah to one U.S. dollar on December 31, 2004. Labor laws enacted in 2003, which replace labor laws enacted in 2001, in Indonesia require that companies provide a minimum level of benefits to employees upon employment termination based on the reason for termination and the employee's years of service. PT Freeport Indonesia's pension benefit disclosures include the impact of this law.

Atlantic Copper has a contractual obligation denominated in euros to supplement amounts paid to certain retired Spanish national employees. Amended Spanish legislation required that Atlantic Copper begin funding its contractual obligation to the retired employees through a third party in November 2002. In August 2002, Atlantic Copper complied with the amended Spanish legislation by agreeing to fund 7.2 million euros annually for 15 years to an approved insurance company for its estimated 72 million euro contractual obligation to the retired employees. The insurance company invests the plan assets in accordance with Spanish regulations and Atlantic Copper has no control over these investments. Atlantic Copper is amortizing the unrecognized net actuarial loss over the remaining 11-year funding period.

Information as of December 31, 2005 and 2004, on the FCX (including FM Services Company's plan, FCX's SERP and director plans), PT Freeport Indonesia and Atlantic Copper plans follows (dollars in thousands):

	FCX (U.S. and expatriate employees)		PT Freeport Indonesia (Indonesian employees)		Atlantic Copper (Spanish retirees)	
	2005	2004	2005	2004	2005	2004
Change in benefit obligation:						
Benefit obligation at beginning of year	$ (45,194)	$ (29,495)	$ (40,888)	$ (37,224)	$ (87,499)	$ (85,089)
SERP and director plan additions	-	(21,300)	-	-	-	-
Service cost	(701)	(731)	(3,546)	(3,355)	-	-
Interest cost	(2,412)	(2,633)	(3,704)	(3,365)	(4,708)	(5,035)
Actuarial gains (losses)	(232)	888	1,918	(3,819)	(307)	(608)
Plan amendments	(1,313)	-	-	-	-	-
Foreign exchange gain (loss)	-	-	2,322	3,632	9,343	(4,572)
Benefits paid	2,338	8,077	3,637	3,243	7,664	7,805
Benefit obligation at end of year	(47,514)	(45,194)	(40,261)	(40,888)	(75,507)	(87,499)
Change in plan assets:						
Fair value of plan assets at beginning of year	16,610	24,071	18,956	18,536	9,840	8,275
Actual return on plan assets	389	481	1,251	3,084	-	-
Employer contributions [a]	136	135	4,512	3,694	9,123	9,370
Foreign exchange loss	-	-	(820)	(4,260)	-	-
Benefits paid	(2,338)	(8,077)	(1,954)	(2,098)	(7,664)	(7,805)
Fair value of plan assets at end of year	14,797	16,610	21,945	18,956	11,299	9,840
Funded status	(32,717)	(28,584)	(18,316)	(21,932)	(64,208)	(77,659)
Unrecognized net actuarial (gain) loss	(431)	(651)	8,133	12,075	6,978	7,892
Unrecognized prior service cost	12,758	15,647	5,630	6,897	-	-
Intangible asset/minimum liability adjustment	(12,232)	(14,135)	(2,154)	(4,643)	-	-
Accrued benefit cost	$ (32,622)	$ (27,723)	$ (6,707)	$ (7,603)	$ (57,230)	$ (69,767)
Accumulated benefit obligation	$ (47,514)	$ (45,194)	$ (24,540)	$ (25,166)	$ (75,507)	$ (87,499)
Weighted-average assumptions used to determine benefit obligations (percent):						
Discount rate	4.00[b]	6.00[b]	12.00	10.00	6.77	6.77
Rate of compensation increase	N/A[b]	N/A[b]	10.00	8.00[c]	N/A	N/A
Weighted-average assumptions to determine net periodic benefit cost (percent):						
Discount rate	6.00[b]	6.25[b]	12.00	10.00	6.77	6.77
Expected return on plan assets	N/A[b]	N/A[b]	10.00	7.50	-	-
Rate of compensation increase	N/A[b]	N/A[b]	10.00	8.00[c]	N/A	N/A

a. Employer contributions for 2006 are expected to approximate $4.9 million for the PT Freeport Indonesia plan (based on a December 31, 2005, exchange rate of 9,825 Indonesian rupiah to one U.S. dollar), $8.5 million for the Atlantic Copper plan (based on a December 31, 2005, exchange rate of $1.18 per euro) and none for the FCX plans.

b. As discussed above, FCX and FM Services Company elected to terminate their defined benefit pension plans and ceased accruing benefits on June 30, 2000. The assumptions shown only relate to the SERP.

c. Rate of compensation increase assumption for 2005 is 10.0 percent for staff employees and 14.0 percent for non-staff employees and 8.0 percent for all years thereafter.

The components of net periodic benefit cost for FCX's pension plans, including the SERP, director plan and FM Services Company's pension

plan, follow (in thousands):

	2005	2004	2003
Service cost	$ 701	$ 731	$ -
Amortization of prior service cost	4,194	5,416	-
Interest cost	2,412	2,633	1,085
Actual return on plan assets	(389)	(481)	(751)
Net periodic benefit cost	$ 6,918	$ 8,299	$ 334

The components of net periodic benefit cost for PT Freeport Indonesia's and Atlantic Copper's pension plans follow (in thousands):

	PT Freeport Indonesia			Atlantic Copper		
	2005	2004	2003	2005	2004	2003
Service cost	$ 3,546	$ 3,355	$ 3,148	$ -	$ -	$ -
Interest cost	3,704	3,365	3,366	4,708	5,035	4,821
Expected return on plan assets	(1,391)	(1,829)	(1,888)	-	-	-
Amortization of prior service cost	885	969	894	-	-	-
Amortization of net actuarial loss	703	243	478	1,221	1,517	1,316
Net periodic benefit cost	$ 7,447	$ 6,103	$ 5,998	$ 5,929	$ 6,552	$ 6,137

The pension plan weighted-average asset allocations for the FCX and PT Freeport Indonesia plans at December 31, 2005 and 2004, follow:

	FCX		PT Freeport Indonesia	
	2005	2004	2005	2004
Debt securities	98%	99%	- %	5%
Cash and bank deposits	2	1	100	95
Total	100%	100%	100%	100%

The FCX and FM Services Company pension plans were terminated in 2000 as discussed above. Therefore, the entire asset balance of $14.8 million at December 31, 2005, will be liquidated and any unfunded benefits will be paid after Internal Revenue Service and Pension Benefit Guaranty Corporation approval. The expected benefit payments for FCX's SERP and director plan total $0.2 million for each year in the period 2006 through 2008, $17.2 million in 2009, $0.2 million in 2010 and $14.1 million for 2011 through 2015. The rupiah benefit payments that are expected to be paid for PT Freeport Indonesia's pension plan (based on a December 31, 2005, exchange rate of 9,825 Indonesian rupiah to one U.S. dollar) total $4.0 million in 2006, $3.8 million in 2007, $4.7 million in 2008, $5.9 million in 2009, $7.4 million in 2010 and $34.8 million for 2011 through 2015. Atlantic Copper's plan is administered by a third-party insurance company and Atlantic Copper is not provided asset allocations or benefit payment projections.

Other Benefits. FCX and FM Services Company also provide certain health care and life insurance benefits for retired employees. FCX and FM Services Company have the right to modify or terminate these benefits. The initial health care cost trend rate used for the other benefits was 10 percent for 2006, decreasing ratably each year until reaching 5 percent in 2011. A one-percentage-point increase or decrease in assumed health care cost trend rates would not have a significant impact on total service or interest cost. Information on the employee health care and life insurance benefits FCX and FM Services Company provide follows (in thousands):

	2005	2004
Change in benefit obligation:		
Benefit obligation at beginning of year	$ (5,349)	$ (5,410)
Service cost	(159)	(137)
Interest cost	(311)	(335)
Actuarial gains (losses)	(1,024)	148
Plan amendment	1,002	118
Participant contributions	(155)	(160)
Benefits paid	352	427
Benefit obligation at end of year	(5,644)	(5,349)
Change in plan assets:		
Fair value of plan assets at beginning of year	-	-
Employer/participant contributions	352	427
Benefits paid	(352)	(427)
Fair value of plan assets at end of year	-	-
Funded status	(5,644)	(5,349)
Unrecognized net actuarial loss	1,462	450
Unrecognized prior service cost	(1,346)	(483)

Accrued benefit cost	$ (5,528)	$ (5,382)
Discount rate assumption (percent)	5.50	6.00

Expected benefit payments for these plans total $0.4 million for 2006, $0.4 million for 2007, $0.5 million for 2008, $0.5 million for 2009, $0.5 million for 2010, and $2.5 million for the period from 2011 through 2015. The components of net periodic benefit cost for FCX's and FM Services Company's health care and life insurance benefits follow (in thousands):

	2005	2004	2003
Service cost	$ 159	$ 137	$ 127
Interest cost	311	335	327
Amortization of prior service (credit) cost	(139)	(139)	273
Amortization of net actuarial loss	13	22	14
Net periodic benefit cost	$ 344	$ 355	$ 741

FCX and FM Services Company have employee savings plans under Section 401(k) of the Internal Revenue Code that generally allow eligible employees to contribute up to 50 percent of their pre-tax compensation, but no more than

a specified annual limit (currently $15,000) which may be increased by an additional $5,000 for employees who are at least 50 years old. FCX and FM Services Company match 100 percent of the first 5 percent of the employees' contribution. New plan participants vest 100 percent in FCX's and FM Services Company's matching contributions upon three years of service.

During 2000, FCX and FM Services Company also established additional defined contribution plans for substantially all their employees following their decision to terminate their defined benefit pension plans. Under these plans, FCX and FM Services Company contribute amounts to individual accounts totaling either 4 percent or 10 percent of each employee's pay, depending on a combination of each employee's age and years of service. The costs charged to operations for FCX's and FM Services Company's employee savings plans and defined contribution plans totaled $3.2 million in 2005, $3.2 million in 2004 and $2.8 million in 2003. FCX and FM Services Company have other employee benefit plans, certain of which are related to FCX's performance, which costs are recognized currently in general and administrative expense. Atlantic Copper has a defined contribution plan and recorded charges totaling $0.4 million in 2005, $0.5 million in 2004 and $0.4 million in 2003 for annual service costs related to this plan.

During 2004, Atlantic Copper undertook a cost reduction and operational enhancement plan designed to reduce unit costs, including a reduction in workforce, and enhance operational and administrative efficiencies. In connection with implementing this cost reduction and operational enhancement plan, Atlantic Copper submitted a workforce reduction plan to the Spanish Labour Authority and, in December 2004, received approval for this workforce reduction plan. Atlantic Copper recorded a $12.0 million charge in 2004 related to the workforce reduction under this plan. These charges include $8.1 million in one-time termination benefits for those affected employees eligible for early retirement benefits, $0.8 million in severance payments for those affected employees not eligible for early retirement and $3.1 million for contract termination costs. Atlantic Copper paid $1.4 million of these benefits in December 2004 and paid the balance in the first half of 2005.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Grasberg Open-Pit Slippage Events. On October 9, 2003, a slippage of material occurred in a section of the Grasberg open pit, resulting in eight fatalities. On December 12, 2003, a debris flow involving a relatively small amount of loose material occurred in the same section of the open pit resulting in only minor property damage. All material involved in the affected mining areas has been removed. The events caused PT Freeport Indonesia to alter its short-term mine sequencing plans and to focus its open-pit operations on accelerating the removal of overburden from the south wall to restore safe access to high-grade ore areas in the pit. In April 2004, PT Freeport Indonesia established safe access and initiated mining in higher-grade ore areas while continuing overburden removal activities. While PT Freeport Indonesia resumed normal milling rates in June 2004, no assurance can be given that similar events will not occur in the future.

As a result of the fourth-quarter 2003 slippage and debris flow events, PT Freeport Indonesia notified its copper concentrate customers that it was declaring force majeure under the terms of its contracts as it would be unable to satisfy its annual sales and delivery commitments. In December 2004, PT Freeport Indonesia terminated the force majeure that had been in effect since December 2003 under its concentrate sales contracts.

PT Freeport Indonesia maintains property damage and business interruption insurance related to its operations. FCX and its insurers entered into an insurance settlement agreement in December 2004 (Settlement Agreement). Under the Settlement Agreement, all claims that arose from the fourth-quarter 2003 slippage and debris flow events in the Grasberg open-pit mine were settled. The insurers agreed to pay an aggregate of $125.0 million in connection with its claims. In 2004, the insurers paid $94.5 million and the remaining $30.5 million was paid in January 2005. After considering its joint venture partner's interest in the proceeds, PT Freeport Indonesia's joint venture share of proceeds totaled $95.0 million. As a result of the settlement, FCX recorded an $87.0 million gain on insurance settlement for the business interruption recovery and an $8.0 million gain to production costs for the property loss recovery for a net gain of $48.8 million, after taxes and minority interest sharing, in 2004.

Environmental, Reclamation and Mine Closure. FCX has an environmental policy committing it not only to compliance with federal, state and local environmental statutes and regulations, but also to continuous improvement of its environmental performance at every operational site. FCX believes that its operations are being conducted pursuant to applicable permits and are in compliance in all material respects with applicable environmental laws, rules and

regulations. FCX incurred aggregate environmental capital expenditures and other environmental costs, including Rio Tinto's share, totaling $44.0 million in 2005, $65.1 million in 2004 and $72.1 million in 2003.

The ultimate amount of reclamation and closure costs to be incurred at PT Freeport Indonesia's operations will be determined based on applicable laws and regulations and PT Freeport Indonesia's assessment of appropriate remedial activities in the circumstances, after consultation with governmental authorities, affected local residents and other affected parties and cannot currently be projected with precision. Estimates of the ultimate reclamation and closure costs PT Freeport Indonesia will incur in the future involve complex issues requiring integrated assessments over a period of many years and are subject to revision over time as more complete studies are performed. Some reclamation costs will be incurred during mining activities, while most closure costs and the remaining reclamation costs will be incurred at the end of mining activities, which are currently estimated to continue for more than 35 years.

Effective January 1, 2003, FCX adopted SFAS No. 143 (see Note 1). At December 31, 2005, FCX estimated these aggregate obligations to be approximately $156 million for PT Freeport Indonesia and $15 million for Atlantic Copper, and estimated PT Freeport Indonesia's aggregate discounted asset retirement obligations to be $26.5 million and Atlantic Copper's to be $0.2 million. At December 31, 2004, PT Freeport Indonesia revised its reclamation and closure estimates for changes in the projected timing of certain reclamation costs and changes in certain cost estimates. At December 31, 2004, FCX estimated these aggregate obligations to be approximately $149 million for PT Freeport Indonesia and $18 million for Atlantic Copper, and estimated PT Freeport Indonesia's aggregate discounted asset retirement obligations to be $22.0 million and Atlantic Copper's to be $0.8 million. The changes in 2004 reduced the related asset balances and are not expected to have a material impact on future net income. FCX's consolidated discounted asset retirement obligations for 2005 and 2004 follow (in thousands):

	2005	2004
Asset retirement obligation at beginning of year	$ 22,848	$ 26,486
Accretion expense	2,822	2,985
Liabilities incurred	1,744	-
Revision for changes in estimates	(709)	(6,698)
Foreign exchange (gain) loss	(89)	75
Asset retirement obligation at end of year	$ 26,616	$ 22,848

In 1996, PT Freeport Indonesia began contributing to a cash fund ($7.2 million balance at December 31, 2005) designed to accumulate at least $100 million (including interest) by the end of its Indonesian mining activities. PT Freeport Indonesia plans to use this fund, including accrued interest, to pay the above-mentioned mine closure and reclamation costs. Any costs in excess of the $100 million fund would be funded by operational cash flow or other sources. Future changes in regulations could require FCX to incur additional costs that would be charged against future operations. Estimates involving environmental matters are by their nature imprecise and can be expected to be revised over time because of changes in government regulations, operations, technology and inflation.

Contract of Work. FCX is entitled to mine in Indonesia under the "Contract of Work" between PT Freeport Indonesia and the Government of Indonesia. The original Contract of Work was entered into in 1967 and was replaced with a new Contract of Work in 1991. The initial term of the current Contract of Work expires in 2021, but can be extended by PT Freeport Indonesia for two 10-year periods, subject to Indonesian government approval, which cannot be withheld or delayed unreasonably. Given the importance of contracts of work under the Indonesian legal system and PT Freeport Indonesia's over 35 years of working with the Indonesian government, which included entering into the Contract of Work in 1991 well before the expiration of the 1967 Contract of Work, PT Freeport Indonesia fully expects that the government will approve the extensions as long as it continues to comply with the terms of the Contract of Work.

Social and Economic Development Programs. FCX has a comprehensive social, employment and human rights policy to ensure that its operations are conducted in a manner respecting basic human rights, the laws and regulations of the host country, and the culture of the people who are indigenous to the areas in which FCX operates. In 1996, PT Freeport Indonesia established the Freeport Partnership Fund for Community Development, which was previously called the Freeport Fund for Irian Jaya Development, through which PT Freeport Indonesia has made available funding and expertise to support the economic and social development of the area. PT Freeport Indonesia has committed to provide one percent of its annual revenue for the development of the local people through the Freeport Partnership Fund for Community Development. PT Freeport Indonesia charged $35.7 million in 2005, $17.5 million in 2004 and $17.4 million in 2003 to production costs for this commitment.

Long-Term Contracts and Operating Leases. Atlantic Copper has firm contractual commitments with parties other than PT Freeport Indonesia to purchase concentrate totaling 375,000 metric tons in 2006, 335,000 metric tons in 2007, 270,000 metric tons in 2008 and 190,000 metric tons in 2009 at market prices.

As of December 31, 2005, FCX's aggregate minimum annual contractual payments, including Rio Tinto's share, under noncancelable long-term operating leases which extend to 2030 totaled $8.2 million in 2006, $7.7 million in 2007, $7.5 million in 2008, $6.7 million in 2009, $4.7 million in 2010 and $2.0 million thereafter. Minimum payments under operating leases have not been reduced by aggregate minimum sublease rentals of $0.8 million due under noncancelable subleases. Total aggregate rental expense under operating leases amounted to $8.5 million in 2005, $7.9 million in 2004 and $6.6 million in 2003.

Share Purchase Program. In June 2000, FCX's Board of Directors authorized a 20-million-share increase in FCX's open market share purchase program, bringing the total shares approved for purchase under this program to 80 million. From inception of this program in July 1995 through October 2003, FCX has purchased a total of 70.7 million shares for $1.24 billion ($17.53 per share average). In October 2003, FCX's Board of Directors approved a new open market share purchase program for up to 20 million shares which replaced the previous program. Through February 24, 2006, under this new program, FCX acquired 2.4 million shares in 2005 for $80.2 million, $33.83 per share average, and 3.4 million shares in 2004 for $99.5 million, $29.39 per share average, and 14.2 million shares remain available. The timing of future purchases of common stock is dependent upon many factors including the price of FCX's common shares, its cash flows and financial position, copper and gold prices and general economic and market conditions. As discussed in Note 5, two of FCX's senior notes and, in certain circumstances, FCX's credit facility contain limitations on common stock purchases.

C ontingencies For Non-Income Taxes. Atlantic Copper and PT Freeport Indonesia accrue and pay certain non-income taxes and other government charges, such as value-added, withholding, payroll, local and other taxes and charges. For certain transactions, issues arise as to the applicability of these other taxes and charges. Based on management's review and prior experience, a reserve for the estimated liability has been established (see Note 6).

NOTE 11. FINANCIAL INSTRUMENTS

FCX and its subsidiaries have entered into derivative contracts in limited instances to achieve specific objectives. These objectives principally relate to managing risks associated with foreign currency and commodity price risks. In addition, in response to volatility in the Indonesian rupiah and Australian dollar currencies, FCX has sought to manage certain foreign currency risks with PT Freeport Indonesia's mining operations. In the past, FCX has also entered into derivative contracts related to PT Freeport Indonesia's exposure to copper and gold prices, but activities in this regard since 1997 have been limited to establishing fixed prices for open copper sales under PT Freeport Indonesia's concentrate sales contracts. FCX does not enter into derivative contracts for speculative purposes.

Summarized below are financial instruments whose carrying amounts are not equal to their fair value and unmatured derivative financial instruments at December 31, 2005 and 2004 (in thousands). Fair values are based on quoted market prices and other available market information.

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Commodity contracts:				
Open contracts in asset position	$ 2,209	$ 2,209	$ 950	$ 950
Open contracts in liability position	-	-	(1,806)	(1,806)
Embedded derivatives in concentrate sales contracts	38,583	38,583	16,082	16,082
Foreign exchange contracts:				
$U.S./Indonesian rupiah	1,762	1,762	2,879	2,879
Long-term debt	(1,255,948)	(1,619,522)	(1,951,906)	(2,353,987)
Interest rate swap contracts	-	-	(96)	(96)

FCX follows SFAS No. 133 and changes in the fair value of unrealized derivative contracts that qualify as hedges are not reported in current earnings, but are included in other comprehensive income (see Note 1). A recap of gains (losses) charged to earnings for redeemable preferred stock redemptions, derivative contracts and embedded derivatives follows (in thousands):

	2005	2004	2003
FCX:			
Silver-Denominated Preferred Stock	$ (4,952)	$ (1,441)	$ 1,722
Gold-Denominated Preferred Stock	-	-	22,110
PT Freeport Indonesia:			
Foreign currency exchange contracts	663	-	-
Embedded derivatives in concentrate sales contracts	166,087	56,920	38,932
Atlantic Copper:			
Foreign currency exchange contracts	-	-	9,625
Forward copper contracts	29,089	(5,643)	(8,019)
Interest rate contracts	(97)	(1,449)	(2,135)

Commodity Contracts. From time to time, PT Freeport Indonesia has entered into forward and option contracts to hedge the market risk associated with fluctuations in the prices of commodities it sells. The primary objective of these contracts has been to set a minimum price and the secondary objective is to retain market upside, if available at a reasonable cost. As of December 31, 2005, FCX had no price protection contracts relating to its mine production. At December 31, 2005, FCX had outstanding Gold-Denominated and Silver-Denominated Preferred Stock with dividends and redemption amounts determined by commodity prices. FCX elected to continue its historical accounting for its redeemable preferred stock indexed to commodities under the provisions of SFAS No. 133, which allow such instruments issued before January 1, 1998, to be excluded from those instruments required to be adjusted for changes in their fair values. Therefore, FCX's redeemable preferred stock (classified as long-term debt) is recorded at its original issue value less redemptions, and had a carrying value of $179.9 million at December 31, 2005, and a fair value of $241.9 million based on December 30, 2005 quoted market prices. The Gold-Denominated Preferred Stock was redeemed on February 1, 2006, for $236.3 million (see Note 5).

Certain of PT Freeport Indonesia's concentrate sales contracts allow for final pricing in future periods. Under SFAS No. 133, these pricing terms cause a portion of the contracts to be considered embedded derivatives, which must be recorded at fair value. PT Freeport Indonesia adjusts its revenues for these embedded derivatives to reflect fair value based on forward prices for the final pricing periods on each reporting date. Changes in the fair value of these embedded derivatives are recorded in current period revenues.

Atlantic Copper enters into forward copper contracts designed to hedge its copper price risk whenever its physical purchases and sales pricing periods do not match. Although these contracts are intended to hedge against changes in copper prices, they do not qualify for hedge accounting treatment under SFAS No. 133 because Atlantic Copper bases its hedging contracts on its net sales and purchases position, and contracts to hedge a net position do not qualify for hedge accounting under SFAS No. 133. At December 31, 2005, Atlantic Copper held forward copper purchase contracts for 22.5 million pounds at an average price of $1.90 per pound through April 2006.

Foreign Currency Exchange Contracts. PT Freeport Indonesia and Atlantic Copper enter into foreign currency forward contracts to hedge the market risks of their forecasted costs denominated in a currency other than the U.S. dollar, their functional currency. The primary objective of these contracts is either to lock in an exchange rate or to minimize the impact of adverse exchange rate changes. As of December 31, 2005, PT Freeport Indonesia had foreign currency contracts to hedge 735.0 billion in rupiah payments, including certain rupiah-based capital expenditures, or approximately 46 percent of aggregate projected rupiah payments for 2006, at an average exchange rate of 10,085 rupiah to one U.S. dollar. PT Freeport Indonesia accounts for these contracts as cash flow hedges. As of December 31, 2005, PT Freeport Indonesia expects to reclass $1.8 million of unrealized gains to 2006 earnings related to its outstanding foreign currency contracts.

Debt and Interest Rate Contracts. At times, Atlantic Copper entered into interest rate swaps, which matured in March 2005, to manage exposure to interest rate changes on a portion of its variable-rate debt. The primary objective of these contracts was to lock in an interest rate considered to be favorable. Interest on comparable floating rate debt averaged 4.8 percent in 2005, 3.6 percent in 2004 and 4.4 percent in 2003, resulting in additional interest costs totaling $0.1 million in 2005, $1.4 million in 2004 and $2.1 million in 2003.

Atlantic Copper is a party to letters of credit totaling $11.4 million at December 31, 2005. Fair value of these letters of credit approximates their face value at December 31, 2005.

NOTE 12. SEGMENT INFORMATION

FCX follows SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which requires that

companies disclose segment data based on how management makes decisions about allocating resources to segments and measuring their performance. FCX has two operating segments: “mining and exploration” and “smelting and refining.” The mining and exploration segment consists of FCX’s Indonesian activities including PT Freeport Indonesia’s copper and gold mining operations, Puncakjaya Power’s power-generating operations (after eliminations with PT Freeport Indonesia) and FCX’s Indonesian exploration activities. The smelting and refining segment includes Atlantic Copper’s operations in Spain and PT Freeport Indonesia’s equity investment in PT Smelting in Gresik, Indonesia. The segment data presented below were prepared on the same basis as FCX’s consolidated financial statements.

	Mining and Exploration	Smelting and Refining	Eliminations and Other	FCX Total
		(In Thousands)		
2005				
Revenues	$ 3,567,982[a]	$ 1,363,208	$ (752,072)	$ 4,179,118
Production and delivery	954,039	1,288,610	(605,017) [b]	1,637,632
Depreciation and amortization	209,713	28,995	12,804	251,512
Exploration expenses	8,618	-	185	8,803
General and administrative expenses	147,334[c]	10,824	(54,273) [c]	103,885
Operating income	$ 2,248,278	$ 34,779	$ (105,771)	$ 2,177,286
Equity in PT Smelting earnings	$ -	$ 9,302	$ -	$ 9,302
Interest expense, net	$ 22,386	$ 16,962	$ 92,291	$ 131,639
Provision for income taxes	$ 781,013	$ -	$ 134,055	$ 915,068
Capital expenditures	$ 129,551	$ 10,231	$ 3,204	$ 142,986
Total assets	$ 4,623,829[d]	$ 933,059[e]	$ (6,682)	$ 5,550,206
2004				
Revenues	$ 1,746,573[a]	$ 873,700	$ (248,407)	$ 2,371,866
Production and delivery	760,131	914,452	(224,292) [b]	1,450,291
Depreciation and amortization	168,195	28,632	9,581	206,408
Exploration expenses	8,471	-	193	8,664
General and administrative expenses	151,944[c]	14,196	(76,213) [c]	89,927
Gain on insurance settlement	(87,000)	-	-	(87,000)
Operating income (loss)	$ 744,832	$ (83,580)	$ 42,324	$ 703,576
Equity in PT Smelting earnings	$ -	$ 2,045	$ -	$ 2,045
Interest expense, net	$ 22,209	$ 13,783	$ 112,111	$ 148,103
Provision for income taxes	$ 266,372	$ -	$ 64,308	$ 330,680
Capital expenditures	$ 119,426	$ 21,792	$ (219)	$ 140,999
Total assets	$ 4,070,767[d]	$ 753,883[e]	$ 262,345	$ 5,086,995
2003				
Revenues	$ 1,744,580[a]	$ 910,417	$ (442,832)	$ 2,212,165
Production and delivery	631,951	892,681	(453,306) [b]	1,071,326
Depreciation and amortization	190,450	28,464	11,889	230,803
Exploration expenses	6,284	-	165	6,449
General and administrative expenses	123,408[c]	11,023	(54,152) [c]	80,279
Operating income (loss)	$ 792,487	$ (21,751)	$ 52,572	$ 823,308
Equity in PT Smelting earnings	$ -	$ 5,609	$ -	$ 5,609
Interest expense, net	$ 44,861	$ 16,675	$ 135,481	$ 197,017
Provision for income taxes	$ 273,378	$ -	$ 64,675	$ 338,053
Capital expenditures	$ 129,029	$ 9,941	$ 216	$ 139,186
Total assets	$ 3,656,714[d]	$ 689,213[e]	$ 372,439	$ 4,718,366

a. Includes PT Freeport Indonesia’s sales to PT Smelting totaling $1,008.5 million in 2005, $696.0 million in 2004 and $510.2 million in

2003.

b. Includes deferrals (recognition) of intercompany profits on 25 percent of PT Freeport Indonesia's sales to PT Smelting, for which the final sale to third parties has not occurred, totaling $23.6 million in 2005, $13.8 million in 2004 and $(7.0) million in 2003.

c. Includes charges to the mining and exploration segment for the in-the-money value of FCX stock option exercises which are eliminated in consolidation totaling $64.5 million in 2005, $87.3 million in 2004 and $57.8 million in 2003.

d. Includes PT Freeport Indonesia's trade receivables with PT Smelting totaling $162.0 million at December 31, 2005, $87.5 million at December 31, 2004, and $33.5 million at December 31, 2003.

e. Includes PT Freeport Indonesia's equity investment in PT Smelting totaling $33.5 million at December 31, 2005, $47.8 million at December 31, 2004, and $58.2 million at December 31, 2003.

Through its operating subsidiaries, FCX markets its products worldwide primarily pursuant to the terms of long-term contracts. As a percentage of consolidated revenues, revenues under long-term contracts totaled approximately 97 percent in 2005, 96 percent in 2004 and 95 percent in 2003. The only customers under long-term contracts with over 10 percent of revenues in at least one of the past three years is PT Smelting with 24 percent in 2005, 29 percent in 2004 and 23 percent in 2003 and one customer at Atlantic Copper with 16 percent in 2005.

FCX revenues attributable to various countries based on the location of the customer follow (in thousands):

	2005	2004	2003
Indonesia (PT Smelting)	$ 1,008,488	$ 696,022	$ 510,245
Japan	805,066	414,386	412,404
Spain	783,039	490,647	372,791
Korea	289,464	142,924	69,134
India	241,017	70,874	84,557
Switzerland	219,074	64,145	130,518
Others	832,970	492,868	632,516
Total	$ 4,179,118	$ 2,371,866	$ 2,212,165

FCX revenues attributable to the products it produces follow (in thousands):

	2005	2004	2003
Copper in concentrates [a]	$ 1,868,491	$ 996,331	$ 612,443
Gold in concentrates	1,013,773	516,554	685,230
Silver in concentrates	23,151	17,091	16,374
Refined copper products	1,128,087	716,959	603,177
Gold and silver in slimes	206,506	124,383	272,050
Royalties	(103,726)	(43,498)	(26,472)
Sulphur and other	42,836	44,046	49,363
Total	$ 4,179,118	$ 2,371,866	$ 2,212,165

a. Amounts are net of treatment and refining charges totaling $277.0 million for 2005, $175.9 million for 2004 and $179.1 million for 2003.

NOTE 13. SUPPLEMENTARY MINERAL RESERVE INFORMATION (UNAUDITED)

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 (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; (b) grade and/or quality are computed from the result of detailed sampling; and (c) 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.

PT Freeport Indonesia’s reserve estimates are based on the latest available geological and geotechnical studies. PT Freeport Indonesia conducts ongoing studies of its ore bodies to optimize economic values and to manage risk. PT Freeport Indonesia revises its mine plans and estimates of proven and probable mineral reserves as required in accordance with the latest available studies.

All of PT Freeport Indonesia’s current aggregate (including Rio Tinto’s share) proven and probable reserves, shown below, are located in Block A of PT Freeport Indonesia’s Contract of Work. The initial term of the Contract of Work covering Block A expires at the end of 2021. PT Freeport Indonesia can extend this term for two successive 10-year periods, subject to the approval of the Indonesian government, which cannot be withheld or delayed unreasonably. PT Freeport Indonesia’s reserve amounts reflect its estimates of the reserves that can be recovered before the end of 2041 (the expiration of the two 10-year extensions). PT Freeport Indonesia’s current mine plan has been developed and its operations are based on receiving the two 10-year extensions. As a result, PT Freeport Indonesia does not anticipate the mining of all of its reserves prior to the end of 2021 based on its current mine plan, and there can be no assurance that the Indonesian government will approve the extensions. Prior to the end of 2021, under its current mine plan PT Freeport Indonesia expects to mine approximately 44 percent of aggregate proven and probable ore, representing approximately 52 percent of its share of recoverable copper reserves and approximately 65 percent of its

share of recoverable gold reserves.

Year-End	Ore	Average Ore Grade Per Metric Ton					Proven and Probable Recoverable Reserves		
		Copper	Gold		Silver		Copper	Gold	Silver
	(Thousand Metric Tons)	(%)	(Grams)	(Ounces)	(Grams)	(Ounces)	(Billions of Lbs.)	(Millions of Ozs.)	(Millions of Ozs.)
2001	2,583,883	1.13	1.05	.034	3.72	.120	52.5	64.5	151.6
2002	2,584,465	1.12	1.02	.033	3.73	.120	53.3	62.6	147.6
2003	2,695,883	1.08	0.98	.032	3.72	.120	54.4	60.4	159.4
2004	2,769,102	1.09	0.97	.031	3.84	.123	56.2	61.0	174.5
2005	**2,822,489**	**1.07**	**0.92**	**.030**	**4.02**	**.129**	**56.6**	**58.0**	**180.8**
By Ore Body at December 31, 2005:									
Developed and producing:									
Grasberg open pit	638,084	1.09	1.21 .	.039	2.56	.082	13.3	20.8	23.7
Deep Ore Zone	162,899	0.87	0.60	.019	4.91	.158	2.6	2.3	13.1
Undeveloped:									
Grasberg block cave	851,872	0.98	0.74	.024	2.94	.095	15.6	13.5	43.0
Kucing Liar	579,124	1.20	1.06	.034	5.40	.174	13.2	9.5	38.4
Deep Mill Level Zone	249,294	1.14	0.88	.028	5.65	.182	5.4	5.5	28.6
Ertsberg Stockwork Zone	146,768	0.50	0.86	.028	1.75	.056	1.4	3.1	5.5
Mill Level Zone	96,041	0.85	0.70	.023	3.60	.116	1.5	1.7	7.0
Big Gossan	52,736	2.31	1.10	.035	14.75	.474	2.5	1.2	15.9
Dom open pit	23,650	2.03	0.43	.014	12.13	.390	0.6	0.2	3.3
Dom block cave	22,021	1.37	0.36	.012	8.82	.284	0.5	0.2	2.3
Total	2,822,489						56.6	58.0	180.8
PT Freeport Indonesia's share (see Note 2)							40.3	43.9	127.0
FCX's equity share [a]							36.5	39.8	115.1

a. Reflects FCX's 90.6 percent ownership interest (see Note 2).

Estimated recoverable reserves were assessed using a copper price of $0.90 per pound, a gold price of $350 per ounce and a silver price of $5.00 per ounce. With respect to the proven and probable reserves presented above, if metal prices were adjusted to the approximate average London spot prices for the past three years, i.e., copper prices adjusted from $0.90 per pound to $1.26 per pound and gold prices adjusted from $350 per ounce to $406 per ounce, the additions to proven and probable reserves would not be material to reported reserves.

Incremental cash flow attributable to the fourth concentrator mill expansion is shared 60 percent by PT Freeport Indonesia and 40 percent by Rio Tinto (see Note 2). Incremental cash flow consists of amounts generated from production in excess of specified annual amounts based on the December 31, 1994, reserves and mine plan. The incremental revenues from production from the expansion and total revenues from production from Block A, including production from PT Freeport Indonesia's previously existing operations, share proportionately in operating, nonexpansion capital and administrative costs. PT Freeport Indonesia receives 100 percent of cash flow from its existing pre-expansion production facilities as specified by the contractual arrangements. PT Freeport Indonesia's estimated net share of recoverable reserves and FCX's 90.6 percent equity interest in those reserves follow:

Year-End	PT Freeport Indonesia			FCX		
	Copper	Gold	Silver	Copper	Gold	Silver
	(Billions of Lbs.)	(Millions of Ozs.)	(Millions Of Ozs.)	(Billions of Lbs.)	(Millions of Ozs.)	(Millions of Ozs.)
2001	39.4	50.2	114.5	35.7	45.5	103.8
2002	39.4	48.5	110.9	35.7	44.0	100.5
2003	39.7	46.6	116.8	36.0	42.2	105.9
2004	40.5	46.5	124.5	36.7	42.1	112.8

2005	**40.3**	**43.9**	**127.0**	**36.5**	**39.8**	**115.1**

NOTE 14. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	Revenues	Operating Income	Net Income (Loss) Applicable to Common Stock	Net Income (Loss) Per Share Basic	Net Income (Loss) Per Share Diluted
	(In Thousands, Except Per Share Amounts)				
2005					
1st Quarter	$ 803,065	$ 357,599	$ 130,395	$ 0.73	$ 0.70
2nd Quarter	902,909	430,443	175,247	0.98	0.91
3rd Quarter	983,270	459,551	165,805[a]	0.93[a]	0.86[a]
4th Quarter	1,489,874	929,693	463,180[a, b]	2.50[a, b]	2.19[a, b]
	$ 4,179,118	$ 2,177,286	$ 934,627[a, b]	5.18[a, b]	4.67[a, b]
2004					
1st Quarter	$ 360,185	$ 41,376	$ (19,551) [c]	$ (0.10) [c]	$ (0.10) [c]
2nd Quarter	486,334	46,702	(53,311)	(0.30)	(0.30)
3rd Quarter	600,556	148,636	17,133	0.10	0.10
4th Quarter	924,791	466,862[d]	212,505[e]	1.19[e]	1.08[e]
	$ 2,371,866	$ 703,576	$ 156,776[c]	0.86[c]	0.85[c]

a. Includes losses on early extinguishment and conversion of debt, net of related reduction of interest expense, totaling $30.3 million ($0.17 per basic share and $0.14 per diluted share) in the third quarter, $10.0 million ($0.05 per share) in the fourth quarter and $40.2 million ($0.22 per basic share and $0.18 per diluted share) for the year.

b. Includes a $4.9 million ($0.03 per basic share and $0.02 per diluted share) gain from the sale of a parcel of land in Arizona held by an FCX joint venture.

c. Includes losses on early extinguishment and conversion of debt totaling $14.4 million ($0.07 per share) in the first quarter and $13.8 million ($0.08 per basic share and $0.07 per diluted share) for the year, both partly offset by a $6.3 million ($0.03 per share) reduction of interest expense for conversion of debt.

d. Includes a $95.0 million gain from insurance proceeds related to the fourth-quarter 2003 slippage and debris flow events at the Grasberg open pit and a $12.0 million charge related to Atlantic Copper’s workforce reduction plan.

e. Includes a $48.8 million ($0.27 per basic share and $0.22 per diluted share) gain from insurance proceeds discussed in Note d, a $20.4 million ($0.11 per basic share and $0.09 per diluted share) gain from the sale of a parcel of land in Arizona held by an FCX joint venture, a $7.5 million ($0.04 per basic share and $0.03 per diluted share) gain from Atlantic Copper’s sale of its wire rod and wire assets and a $12.0 million ($0.07 per basic share and $0.05 per diluted share) charge related to Atlantic Copper’s workforce reduction plan discussed in Note d.

Exhibit 21.1

List of Subsidiaries of
Freeport-McMoRan Copper & Gold Inc.

Entity	Organized	Name Under Which It Does Business
Atlantic Copper, S.A.	Spain	Same
FM Services Company	Delaware	Same
PT Freeport Indonesia	Indonesia and Delaware	Same
PT Irja Eastern Minerals	Indonesia	Same
PT Puncakjaya Power	Indonesia	Same

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Freeport-McMoRan Copper & Gold Inc. of our reports dated February 24, 2006, with respect to the consolidated financial statements of Freeport-McMoRan Copper & Gold Inc., Freeport-McMoRan Copper & Gold Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Freeport-McMoRan Copper & Gold Inc., included in the 2005 Annual Report to Shareholders of Freeport-McMoRan Copper & Gold Inc. and our report dated February 24, 2006 on the financial statement schedules of Freeport-McMoRan Copper & Gold Inc. listed in Item 15(a) included elsewhere herein.

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Registration Nos. 33-63267, 33-63269, 33-63271, 333-85803, 333-105535, and 333-115292), Form S-3 (Registration Nos. 333-31584, 333-104564 and 333-114430) and Form S-4 (Registration Nos. 333-104563 and 333-114217), of our reports dated February 24, 2006, with respect to the consolidated financial statements of Freeport-McMoRan Copper & Gold Inc., Freeport-McMoRan Copper & Gold Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Freeport-McMoRan Copper & Gold Inc., incorporated herein by reference, and our report dated February 24, 2006 with respect to the financial statement schedules of Freeport-McMoRan Copper & Gold Inc. included in this Annual Report (Form 10-K) of Freeport-McMoRan Copper & Gold Inc.

/s/ Ernst & Young LLP
New Orleans, Louisiana
March 13, 2006

[Independent Mining Consultants, Inc. Letterhead]

March 13, 2006

Pat Prejean
Assistant Controller - Financial Reporting
Freeport-McMoRan Copper & Gold Inc.
1615 Poydras Street
New Orleans, LA 70112

Dear Mr. Prejean,

We hereby consent to the incorporation by reference of our reports included herein or incorporated by reference in this Form 10-K for the year ended December 31, 2005, into Freeport-McMoRan Copper & Gold, Inc.'s previously filed Registration Statements on Form S-3 (Registration Nos. 333-31584, 333-104564 and 333-114430) and on Form S-8 (Registration Nos. 33-63267, 33-63269, 33-63271, 333-85803, 333-105535, and 333-115292) and on Form S-4 (Registration Nos. 333-104563 and 333-114217).

INDEPENDENT MINING CONSULTANTS, INC.

Date: March 13, 2006

By: /s/ John M. Marek
Name: John M. Marek
Title: President

Exhibit 24.1

Freeport-McMoRan Copper & Gold Inc.

Secretary's Certificate

I, Douglas N. Currault II, Assistant Secretary of Freeport-McMoRan Copper & Gold Inc. (the "Corporation"), a corporation organized and existing under the laws of the State of Delaware, do hereby certify that the following resolution was duly adopted by the Board of Directors of the Corporation at a meeting held on December 13, 1988, and that such resolution has not been amended, modified or rescinded and is in full force and effect on the date hereof:

> RESOLVED, That any report, registration statement or other form filed on behalf of this corporation pursuant to the Securities Exchange Act of 1934, or any amendment to such report, registration statement or other form, may be signed on behalf of any director or officer of this corporation pursuant to a power of attorney executed by such director or officer.

IN WITNESS WHEREOF, I have hereunto signed my name and affixed the seal of the Corporation on March 6, 2006.

/s/ Douglas N. Currault II
Douglas N. Currault II
Assistant Secretary

Seal

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Freeport-McMoRan Copper & Gold Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint JAMES R. MOFFETT and RICHARD C. ADKERSON, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the other and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2005, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 31 st day of January, 2006.

/s/ Robert A. Day
Robert A. Day

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Freeport-McMoRan Copper & Gold Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint JAMES R. MOFFETT and RICHARD C. ADKERSON, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the other and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2005, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 31 st day of January, 2006.

/s/ J. Bennett Johnston
J. Bennett Johnston

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Freeport-McMoRan Copper & Gold Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint JAMES R. MOFFETT and RICHARD C. ADKERSON, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the other and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2005 and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys,

and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 31 st day of January, 2006.

/s/ Bobby Lee Lackey
Bobby Lee Lackey

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Freeport-McMoRan Copper & Gold Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint RICHARD C. ADKERSON, his true and lawful attorney-in-fact with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2005, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorney full power and authority to do and perform each and every act and thing whatsoever that said attorney may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 31 st day of January, 2006.

/s/ James R. Moffett
James R. Moffett

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Freeport-McMoRan Copper & Gold Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint JAMES R. MOFFETT, his true and lawful attorney-in-fact with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2005, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorney full power and authority to do and perform each and every act and thing whatsoever that said attorney may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 31 st day of January, 2006.

/s/ Richard C. Adkerson
Richard C. Adkerson

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Freeport-McMoRan Copper & Gold Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint JAMES R. MOFFETT and RICHARD C. ADKERSON, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the other and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2005, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 31 st day of January, 2006.

/s/ B. M. Rankin, Jr.
B. M. Rankin, Jr.

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Freeport-McMoRan Copper & Gold Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint JAMES R. MOFFETT and RICHARD C. ADKERSON, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the other and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2005, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 31 st day of January, 2006.

/s/ J. Taylor Wharton
J. Taylor Wharton

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in her capacity or capacities as an officer and/or a member of the Board of Directors of Freeport-McMoRan Copper & Gold Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint JAMES R. MOFFETT and RICHARD C. ADKERSON, and each of them acting individually, her true and lawful attorney-in-fact with power to act without the other and with full power of substitution, to execute, deliver and file, for and on behalf of her, in her name and in her capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2005, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 31 st day of January, 2006.

/s/ Kathleen L. Quirk

Kathleen L. Quirk

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in her capacity or capacities as an officer and/or a member of the Board of Directors of Freeport-McMoRan Copper & Gold Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint JAMES R. MOFFETT and RICHARD C. ADKERSON, and each of them acting individually, her true and lawful attorney-in-fact with power to act without the other and with full power of substitution, to execute, deliver and file, for and on behalf of her, in her name and in her capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2005, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 31 st day of January, 2006.

/s/ Gabrielle K. McDonald
Gabrielle K. McDonald

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Freeport-McMoRan Copper & Gold Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint JAMES R. MOFFETT and RICHARD C. ADKERSON, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the other and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2005, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 31 st day of January, 2006.

/s/ C. Donald Whitmire, Jr.
C. Donald Whitmire, Jr.

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Freeport-McMoRan Copper & Gold Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint JAMES R. MOFFETT and RICHARD C. ADKERSON, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the other and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2005, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by

virtue of this Power of Attorney.

EXECUTED this 31 st day of January, 2006.

/s/ H. Devon Graham, Jr.
H. Devon Graham, Jr.

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Freeport-McMoRan Copper & Gold Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint JAMES R. MOFFETT and RICHARD C. ADKERSON, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the other and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2005, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 31 st day of January, 2006.

/s/ Gerald J. Ford
Gerald J. Ford

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Freeport-McMoRan Copper & Gold Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint JAMES R. MOFFETT and RICHARD C. ADKERSON, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the other and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2005, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 31 st day of January, 2006.

/s/ Robert J. Allison, Jr.
Robert J. Allison, Jr.

POWER OF ATTORNEY

BE IT KNOWN: That the undersigned, in his capacity or capacities as an officer and/or a member of the Board of Directors of Freeport-McMoRan Copper & Gold Inc., a Delaware corporation (the "Company"), does hereby make, constitute and appoint JAMES R. MOFFETT and RICHARD C. ADKERSON, and each of them acting individually, his true and lawful attorney-in-fact with power to act without the other and with full power of substitution, to execute, deliver and file, for and on behalf of him, in his name and in his capacity or capacities as aforesaid, an Annual Report of the Company on Form 10-K for the year ended December 31, 2005, and any amendment or amendments thereto and any other document in support thereof or supplemental thereto, and the undersigned hereby grants to said attorneys, and each of them, full power and authority to do and perform each and every act and thing whatsoever that said attorney or attorneys may deem necessary or advisable to carry out fully the intent of the foregoing as the undersigned might or could do personally or in the capacity or capacities as aforesaid, hereby ratifying and confirming all acts and things which said attorney or attorneys may do or cause to be done by virtue of this Power of Attorney.

EXECUTED this 31 st day of January, 2006.

/s/ J. Stapleton Roy

J. Stapleton Roy

Exhibit 31.1

CERTIFICATION

I, Richard C. Adkerson, certify that:

1. I have reviewed this annual report on Form 10-K of Freeport-McMoRan Copper & Gold Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2006

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

Exhibit 31.2

CERTIFICATION

I, Kathleen L. Quirk, certify that:

1. I have reviewed this annual report on Form 10-K of Freeport-McMoRan Copper & Gold Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2006

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

Exhibit 32.1

Certification Pursuant to 18 U.S.C. Section 1350
(Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Annual Report on Form 10-K of Freeport-McMoRan Copper & Gold Inc. (the "Company") for the year ending December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Richard C. Adkerson, as President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 14, 2006

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

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification shall not be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

Exhibit 32.2

Certification Pursuant to 18 U.S.C. Section 1350
(Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Annual Report on Form 10-K of Freeport-McMoRan Copper & Gold Inc.(the "Company") for the year ending December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Kathleen L. Quirk, as Senior Vice President, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of her knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 14, 2006

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

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

This certification shall not be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.